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

FORM 10-Q

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

For the quarterly period ended June 30, 2002

or

☐ **TRANSITION REPORTS 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 GENOMICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3136539**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3160 Porter Drive
Palo Alto, California 94304
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required 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

The number of outstanding shares of the registrant's Common Stock, $0.001 par value, was 67,529,022 as of June 30, 2002.

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INCYTE GENOMICS, INC.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

INCYTE GENOMICS, INC.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 30, 2002	December 31, 2001*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 44,193	$ 43,368
Marketable securities—available-for-sale	431,958	464,535
Accounts receivable, net (1)	25,129	54,038
Prepaid expenses and other current assets	26,240	29,280
Total current assets	527,520	591,221
Property and equipment, net	45,264	47,927
Long-term investments (2)	45,690	45,272
Intangible and other assets, net (3)	27,262	21,139
Total assets	$ 645,736	$ 705,559
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable (4)	$ 8,447	$ 7,347
Accrued compensation	14,852	18,812
Other accrued liabilities	18,042	20,934
Deferred revenue	16,857	24,045
Accrued restructuring charges	11,016	14,970
Total current liabilities	69,214	86,108
Convertible subordinated notes	172,250	179,248
Total liabilities	241,464	265,356
Stockholders' equity:		
Common stock	67	67
Additional paid-in capital	712,098	707,412
Deferred compensation	(5,767)	(8,127)
Accumulated other comprehensive income	(3,005)	8,990
Accumulated deficit	(299,121)	(268,139)
Total stockholders' equity	404,272	440,203
Total liabilities and stockholders' equity	$ 645,736	$ 705,559

* The condensed consolidated balance sheet at December 31, 2001 has been derived from the audited financial statements at that date.
(1) Includes receivables from companies considered related parties of $3.1 million and $10.9 million at June 30, 2002 and December 31, 2001, respectively.
(2) Includes investments in companies considered related parties of $26.1 million and $17.3 million at June 30, 2002 and December 31, 2001, respectively.
(3) Includes loans to executive officers of $1.2 million and $0 million at June 30, 2002 and December 31, 2001, respectively.
(4) Includes accounts payable to companies considered related parties of $1.5 million and $0 million at June 30, 2002 and December 31, 2001, respectively.

See accompanying notes

INCYTE GENOMICS, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues (1)	$ 29,059	$ 56,051	$ 58,073	$107,172
Operating expenses:				
Research and development (2)	37,717	55,155	71,460	111,114
Selling, general and administrative	12,748	18,591	26,916	35,152
Other expenses	1,371	—	1,371	—
Total operating expenses	51,836	73,746	99,747	146,266
Loss from operations	(22,777)	(17,695)	(41,674)	(39,094)
Interest and other income (expense), net (3)	6,601	8,723	14,758	18,637
Interest expense	(2,389)	(2,535)	(4,927)	(5,145)
Gain on repurchase of convertible subordinated notes	1,937	—	1,937	2,386
Gain (loss) on certain derivative financial instruments, net	(613)	1,841	(473)	1,214
Loss before income taxes and accounting change	(17,241)	(9,666)	(30,379)	(22,002)
Provision for income taxes	300	225	603	480
Loss before accounting change	(17,541)	(9,891)	(30,982)	(22,482)
Cumulative effect of accounting change	—	—	—	2,279
Net loss	$(17,541)	$ (9,891)	$(30,982)	$ (20,203)
Per share data:				
Loss before accounting change	$ (0.26)	$ (0.15)	$ (0.46)	$ (0.34)
Cumulative effect of accounting change	—	—	—	0.03
Basic and diluted net loss per share	$ (0.26)	$ (0.15)	$ (0.46)	$ (0.31)
Shares used in computing basic and diluted net loss per share	67,440	66,076	67,154	65,911

(1) Includes revenues from transactions with companies considered related parties of $0.5 million and $7.0 million for the three months ended June 30, 2002 and 2001, respectively, and revenues of $1.2 million and $12.6 million for the six months ended June 30, 2002 and 2001, respectively.

(2) Includes expenses from transactions with companies considered related parties of $2.7 million and $0 million for the three months ended June 30, 2002 and 2001, respectively, and expenses of $5.5 million and $0 million for the six months ended June 30, 2002 and 2001, respectively.

(3) Includes a gain of $0.8 million on conversion of a convertible note from a related party into preferred stock of the related party for the six months ended June 30, 2002.

See accompanying notes

INCYTE GENOMICS, INC.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net loss	$(17,541)	$ (9,891)	$(30,982)	$(20,203)
Other comprehensive loss, net of taxes:				
Unrealized losses on marketable securities	(2,188)	(1,940)	(11,747)	(5,459)
Foreign currency translation adjustments	(69)	(25)	(248)	(13)
Other comprehensive income loss	(2,257)	(1,965)	(11,995)	(5,472)
Comprehensive loss	$(19,798)	$(11,856)	$(42,977)	$(25,675)

See accompanying notes

INCYTE GENOMICS, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	$ (30,982)	$ (20,203)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,254	24,612
Stock compensation	2,328	583
Gain on repurchase of convertible subordinated notes	(1,937)	(2,386)
Cumulative effect of accounting change	—	(2,279)
(Gain) loss on derivative financial instruments, net	473	(1,214)
Realized gain on long-term investments, net	(1,106)	(2,184)
Impairment of long-term investments	—	3,765
Debt instruments and equity received in exchange for goods or services provided	(2,688)	(8,100)
Changes in certain assets and liabilities:		
Accounts receivable	28,909	3,441
Prepaid expenses and other assets	(4,184)	(950)
Accounts payable	1,100	(9,069)
Accrued and other current liabilities	(10,806)	4,222
Deferred revenue	(7,188)	(3,019)
Net cash used in operating activities	(14,827)	(12,781)
Cash flows from investing activities:		
Long-term investments	(5,000)	(28,019)
Proceeds from the sale of long-term investments	2,532	3,482
Capital expenditures	(6,711)	(8,999)
Purchases of marketable securities	(368,314)	(581,159)
Sales and maturities of marketable securities	394,515	580,846
Loans to executive officers	(1,150)	—
Net cash provided (used in) in investing activities	15,872	(33,849)
Cash flows from financing activities:		
Proceeds from issuance of common stock under stock plans	4,645	6,526
Repurchase of convertible subordinated notes	(4,690)	(5,643)
Other	73	—
Net cash provided by financing activities	28	883
Effect of exchange rate on cash and cash equivalents	(248)	(13)
Net increase (decrease) in cash and cash equivalents	825	(45,760)
Cash and cash equivalents at beginning of period	43,368	110,155
Cash and cash equivalents at end of period	$ 44,193	$ 64,395

See accompanying notes

INCYTE GENOMICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002
(Unaudited)

1. Organization and business

Incyte Genomics, Inc. (the "Company") was incorporated in Delaware in April 1991 under the name Incyte Pharmaceuticals, Inc. In June 2000, the Company's stockholders approved an amendment to the Company's Certificate of Incorporation to change the Company's name to Incyte Genomics, Inc. The Company believes it has the largest commercial portfolio of issued United States patents covering human, full-length genes, the proteins they encode and antibodies directed against them. The Company has also developed a leading integrated platform of genomic technologies designed to aid in the understanding of the molecular basis of disease. These technologies primarily consist of genomic databases and pharmaceutically relevant intellectual property licenses, which help pharmaceutical and biotechnology researchers in their therapeutic discovery and development efforts. These efforts include gene discovery, understanding disease pathways and identifying new disease targets. The Company intends to leverage its leading intellectual property and genomic information position to be a leader in therapeutic small molecule drug, secreted protein and antibody discovery.

2. Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The condensed consolidated balance sheet as of June 30, 2002, condensed consolidated statements of operations for the three and six months ended June 30, 2002 and 2001, condensed consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2002 and 2001 and the condensed consolidated statements of cash flows for the six months ended June 30, 2002 and 2001 are unaudited, but include all adjustments (consisting of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The balance sheet at December 31, 2001 has been derived from audited financial statements.

Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

Results for any interim period are not necessarily indicative of results for any future interim period or for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

3. Property and equipment

Property and equipment consisted of (in thousands):

	June 30, 2002	December 31, 2001
Office equipment	$ 5,170	$ 4,944
Laboratory equipment	26,143	21,149
Leasehold improvements	33,773	33,433
Computer equipment	74,938	75,906
	140,024	135,432
Less accumulated depreciation and amortization	(94,760)	(87,505)
	$ 45,264	$ 47,927

4. Loans to Executive Officers

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.

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 and $8.0 million in face value of convertible subordinated notes during the six months ended June 30, 2002 and 2001, respectively. A gain of $1.9 million and $2.4 million on these transactions was recognized for the six months ended June 30, 2002 and 2001, respectively. All gains on repurchase of convertible subordinated notes are presented as "Gain on repurchase of convertible subordinated notes."

6. 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 sale of its 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 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 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 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 exchanges, the non-monetary transaction is determined using the fair values of the products and services involved, as applicable.

Revenues received from agreements in which collaborators paid with equity or debt instruments in their company were $0 million and $2.4 million for the three and six months ended June 30, 2002 and $4.3 million and $7.8 million for the three and six months ended June 30, 2001, respectively. Additionally, revenues received from agreements in which the Company concurrently invested funds in the collaborator's stock were $0.2 million and $0.4 million for the three and six months ended June 30, 2002, respectively, and $6.4 million and $11.4 million for the three and six months ended June 30, 2001, respectively.

Revenues recognized from transactions 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 three and six months ended June 30, 2002 were $1.0 million and $2.0 million, respectively, and $6.3 million and $6.3 million for the same periods in 2001. No transactions in which there was a concurrent commitment by the Company to purchase goods or services were entered into during the three or six months ended June 30, 2002. Of commitments made in prior periods, the Company expensed $5.4 million and $11.1 million for the three and six months ended June 30, 2002, respectively, and $3.8 million and $6.5 million for the three and six months ended June 30, 2001, respectively.

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

For the three and six months ended June 30, 2002, one collaborator contributed 17% and 9% of total revenues, respectively. A different collaborator contributed 11% and 6% of total revenues for the three and six month periods ended June 30, 2001, respectively.

Four collaborators comprised 61% of the accounts receivable balance at June 30, 2002. Three collaborators comprised 48% of the accounts receivable balance at December 31, 2001.

7. Loss per share

Options to purchase 9,671,427 and 8,115,142 shares of common stock were outstanding at June 30, 2002 and 2001, respectively, and notes convertible into 2,525,957 and 2,625,353 shares of common stock were outstanding at June 30, 2002, and 2001, respectively, but were not included in the computation of diluted net loss per share, as their effect was antidilutive.

8. Segment reporting

The Company's operations are treated as one operating segment, in accordance with FASB Statement No. 131 ("SFAS 131"): drug discovery and development. For the six months ended June 30, 2002, the Company recorded revenue from customers throughout the United States and in Austria, Belgium, Canada, France, Germany, India, Israel, Japan, Netherlands, Switzerland, and the United Kingdom. Export revenues for the three and six months ended June 30, 2002 were $7.7 million and $19.6 million, respectively, and $13.5 million and $22.0 million for the three and six months ended June 30, 2001, respectively.

9. 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 Company does not expect the adoption of this statement to have a material impact on the Company's consolidated financial statements.

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 No. 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 did not have a material impact on the Company's consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
Reported income (loss) before accounting change	$(17,418)	$(9,891)	$(30,859)	$(22,482)
Add back: Goodwill amortization	—	2,082	—	4,163
Add back: Assembled workforce amortization	—	162	—	324
Adjusted income (loss) before accounting change	$(17,418)	$(7,647)	$(30,859)	$(17,995)
Reported net income (loss)	$(17,418)	$(9,891)	$(30,859)	$(20,203)
Add back: Goodwill amortization	—	2,082	—	4,163
Add back: Assembled workforce amortization	—	162	—	324
Adjusted net income (loss)	$(17,418)	$(7,647)	$(30,859)	$(15,716)
Basic and diluted net income (loss) per share:				
Reported income (loss) before accounting change	$ (0.26)	$ (0.15)	$ (0.46)	$ (0.34)
Goodwill amortization	—	0.03	—	0.07
Assembled workforce amortization	—	—	—	—
Adjusted income (loss) before accounting change	$ (0.26)	$ (0.12)	$ (0.46)	$ (0.27)
Reported net income (loss)	$ (0.26)	$ (0.15)	$ (0.46)	$ (0.31)
Goodwill amortization	—	0.03	—	0.07
Assembled workforce amortization	—	—	—	—
Adjusted net income (loss)	$ (0.26)	$ (0.12)	$ (0.46)	$ (0.24)

10. Litigation

Invitrogen

On October 17, 2001, Invitrogen Corporation filed a complaint for patent infringement against the Company 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 also seeks 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 the Company's patents. 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 the Company's patents.

On April 2, 2002, Invitrogen filed its answer to the Company's complaint and brought counterclaims against the Company seeking declaratory judgments that the patents in suit are invalid and not infringed, and that one patent (U.S. patent number 6,110,426) is unenforceable. On April 25, 2002, the Company filed its answer to Invitrogen's counterclaims. On May 24, 2002, Invitrogen withdrew its affirmative defense and counterclaim alleging that the '426 patent is unenforceable.

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 negotiating to settle that part of the case. 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, the Company's 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 substantial future costs to the Company.

11. 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 in which a director of the Company at the time of the transaction is in some way affiliated with the other party to the transaction, such director has recused himself from voting on the related party transaction. For the six months ended June 30, 2002 and 2001, revenues from transactions with companies considered to be related parties as defined by SFAS 57 were $1.2 million and $12.6 million, respectively. At June 30, 2002 and December 31, 2001, receivables from related parties were $3.1 million and $10.9 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. 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 party customers. The Company received rights to certain intellectual property that Genomic Health may, in the future, develop. At the same time, the Company entered into an agreement to purchase shares of Series C Preferred Stock of Genomic Health for an aggregate purchase price of $5.0 million which, together with shares of Series A Preferred Stock purchased in November 2000 for an aggregate purchase price of $1.0 million, results in the Company owning approximately 9.8% of the outstanding capital stock of Genomic Health as of June 30, 2002. 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. In the second quarter of 2002, Roy A. Whitfield, who is Chairman of the Board of the Company, was also named a director of Iconix. Also in the second quarter of 2002, James R. Neal, who was formerly Executive Vice President, Marketing and Sales of the Company, was named Chief Executive Officer of Iconix. 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 to be developed by Iconix. At the same time, the Company entered into an agreement to purchase 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 and resulting in the Company owning approximately 17.4% of the outstanding capital stock of Iconix at June 30, 2002.

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 the Company'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 14.1% of the outstanding capital stock of Odyssey at June 30, 2002. Included in the shares received are shares for a 15% premium upon conversion and accrued interest. The Company has recorded a gain on this conversion of $0.8 million.

12. Other Expenses

	Original Charge Recorded in 2001	Accrual Balance as of December 31, 2001	Cash Payments	Non-Cash Charges/ Transfers	Accrual Balance as of June 30, 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	(2,468)	1,371	10,985
Subtotal	55,602	14,970	(5,325)	1,371	11,016
Impairment of goodwill and other intangible assets	68,666	—	—	—	—
Impairment of other long-lived assets	6,104	—	—	—	—
Other expenses	$ 130,372	$ 14,970	$ (5,325)	$ 1,371	$ 11,016

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. The wind-down of exited product lines contributed revenues for the three and six months ended June 30, 2002 of $1.2 million and $3.2 million, respectively, as compared to $12.9 million and $27.0 million for the three and six months ended June 30, 2001, 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 June 30, 2002, 399 employees had 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 a 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.

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 costs based on the contractual terms of agreements and real estate market conditions in the fourth quarter of 2001. It was 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 $1.4 million increase in this accrual recorded in the second quarter of 2002 is due primarily to contract-related settlements in excess of amounts estimated in 2001, offset by the release of other restructuring accruals in excess of actual expenses.

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") acquisition assets. As a result, it was determined that the unamortized goodwill and intangible assets were impaired. Charges of $10.2 million and $58.5 million were charged to operations in the fourth quarter of 2001 to write down the Hexagen and Proteome assets, respectively, to their estimated fair value. The carrying value of these intangible assets was $2.7 million at June 30, 2002.

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 based upon management's best estimate of the amounts and timing of certain events included in the restructure 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 differences become determinable.

PART I: FINANCIAL INFORMATION

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations as of June 30, 2002 and for the three and six month periods ended June 30, 2002 and 2001 should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto set forth in Item 1 of this report and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2001.

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 cash flows, expected losses and net losses, expected expenditures including expenditures on intellectual property, research and development, and strategic investments, the offset of profits from certain products by other expenditures, expected cash marketable securities balances, the adequacy of capital resources, the expected effect of our contractual obligations on our future liquidity and cash flow, our strategic investments, including anticipated losses and expenses, 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 ability to leverage our intellectual property and genomic information to take a leading position in our market, our strategy with regard to protecting our intellectual property, the effect of pharmaceuticals company consolidations, our ability to manage expansion of our operations, future required expertise relating to clinical trials, manufacturing, sales and marketing and for licenses to technology rights, commercial availability of drugs resulting from our research and our ability to obtain and maintain product liability 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 companies; risks relating to the development of new products and their use by our potential collaborators; the impact of technological advances and competition; 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; uncertainty as to the scope of coverage, enforceability or commercial protection from patents that issue on gene and other discoveries; 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 Genomics, Inc. 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

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. We intend to leverage our leading intellectual property and genomic information position to be a leader in therapeutic small molecule drug, secreted protein and antibody discovery. In addition, we have developed a leading integrated platform of genomic technologies designed to aid in the understanding of the molecular basis of disease. These technologies primarily consist of genomic databases and pharmaceutically relevant intellectual property licenses, which help pharmaceutical and biotechnology researchers in their therapeutic discovery and development efforts. These efforts include gene discovery, understanding disease pathways, and identifying new disease targets.

During 2001, we increased our focus on our therapeutic discovery and development program and our information products, which include licensing a portion of our intellectual property. As a result, 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, transgenics products and services and single nucleotide polymorphism, or SNP, discovery services. As a part of the exit of these activities, we have closed certain of our facilities in Fremont, California, St. Louis, Missouri and Cambridge, United Kingdom. In addition to the product lines exited, we made infrastructure and other personnel reductions at our other locations resulting in an aggregate workforce reduction of approximately 400 employees. A non-recurring charge for restructure charges 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—nonrecurring restructuring charges (including $32.6 million in equipment and other assets impaired) and $6.1 million—impairment of a long-lived asset. The wind-down of exited product lines contributed revenues for the three and six months ended June 30, 2002 of $1.2 million and $3.2 million, respectively, as compared to $12.9 million and $27.0 million for the three and six months ended June 30, 2001, respectively. A non-recurring charge for restructuring expenses of $1.4 million was recorded in the second quarter of 2002, primarily for contract-related settlements in excess of estimated amounts, offset by the release of other restructuring accruals in excess of actual expenses.

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.

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, acquisition-related intangibles and goodwill, 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. Net intangible assets and long-lived assets amounted to $47.9 million as of June 30, 2002. Included in that amount are assets with a net book value of $0.3 million that are being marketed for sale.

Accounting for Long-Term Investments. We hold equity and debt securities and warrants in companies having operations or technology in areas primarily within our strategic focus, some of which are publicly traded and can have volatile share prices. Investments in publicly traded companies are classified as available-for-sale and are adjusted to their fair value each month 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 monitor the companies' financial results and prospects on a regular basis to determine whether an impairment exists. We record an investment impairment charge when we believe that the investment has experienced a decline in value that is other than temporary. Generally, declines that persist for six months or more are considered other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in additional impairment charges.

Restructuring Charges. The restructuring accrual is comprised primarily of costs to exit facilities related to the product lines exited and workforce reduction charges. 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, and the amount, if any, of sublease receipts. 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. Our assumptions on either the lease termination payments, operating costs until terminated, or the offsetting sublease receipts may turn out to be incorrect and our actual cost may be materially different from our estimates.

Results of Operations

We recorded a net loss of $17.4 million and $30.9 million and a basic and diluted net loss per share of $0.26 and $0.46 per share for the three and six months ended June 30, 2002, respectively, as compared to $9.9 million and $20.2 million and $0.15 and $0.31 per share in the corresponding periods in 2001. Loss before cumulative effect of accounting change for the three and six months ended June 30, 2001 was $9.9 million and $22.5 million, or $0.15 and $0.34 per diluted share, respectively.

Revenues. Revenues for the three and six months ended June 30, 2002 decreased to $29.1 million and $58.1 million, respectively, compared to $56.1 million and $107.2 million for the corresponding periods in 2001. The decrease in revenues from 2001 was primarily attributable to the impact from the exit of custom genomics products and services, granting of fewer intellectual property licenses and lower database revenues.

Revenues were derived from information products and the wind-down of custom genomics operations. Information product revenues (inclusive of database agreements, partnership programs, licensing activities and custom products) were $27.9 million and $54.9 million for the three and six months ended June 30, 2002, respectively, as compared to revenues of $43.2 million and $80.2 million for the same periods of the previous year. The decrease is primarily attributable to lower licensing revenues in 2002. Revenues for the three and six months ended June 30, 2002 included $1.2 million and $3.2 million in revenue associated with the wind-down of exited product lines that was announced in the fourth quarter of 2001 as compared to $12.9 million and $27.0 million for the three and six months ended June 30, 2001.

Revenues received from agreements in which collaborators paid with equity or debt instruments in their company were $0 million and $2.4 million for the three and six months ended June 30, 2002 and $4.3 million and $7.8 million for the three and six months ended June 30, 2001. Additionally, revenues received from agreements in which we concurrently invested funds in the collaborator's stock were $0.2 million and $0.4 million for the three and six months ended June 30, 2002, respectively, and $6.4 million and $11.4 million for the corresponding periods in 2001.

Revenues recognized from transactions prior to 2002 in which a concurrent commitment was entered into to purchase goods or services from the other party for the three and six months ended June 30, 2002 were $1.0 million and $2.0 million, respectively. No transactions in which we had a concurrent commitment were entered into during those periods. Of commitments made in prior periods, we expensed $5.4 million and $11.1 million for the three and six months ended June 30, 2002, respectively and $3.8 million and $6.5 million for the corresponding periods in 2001. The above transactions were recorded at fair value in accordance with our revenue recognition policy.

Operating Expenses. Total costs and expenses for the three and six months ended June 30, 2002 decreased to $51.8 million and $99.7 million, respectively, compared to $73.7 million and $146.3 million for the corresponding periods in 2001. This decrease reflects the reduction in expenses derived from the activities and related infrastructure that were exited in the restructuring and the non-recurring restructuring charges and long-lived asset write-downs in 2001, offset by expanded spending in connection with our internal therapeutic discovery and development efforts. For the remainder of 2002, operating expenses may increase as we continue to invest in our therapeutic discovery and development efforts.

Research and development expenses. Research and development expenses for the three and six months ended June 30, 2002 decreased to $37.7 million and $71.5 million, respectively, compared to $55.2 million and $111.1 million for the corresponding periods in 2001. The decrease in research and development expenses was primarily the result of expenses eliminated in the exit of custom genomics product lines, partially offset by increased East Coast internal therapeutic discovery and development expenses.

Selling, general and administrative expenses. Selling, general and administrative expenses for the three and six months ended June 30, 2002 decreased to $12.7 million and $26.9 million, respectively, compared to $18.6 million and $35.2 million for the corresponding periods in 2001. The decrease in selling, general and administrative expenses resulted primarily from the exit of custom genomics product lines and infrastructure reductions, partially offset by therapeutic discovery and development expenses not present in 2001. Our selling, general and administrative expenses were also impacted by legal expenses related to our patent infringement lawsuits with Affymetrix and Invitrogen of approximately $1.6 million and $3.0 million in the three and six months ended June 30, 2002, respectively, and our patent infringement lawsuits with Affymetrix and GeneLogic of $4.8 million and $6.7 million in the three and six months ended June 30, 2001. We expect that the Invitrogen litigation will result in substantial future legal costs to Incyte.

Other expenses. Other expenses of $1.4 million for the three months ended June 30, 2002 relate to an increase in the accrued restructuring charges, which were primarily for contract-related settlements in excess of estimated amounts, offset by the release of other restructuring accruals in excess of actual expenses.

Interest and Other Income (Expense), Net. Interest and other income (expense), net, for the three and six months ended June 30, 2002 decreased to $6.7 million and $14.9 million, respectively, from $8.7 million and $18.6 million for the corresponding periods in 2001. The decrease for the three months ended June 30, 2002 resulted from a lower average level of interest bearing investments and lower interest rates, combined with lower gains on sales of investments, partially offset by a $3.8 million impairment charge taken in 2001. For the six months ended June 30, 2002, the decrease was primarily due to a decrease in cash invested and lower interest rates in 2002, partially offset by interest and premium earned on the conversion of a note held in another company. The activity on discrete investments within our portfolio, in any given quarter, may result in gains or losses on sales or impairment charges.

Interest Expense. Interest expense for the three months ended June 30, 2002 decreased to $2.4 million and $4.9 million, respectively, from $2.5 million and $5.1 million for the corresponding periods in 2001. The decrease was primarily due to the early retirement of $29.7 million face value of our convertible subordinated notes.

Gain on Repurchase of Convertible Subordinated Notes. The gain on repurchase of convertible subordinated notes for the three and six months ended June 30, 2002 of $1.9 million, net of $0 tax expense, was due to our repurchase of $6.7 million face value of our 5.5% convertible subordinated notes on the open market in the second quarter of 2002. Gain on repurchase of convertible subordinated notes for the three and six months ended June 30, 2001 of $2.4 million, net of $0 tax expense, resulted from our repurchase of $8.0 million face value of the same notes on the open market in the first quarter of 2001. In accordance with SFAS 145, all gains on the repurchase of convertible subordinated notes are presented as “Gain on repurchase of convertible subordinated notes”.

Gain/(Loss) on Certain Derivative Financial Instruments, Net. Loss on derivative financial instruments for the three and six months ended June 30, 2002 of $0.6 million and $0.5 million, respectively, and gain on derivative financial instruments for the three and six months ended June 30, 2001 of $1.8 million and $1.2 million, respectively, represent the change in fair value of certain long-term investments, specifically warrants held in other companies, in accordance with FASB Statement No. 133 (“SFAS 133”).

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

Cumulative Effect of Accounting Change. The cumulative effect of an accounting change for the six months ended June 30, 2001 resulted from the adoption of SFAS 133 in the first quarter of 2001. We recorded the fair value of warrants we hold in certain long-term strategic investments at January 1, 2001, resulting in a gain of $2.3 million, net of $0 tax expense.

Liquidity and Capital Resources

As of June 30, 2002, we had $476.2 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 them 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 $14.8 million for the six months ended June 30, 2002 as compared to $12.8 million for the six months ended June 30, 2001. The decrease was primarily due to the increase in net loss in 2002, lower non-cash depreciation and amortization charges as well as higher cash usage for accrued liabilities, including $4.0 million related to restructuring charges, and deferred revenue, all offset by higher cash provided by the decrease in accounts receivable in 2002 as compared to 2001. Net cash generated by operating activities may fluctuate significantly from quarter to quarter due to the timing of large prepayments by database collaborators.

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 six months ended June 30, 2002 were $6.7 million as compared to $9.0 million in the same period in 2001. The decrease was primarily due to reduced operational needs given our exit of custom genomics product lines. Long-term investments in companies having operations or technology in areas within our strategic focus were $5.0 million and $28.0 million for the six months ended June 30, 2002 and 2001, respectively. Net cash used by investing activities may fluctuate significantly from period to period due to the timing of strategic equity investments, capital expenditures and maturity/sales and purchases of marketable securities.

Net cash provided by financing activities was $0 million for the six months ended June 30, 2002 as compared to $0.9 million for the six months ended June 30, 2001. We repurchased $6.7 million face value of our 5.5% convertible subordinated notes on the open market for $4.7 million in 2002 offset by proceeds from the issuance of common stock under our stock option and employee stock purchase plans of $4.6 million. In 2001, we repurchased $8.0 million face value of our 5.5% convertible subordinated notes on the open market for $5.6 million offset by proceeds from the issuance of common stock under our stock option and employee stock purchase plans of $6.5 million.

In February 2000, in a private placement, we 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 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. We may redeem the notes at any time before February 7, 2003, only if our stock exceeds 150% of the conversion price for 20 trading days in a period of 30 consecutive trading days. On or after February 7, 2003, we may redeem the notes at specific prices. Holders may require us to repurchase the notes upon a change in control, as defined. As of June 30, 2002, we had repurchased $29.7 million face value of the notes on the open market.

The following summarizes our future minimum long-term debt payments, future interest payments on long-term debt, and future operating lease payments at June 30, 2002 and the effect those obligations are expected to have on our liquidity and cash flow in future periods (in millions):

	Total	Less Than 1 Year	Years 1–3	Years 4–5	Over 5 Years
Contractual Obligations:					
Principal on convertible subordinated debt	$170.3	$ —	$ —	$170.3	$ —
Interest on convertible subordinated debt	46.8	9.4	18.7	18.7	—
Non-cancelable operating lease obligations	82.2	15.4	21.3	16.8	28.7
Total contractual obligations	$299.3	$ 24.8	$40.0	$205.8	$ 28.7

We have purchase commitments of $21.1 million at June 30, 2002, the timing of which is dependent upon provision by the vendor of products and services. Additionally, we have committed to purchase equity in certain companies when certain events occur. The total amount committed to purchase equity at June 30, 2002 was $5.0 million. These commitments are considered contingent commitments as future events must occur to cause the commitments to be enforceable.

We expect to use net cash in 2002 as we invest in our therapeutic discovery and development programs and intellectual property portfolio; continue to seek access to technologies through investments, research and development alliances, license agreements and/or acquisitions; make strategic investments; and continue to make improvements in existing and potential new 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 recent 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.

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 the six months ended June 30, 2002. Because of those losses, we had an accumulated deficit of $299.0 million as of June 30, 2002. We intend to continue to spend significant amounts on new product and technology development, including the expansion of our internal 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 the expansion of our research and development alliances. As a result, we expect to incur losses in 2002. We expect to report net losses in future periods as well.

We expect that any profits from our information products 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. Impairment could result in future charges to our earnings. These losses and expenses may exceed the amounts that we anticipated.

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

We have a diversified portfolio of investments. Our fixed rate debt investments comply with our policy of investing in only investment-grade debt instruments. The ability for the debt 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 have affected the timing, progress and relative success of our sales efforts. We expect that any future consolidations will have similar effects. In addition, current or prospective subscribers may perceive us to be in competition with them given our internal 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 June 30, 2002, we had:

- total consolidated debt of $172.3 million,
- stockholders' equity of $404.3 million, and
- A deficiency of earnings available to cover fixed charges of $30.3 million for the six months ended June 30, 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 June 30, 2002, $170.3 million of those notes were outstanding. The following table shows, as of June 30, 2002, the aggregate amount of our interest payments due in each of the next five calendar years listed:

Year	Aggregate Interest
2002	$9,550,750
2003	9,366,500
2004	9,366,500
2005	9,366,500
2006	9,366,500

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.

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;
- our ability to manage growth;
- competing technological and market developments;
- 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

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 significant operations on the East Coast of the United States, place a strain on our infrastructure. As our operations expand, we expect that we will need to manage multiple locations and additional relationships with various collaborative partners, suppliers and other third parties. Our ability to manage our growth effectively requires us to continue to improve our operational, financial and management controls, reporting systems and procedures. We may

not be able to successfully implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls.

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:

- Celera Genomics Group and Applied Biosystems of Applera Corporation,
- CuraGen Corporation,
- Gene Logic Inc.,
- Human Genome Sciences, 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 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.

If we are unable to manage our growth effectively, our operations and ability to support our customers could be affected, which could harm our revenues.

We may continue to experience growth in the number of our employees and the scope of our operations. This growth has placed, and may continue to place, a significant strain on our management and operations.

In addition, we must continue to invest in customer support resources as the number of database collaborators and their requests for support increase. Our database collaborators typically have worldwide operations and may require support at multiple U.S. and foreign sites. To provide this support, we may need to open offices in additional locations, which could result in additional burdens on our systems and resources.

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, including customer service, marketing and sales staff. 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 products we need for our business, and if we are unable to obtain sufficient supplies, 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.

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.

We also rely on strategic collaborations with software providers to provide important functionality for our products. If any of these collaborators suffer business difficulties, we may have to spend time and money to replace the functionality, and we may also be adversely affected or our customer relationships and revenues may suffer.

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 industry;
- 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; 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 use 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 delayed.

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 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 are in the early stages of organizing our therapeutic discovery and development operations. We have yet to identify potential therapeutic compounds and then 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 that any 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.

In December 2000, we acquired Proteome, Inc. As part of our business strategy, we may acquire other assets, technologies and businesses. Our past acquisitions 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; and
- 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 our Palo Alto, California headquarters, 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, which is in a seismically active area. Although we maintain business interruption insurance, we do not have or 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 COLLABORATORS

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

As of June 30, 2002, we had over 60 database agreements. If we are unable to enter into additional agreements, or if our current database collaborators choose not to renew their agreements upon expiration, we may not generate additional revenues or maintain our current revenues. Our database revenues are also affected by the extent to which existing collaborators expand their agreements with us to include our new database products and the extent to which existing collaborators reduce the number of products for which they subscribe, the impact of which will vary based upon our pricing of those products. 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 collaborator 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 collaborators 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 shareholders.

If conflicts arise between us and our future corporate collaborators or scientific advisors, if any, 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 substantial costs to us. 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 sequences of some genes. We have also applied for patents in the U.S. and other countries claiming full-length gene sequences 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 gene sequences. While the United States Patent and Trademark Office has issued patents covering full-length genes, partial gene sequences 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 sequences of 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 sequence 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 sequence 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 U.S. 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 gene sequences 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 3: Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk primarily through our investments in short-term marketable securities. Our investment policy calls for investment in short term, low risk instruments. As of June 30, 2002, investments in marketable securities were $470.7 million. Due to the nature of these investments, if market interest rates were to increase immediately and uniformly by 10% from levels as of June 30, 2002, the decline in the fair value of the portfolio would not be material.

We are exposed to equity price risks on the marketable portion of equity securities included in our portfolio of investments and long-term investments, entered into to further our business and strategic objectives. These investments are in small capitalization stocks in the pharmaceutical/biotechnology industry sector, and are primarily in companies with which we have research and development, licensing or other collaborative agreements. We typically do not attempt to reduce or eliminate our market exposure on these securities. As of June 30, 2002, long-term investments were $45.7 million.

We are exposed to foreign exchange rate fluctuations as the financial results of our 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 our financial position or results of operations. All of our revenues are denominated in U.S. dollars. We do 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 June 30, 2002, the impact to our financial position or results of operations would not be material.

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

Affymetrix

On December 21, 2001, the Company agreed to settle 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 the Company's 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, the Company received a net cash settlement that was recorded as revenue in 2001. This settlement does not include the Company's 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 the Company from Stanford University (Case No. C99-21111JF). There can be no assurances as to the outcome of that appeal.

Invitrogen

On October 17, 2001, Invitrogen Corporation filed a complaint for patent infringement against the Company 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 also seeks 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 the Company's 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 the Company's fees, costs, and interest. The Company further seeks triple damages based on Invitrogen's willful infringement of the Company's patents.

On April 2, 2002, Invitrogen filed its answer to the Company's complaint and brought counterclaims against the Company seeking declaratory judgments that the patents in suit are invalid and not infringed, and that one patent (U.S. patent number 6,110,426) is unenforceable. On April 25, 2002, the Company filed its answer to Invitrogen's counterclaims. On May 24, 2002, Invitrogen withdrew its affirmative defense and counterclaim alleging that the '426 patent is unenforceable.

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 negotiating to settle that part of the case. 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, the Company's 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 substantial future costs to the Company.

Item 2: Changes in Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) Not applicable

(d) Not applicable

Item 3: Defaults Upon Senior Securities

None

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

On June 4, 2002, the Company held its Annual Meeting of Stockholders.

The following actions were taken at the annual meeting:

1. The following Directors were elected:

	For	Withheld
Roy A. Whitfield	58,753,865	874,124
Paul A. Friedman	58,445,382	1,182,607
Robert B. Stein	58,632,868	995,121
Barry M. Ariko	58,755,768	872,221
Julian C. Baker	58,760,388	867,601
Paul A. Brooke	58,609,249	1,018,740
Jeffrey J. Collinson	58,272,828	1,355,161
Frederick B. Craves	58,276,010	1,351,979
Richard U. DeSchutter	58,762,824	865,165
Jon S. Saxe	58,271,921	1,356,068

2. An amendment to the Company's 1991 Stock Plan was approved.

For	Against	Abstain
37,798,953	21,371,550	457,485

3. An amendment to the Company's 1993 Directors' Stock Option Plan was approved.

For	Against	Abstain
43,018,270	16,144,966	464,752

4. An amendment to the Company's 1997 Employee Stock Purchase Plan was approved.

For	Against	Abstain
56,729,022	2,459,199	439,767

5. The ratification of the appointment of Ernst & Young LLP as the Company's independent auditors was approved.

For	Against	Abstain
57,609,694	1,995,433	22,862

Item 5: Other Information

None

Item 6: Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit Number	Description of Document
10.36	Promissory Note dated April 22, 2002 between Incyte Genomics, Inc. and Brian Metcalf and Heather Metcalf
10.37	Promissory Note dated June 21, 2002 between Incyte Genomics, Inc. and Robert B. Stein and Faye E. Stein
10.38	Amendment to Transition Agreement, effective as of April 1, 2002, between Incyte Genomics, Inc. and Roy A. Whitfield
10.39	Amendment to Amended and Restated Employment Agreement, effective as of April 1, 2002, between Incyte Genomics, Inc. and James P. Merryweather
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
10.41	Letter Agreement, dated July 25, 2002, between Incyte Genomics, Inc. and Michael D. Lack
10.42	1997 Employee Stock Purchase Plan of Incyte Genomics, Inc., as amended April 22, 2002 (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-91540))
10.43	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))

b) Reports on Form 8-K

On June 28, 2002, the Company filed a Current Report on Form 8-K containing certain financial information.

SIGNATURES

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

INCYTE GENOMICS, INC.

Dated: August 14, 2002

By: /s/ PAUL A. FRIEDMAN

Paul A. Friedman
Chief Executive Officer
(Principal Executive Officer)

Dated: August 14, 2002

By: /s/ JOHN M. VUKO

John M. Vuko
Chief Executive Officer
(Principal Executive Officer)

COMPLIANCE WITH CERTIFICATION REQUIREMENTS

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

Table of Contents

INCYTE GENOMICS, INC.

EXHIBIT INDEX

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EXHIBIT 10.36

PROMISSORY NOTE

$400,000.00 Palo Alto, California

April 22, 2002

FOR VALUE RECEIVED, the undersigned, Brian Metcalf ("Employee") and Heather Metcalf, each an individual (collectively, "Borrower"), hereby promise to pay to the order of Incyte Genomics, Inc., a Delaware corporation ("Lender"), the principal sum of four hundred thousand dollars ($400,000.00), without interest (except as otherwise provided below), to be repaid as set forth below.

1. REPAYMENT. The entire outstanding principal balance of this promissory note (this "Note") shall be due and payable on February 7, 2006. Borrower may repay all or any portion of this Note at any time, without penalty, prior to its maturity date. Subject to all of the other provisions and terms of this Note, and provided Borrower is not then in default under this Note, that certain Deed of Trust from Borrower, as Trustor, to First American Title, as Trustee, for the benefit of Lender, as Beneficiary, of even date herewith (the "Deed of Trust") or any other deed of trust, mortgage or security instrument that secures this Note or encumbers the Property (as defined below), then: on February 6, 2003, twenty-five percent (25%) of the outstanding principal balance of this Note shall be forgiven; and 1/48 of the principal amount of this Note shall be forgiven on the last day of each month beginning thereafter, with the remaining outstanding principal balance of this Note forgiven on February 6, 2006; provided, however, Employee is still employed with Lender on such dates (each a "Forgiveness Date").

Any acceleration of this Note or termination of Employee's employment relationship with Lender prior to the then-applicable Forgiveness Date shall terminate and void any remaining right of Borrower to receive any forgiveness of the then-outstanding principal balance of this Note.

2. PURPOSE OF NOTE. Borrower acknowledges that it is a requirement of the loan evidenced by this Note (the "Loan") that the proceeds of the Loan be used only to finance Borrower's principal residence located at the address set forth on Schedule 1 hereto (the "Property") and that the purpose of the Loan is to induce Employee to accept an offer for employment which shall be principally in California.

3. SECURITY. This Note is the promissory note referred to in the Deed of Trust and is secured by the Deed of Trust. Reference is made to the Deed of Trust for a description of the nature and extent of the security afforded thereby, the rights of Lender in respect of such security, and the terms and conditions upon which this Note is secured. Lender is entitled to the benefits of the Deed of Trust and Lender may enforce the agreements of Borrower contained therein and exercise the remedies provided therein or otherwise in respect thereof, all in accordance with the Deed of Trust.

In the event that the Property or any part thereof or any interest therein is sold, agreed to be sold, conveyed, encumbered, alienated or otherwise transferred by Borrower (except for the Permitted Liens, as defined in the Deed of Trust), whether by operation of law or otherwise, this Note, irrespective of the due date expressed herein, at the option of Lender and without demand

or notice, shall immediately become due and payable. This provision shall apply to each and every sale, transfer, encumbrance or conveyance, regardless whether or not Lender has consented to, or waived, Lender's rights hereunder, whether by action or non-action in connection with any previous sale, transfer or conveyance.

Payment of this Note shall be secured by the Deed of Trust. Borrower, however, shall remain personally liable for payment of this Note, and assets of Borrower, in addition to the collateral under the Deed of Trust, may be applied to the satisfaction of Borrower's obligations hereunder. Nothing contained in this Note shall limit the rights of Lender to proceed against Borrower for any losses, claims, suits, judgments, liabilities, penalties, damages, costs or expenses (including, without limitation, the reasonable fees and disbursements of Lender's legal counsel) due to the fraud, intentional misrepresentation or intentional waste committed by Borrower under this Note, the Deed of Trust or the transactions contemplated hereby or thereby.

4. ACCELERATION OF DUE DATE.

The entire unpaid principal balance of this Note, together with all accrued and unpaid interest thereon, if any, shall, at the election of Lender, become immediately due and payable upon the occurrence of any of the following, irrespective of the repayment schedule set forth in paragraph 1 of this Note:

a. Any failure on the part of Borrower to make any payment under this Note when the same is due or to perform any other material obligation imposed upon Borrower under this Note, including, without limitation, the payment of applicable withholding taxes;

b. Any failure on the part of Borrower to perform or observe any of his obligations under the Deed of Trust or any other deed of trust, mortgage or security instrument that secures this Note or encumbers the Property as and when performance is due;

c. Any failure by Borrower to apply any portion of the proceeds of the Loan to finance the Property;

d. If Borrower shall sell the Property;

e. If at any time Borrower shall admit in writing its inability to pay its debts as they become due, or shall make any assignment for the benefit of any creditors, or shall file a petition seeking any reorganization, arrangement, composition, readjustment or similar release under any present or future statute, law or regulation, or upon the filing or commencement by or against Borrower of any petition, action, case or proceeding, voluntary or involuntary, under any state or Federal law regarding bankruptcy or insolvency;

f. Thirty (30) days after: the date that Employee's employment is terminated for Cause (as defined in that certain letter agreement, dated April 2002, by and between Employee and Lender (the "Letter Agreement")); or Employee
leaves employment of Lender on his own volition; provided, however, that in addition to the unpaid balance of this Note, Borrower shall also be personally liable for payment of interest on the principal amount of this Note at the rate determined by Lender as necessary to avoid the imputation of income to Borrower for Federal income tax purposes; or

g. One year after the date that Employee's employment is terminated without Cause (as such term is defined in the Letter Agreement) or Employee leaves employment of Lender due to death or Disability.

5. OFFSET TO COMPENSATION. To the fullest extent permitted by law, Borrower hereby authorizes Lender to offset any unpaid principal balance or accrued interest that is not paid when due under this Note, and any applicable withholding taxes, against any amounts owed by Lender to Borrower, including, without limitation, any wages, salary, bonuses, accrued vacation or sick pay, compensation from stock option exercises, and any other employment or consulting compensation or restricted stock unit payments. Lender shall promptly notify Borrower in writing of any such offset, including an itemization of the amounts offset and the balance, if any, due and payable pursuant to this Note.

6. SURVIVING OBLIGATIONS; TAXES. Any reduction in, or forgiveness of, the principal amount outstanding under this Note shall not limit Borrower's obligations to Lender for payment of any collection costs incurred by Lender pursuant to the terms of this Note. Borrower acknowledges that it is aware that a reduction or forgiveness of amounts due to Lender under this Note, as well as any waiver by Lender of receipt of interest charged on the principal amount of this Note, may result in adverse tax consequences for Borrower. Borrower assumes all risk, cost and responsibility for such tax consequences and releases Lender from any and all claims or liabilities arising therefrom. Notwithstanding the foregoing, if Lender determines that under applicable law and regulations Lender could be liable for the withholding of any Federal or state tax with respect to the Loan, Borrower shall pay the amount of such withholding tax obligation to Lender in cash or make other arrangements satisfactory to Lender for the satisfaction of such withholding tax obligations, including, without limitation, increasing the principal amount due under this Note equal to the amounts of such obligations. Lender shall not be required to forgive any portion of the outstanding principal balance of this Note unless and until such obligations are satisfied. Borrower further acknowledges that Lender will be imputing compensation income to Borrower pursuant to the requirements of the Internal Revenue Code of 1986, as amended, applicable to employee loans with below-market interest rates.

7. COLLECTION COST BORNE BY BORROWER. Borrower agrees to pay all costs and expenses, including, but not limited to, reasonable attorneys' fees, incurred by Lender in any action brought to enforce the terms of this Note and/or to collect his Note, and any appeal thereof. At Lender's option, such costs and expenses may be added to the principal amount of this Note.

8. PURCHASE OF SUBSEQUENT RESIDENCE.

In the event Borrower shall sell the Property, this Note shall immediately become due and payable and Borrower agrees to pay the outstanding balance of this Note with proceeds from such sale. If Borrower purchases another home in an area agreed to by the Board of Directors of Lender of equal or greater value within three (3) months of the sale of the Property (the "New Property"), Lender
agrees to re-loan up to four hundred thousand dollars ($400,000.00) (or if less, the amount of the then outstanding principal balance of the Note) to Borrower and Borrower agrees to execute a new promissory note upon substantially the same terms and conditions contained herein (the "New Note"), which shall be secured
by the New Property under a deed of

trust with substantially the same terms and conditions contained in the Deed of Trust; provided, however, that the proceeds of the loan evidenced by the New Note shall be directly deposited in the escrow account established for the New Property.

9. MISCELLANEOUS.

a. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Borrower:
at Borrower's current address as shown on the records of Lender.

If to Lender:
Incyte Genomics, Inc.
3160 Porter Drive
Palo Alto, CA 94304
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

b. Borrower waives presentment, demand, protest, notice of protest, notice of dishonor and notice of nonpayment.

c. Borrower consents to any extension of time for the payment of this Note. Any such extension or release may be made without notice to Borrower and shall not discharge the liability of Borrower. Failure to accelerate the maturity of the indebtedness evidenced by this Note upon default by Borrower, or acceptance of any past due installment, or failure to demand strict performance by Borrower shall not constitute a waiver of any provision of this Note by Lender.

d. This Note shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflict of laws.

e. In the event of any inconsistencies between the terms of this Note and the terms of any other document related to the Loan, the terms of this Note shall prevail.

f. This Note shall be binding upon Borrower and the personal representative, heir, successors and assigns of Borrower.

g. The benefit of the interest arrangements of the Loan are personal to Borrower and not transferable. Lender reserves the right to charge a default interest rate of five percent (5%) above the prime rate quoted in the Wall Street Journal to Borrower or any of Borrower's successors or assigns if the entire unpaid principal balance of this Note, together with all accrued and unpaid interest thereon, if any, is not paid when due.

h. If any part of this Note is determined to be illegal or unenforceable, all other parts shall remain in full force and effect.

IN WITNESS WHEREOF, Borrower has executed this Note as of the date first hereinabove written.

/s/ Brian W. Metcalf

Brian Metcalf

/s/ Heather Metcalf

Heather Metcalf

EXHIBIT 10.37

PROMISSORY NOTE

$750,000.00 Palo Alto, California

June 21, 2002

FOR VALUE RECEIVED, the undersigned, Robert B. Stein ("Employee") and Faye E. Stein, each an individual (collectively, "Borrower"), hereby promise to pay to the order of Incyte Genomics, Inc., a Delaware corporation ("Lender"), the principal sum of seven hundred fifty thousand dollars ($750,000.00), without interest (except as otherwise provided below), to be repaid as set forth below.

1. REPAYMENT. The entire outstanding principal balance of this promissory note (this "Note") shall be due and payable on November 27, 2005. Borrower may repay all or any portion of this Note at any time, without penalty, prior to its maturity date. Subject to all of the other provisions and terms of this Note, and provided Borrower is not then in default under this Note, that certain Deed of Trust from Borrower, as Trustor, to North American Title, as Trustee, for the benefit of Lender, as Beneficiary, of even date herewith (the "Deed of Trust") or any other deed of trust, mortgage or security instrument that secures this Note or encumbers the Property (as defined below), then: on November 26, 2004 fifty percent (50%) of the outstanding principal balance of this Note shall be forgiven; and the remaining outstanding principal balance of this Note shall be forgiven on November 26, 2005; provided, however, Employee is still employed with Lender on such dates (each a "Forgiveness Date").

Any acceleration of this Note or termination of Employee's employment relationship with Lender prior to the then-applicable Forgiveness Date shall terminate and void any remaining right of Borrower to receive any forgiveness of the then-outstanding principal balance of this Note. Notwithstanding the foregoing, payment of the outstanding principal balance of this Note upon termination of Employee's employment relationship with Lender shall be governed by Sections 4(g) and 4(h) hereof.

2. PURPOSE OF NOTE. Borrower acknowledges that it is a requirement of the loan evidenced by this Note (the "Loan") that the proceeds of the Loan be used only to purchase Borrower's new principal residence located at the address set forth on Schedule 1 hereto (the "Property") and that the purpose of the Loan is to induce Employee to accept an offer for employment principally in California.

3. SECURITY. This Note is the promissory note referred to in the Deed of Trust and is secured by the Deed of Trust. Reference is made to the Deed of Trust for a description of the nature and extent of the security afforded thereby, the rights of Lender in respect of such security, and the terms and conditions upon which this Note is secured. Lender is entitled to the benefits of the Deed of Trust and Lender may enforce the agreements of Borrower contained therein and exercise the remedies provided therein or otherwise in respect thereof, all in accordance with the Deed of Trust.

In the event that the Property or any part thereof or any interest therein is sold, agreed to be sold, conveyed, encumbered, alienated or otherwise transferred by Borrower (except for the Permitted Liens, as defined in the Deed of Trust), whether by operation of law or otherwise, this Note, irrespective of the due date expressed herein, at the option of Lender and without demand or notice, shall immediately become due and payable. This provision shall apply to each and

every sale, transfer, encumbrance or conveyance, regardless whether or not Lender has consented to, or waived, Lender's rights hereunder, whether by action or non-action in connection with any previous sale, transfer or conveyance. Notwithstanding the foregoing, as provided in section 9 hereof, if Borrower purchases a New Property (as defined in section 9) within the time period specified in section 9, then Lender may re-loan certain amounts to Borrower, which amounts shall be evidenced by a new promissory note executed by Borrower.

Payment of this Note shall be secured by the Deed of Trust. Borrower, however, shall remain personally liable for payment of this Note, and assets of Borrower, in addition to the collateral under the Deed of Trust, may be applied to the satisfaction of Borrower's obligations hereunder. Nothing contained in this Note shall limit the rights of Lender to proceed against Borrower for any losses, claims, suits, judgments, liabilities, penalties, damages, costs or expenses (including, without limitation, the reasonable fees and disbursements of Lender's legal counsel) due to the fraud, intentional misrepresentation or intentional waste committed by Borrower under this Note, the Deed of Trust or the transactions contemplated hereby or thereby.

4. ACCELERATION OF DUE DATE.

The entire unpaid principal balance of this Note, together with all accrued and unpaid interest thereon, if any, shall, at the election of Lender, become immediately due and payable upon the occurrence of any of the following, irrespective of the repayment schedule set forth in paragraph 1 of this Note:

a. Any failure on the part of Borrower to make any payment under this Note when the same is due or to perform any other material obligation imposed upon Borrower under this Note, including, without limitation, the payment of applicable withholding taxes;

b. Any failure on the part of Borrower to perform or observe any of his obligations under the Deed of Trust or any other deed of trust, mortgage or security instrument that secures this Note or encumbers the Property as and when performance is due;

c. Any failure by Borrower to apply any portion of the proceeds of the Loan to purchase the Property;

d. If at any time Borrower shall fail to certify to Lender, pursuant to Section 6 hereof or upon request by Lender, that Borrower reasonably expects to be entitled to and will in fact itemize its deductions for federal income tax purposes for each calendar year that any portion of the principal balance of this Note remains outstanding;

e. If Borrower shall sell the Property;

f. If at any time Borrower shall admit in writing its inability to pay its debts as they become due, or shall make any assignment for the benefit of any creditors, or shall file a petition seeking any reorganization, arrangement, composition, readjustment or similar release under any present or future statute, law or regulation, or upon the filing or commencement by or against Borrower of any petition, action, case or proceeding, voluntary or involuntary, under any state or Federal law regarding bankruptcy or insolvency;

g. Thirty (30) days after: the date that Employee's employment is terminated for Cause (as defined in that certain Employment Agreement dated November 26, 2001, by and between Employee and Lender (the "Employment Agreement")); or Employee leaves
- ----------

employment of Lender on his own volition without Good Reason or Change in Control Good Reason (as each such term is defined in the Employment Agreement); provided, however, that in addition to the unpaid balance of this Note, Borrower shall also be personally liable for payment of interest on the principal amount of this Note at the rate determined by Lender as necessary to avoid the imputation of income to Borrower for Federal income tax purposes; or

h. One year after the date that Employee's employment is terminated without Cause or Employee leaves employment of Lender with Good Reason or Change in Control Good Reason or due to death or Disability (as each such term is defined in the Employment Agreement).

5. OFFSET TO COMPENSATION. To the fullest extent permitted by law, Borrower hereby authorizes Lender to offset any unpaid principal balance or accrued interest that is not paid when due under this Note, and any applicable withholding taxes, against any amounts owed by Lender to Borrower, including, without limitation, any wages, salary, bonuses, accrued vacation or sick pay, compensation from stock option exercises, and any other employment or consulting compensation or restricted stock unit payments. Lender shall promptly notify Borrower in writing of any such offset, including an itemization of the amounts offset and the balance, if any, due and payable pursuant to this Note. Notwithstanding the foregoing, Lender shall have no right to withhold payment of any amount pursuant to this provision if collection is sought pursuant to Section 4(g) and Borrower disputes the occurrence of a termination for cause or without Good Reason or Change in Control Good Reason thereunder.

6. CERTIFICATION REGARDING DEDUCTIBILITY OF INTEREST. Borrower shall deliver in writing to Lender no later than January 31 of each year that any portion of the principal amount of this Note remains outstanding Borrower's certification that Borrower reasonably expects to be entitled to and will in fact itemize its deductions for Federal income tax purposes for the prior calendar year.

7. SURVIVING OBLIGATIONS; TAXES. Any reduction in, or forgiveness of, the principal amount outstanding under this Note shall not limit Borrower's obligations to Lender for payment of any collection costs incurred by Lender pursuant to the terms of this Note. Borrower acknowledges that it is aware that a reduction or forgiveness of amounts due to Lender under this Note, as well as any waiver by Lender of receipt of interest charged on the principal amount of this Note, may result in adverse tax consequences for Borrower. Borrower assumes all risk, cost and responsibility for such tax consequences and releases Lender from any and all claims or liabilities arising therefrom. Notwithstanding the foregoing, if Lender determines that under applicable law and regulations Lender could be liable for the withholding of any Federal or state tax with respect to the Loan, Borrower shall pay the amount of such withholding tax obligation to Lender in cash or make other arrangements satisfactory to Lender for the satisfaction of such withholding tax obligations, including, without limitation, increasing the principal amount due under this Note equal to the amounts of such obligations. Lender shall not be required to forgive any portion of the outstanding principal balance of this Note unless and until such obligations are satisfied.

8. COLLECTION COST BORNE BY BORROWER. Borrower agrees to pay all costs and expenses, including, but not limited to, reasonable attorneys' fees, incurred by Lender in any action brought to enforce the terms of this Note and/or to collect his Note, and any appeal thereof, unless it is determined, in such enforcement action or appeal, that the amounts sought to be collected in such action were not properly due and payable. At Lender's option, such costs and expenses may be added to the principal amount of this Note. Notwithstanding the foregoing, Lender shall have no right to require payment of costs and expenses, including attorney's fees, during the pendency of a collection action brought by Lender pursuant to Section 4(g) if Borrower disputes the occurrence of a termination for Cause or without Good Reason or Change in Control Good Reason thereunder, provided that payment may be required upon resolution of such dispute if it is determined that the amounts sought in such collection were properly due and payable.

9. PURCHASE OF SUBSEQUENT RESIDENCE.

In the event Borrower shall sell the Property, this Note shall immediately become due and payable and Borrower agrees to pay the outstanding balance of this Note with proceeds from such sale. If Borrower purchases another home in the Palo Alto, California area or in another area to which the Board of Directors of Lender requests Borrower to relocate of equal or greater value within three (3) months of the sale of the Property (the "New Property"), Lender agrees to re-loan up to seven hundred fifty thousand dollars ($750,000.00) to Borrower and Borrower agrees to execute a new promissory note upon substantially the same terms and conditions contained herein (the "New Note"), which shall be secured by the New Property under a deed of trust with substantially the same terms and conditions contained in the Deed of Trust; provided, however, that the proceeds of the loan evidenced by the New Note shall be directly deposited in the escrow account established for the New Property.

10. MISCELLANEOUS.

a. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Borrower:
at Borrower's current address as shown on the records of Lender.

If to Lender:
Incyte Genomics, Inc.
3160 Porter Drive
Palo Alto, CA 94304
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

b. Borrower waives presentment, demand, protest, notice of protest, notice of dishonor and notice of nonpayment.

c. Borrower consents to any extension of time for the payment of this Note. Any such extension or release may be made without notice to Borrower and shall not discharge the liability of Borrower. Failure to accelerate the maturity of the indebtedness evidenced by this Note upon default by Borrower, or acceptance of any past due installment, or failure to demand strict performance by Borrower shall not constitute a waiver of any provision of this Note by Lender.

d. This Note shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflict of laws.

e. In the event of any inconsistencies between the terms of this Note and the terms of any other document related to the Loan, the terms of this Note shall prevail.

f. This Note shall be binding upon Borrower and the personal representative, heir, successors and assigns of Borrower.

g. The benefit of the interest arrangements of the Loan are personal to Borrower and not transferable. Lender reserves the right to charge a default interest rate of five percent (5%) above the prime rate quoted in the Wall Street Journal to Borrower or any of Borrower's successors or assigns if the entire unpaid principal balance of this Note, together with all accrued and unpaid interest thereon, if any, is not paid when due.

h. If any part of this Note is determined to be illegal or unenforceable, all other parts shall remain in full force and effect.

IN WITNESS WHEREOF, Borrower has executed this Note as of the date first hereinabove written.

/s/ Robert B. Stein

Robert B. Stein

/s/ Faye E. Stein

Faye E. Stein

Exhibit 10.38

AMENDMENT TO

TRANSITION AGREEMENT

THIS AMENDMENT TO TRANSITION AGREEMENT (the "Amendment") by and between INCYTE GENOMICS, INC., a Delaware corporation (the "Company"), and ROY A. WHITFIELD (the "Executive"), is effective as of April 1, 2002.

Whereas the Company and Executive entered into an employment agreement dated as of May 2, 2001 (the "Prior Agreement"), which was superseded by that certain Transition Agreement effective as of November 26, 2001 (the "Agreement");

Whereas the Company and the Executive desire to amend the Agreement to eliminate the provisions of the Agreement (and Prior Agreement) that purported to modify the post-termination exercise provisions of Executive's outstanding incentive stock options;

Whereas the Company and Executive desire to amend the Agreement to reflect a reduction in the number of hours per week during which Executive will be employed as Chairman of the Board of Directors of the Company and to clarify the Company's obligation with respect to the continuation of welfare benefits following termination of employment; and

Whereas the Compensation Committee of the Board of Directors of the Company has determined that it is in the best interests of the Company to amend the Agreement to so provide:

NOW, THEREFORE, the Agreement is hereby amended as follows:

1. The Company and Executive acknowledge that Executive never provided the form of consent required in order to effect a modification of his incentive stock options under the terms of the Company's 1991 Stock Plan to extend the period during which they would be exercisable following death, Disability or Change in Control and, accordingly, notwithstanding the provisions of either the Agreement or the Prior Agreement, the post-termination exercise provisions in the incentive stock option agreements in effect as of the date of grant of such options shall remain in effect, and any purported modification of such provisions pursuant to the Agreement or the Prior Agreement shall be null and void ab initio. Notwithstanding the foregoing, the provisions of the Agreement which modify the vesting of the incentive stock options do not require such consent and shall remain in effect.

2. Executive agrees that as of April 1, 2002, his position as Chairman of the Board of Directors is modified from a full-time employment position to a 30 hour per week part-time employment position ending on August 2, 2002. The Company and Executive agree that, notwithstanding the provisions of Section 2(b) of the Agreement, the foregoing reduction in Executive's schedule shall not cause the occurrence of the Transition Completion Date for purposes of the Agreement until the termination of Executive's part-time employment on August 2, 2002.

3. The Company will compensate Executive for his part-time employment services at 75% of the Annual Base Rate, payable in accordance with the Company's standard payroll practices, and shall continue Executive's Welfare Benefits in accordance with the terms of those plans. Executive acknowledges that he remains ineligible to participate in any Company executive bonus or other bonus programs, profit sharing plan or management incentive plan. Executive further acknowledges that as of April 1, 2002, he has accrued 380 hours of paid time off, which he agrees to take at the rate of 22 hours per week commencing April 1, 2002, and that during the period of the part-time employment, Executive will not accrue additional paid time off.

4. The Company and Executive agree that the Company may satisfy its obligation to provide continued disability benefits to Executive during the Term by reimbursing Executive for the cost of disability insurance coverage obtained by Executive, at the levels in effect under the Company's plan at the Transition Completion Date. In addition, the Company may fulfill its obligation to provide continued health benefits to Executive and Executive's family, (i) during the portion of the Term that COBRA is available, by reimbursing Executive for the cost of continued coverage for Executive and Executive's family under COBRA (including medical, prescription, dental, vision), which Executive agrees to elect in accordance with the applicable procedures or (ii) at any time commencing twelve (12) months after the Transition Completion Date, as elected by Executive, by reimbursing Executive for the cost of health insurance coverage obtained by Executive, at the levels in effect under the Company's plan at the Transition Completion Date.

5. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

6. Capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement. Except as expressly set forth above, the terms and provisions of Agreement shall continue in full force and effect from and after the date hereof.

IN WITNESS WHEREOF, the Executive and the Company, through its duly authorized Officer, have executed this Amendment to be effective as of the day and year first above written.

EXECUTIVE

/s/ Roy A. Whitfield

COMPANY

By /s/ Paul A. Friedman

Its Chief Executive Officer

Exhibit 10.39

AMENDMENT TO

AMENDED AND RESTATED

EMPLOYMENT AGREEMENT

THIS AMENDMENT TO AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Amendment") by and between INCYTE GENOMICS, INC., a Delaware corporation (the "Company"), and James P. Merryweather (the "Executive"), is effective as of the 1st day of April, 2002.

Whereas the Company and the Executive have entered into that certain Amended and Restated Employment Agreement effective as of November 26, 2001 (the "Agreement");

Whereas the Company and the Executive desire to amend the Agreement to reflect the changed duties of the Executive in assuming the role of Executive Vice President of Business Development and Commercial Operations of the Company and to provide additional incentives to the Executive to continue to be employed by the Company in such capacity; and

Whereas the Compensation Committee of the Board of Directors of the Company has determined that it is in the best interests of the Company to amend the Agreement to so provide:

NOW, THEREFORE, the Agreement is hereby amended as follows:

1. Section 1(f) of the Agreement shall be amended to add at the end of such section the following sentence:

"Notwithstanding the foregoing, Good Reason shall not include the changed duties of Executive in assuming the role of Executive Vice President of Business Development and Commercial Operations of the Company."

2. Section 3(b)(i) of the Agreement shall be amended to add the following paragraph in between the existing two paragraphs of such section:

> "In addition, if the Date of Termination shall occur on or prior to April 1, 2003, the Company shall pay to the Executive, in addition to the amounts set forth above, $200,000; provided, however, that as a condition to such additional payment, the Executive shall execute and deliver to the Company, in a form satisfactory to the Company, a general release of claims."

3. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4. Except as expressly set forth above, the terms and provisions of Agreement shall continue in full force and effect from and after the date hereof.

IN WITNESS WHEREOF, the Executive and the Company, through its duly authorized Officer, have executed this Amendment to be effective as of the day and year first above written.

EXECUTIVE

/s/ James P. Merryweather

COMPANY

By /s/ Paul A. Friedman

Its Chief Executive Officer

Exhibit 10.40

FORM OF AMENDMENT TO

EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (the "Amendment") by and between INCYTE GENOMICS, INC., a Delaware corporation (the "Company"), and _____ (the "Executive"), is effective as of the 24th day of July, 2002.

Whereas the Company and the Executive have entered into an Employment Agreement dated May 2, 2001 (the "Prior Employment Agreement"), which was subsequently amended pursuant to an Amended and Restated Employment Agreement dated November 26, 2001 (the "Employment Agreement");

Whereas the Prior Employment Agreement and the Employment Agreement purported to modify the post-termination exercise provisions of the Executive's then outstanding options (the "Options") to acquire common stock of the Company;

Whereas the Company and the Executive agree and acknowledge that the Executive never consented to the modification of the Options in accordance with the requirements of the agreements pursuant to which the Options were granted (the "Option Agreements"), and that the purported modification of the Options pursuant to the Prior Employment Agreement and the Employment Agreement is null and void ab initio;

Whereas, the Company and the Executive now desire to amend to the Option Agreements in a manner that satisfies the applicable consent requirements, and to amend the Employment Agreement to reflect the foregoing;

Whereas, the Company and the Executive desire to clarify certain other provisions of the Employment Agreement; and

Whereas Compensation Committee of the Board of Directors of the Company has determined that it is in the best interests of the Company to amend the Agreement to so provide:

NOW, THEREFORE, the Employment Agreement is hereby amended as follows:

1. Notwithstanding any provision of the Prior Employment Agreement or the Employment Agreement to the contrary, the provisions of the Options in effect as of the date of grant of such Options regarding the period during which the Options could be exercised after termination of service shall remain in effect through the date of this Agreement, and any purported modification of such provisions pursuant to the Prior Employment Agreement or the Employment Agreement shall be null and void ab initio. Notwithstanding the foregoing, the provisions of the Employment Agreement which modified the vesting of the Options shall remain in effect.

2. The Employment Agreement is hereby amended, effective as of the date hereof, to provide for the following modification of the post-termination exercise provisions of the Option Agreements:

(a) Termination During the Change in Control Employment Period for Change in Control Good Reason or Other Than for Cause, Death or Disability. If, during the Change in Control Employment Period, the Company shall terminate the Executive's employment other than for Cause or the Executive shall terminate employment for Change in Control Good Reason (and the Executive's employment is not terminated by reason of death or Disability):

All options acquired under the 1991 Stock Plan of Incyte Genomics, Inc. or any other stock-based incentive plan of the Company shall be exercisable for 12 months following the Date of Termination.

(b) Termination During the Employment Period for Good Reason or Other Than for Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or the Executive shall terminate employment for Good Reason (and the Executive's employment is not terminated by reason of death or Disability):

All options acquired under the 1991 Stock Plan of Incyte Genomics, Inc. or any other stock-based incentive plan of the Company shall be exercisable for 12 months following the Date of Termination.

(c) Death or Disability. If the Executive's employment is terminated during the Employment Period or the Change in Control Employment Period due to the death or Disability of the Executive, all options acquired under the 1991 Stock Plan of Incyte Genomics, Inc. or any other stock-based incentive plan of the Company shall be exercisable for 12 months following the Date of Termination.

3. The Executive acknowledges that he has had the opportunity to consult with independent tax counsel and understands the consequences of the foregoing amendment to the Employment Agreement and resulting modification of the Executive's Options, and further acknowledges that such amendment and modification comply with the consent requirements applicable under the respective Option Agreements.

4. The Company and the Executive further agree that the Company may satisfy its obligation to provide continued disability benefits to the Executive following the Date of Termination by reimbursing the Executive for the cost of disability insurance coverage obtained by the Executive, at the levels in effect under the Company's plan at the Date of Termination. In addition, the Company may fulfill its obligation to provide continued health benefits to the Executive and the Executive's family following the Date of Termination, during the period that COBRA is available, by reimbursing the Executive for the cost of continued coverage for the Executive and the Executive's family under COBRA (including medical, prescription, dental, vision), which Executive agrees to elect in accordance with the applicable procedures.

5. Section 3(a)(i)(A) of the Employment Agreement is hereby amended to provide that the definition of Accrued Obligations, for all purposes of the Employment Agreement, shall

be offset by the amount of any target bonus already paid to the Executive under the Company's management bonus plan for the fiscal year in which the Change in Control or, in the case of a termination other than on account of a Change in Control, the Date of Termination occurs.

6. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7. Capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement. Except as expressly set forth above, the terms and provisions of Agreement shall continue in full force and effect from and after the date hereof.

IN WITNESS WHEREOF, the Executive and the Company, through its duly authorized Officer, have executed this Amendment to be effective as of the day and year first above written.

EXECUTIVE

_____

COMPANY

By /s/ Paul A. Friedman

Its Chief Executive Officer

Exhibit 10.41

July 25, 2002

Michael D. Lack
PO Box 9876
Rancho Santa Fe, CA 92067

Dear Mike:

This will confirm our agreement regarding your termination of employment with Incyte Genomics, Inc. (the "Company") on January 1, 2003 (the "Termination Date").

For purposes of the Amended and Restated Employment Agreement between you and the Company dated as of November 26, 2002, as amended by agreement effective as of July 24, 2002 (the "Employment Agreement"), your termination will be treated as a termination by the Company during the Employment Period for Good Reason, as such terms are defined in the Employment Agreement. Accordingly, the Company's obligations to you will be as set forth in Section 3(b) of the Employment Agreement, as modified and restated herein, and you shall have no further rights under the Employment Agreement, and the Company shall have no further obligation to you, except as expressly provided herein.

As of June 14, 2002, your position as Executive Vice President and Chief Operating Officer was terminated. However, thereafter, your employment will continue until the Termination Date, during which period you will be required to perform services on a part time basis as requested by the Company. The Company will continue to pay you at the rate of $30,416.66 per month through August 31, 2002, and at the rate of $1,000 per month from September 1, 2002 through the Termination Date. You will not continue to accrue vacation or other paid time off during the period from September 1, 2002 through the Termination Date.

Upon the Termination Date, you will be entitled to the following:

(1) Within thirty days of your Termination Date, you will be paid a cash lump sum equal to the sum of (a) your base salary earned through the Termination Date, to the extent not

already paid, plus (b) $103,333.33 (which represents 8/12 of your target bonus of $155,000 for the fiscal year ended December 31, 2001, under the Company's management bonus plan) minus the portion of your target bonus for the current fiscal year paid to you before the Termination Date, plus (c) the amount of your accrued vacation or other paid time off as of the Termination Date.

(2) Within thirty days of your Termination Date, you will also be paid a cash lump sum equal to the sum of your annual base salary ($365,000), plus the amount of your bonus for the fiscal year ending 12/31/01 under the Company's management bonus plan ($240,289.68), minus the sum of $4,000.

(3) The Company will reimburse you for the cost of disability insurance coverage obtained by you, at the levels in effect under the Company's plan at the Termination Date, for eight months following the Termination Date. In addition, the Company will reimburse you for the cost of continued coverage for you and your family under COBRA (including medical, prescription, dental, vision) for eight months following termination of your coverage on the Termination Date, provided you elect to continue such coverage in accordance with the applicable procedures. The Company will also continue your employee life and group life insurance, as in effect on the Termination Date, for eight months following the Termination Date. The benefits described in this paragraph (3) shall be secondary to those provided under any other employer provided plans for which you may become eligible, and shall fulfill the Company's obligation to provide continued welfare benefits to you and your family following termination of employment pursuant to the Employment Agreement.

(4) Subject to paragraph (8) below, on the Termination Date, you will become fully vested in your stock options granted under the Company's 1991 Stock Plan. As a result, unless earlier exercised, you will have vested options to acquire 412,000 shares of common stock of the Company, which will remain exercisable through January 1, 2004. You will continue to be subject to any applicable trading restrictions under Company policy and Federal and state law.

(5) Subject to paragraph (8) below, on the Termination Date, you will become vested in 40,000 (i.e. 50%) of your restricted stock units granted under the Company's 1991 Stock Plan. Payment will be made within thirty days of the Termination Date, in accordance with and subject to the provisions of your restricted stock unit award (which may result in deferral pending applicable trading window periods).

(6) The Company will provide you with outplacement services for twelve months following the Termination Date from a provider to be selected by you. A list of three national outplacement firms is attached as Schedule A hereto for your reference, although you are not obligated to select from this list.

(7) Your participation in the Company's 401(k) Plan will terminate upon your termination of employment on the Termination Date. Your benefits under the 401(k) plans will be determined in accordance with the provisions of that plan, and you will receive further information on those benefits following the Termination Date.

(8) Release.

You agree and acknowledge that (i) the benefits to be provided to you upon the Termination Date pursuant to paragraphs (4) and (5) of this Agreement exceed the benefits to which you would otherwise have been entitled under the Employment Agreement, (ii) such benefits are expressly conditioned upon your execution of a release, within 21 days following the Termination Date, in the following form, and (iii) the Company's obligation to provide such benefits shall not become effective until 7 days after the date of your execution and delivery of such release (the "Release Effective Date"):

> "In consideration of the additional benefits to be provided to Michael D. Lack (the "Executive") pursuant to paragraphs (4) and (5) of the letter agreement between Executive and Incyte Genomics, Inc. (the "Company") dated as of July 25, 2002 (the "Agreement"), the sufficiency of which Executive acknowledges, Executive, on behalf of himself, his family members and his and their heirs and successors, assigns, attorneys and agents, hereby releases and forever discharges the Company, as well as its officers, attorneys, directors, employees, stockholders and agents, and their successors and assigns, and its employee pension benefit or welfare benefit plans and current and former trustees and administrators of such plans (collectively "Company Releasees") from any and all claims, contracts, liabilities, damages, expenses and causes of action, whether in law or in equity, known or unknown, which may have existed or which may now exist from the beginning of time to the Release Effective Date against one or more of the Company Releasees (collectively "Executive Claims"), to the extent such Executive Claims relate in any way directly or indirectly, in whole or in part to: the termination of Executive's position as Executive Vice President and Chief Operating Officer pursuant to the Agreement, the fact that Executive is or was an employee, officer, stockholder or agent of the Company; any services performed

by Executive for the Company; Executive's employment or non-employment by the Company; any alleged harassment or disparagement suffered by Executive during his employment at the Company; any status, term or condition of such employment; any physical or mental harm or distress arising from such termination, employment or non-employment; any claims based upon federal, state or local laws prohibiting employment discrimination, including but not limited to claims of discrimination under the Fair Employment and Housing Act, Title VII of the 1964 Civil Rights Act, the Civil Rights Act of 1991, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, the Family and Medical Leave Act of 1993, or the Employee Retirement Income Security Act of 1974; breach of contract or any other legal basis. This release also includes release of any claims for age discrimination under the Age Discrimination in Employment Act, as amended ("ADEA"). The ADEA requires that Executive be advised to consult with an attorney before Executive waives any claim under the ADEA. In addition, the ADEA provides Executive with at least 21 days to decide whether to waive claims under the ADEA and seven days after Executive signs this release to revoke that waiver.

Executive understands that various federal, state and local laws prohibit age, sex, national origin, race and other forms of employment discrimination and that these laws are enforced through the U.S. Equal Employment Opportunity Commission, and similar state and local agencies. Executive understands that if he believed that his treatment by the Company had violated any of these laws, he could consult with these agencies and file a charge with them. Instead, Executive has voluntarily decided to accept the Company's offer in the Agreement and to waive and release any and all claims he may have under such laws.

Nothing under in this release shall affect the Company's obligations under the Agreement, the Amended and Restated Employment Agreement between the parties effective as of November 26, 2001 (as modified by and restated in the Agreement), the Confidential Information Agreement between the parties, or the stock option and restricted stock unit agreements between the parties.

Executive expressly waives and relinquishes any and all rights that such party may have under Section 1542 of the California Civil Code, which reads as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS

FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

All of your benefits will be subject to applicable withholding taxes.

In addition, as provided in Section 7(d) of the Employment Agreement, your termination of employment shall have no effect on the continuing operation of Section 7 of that agreement.

Please confirm your agreement with the foregoing by signing and dating the enclosed duplicate copy of this letter and returning it to me.

Sincerely,

/s/ Paul A. Friedman

Paul A. Friedman
(Name)
Chief Executive Officer
(Title)

ACCEPTED AND AGREED:

/s/ Michael D. Lack
- ---
Michael D. Lack