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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000
OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 0-27488

INCYTE GENOMICS, INC.
(Formerly Incyte Pharmaceuticals, 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	(650) 855-0555
(Address of principal executive offices)	(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required 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 [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

The aggregate market value of Common Stock held by non-affiliates (based upon the closing sale price on the Nasdaq National Market on February 28, 2001) was approximately $1,105,595,000.

As of February 28, 2001, there were 65,760,321 shares of Common Stock, $.001 per share par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors and Section 16(a) Beneficial Ownership Reporting Compliance), 11, 12 and 13 of Part III incorporate by reference information from the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the registrant's 2001 Annual Meeting of Stockholders to be held on June 5, 2001.

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Item 1. Business

When used in this Report, the words "expects," "anticipates," "estimates," "plans," "believes," and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include statements as to the Company's expected net losses, expected expenditure levels and rate of growth of expenditures, expected cash flows, the adequacy of capital resources, growth in operations, expected revenues and sources of revenues, the ability to commercialize products developed under collaborations and alliances, our ability to complete the sequence of full-length genes in areas of therapeutic interest and file patents on these potential drug targets, our ability to integrate companies, operations and their products that we have acquired or will acquire, the scheduling and timing of current and future litigation, our investments in our intellectual property portfolio, our strategy with regard to protecting our proprietary technology, the success of our drug target identification and validation efforts, the success of our custom genomic products and services, our ability to compete and respond to rapid technological change, our intention not to develop pharmaceutical products, our competitive advantage as to the annotation of the human proteome, the effect of government regulation, our compliance with applicable environmental laws and regulations, the adequacy of our current facilities and our ability to locate additional facilities at reasonable rates, our exposure to foreign currency rate fluctuations, products and services under development, and the performance, content and utility of our products and services. Forward-looking statements 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 to which the pharmaceutical and biotechnology industries use genomic information in research and development, risks relating to development of new products and services and their use by our potential customers and collaborators, our ability to develop and commercialize products to improve human health, our ability to work with our collaborators to meet the goals of our collaborators and alliances, our ability to retain and obtain customers, the cost of accessing or acquiring technologies or intellectual property, the effectiveness of our sequencing efforts, the impact of alternative technological advances and competition, uncertainties associated with changes in patent laws and developments in and expenses related to litigation and interference proceedings; and the risks set forth below under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors That May Affect Results." These forward-looking statements speak only as of the date hereof. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

In the sections of this report entitled "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors That May Affect Results," all references to "Incyte," "we," "us," "our" or the "Company" mean Incyte Genomics, Inc. and its subsidiaries, except where it is made clear that the term means only the parent company.

Incyte, LifeSeq and PathoSeq are our registered trademarks. ZooSeq, LifeTools, LifeArray, LifeProt, LifeExpress, LifeGrid, GeneAlbum, GEM, and BioKnowledge Library are our trademarks. We also refer to trademarks of other corporations and organizations in this document.

Overview

Incyte provides genomics technologies and products to the biotechnology and pharmaceutical industries and research and academic institutions to aid in better and faster prevention, diagnosis and treatment of disease. Our products and services include databases, bioreagents, custom sequencing, gene expression, SNP discovery and other services.

Our databases integrate bioinformatics software with proprietary and, when appropriate, publicly available genomic information. In building the databases, we utilize high-throughput, computer-aided gene sequencing and analysis technologies to identify and characterize the expressed genes of the human genome, as well as certain animal genomes. By searching our proprietary genomic databases, customers can integrate and analyze genomic

information from multiple sources to discover genes that may represent the basis for new biological targets, therapeutic proteins, antisense or diagnostic products. Our products and services can be applied to gene and target discovery, functional genomics studies, preclinical pharmacology and toxicology studies, and can aid in understanding and analyzing the results of clinical development studies.

We provide access to our databases primarily through collaborations with pharmaceutical and biotechnology companies worldwide. In addition, customers may access select databases online via our website. As of December 31, 2000, more than thirty companies had entered into multi-year agreements to obtain access to our databases on a non-exclusive basis. Revenues from these companies have primarily consisted of database access fees. Our agreements also provide for future milestone payments and royalties from the sale of products derived from proprietary information contained in one or more database modules.

Our portfolio of products and services includes:

- LifeSeq Gold human gene sequence database;
- ZooSeq animal model gene sequence database;
- LifeExpress gene and protein expression database;
- Genetics program that identifies common DNA sequence variants between individuals;
- Microarray-based expression services;
- Bioreagents; and
- Custom sequencing and other custom services.

The databases are available using the Oracle database architecture and operate on Sun Microsystems, Compaq and SGI workstations. As part of our strategy for expanding our customer base, online delivery of database and software products is available from the Company's website at www.incyte.com.

Background

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

Sequencing

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

Gene Expression

Another method used to determine gene function focuses on the analysis of gene activity, referred to as expression, within a cell. When a gene is active, its DNA is copied into messenger RNA, or mRNA. The population of mRNA within a cell can be isolated and converted into complementary DNA, or cDNA, thereby

creating a cDNA library that represents the population of mRNAs present in a cell type at a particular time. In a process called gene expression profiling, high-throughput cDNA sequencing, computer analysis and microarray technologies can be used to identify which genes are active or inactive and, if active, at what levels. Expression profiles provide a more detailed picture of cellular genetics than conventional laboratory techniques by indicating which genes, both known and novel, are specifically correlated to discrete biological events in normal and disease-state cells.

Microarray Technology

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

Bioinformatics

Improvements in sequencing technology have caused the amount of genomic information from both public and private sources to increase at a dramatic rate. As a result, bioinformatics, or the use of computers and sophisticated algorithms to store, analyze and interpret large volumes of biological data, is essential in order to capture value from this growing pool of data. To date, the main focus of bioinformatic and genomic tools has been drug discovery. We believe these tools, and those under development, will also assist researchers with the preclinical and clinical development process. For example, with the help of new technology and bioinformatic analyses scientists may be able to correlate genetic and physiologic response in preclinical animal models, examine gene expression profiles in drug-treated animals to assess the pharmacological activity and toxicity of new drugs, and stratify clinical trial patients according to their gene expression profiles.

Single Nucleotide Polymorphism ("SNP") Discovery

Genetic variation may cause individuals to respond differently to disease or treatment with the same drug. Few, if any, FDA-approved drugs can successfully treat every individual diagnosed with a targeted disease. The differences in patients' responses to a drug are believed to result in part from differences in the sequence of nucleotides within genes. The most common form of sequence variation is known as a single nucleotide polymorphism or "SNP." A SNP is defined as a single nucleotide difference within the same DNA region between two individuals. Some SNPs are "silent" and not associated with a disease or a patient's ability to respond to a particular therapy, and some SNPs occur at a frequency that is too low to justify large-scale patient screening. Thus, researchers need to do more than identify SNPs; they must identify the most frequently occurring SNPs and identify those that correlate with a patient's disease prognosis or ability to respond to a drug. Through our acquisition of Hexagen Limited in September 1998, we are developing fluorescent single-strand confirmation polymorphism, or fSSCP, technology, a high-throughput SNP discovery technology. fSSCP is particularly useful for identifying SNPs in genes not expressed or more rarely expressed. This gel-based system detects SNPs in multiple samples simultaneously by observing changes in the tertiary structure of single stranded DNA fragments due to base pair changes. Incyte is applying technologies in the areas of electrophoresis, fluorescence chemistries, sequencing and bioinformatics to continue to develop and improve the accuracy and efficiency of this technology.

Gene Mapping

Mapping refers to the determination of the physical location of a gene in the genome and the relative position of that gene to other genes along a chromosome. Physiological processes and associated diseases can be extremely complex and involve many genes. A gene can activate one or more different genes forming a cascade

of genetically controlled events or a "pathway." When the genes involved in such a pathway are located within neighboring regions of DNA, mapping can allow the location of one member of the pathway to be used to identify the other members. In addition, genetically inherited diseases that have been passed from generation to generation may be associated with visible chromosome alterations, such as deletions of large segments of the chromosome or insertions within the chromosome. These physical chromosome abnormalities allow researchers to identify the DNA regions and genes that have a critical role in causing disease.

Proteomics

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

Products and Services

Sequence Databases. We provide our database collaborators with non-exclusive database access. Database collaborators receive periodic data updates as well as software upgrades and additional search and analysis tools when they become available. The fees and the period of access are negotiated independently with each company. Fees generally consist of database access fees, option fees, and non-exclusive or exclusive license fees corresponding to patent rights on proprietary sequences. We may also receive future milestone and royalty payments from database collaborators from the development and sale of their products derived from our technology and database information. Using our databases, researchers can browse not only Incyte-generated data, but also public domain information. Customers may also access select Incyte-hosted databases online via our website. We currently offer the following database modules:

. LifeSeq Gold Database. Incyte's flagship database, LifeSeq Gold, currently contains more than 6.7 million sequences, 5.3 million of which are Incyte derived, from more than 1,200 different tissue libraries, representing more than 90% of the human genes. The database also contains public domain genomic data that has been curated and aligned with Incyte's gene transcript data using our proprietary informatics processes. LifeSeq Gold partners also have access to more than 215,000 sequence-verified clone reagents archived in our LifeSeq GeneAlbum reagent set and data on SNPs. Our LifeSeq Gold data can be accessed via a browser-based interface and customers are provided with a full range of standard built-in gene query and analysis tools. LifeSeq Gold is accessible to customers in several different configurations. LifeSeq Gold is available for installation on the intranet network at a company's site for complete access behind the company's firewall. LifeSeq Gold Online allows Internet access to an Incyte-hosted site providing the most current version of LifeSeq Gold. LifeSeq Gene-by-Gene provides access to the LifeSeq human gene database and reagent set on a pay-per-view basis. LifeSeq Subscriber Sponsored Access Program allows access to LifeSeq through collaborations with participating pharmaceutical partners.

. LifeSeq Public. LifeSeq Public utilizes our bioinformatics capabilities to assemble public domain data plus some of our proprietary sequences. Once a researcher finds a gene of interest using LifeSeq Public, the researcher can purchase from Incyte sequence-verified reagents.

. ZooSeq Database. The ZooSeq multi-species gene sequence database provides genetic data for animal model organisms used in drug discovery, drug development and testing, and gene discovery. With rat, mouse, monkey, and dog animal models currently available, ZooSeq enables individual and cross-species comparison of genes. This information can help uncover previously unknown homologs of human disease-relevant genes, improve understanding of disease pathways, and provide a basis for optimizing drug selection before moving on to expensive human clinical trials. ZooSeq data is accessed from a browser-based interface that provides point-and-click control of analysis tools included with the database.

Expression

- LifeExpress Database. The LifeExpress database provides RNA and protein expression data. LifeExpress Target provides comprehensive disease-focused expression data for a number of key therapeutic areas, including cancer, cardiovascular, central nervous system, immunology and inflammation, and metabolic diseases (obesity, osteoporosis, and type 2 diabetes). Researchers can use LifeExpress Target to prioritize targets earlier in the discovery cycle; discover genes and regulatory pathways involved in disease; and more quickly identify disease-associated genes by tissue type, cell line, or animal model. The protein expression module has been developed in cooperation with our collaborator, Oxford GlycoSciences Plc. The data can be accessed via our Java-based software interface that provides a variety of analysis tools.

- GEM microarrays. Our GEM microarrays can provide researchers with a cost-effective way to perform detailed analysis of differential gene expression in normal and diseased or treated cells. We offer a variety of GEM microarrays that contain DNA fragments, or clones, from both human and animal genomes.

Genetics

- Custom SNP discovery service. We provide customers with high-throughput SNP discovery services. Incyte uses its proprietary fSSCP screening method on the customer's genes of interest to detect 95 percent of the polymorphisms that have a frequency greater than or equal to 3.1 percent.

- IsSNPs. Our In silico SNP data is mined from the LifeSeq Gold database. Researchers can use data derived from Incyte's genetics programs to identify and characterize optimal therapeutic targets, gain a better understanding of the relationship between disease phenotypes and genetic variation, enable faster clinical proof of principle, and identify genetic markers of disease progression.

- Custom Sequencing. Our custom sequencing services leverage several of our core strengths, including library screening, library construction, high-throughput cDNA sequencing and bioinformatics.

- Bioreagents and Other Services. We offer a variety of DNA reagents and other services, including clones from our extensive libraries, GEM microarray services, gene screening, clone resources, and robotics.

Database Production

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

- Tissue Access. We obtain tissue samples representing most major organs in the human body from various academic and commercial sources. Where possible, we obtain information as to the medical history and pathology of the tissue. The genetic material is isolated from the tissue and prepared for analysis. The results of this analysis, as well as the corresponding pathology and medical history information, are incorporated into the databases.

- High-Throughput cDNA Sequencing. We utilize specialized teams in an integrated approach to our high-throughput sequencing and analysis effort. Gene sequencing is performed using multiple work shifts to increase daily throughput. One team develops and prepares cDNA libraries from biological sources of interest, a second team prepares the cDNAs using robotic workstations to perform key steps that result in purified cDNAs for sequencing, and a third team operates the automated DNA sequencers.

. Bioinformatics. Sequence information generated from our high-throughput sequencing operations is uploaded to a network of servers. Our proprietary bioinformatic software then assembles and edits the sequence information. The sequence of each cDNA is compared via automated, computerized algorithms to the sequences of known genes in our databases and public domain databases to identify whether the cDNA codes for a known protein or is homologous to a known gene. Each sequence is annotated as to its cell or tissue source, its relative abundance and whether it is homologous to a known gene with known function. The bioinformatics staff monitors this computerized analysis and may perform additional analyses on sequence information. The finished data are then added to our proprietary sequence databases.

Collaborators

As of December 31, 2000, we had database collaboration agreements with more than 30 companies. Each collaborator has agreed to pay annual fees to receive non-exclusive access to one or more of our databases. One customer contributed 11% of total revenues in 2000 and another accounted for 12% of total revenues in 1998. No customer accounted for 10% or more of total revenues in 1999.

Some of our database agreements contain minimum annual update requirements, which if not met could result in our breach of the respective agreement. We cannot assure you that any of our database collaboration agreements will not be terminated early in accordance with their terms. Loss of revenues from any individual database agreement, if terminated or not renewed, could have an adverse impact on our results of operations, although is not anticipated to have a material adverse impact on our business or financial condition.

Information regarding revenues by geographic areas is included in Note 9 to the Notes to the Consolidated Financial Statements.

Development Programs

Since our inception, we have made substantial investments in research and technology development. During the years ended December 31, 2000, 1999, and 1998 we spent approximately $192.6 million, $146.8 million, and $97.2 million, respectively, on research and development activities. This investment in research and development includes an active program to enter into relationships with other technology-driven companies and, when appropriate, acquire licenses to technologies for evaluation or use in the production and analysis process. Not all of these technologies or relationships survive the evaluation process. We have entered into a number of research and development relationships with companies and research institutions.

We are initiating SNP programs focused on specific candidate genes, gene families, disease pathways, therapeutic areas or drug targets that could be useful to individual pharmaceutical partners. These programs may include the identification of genes associated with a particular disease and an in depth study of the population frequency and disease correlation of SNPs within a selected DNA region. The SNP discovery efforts were assisted by our acquisition of Hexagen in September 1998.

We are developing various platforms that can be used for the high throughput screening of patient samples in order to correlate SNPs with patients' responses to drugs. These platforms may be used to offer genotyping and patient profiling services to pharmaceutical companies to help identify statistically significant and medically relevant associations between SNPs in specific genes and drug response or disease susceptibility. We expect that this service will be used to assist in the evaluation of new drugs in clinical trials and to assess clinical trial design.

We have increased our investments in identifying and validating drug targets. We employ sophisticated data mining and functional biology tools along with our sequence, gene expression and SNP data included in our databases to identify drug targets. Our target validation efforts are supported by our use of technologies that include biological assays and readout, gene manipulation by antisense, retroviral transfection, and in vivo gene knockouts. Our in-house and collaborative efforts are focused on high-priority therapeutic areas such as cancer, cardiovascular disease, Type 2 diabetes and related metabolic disorders, inflammatory disease, neurodegenerative disease, and osteoporosis.

Proteome, Inc., Acquisition

In December 2000, we acquired Proteome, Inc., a privately held company based in Beverly, Massachusetts. Founded in February 1995, Proteome has developed an integrated biological knowledge system to provide researchers with valuable information related to gene and protein function. This platform reduces the complexity of the genomic information landscape by revealing biological connections and relationships across species. Proteome employs its proprietary processes to compile, distill and transform protein information into meaningful biological knowledge. Proteome's database product line, the BioKnowledge Library, consists of multispecies volumes that are interconnected to allow searching between volumes using common protein and gene characteristics. The BioKnowledge Library, available to commercial subscribers, consists of individual volumes (proteome databases) for each model organism, and includes software tools to produce a resource for bioinformatic scientists and biologists of all disciplines. We believe that Incyte's access to a comprehensive set of gene transcripts, combined with Proteome's network of protein annotators, will provide the Company with a competitive advantage in annotating the human proteome.

Patents and Proprietary Technology

Our database business and competitive position are in part dependent upon our ability to protect our proprietary database information and software technology. We rely on patent, trade secret and copyright law, as well as nondisclosure and other contractual arrangements to protect our proprietary information.

Our ability to license proprietary genes and SNPs may be dependent upon our ability to obtain patents, protect trade secrets and operate without infringing upon the proprietary rights of others. Other pharmaceutical, biotechnology and biopharmaceutical companies, as well as academic and other institutions, have filed applications for, may have been issued patents or may obtain additional patents and proprietary rights, relating to products or processes competitive to our products or processes. Patent applications filed by competitors may claim some of the same gene sequences or partial gene sequences as those claimed in patent applications that we file. We are aware that some entities have made or have announced their intention to make gene sequences publicly available. Publication of sequence information may adversely affect our ability to obtain patent protection for sequences that have been made publicly available.

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

In 1996, the United States Patent and Trademark Office issued guidelines limiting the number of partial gene sequences that can be examined in a single patent application. Many of our patent applications containing multiple partial sequences contain more sequences than the maximum number allowed under the new guidelines. We are reviewing our options, and due to the resources needed to comply with the guidelines, we may decide to abandon patent applications for some of our partial gene sequences.

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

We have begun to file patent applications for patentable SNPs identified with our LifeSeq Gold database, through our human genome sequencing program, and through the use of our fSSCP discovery technology. These patents will claim rights to SNPs for diagnostic and genotyping purposes. As information relating to particular

SNPs is developed, we plan to seek additional rights in those SNPs that are associated with specific diseases, functions or drug responses. The scope of patent protection for gene sequences, including SNPs, is highly uncertain, involves complex legal and factual questions and has recently been the subject of much controversy. No clear policy has emerged with respect to the breadth of claims allowable for SNPs. There is significant uncertainty as to what, if any, claims will be allowed on SNPs discovered through high throughput discovery programs.

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

In January and September 1998, Affymetrix, Inc. filed lawsuits in the United States District Court for the District of Delaware alleging infringement of three U.S. patents by the Company. The Company believes that it has meritorious defenses and intends to defend these suits vigorously. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors That May Affect Results--We are involved in patent litigation, which if not resolved favorably could require us to pay damages and stop selling and using microarray products."

Competition

There is a finite number of genes in the human genome, and competitors may seek to identify, sequence and determine in the shortest time possible the biological function of a large number of genes in order to obtain a proprietary position with respect to the largest number of new genes discovered. A number of companies, institutions, and government-financed entities are engaged in gene sequencing, gene discovery, gene expression analysis, positional cloning and other genomic service businesses. Many of these companies, institutions and entities have greater financial and human resources than we do. In addition, we are aware that other companies have developed databases containing gene sequence, gene expression, genetic variation or other genomic information and are marketing, or have announced their intention to market, their data to pharmaceutical companies. We expect that additional competitors may attempt to establish databases containing this information in the future.

In addition, competitors may discover and establish patent positions with respect to the gene sequences and polymorphisms in our databases. Further, some entities engaged in or with stated intentions to engage in gene sequencing have made or have stated their intention to make the results of their sequencing efforts publicly available. These patent positions, or the public availability of gene sequences comprising substantial portions of the human genome or on microbial or plant genes, could:

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

We are aware that a number of companies are pursuing alternative methods for generating gene expression information, including some that have developed and are developing microarray technologies. At least one other company currently offers microarray-based services that might be competitive with those we offer. These advanced sequencing or gene expression technologies, if developed, may not be commercially available for our purchase or license on reasonable terms, if at all.

Our SNP discovery platform represents a modification of a process that is in the public domain. Other companies could make similar or superior improvements in this process.

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

- the features and ease of use of our database software;
- our experience in high-throughput gene sequencing;
- the cumulative size of our databases;
- the quality of the data, including the annotations in our databases;
- our computing infrastructure; and
- our experience with bioinformatics and database software.

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

Government Regulation

Regulation by governmental authorities in the United States and other countries will be a significant factor in the production and marketing of any pharmaceutical products that may be developed by us or our licensees. At the present time, we do not intend to develop any pharmaceutical products ourselves. Our agreements with our LifeSeq Gold database subscribers provide for the payment to us of royalties on any pharmaceutical products developed by those subscribers derived from proprietary information obtained from our genomic databases. Thus, the receipt and timing of regulatory approvals for the marketing of such products may have a significant effect on our future revenues. Pharmaceutical products developed by licensees will require regulatory approval by governmental agencies prior to commercialization. In particular, human pharmaceutical therapeutic products are subject to rigorous preclinical and clinical testing and other approval procedures by the United States Food and Drug Administration in the United States and similar health authorities in foreign countries. Various federal and, in some cases, state statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of such pharmaceutical products, including the use, manufacture, storage, handling and disposal of hazardous materials and certain waste products. The process of obtaining these approvals and the subsequent compliance with appropriate federal and foreign statutes and regulations require the expenditure of substantial resources over a significant period of time, and there can be no assurance that any approvals will be granted on a timely basis, if at all. Any such delay in obtaining or failure to obtain such approvals could adversely affect our ability to earn milestone payments, royalties or other license-based fees. Additional governmental regulations that might arise from future legislation or administrative action cannot be predicted, and such regulations could delay or otherwise affect adversely regulatory approval of potential pharmaceutical products. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-- Factors That May Affect Results--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."

Corporate History

Incyte 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.

Human Resources

As of December 31, 2000, we had 1,322 full-time equivalent employees (196 of whom were contract or part-time employees), including 493 in sequencing, microarray, SNP and reagent production, 346 in bioinformatics, 231 in research and technology development, and 252 in marketing, sales and administrative positions. None of our employees is covered by collective bargaining agreements, and management considers relations with our employees to be good. Our future success will depend in part on the continued service of our key scientific, software, bioinformatics and management personnel and our ability to identify, hire and retain additional personnel, including personnel in the customer service, marketing and sales areas. There is intense competition for qualified personnel in the areas of our activities, especially with respect to experienced bioinformatics and software personnel, and there can be no assurance that we will be able to continue to attract and retain such personnel necessary for the development of our business. Failure to attract and retain key personnel could have a material adverse effect on our business, financial condition and operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors that May Affect Results--If we are unable to manage effectively our growth, our operations, and ability to support our customers could be affected, which could harm our revenues" and "--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."

Item 2. Properties

Incyte's headquarters are in Palo Alto, California, where its main research laboratories, sequencing facility, bioinformatics and administrative facilities are located. Incyte also operates facilities in Fremont, California; St. Louis, Missouri; Beverly, Massachusetts; and Cambridge, England. As of December 31, 2000, Incyte had multiple sublease and lease agreements covering approximately 446,000 square feet that expire on various dates ranging from September 2001 to March 2011. The Company believes that its current facilities are adequate to support its current and anticipated near-term operations and believes that it can obtain additional space it may need in the future on commercially reasonable terms.

Item 3. Legal Proceedings

Affymetrix

In January 1998, Affymetrix Inc, ("Affymetrix") filed a lawsuit in the United States District Court for the District of Delaware, which was subsequently transferred to the United States District Court for the Northern District of California in November 1998, alleging infringement of U.S. patent number 5,445,934 by the Company. The complaint alleges that the Company infringed the "934 patent by making, using, selling, importing, distributing or offering to sell in the United States high density arrays and that this infringement was willful. Affymetrix seeks a permanent injunction enjoining the Company from further infringement of the "934 patent and, in addition, seeks damages, costs, attorneys' fees and interest. Affymetrix also requests triple damages based on its allegation of willful infringement by the Company.

In September 1998, Affymetrix filed an additional lawsuit in the United States District Court for the District of Delaware, which was subsequently transferred to the United States District Court for the Northern District of California in November 1998, alleging the Company infringed U.S. patent number 5,800,992 and U.S. patent number 5,744,305. The complaint alleges that the Company infringed the "305 patent by making, using, selling, importing, distributing or offering to sell in the United States high density arrays. It also alleges that the Company infringed the "992 patent by using their GEM microarray technology to conduct gene expression monitoring and

other applications using two-color labeling, and that this infringement was willful. Affymetrix seeks a permanent injunction enjoining the Company from further infringement of the "305 and "992 patents. The court held a pretrial hearing in November 2000 to determine how to construe the patent claims that will be litigated in trial. In January 2001, the court issued a ruling describing how the claims in the "934, "305 and "992 patents should be interpreted.

In April 1999, the Board of Patent Appeals and Interferences of the United States Patent and Trademark Office declared interferences between pending patent applications licensed exclusively to the Company and the Affymetrix "305 and "992 patents. The Board of Patent Appeals and Interferences invokes an interference proceeding when more than one patent applicant claims the same invention. During the proceeding, the Board of Patent Appeals and Interferences evaluates all relevant facts, including those bearing on first to invent, validity, enablement and scope of claims, and then makes a determination as to who, if anyone, is entitled to the patent on the disputed invention. In September 1999, the Board of Patent Appeals and Interferences determined that the Company had not met its prima facie case, and ruled that the patents licensed by the Company from Stanford University were not entitled to priority over corresponding claims in the two Affymetrix patents. The Company is seeking de novo review of the Board's decisions in the United States District Court for the Northern District of California.

In August 2000, the Company filed a lawsuit against Affymetrix in federal court alleging infringement of U.S. patent numbers 5,716,785 and 5,891,636. The patents relate to technologies used in the amplification of RNA and the generation of gene expression information. Affymetrix has filed counterclaims in this lawsuit that allege, among other things, that the Company infringe U.S. patent number 6,040,193 and U.S. patent number 5,871,928. These counterclaims allege that the Company infringe these patents by making, using, offering to sell and/or selling within the United States the inventions claimed in the patents, including, in the case of the "193 patent, methods for forming microarrays and, in the case of the "928 patent, methods for analyzing nucleic acids. The counterclaims also allege that the Company engaged in acts of unfair competition under California statutory and common law. Affymetrix seeks a permanent injunction enjoining the Company from further infringement of the "193 patent and "928 patent and, in addition, seeks damages, costs and attorneys' fees and interest. Affymetrix further requests triple damages from the infringement claims based on its allegation of willful infringement by the Company.

In December 1999 and August 2000, the Company filed lawsuits against Gene Logic Inc. in federal court alleging patent infringement. Gene Logic filed counterclaims alleging, among other things, that the Company committed acts of unfair competition under California statutory and common law. Gene Logic sought, among other things, damages, costs and attorneys' fees. In January 2001, the Company reached a litigation settlement with Gene Logic pursuant to which the lawsuits were dismissed, and Gene Logic will have a non-exclusive license to practice the technology described in the patents.

The Company believes it has meritorious defenses and intends to defend vigorously the suits and counterclaims brought by Affymetrix. However, the Company's defenses may be unsuccessful. At this time, the Company cannot reasonably estimate the possible range of any loss resulting from these suits and counterclaims due to uncertainty regarding the ultimate outcome. Regardless of the outcome, the Affymetrix litigation has resulted and is expected to continue to result in substantial expenses and diversion of the efforts of our management and technical personnel. 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. This litigation may also affect the Company's potential customers' willingness to use its microarray services and gene expression databases, which could adversely affect the Company's revenue.

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

Not applicable.

PART II

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

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

	High	Low
1999		
First Quarter	$ 19.75	$ 9.75
Second Quarter	13.56	8.38
Third Quarter	21.13	10.31
Fourth Quarter	36.56	8.22
2000		
First Quarter	144.53	32.63
Second Quarter	60.25	21.69
Third Quarter	55.56	34.00
Fourth Quarter	43.00	22.06

As of December 31, 2000, the Common Stock was held by 400 stockholders of record. The Company has never declared or paid dividends on its capital stock and does not anticipate paying any dividends in the foreseeable future. The above high and low sales prices for the Common Stock have been adjusted to reflect the two-for-one stock split effected in the form of a stock dividend in August 2000.

Item 6. Selected Consolidated Financial Data

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

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

	Year Ended December 31,				
	2000	1999	1998	1997	1996
Consolidated Statement of Operations Data:(/1/)					
Revenues	$194,167	$156,962	$134,811	$89,996	$41,895
Costs and expenses:					
Research and development	192,556	146,833	97,192	72,452	41,337
Selling, general and administrative	64,201	37,235	25,438	13,928	6,957
Charge for purchase of in-process research and development	--	--	10,978	--	3,165
Acquisition-related charges	--	--	1,171	--	--
Total costs and expenses	256,757	184,068	134,779	86,380	51,459
Income (loss) from operations	(62,590)	(27,106)	32	3,616	(9,564)
Interest and other income, net	31,206	5,169	7,266	4,140	2,288
Losses from joint venture	(1,283)	(5,631)	(1,474)	(300)	--
Income (loss) before income taxes and extraordinary item	(32,667)	(27,568)	5,824	7,456	(7,276)
Provision (benefit) for income taxes	205	(800)	2,352	548	--
Income (loss) before extraordinary item	(32,872)	(26,768)	3,472	6,908	(7,276)
Extraordinary item, net of taxes	3,137	--	--	--	--
Net income (loss)	$(29,735)	$(26,768)	$ 3,472	$ 6,908	$(7,276)
Basic net income (loss) per share	$ (0.47)	$ (0.48)	$ 0.06	$ 0.14	$ (0.16)
Number of shares used in computation of basic net income (loss) per share	63,211	56,276	53,842	48,600	44,796
Diluted net income (loss) per share	$ (0.47)	$ (0.48)	$ 0.06	$ 0.13	$ (0.16)
Number of shares used in computation of diluted net income (loss) per share	63,211	56,276	57,798	52,996	44,796

	December 31,				
	2000	1999	1998	1997	1996
Consolidated Balance Sheet Data:(/1/)					
Cash, cash equivalents, and securities available-for-sale	$582,180	$ 66,937	$111,233	$113,095	$ 40,238
Working capital	571,583	58,043	81,437	90,700	21,351
Total assets	886,820	221,934	230,290	199,089	69,173
Non-current portion of capital lease obligations and notes payable	--	194	796	801	37
Convertible subordinated notes	187,814	--	--	--	--
Accumulated deficit	(84,904)	(55,169)	(28,401)	(30,129)	(37,037)
Stockholders' equity	622,694	170,282	179,567	145,702	44,834

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(1) Financial data for the year ended December 31, 1996, have been restated to reflect the combined results and financial position of the Company and Genome Systems, Inc. All periods through December 31, 1997 have been

restated to reflect combined results and financial position of the Company and Synteni, Inc. See Note 10 of Notes to Consolidated Financial Statements.

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

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

When used in this discussion, the words "expects," "anticipates," "estimates," and similar expressions are intended to identify forward-looking statements. These statements, which include statements as to the Company's expected net losses, expected expenditure levels, expected uses of cash, expected cash flows, expected expenditures including expenditures on intellectual property and research and development, and expected investments, the adequacy of capital resources, the effect of the adoption of SFAS 133, and growth in operations, 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 potential collaborators of the Company; the impact of technological advances and competition; the ability of the Company 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 sequences and other genetic information; developments in and expenses relating to litigation; the results and businesses in which the Company has purchased equity; and the matters discussed in "Factors That May Affect Results." These forward-looking statements speak only as of the date hereof. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

Incyte Genomics, Inc. ("Incyte" or the "Company") designs, develops and markets genomic information-based products and services. These products and services include database products, microarray-based gene expression services and SNP discovery services, genomic reagents, and related services. The Company's genomic databases integrate bioinformatics software with proprietary and, when appropriate, publicly available genetic information to create information-based products and services used by pharmaceutical and biotechnology companies and academic researchers to understand disease and to discover and develop drugs.

In July 2000, the Company's board of directors approved a two-for-one stock split in the form of a stock dividend. Incyte stockholders of record on August 7, 2000 received one additional share for each share of common stock held at the time. The additional shares were distributed to eligible stockholders on August 31, 2000. All share and per share data have been adjusted retroactively to reflect the split.

Revenues recognized by the Company consist primarily of non-exclusive database access fees related to database agreements, the sales of genomic screening products and services, fees for contract sequencing services, fees for research programs, and fees for microarray-based gene expression services. The Company's database agreements provide for future milestone payments and royalties from the sale of products derived from proprietary information obtained through the databases. There can be no assurance that any database subscriber will ever generate products from information contained within the databases and, thus, that the Company will ever receive additional milestone payments or royalties. The Company's ability to maintain and increase revenues depends on its ability to obtain additional database subscribers, to retain existing subscribers, to expand its product and service offerings and to expand its customer base. The loss of revenues from any individual database agreement, if terminated or not renewed, could have an adverse impact on the Company's results of operations, although it is not anticipated to have a material adverse impact on the Company's business or financial condition.

In 2001, the Company intends to make significant investments focused on the further development of its intellectual property portfolio and its internal disease pathway and therapeutic drug discovery programs. Depending on the investment required and the timing of such investments, expenses or losses related to these investments could adversely affect operating results. In addition to its investments in these areas, the Company is continuing to invest in its identification and characterization of full length genes, SNP discovery, proteomics and protein annotation, and bioinformatics in 2001. As a result, the Company expects to report a net loss at least through 2001. If the costs of these new and existing programs are greater than anticipated, or if these programs take longer to complete, or if losses are incurred from strategic investments, the Company may incur losses in future periods as well.

In December 2000, the Company completed the acquisition of Proteome, Inc., a privately held proteomics database company. The Company issued 1,248,522 shares of its common stock and $37.7 million in cash in exchange for all of Proteome's outstanding capital stock. In addition, the Company assumed Proteome's stock options, which if fully vested and exercised, would amount to 216,953 shares of its common stock. The fair value of the stock options assumed were allocated between additional purchase price and deferred compensation in accordance with guidance provided by the Financial Accounting Standards Board's Interpretation No. 44. The transaction was accounted for as a purchase. The amount of the purchase price in excess of net tangible assets acquired of approximately $70.8 million, was allocated to goodwill ($50.3 million), database ($16.6 million), developed technology ($0.6 million), tradename ($1.7 million), and assembled workforce ($1.6 million), which are being amortized over 8, 8, 5, 3 and 3 years, respectively. The Company evaluates its intangible assets for impairment on a quarterly basis.

The Company has made and intends to continue to make strategic equity investments in, and acquisitions of, technologies and businesses that are complementary to the businesses of the Company. As a result, the Company may record losses or expenses related to the Company's proportionate ownership interest in such long-term equity investments, record charges for the acquisition of in-process technologies, or record charges for the recognition of the impairment in the value of the securities underlying such investments.

The Company has incurred and may continue to incur substantial expenses in its defense of the lawsuits filed in January and September 1998 by Affymetrix, Inc. ("Affymetrix") alleging patent infringement by the Company and in the lawsuits filed by the Company against Affymetrix in August 2000. In August 2000, the Company filed a patent infringement suit against Affymetrix in the United States Court for the Northern District of California. The suit alleges infringement of the U.S. Patent Numbers 5,716,785 and 5,891,636. These patents cover key technologies used in the creation of gene expression data.

In its lawsuits against the Company, Affymetrix seeks a permanent injunction enjoining the Company from further infringement of certain Affymetrix patents. In addition, Affymetrix seeks damages, costs, attorneys' fees and interest. Affymetrix further requests that any such damages be tripled on its allegation of willful infringement by the Company. With respect to the lawsuits filed by the Company, Affymetrix has filed counterclaims against the Company. See Note 12 of Notes to Consolidated Financial Statements.

The Company believes it has meritorious defenses and intends to defend these suits and counterclaims vigorously. However, there can be no assurance that the Company will be successful in the defense of these suits. At this time, the Company cannot reasonably estimate the possible range of any loss related to these suits and counterclaims due to uncertainty regarding the ultimate outcome. Regardless of the outcome, this litigation has resulted and is expected to continue to result in substantial expenses and diversion of the efforts of management and technical personnel. Any future litigation could result in similar expenses and diversion of efforts. Further, there can be no assurance that any license that may be required as a result of these suits and counterclaims or the outcome thereof would be made available on commercially acceptable terms, if at all.

Results of Operations

The Company recorded net losses for the years ended December 31, 2000 and 1999 of $29.7 million and $26.8 million, respectively, and net income for the year ended December 31, 1998 of $3.5 million. On a basic and diluted per share basis, net loss was $0.47 and $0.48 for the years ended December 31, 2000 and 1999, respectively. Basic and diluted net income per share was $0.06 for the year ended December 31, 1998. Loss before extraordinary items for 2000 was $32.9 million, or $0.52 per diluted share. The net loss per share in 2000 reflects the dilutive effect of approximately 4 million shares issued in a February 2000 private equity offering. The net income per share for 1998 reflects the issuance of approximately 4.6 million shares in January 1998 in connection with the Company's business combination with Synteni.

Revenues. Revenues for the years ended December 31, 2000, 1999, and 1998 were $194.2 million, $157.0 million, and $134.8 million, respectively. Revenues resulted primarily from database access fees and, microarray-based gene expression services, genomic screening products and services, fees for contract sequencing, and fees from partnering programs. The increase in revenues was primarily attributable to database agreements with new customers, revenues from the Pfizer partner program, revenues from new products such as the in silico Single Nucleotide Polymorphism ("isSNP") product, as well as increased revenues from custom genomics products and services.

Expenses. Total costs and expenses for the years ended December 31, 2000, 1999, and 1998 were $256.8 million, $184.1 million, and $134.8 million, respectively. Total costs and expenses for the year ended December 31, 1998 included a one-time charge of $11.0 million for the purchase of in-process research and development relating to the acquisition of Hexagen, and acquisition related expenses of $1.2 million related to the combination with Synteni. Total costs and expenses are expected to increase in the foreseeable future due to our continuing investment in new products and services and additional costs associated with Proteome operations.

Research and development expenses for the years ended December 31, 2000, 1999, and 1998 were $192.6 million, $146.8 million, and $97.2 million, respectively. The increase from 2000 over 1999 resulted primarily from an increase in bioinformatics and software development efforts, SNP discovery efforts, microarray production, partner program expenses, expression database development, an increase in internal disease pathway and therapeutic drug discovery programs, and the development of internet and e-commerce products. The increase from 1999 over 1998 resulted primarily from the Company's genomic sequencing, genetic mapping, and SNP discovery initiatives that were started in the second half of 1998, the Company's collaborations in the proteomics field, the increase in microarray production, and the costs related to intellectual property protection. The Company expects research and development spending to increase as the Company continues to pursue the development of new database products and services, including Proteome's proteomic database, and as the Company expands its internal disease pathway and therapeutic drug discovery programs.

Selling, general and administrative expenses for the years ended December 31, 2000, 1999, and 1998 were $64.2 million, $37.2 million, and $25.4 million, respectively. The increase in selling, general and administrative expenses in 2000 over 1999 resulted primarily from the growth in the Company's sales and marketing function, including its branding efforts, and increased personnel to support the growing complexity of the Company's operations. The increase in selling, general and administrative expenses in 1999 over 1998 resulted primarily from the growth in sales and marketing activities and the increased personnel to support the growing complexity of the Company's operations. The Company's selling, general and administrative expenses were also impacted by legal expenses related to the Company's patent infringement lawsuits with Affymetrix and GeneLogic of approximately $8.9 million, $6.5 million and $2.9 million, in 2000, 1999, and 1998, respectively. The Company expects that total selling, general and administrative expenses will continue to increase, primarily due to the amortization of goodwill and other intangible assets generated from the Proteome acquisition and expenses to support the growing complexity of the Company's operations.

Interest and Other Income/Expense, Net. Interest and other income/expense, net, for the years ended December 31, 2000, 1999, and 1998, was $41.7 million, $5.5 million, and $7.4 million, respectively. The increase in 2000 from 1999 was primarily due to higher interest income, and a gain of $5.4 million from the sale of one of the Company's long-term strategic investments. The higher interest income was primarily due to the convertible debt offering and private equity offering in February 2000 resulting in higher cash, cash equivalent and marketable securities balances. The decrease in 1999 from 1998 was primarily due to decreased interest income as a result of lower cash, cash equivalent and marketable securities balances.

Interest Expense. Interest expense for the years ended December 31, 2000, 1999, and 1998 was $10.5 million, $0.3 million and $0.2 million, respectively. The increase in 2000 from 1999 was primarily due to the interest from the convertible subordinated notes issued by the Company in February 2000. Interest expense remained relatively consistent in 1999 as compared to 1998.

Losses from Joint Venture. Losses from joint venture were $1.3 million, $5.6 million, and $1.5 million for the years ended December 31, 2000, 1999, and 1998, respectively. In September 1997, the Company formed a joint venture, diaDexus, LLC ("diaDexus") with SmithKline Beecham Corporation. The loss represents the Company's share of diaDexus' losses from operations. On April 4, 2000, diaDexus converted from an LLC to a corporation and completed a private equity financing at which time the Company no longer had significant influence over diaDexus. Accordingly, the Company began accounting for its investment in diaDexus under the cost method of accounting as of the date of the financing, and therefore did not reflect diaDexus' results of operations in the Company's statement of operations subsequent to that date. The loss in 1998 was net of $2.5 million of amortization of the excess of the Company's share of diaDexus' net assets over its basis.

Income Taxes. Due to the Company's net loss in 2000, the Company had a minimal effective annual income tax rate. In 1999, the Company had an effective income tax benefit rate of 3.0%, primarily due to the carryback of the current year net operating loss. The effective tax rate for 1998 was 14.0%, excluding the charge for the purchase of in-process research and development, which represents the provision of federal and state alternative minimum taxes after utilization of net operating loss carryforwards.

Extraordinary item, net. In November 2000, the Company repurchased $15.0 million face value of its 5.5% convertible subordinated notes on the open market. The repurchases resulted in a gain of $3.1 million, net of taxes.

Recent Accounting Pronouncements

In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), as amended by SFAS Nos. 137 and 138, which is required to be adopted in the first quarter of 2001. SFAS 133 established standards for accounting and reporting derivative instruments and hedging activities. It requires companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure these instruments at fair value. The adoption of SFAS 133 is not expected to have a material adverse impact on the consolidated financial position or results of operations of the Company.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). Among other things, SAB 101 discusses the SEC staff's view on accounting for non-refundable up-front fees. Adoption of SAB 101 had no material impact on the Company's consolidated financial position or results of operations.

In March 2000, the FASB issued FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation ("FIN 44"), which contains rules designed to clarify the application of APB 25. The Company adopted FIN 44 on July 1, 2000 and the adoption had no material impact on the Company's consolidated financial position or results of operations.

Liquidity and Capital Resources

As of December 31, 2000, the Company had $582.2 million in cash, cash equivalents and marketable securities, compared to $66.9 million as of December 31, 1999. The Company has classified all of its marketable securities as short-term, as the Company may choose not to hold its marketable securities until maturity in order to take advantage of favorable market conditions. Available cash is invested in accordance with the Company's investment policy's primary objectives of liquidity, safety of principal and diversity of investments.

Net cash used in operating activities was $7.3 million and $21.4 million for the years ended December 31, 2000 and 1999, respectively, and net cash provided by operating activities was $36.2 million in the year ended December 31, 1998. The change in net cash used in 2000 as compared to 1999 was primarily due to the increases in accounts payable and accrued and other current liabilities and the slower increase of accounts receivables in 2000 as compared to 1999. These were partially offset by the increase in prepaid assets and the decrease in deferred revenues. The change in cash flows from operations in 1999 compared to 1998 was primarily due to the Company's investments in genomic sequencing, mapping, bioinformatics and SNP discovery resulting in a net loss in 1999 as compared to net income in 1998, and the increase in accounts receivable and prepaid expenses, partially offset by increases in accrued and other current liabilities.

The Company's investing activities, other than purchases, sales and maturities of marketable securities, have consisted predominantly of capital expenditures and net purchases of long-term investments. Capital expenditures for the years ended December 31, 2000, 1999, and 1998, were $59.5 million, $34.8 million, and $30.7 million, respectively. Capital expenditures increased in 2000 and 1999 primarily due to investments in computer equipment and software, laboratory equipment, and leasehold improvements related to the expansion of the Company's facilities. Long-term investments in companies with which the Company has research and development agreements were $10.1 million $4.2 million and $7.1 million for the years ended December 31, 2000, 1999 and 1998, respectively. In 2000 the Company sold stock in an investment, resulting in proceeds of $7.9 million and a gain of $5.4 million and diaDexus repaid its $2.5 million note to Incyte. In 1999 the Company liquidated its investment in two such companies, resulting in proceeds of $4.3 million and a net realized gain of $0.2 million. In 2000, the Company paid $36.9 million, net of cash received, in connection with the acquisition of Proteome, and in 1998 paid $4.0 million, net of cash received, in connection with the purchase of Hexagen. In the future, 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 $619.1 million, $12.5 million, and $4.0 million, for the years ended December 31, 2000, 1999, and 1998, respectively. Net cash provided by financing activities in 2000 was primarily due to the Company raising additional funds in two financing transactions. In February 2000, the Company issued $200.0 million aggregate principal amount of 5.5% convertible subordinated notes due 2007 in a private placement, resulting in net proceeds of approximately $196.8 million. Also in February 2000, the Company issued 4,000,000 shares of its common stock in a private placement, for an aggregate purchase price of $422.0 million. Net proceeds from the sale of those shares were $403.3 million. Net cash provided by financing activities in 1999 and 1998 was due to the issuance of common stock under the Company's stock option and employee stock purchase plans.

The Company expects to use net cash in 2001 as it: invests in its internal disease pathway and therapeutic drug discovery programs, intellectual property portfolio, sequencing, bioinformatics, and SNP discovery programs; invests in data-processing-related computer hardware to support its existing and new database products and to enable the on-line delivery of those products; continues to seek access to technologies through investments, research and development alliances, license agreements and/or acquisitions; makes strategic investments; and continues to make improvements in existing facilities.

Based upon its current plans, the Company believes that its existing resources will be adequate to satisfy its capital needs for at least the next twelve months. The Company's cash requirements depend on numerous factors,

including the ability of the Company to attract and retain collaborators for its 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 its recent expansion of internal disease pathway and therapeutic drug discovery programs; competing technological and market developments; the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights; the purchase of additional capital equipment, including capital equipment necessary to ensure the Company's sequencing and microarray operations remain competitive; capital expenditures required to expand the Company's facilities; and costs associated with the integration of new operations assumed through mergers and acquisitions. Changes in the Company's research and development plans or other changes affecting the Company's operating expenses may result in changes in the timing and amount of expenditures of the Company's capital resources.

Euro Conversion

A single currency called the euro was introduced in Europe on January 1, 1999. Eleven of the fifteen member countries of the European Union agreed to adopt the euro as their common legal currency on that date. Fixed conversion rates between these participating countries' existing currencies (the "legacy currencies") and the euro were established as of that date. The legacy currencies are scheduled to remain legal tender as denominations of the euro until at least January 1, 2002, but not later than July 1, 2002. During this transition period, parties may settle transactions using either the euro or a participating country's legal currency. This conversion to the euro had no material impact on the Company's results of operations, financial position or cash flows. The Company will continue to evaluate the potential impact of the euro on its computer and financial systems, business processes, market risk, and price competition.

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 again incurred net losses in 1999 and 2000. Because of those losses, we had an accumulated deficit of $84.9 million as of December 31, 2000. We intend to continue to spend significant amounts on new product and technology development, including therapeutic drug discovery and development programs and making our products available online, and to increase our investment in marketing, sales and customer service. The amounts we intend to spend on new product and technology development include spending for our efforts to determine the sequence of genes, or genomic sequencing, determine gene functions, develop database and software products such as our gene expression database, discover SNPs, expand research and development alliances, and develop electronic commerce products. As a result, we expect to incur losses in 2001. We may report net losses in future periods as well. We will not return to profitability unless we increase our revenues or reduce our expenses.

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

As of December 31, 2000, we had over 30 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 or services for which they subscribe, the impact of which will vary based upon our pricing of those products and services. 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.

Our longer-term strategy for profitability includes licenses under our gene-related intellectual property, but these licenses 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.

We may not be able to generate significant growth in revenue if we are not able to generate significant revenues from our custom genomic products and services

We expect that our custom genomic products and services will become a greater percentage of our revenues. Whether this occurs, and whether these products and services will generate significant revenues, depends on our ability to increase our customer base, increase sales to existing customers, and increase our production capacity in a timely manner and with consistent volumes and quality to meet the increased demand.

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

Our operating results are unpredictable 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 and services, including our database business;
- 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;
- 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 in joint ventures and businesses;
- 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;
- changes in intellectual property laws that affect our rights in genetic information that we sell;
- payments of milestones, license fees or research payments under the terms of our increasing number of external alliances; and
- expenses related to, and the results of, litigation and other proceedings relating to intellectual property rights, including the lawsuits filed by Affymetrix and counterclaims filed by Affymetrix.

We have significant fixed expenses, due in part to our need to continue to invest 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.

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

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. Our competitors include:

- Affymetrix, Inc.,
- Celera Genomics Group of Applera Corporation,
- CuraGen Corporation,
- Gene Logic Inc.,
- Human Genome Sciences, Inc.,
- major pharmaceutical companies, and
- universities and other research institutions, including The SNP Consortium, which is funded by a number of pharmaceutical companies, and those receiving funding from the federally funded Human Genome Project.

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, 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.

Our new investments in validating drug targets will lead to increased expenses and may not result in commercial products or services

We have recently decided to invest in validating drug targets associated with diseases that may be linked to several or many genes working in combination. The process of discovering drugs based upon genomics is new and evolving rapidly, and we have limited experience in discovering or developing drugs. These efforts will result in increased expenses and may not result in commercial products or services. There is limited scientific understanding generally relating to the role of genes in diseases, and few, if any, products based on gene discoveries have been developed and commercialized. Accordingly, even if we are successful in identifying genes, biological pathways or drug candidates associated with specific diseases, we or our collaborators may not be able to develop or commercialize products to improve human health. Rapid technological development by us or others may result in compounds, products or processes becoming obsolete before we recover our development expenses.

Our revenues could decline due to patent positions becoming publicly available, or due to our competitors publicly disclosing their discoveries

Our competitors may discover and establish patent positions with respect to the genes in our databases. Our competitors and other entities who engage in discovering the location of genes within a DNA strand and 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. Also, Celera Genomics Group has publicly stated that it is committed to make available to the public basic human sequence data. 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. It could also impair our ability to realize royalties or other revenue from any commercialized products based on this genetic information.

We are involved in patent litigation, which if not resolved favorably could require us to pay damages and stop selling and using microarray products

We are currently involved in patent litigation. If we lose this litigation we could be prevented from producing and using our microarray products, including uses of those products for purposes of providing gene expression database products and gene expression services. We could also be required to pay damages. In January

1998, Affymetrix filed a lawsuit in federal court alleging that we infringe of U.S. patent number 5,445,934 by both the Company. The complaint alleges that we infringed the "934 patent by making, using, selling, importing, distributing or offering to sell in the United States high density arrays and that this infringement was willful. Affymetrix seeks a permanent injunction enjoining us from further infringement of the "934 patent and, in addition, seeks damages, costs, attorneys' fees and interest. Affymetrix also requests triple damages based on its allegation of willful infringement by us.

In September 1998, Affymetrix filed an additional lawsuit in Federal Court, alleging we infringed U.S. patent number 5,800,992 and U.S. patent number 5,744,305. The complaint alleges that we infringed the "305 patent by making, using, selling, importing, distributing or offering to sell in the United States high density arrays. It also alleges that we infringed the "992 patent by using their GEM(TM) microarray technology to conduct gene expression monitoring and other applications using two-color labeling, and that this infringement was willful. Affymetrix seeks a permanent injunction enjoining us from further infringement of the "305 and "992 patents. The court held a pretrial hearing in November 2000 to determine how to construe the patent claims that will be litigated in trial. In January 2001, the court issued a ruling describing how the claims in the "934, "305 and "992 patents should be interpreted.

In April 1999, the Board of Patent Appeals and Interferences of the United States Patent and Trademark Office declared interferences between pending patent applications licensed exclusively to us and the Affymetrix "305 and "992 patents. The Board of Patent Appeals and Interferences invokes an interference proceeding when more than one patent applicant claims the same invention. During the proceeding, the Board of Patent Appeals and Interferences evaluates all relevant facts, including those bearing on first to invent, validity, enablement and scope of claims, and then makes a determination as to who, if anyone, is entitled to the patent on the disputed invention. In September 1999, the Board of Patent Appeals and Interferences determined that we had not met our prima facie case, and ruled that the patents licensed by us from Stanford University were not entitled to priority over corresponding claims in the two Affymetrix patents. We are seeking de novo review of the Board's decisions in the United States District Court for the Northern District of California.

In August 2000, we filed a lawsuit against Affymetrix in federal court alleging infringement of U.S. patent numbers 5,716,785 and 5,891,636. The patents relate to technologies used in the amplification of RNA and the generation of gene expression information. Affymetrix has filed counterclaims in this lawsuit that allege, among other things, that we infringe U.S. patent number 6,040,193 and U.S. patent number 5,871,928. These counterclaims allege that we infringe these patents by making, using, offering to sell and/or selling within the United States the inventions claimed in the patents, including, in the case of the "193 patent, methods for forming microarrays and, in the case of the "928 patent, methods for analyzing nucleic acids. The counterclaims also allege that we engaged in acts of unfair competition under California statutory and common law. Affymetrix seeks a permanent injunction enjoining us from further infringement of the "193 patent and "928 patent and, in addition, seeks damages, costs and attorneys' fees and interest. Affymetrix further requests triple damages from the infringement claims based on its allegation of willful infringement by us.

We believe we have meritorious defenses and intend to defend the suits and counterclaims brought by Affymetrix vigorously. However, our defenses may be unsuccessful. At this time, we cannot reasonably estimate the possible range of any loss resulting from these suits and counterclaims due to uncertainty regarding the ultimate outcome. Regardless of the outcome, the Affymetrix litigation has resulted and is expected to continue to result in substantial expenses and diversion of the efforts of our management and technical personnel. 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. This litigation may also affect our potential customers' willingness to use our microarray services and gene expression databases, which could affect our revenue.

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.

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. We believe that we are not infringing the patent rights of any third parties. Except for Affymetrix, no third party has filed a 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 to seek licenses to other parties' patents or proprietary rights. We may also be restricted or prevented from manufacturing or selling our products and services. Further, we 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.

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 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 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 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 impact 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 on a microarray or 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.

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.

If our programs relating to the role of genetic variation in disease and drug response are not successful, they may not generate significant revenues or result in profitable operations

Part of our business is focused on developing information-based and other products and services to assist pharmaceutical companies in a new and unproven area: the identification and correlation of variation in genetic composition to disease and drug response. We will incur significant costs over the next several years in expanding our research and development in this area. These activities may never generate significant revenues or profitable operations.

This aspect of our business focuses on single nucleotide polymorphisms or SNPs, one type of genetic variation. The role of SNPs in disease and drug response is not fully understood, and relatively few, if any,

therapeutic or diagnostic products based on SNPs have been developed and commercialized. Among other things, demand in this area may be adversely affected by ethical and social concerns about the confidentiality of patient-specific genetic information and about the use of genetic testing for diagnostic purposes.

Except for a few anecdotal examples, there is no proof that SNPs have any correlation to diseases or a patient's response to a particular drug or class of drug. Identifying statistically significant correlations is time-consuming and could involve the collection and screening of a large number of patient samples. We do not know if the SNPs we have discovered to date are suitable for these correlation studies because the variations we discovered may not occur frequently enough to justify use by a pharmaceutical company.

Our success in this area will also depend upon our ability to develop, use and enhance new and relatively unproven technologies. Among other things, we will need to continue to improve the throughput of our SNP-discovery technology. We may not be able to achieve these necessary improvements, and other factors may impair our ability to develop our SNP-related products and services in time to be competitively available.

If our strategic investments result in losses, our earnings may decline

We make strategic investments in joint ventures or businesses 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, such as the losses we reported in 1997, 1998, 1999 and the first quarter of 2000 related to our investment in diaDexus, LLC;

- require us to record charges related to the acquisition of in-process technologies or for the impairment in the value of the securities underlying our investment; and

- require us to invest greater amounts than anticipated or to devote substantial management time to the management of research and development relationships and joint ventures.

The market values of many of these investments 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.

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 and services but may be unsuccessful, which could hurt our profitability

Our ability to obtain new subscribers for our databases, software tools and microarray and other services or to obtain renewals or additions to existing subscriptions depends upon prospective subscribers' perceptions that our products and services can help accelerate drug discovery efforts. Our database sales cycle is typically lengthy because we need to educate our potential subscribers and sell the benefits of our tools and services to a variety of constituencies within potential subscriber companies. In addition, each database subscription and microarray services agreement involves the negotiation of unique terms. We may expend substantial funds and management effort with no assurance that a new, renewed or expanded subscription or services agreement will result. These expenditures, without increased revenues, will negatively impact our profitability. Actual and proposed consolidations of pharmaceutical companies have affected the timing and progress of our sales efforts. We expect that future proposed consolidations will have similar effects.

If we encounter problems in meeting customers' software needs, our revenues could decline and we could lose our customers' goodwill

Our databases require software support and will need to incorporate features determined by database collaborators. If we experience delays or difficulties in implementing our database software or collaborator-requested features, we may be unable to service our collaborators, which could result in a loss of revenues and customer goodwill.

We have encountered difficulties integrating companies we acquired, and if in the future we cannot smoothly integrate businesses we acquire, 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;
- 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 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 we are unable to manage effectively our growth, 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. Our ability to manage this growth will depend upon our ability to attract, hire and retain skilled employees. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems and to hire, train and manage our employees.

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 would 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, software, 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 Sigma-Aldrich, Inc. in our gene sequencing operations. If we are not able to obtain additional machines or 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 or unfavorable internet regulations may deter future use of our products and services, 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 comprise 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.

Our customers may not consider the internet as an acceptable method for accessing our products and services

We have expended a significant amount of time and money to make our products available through the Internet. In 2000, we introduced our on-line product LifeSeq Gene-by-Gene and made LifeSeq Gold and LifeExpress available on-line. If only a few of our customers choose to use the Internet as a method for accessing our products and services, we may have to incur a charge against earnings to write-off Internet related assets.

Because our activities involve the use of hazardous materials, we may be subject to costly environmental liability that could exceed our resources

Our research and development involves the controlled use of hazardous and radioactive materials and biological waste. 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. Although we believe that our safety procedures for handling and disposing of these materials comply with legally prescribed standards, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of an accident, we could be held liable for damages, and this liability could exceed our resources.

We believe that we are in compliance in all material respects with applicable environmental laws and regulations and currently do not expect to make material additional capital expenditures for environmental control facilities in the near term. However, we may have to incur significant costs to comply with current or future environmental laws and regulations.

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.

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

We conduct our database, sequencing and a significant portion of our other activities at our facilities in Palo Alto, California, and conduct our microarray-related activities at our facilities in Fremont, California. Both locations are 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.

We may experience power blackouts and higher electricity prices as a result of California's current energy crisis, which could disrupt our operations and increase our expenses

California is in the midst of an energy crisis that could disrupt our operations and increase our expenses. We rely on the major Northern California public utility, Pacific Gas & Electric Company, or PG&E, to supply electric power to our facilities in Northern California. Due to problems associated with the de-regulation of the power industry in California and shortages in wholesale electricity supplies, customers of PG&E have been faced with increased electricity prices, power shortages and, in some cases, rolling blackouts. If blackouts interrupt our power supply, we may be temporarily unable to continue operations at our facilities. Any such interruption in our ability to continue operations at our facilities could delay our ability to develop or provide our products and services, which could damage our reputation and result in lost revenue, either of which could substantially harm our business and results of operations.

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

As of December 31, 2000, we had

- total consolidated debt of approximately $187.8 million,
- stockholders' equity of approximately $622.7 million, and
- a deficiency of earnings available to cover fixed charges of $28.5 million for the year ended December 31, 2000.

A variety of uncertainties and contingencies will affect our future performance, many of which are beyond our control. We may not generate sufficient cash flow in the future to enable us to meet our anticipated fixed charges, including our debt service requirements with respect to our convertible subordinated notes due 2007 that we sold in February 2000. At December 31, 2000, $185 million of those notes were outstanding. The following table shows, as of December 31, 2000, the aggregate amount of our interest payments due in each of the next five years listed:

Year	Aggregate Interest
2001	$ 10,175,000
2002	10,175,000
2003	10,175,000
2004	10,175,000
2005	10,175,000

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 from operations 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to interest rate risk primarily through its investments in short-term marketable securities. The Company's investment policy calls for investment in short term, low risk instruments. As of December 31, 2000, investments in marketable securities were $541.4 million. Due to the nature of these investments, if market interest rates were to increase immediately and uniformly by 10% from levels as of December 31, 2000, the decline in the fair value of the portfolio would not be material.

The Company is exposed to equity price risks on the marketable portion of equity securities included in its portfolio of investments and long-term investments, entered into to further its business and strategic objectives. These investments are in small capitalization stocks in the pharmaceutical/biotechnology industry sector, in companies with which the Company has research and development or licensing agreements. The Company typically does not attempt to reduce or eliminate its market exposure on these securities. As of December 31, 2000, long-term investments were $40.0 million.

The Company is exposed to foreign exchange rate fluctuations as the financial results of its foreign operations are translated into U.S. dollars in consolidation. As exchange rates vary, these results, when translated, may vary from expectations and adversely impact the Company's financial position or results of operations. All of the Company's revenues are denominated in U.S. dollars. The Company does not enter into forward exchange contracts as a hedge against foreign currency exchange risk on transactions denominated in foreign currencies or for speculative or trading purposes. If currency exchange rates were to fluctuate immediately and uniformly by 10% from levels as of December 31, 2000, the impact to the Company's financial position or results of operations would not be material.

Item 8. Financial Statements and Supplementary Data

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Incyte Genomics, Inc.

We have audited the accompanying consolidated balance sheets of Incyte Genomics, Inc. (formerly Incyte Pharmaceuticals, Inc.) as of December 31, 2000 and 1999, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the financial statements of diaDexus, LLC, a joint venture, which statements reflect total assets of $11,297,000 as of December 31, 1999, and net losses of $11,286,000 and $7,928,000 for the years ended December 31, 1999 and 1998. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the losses from joint venture recorded under the equity method and other data included for diaDexus, LLC, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Incyte Genomics, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Palo Alto, California
January 23, 2001

INCYTE GENOMICS, INC.

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

	December 31,	
	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$110,155	$ 32,220
Marketable securities--available-for-sale	472,025	34,717
Accounts receivable, net	35,022	26,608
Prepaid expenses and other current assets	30,693	15,956
Total current assets	647,895	109,501
Property and equipment, net	98,948	67,293
Long-term investments	40,003	19,275
Goodwill and other intangible assets, net	82,944	14,564
Deposits and other assets	17,030	11,301
Total assets	$886,820	$221,934
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,497	$ 6,501
Accrued compensation	13,023	6,731
Interest payable	4,310	--
Accrued and other current liabilities	18,726	11,767
Deferred revenue	22,756	26,459
Total current liabilities	76,312	51,458
Non-current portion of capital lease obligations and note payable	--	194
Convertible subordinated notes	187,814	--
Total liabilities	264,126	51,652
Commitments and contingencies (see note 3)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized; none issued and outstanding at December 31, 2000 and 1999	--	--
Common stock, $0.001 par value; 200,000,000 shares authorized; 65,691,623 and 57,779,872 shares issued and outstanding at December 31, 2000 and 1999, respectively	66	58
Additional paid-in capital	689,392	222,776
Deferred compensation	(2,773)	(806)
Receivable from stockholders	--	(20)
Accumulated other comprehensive income	20,913	3,443
Accumulated deficit	(84,904)	(55,169)
Total stockholders' equity	622,694	170,282
Total liabilities and stockholders' equity	$886,820	$221,934

See accompanying notes

INCYTE GENOMICS, INC.

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

	Year Ended December 31,		
	2000	1999	1998
Revenues	$194,167	$156,962	$134,811
Costs and expenses:			
Research and development	192,556	146,833	97,192
Selling, general and administrative	64,201	37,235	25,438
Charge for the purchase of in-process research and development	--	--	10,978
Acquisition-related charges	--	--	1,171
Total costs and expenses	256,757	184,068	134,779
Income (loss) from operations	(62,590)	(27,106)	32
Interest and other income/expense, net	41,735	5,485	7,416
Interest expense	(10,529)	(316)	(150)
Losses from joint venture	(1,283)	(5,631)	(1,474)
Income (loss) before income taxes and extraordinary item	(32,667)	(27,568)	5,824
Provision (benefit) for income taxes	205	(800)	2,352
Income (loss) before extraordinary item	(32,872)	(26,768)	3,472
Extraordinary gain, net of taxes	3,137	--	--
Net income (loss)	$(29,735)	$(26,768)	$ 3,472
Per share data:			
Income (loss) before extraordinary item--basic	$ (0.52)	$ (0.48)	$ 0.06
Extraordinary gain, net of taxes--basic	0.05	--	--
Basic net income (loss) per share	$ (0.47)	$ (0.48)	$ 0.06
Income (loss) before extraordinary item--diluted	$ (0.52)	$ (0.48)	$ 0.06
Extraordinary gain, net of taxes--diluted	0.05	--	--
Diluted net income (loss) per share	$ (0.47)	$ (0.48)	$ 0.06
Shares used in computing basic net income (loss) per share	63,211	56,276	53,842
Shares used in computing diluted net income (loss) per share	63,211	56,276	57,798

See accompanying notes

INCYTE GENOMICS, INC.

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

	Year Ended December 31,		
	2000	1999	1998
Net income (loss)	$(29,735)	$(26,768)	$3,472
Other comprehensive income (loss)			
Unrealized gains on marketable securities	17,618	3,618	338
Foreign currency translation adjustment	(148)	(165)	(404)
Other comprehensive income (loss)	17,470	3,453	(66)
Comprehensive income (loss)	$(12,265)	$(23,315)	$3,406

See accompanying notes

INCYTE GENOMICS, INC.

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

	Common Stock	Additional Paid-in Capital	Deferred Compensation	Receivable From Stockholder	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balances at January 1, 1998	$52	$175,723	$ --	$ --	$ 56	$(30,129)	$145,702
Adjustment to conform fiscal year of pooled entity--Synteni (including issuance of 674,542 shares of Common Stock)	1	3,731	(1,658)	(49)	--	(1,744)	281
Issuance of 846,060 shares of Common Stock upon exercise of stock options; 77,888 shares of Common Stock shares issued under ESPP	1	4,748	--	--	--	--	4,749
Issuance of 1,952,260 shares of Common Stock in purchase of Hexagen Limited	2	23,437	--	--	--	--	23,439
Tax benefit from employee stock transactions	--	1,525	--	--	--	--	1,525
Amortization of deferred compensation	--	--	449	--	--	--	449
Repayment of receivable from stockholder	--	--	--	16	--	--	16
Net change in unrealized gains (losses) on marketable securities	--	--	--	--	338	--	338
Change in cumulative translation adjustment	--	--	--	--	(404)	--	(404)
Net income	--	--	--	--	--	3,472	3,472
Balances at December 31, 1998	56	209,164	(1,209)	(33)	(10)	(28,401)	179,567
Issuance of 1,961,696 shares of Common Stock upon exercise of stock options; 158,754 shares of Common Stock issued under the ESPP	2	13,612	--	--	--	--	13,614
Amortization of deferred compensation	--	--	403	--	--	--	403
Repayment of receivable from stockholder	--	--	--	13	--	--	13
Net change in unrealized gains (losses) on marketable securities	--	--	--	--	3,618	--	3,618
Change in cumulative translation adjustment	--	--	--	--	(165)	--	(165)
Net loss	--	--	--	--	--	(26,768)	(26,768)
Balances at December 31, 1999	58	222,776	(806)	(20)	3,443	(55,169)	170,282
Issuance of 2,448,612 shares of Common Stock upon exercise of stock options; 214,617 shares of Common Stock issued under the ESPP	3	28,625	--	--	--	--	28,628
Issuance of 4,000,000 shares of Common Stock in private equity offering	4	403,351	--	--	--	--	403,355
Issuance of 1,248,522 shares of Common Stock and deferred compensation from stock options assumed in the acquisition of Proteome Inc	1	34,640	(2,479)	--	--	--	32,162
Amortization of deferred compensation	--	--	512	--	--	--	512
Repayment of receivable from stockholder	--	--	--	20	--	--	20
Net change in unrealized gains (losses) on marketable securities	--	--	--	--	17,618	--	17,618

Change in cumulative translation adjustment	--	--	--	--	(148)	--	(148)
Net loss	--	--	--	--	--	(29,735)	(29,735)
Balances at December 31, 2000	$66	$689,392	$(2,773)	$ --	$20,913	$(84,904)	$622,694

See accompanying notes.

INCYTE GENOMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2000	1999	1998
Cash flows from operating activities:			
Net income (loss)	$ (29,735)	$(26,768)	$ 3,472
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	34,842	28,106	17,827
Gain on repurchase of convertible subordinated notes	(3,137)	--	--
Gain on sale of long-term investments, net	(4,384)	(241)	--
Non-cash portion of the charge for the purchase of in-process research and development	--	--	10,978
Losses from joint venture	1,283	5,631	1,474
Adjustment to conform fiscal year of pooled entity	--	--	278
Changes in certain assets and liabilities:			
Accounts receivable	(8,414)	(12,290)	5,885
Prepaid expenses and other assets	(19,824)	(17,973)	(5,280)
Accounts payable	10,816	(1,743)	1,773
Accrued and other current liabilities	14,912	6,427	1,826
Deferred revenue	(3,703)	(2,595)	(2,000)
Net cash provided by (used in) operating activities	(7,344)	(21,446)	36,233
Cash flows from investing activities:			
Capital expenditures	(59,510)	(34,758)	(30,710)
Purchase of long-term investments	(10,094)	(4,181)	(7,145)
Proceeds from the sale of long-term investments	7,917	4,321	--
Purchase of Subsidiary (net of cash received)	(36,866)	--	(3,977)
Purchases of marketable securities	(822,357)	(22,998)	(98,512)
Sales of marketable securities	274,267	38,932	88,081
Maturities of marketable securities	112,950	10,000	6,900
Net cash used in investing activities	(533,693)	(8,684)	(45,363)
Cash flows from financing activities:			
Proceeds from issuance of common stock under stock plans	31,297	13,614	4,749
Proceeds from the private equity offering	403,355	--	--
Proceeds from the issuance of Convertible Subordinated Notes	196,800	--	--
Repurchase of Convertible Subordinated Notes	(11,872)	--	--
Principal payments on capital lease obligations and note payable	(480)	(1,160)	(781)
Proceeds from repayment of receivable from stockholders	20	13	16
Net cash provided by financing activities	619,120	12,467	3,984
Effect of exchange rate on cash and cash equivalents	(148)	(165)	(404)
Net increase (decrease) in cash and cash equivalents	77,935	(17,828)	(5,550)
Cash and cash equivalents at beginning of period	32,220	50,048	55,598
Cash and cash equivalents at end of period	$ 110,155	$ 32,220	$ 50,048
Supplemental Schedule of Cash Flow Information			
Interest paid	$ 6,219	$ 316	$ 138
Taxes paid	$ 226	$ 224	$ 705
Cash Flow for Acquisition of Subsidiaries			
Tangible assets acquired (excluding $808 and $1,023 cash received in 2000 and 1998, respectively)	$ 1,597		$ 3,025
Purchased in-process research and development	--		10,978
Goodwill and other intangible assets acquired	70,771		17,553
Acquisition costs incurred	(2,300)		(1,029)
Liabilities assumed	(1,039)		(3,112)
Deferred compensation assumed	2,479		--
Common stock issued	(34,642)		(23,438)
Cash paid for acquisition (net of $808 and $1,023 cash received in 2000 and 1998, respectively)	$ 36,866		$ 3,977

See accompanying notes

Note 1. Organization and Summary of Significant Accounting Policies

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 designs, develops, and markets genomic information-based tools including database products, genomic data management software tools, microarray-based gene expression services and genomic reagents and related services. The Company's genomic databases integrate bioinformatics software with proprietary and, when appropriate, publicly available genetic information to create information-based tools used by pharmaceutical and biotechnology companies and academic researchers to understand disease and to discover and develop drugs. The Company is also engaged in its own internal disease pathway and therapeutic drug discovery programs.

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

In December 2000, the Company completed the acquisition of Proteome, Inc. ("Proteome"), which was accounted for as a purchase. The Company issued 1,248,522 shares of its common stock and $37.7 million in cash in exchange for all of Proteome's outstanding capital stock. In addition, the Company assumed Proteome's outstanding stock options, which if fully vested and exercised, would amount to 216,953 shares of common stock. The consolidated financial statements discussed herein reflect the inclusion of the results of Proteome from the date of acquisition, December 28, 2000.

In September 1998, the Company completed the acquisition of Hexagen Limited ("Hexagen"), which was accounted for as a purchase. The Company issued 1,952,260 shares of its common stock and $5.0 million in cash in exchange for all of Hexagen's outstanding capital stock. In addition, the Company assumed Hexagen's outstanding stock options, which if fully vested and exercised, would amount to 251,818 shares of common stock. The consolidated financial statements discussed herein reflect the inclusion of the results of Hexagen from the date of acquisition, September 21, 1998.

In January 1998, the Company issued 4,680,474 shares of common stock in exchange for all of the capital stock of Synteni, Inc. ("Synteni"). The merger has been accounted for as a pooling of interests and, accordingly, the Company's financial statements and financial data for all periods prior to the acquisition were retroactively restated to include the accounts and operations of Synteni since inception. Synteni's fiscal year ended on September 30. Synteni's results of operations for the period from October 1, 1997 to December 31, 1997 were recorded directly in accumulated deficit in 1998.

Reclassifications. Certain amounts reported in previous years have been reclassified to conform to 2000 financial statement presentation.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Concentrations of Credit Risk. Cash, cash equivalents, and short-term investments, trade receivables, and long-term strategic investments are financial instruments which potentially subject the Company to concentrations of credit risk. The estimated fair value of financial instruments approximates the carrying value based on available market information. The Company primarily invests its excess available funds in notes and bills issued by the U.S. government and its agencies and corporate debt securities and, by policy, limits the amount of credit exposure to any one issuer and to any one type of investment, other than securities issued or guaranteed by the U.S. Government. The Company's customers are primarily pharmaceutical and biotechnology companies which are typically located in the United States and Europe. The Company has not experienced any significant credit losses to date and does not require collateral on receivables. The Company's long-term investments represent equity investments in a number of companies whose businesses may be complementary to the Company's business. The Company evaluates the long-term investments quarterly for impairment, and to date has not incurred a material impairment related to these investments. (See Long-Term Investments)

Cash and Cash Equivalents. Cash and cash equivalents are held in U.S. and U.K. banks or in custodial accounts with U.S. and U.K. banks. Cash equivalents are defined as all liquid investments with maturity from date of purchase of 90 days or less that are readily convertible into cash and have insignificant interest rate risk. All other investments are reported as marketable securities--available-for-sale.

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

The following is a summary of the Company's marketable security portfolio including cash equivalents of $69,330,000 and $2,803,000 as of December 31, 2000 and 1999, respectively.

	Amortized Cost	Net Unrealized Gains (Losses)	Estimated Fair Value
	(in thousands)		
December 31, 2000			
U.S. Treasury notes and other U.S. government and agency securities	$173,614	$ 226	$173,840
Corporate debt securities	365,896	1,619	367,515
Long term equity investments	5,761	19,783	25,544
	$545,271	$21,628	$566,899
December 31, 1999			
U.S. Treasury notes and other U.S. government and agency securities	$ 35,043	$ (326)	$ 34,717
Corporate debt securities	2,800	3	2,803
Long term equity investments	5,762	4,333	10,095
	$ 43,605	$ 4,010	$ 47,615

The Company had long term equity investments in privately held companies of $14,459,000 and $4,086,000 that were excluded in the above tables as of December 31, 2000 and 1999, respectively. In the year ended

December 31, 2000, the Company recognized a gain on the sale of one of its long-term investments of $5,418,000. This gain was reported in interest and other income/expense, net.

At December 31, 2000 and 1999, all of the Company's debt investments are classified as short-term, as the Company has classified its investments as available for sale and may not hold its investments until maturity in order to take advantage of market conditions. Unrealized losses were not material and have therefore been netted against unrealized gains. At December 31, 2000, the Company's debt marketable securities had the following maturities:

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Less than one year	$300,712	$300,910
Between one and two years	146,572	147,582
Between two and three years	92,226	92,863
	$539,510	$541,355

Net realized gains of $172,000, $272,000 and $380,000 from sales of marketable securities were included in Interest and Other Income in 2000, 1999 and 1998, respectively.

Accounts Receivable. Accounts receivable at December 31, 2000 and 1999 included an allowance for doubtful accounts of $356,000 and $234,000, respectively.

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

	December 31,	
	2000	1999
	(in thousands)	
Office equipment	$ 5,308	$ 4,630
Laboratory equipment	32,286	25,297
Computer equipment	93,136	52,565
Leasehold improvements	48,924	37,941
	179,654	120,433
Less accumulated depreciation and amortization	(80,706)	(53,140)
	$ 98,948	$ 67,293

Depreciation expense, including amortization expense of assets under capital leases, was $22,797,000, $16,711,000, and $13,420,000, for 2000, 1999, and 1998, respectively. Amortization of leasehold improvements was $6,125,000, $5,138,000, and $3,343,000, for 2000, 1999, and 1998, respectively.

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

Long-Term Investments. The Company has made equity investments in a number of companies whose businesses may be complementary to the Company's business. The Company accounts for its investments for which the shares are freely tradable or become freely tradable within one year of the balance sheet date in accordance with Statement of Financial Accounting Standard ("SFAS") 115, with unrealized gains and losses being reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity. In all other cases, the cost method of accounting is used. The Company holds less than 20% of each long-term investment, and does not have the ability to exert significant influence over these investments.

Joint Venture. In September 1997, the Company formed a joint venture, diaDexus, LLC, with SmithKline Beecham Corporation ("SB"), to utilize genomic and bioinformatic technologies in the discovery and commercialization of molecular diagnostics. The Company and SB each held a 50 percent equity interest in diaDexus and the Company accounted for the investment under the equity method. On April 4, 2000, diaDexus converted from an LLC to a corporation and completed a private equity financing, at which time the Company no longer had significant influence over diaDexus. Accordingly, the Company began accounting for its investment in diaDexus under the cost method of accounting as of the date of the financing. (See Note 11).

Goodwill and Other Intangible Assets. Goodwill and other intangible assets were generated in the acquisition of Hexagen in 1998 and Proteome in 2000. Goodwill generated in the Hexagen acquisition is being amortized on a straight line basis over 8 years and the other intangible assets of developed technology and assembled workforce are being amortized on a straight line basis over 5 and 3 years, respectively. Goodwill generated in the Proteome acquisition is being amortized over 8 years and the other intangible assets of database, developed technology, tradename and assembled workforce are being amortized on a straight line basis over 8, 5, 3, and 3 years, respectively. Goodwill and other intangible assets are evaluated quarterly for impairment. At December 31, 2000 and 1999, accumulated amortization was $5,380,000 and $2,989,000, respectively.

Software Costs. In accordance with the provisions of the Financial Accounting Standards Board Statement No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," the Company has capitalized software development costs incurred in developing certain products once technological feasibility of the products has been determined. At December 31, 2000 and 1999 capitalized software was $8,166,000 and $8,543,000, respectively, net of accumulated amortization of $9,785,000 and $5,230,000, respectively. Amortization expensewas $4,799,000; $3,418,000; and $1,379,000 for the years ended December 31, 2000, 1999, and 1998, respectively.

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

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

	December 31,	
	2000	1999
	(in thousands)	
Unrealized gains on marketable securities	$21,628	$4,010
Cumulative Translation Adjustment	(715)	(567)
	$20,913	$3,443

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. For database collaboration agreements, revenues are recognized evenly over the term of each agreement. Revenue is deferred for fees received before earned. Revenues from custom orders, such as reagents are recognized upon completion and delivery. Revenues from custom services are recognized upon completion. Revenue from gene expression microarray services includes: technology access fees, which are recognized ratably over the access term, and usage fees, which are recognized at the completion of key stages in the performance of the service in proportion to costs incurred. Generally, software revenue is allocated between license fees and maintenance fees, in accordance with SOP 97-2, with the license revenue being recognized upon installation, and maintenance fees recognized evenly over the maintenance term.

Revenues recognized from multiple elements contracts are allocated to each element of the arrangement based on the relative fair values of the elements. The determination of fair value of each element is based on objective evidence from historical sales of the individual element by 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. When contracts include non-monetary exchanges, the non-monetary transaction is determined using the fair values of the assets or services involved.

Stock-Based Compensation. The Company accounts for stock option grants to employees in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company currently grants stock options for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant, and therefore records no compensation expense. Prior to the merger with Incyte, Synteni recorded deferred compensation of $1,658,000 for options issued to employees with an exercise price below the fair market value of the underlying stock. Included in the acquisition price of Proteome is $2,479,000 of deferred compensation related to the intrinsic value of the unvested stock options assumed by Incyte. The amounts are being amortized over the vesting period of the options issued.

Advertising Costs. All costs associated with advertising products are expensed in the year incurred. Advertising expense for the years ended December 31, 2000, 1999, and 1998, was $2,482,000, $1,051,000, and $1,092,000, respectively.

New Pronouncements. In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. ("SFAS 133"), as amended by SFAS Nos. 137 and 138, which is required to be adopted in the first quarter of 2001. SFAS 133 established standards for accounting and reporting derivative instruments and hedging activities. It requires companies to recognize all derivatives as either assets or liabilities on the balance sheet and measure these instruments at fair value. The adoption of SFAS 133 is not expected to have a material adverse impact on the consolidated financial position or results of operations of the Company.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"). Among other things, SAB 101 discusses the SEC staff's view on accounting for non-refundable up-front fees. Adoption of SAB 101 had no material impact on the consolidated financial position or results of operations.

In March 2000, the FASB issued FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation ("FIN 44"), which contains rules designed to clarify the application of APB 25. The Company adopted FIN 44 on July 1, 2000 and the adoption had no material impact on the consolidated financial position or results of operations.

Note 2. Database and Microarray Agreements

As of December 31, 2000, the Company had entered into database collaboration agreements with over thirty pharmaceutical, biotechnology and agricultural companies. Over 60% and 83% of revenues in 2000 and 1999, respectively, were derived from such collaborations. Each collaborator has agreed to pay, during the term of the agreement, annual fees to receive non-exclusive access to selected modules of the Company's databases. In addition, if a customer develops certain products utilizing the Company's technology and proprietary database information, milestone and royalty payments could potentially be received by the Company.

The Company has also entered into microarray production agreements with pharmaceutical, biotechnology and agricultural companies. The agreements range from small volume pilot agreements to large volume production agreements.

One customer contributed 11% of total revenues in 2000 and another accounted for 12% of total revenues in 1998. No customer accounted for 10% or more of total revenues in 1999.

In June 2000, the Company sold the microbial sequence data unique to the PathoSeq Database, and licensed related source code, software, patent rights and the trademark for PathoSeq to Elitra Pharmaceuticals, Inc. ("Elitra"). Under the terms of the agreement, Elitra has the right to modify the licensed software for internal purposes, and to add Elitra's proprietary antimicrobial genomics information to the data included in PathoSeq. Elitra also obtained the right to market and sell the PathoSeq Database. In exchange for these items, the Company received a combination of cash and Elitra preferred stock valued at $6.6 million.

Note 3. Commitments

At December 31, 2000, the Company had signed noncancelable operating leases on multiple facilities, including facilities in Palo Alto and Fremont, California; St. Louis, Missouri; Beverly, Massachusetts; and Cambridge, England. The leases expire on various dates ranging from September 2001 to March 2011. Rent expense for the years ended December 31, 2000, 1999, and 1998, was approximately $12,696,000, $8,674,000, and $5,218,000.

The Company had laboratory and office equipment with a cost of approximately $2,308,000 at December 31, 1999, and related accumulated amortization of approximately $716,000 at December 31, 1999, under capital leases. These leases were secured by the equipment leased thereunder. The Company had no capital leases as of December 31, 2000.

At December 31, 2000, future noncancelable minimum payments under the operating leases were as follows:

	Operating Leases
	(in thousands)
Year ended December 31, 2001	$ 16,684
2002	14,211
2003	12,202
2004	9,906
2005	9,353
Thereafter	42,313
Total minimum lease payments	$104,669

In July 1997, Synteni obtained $1,000,000 in debt financing secured by its property and equipment. The loan is repayable in 48 equal monthly installments commencing on September 1, 1997 and carries an annual interest rate of 9%. In connection with the financing, Synteni issued a warrant to purchase 5,138 shares of Incyte equivalent common stock, exercisable for a period of seven years from the date of issue at an exercise price of $3.90 per share. Using the Black-Scholes model to determine the fair market value of the warrant, management has determined that such fair value is nominal. In 2000, the Company repaid the note in full.

Note 4. 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. As of December 31, 2000, the fair value of the notes was $120,042,000.

In November 2000, the Company repurchased on the open market, and retired, $15.0 million in par value of the convertible subordinated notes. The Company recognized a gain of $3.1 million on the transactions, which was reported as an extraordinary gain.

Note 5. Stockholders' Equity

Common Stock. At December 31, 2000, the Company had reserved a total of 12,626,452 shares of its common stock for issuance upon exercise of outstanding stock options and purchases under the Employee Stock Purchase Plan described below and the conversion of the convertible subordinated notes described in Note 4. In July 2000, the Company's Board of Directors authorized a two-for-one stock split effected in the form of a stock dividend paid on August 31, 2000 to holders of record on August 7, 2000. All share and per share data have been adjusted retroactively to reflect the split.

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

Preferred Stock. The Company is authorized to issue 5,000,000 shares of preferred stock, none of which was outstanding at December 31, 2000 or 1999. The Board of Directors may determine the rights, preferences and privileges of any preferred stock issued in the future. The Company has reserved 500,000 shares of preferred stock designated as Series A Participating Preferred Stock for issuance in connection with the Stockholders Rights plan described below.

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

Stock Compensation Plans. The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock compensation plans. Accordingly, no compensation cost, excluding options issued by Synteni prior to the merger, has been recognized for its fixed stock option plans. Had compensation cost for the Company's three stock-based compensation plans been determined consistent with SFAS 123, the Company's pro forma net loss in 2000, 1999, and 1998 would have been approximately $50.5 million, $40.0 million, and

$7.4 million, respectively. The Company's pro forma basic and diluted net loss per share in 2000, 1999, and 1998 would have been $0.80, $0.71, and $0.13 per share, respectively. The weighted average fair value of the options granted during 2000, 1999, and 1998 are estimated at $28.30, $6.71, and $8.30 per share, respectively, on the date of grant, using the Black-Scholes multiple-option pricing model with the following assumptions: dividend yield 0%, 0% and 0%, volatility of 92% 66%, and 57%, risk-free interest rate of 6.26%, 5.43%, and 5.06%, and an average expected life of 3.04, 3.32, and 3.79 years, for 2000, 1999, and 1998, respectively. The average fair value of the employees' purchase rights under the Employee Stock Purchase Plan during 2000, 1999, and 1998 is estimated at $6.67, $4.07, and $6.08, respectively, on the date of grant, using the Black-Scholes multiple-option pricing model with the following assumptions: dividend yield 0%, 0% and 0%, volatility of 76%, 66%, and 57%, risk free interest rate of 5.89%, 5.14%, and 4.75%, and an expected life of 6 months, respectively.

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

Summaries of stock option activity for the Company's stock option plans as of December 31, 2000, 1999, and 1998, and related information for the years ended December 31 are included in the plan descriptions below.

1991 Stock Plan. In November 1991, the Board of Directors adopted the 1991 Stock Plan (the "Stock Plan"), which was amended and restated in 1992, 1995, 1996 and 1997 for issuance of common stock to employees, consultants, and scientific advisors. Options issued under the plan shall, at the discretion of the compensation committee of the Board of Directors, be either incentive stock options or nonstatutory stock options. The exercise prices of incentive stock options granted under the plan are not less than the fair market value on the date of the grant, as determined by the Board of Directors. The exercise prices of nonstatutory stock options granted under the plan cannot be less than 85% of the fair market value on the date of the grant, as determined by the Board of Directors. Options generally vest over four years, pursuant to a formula determined by the Company's Board of Directors, and expire after ten years. In June 2000, the Company's stockholders approved an increase in the number of shares of common stock reserved for issuance under the plan from 14,800,000 to 17,400,000.

1996 Synteni Stock Plan. In December 1996, Synteni's board of directors approved and adopted the 1996 Equity Incentive Plan ("Synteni Plan"). Under the Synteni Plan, Synteni could grant incentive stock options, nonstatutory stock options, stock bonuses or restricted stock purchase rights to purchase the aggregate equivalent of 872,200 shares of Incyte common stock. Incentive stock options could be granted to employees and nonstatutory options and rights to purchase restricted stock may be granted to employees, directors or consultants at exercise prices of no less than 100% and 85%, respectively, of the fair value of the common stock on the grant date, as determined by the board of directors. Options could be granted with different vesting terms from time to time and options expire no more than 10 years after the date of grant. All outstanding options at the time of the merger with Incyte were converted to options to purchase Incyte common stock, and the Synteni Plan was terminated.

1998 Proteome Stock Plan. In October 1998, Proteome's Board of Directors approved and adopted the Proteome, Inc. 1998 Employee, Director and Consultant Stock Option Plan, as amended through August 6, 1999 (the "Proteome Plan"). Under the Proteome Plan, Proteome could grant incentive stock options and non-qualified options to purchase the equivalent of 216,953 shares of Incyte common stock. Incentive stock options could be granted to employees at exercise prices of no less than 100% of the fair value of the common stock on

the grant date, as determined by the board of directors or a committee of the board of directors. Non-qualified options could be granted to employees, outside directors and consultants who provided services to Proteome at exercise prices no less than par value of the common stock, as determined by the board of directors or a committee of the board of directors. Options could be granted with different vesting terms from time to time and options issued under the Proteome Plan expire no more than 10 years after the date of grant. All outstanding options at the time of the merger with Incyte were converted to options to purchase Incyte common stock, and the Proteome Plan was assumed by Incyte. No further options will be granted under the Proteome Plan.

Activity under the combined plans was as follows:

		Shares Subject To Outstanding Options	
	Shares Available For Grant	Shares	Weighted Average Exercise Price
Balance at January 1, 1998	1,329,596	7,160,050	$ 8.23
Additional authorization	3,000,000	--	
Options granted	(2,005,668)	2,005,668	14.35
Options exercised	--	(842,020)	4.26
Options canceled	415,526	(415,526)	15.37
Termination of Synteni Plan	(176,560)	--	
Balance at December 31, 1998	2,562,894	7,908,172	9.83
Additional authorization	2,200,000	--	
Options granted	(5,142,088)	5,142,088	13.76
Options exercised	--	(1,961,696)	6.36
Options canceled	1,339,408	(1,339,408)	13.76
Balance at December 31, 1999	960,214	9,749,156	12.08
Additional authorization	2,600,000	--	--
Options granted	(861,711)	861,711	47.40
Options exercised	--	(2,328,612)	11.34
Options canceled	726,812	(726,812)	17.53
Balance at December 31, 2000	3,425,315	7,555,443	$15.59

Included in the above table, in the 1998 activity, were stock options issued by Synteni to purchase 179,156 Incyte equivalent common shares at a weighted average exercise price of $0.75, in the period from October 1, 1997 to December 31, 1997. The Company recorded $1,658,000 of deferred compensation related to these options, which is being amortized over the vesting period of the options.

Options to purchase a total of 3,469,661; 3,725,352; and 4,895,078 shares at December 31, 2000, 1999, and 1998, respectively, were exercisable. Of the options exercisable, 3,469,661; 3,427,292; and 3,703,098 shares were vested at December 31, 2000, 1999, 1998, respectively.

Options Assumed in Proteome Acquisition. As part of the Proteome acquisition, Proteome stock option holders received options to purchase 216,953 shares of Incyte common stock. The options issued have a weighted average exercise price of $7.60 and options to purchase 40,651 shares were vested at December 31, 2000. The Company recognized $2,479,000 of deferred compensation related to these options, which is being amortized over the vesting period of the options.

Non-Employee Directors' Stock Option Plan. In August 1993, the Board of Directors approved the 1993 Directors' Stock Option Plan (the "Directors' Plan"), which was amended in 1995. The Directors' Plan provides for the automatic grant of options to purchase shares of common stock to non-employee directors of the Company. The maximum number of shares issuable under the Directors' Plan is 800,000.

Through the inception of the plan through March 1998, the Directors' Plan provides immediate issuance of options to purchase an initial 80,000 shares of common stock to each new non-employee director joining the Board. In March 1998, the Directors Plan was amended to eliminate this initial grant. Additionally, members who continue to serve on the Board will receive annual option grants for 10,000 shares exercisable in full on the first anniversary of the date of the grant. All options are exercisable at the fair market value of the stock on the date of grant. Through December 31, 2000, the Company had granted options outstanding under the Directors' Plan to purchase 535,000 shares of common stock at weighted average exercise prices of $8.819 (615,000 and 575,000 shares of common stock at a weighted average exercise price of $5.625 and $5.59 at December 31, 1999 and 1998, respectively); 495,000 shares are vested and exercisable at December 31, 2000 (575,000 and 483,000 shares were vested and exercisable at December 31, 1999 and 1998, respectively). In 2000, 120,000 shares of common stock were purchased under the Directors' Plan at a weighted average exercise price of $1.36. No options were exercised prior to 2000.

The following table summarizes information about stock options outstanding at December 31, 2000, for the 1991 Stock Plan, the 1996 Synteni Stock Plan, the 1998 Proteome Stock Plan, and the 1993 Non-employee Directors' Stock Option Plan:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.01- 3.63	1,041,242	3.99	$ 2.10	989,167	$ 2.17
3.69- 8.66	962,252	6.59	6.19	693,011	5.46
8.84- 10.47	869,224	6.95	9.84	585,426	10.04
10.50- 13.88	883,888	8.12	12.35	395,424	12.51
14.00- 15.06	1,409,019	8.32	14.60	487,368	14.60
15.22- 15.22	1,265,269	8.94	15.22	323,898	15.22
15.50- 18.31	898,201	7.39	17.54	492,207	17.55
20.13- 43.81	858,001	8.94	34.79	123,823	22.01
44.83-119.88	120,300	9.13	94.04	5,790	44.83
	8,307,396	7.48	14.97	4,096,114	9.87

Employee Stock Purchase Plan. On May 21, 1997, the Company's stockholders adopted the 1997 Employee Stock Purchase Plan ("ESPP"). The Company has authorized 800,000 shares of common stock for issuance under the ESPP. In June 2000, the Company's stockholders approved an increase in the number of shares of common stock reserved for issuance under the plan to 1,200,000. Each regular full-time and part-time employee is eligible to participate after one months of employment. The Company issued 214,617; 158,754; and 77,888 shares under the ESPP in 2000, 1999 and 1998, respectively. As of December 31, 2000, 748,741 shares remain available for issuance under the ESPP. As of December 31, 2000 and 1999, $466,000 and $221,000 respectively, has been deducted from employees' payroll for the purchase of shares under the ESPP.

Stockholders Rights Plan. On September 25, 1998, the Board of Directors adopted a Stockholder Rights Plan (the "Rights Plan"), pursuant to which one preferred stock purchase right (a "Right") was distributed for each outstanding share of common stock held of record on October 13, 1998. One Right will also attach to each

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

Note 6. Income Taxes

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

	Year Ended December 31,		
	2000	1999	1998
Current			
Federal	$ --	$(832)	$2,012
Foreign	125	(92)	165
State	80	124	175
Total provision (benefit) for income taxes	$ 205	$(800)	$2,352

Income (loss) before provision for income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2000	1999	1998
U.S Taxable entities	$(29,735)	$(27,869)	$5,536
Other	--	301	288
	$(29,735)	$(27,568)	$5,824

The provision (benefit) for income taxes differs from the federal statutory rate as follows (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Provision (benefit) at U.S. federal statutory rate	$(10,407)	$(9,649)	$2,038
State taxes, net of federal benefit	52	81	112
Use of net operating loss carryforwards	--	--	(4,208)
Unbenefitted net operating losses	10,118	8,604	--
Purchased in-process research & development	--	--	3,842
Non-deductible acquisition costs	--	--	410
Other	442	164	158
Provision (benefit) for income taxes	$ 205	$ (800)	$2,352

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

	December 31	
	2000	1999
Deferred tax assets:		
Net operating loss carryforwards	$69,800	$18,700
Research credits	12,900	9,700
Capitalized research and development	13,000	7,700
Accruals and reserves	4,400	2,800
Other, net	400	4,500
Total gross deferred tax assets	100,500	43,400
Less valuation allowance for deferred tax assets	(91,900)	(43,400)
Net deferred tax assets	8,600	--
Deferred tax liabilities:		
Purchased intangibles	8,600	--
Net deferred tax assets and liabilities	$ --	$ --

The valuation allowance for deferred tax assets increased by approximately $48,500,000, $20,400,000 and $4,800,000 during the years ended December 31, 2000, 1999 and 1998, respectively. Approximately $56,100,000 of the valuation allowance for deferred tax assets relates to benefits from stock option deductions which, when recognized, will be allocated directly to contributed capital.

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

As of December 31, 2000, the Company had federal net operating loss carryforwards of approximately $198,900,000. The Company also had federal research and development tax credit carryforwards of approximately $8,700,000. The net operating loss carryforwards will expire at various dates, beginning in 2009, through 2020 if not utilized.

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

Note 7. Net Income (Loss) Per Share

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Year Ended December 31,		
	2000	1999	1998
Numerator:			
Net income (loss)	$(29,735)	$(26,768)	$ 3,472
Denominator:			
Denominator for basic net income (loss) per share--weighted-average shares outstanding	63,211	56,276	53,842
Dilutive potential common shares--stock options	--	--	3,956
Denominator for diluted net income (loss) per share	63,211	56,276	57,798
Basic net income (loss) per share	$ (0.47)	$ (0.48)	$ 0.06
Diluted net income (loss) per share	$ (0.47)	$ (0.48)	$ 0.06

Options to purchase 8,307,396; 10,364,156; and 1,308,000 shares of common stock were outstanding at December 31, 2000, 1999 and 1998, respectively, but were not included in the computation of diluted net income (loss) per share, as their effect was anti-dilutive. The Company's Convertible Subordinated Notes, convertible into 2,744,013 shares of common stock, were not included in the computation of diluted net income (loss) per share, as the effect of their assumed conversion would be anti-dilutive.

Note 8. Defined Contribution Plan

The Company has a defined contribution plan covering all domestic employees. Employees may contribute a portion of their compensation, which is then matched by the Company, subject to certain limitations. Defined contribution expense for the Company was $1,735,000, $1,259,000 and $709,000 in 2000, 1999 and 1998, respectively.

Note 9. Segment Reporting

The Company's operations are treated as one operating segment, in accordance with SFAS 131, the design, development, and marketing of genomic information-based tools, as it only reports profit and loss information on an aggregate basis to chief operating decision makers of the Company. For the year ended December 31, 2000, the Company recorded revenue from customers throughout the United States and in Canada, Asia, Austria, Belgium, France, Germany, Israel, Netherlands, Switzerland, and the United Kingdom. Export revenue for the years ended December 31, 2000, 1999 and 1998, was $48,174,000, $43,679,000 and $33,584,000, respectively.

Note 10. Business Combinations

Acquisitions accounted for under the purchase method of accounting

In December 2000, the Company completed the acquisition of Proteome, Inc., a privately held proteomics information company based in Beverly, Massachusetts. The Company issued 1,248,522 shares of its common stock and $37.7 million in cash in exchange for all of Proteome's outstanding capital stock. In addition, the Company assumed Proteome's stock options, which if fully vested and exercised, would amount to

216,953 shares of its common stock. The transaction was accounted for as a purchase. The amount of the purchase price in excess of the net tangible assets acquired of $70.8 million, was allocated to goodwill ($50.3 million); database ($16.6 million); tradename ($1.7 million); Proteome's assembled work force ($1.6 million); and developed technology ($0.6 million), each of which is being amortized over 8, 8, 5, 3 and 3 years, respectively.

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

The table below presents the pro forma results of operations and earnings per share for Proteome and the Company. The transaction is assumed to be completed on January 1, 2000 and 1999 for the periods ended December 31, 2000 and 1999, respectively (in thousands except per share data).

	2000	1999
Revenues	$197,881	$158,773
Loss before extraordinary item	$ 50,443	$ 38,122
Net loss	$ 47,306	$ 38,122
Pro forma basic and diluted net loss per share	$ 0.73	$ 0.66
Pro forma shares for basic and diluted net loss per share	64,460	57,525

In September 1998, the Company completed the acquisition of Hexagen Limited ("Hexagen"), a privately held SNP discovery company based in Cambridge, England. The Company issued 1,952,260 shares of its common stock and $5.0 million in cash in exchange for all of Hexagen's outstanding capital stock. In addition, the Company assumed Hexagen's stock options, which if fully vested and exercised, would amount to 251,818 shares of its common stock. The transaction was accounted for as a purchase with a portion of the purchase price, estimated to be approximately $11.0 million, expensed in the third quarter of 1998 as a charge for the purchase of in-process research and development. The remaining portion of the purchase price, approximately $17.6 million, was allocated to goodwill ($16.3 million), developed technology ($0.7 million), and Hexagen's assembled work force ($0.6 million), which are being amortized over 8, 5 and 3 years, respectively.

The Company allocated Hexagen's purchase price based on the relative fair value of the net tangible and intangible assets acquired. In performing this allocation, the Company considered, among other factors, the technology research and development projects in process at the date of acquisition. Hexagen's in-process research and development program consisted of the development of its fSSCP technology for SNP discovery. In 1999, the Company completed the development of the fSSCP technology. There have been no significant changes in the assumptions used to value the assets of Hexagen. The results of operations of Hexagen have been included in the consolidated results of the Company from the date of acquisition in September 1998.

The table below presents the pro forma results of operations and earnings per share for Hexagen and the Company. The transaction is assumed to be completed on January 1, 1998 for the period ended December 31, 1998 (in thousands except per share data).

	1998
Revenues	$134,811
Net income	$ 7,323
Pro forma basic net income per share	$ 0.13
Pro forma diluted net income per share	$ 0.12
Pro forma shares for basic net income per share	54,680
Pro forma shares for diluted net income per share	58,918

Acquisitions accounted for under the pooling of interests method of accounting

In January 1998, the Company issued 4,680,474 shares of common stock in exchange for all of the capital stock of Synteni, a privately held microarray-based genomics company in Fremont, California. Synteni is developing and commercializing technology for generating microarrays and related software and services. The merger was accounted for as a pooling of interests and, accordingly, the Company's financial statements and financial data have been restated to include the accounts and operations of Synteni since inception.

The table below presents the separate results of operations for Incyte, and Synteni prior to the merger (in thousands). Incyte's results include Synteni from January 1998.

	1998
Revenues:	
Incyte	$134,811
Synteni	--
	$134,811
Net income (loss):	
Incyte	$ 4,532
Synteni	--
Acquisition-related charges	(1,060)
	$ 3,472

Note 11. Joint Venture

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

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

diaDexus purchased $2.6 million and $1.9 million of contract sequencing, microarray and software services from the Company in the year ended December 31, 2000 and 1999, respectively. diaDexus did not have similar purchases prior to 1999. At December 31, 2000, the Company had $0.4 million of receivables outstanding from diaDexus related to these services.

The following is a summary of diaDexus' financial information as of December 31, 2000, 1999 and 1998, and for the years then ended (in thousands):

	2000	1999	1998
Current assets	$49,579	$ 8,786	$16,866
Total assets	96,072	11,297	20,215
Current liabilities	2,384	5,957	3,565
Total liabilities	2,431	6,044	3,681
Net loss	23,346	11,286	7,928

Note 12. Litigation

In January 1998, Affymetrix Inc, ("Affymetrix") filed a lawsuit in the United States District Court for the District of Delaware, which was subsequently transferred to the United States District Court for the Northern District of California in November 1998, alleging infringement of U.S. patent number 5,444,934 by the Company. The complaint alleges that the Company infringed the "934 patent by making, using, selling, importing, distributing or offering to sell in the United States high density arrays and that this infringement was willful. Affymetrix seeks a permanent injunction enjoining the Company from further infringement of the "934 patent and, in addition, seeks damages, costs, attorneys' fees and interest. Affymetrix also requests triple damages based on its allegation of willful infringement by the Company.

In September 1998, Affymetrix filed an additional lawsuit in the United States District Court for the District of Delaware, which was subsequently transferred to the United States District Court for the Northern District of California in November 1998, alleging the Company infringed U.S. patent number 5,800,992 and U.S. patent number 5,744,305. The complaint alleges that the Company infringed the "305 patent by making, using, selling, importing, distributing or offering to sell in the United States high density arrays. It also alleges that the Company infringed the "992 patent by using its GEM microarray technology to conduct gene expression monitoring and other applications using two-color labeling, and that this infringement was willful. Affymetrix seeks a permanent injunction enjoining the Company from further infringement of the "305 and "992 patents. The court held a pretrial hearing in November 2000 to determine how to construe the patent claims that will be litigated in trial. In January 2001, the court issued a ruling describing how the claims in the "934, "305 and "992 patents should be interpreted.

In April 1999, the Board of Patent Appeals and Interferences of the United States Patent and Trademark Office declared interferences between pending patent applications licensed exclusively to the Company and the Affymetrix "305 and "992 patents. The Board of Patent Appeals and Interferences invokes an interference proceeding when more than one patent applicant claims the same invention. During the proceeding, the Board of Patent Appeals and Interferences evaluates all relevant facts, including those bearing on first to invent, validity, enablement and scope of claims, and then makes a determination as to who, if anyone, is entitled to the patent on the disputed invention. In September 1999, the Board of Patent Appeals and Interferences determined that the Company had not met its prima facie case, and ruled that the patents licensed by the Company from Stanford University were not entitled to priority over corresponding claims in the two Affymetrix patents. The Company is seeking de novo review of the Board's decisions in the United States District Court for the Northern District of California.

In August 2000, the Company filed a lawsuit against Affymetrix in federal court alleging infringement of U.S. patent numbers 5,716,785 and 5,891,636. The patents relate to technologies used in the amplification of RNA and the generation of gene expression information. Affymetrix has filed counterclaims in this lawsuit that allege, among other things, that the Company infringe U.S. patent number 6,040,193 and U.S. patent number 5,871,928. These counterclaims allege that the Company infringe these patents by making, using, offering to sell and/or selling within the United States the inventions claimed in the patents, including, in the case of the "193 patent, methods for forming microarrays and, in the case of the "928 patent, methods for analyzing nucleic acids. The counterclaims also allege that the Company engaged in acts of unfair competition under California statutory and common law. Affymetrix seeks a permanent injunction enjoining the Company from further infringement of the "193 patent and "928 patent and, in addition, seeks damages, costs and attorneys' fees and interest. Affymetrix further requests triple damages from the infringement claims based on its allegation of willful infringement by the Company.

In December 1999 and August 2000, the Company filed lawsuits against Gene Logic Inc. in federal court alleging patent infringement. Gene Logic filed counterclaims alleging, among other things, that Incyte committed acts of unfair competition under California statutory and common law. Gene Logic sought, among other things, damages, costs and attorneys' fees. In January 2001, the Company reached a litigation settlement with Gene Logic pursuant to which the lawsuits were dismissed, and Gene Logic will have a non-exclusive license to practice the technology described in the patents.

The Company believes it has meritorious defenses and intends to vigorously defend the suits and counterclaims brought by Affymetrix. However, the Company's defenses may be unsuccessful. At this time, the Company cannot reasonably estimate the possible range of any loss resulting from these suits and counterclaims due to uncertainty regarding the ultimate outcome. Regardless of the outcome, the Affymetrix litigation has resulted and is expected to continue to result in substantial expenses and diversion of the efforts of our management and technical personnel. 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. This litigation may also affect our potential customers' willingness to use its microarray services and gene expression databases, which could adversely affect the Company's revenue.

Note 13. Subsequent Events (Unaudited)

In the first quarter of 2001, the Company repurchased on the open market, and retired, $8.0 million in par value of the convertible subordinated notes. The Company recognized a gain of $2.4 million, net of tax, on the transactions, which will be reported as an extraordinary gain.

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

	Fiscal 2000 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Revenues	$ 40,754	$ 46,015	$ 51,982	$ 55,416
Loss from operations	(15,401)	(14,392)	(15,746)	(17,051)
Loss before extraordinary item	(8,177)	(6,590)	(7,598)	(10,507)
Net loss	(8,177)	(6,590)	(7,598)	(7,370)
Basic and diluted loss before extraordinary item	$ (0.13)	$ (0.10)	$ (0.12)	$ (0.16)
Basic and diluted net loss per share	$ (0.13)	$ (0.10)	$ (0.12)	$ (0.11)
Shares used in computation of basic and diluted net loss per share	60,612	63,798	64,064	64,369

	Fiscal 1999 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Revenues	$37,630	$37,893	$ 35,415	$46,024
Loss from operations	(1,993)	(7,726)	(10,448)	(6,939)
Net loss	(1,910)	(7,387)	(11,066)	(6,405)
Basic and diluted net loss per share	$ (0.03)	$ (0.13)	$ (0.20)	$ (0.11)
Shares used in computation of basic and diluted net loss per share	55,758	55,922	56,380	57,040

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

Description--Year ended December 31,	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
		(in thousands)		
Allowance for doubtful accounts--1998	$225	$213	$ (4)	$434
Allowance for doubtful accounts--1999	434	--	(200)	234
Allowance for doubtful accounts--2000	234	122	--	356

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of diaDexus, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of members' and stockholders' equity and of cash flows present fairly, in all material respects, the financial position of diaDexus, Inc. (a development stage company) at December 31, 2000 and 1999, and the results of its operations and its cash flows for the three years in the period ended December 31, 2000 and for the cumulative period from August 29, 1997 (date of inception) to December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
January 19, 2001,
except as to Note
8 which is as of
February 5, 2001

DIADEXUS, INC.
(a development stage company)

BALANCE SHEETS
(in thousands, except share and per share data)

	December 31,	
	1999	2000
ASSETS		
Current Assets:		
Cash and cash equivalents	$8,358	$13,043
Short-term investments	--	33,874
Interest receivable	--	1,556
Prepaid expenses and other current assets	428	1,106
Total current assets	8,786	49,579
Long-term investments	--	44,271
Property and equipment, net	2,442	2,152
Other assets	69	70
Total assets	$11,297	$96,072
LIABILITIES, MEMBERS' AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 42	$ 790
Accrued liabilities	459	1,108
Convertible notes payable to related parties	5,000	--
Due to related parties	456	486
Total current liabilities	5,957	2,384
Deferred rent	87	47
Total liabilities	6,044	2,431
Commitments and contingencies (Notes 4 and 7)		
Members' and Stockholders' Equity:		
Series A preferred capital; 4,400,000 units authorized, issued and outstanding at December 31, 1999, none authorized, issued or outstanding at December 31, 2000	5,119	--
Series B preferred capital; 4,400,000 units authorized, issued and outstanding at December 31, 1999, none authorized, issued or outstanding at December 31, 2000	119	--
Common capital; 2,200,000 units authorized, no units issued and outstanding at December 31, 1999, none authorized, issued or outstanding at December 31, 2000	--	--
Series A preferred stock, $0.01 par value; 4,400,000 shares authorized, issued and outstanding at December 31, 2000 (liquidation value: $15,000)	--	44
Series B preferred stock, $0.01 par value; 4,400,000 shares authorized, issued and outstanding at December 31, 2000 (liquidation value: $10,000)	--	44
Series C preferred stock, $0.01 par value; 13,500,000 shares authorized at December 31, 2000, 13,225,807 shares issued and outstanding at December 31, 2000 (liquidation value: $102,500)	--	132
Common stock, $0.01 par value; 50,000,000 shares authorized at December 31, 2000, 2,076,698 shares issued and outstanding at December 31, 2000	--	21
Additional paid-in capital	15	128,060
Deferred stock compensation	--	(12,773)
Notes receivable from stockholders	--	(1,591)
Accumulated other comprehensive income (loss)	--	481
Deficit accumulated during the development stage	--	(20,777)
Total members' and stockholders' equity	5,253	93,641
Total liabilities, members' and stockholders' equity	$11,297	$96,072

The accompanying notes are an integral part of these financial statements.

DIADEXUS, INC.
(a development stage company)

STATEMENTS OF OPERATIONS
(in thousands)

	Year Ended December 31,			Cumulative Period from August 29, 1997 (inception) through December 31,
	1998	1999	2000	2000
License revenue from related party	$ --	$ 100	$ --	$ 100
Operating expenses:				
Research and development (including stock compensation expense of $2,811 for the year ended December 31, 2000 and for the cumulative period from inception through December 31, 2000)	6,761	9,461	12,297	28,920
General and administrative (including stock compensation expense of $12,345 for the year ended December 31, 2000 and for the cumulative period from inception through December 31, 2000)	1,882	2,345	16,010	20,516
Loss from operations	(8,643)	(11,706)	(28,307)	(49,336)
Interest and other income	715	540	5,034	6,421
Interest expense	--	(120)	(73)	(193)
Net loss	$(7,928)	$(11,286)	$(23,346)	$(43,108)

The accompanying notes are an integral part of these financial statements.

DIADEXUS, INC.
(a development stage company)

STATEMENTS OF MEMBERS' AND STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Series A Preferred Capital		Series B Preferred Capital		Member Contributions	Series A Preferred Stock		Series B Preferred Stock	
	Units	Dollars	Units	Dollars	Receivable	Shares	Dollars	Shares	Dollars
Issuance, at inception, of Series A units at $3.41 per unit	4,400,000	$15,000	--	$ --	$(11,000)	--	$--	--	$--
Issuance, at inception, of Series B units at $2.27 per unit	--	--	4,400,000	10,000	(6,000)	--	--	--	--
Net loss	--	(274)	--	(274)	--	--	--	--	--
Balance at December 31, 1997	4,400,000	14,726	4,400,000	9,726	(17,000)	--	--	--	--
Proceeds received from Members	--	--	--	--	17,000	--	--	--	--
Stock-based compensation	--	--	--	--	--	--	--	--	--
Net loss	--	(3,964)	--	(3,964)	--	--	--	--	--
Balance at December 31, 1998	4,400,000	10,762	4,400,000	5,762	--	--	--	--	--
Stock-based compensation	--	--	--	--	--	--	--	--	--
Net loss	--	(5,643)	--	(5,643)	--	--	--	--	--
Balance at December 31, 1999	4,400,000	5,119	4,400,000	119	--	--	--	--	--
Net loss to April 4	--	(1,284)	--	(1,284)	--	--	--	--	--
Conversion to C corporation	(4,400,000)	(3,835)	(4,400,000)	1,165	--	4,400,000	44	4,400,000	44
Issuance of Series C preferred stock upon conversion of note payable to related party	--	--	--	--	--	--	--	--	--
Issuance of Series C preferred stock, net of issuance costs of $7,322	--	--	--	--	--	--	--	--	--
Issuance of common stock	--	--	--	--	--	--	--	--	--
Deferred stock compensation	--	--	--	--	--	--	--	--	--
Amortization of deferred stock compensation	--	--	--	--	--	--	--	--	--
Remeasurement of stock options	--	--	--	--	--	--	--	--	--
Notes receivable from stockholders, net of discount	--	--	--	--	--	--	--	--	--
Comprehensive loss:									
Net loss from April 5	--	--	--	--	--	--	--	--	--
Unrealized gain on available-for-sale securities	--	--	--	--	--	--	--	--	--
Comprehensive loss									
Balance at December 31, 2000	--	$ --	--	$ --	$ --	4,400,000	$ 44	4,400,000	$ 44

The accompanying notes are an integral part of these financial statements.

DIADEXUS, INC.
(a development stage company)

STATEMENTS OF MEMBERS' AND STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Series C Preferred Stock		Common Stock		Additional Paid-In	Deferred Stock	Notes Receivable from	Accumulated Other Comprehensive	Deficit Accumulated During the Development	
	Shares	Dollars	Shares	Dollars	Capital	Compensation	Stockholders	Income (Loss)	Stage	Total
Issuance, at inception, of Series A units at $3.41 per unit	--	$--	--	$--	$ --	$ --	$ --	$--	$ --	$ 4,000
Issuance, at inception, of Series B units at $2.27 per unit	--	--	--	--	--	--	--	--	--	4,000
Net loss	--	--	--	--	--	--	--	--	--	(548)
Balance at December 31, 1997	--	--	--	--	--	--		--	--	7,452
Proceeds received from Members	--	--	--	--	--	--	--	--	--	17,000
Stock-based compensation	--	--	--	--	10	--	--	--	--	10
Net loss	--	--	--	--	--	--	--	--	--	(7,928)
Balance at December 31, 1998	--	--	--	--	10	--	--	--	--	16,534
Stock-based compensation	--	--	--	--	5	--	--	--	--	5
Net loss	--	--	--	--	--	--	--	--	--	(11,286)
Balance at December 31, 1999	--	--	--	--	15	--	--	--	--	5,253
Net loss to April 4	--	--	--	--	--	--	--	--	--	(2,568)
Conversion to C corporation	--	--	--	--	2,582	--	--	--	--	--
Issuance of Series C preferred stock upon conversion of note payable to related party	322,580	3	--	--	2,497	--	--	--	--	2,500
Issuance of Series C preferred stock, net of issuance costs of $7,322	12,903,227	129	--	--	92,549	--	--	--	--	92,678
Issuance of common stock	--	--	2,076,698	21	2,487	--	--	--	--	2,508
Deferred stock compensation	--	--	--	--	18,331	(18,331)	--	--	--	--
Amortization of deferred stock compensation	--	--	--	--	--	5,558	--	--	--	5,558
Remeasurement of stock options	--	--	--	--	9,599	--	--	--	--	9,599
Notes receivable from stockholders, net of discount	--	--	--	--	--	--	(1,591)	--	--	(1,591)
Comprehensive loss:										
Net loss from April 5	--	--	--	--	--	--	--	--	(20,778)	(20,778)
Unrealized gain on available-for-sale securities	--	--	--	--	--	--	--	482	--	482
Comprehensive loss										(20,296)
Balance at December 31, 2000	13,225,807	$132	2,076,698	$ 21	$128,060	$(12,773)	$(1,591)	$482	$(20,778)	$ 93,641

==========	====	=========	====	========	========	=======	====	========	========

The accompanying notes are an integral part of these financial statements.

DIADEXUS, INC.
(a development stage company)

STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,			Cumulative Period from August 29, 1997 (Inception) through December 31,
	1998	1999	2000	2000
Cash flows from operating activities:				
Net loss	$(7,928)	$(11,286)	$(23,346)	$(43,108)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	1,657	1,072	1,167	3,898
Stock compensation expense	10	5	15,157	15,172
Discount on notes receivable from stockholders			1,281	1,281
Imputed interest on notes receivable from stockholders	--	--	(12)	(12)
Loss on disposal of property and equipment	23	3	--	26
Changes in operating assets and liabilities:				
Interest receivable	--	--	(1,556)	(1,556)
Prepaid expenses and other current assets	(317)	(24)	(678)	(1,108)
Accounts payable	239	(197)	748	790
Accrued liabilities	244	(177)	649	923
Issuance of notes receivable to stockholders	--	--	(465)	(465)
Due to related parties	132	(2,234)	153	(1,764)
Deferred rent	14	(29)	(41)	46
Net cash used in operating activities	(5,926)	(12,867)	(6,943)	(25,877)
Cash used in investing activities:				
Purchases of property and equipment	(1,160)	(238)	(877)	(2,547)
Proceeds from sale of equipment	--	9	--	9
Purchases of other assets	--	--	(1)	(1)
Purchases of short-term investments	--	--	(33,773)	(33,773)
Purchases of long-term investments	--	--	(43,891)	(43,891)
Net cash used in investing activities	(1,160)	(229)	(78,542)	(80,203)
Cash provided by financing activities:				
Proceeds from issuance of convertible notes payable to related parties	--	5,000	--	5,000
Repayment of convertible note payable to related party	--	--	(2,621)	(2,621)
Proceeds from related party contributions receivable	17,000	--	--	17,000
Proceeds from issuance of Series A preferred units	--	--	--	2,953
Proceeds from issuance of Series B preferred units	--	--	--	4,000
Proceeds from issuance of Series C preferred stock, net of issuance costs	--	--	92,678	92,678
Proceeds from issuance of common stock	--	--	113	113
Net cash provided by financing activities	17,000	5,000	90,170	119,123
Net increase (decrease) in cash and cash equivalents	9,914	(8,096)	4,685	13,043
Cash and cash equivalents at beginning of period	6,540	16,454	8,358	--
Cash and cash equivalents at end of period	$16,454	$ 8,358	$ 13,043	$ 13,043
Supplemental disclosures of cash flow information:				
Interest paid	$ --	$ --	$ 193	$ 193
Noncash investing and financing				

activities:				
Conversion of notes payable into Series C preferred stock.....	--	--	2,500	2,500
Construction in-progress funded by related party.....	106	--	--	2,305
Capital contribution of property and equipment.....	--	--	--	1,047
Issuance of common stock in exchange for notes receivable from stockholders.....	--	--	2,395	2,395

The accompanying notes are an integral part of these financial statements.

DIADEXUS, INC.
(a development stage company)

NOTES TO FINANCIAL STATEMENTS

Note 1--The Company:

diaDexus, Inc. (the "Company"), was founded as a Delaware limited liability company in August 1997 by SmithKline Beecham Corporation ("SmithKline Beecham") and Incyte Genomics, Inc.("Incyte") (together, the "Members"). On April 4, 2000, the Company was converted to a Delaware corporation (see Note 2).

The Company focuses on translating genomic sequence data into novel diagnostic and therapeutic products. Since its formation in 1997, the initial strategy of the Company has been to discover molecular targets and develop novel diagnostic products for the improved detection, classification and prognosis of diseases. The Company recently expanded its strategy to include therapeutic discovery and development. Where possible, the Company seeks to develop diagnostic and therapeutic products that are directed at the same molecular target, enabling a diagnostic/therapeutic tandem approach to detect and treat disease. The Company expects to extend its discovery platform beyond the initial focus on cancer into other diagnostic and therapeutic areas.

Note 2--Summary of Significant Accounting Policies:

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk and other risks and uncertainties

The Company's financial instruments that are subject to concentration of credit risk consist primarily of cash and cash equivalents and marketable securities. The Company's policy is to place its cash and cash equivalents and marketable securities with high credit quality financial institutions in order to limit the amount of credit exposure. The Company has not experienced any losses to date.

The Company's future products may require approval from the U.S. Food and Drug Administration ("FDA") and may require approval from certain international regulatory agencies prior to commencing commercial sales. There can be no assurance that the Company's products will receive any of these required approvals. If the Company was denied such approvals or such approvals were delayed, it would have a material adverse impact on the Company's results of operations.

The Company is subject to risks common to companies in the biotechnology industry including, but not limited to, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations, uncertainty of market acceptance of products, product liability and the need to obtain additional financing.

SmithKline Beecham accounted for 100% of revenues during the year ended December 31, 1999.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of less than 90 days to be cash equivalents. Investments with maturities of less than one year from the balance sheet date and with original maturities greater than 90 days are considered short-term investments. Investments consist primarily of money market accounts, commercial paper, certificates of deposit and other short-term instruments. These investments

typically bear minimal risk. This minimization of risk is consistent with the Company's policy to maintain high liquidity and ensure safety of principal.

Investments

The Company's short-term and long-term investments are classified as available-for-sale. Available-for-sale securities are carried at fair value based on quoted market prices, with the unrealized gains and losses included in accumulated other comprehensive income within stockholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest and other income. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are also included in interest and other income. Interest and dividends on securities classified as available-for-sale are also included in interest and other income. The cost of securities sold is based on the specific identification method.

The amortized cost and fair value of securities, with gross unrealized gains and losses, were as follows (in thousands):

	December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Corporate bonds	$77,663	$493	$(11)	$78,145

The fair value of available-for-sale debt securities by contractual maturity at December 31, 2000 was as follows (in thousands):

Within 1 year	$33,874
Greater than 1 year, less than 5 years	44,271
	$78,145

Property and equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Assets contributed by the Members during 1997 were recorded at amounts equal to the Members' net carrying value. Laboratory equipment, computers, software, and office furniture are depreciated over three years. Leasehold improvements are recorded at cost and amortized over the term of the non-cancelable lease or their useful life, whichever is shorter. Maintenance and repairs are expensed as incurred.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or circumstances suggest that the carrying amount of those assets may not be fully recoverable or that the estimated useful life of those assets has changed significantly. When expected future undiscounted cash flows that are expected to be generated by an asset are less than its carrying amount, then an impairment loss is recognized and the asset is written down to its estimated fair value.

Revenue recognition

The amount received from SmithKline Beecham under a non-refundable license arrangement was recognized during 1999 as the earnings process was completed pursuant to the terms of the agreement and no remaining performance obligation existed. Any amounts received in advance of completing the earnings process are recorded as deferred revenue. The Company's revenue recognition practices are in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

Research and development

The Company recognizes research and development expense as incurred.

Income taxes

From the Company's inception through April 4, 2000, no provision or benefit for federal or state income taxes was recorded in the financial statements as the Company was a limited liability company and, therefore, was taxed as a partnership. Rather, the federal and state income tax effects of the Company's results of operations were recorded by the Members in their respective income tax returns. On April 4, 2000, in connection with completing the Series C preferred stock financing, the Company became subject to the C corporation provisions of the Internal Revenue Code. Accordingly, any earnings after this date will be taxed at federal and state corporate income tax rates.

Current income tax expense (benefit) is the amount of income taxes expected to be payable (refundable) for the current year. A deferred income tax asset or liability is computed for the expected future impact of the differences between the financial reporting and tax bases of assets and liabilities as well as the expected future tax benefit to be derived from tax loss and tax credit carryforwards. Deferred income tax expense (benefit) is generally the net change during the year in the deferred income tax assets or liability. A valuation allowance is established when necessary to reduce deferred tax assets to the amount more likely than not to be realized in future tax returns.

Stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), Financial Accounting Standards Board Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN No. 28"), Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation--an Interpretation of APB No. 25" ("FIN No. 44") and complies with the pro forma disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123").

Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant between the estimated fair value of the Company's common stock and the exercise price. SFAS No. 123 defines a "fair value" based method of accounting for employee stock options. Pro forma disclosures of the difference between compensation expense included in net loss and the related cost measured by the fair value method are presented in Note 5.

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF No. 96-18").

Comprehensive income (loss)

The Company accounts for comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for reporting and displaying comprehensive income (loss) and its components. Comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income (loss) but excluded from net income (loss).

Recent accounting pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities. SFAS No. 133 requires that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains or losses be reported either in the statement of operations or as a component of comprehensive income (loss), depending on the type of hedge transaction. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities--an Amendment of FASB Statement No. 133," ("SFAS No. 138"). The Company, to date, has not engaged in any derivative or hedging activities. The Company will adopt SFAS No. 133, as amended, in 2001. The Company does not expect the adoption of SFAS No. 133 to have a material impact on its financial statements.

Note 3--Balance Sheet Components

Property and equipment consist of the following (in thousands):

	December 31,	
	1999	2000
Laboratory, computer and office equipment	$ 2,523	$ 3,382
Leasehold improvements	2,631	2,649
Total	5,154	6,031
Less: Accumulated depreciation and amortization	(2,712)	(3,879)
	$ 2,442	$ 2,152

Accrued liabilities consist of the following (in thousands):

	December 31,	
	1999	2000
Payroll and related	$230	$ 424
Outside services	--	347
Deposits	45	72
Other	184	265
	$459	$1,108

Note 4--Commitments and Contingencies

The Company has an operating lease for laboratory and office facilities in Santa Clara, California through September 30, 2002. The Company has an option to renew the lease through September 2007. Minimum future lease payments under the non-cancelable lease as of December 31, 2000 are as follows (in thousands):

Year Ending December 31,	
2001	$ 818
2002	624
	$1,442

Rent expense was $825,000, $838,000 and $804,000 for the years ended December 31, 1998, 1999 and 2000, respectively. A security deposit of $67,000 relating to our facility lease was paid by SmithKline Beecham and is included in due to related parties in the accompanying balance sheets.

The Company has subleased a portion of its leased office facilities under a non-cancelable lease agreement since 1998. Rental income for the years ended December 31, 1998, 1999 and 2000 was $117,000, $202,000 and $299,000, respectively. The aggregate minimum future lease payments to be received by the Company under the sublease are $712,000.

The Company entered into a collaboration agreement with the University of Pittsburgh Medical Center effective October 1, 2000 to analyze RNA expression in human cancer tissues. Under this agreement, the University of Pittsburgh Medical Center will perform RNA expression analysis on human cancer and corresponding non-malignant tissues to establish genotypic classifications. The Company will pay the University of Pittsburgh Medical Center approximately $1,218,000 over the three year term of this agreement.

The Company entered into a one-year agreement with Agilent Technologies, Inc. in August 2000 for early access to Agilent's DNA microarray technology. Under the terms of the agreement, diaDexus will purchase a number of custom in-situ microarrays at a cost of approximately $405,000.

The Company has entered into employment agreements with certain key executive officers. Such agreements provide for severance payments and, in one case, provide for accelerated vesting following a change in control of the Company.

Note 5--Members' and Stockholders' Equity:

Preferred units and stock

In September 1997, the Company issued 4,400,000 Series A Preferred units, no par value, to SmithKline Beecham, at $3.41 per unit. At the time these units were issued, the Company received an initial capital contribution of $4,000,000 in cash and assets and a contractual commitment for additional cash contributions of $7,000,000 and $4,000,000 which were received on April 15, 1998 and July 15, 1998, respectively. Upon conversion of the Company from a limited liability company into a C corporation, the Series A Preferred units were exchanged for shares of Series A Preferred Stock on a one-to-one basis. The Series A Preferred Stock converts automatically to Common Stock upon completion of an initial public offering by the Company that results in net proceeds of at least $20,000,000 and an offering price of at least $10.00 per share.

In September 1997, the Company also issued 4,400,000 Series B Preferred units, no par value, to Incyte at $2.27 per share. At the time these units were issued, the Company received an initial capital contribution of

$4,000,000 in cash and a contractual commitment for additional cash contributions of $2,000,000 and $4,000,000 which were received on April 15, 1998 and July 15, 1998, respectively. Upon conversion of the Company from a limited liability company into a C corporation, the Series B Preferred units were exchanged for shares of Series B Preferred Stock on a one-to-one basis. The Series B Preferred Stock converts automatically to Common Stock upon completion of an initial public offering by the Company that results in net proceeds of at least $20,000,000 and an offering price of at least $10.00 per share.

In April 2000, the Company issued 13,225,807 shares of Series C Preferred Stock, $0.01 par value, at $7.75 per share. Net proceeds were approximately $92,678,000 after cash offering expenses of $7,322,000. The Series C Preferred Stock converts automatically to Common Stock upon completion of an initial public offering by the Company that results in net proceeds of at least $20,000,000 and an offering price of at least $10.00 per share.

In connection with the sale of Series C Preferred Stock, the Company issued a warrant in June 2000 to purchase 129,032 shares of Series C Preferred Stock at $7.75 per share to the placement agent. The Series C Preferred Stock warrant converts automatically to a Common Stock warrant upon completion of an initial public offering by the Company that results in net proceeds of at least $20 million and an offering price of at least $10.00 per share. The warrant becomes exercisable in 2005. The Company valued this warrant using the Black-Scholes option pricing model with the following assumptions: expected life of five years; risk free interest rate of 6.23%; expected dividend yield of zero, and volatility of 85%. The fair value of the warrant of $846,367 is included in the carrying value of the Series C Preferred Stock.

At December 31, 2000, the Company has reserved 22,154,839 shares of Common Stock for future issuance upon the conversion of the Preferred Stock.

Dividends

In the event dividends are paid on any share of Common Stock, an additional dividend must be paid with respect to all outstanding shares of Preferred Stock in an amount per share (on an as-if-converted basis) equal to the amount paid or set aside for each share of Common Stock, whenever funds are legally available. Such dividends are payable when, as and if declared by the Board of Directors. No dividends accrue unless declared by the Board of Directors. As of December 31, 2000, no dividends had been declared.

Liquidation preference

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, holders of the Series A, Series B and Series C Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets to the holders of the Common Stock, an amount per share equal to $3.41 for each outstanding share of Series A Preferred Stock, $2.27 for each outstanding share of Series B Preferred Stock and $7.75 for each outstanding share of Series C Preferred Stock, plus any declared but unpaid dividends on such shares of Series A, Series B or Series C Preferred Stock. If upon the occurrence of such an event, the assets and funds thus distributed among the holders of the Preferred Stock shall be insuffcient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A, Series B and Series C Preferred Stock in proportion to the aggregate liquidation preference of such stock owned by each such holder.

Upon completion of the distributions described above, all of the remaining assets of the Company available for distribution to stockholders shall be distributed among the holders of Common Stock pro rata based on the number of shares of Common Stock held by each.

Voting rights

Holders of Series A, Series B and Series C Preferred Stock are entitled to one vote for each share of Common Stock into which such shares can be converted. The holders of the outstanding shares of Series A and Series B Preferred Stock, voting as separate classes, are each entitled to elect one member to the Company's Board of Directors and the holders of the outstanding shares of Series C Preferred Stock, voting as a separate class, are entitled to elect two members to the Company's Board of Directors. Any remaining board members will be elected by the holders of Common Stock and the holders of Preferred Stock voting together as a single class.

Registration rights

The holders of the Company's Preferred Stock have the right to require the Company to register their shares with the Securities and Exchange Commission so that those shares may be publicly resold or to include their shares in any registration statement filed by the Company.

Conversion rights

Shares of Series A, Series B and Series C Preferred Stock are convertible into shares of Common Stock at the option of the holder, or automatically upon completing a public offering of at least $20,000,000 of Common Stock at an offering price of at least $10.00 per share, upon the written consent of the holders of at least 80% of the then outstanding shares of Series A, Series B and Series C Preferred Stock voting together as a single class on an as-if-converted basis. The conversion rate is one share of Common Stock for one share of Preferred Stock (subject to certain adjustments).

Common stock

As of December 31, 2000, the Company had issued 2,076,698 shares of Common Stock, $0.01 par value, primarily in connection with the exercise of stock options. No dividends have been declared. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, holders of Common Stock shall be entitled to receive the remaining assets of the Company after distribution to holders of Preferred Stock, pro rata based on the number of shares of Common Stock held by each holder.

In March 2000 the Company committed to grant a warrant to purchase 50,000 shares of Common Stock at $1.20 per share for services to be received. This warrant has not been granted as of December 31, 2000.

Stock option plans

In January 1998, the Company's Board of Directors adopted the 1997 Incentive Plan ("1997 Plan") under which 1,200,000 shares of the Company's Common Units ("Units") were reserved for issuance to employees and consultants of the Company. During 1999, the Company increased the number of Units reserved for future issuance by 1,000,000. Options granted under the 1997 Plan are for terms not to exceed ten years. If the option is granted to an individual who, at the time of grant, owns a membership interest in the Company representing more than 10% of the voting power of all classes of membership interest of the Company or any parent or subsidiary, the exercise price of the option must be at least 110% of the estimated fair value of the Units at the date of grant. Exercise prices of options granted to all other persons must be at least 85% of the estimated fair value of the Units at the date of grant. Options under the 1997 Plan generally vest over four years. The 1997 Plan expires in 2008.

In April 2000, all of the Units originally granted under the 1997 Plan were converted into options to acquire shares of Common Stock under the 2000 Equity Incentive Plan (the "2000 Plan"), which provides for the issuance of options to purchase up to 2,200,000 shares of the Company's Common Stock. The Board of Directors has the authority to determine to whom options will be granted, the number of shares, the term and exercise price (which cannot be less than the estimated fair value at date of grant for incentive stock options or 85% of the estimated fair value for nonstatutory stock options). Historically, estimated fair value has been determined by the Board of Directors. If an employee owns stock representing more than 10% of the outstanding shares, the price of each share shall be at least 110% of estimated fair value. Options generally vest ratably over four years and expire within ten years of the date of the grant. In June 2000, the Company reserved an additional 2,500,000 shares of Common Stock under the 2000 Plan.

Stock option activity under the Company's plans is as follows:

		Outstanding Options	
	Options Available for Grant	Number of Options	Weighted Average Exercise Price
Options reserved at the plan inception.....	1,200,000	--	$ --
Options granted.....	(760,500)	760,500	0.36
Options canceled.....	44,250	(44,250)	0.35
Balances, December 31, 1998.....	483,750	716,250	0.36
Additional shares reserved.....	1,000,000	--	--
Options granted.....	(1,055,083)	1,055,083	0.75
Options canceled.....	433,738	(433,738)	0.47
Balances, December 31, 1999.....	862,405	1,337,595	0.63
Additional shares reserved.....	2,500,000	--	--
Options granted.....	(2,438,213)	2,438,213	1.85
Options exercised.....	--	(2,076,498)	1.21
Options canceled.....	204,303	(204,303)	0.68
Balances, December 31, 2000.....	1,128,495	1,495,007	1.81

The following summarizes information about stock options outstanding at December 31, 2000:

Options Outstanding				Options Exercisable	
Exercise Prices	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$0.35	97,354	7.13	$0.35	64,159	$0.35
0.75	258,294	8.29	0.75	67,697	0.75
1.20	58,812	9.16	1.20	--	--
1.30	680,834	9.54	1.30	--	--
1.80	146,713	9.88	1.80	--	--
5.00	253,000	9.96	5.00	--	--
	1,495,007	9.26	1.81	131,856	0.56

The weighted average grant date fair value of options granted during the years ended December 31, 1998, 1999 and 2000, was $0.07, $0.14 and $7.41, respectively.

Had compensation cost for the Company's stock options been calculated based upon the fair value at the date of grant, the Company's net loss and net loss per share would have increased to the pro forma amounts shown in the table that follows:

	Year Ended December 31,		
	1998	1999	2000
	(in thousands, except per share data)		
Net loss:			
As reported	$(7,928)	$(11,286)	$(23,346)
Pro forma	(7,943)	(11,313)	(24,002)

The fair value of each option grant is estimated at the grant date using the minimum value method, assuming an expected option term of four years, no dividend yield, and risk-free interest rates of 4.43% to 5.54%, 5.11% to 5.86% and 5.10% to 6.20% for the years ended December 31, 1998, 1999 and 2000, respectively.

Deferred stock compensation

For the year ended December 31, 2000, the Company recorded $18,331,000 of deferred stock compensation in accordance with APB No. 25, SFAS No. 123 and EITF Issue No. 98-16 from the grant of stock options to employees, directors and consultants. The difference between exercise price of the option granted and the estimated fair value of Common Stock on the grant date is recognized as deferred stock compensation. Stock compensation expense is being recognized over the vesting period of the related options in accordance with FIN No. 28. Total stock compensation expense for the year ended December 31, 2000 was $5,558,000.

In November 2000, the Company modified certain outstanding stock options which were then exercised in exchange for full recourse non-interest bearing notes. In accordance with APB 25 and FIN No. 44, the associated remeasurement of such options resulted in a one-time compensation charge in the statements of operations for the year ended December 31, 2000 of $9,599,000.

The notes mature over periods ranging from seven to ten years. The discount associated with the use of non-interest bearing notes was calculated using an interest rate of 6.5% and a weighted average term of 9.44 years, and resulted in an immediate compensation charge of $1,281,000, of which $790,000 was allocated to general and administrative expense and $491,000 was allocated to research and development expense. The discount will be recognized as interest income over the life of the loans.

401(k) savings plan

In January 1998, the Company has established a qualified savings plan for employees under Section 401(k) (the "401(k) Plan") of the Internal Revenue Service Code, in which employees may defer as much as 15% of their pretax annual salary up to the statutory limits. The 401(k) Plan permits discretionary matching and profit sharing contributions to be made by the Company. As of December 31, 2000, the Company has not made any contributions to the 401(k) Plan.

Note 6--Income Taxes:

On April 5, 2000, the Company became subject to the C corporation provisions of the Internal Revenue Code. No provision or benefit for income taxes has been recognized since April 5, 2000 as the Company has incurred net operating losses.

The significant components of deferred tax assets and liabilities are as follows (in thousands):

	December 31, 2000
Net operating loss carryforwards	$ 212
Depreciation and amortization	2,635
Research tax credit carryforwards	530
Other	45
Total deferred tax assets	3,422
Deferred interest income	620
Less: Valuation allowance	2,802
Net deferred taxes	$ --

The Company has provided a full valuation allowance for its deferred tax assets at December 31, 2000 due to the uncertainty surrounding the future realization of such assets.

At December 31, 2000, the Company had state and federal net operating loss carryforwards of $532,000 which expire in 2005 and 2020, respectively, and federal and state research tax credit carryforwards of $530,000 which expire in 2020. Utilization of federal and state net operating loss and tax credit carryforwards may be subject to an annual limitation due to the "change in ownership" provisions of the Internal Revenue Code.

Note 7--Related Party Transactions:

In connection with forming the Company, SmithKline Beecham, Incyte and the Company entered into several agreements during September 1997, including an Operating Agreement (the "Operating Agreement") and a Master Strategic Relationship Agreement (the "Master Agreement"). The Operating Agreement served as the Company's by-laws while the Master Agreement documents certain specific matters regarding the operation of the Company. During September 1997, the Company issued 4,400,000 shares of Series A Preferred units to SmithKline Beecham in exchange for an initial capital contribution of $4,000,000 in cash and assets and a contractual commitment for additional cash contributions of $11,000,000, which was received in two installments on April 15 and July 15, 1998. Concurrently, the Company issued 4,400,000 shares of Series B Preferred units to Incyte in exchange for an initial capital contribution of $4,000,000 in cash and a contractual commitment for additional cash contributions of $6,000,000, which was received in two installments on April 15 and July 15, 1998.

The Operating Agreement specified that the limited liability company would merge into a C corporation at the earliest of (i) the eighteen month anniversary of the Company's formation (March 1999); (ii) any time after January 1, 1999, if the Company's cash balance falls below $2,000,000, or (iii) the mutual agreement of SmithKline Beecham and Incyte. Pursuant to the Operating Agreement, the conversion of the Company into a C corporation was deferred until completion of the Series C Preferred Stock financing in April 2000.

In addition to the above contributions, SmithKline Beecham has granted the Company various exclusive rights under a Collaboration and License Agreement entered into by SmithKline Beecham, Incyte and the Company in September 1997. Under this agreement, as amended, SmithKline Beecham has granted to the Company an exclusive sublicenseable license under certain of its patents and know-how with respect to genes and gene products for use as diagnostics through September 2, 2001. In September 1997, the Company also entered into a Collaborative LifeSeq Agreement and a Collaborative PathoSeq Database Agreement with Incyte. Under these agreements, as amended and described below, Incyte has provided the Company with non-exclusive

access to certain of its gene sequence and expression databases for research, diagnostic and therapeutic applications until September 2003. These non-cash assets received as capital contributions from SmithKline Beecham and Incyte were recorded at zero value, which was equal to the carrying value of such assets by SmithKline Beecham and Incyte.

Under the Collaboration and License Agreement as currently in effect, the Company pays no milestones, royalties or other payments to SmithKline Beecham but is obligated to pay pass-through royalties to Human Genome Sciences on sales of products derived from the use of genes discovered by Human Genome Sciences. In addition, although the Company has no plans to develop any therapeutic products based on SmithKline Beecham's intellectual property, in the event the Company does so, SmithKline Beecham has an exclusive license to the Company's know-how or patents related to any such therapeutic products until September 2005. In order to license the Company's products under this arrangement, SmithKline Beecham must make milestone payments of up to an aggregate of $4,000,000 for each patented product and up to an aggregate of $1,600,000 for each product for which a patent is pending. As of December 31, 2000, no such milestone payments have been received or recognized by the Company.

On September 28, 1998, the Company entered into a Service Agreement with SmithKline Beecham. Under this agreement, SmithKline Beecham provided the Company personnel support to identify diagnostic leads and research for a period of one year. Pursuant to this agreement, the Company incurred costs which were charged to research and development of $50,000 and $150,000 during the years ended December 31, 1998 and 1999, respectively. No such costs were incurred during the year ended December 31, 2000.

On November 1, 1998, the Company entered into a GEM Services Agreement with Incyte which was subsequently amended on September 1, 1999, pursuant to which the Company obtains gene preparation and expression services from Incyte which the Company uses to generate gene expression information and data. The Company paid Incyte for its services pursuant to a pricing schedule for the production of standard and custom microarrays, which pricing schedule was substantially similar to that contained in GEM Services Agreements between Incyte and unrelated third parties. The GEM Services Agreement expired on November 1, 2000. Pursuant to this agreement, the Company incurred costs which were charged to research and development of $72,000, $1,479,000 and $95,000 during the years ended December 31, 1998, 1999 and 2000, respectively.

In February 1999, the Company entered into a license agreement with SmithKline Beecham Clinical Laboratories, Inc. Under the agreement, SmithKline Beecham obtained licenses from the Company with respect to the Company's technology for a potential molecular target for prostate cancer. Later during 1999, testing of this molecular target was discontinued and the parties agreed that no additional work under the agreement was appropriate. Accordingly, the non-refundable license fee of $100,000 was recognized as revenue in 1999.

In July 1999, the Company issued two convertible notes payable in the amount of $2,500,000 each to SmithKline Beecham and Incyte. The notes were due and payable in April 2000, accruing interest at 5.6% per annum. Upon closing the Series C financing, the note to SmithKline Beecham was converted to 322,580 shares of Series C Preferred Stock. Additionally, the Company paid interest of $97,000 on the note to SmithKline Beecham and paid Incyte principal of $2,500,000 and accrued interest of $97,000.

In December 1999, the Company entered into a LifeArray Software License Agreement with Incyte. Under this agreement, the Company has access to computer software from Incyte for the processing and analysis of microarray expression data for a period of 12 months, with the option to extend for an additional 12 month term. The license fee for the use of the software is $75,000 per year.

In February 2000, the Company entered into a Collaborative Agreement with Incyte to replace and expand the rights that existed under the 1997 Collaborative LifeSeq and 1997 Collaborative PathSeq Database

Agreements. Under this new agreement the Company retained access to Incyte's human database, LifeSeq Gold, and microbial database, PathoSeq, at no subscription cost until September 2, 2003. Under the agreement, along with other database subscribers, the Company has non-exclusive access to database products and database patents for research, the diagnostic field of use and the pharmaceutical field of use. Additionally, the Company has an option to exclusively license in the future certain Incyte patents in the pharmaceutical field of use. The Company may pay up to an aggregate of $4,622,500 in licensing fees and milestone payments for each therapeutic product and up to an aggregate of $2,385,000 in licensing fees and milestone payments for each antisense product, in addition to royalty payments on the sale of these products. As of December 31, 2000, no licensing fees or milestone payments have been paid or recognized by the Company.

Pursuant to the 1997 Collaboration and License Agreement and the 2000 Collaborative Agreement, the Company has committed to purchase $5,000,000 in gene sequencing and microarray services from Incyte, including services obtained under the GEM Services Agreement. As of December 31, 2000, the Company has fulfilled all of its purchase commitments to Incyte under these agreements.

Pursuant to an Intercompany Services Agreement, SmithKline Beecham and Incyte provided the Company with certain legal, financial and research and development services. Charges to the Company for these services were based upon either actual costs or rates charged to other customers for similar services. Such amounts, which were charged to research and development, were $0, $0 and $86,000 in 2000, 1999 and 1998, respectively. Pursuant to the 1997 Collaboration and License Agreement, and the Collaborative Agreement with Incyte, the Company incurred costs which were charged to research and development of $72,000, $1,928,000 and $2,600,000 during the years ended December 31, 1998, 1999 and 2000, respectively.

Note 8--Subsequent Events:

Employee Stock Purchase Plan

The Company's Board of Directors adopted the 2000 Employee Stock Purchase Plan (the "2000 ESPP") on February 2, 2001, which was approved by the Company's stockholders on February 5, 2001. The Board approved a total of 350,000 shares of Common Stock for issuance under the 2000 ESPP.

2001 Equity Incentive Plan

The Company's Board of Directors adopted the 2001 Equity Incentive Plan (the "2001 Plan") on February 2, 2001, which was approved by the Company's stockholders on February 5, 2001, as a successor equity plan to the 2000 Plan. Under the 2001 Plan, a total of 3,543,995 shares of Common Stock have been reserved for issuance, including 1,043,995 shares that remained reserved for issuance under the 2000 Plan.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item (with respect to Directors) is incorporated by reference from the information under the caption "Election of Directors" contained in the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Company's 2001 Annual Meeting of Stockholders to be held on June 5, 2001 (the "Proxy Statement").

Item 415 of Regulation S-K calls for disclosure of any known late filing or failure by an insider to file a report required by Section 16(a) of the Exchange Act. This disclosure is contained in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement and is incorporated herein by reference.

The executive officers of the Company are as follows:

Roy A. Whitfield, age 47, co-founded the Company and has been Chief Executive Officer since June 1993 and a Director since June 1991. Mr. Whitfield served as President of the Company from June 1991 until January 1997 and as Treasurer of the Company between April 1991 and October 1995. Previously, Mr. Whitfield served as the President of Ideon Corporation, which was a majority-owned subsidiary of Invitron Corporation, a biotechnology company, from October 1989 until April 1991. From 1984 to 1989, he held senior operating and business development positions with Technicon Instruments Corporation, a medical instrumentation company, and its predecessor company, CooperBiomedical, Inc., a biotechnology and medical diagnostics company. Prior to his work at Technicon, Mr. Whitfield spent seven years with the Boston Consulting Group's international consulting practice. Mr. Whitfield received a B.S. with first class honors in Mathematics from Oxford University, and an M.B.A. with distinction from Stanford University. Mr. Whitfield is a director of Aurora Biosciences Corporation and Inhale Therapeutics Systems, Inc.

Michael D. Lack, age 49, has been the Chief Operating Officer of the Company since July 1999. Prior to joining the Company, Mr. Lack was the President and Chief Executive Officer of Silicon Valley Networks from July 1998 to July 1999. Previously, Mr. Lack served as Chief Executive Officer with several software startup companies, including Aqueduct Software from July 1997 to July 1998 and Presidio Systems, Inc. from May 1994 to May 1997. He also held various senior positions with Cadence Design Systems, Inc., including Senior Vice President of Product Operations, Division President of Integrated Circuit Design, and Division President of Systems. Mr. Lack received his B.S. in Physics from the University of California, Los Angeles.

John M. Vuko, age 50, joined the Company as the Executive Vice President and Chief Financial Officer in December 1999. Prior to joining the Company, Mr. Vuko was the primary financial consultant of an affiliate of Achievement Radio Holdings, Inc. from October 1998 to December 1999. From April 1997 to September 1998, Mr. Vuko served as the Senior Vice President and Chief Financial Officer of Achievement Radio Holdings, Inc. From October 1989 to March 1997, Mr. Vuko served in various positions with Ross Stores, Inc., most recently as Senior Vice President and Chief Financial Officer. Prior to his work at Ross Stores, Mr. Vuko held the positions of Corporate Development Executive, Vice President, Treasurer, and Controller with the Cooper family of companies, including CooperVision, Inc., Cooper LaserSonics, Inc. and The Cooper Companies, Inc. Mr. Vuko received his B.A. in Accounting from San Francisco State University.

James R. Neal, age 45, has been the Executive Vice President of Sales and Marketing since July 1999. From July 1997 to immediately prior to joining Incyte, Mr. Neal served as General Manager of the Solaris Group, a division of Monsanto Company. From 1982, he also held various positions with Monsanto, including Vice President of Global Business Development, Director of Brand Marketing and Residential Products, and Manager of New Product Introduction. Mr. Neal received his B.S. in Biology and his M.S. in Genetics and Plant Breeding from the University of Manitoba, Canada as well as an Executive M.B.A. from Washington University, St. Louis.

E. Lee Bendekgey, age 43, has been General Counsel of the Company since January 1998 and served as the Interim Chief Financial Officer from June 1999 until December 1999. Mr. Bendekgey became the Secretary of the Company in June 1998 and Executive Vice President in June 1999. Prior to joining the Company, Mr. Bendekgey was the Director of Strategic Relations at Silicon Graphics, Inc. July 1997 through December 1997. He held various positions with SGI from March 1993 through June 1997, including Director of Legal Services, Products and Technology; Senior Counsel, Product Divisions; Group Counsel, Computer Systems Group; and Division Counsel, MIPS Technologies, Inc. From 1982 to 1993, Mr. Bendekgey held associate and partner positions with Graham & James, a law firm in San Francisco, where he specialized in intellectual property protection and licensing. Mr. Bendekgey received his B.A. magna cum laude in Political Science and French from Kalamazoo College and his J.D. from Stanford University.

James P. Merryweather, Ph.D., age 50, has been the Executive Vice President of Business Development since November 2000. He served as Senior Vice President of Client Business Management from July 1999 until November 2000 and served as Vice President of Partnership Programs from March 1999 until July 1999. Prior to joining the Company, Dr. Merryweather was the Vice President of Program Management at Millennium Pharmaceuticals, Inc. from September 1996 until November 1998. Prior to joining Millennium Pharmaceuticals, Dr. Merryweather was Director of Project Management at Chiron Corporation. Dr. Merryweather held various positions at Chiron from November 1981, including Senior Scientist, Research Leader and Director of Regulatory Affairs. Dr. Merryweather received his Ph.D. in Biochemistry from Washington State University.

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management

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

Item 13. Certain Relationships and Related Transactions

Not applicable.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents filed as part of this report:

(1) Financial Statements

Reference is made to the Index to Consolidated Financial Statements of Incyte Genomics, Inc. and the Index to Financial Statements of diaDexus, Inc., under Item 8 of Part II hereof.

(2) Financial Statement Schedules

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

Schedule II--Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 2000.

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

(3) Exhibits

See Item 14(c) below. Each management contract or compensatory plan or arrangement required to be filed has been identified.

(b) Reports on Form 8-K.

The Company filed the following reports on Form 8-K during the fiscal quarter ended December 31, 2000:

(i) Current Report on Form 8-K on October 4, 2000, reporting under item 5 a description of legal proceedings relating to Incyte Genomics, Inc. and its wholly owned subsidiary Synteni, Inc. that updates and revises the description set forth under Item 1 of Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.

(ii) Current Report on Form 8-K on December 21, 2000, reporting under item 5 the Company announced that it entered into an agreement to acquire Proteome, Inc., a privately held company based in Beverly, Massachusetts.

(c) Exhibits

Exhibit Number	Description of Document
3(i)(a)*	Restated Certificate of Incorporation, as amended.
3(i)(b)	Certificate of Designation of Series A Participating Preferred Stock, (incorporated by reference to the Company's Annual Report on 10-K for the year ended December 31, 1998).
3(ii)	Bylaws of the Company, as amended (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (File No. 333-31307)).
4.1	Form of Common Stock Certificate (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
4.2	Rights Agreement dated as of September 25, 1998 between the Company and Chase Mellon Shareholder Services, L.L.C., which includes as Exhibit B, the rights certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed September 30, 1998).

Exhibit Number	Description of Document
4.3	Indenture dated as of February 4, 2000 between the Company and State Street Bank and Trust Company of California, N.A., as trustee (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.1#	1991 Stock Plan of Incyte Pharmaceuticals, Inc., as amended and restated (the "Plan") (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-8 (File No. 333-83291)).
10.2#	Form of Incentive Stock Option Agreement under the Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.3#	Form of Nonstatutory Stock Option Agreement under the Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.4#	Amended and Restated 1993 Directors' Stock Option Plan of Incyte Pharmaceuticals, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.5#	Form of Indemnity Agreement between the Company and its directors and officers (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.6	Lease Agreement dated December 8, 1994 between the Company and Matadero Creek (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
10.9	Stock Purchase Agreement dated as of June 22, 1994 between the Company and Pfizer Inc (incorporated by reference to Exhibit B to the Company's Current Report on Form 8-K dated June 23, 1994).
10.10	Registration Rights Agreement dated as of June 22, 1994 between the Company and Pfizer Inc (incorporated by reference to Exhibit C to the Company's Current Report on Form 8-K dated June 23, 1994).
10.11	Stock Purchase Agreement dated as of November 30, 1994 between the Company and The Upjohn Company (incorporated by reference to Exhibit B to the Company's Current Report on Form 8-K dated November 30, 1994, as amended by Form 8-K/A filed with the Commission on March 27, 1995).
10.12	Registration Rights Agreement dated as of November 30, 1994 between the Company and The Upjohn Company (incorporated by reference to Exhibit C to the Company's Current Report on Form 8-K dated November 30, 1994).
10.13	Registration Rights Agreement dated as of February 4, 2000 among the Company and Deutsche Bank Securities Inc. and Warburg Dillon Read LLC (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.14	Lease Agreement dated June 19, 1997 between the Company and The Board of Trustees of the Leland Stanford Junior University (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.15#	1997 Employee Stock Purchase Plan of Incyte Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-31409)).

Exhibit Number	Description of Document
10.16#	1998 Amendment to the 1997 Employee Stock Purchase Plan of Incyte Pharmaceuticals, Inc. (incorporated by reference to Exhibit 99 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
10.17+	Master Strategic Relationship Agreement dated as of September 2, 1997 between SmithKline Beecham Corporation, Incyte Pharmaceuticals, Inc. and diaDexus, LLC (incorporated by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 1997). [Still relevant?]
10.18#	1996 Synteni, Inc. Equity Incentive Stock Plan (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-8 (File No. 333-46639)).
10.19#	The Hexagen Limited Unapproved Company Share Option Plan 1996, as amended (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-67691)).
10.20	Stock Purchase Agreement dated as February 24, 2000 between the Company and the investors named therein (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.21	Registration Rights Agreement, dated as of December 28, 2000, by and among the Company and the Stockholders of Proteome, Inc. (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed January 10, 2001).
10.22#	1998 Employee, Director and Consultant Stock Option Plan of Proteome, Inc., as amended (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed January 29, 2001 (File No. 333-54496)).
21.1	Subsidiaries of the Company.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
23.2	Consent of PricewaterhouseCoopers LLP, Independent Accountants.
24.1	Power of Attorney (see page 83 of this Form 10-K).

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* Filed herewith

\+ Confidential treatment has been granted with respect to certain portions of these agreements.

\# Indicates management contract or compensatory plan or arrangement.

(d) Financial Statements and Schedules

Reference is made to Item 14(c)(2) above.

SIGNATURES

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

INCYTE GENOMICS, INC.

Date: March 29, 2001

By: /s/ Roy A. Whitfield
Roy A. Whitfield
Chief Executive Officer

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Roy A. Whitfield Roy A. Whitfield	Chief Executive Officer (Principal Executive Officer) and Director	March 29, 2001
/s/ John M. Vuko John M. Vuko	Chief Financial Officer (Principal Financial Officer)	March 29, 2001
/s/ Timothy G. Henn Timothy G. Henn	Vice President, Finance and Corporate Controller (Principal Accounting Officer)	March 29, 2001
/s/ Randal W. Scott Randal W. Scott	Chairman of the Board	March 29, 2001
/s/ Jeffrey J. Collinson Jeffrey J. Collinson	Director	March 29, 2001
/s/ Barry M. Bloom Barry M. Bloom	Director	March 29, 2001

Signature	Title	Date
/s/ Frederick B. Craves Frederick B. Craves	Director	March 29, 2001
/s/ Jon S. Saxe Jon S. Saxe	Director	March 29, 2001

EXHIBIT INDEX

Exhibit Number	Description of Document
3(i)(a)*	Restated Certificate of Incorporation, as amended.
3(i)(b)	Certificate of Designation of Series A Participating Preferred Stock, (incorporated by reference to the Company's Annual Report on 10-K for the year ended December 31, 1998).
3(ii)	Bylaws of the Company, as amended (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (File No. 333-31307)).
4.1	Form of Common Stock Certificate (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
4.2	Rights Agreement dated as of September 25, 1998 between the Company and Chase Mellon Shareholder Services, L.L.C., which includes as Exhibit B, the rights certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form 8-A filed September 30, 1998).
4.3	Indenture dated as of February 4, 2000 between the Company and State Street Bank and Trust Company of California, N.A., as trustee (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.1#	1991 Stock Plan of Incyte Pharmaceuticals, Inc., as amended and restated (the "Plan") (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-8 (File No. 333-83291)).
10.2#	Form of Incentive Stock Option Agreement under the Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.3#	Form of Nonstatutory Stock Option Agreement under the Plan (incorporated by reference to the exhibit of the same number to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.4#	Amended and Restated 1993 Directors' Stock Option Plan of Incyte Pharmaceuticals, Inc. (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.5#	Form of Indemnity Agreement between the Company and its directors and officers (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (File No. 33-68138)).
10.6	Lease Agreement dated December 8, 1994 between the Company and Matadero Creek (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
10.9	Stock Purchase Agreement dated as of June 22, 1994 between the Company and Pfizer Inc (incorporated by reference to Exhibit B to the Company's Current Report on Form 8-K dated June 23, 1994).
10.10	Registration Rights Agreement dated as of June 22, 1994 between the Company and Pfizer Inc (incorporated by reference to Exhibit C to the Company's Current Report on Form 8-K dated June 23, 1994).
10.11	Stock Purchase Agreement dated as of November 30, 1994 between the Company and The Upjohn Company (incorporated by reference to Exhibit B to the Company's Current Report on Form 8-K dated November 30, 1994, as amended by Form 8-K/A filed with the Commission on March 27, 1995).
10.12	Registration Rights Agreement dated as of November 30, 1994 between the Company and The Upjohn Company (incorporated by reference to Exhibit C to the Company's Current Report on Form 8-K dated November 30, 1994).

Exhibit Number	Description of Document
10.13	Registration Rights Agreement dated as of February 4, 2000 among the Company and Deutsche Bank Securities Inc. and Warburg Dillon Read LLC (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.14	Lease Agreement dated June 19, 1997 between the Company and The Board of Trustees of the Leland Stanford Junior University (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.15#	1997 Employee Stock Purchase Plan of Incyte Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-31409)).
10.16#	1998 Amendment to the 1997 Employee Stock Purchase Plan of Incyte Pharmaceuticals, Inc. (incorporated by reference to Exhibit 99 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
10.17+	Master Strategic Relationship Agreement dated as of September 2, 1997 between SmithKline Beecham Corporation, Incyte Pharmaceuticals, Inc. and diaDexus, LLC (incorporated by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 1997). [Still relevant?]
10.18#	1996 Synteni, Inc. Equity Incentive Stock Plan (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-8 (File No. 333-46639)).
10.19#	The Hexagen Limited Unapproved Company Share Option Plan 1996, as amended (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 (File No. 333-67691)).
10.20	Stock Purchase Agreement dated as February 24, 2000 between the Company and the investors named therein (incorporated by reference to the exhibit of the same number to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
10.21	Registration Rights Agreement, dated as of December 28, 2000, by and among the Company and the Stockholders of Proteome, Inc. (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed January 10, 2001).
10.22#	1998 Employee, Director and Consultant Stock Option Plan of Proteome, Inc., as amended (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed January 29, 2001 (File No. 333-54496)).
21.1	Subsidiaries of the Company.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
23.2	Consent of PricewaterhouseCoopers LLP, Independent Accountants.
24.1	Power of Attorney (see page 83 of this Form 10-K).

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* Filed herewith

\+ Confidential treatment has been granted with respect to certain portions of these agreements.

\# Indicates management contract or compensatory plan or arrangement.

Copies of above exhibits not contained herein are available to any stockholder upon written request to: Investor Relations, Incyte Genomics, Inc., 3160 Porter Drive, Palo Alto, CA 94034.

CERTIFICATE OF AMENDMENT

OF

RESTATED CERTIFICATE OF INCORPORATION

OF

INCYTE PHARMACEUTICALS, INC.

It is hereby certified that:

1. The name of the corporation (hereinafter called the "Corporation") is Incyte Pharmaceuticals, Inc.

2. The Restated Certificate of Incorporation of the Corporation is hereby amended by striking out Article I and Article IV Section A thereof and by substituting in lieu of said Article I and Article IV Section A the following new Article I and Article IV Section A:

"ARTICLE I

"The name of the corporation is Incyte Genomics, Inc."

"ARTICLE IV

"A. Classes of Stock. The total number of shares of all classes of capital stock which the corporation shall have authority to issue is two hundred five million (205,000,000), of which two hundred million (200,000,000) shares of the par value of one-tenth of one cent ($.001) each shall be Common Stock (the "Common Stock") and five million (5,000,000) shares of the par value of one-tenth of one cent ($.001) each shall be Preferred Stock (the "Preferred Stock"). The number of authorized shares of Common Stock or Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the then outstanding shares of Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such Preferred Stock holders is required pursuant to the provisions established by the Board of Directors of this Corporation (the "Board of Directors") in the resolution or resolutions providing for the issue of such Preferred Stock, and if such holders of such Preferred Stock are so entitled to vote thereon, then, except as may otherwise be set forth in this Restated Certificate of Incorporation, the only stockholder approval required shall be the affirmative vote of a majority of the combined voting power of the Common Stock and the Preferred Stock so entitled to vote."

3. This Certificate of Amendment of Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation.

4. This Certificate of Amendment of Restated Certificate of Incorporation was duly adopted by the stockholders in accordance with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Incyte Pharmaceuticals, Inc. has caused this certificate to be signed by its Chief Executive Officer and Secretary this 5th day of June, 2000.

By: /s/ ROY A. WHITFIELD

Roy A. Whitfield
Chief Executive Officer

Attest:

By: /s/ LEE BENDEKGEY

Lee Bendekgey
Secretary

CERTIFICATE OF DESIGNATION

OF SERIES A PARTICIPATING PREFERRED STOCK

OF

INCYTE PHARMACEUTICALS, INC.

We, Roy A. Whitfield, the Chief Executive Officer, and Elias Lee Bendekgey, the Secretary, of Incyte Pharmaceuticals, Inc., a corporation organized and exist ing under the General Corporation Law of the State of Delaware, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Certificate of Incorporation of the Corporation, the said Board of Directors on September 25, 1998, adopted the following resolution creating a series of 250,000 shares of Preferred Stock designated as Series A Participating Preferred Stock:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

1. Designation and Amount. The shares of such series shall be designated as "Series A Participating Preferred Stock," par value $.001 per share, and the number of shares constituting such series shall be 250,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Participating Preferred Stock to a number less than that of the shares then outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Participating Preferred Stock with respect to dividends, the holders of shares of Series A Participating Preferred Stock in preference to the holders of shares of Common Stock, par value $.001 per share (the "Common Stock"), of the Corporation and any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Participating Preferred Stock in an amount per share (rounded to the nearest cent) equal to the greater of (a) $25.00, or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of

Common Stock (by reclassification or otherwise), declared on the Common Stock, since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Participating Preferred Stock. In the event the Corporation shall at any time after the close of business on October 13, 1998 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, by reclassification or otherwise, then in each such case the amount to which holders of shares of Series A Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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

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

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

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

of shares, or (iii) combine the outstanding Common Stock into a smaller number of shares, by reclassification or otherwise, then in each such case the number of votes per share to which holders of shares of Series A Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock outstanding immediately prior to such event.

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

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

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

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

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

and such vacancy(ies) shall be filled at such special meeting. Such special meeting shall in any event be held within forty-five (45) days of the occurrence of any such vacancy(ies).

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

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

4. Certain Restrictions.

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

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

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

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

(iv) purchase or otherwise acquire for consideration any shares of Series A Participating Preferred Stock or any shares of stock ranking on a parity with the Series A Participating Preferred Stock except in accordance with a purchase offer

made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective Series And classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

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

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

6. Liquidation, Dissolution or Winding Up.

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

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

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

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

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

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

10. Amendment. The Certificate of Incorporation and the Bylaws of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the outstanding shares of Series A Participating Preferred Stock voting separately as a class.

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

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and do affirm the foregoing as true under the penalties of perjury as of the 25th day of September, 1998.

By /s/ ROY A. WHITFIELD

Roy A. Whitfield
Chief Executive Officer

Attest:

/s/ ELIAS LEE BENDEKGEY

Elias Lee Bendekgey
Secretary

CERTIFICATE OF AMENDMENT

OF

RESTATED CERTIFICATE OF INCORPORATION

OF

INCYTE PHARMACEUTICALS, INC.

It is hereby certified that:

1. The name of the corporation (hereinafter called the "Corporation") is Incyte Pharmaceuticals, Inc.

2. The Restated Certificate of Incorporation of the Corporation is hereby amended by striking out Article IV Section A thereof and by substituting in lieu of said Article IV Section A the following new Article IV Section A:

"ARTICLE IV

"A. Classes of Stock. The total number of shares of all classes of capital stock which the corporation shall have authority to issue is eighty million (80,000,000), of which seventy-five million (75,000,000) shares of the par value of one-tenth of one cent ($.001) each shall be Common Stock (the "Common Stock") and five million (5,000,000) shares of the par value of one-tenth of one cent ($.001) each shall be Preferred Stock (the "Preferred Stock"). The number of authorized shares of Common Stock or Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the then outstanding shares of Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such Preferred Stock holders is required pursuant to the provisions established by the Board of Directors of this Corporation (the "Board of Directors") in the resolution or resolutions providing for the issue of such Preferred Stock, and if such holders of such Preferred Stock are so entitled to vote thereon, then, except as may otherwise be set forth in this Restated Certificate of Incorporation, the only stockholder approval required shall be the affirmative vote of a majority of the combined voting power of the Common Stock and the Preferred Stock so entitled to vote."

3. This Certificate of Amendment of Restated Certificate of Incorporation was duly adopted by the Board of Directors of the Corporation.

4. This Certificate of Amendment of Restated Certificate of Incorporation was duly adopted by written consent of the stockholders in accordance with sections 228 and 242 of the General Corporation Law of the State of Delaware and written notice of such action has been given as provided in section 228.

IN WITNESS WHEREOF, Incyte Pharmaceuticals, Inc. has caused this
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certificate to be signed by its President and Secretary this 30th day of June, 1997.

By /s/ ROY A. WHITFIELD

Roy A. Whitfield
Chief Executive Officer

Attest:

By /s/ RANDAL W. SCOTT

Randal W. Scott
Secretary

RESTATED CERTIFICATE OF INCORPORATION

OF

INCYTE PHARMACEUTICALS, INC.

INCYTE PHARMACEUTICALS, INC., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

FIRST: The name of the corporation is Incyte Pharmaceuticals, Inc.

SECOND: The original Certificate of Incorporation of the corporation was filed with the Secretary of State of the State of Delaware on April 8, 1991 and the original name of the corporation was INCYTE Pharmaceuticals, Inc.

THIRD: Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware, this Restated Certificate of Incorporation restates, integrates and further amends the provisions of the Certificate of Incorporation of this corporation.

FOURTH: The text of the Restated Certificate of Incorporation as heretofore amended or supplemented is hereby restated and amended to read in its entirety as follows:

ARTICLE I

The name of the corporation is Incyte Pharmaceuticals, Inc.

ARTICLE II

The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE III

The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or

activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE IV

A. Classes of Stock. The total number of shares of all classes of capital stock which the corporation shall have authority to issue is twenty five million (25,000,000), of which twenty million (20,000,000) shares of the par value of one-tenth of one cent ($.001) each shall be Common Stock (the "Common Stock") and five million (5,000,000) shares of the par value of one-tenth of one cent ($.001) each shall be Preferred Stock (the "Preferred Stock"). The number of authorized shares of Common Stock or Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the then outstanding shares of Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such Preferred Stock holders is required pursuant to the provisions established by the Board of Directors of this Corporation (the "Board of Directors") in the resolution or resolutions providing for the issue of such Preferred Stock, and if such holders of such Preferred Stock are so entitled to vote thereon, then, except as may otherwise be set forth in this Restated Certificate of Incorporation, the only stockholder approval required shall be the affirmative vote of a majority of the combined voting power of the Common Stock and the Preferred Stock so entitled to vote.

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

C. Common Stock.

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

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

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

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

ARTICLE V

The corporation is to have perpetual existence.

ARTICLE VI

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

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

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

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

ARTICLE VII

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

B. Each person who is or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemni-

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

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

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

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

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

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

ARTICLE VIII

The corporation reserves the right to amend or repeal any provision contained in this restated certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon a stockholder herein are granted subject to this reservation.

FIFTH: This Restated Certificate of Incorporation was duly adopted by the Board of Directors of this corporation.

SIXTH: This Restated Certificate of Incorporation was duly adopted by written consent of the stockholders in accordance with Sections 228, 245 and 242 of the General

Corporation Law of the State of Delaware and written notice of such action has been given as provided in Section 228.

IN WITNESS WHEREOF, Incyte Pharmaceuticals, Inc. has caused this certificate to be signed by its President and Secretary this 5th day of November, 1993.

By: /s/ ROY A. WHITFIELD
Roy A. Whitfield
President

Attest:

By: /s/ RANDAL W. SCOTT
Randal W. Scott
Secretary

EXHIBIT 21.1

SUBSIDIARIES OF INCYTE GENOMICS, INC.

Name	Jurisdiction of Organization
Incyte Dormant Co. Limited	England and Wales
Incyte Europe Holdings Limited	England and Wales
Incyte Genomics Limited	England and Wales
Proteome, Inc.	Delaware

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-76236 and 33-93668) pertaining to the 1993 Directors' Stock Option Plan of Incyte Pharmaceuticals, Inc., (Form S-8 Nos. 33-76344, 33-93666, 333-13449, 333-31413, 333-47178, 333-63069 and 333-83291) pertaining to the 1991 Stock Plan of Incyte Pharmaceuticals, Inc., (Form S-8 Nos. 333-31409 and 333-47180) pertaining to the 1997 Employee Stock Purchase Plan of Incyte Pharmaceuticals, Inc., (Form S-8 No. 333-46639) pertaining to Options Assumed By Incyte Pharmaceuticals, Inc. Originally Granted Under The Synteni, Inc. 1996 Equity Incentive Plan, (Form S-8 No. 333-67691) pertaining to Options Issued By Incyte Pharmaceuticals, Inc. to Former Optionholders of Hexagen Limited, (Form S-8 No. 333-54496) pertaining to Options Assumed By Incyte Genomics, Inc. Originally Granted Under The Proteome, Inc. 1998 Employee, Director, And Consultant Stock Option Plan, (Form S-3 No. 333-36318) pertaining to the 5.5% Convertible Subordinated Notes Due 2007 and Shares of Common Stock Issuable Upon Conversion of the Notes, and (Form S-3 No. 333-55826) pertaining to 1,248,522 Shares of Common Stock and the related Prospectuses of our report dated January 23, 2001, with respect to the consolidated financial statements and schedule of Incyte Genomics, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2000.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 28, 2001

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-76236, 33-93668, 33-76344, 33-93666, 333-13449, 333-31413, 333-63069, 333-83291, 333-47178, 333-31409, 333-47180, 333-46639, 333-67691 and 333-54496) and Form S-3 (No. 333-55826) of Incyte Genomics, Inc. of our report dated January 19, 2001, except as to Note 8 which is as of February 5, 2001, relating to the financial statements of diaDexus Inc., which appears in this Form 10-K.

PricewaterhouseCoopers LLP

San Jose, California
March 28, 2001