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

FORM 10-Q

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

For the quarterly period ended June 30, 2001

or

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

For the transition period from _____ to _____

Commission File Number: 0-27488

INCYTE GENOMICS, INC.
(Formerly known as 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
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [_] No

The number of outstanding shares of the registrant's Common Stock, $0.001 par value, was 66,328,478 as of June 30, 2001.

INCYTE GENOMICS, INC.

INDEX

PART I: FINANCIAL INFORMATION		Page
Item 1	Financial Statements - Unaudited	
	Condensed Consolidated Balance Sheets	3
	Condensed Consolidated Statements of Operations	4
	Condensed Consolidated Statements of Comprehensive Income (Loss)	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3	Quantitative and Qualitative Disclosures about Market Risk	30
PART II: OTHER INFORMATION		
Item 1	Legal Proceedings	31
Item 2	Changes in Securities	33
Item 3	Defaults Upon Senior Securities	33
Item 4	Submission of Matters to a Vote of Security Holders	33
Item 5	Other Information	33
Item 6	Exhibits and Reports on Form 8-K	34
	Signatures	35
	Exhibit Index	36

PART I: FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Incyte Genomics, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	June 30, 2001	December 31, 2000*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,395	$ 110,155
Marketable securities - available-for-sale	475,006	472,025
Accounts receivable, net	31,581	35,022
Prepaid expenses and other current assets	21,488	30,693
Total current assets	592,470	647,895
Property and equipment, net	92,163	98,948
Long-term investments	66,425	40,003
Goodwill and other intangible assets, net	76,961	82,944
Deposits and other assets	24,049	17,030
Total assets	$ 852,068	$ 886,820
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,428	$ 17,497
Accrued compensation	16,544	13,023
Accrued and other current liabilities	23,598	23,036
Deferred revenue	19,737	22,756
Total current liabilities	68,307	76,312
Convertible subordinated notes	179,469	187,814
Total liabilities	247,776	264,126
Stockholders' equity:		
Common stock	66	66
Additional paid-in capital	695,918	689,392
Deferred compensation	(2,026)	(2,773)
Accumulated other comprehensive income	15,441	20,913
Accumulated deficit	(105,107)	(84,904)
Total stockholders' equity	604,292	622,694
Total liabilities and stockholders' equity	$ 852,068	$ 886,820

* The condensed consolidated balance sheet at December 31, 2000 has been derived from the audited financial statements at that date.

See accompanying notes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Revenues	$ 56,051	$ 46,015	$ 107,172	$ 86,769
Costs and expenses:				
Research and development	55,155	45,407	111,114	86,741
Selling, general and administrative	18,591	15,000	35,152	29,821
Total costs and expenses	73,746	60,407	146,266	116,562
Loss from operations	(17,695)	(14,392)	(39,094)	(29,793)
Interest and other income, net	8,723	10,813	18,637	21,217
Interest expense	(2,535)	(3,011)	(5,145)	(4,908)
Gain on derivative financial instruments	1,841	-	1,214	-
Loss From joint venture	-	-	-	(1,283)
Loss before income taxes, extraordinary item and accounting change	(9,666)	(6,590)	(24,388)	(14,767)
Provision for income taxes	225	-	480	-
Loss before extraordinary item and accounting change	(9,891)	(6,590)	(24,868)	(14,767)
Extraordinary gain, net of taxes	-	-	2,386	-
Cumulative effect of accounting change	-	-	2,279	-
Net loss	$ (9,891)	$ (6,590)	$ (20,203)	$ (14,767)
Per share data:				
Loss before extraordinary item and accounting change	$ (0.15)	$ (0.10)	$ (0.38)	$ (0.24)
Extraordinary gain, net of taxes	-	-	$ 0.04	-
Cumulative effect of accounting change	-	-	$ 0.03	-
Basic and diluted net loss per share	$ (0.15)	$ (0.10)	$ (0.31)	$ (0.24)
Shares used in computing basic and diluted net loss per share	66,076	63,798	65,911	62,206

See accompanying notes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net loss	$ (9,891)	$ (6,590)	$ (20,203)	$ (14,767)
Other comprehensive income (loss), net of taxes:				
Unrealized gains (losses) on marketable securities	(1,940)	822	(5,459)	23,652
Foreign currency translation adjustments	(25)	(119)	(13)	(117)
Other comprehensive income (loss)	(1,965)	703	(5,472)	23,535
Comprehensive income (loss)	$ (11,856)	$ (5,887)	$ (25,675)	$ 8,768

See accompanying notes

Incyte Genomics, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended June 30,	
	2001	2000
Cash flows from operating activities:		
Net loss	$ (20,203)	$ (14,767)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,195	16,529
Extraordinary item, debt extinguishment	(2,386)	-
Cumulative effect of accounting change	(2,279)	-
Gain on derivative financial instruments, net	(1,214)	-
Gain on sale of long-term investments	(2,184)	(5,417)
Impairment of long-term investments	3,765	-
Debt instruments and equity received in exchange for goods or services provided	(8,100)	(6,615)
Losses from joint venture	-	1,283
Changes in certain assets and liabilities:		
Accounts receivable	3,441	11,876
Prepaid expenses and other assets	(950)	(2,138)
Accounts payable	(9,069)	7,046
Accrued and other current liabilities	4,222	8,190
Deferred revenue	(3,019)	4,925
Net cash provided by (used in) operating activities	(12,781)	20,912
Cash flows from investing activities:		
Purchase of long-term investments	(28,019)	(250)
Proceeds from the sale of long-term investments	3,482	7,917
Capital expenditures	(8,999)	(33,488)
Purchases of marketable securities	(581,159)	(299,747)
Sales and maturities of marketable securities	580,846	91,561
Net cash used in investing activities	(33,849)	(234,007)
Cash flows from financing activities:		
Proceeds from exercise of employee stock options	6,526	24,407
Proceeds from issuance of common stock	-	398,290
Proceeds from the issuance of Convertible Subordinated Notes, net	-	196,800
Repurchase of Convertible Subordinated Notes	(5,643)	-
Repayment of receivable from stockholder	-	20
Principal payments on capital lease obligations and note payable	-	(411)
Net cash provided by financing activities	883	619,106
Effect of exchange rate on cash and cash equivalents	(13)	(118)
Net increase (decrease) in cash and cash equivalents	(45,760)	405,893
Cash and cash equivalents at beginning of period	110,155	32,220
Cash and cash equivalents at end of period	$ 64,395	$ 438,113

See accompanying notes

INCYTE GENOMICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2001
(Unaudited)

1. Organization and business

Incyte Genomics, Inc. (the "Company") was incorporated in Delaware in April 1991 under the name Incyte Pharmaceuticals, Inc. In June 2000, the Company's stockholders approved an amendment to the Company's Certificate of Incorporation to change the Company's name to Incyte Genomics, Inc. The Company designs, develops, and markets genomic information including database products, microarray-based gene expression services, 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 used by pharmaceutical and biotechnology companies and academic researchers to understand disease and to discover and develop drugs and diagnostic products. The Company is also engaged in its own internal disease pathway and therapeutic drug discovery programs.

2. Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The condensed consolidated balance sheet as of June 30, 2001, condensed consolidated statements of operations for the three and six months ended June 30, 2001 and 2000, condensed consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2001 and 2000 and the condensed consolidated statements of cash flows for the six months ended June 30, 2001 and 2000 are unaudited, but include all adjustments (consisting of normal recurring adjustments) which the Company considers necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented. The balance sheet at December 31, 2000 has been derived from audited financial statements.

Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information and footnote information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. Certain amounts reported in the previous year have been reclassified to conform to 2001 financial statement presentation.

Results for any interim period are not necessarily indicative of results for any future interim period or for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

3. Property and equipment

Property and equipment consisted of:

	June 30, 2001	December 31, 2000
Office equipment	$ 5,470	$ 5,308
Laboratory equipment	33,267	32,286
Computer equipment	99,101	93,136
Leasehold improvements	50,598	48,924
	188,436	179,654
Less accumulated depreciation and amortization	(96,273)	(80,706)
	$ 92,163	$ 98,948

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.

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 in fiscal 2000.

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 was reported as an extraordinary gain in fiscal 2001.

5. 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. Revenues from licenses to the Company's intellectual property are recognized when earned under the terms of the related agreements. 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.

6. Loss per share

The following is a reconciliation of the numerators and denominators of the basic and diluted net loss per share computations for the periods presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Numerator:				
Net loss	$(9,891)	$(6,590)	$(20,203)	$(14,767)
Denominator:				
Denominator for basic net loss Per share - weighted-average shares	66,076	63,798	65,911	62,206

Basic and diluted net loss per share	$ (0.15)	$ (0.10)	$ (0.31)	$ (0.24)

Options to purchase 8,115,142 and 8,395,320 shares of common stock were outstanding at June 30, 2001 and 2000, respectively, and notes convertible into 2,625,353 shares of common stock were outstanding at June 30, 2001, but were not included in the computation of diluted net loss per share, as their effect was antidilutive.

7. Business Combinations

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, 3, 3 and 5 years, respectively.

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

The table below presents the pro forma results of operations and earnings per share for Proteome and the Company for the three and six months ended June 30, 2000 assuming that the transaction was completed on January 1, 2000 (in thousands except per share data).

	Three Months Ended	Six Months Ended
Pro forma revenues	$ 46,815	$ 88,235
Pro forma net loss	$(10,633)	$(22,078)
Pro forma basic and diluted net loss per share	$ (0.16)	$ (0.35)
Pro forma shares for basic and diluted net loss per share	65,047	63,455

8. 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 from the date of this financing.

diaDexus purchased $0.1 million of contract sequencing, microarray and software services from the Company in the three and six months ended June 30, 2001, and $0.7 million and $1.3 million in the corresponding periods in 2000.

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 three and six months ended June 30, 2001, the Company recorded revenue from customers throughout the United States and in Asia, Austria, Belgium, Canada, France, Germany, Israel, Netherlands, Switzerland, and the United Kingdom. Export revenue for the three and six months ended June 30, 2001 were $13,516,000 and $22,045,000, respectively and $11,594,000 and $23,438,000 for the three and six months ended June 30, 2000, respectively.

10. 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. The Company adopted SFAS 133 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. Derivatives that are not designated as hedges must be adjusted to fair value through income. The Company adopted SFAS 133 on January 1, 2001 and recorded a $2.3 million gain, net of income tax expense, relating to the valuation of warrants held in other companies, which is recorded in the consolidated statements of operations as a cumulative effect of accounting change. The Company also recorded a loss of approximately $0.6 million related to the decrease during the first quarter in value of the same instruments subject to SFAS 133, and a gain of $1.8 million related to the increase in value of the same instruments in the second quarter of 2001.

In July 2001, the FASB issued Statement No. 141, Business Combinations ("SFAS 141") and Statement No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 prohibits the use of the pooling-of-interest method for business combinations initiated after June 30, 2001 and also applies to all business combinations accounted for by the purchase method that are completed after June 30, 2001. There are also transition provisions that apply to business combinations completed before July 1, 2001 that were accounted for by the purchase method. SFAS 142 is effective for fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized. The Company is currently evaluating the provisions of SFAS 141 and SFAS 142 and will adopt these statements during the first quarter of fiscal 2002.

11. 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, and in addition, seeks damages, costs, attorneys' fees and interest. Affymetrix also requests triple damages based on the allegation of willful infringement. In January, May and June 2001, the court issued a ruling describing how the claims in the '934, '305 and '992 patents should be interpreted.

Following issuance of the Court's January 2001 claim construction ruling, Incyte filed a motion for partial summary judgment that the Company's cDNA arrays do not infringe any claim of the `934 patent or claims 1 and 3 through 13 of the `305 patent. On May 2, 2001, the court granted summary judgement ruling that the Company's accused cDNA arrays do not infringe any claim of the `934 patent claims or claims 1 and 3 through 13 of the `305 patent. On May 8, 2001 the Court concluded that the term "substantially complementary" as used in the `992 patent was indefinite and that claims in the `992 patent that use the term are therefore invalid.

On July 23, 2001, the Company filed the following five partial summary judgment motions: (i) for invalidity of Claims 4 and 5 of the `992 patent for lack of written description and for indefiniteness; (ii) for invalidity of the `305 patent for lack of written description; (iii) for invalidity of claims 1-3 of the `992 patent for indefiniteness; (iv) for non-infringement of the `305 patent; and (v) for non-infringement of the `934 patent. Affymetrix also filed motions for summary judgment as follows: for literal infringement by the Company of claim 15 of the `305 patent; for judgment that claims 4 and 5 of the `992 patent are not invalid for lack of written description; for literal infringement by the Company of claims 4 and 5 of the `992 patent; and for dismissal of the Company's counterclaims against Affymetrix. All of these motions are scheduled for hearing on August 27, 2001.

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.

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 the Company's 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 potential customers' willingness to use the Company's microarray services and gene expression databases, which could adversely affect the Company's revenue.

12. Related party transactions

In March 2001, the Company entered into a LifeSeq Collaboration Agreement, Patent License Agreement, Collaboration and Technology Transfer Agreement and Proteome BioKnowledge Library License Agreement with Genomic Health, Inc. ("Genomic Health"). Randal W. Scott, Chairman of the Board of the Company, is Chairman of the Board, President and Chief Executive Officer of Genomic Health and owns more than 10% of the outstanding capital stock of Genomic Health. Under the agreements, Genomic Health obtained access to the Company's LifeSeq Gold database and BioKnowledge Library and received licenses to certain of the Company's intellectual property. Amounts Genomic Health will pay the Company under these agreements are similar to those paid to the Company under agreements between the Company and unrelated third party customers. The Company received rights to certain intellectual property that Genomic Health may, in the future, develop. At the same time, the Company entered into an agreement to purchase shares of Series C Preferred Stock of Genomic Health for an aggregate purchase price of $5.0 million which, together with shares of Series A Preferred Stock purchased in November 2000 for an aggregate purchase price of $1.0 million, results in the Company owning approximately 10.9% of the outstanding capital stock of Genomic Health. Under certain circumstances and if Genomic Health so elects, the Company has agreed to purchase in a future offering of Genomic Health's capital stock an aggregate of $5.0 million of the shares being sold in that offering.

In May 2001, the Company entered into a Development and License Agreement with Iconix Pharmaceuticals, Inc. ("Iconix"). Jon S. Saxe, member of the Board of Directors of the Company, is Chairman of the Board of Iconix. Under the agreement, Iconix obtained an exclusive license to the Company's LifeExpress Lead database, access to LifeSeq and ZooSeq databases, licenses to certain of the Company's intellectual property and use of the Company's LifeArray expression array technology. Amounts Iconix will pay the Company under these agreements are similar to those paid to the Company under agreements between the Company and unrelated third party customers. The Company will become the exclusive distributor for the database product to be developed by Iconix. At the same time, the Company entered into an agreement to purchase shares of Series E Preferred Stock of Iconix for an aggregate purchase price of $10.0 million. Under certain circumstances, the Company has agreed to purchase in a future offering of Iconix's capital stock up to an aggregate of $5.0 million of the shares being sold in that offering.

PART I: FINANCIAL INFORMATION

ITEM 2

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations as of June 30, 2001 and for the three and six month periods ended June 30, 2001 and 2000 should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto set forth in Item 1 of this report and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

When used in this Report, the words "expects," "anticipates," "estimates," "plans," "believes," "intends," and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods and include statements as to our 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 obtain 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 strategic equity investments in other companies, our strategy with regard to protecting our proprietary technology, our investments in, and the success of, our drug target identification and validation efforts, our investment in new products and services, the success of our custom genomic products and services, our ability to compete and respond to rapid technological change, 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 effectiveness of our target validation and drug discovery efforts, impairment of the value of the securities underlying equity investments that we hold, the impact of alternative technological advances and competition, changes to our business plan, changes in customer demand for our products, our success in negotiating future licensing transactions, the development of new partnering and collaborative relationships, uncertainties associated with changes in patent laws and developments in and expenses related to litigation and interference proceedings; 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.

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.

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

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 and diagnostic products. The Company is also engaged in its own internal disease pathway and therapeutic drug discovery programs.

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, gene product and database related license fees, 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 maintain adequate price levels, 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 has made and intends to continue 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, increasing content in the database products, 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 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.

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.

With respect to the lawsuits filed by the Company, Affymetrix has filed counterclaims against the Company. See Note 11 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

Net loss and diluted net loss per share were $9.9 million and $20.2 million and $0.15 and $0.31 per share for the three and six months ended June 30, 2001, respectively, as compared to $6.6 million and $14.8 million and $0.10 and $0.24 per share in the corresponding periods in 2000. Loss before extraordinary item and cumulative effect of accounting change for the three and six months ended June 30, 2001 was $9.9 million and $24.9 million, or $0.15 and $0.38 per diluted share, respectively. Basic and diluted net loss per share for the three and six months ended June 30, 2001 was impacted by the issuance of 1,248,522 shares of common stock in the Proteome acquisition. Diluted net loss per share for the three and six months ended June 30, 2001 and 2000 was impacted by a private equity offering of 4,000,000 shares of common stock in February 2000.

Revenues for the three and six months ended June 30, 2001 increased to $56.1 million and $107.2 million, respectively, compared to $46.0 million and $86.8 million for the corresponding periods in 2000. Revenues resulted primarily from database access fees, royalty and license fees, 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 the focus of our sales, marketing and business development efforts to expand our customer base and leverage our intellectual property portfolio, revenues from partner programs, as well as increased revenues from custom genomics products and services.

Total costs and expenses for the three and six months ended June 30, 2001 increased to $73.7 million and $146.3 million, respectively, compared to $60.4 million and $116.6 million for the corresponding periods in 2000. Total costs and expenses are expected to increase in the foreseeable future due to our continuing investment in new products and services, including internal disease pathway and

therapeutic drug discovery programs, and additional costs associated with Proteome operations.

Research and development expenses for the three and six months ended June 30, 2001 increased to $55.2 million and $111.1 million, respectively, compared to $45.4 million and $86.7 million for the corresponding periods in 2000. The increase in research and development expenses resulted primarily from an increase in bioinformatics and software development efforts, SNP discovery efforts, licensing royalties, goodwill amortization related to the Proteome acquisition, and an increase in internal disease pathway and therapeutic drug discovery programs. 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 three and six months ended June 30, 2001 increased to $18.6 million and $35.2 million, respectively, compared to $15.0 million and $29.8 million for the corresponding periods in 2000. The increase in selling, general and administrative expenses resulted primarily from the growth in the Company's sales and marketing function and 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 $4.8 million and $6.7 million in the three and six months ended June 30, 2001, respectively, and $1.5 million and $2.9 million in the corresponding periods in 2000. The Company expects that total selling, general and administrative expenses will continue to increase due to the expenses to support the growing complexity of the Company's operations and legal expenses associated with our defense of the Affymetrix patent infringement lawsuits.

Interest and other income, net for the three and six months ended June 30, 2001 decreased to $8.7 million and $18.6 million, respectively, from $10.8 million and $21.2 million for the corresponding periods in 2000. The decrease for the three months ended June 30, 2001 resulted from a lower average level of interest bearing investments, combined with a $3.8 million impairment charge partially offset by a $1.9 million gain from investment activity. For the six months ended June 30, 2001, the decrease resulted from the $3.8 million impairment charge taken in 2001 and a $5.4 million gain in 2000 compared to $2.2 million in 2001 from investment activity, partially offset by a higher average level of interest bearing investments. The activity on discrete investments within the portfolio, in any given quarter, may result in gains or losses on sales or impairment charges.

Interest expense for the three months ended June 30, 2001 decreased to $2.5 million from $3.0 million for the corresponding period in 2000, and for the six months ended June 30, 2001 increased slightly to $5.1 million from $4.9 million for the corresponding period in 2000. The decrease for the three months ended June 30, 2001 as compared to the corresponding period in 2000 is due to a reduction of the interest expense associated with the Company's convertible subordinated notes issued in February 2000, as the face value of the notes outstanding at June 30, 2001 was $177 million compared to $200 million at June 30, 2000. The increase in interest expense for the six months ended June 30, 2001 results from a full six months of interest expense on the convertible subordinated notes in 2001 as compared with interest expense for five months in 2000.

Gain on derivative financial instruments for the three and six months ended June 30, 2001 of $1.8 million and $1.2 million, respectively, represents the change in fair value of certain long-term investments, specifically warrants held in other companies, in accordance with SFAS 133.

Loss from joint venture represents the Company's share of diaDexus' losses from operations. The Company incurred no losses from joint venture for the three and six months ended June 30, 2001 and the three months ended June 30, 2000. The Company incurred $1.3 million in losses from joint venture for the six months ended June 30, 2000. Beginning on April 4, 2000, the Company accounted for its investment in diaDexus under the cost method of accounting as it no longer had significant influence over diaDexus and therefore did not reflect any portion of diaDexus' results of operations in the Company's statement of operations in the three and six months ended June 30, 2001.

Provision for income taxes for the three and six months ended June 30, 2001 of $0.2 million and $0.5 million, respectively, primarily relate to foreign withholding taxes. The Company had no such taxes in the corresponding period in 2000.

Extraordinary gain, net of taxes, for the six months ended June 30, 2001 resulted from the

Company's repurchase of $8.0 million face value of its 5.5% convertible subordinated notes on the open market in the first quarter of 2001. The repurchases resulted in a gain of $2.4 million, net of taxes.

The cumulative effect of an accounting change for the six months ended June 30, 2001 resulted from the adoption of SFAS 133 in the first quarter of 2001. The Company recorded the fair value of its warrants in certain long-term strategic investments at January 1, 2001, resulting in a gain of $2.3 million.

Liquidity and Capital Resources

As of June 30, 2001, the Company had $539.4 million in cash, cash equivalents and marketable securities, compared to $582.2 million as of December 31, 2000. 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 $12.8 million for the six months ended June 30, 2001, as compared to net cash provided by operating activities of $20.9 million for the six months ended June 30, 2000. The decrease was primarily due to the decrease in accounts payable and deferred revenue in 2001 and lower increase in accrued liabilities in 2001 as compared to 2000. These changes were partially offset by the lower increase in prepaid expenses in 2001 as compared to 2000. Net cash generated by operating activities may fluctuate significantly from quarter to quarter due to the timing of large prepayments by database collaborators.

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 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 redeem the notes at any time before February 7, 2003, only if the Company's stock exceeds 150% of the conversion price for 20 trading days in a period of 30 consecutive trading days. On or after February 7, 2003 the Company may redeem the notes at specific prices. Holders may require the Company to repurchase the notes upon a change in control, as defined. As of June 30, 2001, the Company had repurchased $23.0 million face value of the notes on the open market.

In February 2000, in a private placement, the Company issued 4,000,000 shares of its common stock at a price of $105.50 per share, resulting in net proceeds of $403.4 million.

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 six months ended June 30, 2001 were $9.0 million as compared to $33.5 million in the same period in 2000, primarily due to the timing of capital purchases. Purchases of long-term investments in companies with which the Company has research and development agreements were $28.0 million for the six months ended June 30, 2001. 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 $0.9 million for the six months ended June 30, 2001 as compared to $619.1 million for the six months ended June 31, 2000. The Company repurchased $8.0 million face value of its 5.5% convertible subordinated notes on the open market for $5.6 million in 2001. The 2000 activity included the issuance of common stock in a private equity offering resulting in net proceeds of $403.4 million, the net proceeds from the issuance of 5.5% Convertible Subordinated Notes of $196.8 million, and the proceeds from the exercise of employee stock options of $24.4 million.

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, and bioinformatics; 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 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. The Company will evaluate the impact of the euro conversion on its computer and financial systems, business processes, market risk, and price competition. The Company does not expect this conversion to have a material impact on its results of operations, financial position or cash flows.

FACTORS THAT MAY AFFECT RESULTS

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

We had net losses from inception in 1991 through 1996 and again incurred net losses in 1999 through the six months ended June 30, 2001. Because of those losses, we had an accumulated deficit of $105.1 million as of June 30, 2001. We intend to continue to spend significant amounts on new product and technology development, including therapeutic drug discovery and development programs, 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 June 30, 2001, 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 milestone payments and royalties from the sale of products developed under licenses to 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 maintain significant growth in revenue from our custom genomic products and services

The market for custom genomic products and services, and notably custom sequencing and microarray products and services, has become highly competitive. Whether our custom genomic 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, as well as our ability to sell our custom genomic products and services profitably at competitive prices.

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

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

- changes in the demand for our products 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.,
- Invitrogen Corporation,
- Millennium Pharmaceuticals, 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.

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 further 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, in 2001, Celera Genomics Group made 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 U.S. patent number 5,445,934. 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 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, and in addition, seeks damages, costs, attorneys' fees and interest. Affymetrix also requests triple damages based on the allegation of willful infringement. In January, May, and June 2001, the Court issued two claim construction rulings describing how the claims in the '934, '305 and '992 patents should be interpreted.

Following issuance of the court's claim construction ruling, we filed a motion for partial summary judgement that our cDNA arrays do not infringe any claim of the '934 patent or claims 1 and 3 through 13 of the '305 patent. On May 2, 2001, the court granted summary judgement ruling that our accused cDNA arrays do not infringe any claim of the '934 patent claims or claims 1 and 3 through 13 of the '305 patent. On May 8, 2001, the Court concluded that the term "substantially complementary" as used in the '992 patent was indefinite and that claims in the '992 patent that use the term are therefore invalid.

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, and functions, 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. 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 compromise the security measures we use to protect our website, access to our databases, and transmissions to and from our website. If our security measures are breached, our proprietary information or confidential information about our collaborators could be misappropriated. Also, a security breach could result in interruptions in our operations. The security measures we adopt may not be sufficient to prevent breaches, and we may be required to incur significant costs to protect against security breaches or to alleviate problems caused by breaches. Further, if the security of our website, or the website of another company, is breached, our collaborators may no longer use the Internet when the transmission of confidential information is involved. For example, 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 and biotechnology industries;
- changes in the regulatory environment, including governmental pricing controls, affecting health care and health care providers;
- pricing pressures;
- market-driven pressures on companies to consolidate and reduce costs;
- development of internal genomics programs by current and potential pharmaceutical, biotechnology and academic customers; and
- other factors affecting research and development spending.

In addition, increasing mergers and consolidation in the pharmaceutical and biotechnology industries will reduce the number of current and potential customers for us, which may also adversely affect our future revenues.

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 June 30, 2001, we had:

- total consolidated debt of approximately $179.5 million,
- stockholders' equity of approximately $604.3 million, and
- a deficiency of earnings available to cover fixed charges of $20.2 million for the six months ended

June 30, 2001.

A variety of uncertainties and contingencies will affect our future performance, many of which are beyond our control. We may not generate sufficient cash flow in the future to enable us to meet our anticipated fixed charges, including our debt service requirements with respect to our convertible subordinated notes due 2007 that we sold in February 2000. At June 30, 2001, notes with a face value of $177 million were outstanding. The following table shows, as of June 30, 2001, the aggregate amount of our interest payments due in each of the next five years listed:

Year	Aggregate Interest
2001	$9,735,000
2002	9,735,000
2003	9,735,000
2004	9,735,000
2005	9,735,000

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

- increasing our vulnerability to general adverse economic and industry conditions;
- 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.

PART I: FINANCIAL INFORMATION

ITEM 3: 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 June 30, 2001, investments in marketable securities were $537.3 million. Due to the nature of these investments, if market interest rates were to increase immediately and uniformly by 10% from levels as of June 30, 2001, 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, and are primarily in companies with which the Company has research and development, licensing or other collaborative agreements. The Company typically does not attempt to reduce or eliminate its market exposure on these securities. As of June 30, 2001, long-term investments were $66.4 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 June 30, 2001, the impact to the Company's financial position or results of operations would not be material.

PART II: OTHER INFORMATION

Item 1 Legal Proceedings

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, and in addition, seeks damages, costs, attorneys' fees and interest. Affymetrix also requests triple damages based on the allegation of willful infringement. In January, May, and June 2001, the Court issued three claims construction rulings describing how the claims in the `934, `305 and `992 patents should be interpreted.

Following issuance of the Court's January 2001 claim construction ruling, Incyte filed a motion for partial summary judgment that the Company's cDNA arrays do not infringe any claim of the `934 patent or claims 1 and 3 through 13 of the `305 patent. On May 2, 2001, the court granted summary judgement ruling that the Company's accused cDNA arrays do not infringe any claim of the `934 patent claims or claims 1 and 3 through 13 of the `305 patent. On May 8, 2001, the Court concluded that the term "substantially complementary" as used in the `992 patent was indefinite and that claims in the `992 patent that use the term are therefore invalid.

On July 23, 2001, the Company filed the following five partial summary judgment motions: (i) for invalidity of Claims 4 and 5 of the `992 patent for lack of written description and for indefiniteness; (ii) for invalidity of the `305 patent for lack of written description; (iii) for invalidity of claims 1-3 of the `992 patent for indefiniteness; (iv) for non-infringement of the `305; patents and (v) for non-infringement of the `934 patent. Affymetrix also filed motions for summary judgment as follows: for literal infringement by the Company of claim 15 of the `305 patent; for judgment that claims 4 and 5 of the `992 patent are not invalid for lack of written description; for literal infringement by the Company of claims 4 and 5 of the `992 patent; and for dismissal of the Company's counterclaims against Affymetrix. All of these motions are scheduled for hearing on August 27, 2001.

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.

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 2 Changes in Securities

(a) Not applicable

(b) Not applicable

(c) Not applicable

(d) Not applicable

Item 3 Defaults Upon Senior Securities
None

Item 4 Submission of Matters to a Vote of Security Holders

On June 5, 2001, the Company held its Annual Meeting of Stockholders. The following actions were taken at the annual meeting:

1. The following Directors were elected:

	For	Withheld
Roy A. Whitfield	47,282,776	3,304,235
Randal W. Scott	50,245,430	341,581
Barry M. Bloom	50,242,283	344,728
Jeffrey J. Collinson	50,247,903	339,108
Frederick B. Craves	50,248,653	338,358
Jon S. Saxe	50,244,568	342,443
Barry M. Ariko	50,237,138	349,873

2. A proposal to amend the Company's 1991 Stock Plan.

For	Against	Abstain
40,772,693	9,730,596	83,732

3. A proposal to amend the Company's 1997 Employee Stock Purchase Plan.

For	Against	Abstain
49,937,124	573,601	76,286

4. The selection of the Company's independent auditors was ratified.

For	Against	Abstain
50,466,471	101,870	18,670

Item 5 Other Information
None

Item 6 Exhibits and Reports on Form 8-K.

a) Exhibits
See Exhibit Index on Page 36.

b) Reports on Form 8-K
None

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

INCYTE GENOMICS, INC.

Date: August 13, 2001

By: /s/ Roy A. Whitfield

Roy A. Whitfield
Chief Executive Officer
(Duly Authorized Signatory)

Date: August 13, 2001

By: /s/ John M. Vuko

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

INCYTE GENOMICS, INC.

EXHIBIT INDEX

Exhibit Number	Description of Document
10.23	Employment Agreement, dated as of May 2, 2001, by and between Incyte Genomics, Inc. and Roy A. Whitfield.
10.24	Form of Employment Agreement, dated as of May 2, 2001, by and between Incyte Genomics, Inc. and each of E. Lee Bendekgey, Michael D. Lack, James P. Merryweather, James R. Neal, and John M. Vuko.

EXHIBIT 10.23

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") by and between INCYTE GENOMICS, INC., a Delaware corporation (the "Company"), and ROY A. WHITFIELD (the "Executive"), dated as of the 2nd day of May, 2001.

The Board of Directors of the Company (the "Board"), has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change in Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change in Control, and to provide the Executive with compensation and benefits arrangements upon a Change in Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other comparable corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

SECTION 1. DEFINITIONS

(a) "Annual Base Salary" shall mean the highest rate of annual base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the 12-month period immediately preceding the month in which the Change in Control or, in the case of termination other than on account of a Change in Control, the Date of Termination occurs.

(b) "Business Unit" shall mean a Subsidiary or a business division of the Company or Subsidiary in which the Executive is primarily employed.

(c) "Cause" shall mean:

(i) The willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness or impairment), after a written demand for substantial performance is delivered to the Executive by the Board which specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties; or

(ii) The willful engaging by the Executive in illegal conduct, gross misconduct or dishonesty which is materially and demonstrably injurious to the Company; or

(iii) Unauthorized and prejudicial disclosure or misuse of the Company's secret, confidential or proprietary information, knowledge or data relating to the Company or its affiliates.

Notwithstanding the foregoing, "Cause" shall not include any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(d) "Change in Control" shall mean the occurrence of any of the following events:

(i) A change in the composition of the Board of Directors, as a result of which fewer than one-half of the incumbent directors are directors who either:

(A) Had been directors of the Company 24 months prior to such change; or

(B) Were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the directors who had been directors of the Company 24 months prior to such change and who were still in office at the time of the election or nomination;

(ii) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) by the acquisition or aggregation of securities is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company;

(iii) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company;

(iv) There is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company to a Subsidiary or to an entity, the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale; or

(v) The sale, transfer or other disposition of a substantial portion of the stock or assets of the Company or a Business Unit or a similar transaction as the Board, in each case, in its sole discretion, may determine to be a Change in Control.

The term "Change in Control" shall not include a transaction, the sole purpose of which is to change the state of the Company's incorporation or the initial public offering of the stock of a Business Unit.

(e) "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness or impairment which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(f) "Employment Agreements" shall mean this Agreement and all other employment agreements with executive officers of the Company similar to this Agreement that are in effect as of the first Change in Control to occur after April 1, 2001.

(g) "Employment Period" shall mean the 24-month period following the occurrence of a Change in Control.

(h) "Good Reason" shall mean:

(i) The assignment to Executive of any duties inconsistent with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect immediately prior to a Change in Control or any other action by the Company that results in a diminishment in such position, authority, duties or responsibilities; or

(ii) (A) Except as required by law, the failure by the Company to continue to provide to Executive benefits substantially equivalent or more beneficial (including in terms of the amount of benefits provided and the level of participation of Executive relative to other participants), in the aggregate, to those enjoyed by Executive under the Company's employee benefit plans (including, without limitation, any pension, deferred compensation, split-dollar life insurance, supplemental retirement, retirement or savings plan(s) or program(s)) and Welfare Benefits in which Executive was eligible to participate immediately prior to the Change in Control; or (B) the taking of any action by the Company that would, directly or indirectly, materially reduce or deprive Executive of any other benefit, perquisite or privilege enjoyed by Executive immediately prior to the Change in Control, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Executive; or

(iii) The Company's requiring the Executive to be based at any office or location more than 35 miles from the office or location where the Executive is based immediately prior to the Change in Control; or

(iv) Any reduction in the Executive's Base Salary or Target Bonus opportunity; or

(v) A material breach by the Company of this Agreement.

(i) "Limitation Amount" shall mean the sum of Payments that constitute nondeductible "excess parachute payments" under section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), assuming such Payments constitute the only payments made on account of a Change in Control, that result in a deemed Federal income tax cost to the Company, calculated as set forth in the succeeding sentences, of $10,000,000. The Limitation Amount is based on the estimated Federal income tax cost to the Company resulting from the nondeductibility of such excess parachute payments, which tax cost shall not exceed $10,000,000. The initial Limitation Amount is $28,571,428.57, based on the Federal corporate income tax rate of 35% for tax years ending in 2001. The Limitation Amount shall be adjusted if, and when, the Federal corporate income tax rate changes to such amount as shall equal the quotient obtained by dividing $10,000,000 by such changed Federal corporate income tax rate; provided, however, that the Limitation Amount shall not be so adjusted after the first Change in Control to occur after April 1, 2001.

(j) "Payment" shall mean any payment or transfer by the Company under this Agreement to or for the benefit of the Executive (including for this purpose those made pursuant to Section 3(a)(iii)) or, as the case may be, any such payment or transfer made to another executive officer of the Company pursuant to another Employment Agreement. "Payment" shall not include any amount that would be payable to the Executive or another executive officer of the Company that would be payable in the event of a Change in Control regardless of the existence of this Agreement or the relevant Employment Agreement, as the case may be. By way of example, an amount in respect of an option that by its terms, and not pursuant to the terms of this Agreement, accelerates upon a Change in Control shall not be deemed to be a Payment.

(k) "Subsidiary" shall mean any other entity, whether incorporated or unincorporated, in which the Company or any one or more of its Subsidiaries directly owns or controls (i) 50% or more of the securities or other ownership interests, including profits, equity or beneficial interests, or (ii) securities or other interests having by their terms ordinary voting power to elect more than 50% of the board of directors or others performing similar function with respect to such other entity that is not a corporation.

(l) "Target Bonus" shall mean the Executive's target bonus under the Company's annual bonus program, or any comparable bonus under any predecessor or successor plan for the year prior to the year in which the Change in Control occurs.

(m) "Welfare Benefits" shall mean welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, employee life, and group life plans and programs) (i) in effect for the Executive at any time during the 120-day period immediately preceding (A) the Change in Control or (B) the Date of Termination (as defined below) or (ii) which are provided at any time after the Change in Control to peer executives of the Company and its affiliated

companies, whichever of (i)(A), (i)(B) or (ii) provides the most favorable benefit to the Executive, as determined separately for each such benefit.

SECTION 2. TERMINATION OF EMPLOYMENT DURING THE EMPLOYMENT PERIOD.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period, it may give to the Executive written notice in accordance with Section 9(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties.

(b) Cause. The Company may terminate the Executive's employment for Cause during the Employment Period.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason during the Employment Period. For purposes of this Section 2(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive. The termination of the Executive's employment with the Company prior to, but in anticipation of or in connection with, a Change in Control shall be deemed to be a termination by the Executive for Good Reason during the Employment Period if the Board, in its sole discretion, shall so determine. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the first 12 months of the Employment Period shall be deemed to be a termination for Good Reason for all purposes of this Agreement. (d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason during the Employment Period, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 9(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason during the Employment Period, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the

Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination, and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

SECTION 3. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

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

(i) the Company shall pay to the Executive the aggregate of the following amounts:

(A) the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Target Bonus and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

(B) the amount equal to the product of (1) three and (2) the sum of (x) the Executive's Annual Base Salary and (y) the Target Bonus or, if greater, the bonus pursuant to the Company's management bonus plan in the most recently completed fiscal year.

The payments described in this Section 3(a)(i) shall be paid to the Executive in a lump sum in cash within 30 days after the Date of Termination unless the Executive elected to receive such payments in equal installments in accordance with the Company's usual payroll practices over the 36-month period following the Date of Termination. Such election may be made at any time prior to the Employment Period and may be amended or revoked at the sole discretion of the Executive prior to the date of the Change in Control.

(ii) For 36 months after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue Welfare Benefits to the Executive and/or the Executive's family; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under an other employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until 36 months after the Date of Termination and to have retired on the last day of such period;

until 36 months after the Date of Termination and to have retired on the last day of such period;

(iii) All options and stock acquired under the 1991 Stock Plan of Incyte Genomics, Inc. or any other stock-based incentive plan of the Company which have not vested in accordance with the terms and conditions of the grant, award or purchase, shall become 100% vested and shall be exercisable for 12 months from the Date of Termination;

(iv) The Company shall, at its sole expense as incurred, provide the Executive with outplacement services for a period of 12 months following the Date of Termination, the scope and provider of which shall be selected by the Executive in his sole discretion;

(v) The Company shall, at its sole expense as incurred, provide the Executive with an office, secretarial and other assistance, and use of Company telecommunications and computer services for a period of 36 months following the Date of Termination; and

(vi) To the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) Termination for Cause. If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (x) the Executive's Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. In such case, all amounts due and owing to the Executive pursuant to this Subsection (b) shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

(c) Voluntary Termination. If the Executive voluntarily terminates employment during the Employment Period other than for Good Reason, this Agreement shall terminate without further obligations to the Executive other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all amounts due and owing to the Executive pursuant to this Subsection (c) shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

(d) Death or Disability. If the Executive's employment is terminated during the Employment Period due to the death or Disability of the Executive, this Agreement shall terminate without further obligations to the Executive other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all amounts due and owing to the Executive or the Executive's estate, as the case may be, pursuant to this Subsection (c) shall be paid to the Executive or the Executive's estate in a lump sum in cash within 30 days of the Date of Termination.

SECTION 4. SECTION 280G

(a) Basic Rule. Notwithstanding anything in this Agreement to the contrary, in the event that the independent auditors most recently selected by the Board (the "Auditors") determine that any Payments would constitute "excess parachute payments" within the meaning of section 280G of the Code that in the aggregate exceed the Limitation Amount, then the Payments made pursuant to this Agreement shall be reduced (but not below zero) to the Reduced Amount. For purposes of this Section 4, the "Reduced Amount" shall be the amount, expressed as a present value, that maximizes the aggregate present value of the Payments to the Executive without causing the sum of the Payments made hereunder and under all Employment Agreements to exceed the Limitation Amount. The Payments for the Executive under this Agreement and for each executive officer under the other Employment Agreements, as so reduced, shall be determined on a pro rata basis based on the total Payments payable pursuant to the Employment Agreements, calculated as of the date of the first Change in Control to occur after April 1, 2001.

(b) Reduction of Payments. If the Auditors determine that any Payments made pursuant to this Agreement would exceed the Limitation Amount because of section 280G of the Code, which calculation shall occur at the time of the Change in Control, then the Company shall promptly give the Executive notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the Executive may then elect, in the Executive's sole discretion, which and how much of such Payments shall be eliminated or reduced (as long as after such election the aggregate present value of such Payments, as so eliminated or reduced, equals the Reduced Amount) and shall advise the Company in writing of the Executive's election 0within 10 days of receipt of notice. If no such election is made by the Executive within such 10-day period, then the Company may decide which and how much of such Payments shall be eliminated or reduced (as long as after such decision the aggregate present value of such Payments, as so eliminated or reduced, equals the Reduced Amount) and shall notify the Executive promptly of such decision. For purposes of this Section 4, present value shall be determined in accordance with section 280G(d)(4) of the Code. All determinations made by the Auditors under this Section 4 shall be binding upon the Company and the Executive and shall be made within 60 days of the date when a Payment becomes payable or transferable. As promptly as practicable following such determination and the elections hereunder, the Company shall pay or transfer to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement and shall promptly pay or transfer to or for the benefit of the Executive in the future such amounts as become due to the Executive under this Agreement.

(c) Overpayments and Underpayments. As a result of uncertainty in the application of section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that Payments will have been made by the Company pursuant to this Agreement that should not have been made (an "Overpayment") or that additional Payments that will not have been made by the Company pursuant to this Agreement could have been made (an "Underpayment"), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Executive that the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the Executive which he or she shall repay to the

Company, together with interest at the applicable federal rate provided in section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Executive to the Company if and to the extent that such payment would not reduce the Company's Federal income tax liability under section 280G of the Code. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the Executive, together with interest at the applicable federal rate provided in section 7872(f)(2) of the Code.

(d) Waiver of Limitation. At any time, and in its sole discretion, the Company's Compensation Committee of the Board of Directors may elect to waive, in whole or in part, the reduction of a Payment to be made pursuant to this Agreement, notwithstanding the determination that such Payment will nondeductible by the Company for federal income tax purposes because of section 280G of the Code, or that it exceeds the Limitation Amount.

(e) Related Corporations. For purposes of this Section 4, the term "Company" shall include affiliated corporations to the extent determined by the Auditors in accordance with section 280G(d)(5) of the Code.

SECTION 5. NON-EXCLUSIVITY OF RIGHTS.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor, subject to Section 9(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

SECTION 6. FULL SETTLEMENT.

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in section 7872(f)(2)(A) of the Code.

SECTION 7. CONFIDENTIAL INFORMATION.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 7 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

SECTION 8. SUCCESSORS.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company or the relevant Business Unit to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company or such Business Unit would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

SECTION 9. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

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

If to the Executive:
at the Executive's current address as shown on the records of the Company.

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

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

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 2(c) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, prior to the Change in Control, the Executive's employment and/or this Agreement may be terminated by either the Executive or the Company at any time, in which case the Executive shall have no further rights under this Agreement. From and after the closing of a Change in Control transaction, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

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

EXECUTIVE

/s/ Roy A. Whitfield

Roy A. Whitfield

COMPANY

By /s/ E. Lee Bendekgey

E. Lee Bendekgey
Executive Vice President
and General Counsel

By /s/ John M. Vuko

John M. Vuko
Executive Vice President
and Chief Financial Officer

EXHIBIT 10.24

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") by and between INCYTE GENOMICS, INC., a Delaware corporation (the "Company"), and [the individuals listed on Schedule A] (the "Executive"), dated as of the 2nd day of May, 2001.

The Board of Directors of the Company (the "Board"), has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change in Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change in Control, and to provide the Executive with compensation and benefits arrangements upon a Change in Control and an event of Good Reason which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other comparable corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

SECTION 1. DEFINITIONS

(a) "Annual Base Salary" shall mean the highest rate of annual base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the 12-month period immediately preceding the month in which the Change in Control or, in the case of termination other than on account of a Change in Control, the Date of Termination occurs.

(b) "Business Unit" shall mean a Subsidiary or a business division of the Company or Subsidiary in which the Executive is primarily employed.

(c) "Cause" shall mean:

(i) The willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness or impairment), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive's duties; or

(ii) The willful engaging by the Executive in illegal conduct, gross misconduct or dishonesty which is materially and demonstrably injurious to the Company; or

(iii) Unauthorized and prejudicial disclosure or misuse of the Company's secret, confidential or proprietary information, knowledge or data relating to the Company or its affiliates.

Notwithstanding the foregoing, "Cause" shall not include any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company to whom the Executive reports or based upon the advice of counsel for the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(d) "Change in Control" shall mean the occurrence of any of the following events:

(i) A change in the composition of the Board of Directors, as a result of which fewer than one-half of the incumbent directors are directors who either:

(A) Had been directors of the Company 24 months prior to such change; or

(B) Were elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the directors who had been directors of the Company 24 months prior to such change and who were still in office at the time of the election or nomination;

(ii) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) by the acquisition or aggregation of securities is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities ordinarily (and apart from rights accruing under special circumstances) having the right to vote at elections of directors (the "Base Capital Stock"); except that any change in the relative beneficial ownership of the Company's securities by any person resulting solely from a reduction in the aggregate number of outstanding shares of Base Capital Stock, and any decrease thereafter in such person's ownership of securities, shall be disregarded until such person increases in any manner, directly or indirectly, such person's beneficial ownership of any securities of the Company;

(iii) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company;

(iv) There is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company to a Subsidiary or to an entity, the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale; or

(v) The sale, transfer or other disposition of a substantial portion of the stock or assets of the Company or a Business Unit or a similar transaction as the Board, in each case, in its sole discretion, may determine to be a Change in Control.

The term "Change in Control" shall not include a transaction, the sole purpose of which is to change the state of the Company's incorporation or the initial public offering of the stock of a Business Unit.

(e) "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness or impairment which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

(f) "Employment Agreements" shall mean this Agreement and all other employment agreements with executive officers of the Company similar to this Agreement that are in effect as of the first Change in Control to occur after April 1, 2001.

(g) "Employment Period" shall mean the 24-month period following the occurrence of a Change in Control.

(h) "Good Reason" shall mean:

(i) The assignment to Executive of any duties inconsistent with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect immediately prior to a Change in Control or any other action by the Company that results in a diminishment in such position, authority, duties or responsibilities; or

(ii) (A) Except as required by law, the failure by the Company to continue to provide to Executive benefits substantially equivalent or more beneficial (including in terms of the amount of benefits provided and the level of participation of Executive relative to other participants), in the aggregate, to those enjoyed by Executive under the Company's employee benefit plans (including, without limitation, any pension, deferred compensation, split-dollar life insurance, supplemental retirement, retirement or savings plan(s) or program(s)) and Welfare Benefits in which Executive was eligible to participate immediately prior to the Change in Control; or (B) the taking of any action by the Company that would, directly or indirectly, materially reduce or deprive Executive of any other benefit, perquisite or privilege enjoyed by Executive immediately prior to the Change in Control, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Executive; or

(iii) The Company's requiring the Executive to be based at any office or location more than 35 miles from the office or location where the Executive is based immediately prior to the Change in Control; or

(iv) Any reduction in the Executive's Base Salary or Target Bonus opportunity; or

(v) A material breach by the Company of this Agreement.

(i) "Limitation Amount" shall mean the sum of Payments that constitute nondeductible "excess parachute payments" under section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), assuming such Payments constitute the only payments made on account of a Change in Control, that result in a deemed Federal income tax cost to the Company, calculated as set forth in the succeeding sentences, of $10,000,000. The Limitation Amount is based on the estimated Federal income tax cost to the Company resulting from the nondeductibility of such excess parachute payments, which tax cost shall not exceed $10,000,000. The initial Limitation Amount is $28,571,428.57, based on the Federal corporate income tax rate of 35% for tax years ending in 2001. The Limitation Amount shall be adjusted if, and when, the Federal corporate income tax rate changes to such amount as shall equal the quotient obtained by dividing $10,000,000 by such changed Federal corporate income tax rate; provided, however, that the Limitation Amount shall not be so adjusted after the first Change in Control to occur after April 1, 2001.

(j) "Payment" shall mean any payment or transfer by the Company under this Agreement to or for the benefit of the Executive (including for this purpose those made pursuant to Section 3(a)(iii)) or, as the case may be, any such payment or transfer made to another executive officer of the Company pursuant to another Employment Agreement. "Payment" shall not include any amount that would be payable to the Executive or another executive officer of the Company that would be payable in the event of a Change in Control regardless of the existence of this Agreement or the relevant Employment Agreement, as the case may be. By way of example, an amount in respect of an option that by its terms, and not pursuant to the terms of this Agreement, accelerates upon a Change in Control shall not be deemed to be a Payment.

(k) "Subsidiary" shall mean any other entity, whether incorporated or unincorporated, in which the Company or any one or more of its Subsidiaries directly owns or controls (i) 50% or more of the securities or other ownership interests, including profits, equity or beneficial interests, or (ii) securities or other interests having by their terms ordinary voting power to elect more than 50% of the board of directors or others performing similar function with respect to such other entity that is not a corporation.

(l) "Target Bonus" shall mean the Executive's target bonus under the Company's annual bonus program, or any comparable bonus under any predecessor or successor plan for the year prior to the year in which the Change in Control occurs.

(m) "Welfare Benefits" shall mean welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, employee life, and group life plans and programs) (i) in effect for the Executive at any time during the 120-day period immediately preceding (A) the Change in Control or (B) the Date of Termination (as defined below) or (ii) which are provided at any time after the Change in Control to peer executives of the Company and its affiliated companies, whichever of (i)(A), (i)(B) or (ii) provides the most favorable benefit to the Executive, as determined separately for each such benefit.

SECTION 2. TERMINATION OF EMPLOYMENT DURING THE EMPLOYMENT PERIOD.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period, it may give to the Executive written notice in accordance with Section 9(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties.

(b) Cause. The Company may terminate the Executive's employment for Cause during the Employment Period.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason during the Employment Period. For purposes of this Section 2(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive. The termination of the Executive's employment with the Company prior to, but in anticipation of or in connection with, a Change in Control shall be deemed to be a termination by the Executive for Good Reason during the Employment Period if the Board, in its sole discretion, shall so determine.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason during the Employment Period, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 9(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason during the Employment Period, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination, and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

SECTION 3. OBLIGATIONS OF THE COMPANY UPON TERMINATION

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

(i) the Company shall pay to the Executive the aggregate of the following amounts:

(A) the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Target Bonus and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

(B) the amount equal to the product of (1) two and (2) the sum of (x) the Executive's Annual Base Salary and (y) the Target Bonus or, if greater, the bonus pursuant to the Company's management bonus plan in the most recently completed fiscal year.

The payments described in this Section 3(a)(i) shall be paid to the Executive in a lump sum in cash within 30 days after the Date of Termination unless the Executive elected to receive such payments in equal installments in accordance with the Company's usual payroll practices over the 24-month period following the Date of Termination. Such election may be made at any time prior to the Employment Period and may be amended or revoked at the sole discretion of the Executive prior to the date of the Change in Control.

(ii) For 24 months after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue Welfare Benefits to the Executive and/or the Executive's family; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under an other employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until 24 months after the Date of Termination and to have retired on the last day of such period;

(iii) All options and stock acquired under the 1991 Stock Plan of Incyte Genomics, Inc. or any other stock-based incentive plan of the Company which have not vested in accordance with the terms and conditions of the grant, award or purchase, shall

become 100% vested and shall be exercisable for 12 months from the Date of Termination;

(iv) The Company shall, at its sole expense as incurred, provide the Executive with outplacement services for a period of 12 months following the Date of Termination, the scope and provider of which shall be selected by the Executive in his sole discretion; and

(v) To the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) Termination for Cause. If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (x) the Executive's Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. In such case, all amounts due and owing to the Executive pursuant to this Subsection (b) shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

(c) Voluntary Termination. If the Executive voluntarily terminates employment during the Employment Period other than for Good Reason, this Agreement shall terminate without further obligations to the Executive other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all amounts due and owing to the Executive pursuant to this Subsection (c) shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

(d) Death or Disability. If the Executive's employment is terminated during the Employment Period due to the death or Disability of the Executive, this Agreement shall terminate without further obligations to the Executive other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all amounts due and owing to the Executive or the Executive's estate, as the case may be, pursuant to this Subsection (c) shall be paid to the Executive or the Executive's estate in a lump sum in cash within 30 days of the Date of Termination.

SECTION 4. SECTION 280G

(a) Basic Rule. Notwithstanding anything in this Agreement to the contrary, in the event that the independent auditors most recently selected by the Board (the "Auditors") determine that any Payments would constitute "excess parachute payments" within the meaning of section 280G of the Code that in the aggregate exceed the Limitation Amount, then the Payments made pursuant to this Agreement shall be reduced (but not below zero) to the Reduced Amount. For purposes of this Section 4, the "Reduced Amount" shall be the amount, expressed as a present value, that maximizes the aggregate present value of the Payments to the Executive without causing the sum of the Payments made hereunder and under all Employment Agreements to exceed the Limitation Amount. The Payments for the Executive under this

Agreement and for each executive officer under the other Employment Agreements, as so reduced, shall be determined on a pro rata basis based on the total Payments payable pursuant to the Employment Agreements, calculated as of the date of the first Change in Control to occur after April 1, 2001.

(b) Reduction of Payments. If the Auditors determine that any Payments made pursuant to this Agreement would exceed the Limitation Amount because of section 280G of the Code, which calculation shall occur at the time of the Change in Control, then the Company shall promptly give the Executive notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the Executive may then elect, in the Executive's sole discretion, which and how much of such Payments shall be eliminated or reduced (as long as after such election the aggregate present value of such Payments, as so eliminated or reduced, equals the Reduced Amount) and shall advise the Company in writing of the Executive's election within 10 days of receipt of notice. If no such election is made by the Executive within such 10-day period, then the Company may decide which and how much of such Payments shall be eliminated or reduced (as long as after such decision the aggregate present value of such Payments, as so eliminated or reduced, equals the Reduced Amount) and shall notify the Executive promptly of such decision. For purposes of this Section 4, present value shall be determined in accordance with section 280G(d)(4) of the Code. All determinations made by the Auditors under this Section 4 shall be binding upon the Company and the Executive and shall be made within 60 days of the date when a Payment becomes payable or transferable. As promptly as practicable following such determination and the elections hereunder, the Company shall pay or transfer to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement and shall promptly pay or transfer to or for the benefit of the Executive in the future such amounts as become due to the Executive under this Agreement.

(c) Overpayments and Underpayments. As a result of uncertainty in the application of section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that Payments will have been made by the Company pursuant to this Agreement that should not have been made (an "Overpayment") or that additional Payments that will not have been made by the Company pursuant to this Agreement could have been made (an "Underpayment"), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Executive that the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the Executive which he or she shall repay to the Company, together with interest at the applicable federal rate provided in section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Executive to the Company if and to the extent that such payment would not reduce the Company's Federal income tax liability under section 280G of the Code. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the Executive, together with interest at the applicable federal rate provided in section 7872(f)(2) of the Code.

(d) Waiver of Limitation. At any time, and in its sole discretion, the Company's Compensation Committee of the Board of Directors may elect to waive, in whole or in part, the reduction of a Payment to be made pursuant to this Agreement, notwithstanding the

determination that such Payment will nondeductible by the Company for federal income tax purposes because of section 280G of the Code, or that it exceeds the Limitation Amount.

(e) Related Corporations. For purposes of this Section 4, the term "Company" shall include affiliated corporations to the extent determined by the Auditors in accordance with section 280G(d)(5) of the Code.

SECTION 5. Non-exclusivity of Rights.

Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor, subject to Section 9(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

SECTION 6. Full Settlement.

The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in section 7872(f)(2)(A) of the Code.

SECTION 7. Confidential Information.

The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by

it. In no event shall an asserted violation of the provisions of this Section 7 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

SECTION 8. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company or the relevant Business Unit to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company or such Business Unit would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

SECTION 9. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

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

If to the Executive:
at the Executive's current address as shown on the records of the Company.

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

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

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 2(c) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, prior to the Change in Control, the Executive's employment and/or this Agreement may be terminated by either the Executive or the Company at any time, in which case the Executive shall have no further rights under this Agreement. From and after the closing of a Change in Control transaction, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

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

EXECUTIVE

/s/ The individual listed on Schedule A

The individual listed on Schedule A

COMPANY

By /s/ Roy A. Whitfield

Roy A. Whitfield
Chief Executive Officer

SCHEDULE A

On May 2, 2001, the Company entered into employment agreements with each of its Executive Vice Presidents listed below:

E. Lee Bendekgey
Michael D. Lack
James P. Merryweather
James R. Neal
John M. Vuko

Except where reference is made to the name of the individual in each agreement, such agreements are identical to this form.