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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2000

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

Commission File Number: 000-31141

DISCOVERY PARTNERS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	**33-0655706**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9640 Towne Centre Drive, San Diego, California	**92121**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (858) 455-8600

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.001 par value

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant, based on the last sale price of the Common Stock on February 28, 2001 as reported by the Nasdaq National Market, was approximately $82,143,738.

As of February 28, 2001 there were 23,981,421 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 17, 2001, to be filed with the Commission pursuant to Regulation 14A, are incorporated by reference into Part III of this report.

Certain exhibits filed with the Company's prior registration statements and Form 8-K are incorporated by reference into Part IV of this Report.

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PART I

This Annual Report on Form 10-K contains forward-looking statements that involve a high degree of risk and uncertainty. Such statements include, but are not limited to, statements containing the words "believes," "anticipates," "expects," "estimates" and words of similar import. The Company's actual results could differ materially from any forward-looking statements, which reflect management's opinions only as of the date of this report, as a result of risks and uncertainties that exist in our operations, development efforts and business environment. The Company undertakes no obligation to revise or publicly release the results of any revisions to these forward-looking statements. Readers should carefully review the "Risk Factors" section below and the risk factors in other documents that the Company files from time to time with the Securities and Exchange Commission, including its Quarterly Reports on Form 10-Q.

We own a registered trademark and service mark in IRORI®. We have filed an application for federal registration and claim rights in HTS-FACTORY™. We also own the following trademarks and servicemarks: Structural Proteomics™, AutoSort™, NanoKan™, ChemRx™, ChemRx AT™ , SIDDCO™ and Directed Sorting™. This Annual Report on Form 10-K also includes trademarks owned by other parties.

Item 1. Business

Overview

Discovery Partners International was founded in 1995 as IRORI, a company that develops and sells instruments and associated consumables to pharmaceutical companies for the generation of large numbers of chemical compounds for drug discovery. In October 1998, we changed our name to Discovery Partners International with the objective to create and commercialize a complete, integrated and highly efficient collection of drug discovery technologies focused from the point just after identification of a drug target through when a drug candidate is ready for clinical trials. Toward this end, in January 1999, we formed ChemRx, a medicinal chemistry department that offers compound libraries and compound optimization services. We were then able to offer both the compound libraries as well as the instrumentation to generate compound libraries. In December 1999, we acquired Discovery Technologies, Ltd. to provide assay development and ultra-high throughput screening services. This addition enabled us to offer the compounds to be screened together with the screening services.

In April 2000, we acquired Axys Advanced Technologies, or AAT, for a total consideration of $50,000 cash, a promissory note for $550,000 and 7,429,641 shares of our Common Stock. This acquisition enables us to offer large compound libraries, and AAT now operates with ChemRx under the name ChemRx Advanced Technologies.

In May 2000, we acquired 75% of the outstanding shares of Structural Proteomics for a total consideration of $1.0 million in cash and 150,000 shares of our Common Stock. This acquisition allows us to use computational software and services to make the drug discovery process more efficient.

In July 2000, we successfully completed our Initial Public Offering, and simultaneously reincorporated in the state of Delaware.

In January 2001, we acquired Systems Integration Drug Discovery Company, or SIDDCO, for a total consideration of approximately $12.2 million in cash. As result of this transaction, we enhanced our capabilities in combinatorial chemistry research and development.

In February 2001, we entered into an agreement to acquire Xenometrix, Inc. for a total consideration of approximately $2.5 million in cash. This acquisition is expected to close in the second quarter of 2001, and will enable us to offer absorption, distribution, metabolism and excretion, or ADME, and toxicology research products and services.

As a result of this growth, we currently offer a broad range of integrated drug discovery products and services from a single provider. Financial information regarding our financial condition and results of operations can be found in a separate section of this Annual Report on Form 10-K, beginning on page F-1.

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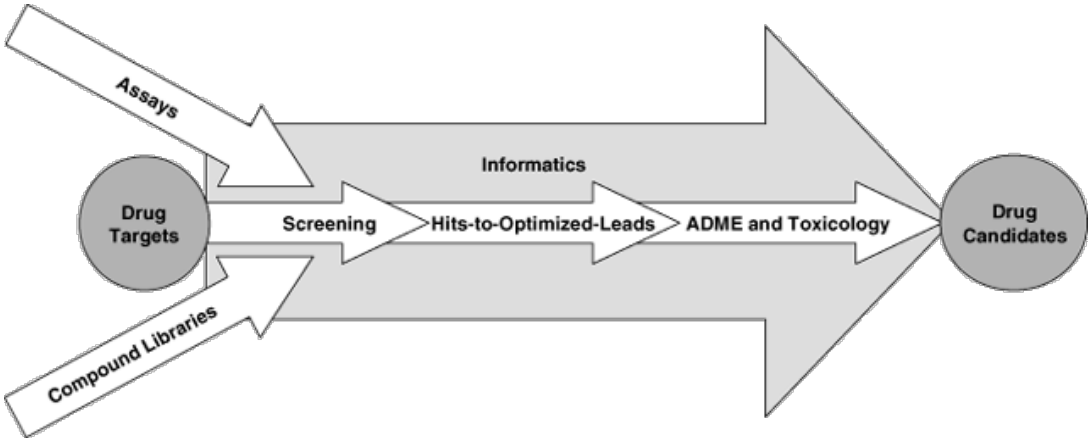
Industry Background

The Genomics Revolution

The drug discovery process is undergoing fundamental changes as a result of advances in genomics and proteomics. Genomics and proteomics, the studies of genes and the proteins they encode, have been the subject of intense scientific and commercial focus. Genomics has led to the identification of large numbers of genes encoding potential drug targets, increasing the demand for drug discovery products and services. Drug targets are biological molecules, such as enzymes, receptors, other proteins and nucleic acids, that may play a role in the onset or progression of a disease. Once a company has identified a potential drug target, it must still devote significant time and resources to validating the target and screening libraries of compounds against the target to discover potential drug candidates, which must be optimized further before commencement of human testing. Historically, pharmaceutical and biotechnology companies have used only approximately 500 identified drug targets in the development of drugs. Industry experts predict that the application of genomics and proteomics will lead to the identification of thousands of new drug targets.

The Drug Discovery Process

Despite numerous advances and breakthrough technologies in genomics and proteomics, the process of discovering drug candidates from drug targets, as illustrated in the following figure and described below, remains slow, expensive and often unsuccessful.



Drug targets. The genomics revolution has identified large numbers of human genes that encode the chemical information for cells to produce the proteins that determine human physiology and disease. Drug discovery organizations are rushing to advance these new drug targets into discovery with varying degrees of target validation, or understanding of their role in disease processes, or understanding of their susceptibility to modulation by chemical compounds. By "modulation" we mean selectively increasing or decreasing the biological activity of a particular drug target.

Assays. Once a researcher has identified a drug target and has validated it as having a role in a disease process, a corresponding set of biological assays, or tests, that relate to the activity of the drug target in the disease process must be developed. These assays are designed to show the effect of chemical compounds on the drug target and/or the disease process. Additionally, assays indicate the relative potency and specificity of interaction between the target and the compounds. The more potent and specific the interaction between the target and the compound, the more likely the compound is to become a drug.

Compound libraries. Typically, medicinal chemists conduct assays in which they screen libraries consisting of thousands of compounds each to find those compounds that are active in altering the behavior of the drug targets. Traditionally, medicinal chemists generated these compounds for testing by synthesizing them one at a time, or painstakingly isolating them from natural sources.

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During the last several years, the pharmaceutical industry has developed modular, building block techniques, known as combinatorial chemistry, to more efficiently and productively generate these compounds.

Screening. Screening is the process of testing compounds in assays to determine their potential therapeutic value. A typical screening campaign at a pharmaceutical company will entail screening hundreds of thousands of compounds from multiple compound libraries. Today's automated high throughput screening, or HTS, systems can test tens of thousands of compounds per day and require only very small amounts of the compound and target material.

Hits-to-optimized-leads. A successful screening process will identify a number of compounds, or hits, that show activity against the drug target. One or more of the hits are then selected for optimization based on their potency and specificity against the drug target. The hits selected for the optimization process are generally referred to as "leads."

Optimizing a lead involves repeatedly producing slight variants of the lead and screening them in assays to discover the relationship between the changes in the molecular structure of compounds and the positive or negative effect on biological activity in the assay. These trends are called "structure-activity relationships," or SARs, and are used to produce the compounds that have the optimal effect on the biological activity in the assay. Traditionally, SARs was painstakingly slow. Within the last several years, some pharmaceutical companies have harnessed combinatorial chemistry to speed this process. Their chemists create combinatorially generated "focused libraries" that are made up of dozens to hundreds of compounds, computationally designed to explore the SARs of leads.

ADME and toxicology. Once a very potent and selective compound with a well understood SAR is selected for further development, researchers undertake the process of establishing its absorption, distribution, metabolism and excretion, or ADME, and toxicology characteristics. Leads are studied in biochemical assays and animal studies to determine, among other things, whether they are likely to be safe in humans and whether they are likely to stay in the body long enough to perform their intended function. Traditionally, these ADME and toxicology studies are performed at the end of the drug discovery process. There is a significant push in the industry, however, to attempt to provide ADME and toxicology information earlier in the process in order to avoid large expenditures on compounds that could ultimately fail due to their poor ADME and toxicology characteristics.

Drug candidates. If the results of the ADME and toxicology studies performed on a lead are favorable, an investigational new drug application, or IND, may be filed with the Food and Drug Administration requesting permission to begin clinical trials of the drug candidate in humans.

Limitations of the Current Industry

To meet growth expectations, pharmaceutical companies are under intense pressure to introduce new drugs, and they have increased

research and development expenses more than five-fold since 1985. Nevertheless, the number of new drugs approved by the Food and Drug Administration per year has increased only modestly over that period, increasing from 22 in 1985 to 35 in 1999 and ranging from 20 to 53 new drugs in any one year during that period. Despite major scientific and technological advances in areas such as genomics, HTS and combinatorial chemistry, the drug discovery process remains lengthy, expensive and often unsuccessful.

We believe that the following remain significant limitations to the current process of drug discovery.

Insufficient validation of targets. Drug discovery organizations are advancing potential new drug targets into discovery with varying degrees of understanding of their role in disease processes and frequently with little understanding of their susceptibility to modulation by compounds. The resources spent on pursuing these potential drug targets could be saved if there were better biological or chemical methods to de-select drug targets exhibiting undesirable characteristics in these areas.

Inefficient production of compound libraries. The dramatic increase in the number of potential drug targets has increased the demand for high quality compounds for screening. Traditional methods and instrumentation produce either discrete compounds in small numbers, or produce large numbers of compounds that are not discrete, but are present as mixtures whose components must be identified later using time-consuming tagging and screening techniques. Further, the processes used to develop compound libraries have been labor intensive and have lacked the efficiencies created by automated instrumentation.

Low quality compound libraries. While combinatorial chemistry has vastly increased the number of compounds available for screening, many of the compounds generated have lacked the qualities necessary to become new drug candidates. Inadequately validated chemistries generate hit compounds that are difficult or impossible to reproduce. In addition, some companies often design

libraries without paying adequate attention to diversity of chemical properties contained in the libraries. These oversights result in libraries that have large numbers of redundant, or unproductively similar, compounds. Further, little attention is devoted to the drug-like nature of the compounds leading to hits that are toxic or have other fundamental flaws. Finally, many libraries contain impure compounds that lead to false positives or the inability to reproduce results.

Insufficient resources for assay development, screening and lead optimization. Many pharmaceutical companies have attempted to reduce costs and focus internal efforts on critical and proprietary areas by outsourcing portions of their research and development functions. Many biotechnology and small pharmaceutical companies to which research and development have been outsourced have biological and genomic expertise but lack the internal capabilities to advance through the drug discovery process. Simultaneously with the increase in outsourcing, the number of drug targets available to drug discovery overall is dramatically increasing.

Inadequate informatics and computational tools. Success of many drug discovery programs is predicated on screening large numbers of compounds, followed by the synthesis and testing of compounds for optimization and for their ADME and toxicology characteristics. This sequential approach is time-consuming and costly. Many of the recent advances in drug discovery have been targeted at streamlining this process and have allowed large numbers of compounds to be generated and tested in higher throughput. However, these advances have been incremental. Pharmaceutical companies can save large expenditures of time and money by using informatics and computational tools to develop increased and earlier knowledge about which targets are likely to be receptive to chemical modulation, the likely interaction of chemicals and biological targets and which compounds are likely to have unacceptable ADME and toxicological characteristics prior to testing.

Lack of an integrated, neutral drug discovery solution. Many of the companies that provide drug discovery services to the pharmaceutical and biotechnology industries provide limited services. As a result, they are unable to provide the knowledge and efficiencies that can be gained by broad experience in multiple facets of drug discovery. Further, customers must use valuable resources to manage multiple vendors and integrate inconsistent or incompatible products. Drug discovery service providers may also demand royalties in return for their services or compete with their customers by conducting internal, proprietary drug discovery activities.

Our Solution

We bring together a unique combination of drug discovery expertise, technology and services to meet the needs of the pharmaceutical and biotechnology industries. Our customers include most major pharmaceutical companies and numerous biotechnology companies. We believe the broad range of products and services we offer or intend to offer will provide the following benefits:

Target validation. In combination with the Genomics Institute of the Novartis Research Foundation, we are developing methods of validating drug targets that we believe will enable us to identify targets that are important in a disease process and can be modulated by chemical means. We have developed large libraries of highly diverse compounds that are specifically designed to modulate many drug targets. We believe that we will be able to use these libraries to provide early information about whether a drug target is susceptible to chemical modulation and, if so, whether modulation of its activity has an important effect on the disease process or outcome. If these libraries are successful in providing this information early in the drug discovery process, our customers can save large amounts of money and time.

Efficient production of compound libraries through our Directed Sorting products. Our proprietary combinatorial system, referred to as Directed Sorting, combines the advantages of parallel synthesis, *i.e.,* discrete compounds with large amounts of each compound, and split-and-pool synthesis, *i.e.,* very high productivity, in generating compound libraries. In parallel synthesis, chemists perform multiple chemical reactions simultaneously, or “in parallel”. In split-and-pool synthesis, chemists take the product of one set of reactions and repeatedly split them for subsequent sets of reactions. Our proprietary reactors synthesize compounds with high efficiency and speed but keep the compounds discrete in individually tagged reactors, thus avoiding the complexity of mixtures of large numbers of compounds. Our Directed Sorting products have gained widespread acceptance throughout the pharmaceutical industry. In 2000 we sold consumable reactors sufficient to synthesize over one million

compounds.

High quality compound libraries. We invest significant resources developing our compound libraries to save our customers significant time and resources later in the drug discovery process. Our chemistries are repeatable and our compounds rapidly replenishable because we produce detailed synthesis protocols, or recipe books, for each library. We are able to rapidly create focused libraries containing slight variations of hits from our original discovery or targeted libraries to study SARs. We designed our

discovery libraries for maximum diversity using proprietary computer algorithms. Finally, after synthesis, we use multiple analytical methods to ensure a high degree of compound purity. As a consequence, our libraries contain highly diverse, drug-like compounds of high purity.

Broad range of products and services for assay development, chemistry and screening. We currently offer a broad range of drug discovery products and services targeted at areas of significantly expanded demand from pharmaceutical and biotechnology companies — assay development, chemistry and screening. We have performed almost 100 different assays for our customers. We also provide access to more than one million discrete compounds, of which over 600,000 come from many of the world's leading compound suppliers and over 450,000 are internally generated. We are expanding our libraries at a rate of approximately 250,000 compounds per year. Our high throughput screening system, HTS-Factory, is capable of screening more than 100,000 compounds per day for most biochemical assays. In addition, our team of approximately 140 chemists and biologists has worked on numerous hit and lead optimization projects for our customers.

Development of an informatics and computational tools knowledge base. We are developing state-of-the-art computational software tools to generate predictive information in the early stages of drug discovery. We design our tools to correlate information on families of drug targets and compounds with screening data to predict which drug targets are likely to be receptive to chemical modulation and to be the right point of chemical intervention in a disease, and which chemical structures are likely to react favorably with large families of drug targets or produce unacceptable ADME or toxicological results. Initially, we have developed computer algorithms that allow us to design libraries of compounds with maximum diversity, thereby reducing the number of compounds that must be screened. We believe that our computational tools will have the potential to fundamentally alter the drug discovery process, reducing the time and cost involved.

Integrated drug discovery products and services on attractive terms. We offer a broad range of integrated drug discovery products and services on terms and conditions that we believe make our products and services easy to purchase. We believe that our integrated approach provides unique value to our customers. For example, we believe that it is highly important to our screening customers that we provide both assay development services and access to compounds for screening. Generally, we do not request royalties from our customers and do not compete with them. We believe that our fee-for-service terms and focus on our customers' needs rather than our own drug development efforts makes our product and service offerings more attractive to our customers.

Our Strategy

Our objective is to create and commercialize a complete, integrated and highly efficient drug discovery platform optimized to overcome many of the limitations associated with the slow and expensive traditional drug discovery process. To implement our objective, we intend to:

Offer an integrated and complete drug discovery solution from drug target to drug candidate. We intend to offer our customers a complete suite of drug discovery technologies, products and services that address speed and cost considerations in the drug discovery process. We currently offer large ready-made proprietary libraries of well-defined, drug-like compounds and sell Directed Sorting instrument systems to help our customers rapidly build compound libraries, both of which we believe speed the generation of hits and leads. We have expertise in developing assays and offer HTS services. We offer medicinal chemistry lead optimization services and use our proprietary informatics to support all steps of the drug discovery process. We expect to complete the creation of our drug discovery platform by adding products and services both at the early stages of drug discovery in drug target validation and at the later stages, including building our ADME and toxicology capabilities.

Broaden and deepen our technology through internal invention and acquisition. We have assembled our current suite of advanced technologies, products and services through both internal invention and acquisition. We developed our lead optimization capabilities and our Directed Sorting instrument systems and consumables internally. We gained our assay development and screening capabilities, our ability to generate and sell large discovery libraries of compounds and our informatics technology and products through acquisition. We intend to continue to invest in internal research and development and aggressively acquire and integrate cutting edge products and services in order to stay at the forefront of drug discovery technology.

Target the pharmaceutical and biotechnology industries. We will focus on providing drug discovery products and services to the pharmaceutical and biotechnology markets. In a 2000 report, Pharmaceutical Research and Manufacturers of America estimated that the pharmaceutical industry alone would spend more than $25 billion on research and development in 2000, of which more than 30% would be spent on compound synthesis and extraction of compounds from natural products, screening, and

pharmacological and pre-clinical ADME and toxicology. The pharmaceutical and biotechnology industries provided substantially all of our revenues in the year 2000, and we expect a large portion of our revenues to come from those industries for the foreseeable future. We currently have 18 business development and marketing personnel targeting pharmaceutical and biotechnology customers worldwide. Due to the similar nature of pharmaceutical development and agrochemical development, we also sell our products and services to the agrochemical industry and expect to do so in the future. Further, we do not intend to compete with our customers by conducting drug discovery for our own account.

Expand customer relationships through integration of products and services. We will use existing relationships with customers in individual areas of our business to sell products and services in multiple areas of drug discovery. We believe that our customers can best take advantage of the time and cost efficiencies of our products and services in integrated combinations. For example, we believe that our lead optimization group will be in the best position to optimize hits generated using our compound libraries because our group will best understand the underlying synthesis chemistry.

Generate multiple revenue streams. We sell a variety of products and services and have more than 100 customers. Our multiple revenue streams reduce the potential negative consequences to us if any one of our product or service areas ceases to be productive. We expect to continue to sell to our customers primarily for current revenue but when appropriate, we also may accept milestone payments or royalties based on the success of the ultimate pharmaceutical product. We believe that the success of our business is not dependent upon the realization of milestone or royalty payments.

Expand our knowledge base. Because of the large number and diversity of our customers, we generate and are exposed to large amounts of highly useful information about the drug discovery process and about the general interaction between types of chemistries and types of drug targets. Much of this information is not specific to or proprietary to our customers and increases our understanding of the interaction of the drug targets we work on and the chemistries we apply to them as well as of the drug discovery process itself. We believe this information will enable our customers and us to conduct drug discovery work faster, less expensively and with a greater likelihood of success. Our ultimate goal is to use this information to streamline the drug discovery process and to create new revenue opportunities for us.

Products and Services

We sell products and services designed to make the drug discovery process faster, less expensive and more likely to generate a drug candidate. The products and services provided by our four principal product groups, ChemRx Advanced Technologies (which includes the former AAT, and as of January 2001 SIDDCO, functioning as a single product group), Discovery Technologies, IRORI and Structural Proteomics, can be purchased individually or as integrated solutions, depending on our customers' requirements. As described below, we currently offer products and services in many functional disciplines of the drug discovery process. We intend to continue to add to our functional offerings in order to provide a comprehensive and integrated suite of drug discovery services to our pharmaceutical and biotechnology customers.

Assays

Our Discovery Technologies group provides assay development services for pharmaceutical, biotechnology and agrochemical discovery. Our team of scientists is particularly experienced in working with major disease target types such as protein kinases, G-protein-coupled receptors, cellular assays, specific assays in the cancer field and crop protection assays. We are highly experienced with all commonly used detection technologies, including photometric, fluorometric, luminometric, homogeneous time resolved fluorescence, fluorescence polarization and isotopic with flash plate or filtration readouts. Biological systems about which we have particular expertise include enzymes, receptor-ligand interaction, protein-protein interaction, reporter-gene assay in pro- and eukaryotic cells, cellular proliferation, differentiation and physiologic response, and microbial growth. We have performed approximately 94 assay development and screening projects for approximately 23 customers, including Japan Tobacco, Novartis Crop Protection, BioChem Pharma and the World Health Organization.

Compound libraries

Combinatorial chemistry instruments — Directed Sorting technology. Through our IRORI line of products and services, we develop and manufacture proprietary instruments and consumables for compound library synthesis to pharmaceutical and biotechnology organizations. Our instruments are based on a patented core technology referred to as Directed Sorting, which enables our customers to generate large collections of compounds.

- *Directed Sorting* — Our Directed Sorting technology produces discrete compounds in large amounts, synthesized with very high productivity. The pharmaceutical industry has widely adopted our Directed Sorting technology; in 2000 we sold consumable reactors sufficient to synthesize over one million compounds. Directed Sorting combines the key advantages, while avoiding the drawbacks, of the two traditional synthesis techniques — parallel synthesis and split-and-pool synthesis.

- *Parallel synthesis* — Parallel synthesis yields discrete compounds and large amounts of each compound. Virtually all chemists in the industry find this result favorable. However, chemists must perform a large number of reactions to generate large libraries. Automating parallel synthesis helps to eliminate the tedium of the process, but does little to address the limited number of compounds that can be synthesized per unit time and per reaction.

- *Split-and-pool synthesis* — The split-and-pool technique is significantly more productive than parallel synthesis but produces compounds in mixtures whose components must be identified using various tagging and screening techniques. Therefore, this technique has found limited commercial applicability.

In the Directed Sorting process, we synthesize each unique compound in a library in a separate micro-reactor that contains a unique, electronically readable tagging device. A micro-reactor is a semi-porous container that allows the chemical reagents and solvents used in the synthesis process to pass in and out of it without allowing the compound being synthesized inside to escape. In this way, we can process tens, hundreds or even thousands of micro-reactors simultaneously through a synthesis step in the same reaction vessel, which can be a large flask or beaker. At the end of each chemical synthesis step, a computer that reads the electronic tags directs the sorting of the micro- reactors for the next synthesis step. The sharing of reaction vessels by many micro-reactors provides huge productivity gains. For example, using only 30 reactions, Directed Sorting can complete a 1,000 compound library that results from a three-step synthesis procedure using ten reagents in each step. Using parallel synthesis, this same library would require between 1,110 and 3,000 reactions to complete.

Our current products based on the Directed Sorting technology include an ultra-high throughput chemistry system that can generate up to one million discrete compounds per year (the NanoKan System), an automated chemistry system (the AutoSort System) and a manual chemistry system. All of these systems include hardware and software platforms and use disposable microreactors that provide ongoing revenues for every compound that is synthesized using these products. Typical library sizes generated by the manual chemistry system are less than 1,000 compounds, by the AutoSort System are 1,000 to 10,000 compounds and by the NanoKan System are greater than 10,000 compounds. We have over 100 customers using the Directed Sorting technology.

We designed the NanoKan System for customers that need to generate up to one million compounds per year. We have entered into contracts to develop NanoKan Systems for Bristol-Myers Squibb and Aventis, and we delivered the first systems to Aventis and to Bristol-Myers Squibb in the fourth quarter of 2000. Under these agreements, we have retained the rights to use this technology internally and may deliver this product to additional customers at any time after October 6, 2001.

Proprietary Libraries. We offer a broad range of compound libraries for assay screening and rapid hit-to-lead activities. Our customers for compound libraries include Allergan, Daiichi, Warner-Lambert, Procter and Gamble, Aurora, and Asahi.

Discovery Libraries. We generate and sell proprietary discovery libraries, which are collections of diverse, drug-like compounds that are designed using computer programs to systematically explore specified areas of chemical space or types of chemistry. They are used in the initial stages of screening in which very little information is known about which compounds will alter the activity of the drug target in the assay. To date, we have produced over 450,000 diverse compounds comprising over 120 distinct libraries. We are generating new compounds at a rate of approximately 250,000 per year.

Targeted Libraries. We design and sell targeted libraries selected for a specified type of drug target. These libraries are a group of highly related compounds used much like discovery libraries, but they provide a more insightful medicinal chemistry starting point.

Focused Libraries. We are able to rapidly generate focused libraries based on hits from our discovery libraries or targeted libraries because we have previously invested significant resources in the development of each library of compounds. Focused libraries explore subtle changes in the compound structure to quickly elicit SARs and evolve lead compounds. In addition, we develop focused libraries from hits generated by our customers.

Chemistry Protocols. We may sell licenses to the detailed protocols, or chemical recipes, for generating our libraries to customers that purchase those libraries. This enables our customers to replenish compounds and to create additional compounds.

We have created and use a combinatorial chemistry technology platform employing parallel synthesis and our Directed Sorting system. Our approach provides the following advantages:

- *Purity:* Maximum purity is important to minimize false positives during screening. We can deliver compounds that are greater than 90% pure depending on customer specifications. Our quality control measures include high performance liquid chromatography, or HPLC, mass spectroscopy, or MS, nuclear magnetic resonance, or NMR, evaporative light scattering detection, or ELSD and weight percent analysis, coupled with a proprietary high throughput purification process;

- *Diversity:* Each library of approximately 5,000 drug-like compounds is designed to contain a set of highly diverse compounds using our proprietary three-dimensional chemical mapping and differentiation software;

- *Ease of optimization:* The individual chemistries for each library are highly validated and characterized. This allows rapid generation of focused libraries around hits and rapid follow-up and modification by medicinal chemistry programs; and

- *Re-supply and reproducibility:* Our synthesis approaches produce large quantities that allow rapid and cost effective restocking of customers' supplies. Our highly validated chemistries allow us or our customers to re-synthesize larger quantities on demand.

Screening

We offer a wide range of assay development services and ultra-high throughput screening services to customers in the pharmaceutical, biotechnology and agrochemical industries. We have an experienced staff of scientists located at our facility near Basel, Switzerland. For an additional fee, we also offer our customers access to over 600,000 compounds from many of the world's leading compound suppliers as well as a significant collection of internally developed compounds. This unique combination of offerings has achieved rapid market acceptance. We currently have 11 assay development and screening customers including BioChem Pharma, Japan Tobacco, Novartis Crop Protection, and the World Health Organization.

We can perform a wide range of assays in our HTS-Factory, including heterogeneous and homogeneous time-resolved fluorescence assays, isotopic assays, fluorescence polarization assays and enzyme-linked immuno sorbent assays, or ELISA. We are currently developing proprietary technologies for G-protein coupled receptors, or GPCR and protein-protein interaction screening. This broad capability allows us to offer screening services for virtually any type of biological or biochemical target.

Our HTS-Factory is based on a proprietary platform of integrated automation, instrumentation, liquid handling, engineering, robotics, computers and sophisticated data collection software. The HTS-Factory has a screening capacity of more than 100,000 compounds per day for most biochemical assays.

A majority of our screening customers also take advantage of our access to compounds produced by other leading compound library providers. This unique offering allows our customers access to a large and diverse collection of compounds without the need to store and manage the compound collections in their own facilities.

We deliver a list of hits to our screening customers. We also provide hit follow-up and verification services and, in many cases, actual physical samples of the hit compounds. We anticipate that our screening services will lead to additional revenue opportunities based on requests for chemistry-based hit and lead optimization services.

Hits-to-optimized-leads

We offer the following products and services to advance early stage screening hits to become optimized drug leads.

Focused libraries. We design and produce custom, focused libraries based upon hits identified from screening. These hits may be from our compound libraries, the customer's internal compound collection or even from another compound library supplier. Focused libraries consist of combinatorially generated compounds that represent systematic variations of hits. Medicinal chemists use

these focused libraries to begin refining hits to optimize the properties that have an effect on the drug target in the assay. Because we invest significant resources in the development of each of our compound libraries, we are able to generate focused libraries based on hits from our discovery or targeted libraries more rapidly than when we begin from an isolated hit resulting from a customer's compound collection.

We now have approximately 155 scaffolds, the molecular cores around which compound libraries are built, with validated chemistries. All of these offer the potential to become the basis for focused libraries. Our focused library customers include Axys Pharmaceuticals, Kirin, Pharmacia and Roche.

Medicinal chemistry. We also provide a wide range of medicinal chemistry and lead optimization services. In advancing a hit to a drug candidate, we use focused libraries and/or traditional medicinal chemistry methods. This includes the synthesis of compounds that modify the original hit or lead for improved potency, selectivity and other pharmaceutical characteristics. We have an experienced group of synthetic organic chemists and medicinal chemists with expertise in both solid phase chemistry and solution phase chemistry. In some cases we provide medicinal chemistry services in conjunction with our computational drug discovery efforts to design and construct small libraries of compounds to act on specific targets of known structure. Our customers for hit to lead services include AstraZeneca, DGI Biotechnologies, DuPont Pharmaceuticals, Hisamitsu and Signal Pharmaceuticals (acquired by Celgene Corp.)

Drug discovery informatics

Through our majority-owned Structural Proteomics group, we are developing computational tools that we believe will allow us to substantially increase our knowledge, which can be applied in the earlier stages of drug discovery to significantly reduce the time and cost of developing a drug. We currently have computer algorithms that allow us to design libraries of compounds with maximum diversity, thereby reducing the number of compounds which we must screen. When screened against large numbers of potential drug targets, we believe these large and highly diverse libraries will provide significant information about which drug targets are amenable to modulation by chemical means. We have developed a protein (drug target) family analysis tool which we believe will allow us to use screening data to correlate drug target families with the types of compounds which will likely bind to them. Using this tool, we hope to be able to design highly effective targeted libraries for whole drug target families. In addition, we hope to use this tool to efficiently design potent compounds to a hit on a particular drug target and to efficiently search databases of compounds available from other vendors for likely hits. We expect to further use our computational tools and screening data to help predict ADME and toxicological reactions to classes of compounds. This will allow our customers to avoid spending money and time on hits and leads that will ultimately fail due to their ADME and toxicological characteristics.

We initiated development work on our informatics offering in the first half of 2000. We currently have two Small Business Innovation Research, or SBIR, grants to support our work on improving methods for protein family analysis and the use of this information in drug design. We have initiated development work on the predictive ADME and toxicology informatics tools through the announced acquisition of Xenometrix, Inc.

Component Supply

Although most of the raw materials used in the research, development and manufacture of our products and the offering of our services are available from more than one supplier, we depend on sole-source suppliers for the mesh component of our reactors, the radio frequency, or RF, tags used in our commercial products and the two-dimensional bar code tags used in our NanoKan system. These items are obtained from suppliers on standard commercial terms.

We have no long-term supply agreements for these items. To date, we have not experienced difficulty in obtaining necessary raw materials.

Sales and Marketing

Our senior executives coordinate global management of our key customers and manage our general sales and marketing efforts for our drug discovery offerings to major pharmaceutical customers worldwide. We are in the process of integrating our recently acquired businesses to offer multiple coordinated products and services to our customers.

Currently our sales and marketing is staffed as follows:

United States: A total of 14 professionals are engaged in selling and marketing our products. They operate from our headquarters in San Diego as well as our facilities near San Francisco or from their residences in other parts of the country.

Europe: A total of four professionals, operating in Europe, are engaged in selling and marketing our products.

Japan: All of our products are promoted by third party representatives with the assistance of our personnel from the U.S. or Europe. Contracts are negotiated by and placed directly with us and the third party representatives receive a commission.

In addition to direct selling efforts we also use industry trade shows and industry journal advertising for sales and marketing.

Research and Development

Our research and development expenses totaled approximately $5.1 million in 1998, $3.5 million in 1999 and $8.9 million in 2000. None of these expenses was funded by outside parties. We conduct research and development programs in four primary areas as follows:

Core instrumentation technology. These projects include the development of new instrumentation technologies of the type that led to the development of our current IRORI products, including the NanoKan System. Core technology projects have also expanded beyond synthesis technology to include the development of other drug discovery instrumentation. We implement projects on our own behalf and in collaboration with customers to develop specific instruments we identify as product opportunities. In collaborative projects, we seek to retain the intellectual property and commercialization rights.

Drug discovery informatics. We have initiated drug discovery informatics projects that we believe will lead to a host of new products and services. We have begun to develop informatics tools that will aid in the design of new compound libraries that are optimized for potency toward a specific drug target and minimized for interactions with other undesired targets. Additionally, we are developing computational software and algorithms that may provide rapid advances in the areas of high throughput genomic sequencing, high throughput protein structure determination and cell-based and target-based virtual screening.

Chemistry and chemistry process development. Our chemistry and chemistry process development programs are designed to give us a competitive advantage in the number of compound libraries available to us and in the quality and reproducibility of the libraries. We have initiated an effort to expand our combinatorial chemistry programs into the area of natural products chemistry to further increase the drug-like qualities of our compound libraries. We have also launched research and development projects to develop chemistry-based products for target validation.

Assay development and high throughput screening. We are investing in new assay development and HTS technologies that we believe will allow us to broaden our product and service offerings. We are continually expanding our portfolio of assays and believe that current research and development programs will allow us to address virtually every type of homogeneous or heterogeneous drug discovery assay, and a wide range of agrochemical assays. Our HTS-Factory is operational, and we have initiated programs designed to increase both its capabilities and capacity.

Customers

The following commercial customers have purchased one or more of our drug discovery products and services.

Pharmaceutical, Agricultural and Other Companies

3M Company
Abbott
Allergan
American Home Products
Amgen
Ares-Serono
AstraZeneca
Aventis
Bayer
Boehringer Ingelheim
Bristol-Myers Squibb
Daiichi
Dainippon Pharmaceuticals
Dow Agro Sciences
DuPont Pharmaceuticals
Eli Lilly
Glaxo Wellcome
Hisamitsu Pharmaceutical
Hoffmann-LaRoche
Japan Tobacco
Johnson & Johnson
Kirin
L'Oreal
Merck
Merck KgaA
Novartis
Organon (Akzo Nobel)
Monsanto
Parke-Davis (Warner-Lambert)
Pfizer
Pharmacia & Upjohn
Procter & Gamble
Rhone-Poulenc Agrochemicals
Schering Plough
SmithKline Beecham
Synthelabo
Takeda
Wyeth Ayerst Research (AHP)
Zeneca Agrochemicals

Biotechnology Companies

3-Dimensional Pharmaceuticals
Analyticon
Biogen
BioMega
Cephalon
Coelacanth Chemical
CombiChem
Corvas
Cubist
Elitra
Epix Medical
Genentech Maxia
Genetics Institute (AHP)
Genomic Institute of the Novartis Research Foundation
Gilead Sciences
Guilford Pharmaceuticals
Intercardia
IRBM
Isis Pharmaceuticals
Magainin Pharmaceuticals
Maxia
Menarini Ricerche
Metaphore Pharmaceuticals
Mitotix
Molecumetics
NeoKimia
Novalon
Orchid Biocomputers
Protein Design Labs
Signal Pharmaceuticals
Synaptic
Versicor
Vertex

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The following table contains each customer that represented over ten percent of our revenue for the indicated periods. The pro forma percentages for the years ended December 31, 1999 and December 31, 2000 assume that we purchased AAT and a 75% interest in Structural Proteomics as of January 1, 1999 and is based on our historical operating results and those of AAT and Structural Proteomics.

	Years Ended December 31,				
	1998	1999 Actual	1999 Pro Forma	2000 Actual	2000 Pro Forma
Japan Tobacco	—	—	—	14%	12%
Aventis	—	22%	17%	12%	11%
Bristol-Myers Squibb	—	20%	10%	—	11%
Warner-Lambert	—	—	22%	10%	11%
Daiichi	—	—	—	—	11%
SmithKline Beecham	23%	—	—	—	—

For our last three fiscal years, the actual revenues that we derived from all foreign countries taken as a whole were as follows:

- in 1998, $2.6 million, which represented 42% of our total revenues for that year;

- in 1999, $3.4 million, which represented 26% of our total revenues for that year, and
- in 2000, $12.2 million, which represented 34% of our total revenues for that year.

We have entered into the following material customer contracts:

Agreement with Bristol-Myers Squibb Company

On May 22, 1998, we entered into an Agreement with Bristol-Myers Squibb Company pursuant to which we will provide Bristol-Myers Squibb with a NanoKan System and NanoKans, or receptacles, used by the NanoKan System to create compounds.

We delivered the NanoKan System to Bristol-Myers Squibb in the fourth quarter of 2000. Bristol-Myers Squibb agreed to purchase a fixed quantity of NanoKans from us, and, after we have delivered those, to have us supply all of Bristol-Myers Squibb's requirements for NanoKans in the future. The total revenue we will receive from the sale of the NanoKan System is $4.0 million, of which we have received $ 4.0 million. We will sell NanoKans on a per-unit basis, and the minimum fixed quantity of NanoKans that Bristol-Myers Squibb has agreed to purchase will provide us with $.5 million in revenue in total.

We agreed not to supply more than one other NanoKan System to any third party during the period beginning on May 22, 1998 and ending on October 6, 2001. However, we retained title to all software and inventions embodied in the NanoKan System so that we can use this technology internally.

The requirements arrangement described above will continue for an indefinite period, but Bristol-Myers Squibb will have the right to terminate it at any time after October 6, 2007. Upon termination by Bristol-Myers Squibb, the licenses granted to Bristol-Myers Squibb under the agreement will become perpetual.

Agreement with Aventis (formerly Rhone-Poulenc Rorer International, Inc.)

On June 15, 1998, we entered into an Agreement with Aventis pursuant to which we will provide Aventis with a NanoKan System and NanoKans.

We delivered the NanoKan System to Aventis in the fourth quarter of 2000. Aventis agreed to purchase a fixed quantity of NanoKans, and, after we have delivered those to Aventis, to have us supply all of Aventis'

requirements for NanoKans in the future. The total revenue we will receive from the sale of the NanoKan System is $4.0 million, of which we have received $4.0 million. We will sell NanoKans on a per-unit basis, and the minimum fixed quantity of NanoKans that Aventis has agreed to purchase will provide us with $2.0 million in revenue in total, of which we have received $.5 million.

We agreed not to supply more than one other NanoKan System to any third party during the period beginning on May 22, 1998 and ending on October 6, 2001. However, we retained title to all software and inventions embodied in the NanoKan System so that we can use this technology internally.

The requirements arrangement described above will continue for an indefinite period, but Aventis will have the right to terminate it at any time after October 6, 2007. Upon termination by Aventis, the licenses granted to Aventis under the agreement will become perpetual.

Agreement with Warner-Lambert Company

Under this Agreement, which AAT entered into on May 15, 1998, we will synthesize and provide to Warner-Lambert Company a library of compounds. We own all intellectual property rights in the compounds that are delivered, but grant Warner-Lambert a license to use this intellectual property to the extent required to perform its drug discovery research. Warner-Lambert may not provide access to the compounds to any third party that will use the compounds for general screening purposes. We also granted Warner-Lambert a license to some of our software and our know-how and patents relating to the production of the compounds for Warner-Lambert, and to make, use and sell products containing the compounds we deliver.

Warner-Lambert will pay an aggregate price of $20.5 million for the compounds, of which AAT had received $13.7 million prior to our acquisition of AAT and we have separately received $3.6 million. Warner-Lambert will also pay us a royalty of 2.5% of its net sales of drugs embodying licensed technology.

This agreement expires upon the later of May 15, 2001 or our delivery of all of the compounds to be delivered. The intellectual property licenses will survive expiration of the contract. In addition, Warner-Lambert may terminate this agreement at any time if we fail to meet delivery milestones. In this case, Warner-Lambert may keep all compounds that we delivered and it paid for, and the intellectual property licenses we granted with respect to those compounds will survive termination.

Finally, either party may terminate the agreement upon the material, unremedied breach of the other party. If we committed the breach, Warner-Lambert will keep all of the compounds that we delivered and Warner-Lambert paid for. Warner-Lambert will receive exclusive rights to an additional fifty compounds and the intellectual property licenses granted with respect to those compounds will survive termination. If Warner-Lambert committed the breach, Warner-Lambert will return to us the compounds that are the subject of the breach and the licenses granted with respect to those compounds will terminate.

Intellectual Property

To establish and protect our proprietary technologies and products, we rely on a combination of patent, copyright, trademark and trade secrets laws, as well as confidentiality provisions in our contracts.

We have implemented an aggressive patent strategy designed to maximize our intellectual property rights. We are pursuing patent coverage in the United States and those foreign countries that are home to the majority of our anticipated customer base. We currently own seventeen issued patents in the United States. In addition, our patent portfolio includes pending patent applications in the United States and corresponding international and foreign filings in major industrial nations.

United States patents issued from applications filed prior to June 8, 1995 have a term of the longer of 20 years from the earliest priority date or 17 years from issue. Five of our applications were filed prior to June 8, 1995 and four of these applications have issued. United States patents issued from applications filed on or after June 8, 1995 have a term of 20 years from the application filing date or earlier claimed priority. Patents in most other countries have a term of 20 years from the date of filing of the patent application. Our remaining patent

applications, including the applications from which thirteen of our issued patents were derived, were filed after June 8, 1995. Because the time from filing to issuance of patent applications is often several years, this process may result in a shortened period of patent protection, which may adversely affect our ability to exclude competitors from our markets. Our issued United States patents have expiration dates ranging from April 2015 to October 2017. None of our licenses will expire within the next ten years other than the Trega license which will expire in the United States in March of 2005. Our success will depend to a significant degree upon our ability to develop proprietary products and technologies and to obtain patent coverage for the products and technologies. We intend to continue to file patent applications covering any newly-developed products and technologies.

Patents provide some degree of protection for our proprietary technology. However, the pursuit and assertion of patent rights, particularly in areas like pharmaceuticals and biotechnology, involve complex determinations and, therefore, are characterized by some uncertainty. In addition, the laws governing patentability and the scope of patent coverage continue to evolve, particularly in biotechnology, and due to the time between the filing and granting of a patent application, we may be infringing upon the patent rights of a third party without any knowledge of the patent. As a result, patents might not issue from any of our patent applications or from applications licensed to us. The scope of any of our issued patents may not be sufficiently broad to offer meaningful protection. In addition, our issued patents or patents licensed to us may be successfully challenged, invalidated, circumvented or rendered unenforceable so that our patent rights might not create an effective competitive barrier. Moreover, the laws of some foreign countries may not protect our proprietary rights to the same extent as do the laws of the United States. Any patents issued to us or our strategic partners may not provide a legal basis for establishing an exclusive market for our products or provide us with any competitive advantages. In addition, patents issued to us or our strategic partners may not ensure that the patents of others will not have an adverse effect on our ability to do business or to continue to use our technologies freely. In view of these factors, our intellectual property positions bear some degree of uncertainty.

The source code for our proprietary software is protected both as a trade secret and as copyrighted works.

We also rely in part on trade secret protection of our intellectual property. We attempt to protect our trade secrets by entering into confidentiality agreements with third parties, employees and consultants. Our employees also sign agreements requiring that they assign to us their interests in inventions and original expressions and any corresponding patents and copyrights arising from their work for us. However, it is possible that these agreements may be breached, invalidated or rendered unenforceable, and if so, there may not be an adequate corrective remedy available. Despite the measures we have taken to protect our intellectual property, parties to our agreements may breach the confidentiality provisions in our contracts or infringe or misappropriate our patents, copyrights, trademarks, trade secrets and other proprietary rights. In addition, third parties may independently discover or invent competing technologies or reverse engineer our trade secrets or other technology.

Although we are not a party to any legal proceedings, third parties may in the future file claims asserting that our technologies or products infringe on their intellectual property. We cannot predict whether third parties will assert such claims against us or our licensees or against the licensors of technology licensed to us, or whether those claims will harm our business. If we are forced to defend against such claims, whether they are with or without merit, and whether they are resolved in our favor or against us, our licensees or our licensors, we will incur significant expenses and experience diversion of management's attention and resources. As a result of any disputes over intellectual property, we may have to develop at a substantial cost non-infringing technology or enter into licensing agreements. These agreements, if necessary, may be unavailable on terms acceptable to us, or at all, which could seriously harm our business or financial condition.

Assignment Agreement with Ontogen Corporation. On December 17, 1998, we entered into an Assignment Agreement with Ontogen Corporation pursuant to which we acquired all of Ontogen's ownership interest in two U.S. patents entitled "Methods and Apparatus for Synthesizing Labeled Combinatorial Chemistry Libraries." We granted Ontogen a perpetual license to use the technology described in the patents, including the right to use it commercially, but Ontogen may not sublicense the technology. Pursuant to this agreement, we paid Ontogen a total of $1.0 million in two installments.

Non-Exclusive Sublicense Agreement with Trega Biosciences, Inc. On May 1, 1998, we entered into a Non-Exclusive Sublicense Agreement with Trega Biosciences, Inc., pursuant to which we licensed from Trega

certain patents for use in connection with our Kan reactors, which are the containers used in synthesizing labeled combinatorial chemistry libraries. Under this agreement, Trega granted to us the non-exclusive, worldwide right to use, make, import and sell our Kan reactors that are manufactured using technology described by the Trega patents. We paid Trega a total of $250,000 in two installments. We also agreed to pay Trega a percentage of our net sales of our Kan reactors that use the technology described in the licensed patents. To date we have paid Trega a total of $710,000 in royalties.

This agreement expires as to each country in which our Kan reactors are sold on the date that the last licensed patent right with respect to that country expires. In addition, either party may terminate this agreement upon the material, unremedied breach of the other party. If we breach the contract, the licenses granted to us under the agreement will terminate. If Trega breaches the contract, the licenses will survive termination.

License Agreement with Abbott Laboratories. On January 2, 2001 we signed an agreement with Abbott Laboratories that provides us with the exclusive license to Abbott's Micro Arrayed Compound Screening technology (µARCS). We paid Abbott $2 million in prepaid royalties upon signing of the agreement. The Abbott µARCS technology provides ultra high throughput screening of thousands of compounds per microplate-sized card against a very broad range of drug discovery targets, without the use of individual wells and the attendant liquid handling requirements. When fully developed, we believe this technology could enable virtually any laboratory to screen compounds against a wide range of targets faster and less expensively than other available screening methodologies. Discovery Partners will provide the µARCS technology, screening services and libraries of compounds on µARCS sheets to its worldwide customers.

Our obligations to pay royalties to Abbott under the agreement expire when the last patent licensed under the agreement expires or is declared invalid. Upon such expiration, we will maintain an exclusive, irrevocable and perpetual license to the µARCS technology. In addition, either party may terminate this agreement upon the material, unremedied breach or the insolvency of the other party. If we breach the contract, the licenses granted to us under the agreement will terminate. If Abbott breaches the contract, the licenses will survive termination.

Competition

Competition across the spectrum of drug discovery products and services that we offer is fragmented, and we believe that our offering of a broad range of integrated products and services gives us a competitive advantage. However, we face intense competition from a number of companies, including those listed below, in each of the functional areas of drug discovery that we serve.

- *Assay development and screening.* Aurora Biosciences, Cambridge Drug Discovery, Cerep, Evotec Biosciences, Oncogene Sciences, Pharmacopeia, Tripos and Tropix division of PE Biosystems.
- *Combinatorial chemistry instruments.* Argonaut, Bohdan and Mimotopes.
- *Compound libraries and lead optimization.* Albany Molecular Research, ArQule, Array Biopharma, Cambridge Drug Discovery, Oxford Asymmetry, Pharmacopeia and Tripos.
- *Informatics.* MSI division of Pharmacopeia and Oxford Molecular.

Also, in many cases, our pharmaceutical company customers have internal departments which provide products and services similar to ours, so these customers may have limited needs for our products and services. Many of our competitors listed above have greater financial, operational, sales and marketing resources than we have. In addition, these competitors and other companies or research or academic institutions may have developed or could in the future develop new technologies that compete with our products and services or that could render some or all of our products and services obsolete. Any of these or other competitors could also broaden the scope of their drug discovery offerings through acquisition, collaboration or internal development to integrate their offerings and/or compete with us in all phases of drug discovery.

In each of the functional areas listed above that we serve, we believe that our competitors will compete with us on the basis of product and service differentiation, efficiency and cost.

Government Regulation

We are subject to various federal, state and local laws and regulations relating to the protection of the environment. In the course of our business, we handle, store and dispose of chemicals. The laws and regulations applicable to our operations include provisions that regulate the discharge of materials into the environment. Usually these environmental laws and regulations impose "strict liability," rendering a person liable without regard to negligence or fault on the part of such person. Such environmental laws and regulations may expose us to liability for the conduct of, or conditions caused by, others. We have not been required to expend material amounts in connection with our efforts to comply with environmental requirements, and we do not believe that compliance with such requirements will have a material adverse effect upon our capital expenditures, results of operations or competitive position. Because the requirements imposed by these laws and regulations frequently change,

we are unable to predict the cost of compliance with these requirements in the future, or the effect of these laws on our capital expenditures, results of operations or competitive position.

Employees

As of February 28, 2001, we had 235 employees, of which 153 were in research and development (including those funded by collaborative agreements), 18 were in business development, sales and marketing, 32 were in general and administrative, and 32 were in manufacturing. None of our employees is covered by a collective bargaining agreement.

Financial information regarding our financial condition and results of operations can be found in our financial statements and the footnotes thereto, which appear in a separate section of this Annual Report on Form 10-K beginning on page F-1.

Risks Related To Our Business

We recently have acquired several businesses and face risks associated with integrating these businesses and potential future acquisitions.

We recently completed the acquisitions of AAT, Discovery Technologies, 75% of the outstanding stock of Structural Proteomics, and SIDDCO, and are in the process of integrating these businesses. We plan to continue to review potential acquisition candidates in the ordinary course of our business, and our strategy includes building our business through acquisitions. Acquisitions involve numerous risks, including, among others, difficulties and expenses incurred in the consummation of acquisitions and assimilation of the operations, personnel and services or products of the acquired companies, difficulties of operating new businesses, the diversion of management's attention from other business concerns and the potential loss of key employees of the acquired company. For example, distance and cultural differences may make it difficult for us to successfully assimilate the operations of our recently acquired assay development and high throughput screening operations (Discovery Technologies) located in Switzerland with our medicinal chemistry operations located in San Diego. Further, integrating the chemistry operations performed by AAT and SIDDCO with our existing ChemRx chemistry operations will cause some key employees to have overlapping functional roles, which may lead to their departure if they are unable or unwilling to assume new or different roles within our merged organization. In addition, acquired businesses may have management structures incompatible with our own and may experience difficulties in maintaining their existing levels of business after joining us. If we do not successfully integrate and grow the four businesses we recently acquired or any businesses we may acquire in the future, our business will suffer. Additionally, acquisition candidates may not be available in the future or may not be available on terms and conditions acceptable to us. Acquisitions of foreign companies also may involve additional risks of assimilating different business practices, overcoming language and cultural barriers and foreign currency translation. Other than our agreement to acquire Xenometrix, which acquisition we expect to be consummated in the second quarter of 2001, we currently have no agreements or commitments with respect to any acquisition, and we may never successfully complete any additional acquisitions.

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We may not achieve or sustain profitability in the future.

We are at an early stage of executing our business plan. We have incurred operating and net losses since our inception. As of December 31, 2000, we had an accumulated deficit of $31.4 million. For the years ended December 31, 1998, 1999, and 2000, we had net losses of $6.3 million, $3.4 million, and $11.7 million, respectively. We may also in the future incur operating and net losses and negative cash flow from operations, due in part to anticipated increases in expenses for research and product development, acquisitions of complementary businesses and technologies and expansion of our sales and marketing capabilities. We incurred no goodwill charges in the years ended December 31, 1998 and 1999, and we incurred goodwill charges of $3.4 million in the year ended December 31, 2000. Goodwill charges for the Discovery Technologies, AAT and Structural Proteomics acquisitions will be at a straight-line rate of $405,000 per month, or $4.8 million per year, for the ten year period beginning in July 2000. For the SIDDCO acquisition, we expect goodwill charges to be at a straight line rate of approximately $100,000 per month, or $1.2 million per year, for the ten year period beginning in January, 2001. Given our acquisition strategy, we expect significant goodwill charges to affect our net income (loss) for the foreseeable future. We may not be able to achieve or maintain profitability. Moreover, if we do achieve profitability, the level of any profitability cannot be predicted and may vary significantly from quarter to quarter.

We may incur exchange losses when foreign currency used in international transactions is converted into U.S. dollars.

For the year ending December 31, 2000, 8% of our actual revenue was invoiced and our corresponding expenses were incurred in foreign currency, including the British pound, the Swiss franc and the Euro. Currency fluctuations between the U.S. dollar and the currencies in which we do business will cause foreign currency translation gains and losses. We cannot predict the effects of exchange rate fluctuations on our future operating results because of the number of currencies involved, changes in the percentage of our revenue which will be invoiced in foreign currencies, the variability of currency exposure and the potential volatility of currency exchange rates. We do not currently engage in foreign exchange hedging transactions to manage our foreign currency exposure.

If our products and services do not become widely used in the pharmaceutical and biotechnology industries, it is unlikely that we will be profitable.

We have a limited history of offering our products and services, including our NanoKan System, informatics tools and collections of chemical compounds. It is uncertain whether our current customers will continue to use these products and services or whether new customers will use these products and services. In order to be successful, our products and services must meet the requirements of the pharmaceutical and biotechnology industries, and we must convince potential customers to use our products and services instead of competing technologies. Market acceptance will depend on many factors, including our ability to:

- convince potential customers that our technologies are attractive alternatives to other technologies for drug discovery;
- manufacture products and conduct services in sufficient quantities with acceptable quality and at an acceptable cost;
- convince potential customers to purchase drug discovery products and services from us rather than developing them internally; and
- place and service sufficient quantities of our products.

Because of these and other factors, our products and services may not gain market acceptance.

We may fail to expand customer relationships through integration of products and services.

We may not be successful in selling our offerings in combination across the range of drug discovery disciplines we serve because integrated combinations of our products and services may not achieve time and cost efficiencies for our customers. In addition, we may not succeed in further integrating our offerings. We may not be able to use existing relationships with customers in individual areas of our business to sell products and services in multiple areas of drug discovery. If we do not achieve integration of our products and services, we may not be able to take advantage of potential revenue opportunities.

Our success will depend on our ability to manage rapid growth and expansion.

Growth in our operations has placed and, if we grow in the future, will continue to place a significant strain on our operational, human and financial resources. We recently have acquired four new businesses, and we intend to continue to grow our business internally and by acquisition. We have not yet fully expanded our management and infrastructure to accommodate all of our past acquisitions in advance of anticipated growth. Therefore, as we expand our operations we will not necessarily have in place infrastructure and personnel sufficient to accommodate the increased size of our business. Our ability to manage effectively any growth through acquisitions or any internal growth will depend, in large part, on our ability to hire, train and assimilate additional management, professional, scientific and technical personnel and our ability to expand, improve and effectively use our operating, management, marketing and financial systems to accommodate our expanded operations. These tasks are made more difficult as we acquire businesses in geographically disparate locations, such as our recent acquisitions of Discovery Technologies in Switzerland, AAT in the San Francisco area, Structural Proteomics in New Jersey, and SIDDCO in Tucson, Arizona.

Our Directed Sorting products and our large compound libraries have lengthy sales cycles, which could cause our operating results to fluctuate significantly from quarter to quarter.

Sales of our Directed Sorting products and our large compound libraries typically involve significant technical evaluation and commitment of capital by our customers. Accordingly, the sales cycles, or the time from finding a prospective customer through closing the sale, associated with these products, range from six to eighteen months. Sales of these products are subject to a number of significant risks, including customers' budgetary constraints and internal acceptance reviews, that are beyond our control. Due to these lengthy and unpredictable sales cycles, our operating results could fluctuate significantly from quarter to quarter. We expect to continue to experience significant fluctuations in quarterly operating results due to a variety of factors, such as general and industry specific economic conditions, that may affect the research and development expenditures of pharmaceutical and biotechnology companies.

A large portion of our expenses, including expenses for facilities, equipment and personnel, are relatively fixed. Accordingly, if revenues decline or do not grow as anticipated, we might not be able to correspondingly reduce our operating expenses. Failure to achieve anticipated levels of revenues could therefore significantly harm our operating results for a particular fiscal period.

Due to the possibility of fluctuations in our revenues and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance.

We depend on third-party products and services and sole or limited sources of supply to manufacture some components of our Directed Sorting products.

We rely on outside vendors to manufacture components and subassemblies used in our Directed Sorting products. Some of these components and subassemblies are obtained from a single supplier or a limited group of suppliers. We depend on sole-source suppliers for the

mesh component of our reactors, the radio frequency, or RF tags used in our commercial products and the two-dimensional bar code tags used in our NanoKan System. These materials are obtained from suppliers on standard commercial terms, and we do not have long-term supply agreements with any of these suppliers. Our reliance on outside vendors generally, and a sole or limited group of suppliers in particular, involves several risks, including:

- the inability to obtain an adequate supply of required components due to manufacturing capacity constraints, a discontinuance of a product by a third-party manufacturer or other supply constraints;
- reduced control over quality and pricing of components; and
- delays and long lead times in receiving materials from vendors.

We face restrictions on our ability to sell our NanoKan System to additional customers.

We have delivered and installed our NanoKan System for Aventis and Bristol-Myers Squibb. Under agreements with Aventis and Bristol-Myers Squibb, we are prohibited from delivering the NanoKan System to any additional customers until October 6, 2001.

Our customers may restrict our use of scientific information, which could prevent us from using this information for additional revenue.

We plan to generate and use information that is not proprietary to our customers and that we derive from performing drug discovery services for our customers. However, our customers may not allow us to use information such as the general interaction between types of chemistries and types of drug targets that we generate when performing drug discovery services for them. Our current contracts restrict our use of scientific information we generate for our customers, such as the biological activity of chemical compounds with respect to drug targets, and future contracts also may restrict our use of scientific information. To the extent that our use of information is restricted, we may not be able to collect and aggregate scientific data and take advantage of potential revenue opportunities.

Our operations could be interrupted by damage to our facilities.

Our results of operations are dependent upon the continued use of our highly specialized laboratories and equipment. Our operations are primarily concentrated in facilities in San Diego, California, near San Francisco, California, near Basel, Switzerland and in Tucson, Arizona. Natural disasters, such as earthquakes, could damage our laboratories or equipment and these events may materially interrupt our business. We maintain business interruption insurance to cover lost revenues caused by such occurrences. However, this insurance would not compensate us for the loss of opportunity and potential adverse impact on relations with existing customers created by an inability to meet our customers' needs in a timely manner.

Energy shortages may adversely impact operations.

California is currently experiencing shortages of electrical power and other energy sources. This condition has periodically resulted in rolling brownouts, or the temporary and generally unannounced loss of the primary electrical power source. Our laboratory facilities in San Diego and South San Francisco are powered by electricity. Currently, we do not have secondary electrical power sources to mitigate the impacts of temporary or longer-term electrical outages. It is not anticipated that the power shortages will abate soon, and therefore, our operating facilities may experience brown-outs, black-outs, or other consequences of the shortage, and may be subject to usage

restrictions or other energy consumption regulations that could adversely impact or disrupt our research and development, manufacturing and other activities.

Risks Related to Operating in Our Industry

The concentration of the pharmaceutical industry and the current trend toward increasing consolidation could hurt our business prospects.

The market for our products and services is highly concentrated, with approximately 50 large pharmaceutical companies conducting drug discovery research. The continuation of the current trend toward consolidation of the pharmaceutical industry may reduce the number of our potential customers even further. Accordingly, we expect that a relatively small number of customers will account for a substantial portion of our revenues. During the year ended December 31, 2000, net revenue from our three largest customers represented approximately 14%, 12% and 10% of total net revenue, respectively.

Additional risks associated with a highly concentrated customer base include:

- fewer customers for our products and services;
- larger companies may develop in-house technology and expertise rather than using our products and services;

- larger customers may negotiate price discounts or other terms for our products and services that are unfavorable to us; and

- the market for our products and services may become saturated.

For example, because of the heavy concentration of the pharmaceutical industry and the high cost of our NanoKan System, we expect to sell only a small number of NanoKan Systems before we saturate the market for this product. When we are no longer able to sell additional NanoKan Systems, we will be dependent upon the sale of consumables for revenue from this product line. Similarly, there are signs that the market for our AutoSort System is becoming saturated.

Our success will depend on the prospects of the pharmaceutical and biotechnology industries and the extent to which these industries use third-party assistance with one or more aspects of their drug discovery process.

Our revenues depend to a large extent on research and development expenditures by the pharmaceutical, biotechnology and agricultural industries and companies in these industries outsourcing research and development projects. These expenditures are based on a wide variety of factors, including the resources available for purchasing research equipment, the spending priorities among various types of research and policies regarding expenditures during recessionary periods. General economic downturns in our customers' industries or any decrease in research and development expenditures could harm our operations. Any decrease in drug discovery spending by pharmaceutical and biotechnology companies could cause our revenues to decline and adversely impact our profitability.

The drug discovery industry is competitive and subject to technological change, and we may not have the resources necessary to compete successfully.

We compete with companies in the United States and abroad that engage in the development and production of drug discovery products and services. These competitors include companies engaged in the following areas of drug discovery:

- Assay, development and screening, including Aurora Biosciences and Pharmacopeia;

- Combinatorial chemistry instruments, including Argonaut and Bohdan;

- Compound libraries and lead optimization, including Albany Molecular Research and Arqule; and

- Informatics, including the MSI division of Pharmacopeia.

Academic institutions, governmental agencies and other research organizations also conduct research in areas in which we provide services, either on their own or through collaborative efforts. Also, essentially all of our pharmaceutical company customers have internal departments which provide some of the products and services which we sell, so these customers may have limited needs for our products and services. Many of our competitors including Pharmacopeia have access to greater financial, technical, research, marketing, sales, distribution, service and other resources than we do.

Moreover, the pharmaceutical and biotechnology industries are characterized by continuous technological innovation. We anticipate that we will face increased competition in the future as new companies enter the market and our competitors make advanced technologies available. Technological advances or entirely different approaches that we or one or more of our competitors develop may render our products, services and expertise obsolete or uneconomical. For example, advances in informatics and virtual screening may render some of our technologies, such as our large compound libraries, obsolete. Additionally, the existing approaches of our competitors or new approaches or technologies that our competitors develop may be more effective than those we develop. We may not be able to compete successfully with existing or future competitors.

Our success will depend on our ability to attract and retain key executives, and experienced scientists and sales personnel.

Our future success will depend to a significant extent on our ability to attract, retain and motivate highly skilled scientists and sales personnel. In addition, our business would be significantly harmed if we lost the services of Riccardo Pigliucci, our chief executive officer, or David Coffen, our chief scientific officer. Our ability to maintain, expand or renew existing engagements with our customers, enter into new engagements and provide additional services to our existing customers depends, in large part, on our ability to hire and retain scientists with the skills necessary to keep pace with continuing changes in drug discovery technologies and sales personnel who are highly motivated. Additionally, it is difficult for us to find qualified sales personnel in light of the fact that our sales personnel generally hold Ph.D's. Our employees are "at will," which means that they may resign at any time, and we may dismiss them at any time. We believe that there is a shortage of, and significant competition for, scientists with the skills and experience in the sciences necessary to perform the services we offer. We compete with pharmaceutical companies, biotechnology companies, combinatorial chemistry companies, contract research companies and academic institutions for new personnel. In addition, our inability to hire additional qualified personnel may require an increase in the workload for both existing and new personnel. We may not be successful in attracting new scientists or sales personnel or in retaining or motivating our existing personnel.

The intellectual property rights we rely on to protect the technology underlying our products and techniques may not be adequate, which could enable third parties to use our technology or very similar technology and could reduce our ability to compete in the market.

Our success will depend on our ability to obtain, protect and enforce patents on our technology and to protect our trade secrets. We also depend, in part, on patent rights that third parties license to us. Any patents we own or license may not afford meaningful protection for our technology and products. Others may challenge our patents or the patents of our licensors and, as a result, these patents could be narrowed, invalidated or rendered unenforceable. In addition, current and future patent applications on which we depend may not result in the issuance of patents in the United States or foreign countries. Competitors may develop products similar to ours which are not covered by our patents. Further, since there is a substantial backlog of patent applications at the U.S. Patent and Trademark Office, the approval or rejection of our or our competitors' patent applications may take several years.

In addition to patent protection, we also rely on copyright protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our trade secrets and proprietary information, we require our employees, consultants and advisors to execute confidentiality and proprietary information agreements. However, these agreements may not provide us with

adequate protection against improper use or disclosure of confidential information, and there may not be adequate remedies in the event of unauthorized use or disclosure. Furthermore, like many technology companies, we may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities conducted by us. In some situations, our confidentiality and proprietary information agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants or advisors have prior employment or consulting relationships. Although we require our employees and consultants to maintain the confidentiality of all confidential information of previous employers, their prior affiliations may subject us or these individuals to allegations of trade secret misappropriation or other similar claims. Finally, others may independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets. Our failure to protect our proprietary information and techniques may inhibit or limit our ability to exclude certain competitors from the market.

The drug discovery industry has a history of intellectual property litigation and we may be involved in intellectual property lawsuits, which may be expensive.

In order to protect or enforce our patent rights, we may have to initiate legal proceedings against third parties. In addition, others may sue us for infringing their intellectual property rights, or we may find it necessary to initiate a lawsuit seeking a declaration from a court that we are not infringing the proprietary rights of others. The patent positions of pharmaceutical, biotechnology and drug discovery companies are generally uncertain. A number of pharmaceutical companies, biotechnology companies, independent researchers, universities and research institutions may have filed patent applications or may have been granted patents that cover technologies similar to the technologies owned by, or licensed to, us or our collaborators. A number of patents may have been issued or may be issued in the future that could cover certain aspects of our technology and that could prevent us from using technology that we use or expect to use. In addition, we are unable to determine all of the patents or patent applications that may materially affect our ability to make, use or sell any potential products. Legal proceedings relating to intellectual property would be expensive, take significant time and divert management's attention from other business concerns, no matter whether we win or lose. The cost of such litigation could affect our profitability.

Further, an unfavorable judgment in an infringement lawsuit brought against us, in addition to any damages we might have to pay, could require us to stop the infringing activity or obtain a license. Any required license may not be available to us on acceptable terms, or at all. In addition, some licenses may be nonexclusive, and therefore, our competitors may have access to the same technology that is licensed to us. If we fail to obtain a required license or are unable to design around a patent, we may be unable to sell some of our products or services.

We may be subject to liability regarding hazardous materials.

Our products and services as well as our research and development processes involve the controlled use of hazardous materials. For example, we sometimes use acids, bases, oxidants, and flammable materials. Acids include trifluoroacetic acid and hydrochloric acid, bases include sodium hydroxide and triethylamine, oxidants include peracids and potassium permanganate, and flammable solvents include methanol, hexane and tetrahydrofuran. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. We cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident, we could be held liable for any damages that result, and any such liability could exceed our resources and disrupt our business. In addition, we may have to incur significant costs to comply with environmental laws and regulations related to the handling or disposal of such materials or waste products in the future, which would require us to spend substantial amounts of money.

Other Risks and Uncertainties

Our stock price likely will be volatile.

The trading price of our common stock likely will be volatile and could be subject to fluctuations in price in response to various factors, many of which are beyond our control, including:

- actual or anticipated variations in quarterly operating results;

- announcements of technological innovations by us or our competitors;
- new products or services introduced or announced by us or our competitors;
- changes in financial estimates by securities analysts;
- conditions or trends in the pharmaceutical and biotechnology industries;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- economic and political factors; and
- sales of our common stock.

In addition, price and volume fluctuations in the stock market in general, and the Nasdaq National Market and the market for technology companies in particular, have often been unrelated or disproportionate to the operating performance of those companies. Further, the market prices of securities of life sciences companies have been particularly volatile. Conditions or trends in the pharmaceutical and biotechnology industries generally may cause further volatility in the trading price of our common stock, because the market may incorrectly perceive us as a pharmaceutical or biotechnology company. These broad market and industry factors may harm the market price of our common stock, regardless of our operating performance. In the past, plaintiffs have often instituted securities class action litigation following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in potential liabilities, substantial costs and the diversion of management's attention and resources, regardless of whether we win or lose.

Our executive officers, directors and principal stockholders own a large percentage of our voting stock and could delay or prevent a change in our corporate control or other matters requiring stockholder approval, even if favored by our other stockholders.

Our executive officers, directors and principal stockholders, and their respective affiliates, beneficially own approximately 63.0% of our outstanding common stock. These stockholders, if acting together, would be able to control substantially all matters requiring approval by our stockholders, including the election of all directors and approval of significant corporate transactions.

In addition, we have agreed to include, as director nominees, a number of nominees of Axys Pharmaceuticals, Inc. which is proportionate to Axys' percentage ownership of our shares. Axys, which owns approximately 31.0% of our common stock, has the right to nominate for election two of seven directors, and Axys has agreed to vote all of its stock in favor of management's annual slates of director nominees.

Because it is unlikely that we will pay dividends, our stockholders will only be able to benefit from holding our stock if the stock price appreciates.

We have never paid cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future.

Anti-takeover provisions in our charter and bylaws could make a third-party acquisition of us difficult.

Our certificate of incorporation and bylaws contain provisions that could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

Item 2. Properties

We occupy approximately 34,500 combined square feet of leased office space and other facilities in San Diego, California for our headquarters and as the base for our marketing and product support operations, research and development and manufacturing activities. We occupy approximately 30,000 square feet of subleased office and laboratory space near San Francisco, California and approximately 24,000 square feet of leased space in Tucson, Arizona (as of January, 2001) for some of our combinatorial chemistry activities. In addition, we also occupy approximately 18,000 square feet of leased space near Basel, Switzerland for our assay development and HTS services.

We believe that our property and equipment are generally well maintained, in good operating condition and are sufficient to meet our current needs.

Item 3. Legal Proceedings

From time to time, we may be involved in litigation that arises through the normal course of business. As of the date of this Annual Report on Form 10-K, we are not a party to any litigation we believe could reasonably be expected to have a material adverse effect on our business or results of operations or which would otherwise be required to be disclosed under this Item.

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

There were no matters submitted to a vote of security holders during the quarter ended December 31, 2000.

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PART II

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

(a) Information Regarding Our Stock

Market Information

Our common stock is traded on the Nasdaq National Market, under the symbol DPII. The last reported high and low bid prices as reported for our common stock by Nasdaq for each full quarterly period in the fiscal year ending December 31, 2000 in which our common stock was publicly traded are set forth below. Such quotations represent inter-dealer prices without retail mark up, mark down or commission and may not necessarily represent actual transactions.

	High	Low
Year Ended December 31, 2000:		
Third Quarter (beginning July 27)	$26.00	$17.375
Fourth Quarter	$22.50	$ 5.625

Holders

As of February 28, 2001, there were approximately 119 holders of record of our common stock.

Dividends

We have never paid cash dividends on our common stock, and we do not expect to pay any cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

In July 2000, in connection with the initial public offering of our common stock, we completed a reincorporation merger in which Discovery Partners International, Inc., a California corporation (our "Predecessor Corporation") merged with and into us. In that merger, each outstanding share of stock of our Predecessor Corporation was converted into one share of the identical class or series of our capital stock. The following summarizes sales of unregistered securities by our Predecessor Corporation and us during the fiscal year ending December 31, 2000.

- In March 2000, our Predecessor Corporation borrowed $2.0 million from Crosspoint Venture Partners LS-1997. In connection with that transaction, our Predecessor Corporation issued Crosspoint Venture Partners LS-1997 a warrant to purchase a number of shares of Series E Preferred Stock that was tied to the amount of time that the principal of the loan remained unpaid. This warrant had an exercise price of $5.00, and Crosspoint Venture Partners LS-1997 exercised it for 56,511 shares of Series E preferred stock, which converted to 56,511 shares of our common stock upon the consummation of our initial public offering of common stock. All such issuances were made pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act").

- In April 2000, our Predecessor Corporation sold an aggregate of 1,392,503 shares of Series E preferred stock at a price of $8.00 per share to a group of private investors for an aggregate purchase price of $11,140,024. These shares of Series E preferred stock converted to 1,392,503 shares of our common stock upon the consummation of our initial public offering of common stock. All such issuances were made pursuant to the exemption from registration provided by Section 4(2) of the 1933 Act.

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- In April 2000, our Predecessor Corporation issued (i) 7,425,000 shares of common stock valued at $7.50 per share and a warrant to purchase an additional 200,000 shares of common stock at an exercise price of $8.00 per share to Axys Pharmaceuticals, Inc., and (ii) 4,641 shares of common stock to a minority stockholder of AAT in connection with our Predecessor Corporation's acquisition of AAT by merger. Such issuances were made pursuant to the exemption from registration provided by Section 4(2) of the 1933 Act.

- In May 2000, in conjunction with our Predecessor Corporation's acquisition of 75% of the stock of Structural Proteomics, Inc., our Predecessor Corporation issued 150,000 shares of its common stock to two founders of Structural Proteomics. Such issuances were made pursuant to the exemption from registration provided by Section 4(2) of the 1933 Act.

- During the fiscal year ended December 31, 2000, we granted options to purchase an aggregate of 1,602,755 shares of common stock at a weighted average exercise price of $7.03 per share pursuant to our Predecessor Corporation's 1995 Stock Option/Stock Issuance Plan and the current 2000 Stock Incentive Plan to certain directors, officers and employees. In connection with our acquisition of AAT, our Predecessor Corporation assumed options to purchase an aggregate of 696,383 shares of common stock at a weighted average exercise price of $2.67 per share that were granted by AAT pursuant to AAT's 1999 Equity Incentive Plan. The AAT assumed options are included in the total option count above. The issuance of these options was made pursuant to the exemption from registration provided by Rule 701 promulgated under the 1933 Act. After our initial public offering, we also issued additional stock options which were registered under the 1933 Act on Form S-8.

(b) Use of Proceeds

On August 1, 2000, we closed the sale of 5,000,000 shares of our Common Stock, $0.001 par value, in our initial public offering (the "Offering"), and on August 30, 2000 we closed the sale of an additional 750,000 shares of Common Stock pursuant to the exercise of the underwriters' overallotment option in the Offering. The shares of Common Stock sold in the Offering were registered under the 1933 Act on a Registration Statement on Form S-1 (the "Registration Statement") (Reg. No. 333-36638) that was declared effective by the SEC on July 27, 2000. After deducting the underwriting discounts and commissions and various estimated Offering expenses, we received net proceeds from the Offering of approximately $94.7 million. Approximately $4.9 million of the proceeds of the Offering were used to fund our operations from August 1, 2000 through December 31, 2000, and we intend to continue to use the proceeds to fund our operations, including continued development and manufacturing of existing products as well as research and development of additional products and services. We used approximately $12.2 million to fund our acquisition of SIDDCO, and we intend to use an additional portion of the net proceeds to acquire new businesses or technologies, hire additional personnel and expand our facilities to be able to meet the growing needs of our business. In addition, we may, if the opportunity arises, use an unspecified portion of the net proceeds to acquire or invest in products, technologies or companies. We intend to use the balance of the net proceeds for general corporate purposes, including working capital. None of the net proceeds of the Offering were paid directly or indirectly to any directors, officers, general partners of our company or their associates, persons owning 10% or more of any class of our equity securities, or affiliates of ours.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with the Company's financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report. Our statement of operations data for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 and balance sheet data as of December 31, 2000, 1999, 1998, 1997 and 1996 are derived from our audited financial statements, of which the statement of operations data for the years ended December 31, 2000, 1999 and 1998 and balance sheet data as of December 31, 2000 and 1999 are included elsewhere in this report. The historical results are not necessarily indicative of the results that may be expected for any future period.

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

	Year Ended December 31,

	2000	1999	1998	1997	1996
Consolidated Statement of Operations Data					
Revenue	$ 36,264	$13,076	$ 6,214	$ 3,150	$ 413
Costs of product and services	18,343	8,235	2,786	1,312	159
Gross margin	17,921	4,841	3,428	1,838	254
Operating expenses:					
Research and development	8,934	3,538	5,058	4,143	2,598
Selling, general and administrative	8,414	4,439	4,984	2,528	1,637
Stock-based compensation	1,376	311	—	—	—
Amortization of goodwill	3,379	—	—	—	—
Write-off of in-process research and development	9,000	—	—	—	—
Total operating expenses	31,103	8,288	10,042	6,671	4,235
Loss from operations	(13,182)	(3,447)	(6,614)	(4,833)	(3,981)
Interest income (expense)	1,247	211	273	14	(45)
Foreign currency translation and other income (expense), net	238	(134)	63	(3)	—
Net loss	$(11,697)	$ (3,370)	$ (6,278)	$(4,822)	$(4,026)
Net loss per share, basic and diluted	$ (0.89)	$ (3.00)	$ (8.20)	$ (8.85)	$(12.95)
Shares used in computing net loss per share, basic and diluted	13,177	1,125	765	545	311
Pro forma net loss per share, basic and diluted(1)	$ (0.67)	$ (0.44)	$ (0.98)	$ (1.04)	$ (1.75)
Shares used in computing pro forma net loss per share, basic and diluted	17,551	7,729	6,430	4,628	2,298
Other Data					
EBITDA(2)	$ 4,503	$ (2,909)	$ (5,990)	$(4,593)	$(3,843)
Cash flow from operating activities	3,465	(5,735)	(3,267)	(5,252)	(4,472)

(1) Pro forma basic and diluted net loss per share gives effect to the assumed conversion of preferred stock, which automatically converted to common stock upon the completion of the Company's initial public offering (using the "as-if converted" method) from the original date of issuance.

(2) EBITDA is defined as net loss less interest income, plus interest expense, depreciation and amortization expense. EBITDA is not a measure of performance under generally accepted accounting principles (GAAP). Amortization expense includes the amortization of deferred compensation, goodwill and other purchased intangibles. EBITDA should not be considered in isolation or as a substitute for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP, or as a measure of profitability or liquidity.

	As of December 31,				
	2000	1999	1998	1997	1996
Selected Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 97,690	$ 2,885	$ 10,715	$ 281	$ 4,226
Working capital (deficit)	106,987	(3,663)	8,976	949	4,289
Total assets	179,780	21,652	16,596	3,831	5,671
Long term obligations, less current portion	944	1,910	96	322	486
Redeemable preferred stock	—	27,907	27,907	11,890	9,953
Total stockholders' equity (deficit)	166,562	(19,269)	(16,298)	(10,035)	(5,229)

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

The following discussion of our financial condition contains certain statements that are not strictly historical and are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a high degree of risk and uncertainty. Our actual results may differ materially from those projected in the forward-looking statements due to risks and uncertainties that exist in our operations, development efforts and business environment, including integration of acquired businesses, the trend toward consolidation of the pharmaceutical industry, quarterly sales variability, technological advances by competitors, and other risks and uncertainties described elsewhere in this annual report on Form 10-K for the year ended December 31, 2000 as filed with the Securities and Exchange Commission. All forward-looking statements included in this document are based on information available to us as of the date hereof, and we assume no obligation to update any such forward-looking statement.

Overview

We sell a broad range of products and services to pharmaceutical and biotechnology companies to make the drug discovery process for our customers faster, less expensive and more effective at generating drug candidates. We focus on the portion of the drug discovery process that begins after identification of a drug target through when a drug candidate is ready for clinical trials. We develop, produce and sell collections of chemical compounds that pharmaceutical and biotechnology companies test for their potential use as new drugs or for use as the chemical starting point for new drugs. We also develop, manufacture and sell proprietary instruments and associated consumable supplies that are used by the pharmaceutical and biotechnology industries in their own in-house drug discovery chemistry operations. Additionally, we provide testing services to our customers in which chemical compounds are tested for their biological activity as potential drugs. We also provide computational software tools that guide the entire process of chemical compound design, development and testing. At the close of 1999 we acquired Discovery Technologies Ltd. (DTL). During the year 2000 we acquired two additional businesses: Axys Advanced Technologies, Inc. (AAT) and Structural Proteomics, Inc. (SPI). In January 2001 we acquired Systems Integrated Drug Discovery Company (SIDDCO).

Results of Operations

Revenue. Total revenue increased 177% to $36.3 million in 2000 from $13.1 million in 1999 and $6.2 million in 1998. The increase from 1999 to 2000 resulted from internal growth as well as contributions by our recently acquired businesses: DTL (completed in December, 1999), AAT (completed in April, 2000), and SPI (completed in May, 2000). The increase from 1998 to 1999 was primarily due to increased sales of our Directed Sorting product line and the commencement of the proprietary NanoKan product development contracts with Bristol-Myers Squibb and Aventis.

Gross margin. Gross margins increased to $17.9 million in 2000 from $4.8 million in 1999 and $3.4 million in 1998. Gross margin was 49% of revenues in 2000, compared to 37% in 1999 and 55% in 1998. Gross margin as a percent of revenue increased in 2000 primarily due to higher gross margins from our compound library sales, which comprised a higher proportion of our sales due to the acquisition of AAT, and decreased in 1999 primarily due to the impact of the NanoKan development program which had a nominal gross margin.

Research and development expenses. Research and development expenses consist primarily of salaries and benefits, supplies and expensed development materials, and facilities costs including equipment depreciation. Research and development expenses were $8.9 million in 2000, compared to $3.5 million in 1999 and $5.1 million in 1998. Research and development expenses increased from 1999 to 2000 primarily as a result of the research and development efforts associated with the three recent business acquisitions. Research and development expenses decreased from 1998 to 1999 primarily as a result of transferring our internally-funded development costs of the Directed Sorting product line to the NanoKan development program, which was funded by our NanoKan customers and reported as cost of revenues.

Selling, general and administrative expenses. Selling, general and administrative expenses consist primarily of salaries and benefits for sales, marketing and administrative personnel, advertising and promotional expenses, professional services, and facilities costs. Selling, general and administrative expenses increased to $8.4 million in 2000 from $4.4 million in 1999 and $5.0 million in 1998. The increase from 1999 to 2000 was primarily a result of our three recent business acquisitions, which increased our sales and marketing staffing levels and expanded our management team and infrastructure consistent with the corresponding revenue growth. The decrease in selling, general and administrative expenses from 1998 to 1999 was primarily due to severance payments, recruitment, and relocation expenses incurred in 1998 which were not repeated in 1999.

Stock-based compensation. During 1999 and 2000, we granted stock options with exercise prices that were less than the estimated fair value of the underlying shares of common stock on the date of grant. As a result, we have recorded deferred stock-based compensation to be amortized over the period that these options vest. The amortization of deferred stock-based compensation for 2000 was $1.4 million, compared to approximately $311,000 for 1999.

Amortization of goodwill. We recorded $3.4 million in goodwill amortization expense in 2000, in connection with the three acquisitions we completed during the last year. Goodwill is amortized straight-line over ten years. All three acquisitions were accounted for as purchases. There was no goodwill amortization expense during 1998 or 1999.

In-process research and development. We incurred $9.0 million in expense in 2000 as a result of the write-off of in-process research and development acquired as part of the AAT acquisition.

Interest income. We realized $1.3 million in net interest income in 2000, compared to net interest income of approximately $211,000 in 1999 and $273,000 in 1998. Net interest earned in 2000 was primarily from the investment of the $94.7 million in net proceeds from our initial public offering, less approximately $1.2 million in imputed interest expense equal to the fair value of warrants that were issued in connection with certain notes payable.

Income taxes. At December 31, 2000, we had federal and California income tax net operating loss carryforwards of approximately $17.0 million and $12.9 million, respectively. The difference between the federal and California tax operating loss carryforwards is primarily attributable to the capitalization of research and development expenses for California income tax purposes. The federal and California tax net operating loss

carryforwards will begin to expire in 2010 and 2003, respectively, unless previously used. We also have federal and California research tax credit carryforwards of approximately $1,255,000 and $801,000, respectively, which will begin to expire in 2010 unless previously used. We have provided a 100% valuation allowance against the related deferred tax assets as realization of such tax benefits is not assured.

Liquidity and Capital Resources

Since inception of the Company, we have funded our operations principally with $39.0 million of private equity financings and $94.7 million of net proceeds from our initial public offering in July 2000.

At December 31, 2000, cash and cash equivalents totaled approximately $97.7 million, compared to $2.9 million at December 31, 1999 and $10.7 million at December 31, 1998.

Net cash generated from operating activities in 2000 was $3.5 million. A net loss of $11.7 million was offset by non-cash charges of $18.7 million, including a $9.0 million write-off of purchased in-process research and development. Accounts receivable increased by $4.8 million due to increased revenues during the period.

We currently anticipate investing up to $4.0 million in 2001 for leasehold improvements and capital equipment necessary to support future revenue growth. Our actual future capital requirements will depend on a number of factors, including our success in increasing sales of both existing and new products and services, expenses associated with unforeseen litigation, regulatory changes and competition and technological developments, and potential future merger and acquisition activity. In the first quarter of 2001 we acquired SIDDCO for approximately $12 million cash, paid $2 million cash in prepaid royalties to Abbott Laboratories in connection with an exclusive license to their patented Micro Arrayed Compound Screening Technology, and agreed to acquire Xenometrix, Inc. for approximately $2.5 million in cash. We believe our existing cash and cash equivalents, plus

any cash generated from operations, will be sufficient to fund our operating expenses, debt obligations and capital requirements through at least December 31, 2001.

Quantitative and Qualitative Disclosures About Market Risk

Short-term investments. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since a significant portion of our investments are and will be in short-term marketable securities. Due to the nature and maturity of our short-term investments, we have concluded that there is no material market risk exposure.

Foreign currency rate fluctuations. The functional currency for the European operations of our IRORI group is the U.S. dollar, and the functional currency for our Discovery Technologies group is the Swiss franc. Our subsidiary accounts are translated from their local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenues and expense accounts. The effects of translation for the European operations of our IRORI group are recorded as foreign currency gains (losses) in the consolidated statement of operations. The effects of translation for our Discovery Technologies group are recorded as a separate component of stockholders' equity. Our European subsidiaries conduct their business with customers in local currencies. Exchange gains and losses arising from these transactions are recorded using the actual exchange differences on the date of the transaction. We have not taken any action to reduce our exposure to changes in foreign currency exchange rates, such as options or futures contracts, with respect to transactions with our European subsidiaries or transactions with our worldwide customers. The net tangible assets of our two European subsidiaries combined were $8.8 million at December 31, 2000. A 1% decrease in the value of the British pound and Swiss franc relative to the U.S. dollar would result in a foreign translation loss of $88,000.

Inflation. We do not believe that inflation has had a material impact on our business or operating results during the periods presented.

Recent Accounting Pronouncements

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* was effective January 1, 2001. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments imbedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. We believe the adoption of SFAS No. 133 will not have an effect on the financial statements because we do not engage in derivative or hedging activities.

In December, 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements,* which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The application of SAB No. 101 did not have a material impact on our financial statements.

In March 2000, the Financial Accounting Standards Board issued Financial Interpretation No. 44, or FIN 44, "Accounting for Certain Transactions Involving Stock Compensation — an interpretation of APB Opinion No. 25". FIN 44 clarifies the definition of employees for purposes of applying Accounting Practice Board Opinion No. 25, "Accounting for Stock Issued to Employees", the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 became effective on July 1, 2000, but certain conclusions in FIN 44 cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 has not had a material impact on the Company.

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Item 7A. Market Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and short-term investments. The Company limits its exposure to credit loss by placing its cash, cash equivalents and investments with high credit quality financial institutions.

Item 8. Financial Statements and Supplementary Data

Our financial statements and schedules, as listed under Item 14, appear in a separate section of this Annual Report on Form 10-K beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

During our two most recent fiscal years and since then through today, we have not had a change in our independent auditors nor have there been any reportable disagreements between us and our independent auditors.

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PART III

Item 10. Directors and Executive Officers of the Registrant

The sections titled “Directors and Nominees”, “Board Meetings and Committees” and “Executive Officers” appearing in our Proxy Statement for the 2001 Annual Meeting of Stockholders are incorporated herein by reference.

Item 11. Executive Compensation

The section titled “Executive Compensation” appearing in our Proxy Statement for the 2001 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The section titled “Principal Stockholders” appearing in our Proxy Statement for the 2001 Annual Meeting of Stockholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The section titled “Certain Transactions” appearing in our Proxy Statement for the 2001 Annual Meeting of Stockholders is incorporated herein by reference.

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

(a)(1) Financial Statements:

The following financial statements of Discovery Partners International, Inc. are included in a separate section of this Annual Report on Form 10-K commencing on the pages referenced below:

(2) Financial Statement Schedules:

All schedules have been omitted, since they are not applicable or not required, or the relevant information is included in the financial statements or the notes thereto.

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(3) Exhibits:

Exhibit No.	Title	Method of Filing
2.1	Agreement and Plan of Merger among us, DPII Newco, LLC, Axys Pharmaceuticals, Inc., and Axys Advanced Technologies, Inc., dated April 11, 2000.	Incorporated by Reference to Exhibit 2.1 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
2.2	Stock Purchase Agreement among us, Structural Proteomics, Inc., Richard Fine and Boris Klebansky, dated May 5, 2000.	Incorporated by Reference to Exhibit 2.5 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
2.3	Agreement and Plan of Reorganization dated December 21, 2000 by and among us, SI Acquisition Corporation, Systems Integration Drug Discovery Company, Inc., Bruce Seligmann and Karen Junghans, Trustees of the Seligmann-Junghans Family Trust U/A/D July 9, 1999, Colin Dalton, Melvin Reisinger, Jr. and High Throughput Genomics, Inc.	Incorporated by Reference to Exhibit 2.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on January 12, 2001
3.1	Certificate of Incorporation of the Company	Incorporated by Reference to Exhibit 3.2 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
3.2	Bylaws of the Company	Incorporated by Reference to Exhibit 3.4 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.1	Second Amended and Restated Investors' Rights Agreement among us and the investors listed on Schedule A thereto, dated April 28, 2000, as amended.	Incorporated by Reference to Exhibit 10.2 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.2	Common Stock Purchase and Asset Contribution Agreement between Axys Pharmaceuticals, Inc. and Axys Advanced Technologies, Inc., dated November 17, 1999.	Incorporated by Reference to Exhibit 10.5 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.3	Technology Assignment and License Agreement between Axys Pharmaceuticals, Inc. and Axys Advanced Technologies, Inc., dated April 28, 2000.	Incorporated by Reference to Exhibit 10.6 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

10.4	Non-Competition and Non-Disclosure Agreement between us and Axys Pharmaceuticals, Inc., dated April 28, 2000.	Incorporated by Reference to Exhibit 10.7 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

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Exhibit No.	Title	Method of Filing
10.5	Indemnity Escrow Agreement between us and Axys Pharmaceuticals, Inc., dated April 28, 2000.	Incorporated by Reference to Exhibit 10.8 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.6	Services Agreement between us and Axys Pharmaceuticals, Inc., dated April 28, 2000.	Incorporated by Reference to Exhibit 10.9 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.7	First Amendment to Sublease between Axys Pharmaceuticals, Inc. and Axys Advanced Technologies, Inc., dated April 28, 2000.	Incorporated by Reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.8	Compound Purchase Agreement between us and Axys Pharmaceuticals, Inc., dated April 28, 2000.	Incorporated by Reference to Exhibit 10.11 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.9	Standstill Agreement between us and Axys Pharmaceuticals, Inc., dated April 28, 2000.	Incorporated by Reference to Exhibit 10.12 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.10	Rights Agreement between us, Structural Proteomics, Inc., Richard Fine, Boris Klebansky and Arnold Hagler, dated March 5, 2000.	Incorporated by Reference to Exhibit 10.14 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.11	Warrant Agreement to Purchase Shares of Series A Preferred Stock between us and Comdisco, Inc., dated February 9, 1996.	Incorporated by Reference to Exhibit 10.16 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.12	Warrant Agreement to Purchase Shares of Series A Preferred Stock between us and Comdisco, Inc., dated February 9, 1996.	Incorporated by Reference to Exhibit 10.17 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.13	Pledge Agreement between us and Riccardo Pigliucci, dated November 30, 1998.	Incorporated by Reference to Exhibit 10.22 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

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Exhibit No.	Title	Method of Filing
10.14	Promissory Note issued by Riccardo Pigliucci, dated November 30, 1998.	Incorporated by Reference to Exhibit 10.23 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.15	Pledge Agreement between us and Riccardo Pigliucci, dated January 31, 1999.	Incorporated by Reference to Exhibit 10.24 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.16	Promissory Note issued by Riccardo Pigliucci, dated January 31, 1999.	Incorporated by Reference to Exhibit 10.25 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.17	Master Lease Agreement between us and Comdisco, Inc., dated February 9, 1996.	Incorporated by Reference to Exhibit 10.32 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.18	Master Security Agreement between us and General Electric Capital Corporation, dated November 1, 1999, as amended.	Incorporated by Reference to Exhibit 10.33 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.19	Equipment Financing Agreement between us and Lease Management Services, Inc., dated October 27, 1995, as amended.	Incorporated by Reference to Exhibit 10.34 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.20	Standby Letter of Credit between us and Bank of America, dated February 3, 1999.	Incorporated by Reference to Exhibit 10.36 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.21	Non-Exclusive Sublicense Agreement between us and Trega Biosciences, Inc., dated May 1, 1998.	Incorporated by Reference to Exhibit 10.37 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.22+	Patent License Agreement between us and Abbott Labs, Incorporated, dated January 2, 2001.	Filed herewith
10.23	Indemnification Agreement between us and Sokymat, S.A., dated April 19, 1999.	Incorporated by Reference to Exhibit 10.38 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

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Exhibit No.	Title	Method of Filing
10.24	Strategic Alliance Agreement between us and Bristol-Myers Squibb Company, dated May 22, 1998.	Incorporated by Reference to Exhibit 10.39 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

10.25	Strategic Alliance Agreement between us and Aventis (formerly Rhone-Poulenc Rorer International, Inc.), dated June 15, 1998.	Incorporated by Reference to Exhibit 10.40 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.26	Combinatorial Chemistry Agreement between Axys Pharmaceuticals, Inc. and Warner-Lambert Company, dated May 15, 1998.	Incorporated by Reference to Exhibit 10.41 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.27	Letter Agreement between Discovery Technologies, Ltd. and Basler Kantonalbank, dated December 22, 1999.	Incorporated by Reference to Exhibit 10.42 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.28	Loan Agreement between Discovery Technology, Ltd. and Novartis International AG, dated December 23, 1999.	Incorporated by Reference to Exhibit 10.43 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.29	Guaranty between us and Novartis International AG, dated December 23, 1999.	Incorporated by Reference to Exhibit 10.44 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.30	Industrial Lease between Irvine Company and us, dated February 17, 1999.	Incorporated by Reference to Exhibit 10.45 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.31	IRORI (Europe) Limited Lease of Unit 5, dated December 22, 1997.	Incorporated by Reference to Exhibit 10.46 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.32	Leasehold Contract between Basler Kantonalbank and Discovery Technologies, Ltd., dated June 18, 1997 (English version).	Incorporated by Reference to Exhibit 10.47 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

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Exhibit No.	Title	Method of Filing
10.33	Leasehold Contract between Basler Kantonalbank and Discovery Technologies, Ltd., dated June 18, 1997 (German version).	Incorporated by Reference to Exhibit 10.48 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.34	Letter Agreement terminating Directorship Agreement with Dieter Hoehn, dated May 8, 2000.	Incorporated by Reference to Exhibit 10.50 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.35*	Key Employment Agreement between us and Riccardo Pigliucci, dated April 17, 1998.	Incorporated by Reference to Exhibit 10.51 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.36*	1995 Stock Option/Stock Issuance Plan, as amended.	Incorporated by Reference to Exhibit 10.52 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

10.37*	1995 Stock Option/Stock Issuance Plan, Form of Notice of Grant.	Incorporated by Reference to Exhibit 10.53 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.38*	1995 Stock Option/Stock Issuance Plan, Form of Stock Option Agreement.	Incorporated by Reference to Exhibit 10.54 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.39*	1995 Stock Option/Stock Issuance Plan, Form of Stock Purchase Agreement.	Incorporated by Reference to Exhibit 10.55 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.40*	1995 Stock Option/Stock Issuance Plan, Form of Restricted Stock Issuance Agreement.	Incorporated by Reference to Exhibit 10.56 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.41*	Axys Advanced Technologies, Inc. 1999 Equity Incentive Plan.	Incorporated by Reference to Exhibit 10.57 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

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Exhibit No.	Title	Method of Filing
10.42*	Axys Advanced Technologies, Inc. 1999 Equity Incentive Plan, Form of Stock Option Agreement.	Incorporated by Reference to Exhibit 10.58 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.43*	2000 Stock Incentive Plan.	Incorporated by Reference to Exhibit 10.59 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.44*	2000 Stock Incentive Plan, Form of Notice of Grant.	Filed herewith
10.45*	2000 Stock Incentive Plan, Form of Stock Option Agreement.	Filed herewith
10.46*	2000 Stock Incentive Plan, Form of Stock Issuance Agreement.	Filed herewith
10.47*	2000 Employee Stock Purchase Plan.	Incorporated by Reference to Exhibit 10.60 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.48*	2000 Employee Stock Purchase Plan, Form of Stock Purchase Agreement	Filed herewith
10.49*	Form of Indemnification Agreement between us and each of our directors and officers.	Incorporated by Reference to Exhibit 10.61 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.50*	Employment Contract between us and Dr. Heinrich Zinsli, dated August 10, 1999.	Incorporated by Reference to Exhibit 10.62 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000

10.51	Leasehold Contract between Basler Kantonalbank and Discovery Partners Technologies, Ltd., dated January 31, 2000 (English version).	Incorporated by Reference to Exhibit 10.63 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
10.52	Leasehold Contract between Basler Kantonalbank and Discovery Partners Technologies, Ltd., dated January 31, 2000 (German version).	Incorporated by Reference to Exhibit 10.64 to the Company's Registration Statement No. 333-36638 on Form S-1 filed with the Securities and Exchange Commission on July 27, 2000
21.1	Subsidiaries of the Registrant	Filed Herewith
23.1	Consent of Ernst & Young LLP, Independent Auditors	Filed Herewith

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Exhibit No.	Title	Method of Filing
24.1	Powers of Attorney	See Signature Page on Page 41

\+ Certain confidential portions of this Exhibit were omitted by means of redacting a portion of the text (the "Mark"). This Exhibit has been filed separately with the Secretary of the Commission without the Mark pursuant to the Company's Application Requesting Confidential Treatment under Rule 406 under the 1933 Act.

* Indicates management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

We did not file any reports on Form 8-K during the quarter ended December 31, 2000.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

DISCOVERY PARTNERS INTERNATIONAL, INC.

Date: March 27, 2001

By: /s/ Riccardo Pigliucci

Riccardo Pigliucci President, Chief Executive Officer and Director

POWER OF ATTORNEY

Know all men by these presents, that each person whose signature appears below constitutes and appoints Riccardo Pigliucci his attorney-in-fact, with full power of substitution in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that the attorney-in-fact or his substitute or substitutes may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Riccardo Pigliucci Riccardo Pigliucci	President, Chief Executive Officer and Director	March 27, 2001
/s/ Jack Fitzpatrick Jack Fitzpatrick	Chief Financial Officer	March 27, 2001
/s/ Andrew E. Senyei, M.D. Andrew E. Senyei, M.D.	Director	March 27, 2001
/s/ Dieter Hoehn Dieter Hoehn	Director	March 27, 2001
/s/ John Walker John Walker	Director	March 27, 2001
/s/ Alan Lewis Alan Lewis	Director	March 27, 2001
/s/ Colin Dollery Colin Dollery	Director	March 27, 2001

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Discovery Partners International, Inc.

Index to Consolidated Financial Statements

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Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders
Discovery Partners International, Inc.

We have audited the accompanying consolidated balance sheets of Discovery Partners International, Inc. as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects the consolidated financial position of Discovery Partners International, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

San Diego, California
February 15, 2001

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Consolidated Balance Sheets

	December 31, 2000	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 97,690,236	$ 2,884,639
Accounts receivable	9,395,097	2,785,618
Inventories	9,787,005	1,517,297
Prepaid and other current assets	1,685,914	201,284
Total current assets	118,558,252	7,388,838
Property and equipment, net	9,567,871	4,655,227
Restricted cash and cash equivalents and other assets	1,996,157	2,264,200
Patent and license rights, net	3,121,074	1,137,625
Other assets, net	1,382,443	—
Goodwill, net	45,154,516	6,205,830
Total assets	$ 179,780,313	$ 21,651,720
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,574,534	$ 2,133,625
Accrued compensation	1,231,503	214,601
Deferred business acquisition payment	931,335	1,721,775
Current portion of obligations under capital leases, equipment notes payable, line of credit and promissory notes	661,160	1,184,921
Deferred revenue	5,172,475	1,935,249
Notes payable to stockholders	—	3,861,920
Total current liabilities	11,571,007	11,052,091
Obligations under capital leases, equipment notes payable, and promissory notes less current portion	944,123	1,910,177
Deferred rent	74,583	51,906
Minority interest in Structural Proteomics	628,383	—

Commitments		
Redeemable convertible preferred stock, $.001 par value, none and 7,333,333 shares authorized at December 31, 2000 and 1999, respectively; none and 6,562,278 issued and outstanding at December 31, 2000 and 1999, respectively	—	27,906,717
Stockholders' equity (deficit):		
Common stock, $.001 par value, 99,000,000 shares authorized, 23,931,237 and 1,611,763 issued and outstanding at December 31, 2000 and 1999, respectively	23,931	1,612
Preferred stock, $.001 par value, 1,000,000 shares authorized, no shares issued and outstanding at December 31, 2000 and 1999, respectively	—	—
Additional paid-in capital	200,184,929	1,399,376
Deferred compensation	(2,032,378)	(642,282)
Note receivable from stockholder	(240,000)	(240,000)
Accumulated other comprehensive income (loss)	54,903	(55,448)
Accumulated deficit	(31,429,168)	(19,732,429)
Total stockholders' equity (deficit)	166,562,217	(19,269,171)
Total liabilities and stockholders' equity	$ 179,780,313	$ 21,651,720

See accompanying notes.

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Consolidated Statements of Operations

	Years Ended December 31,		
	2000	**1999**	**1998**
Revenues:			
Sales to third parties	$ 33,898,886	$13,075,835	$ 6,213,736
Sales to Axys Pharmaceuticals, Inc.	2,364,764	—	—
Total revenues	36,263,650	13,075,835	6,213,736
Cost of revenues (exclusive of $17,992 and $7,238 in 2000 and 1999, respectively, of stock-based compensation)	18,342,688	8,234,858	2,785,514
Gross margin	17,920,962	4,840,977	3,428,222
Cost and expenses:			
Research and development (exclusive of $575,914 and $65,828 in 2000 and 1999, respectively, of stock-based compensation)	8,934,059	3,537,651	5,057,851
Selling, general and administrative (exclusive of $781,933 and $238,322 in 2000 and 1999, respectively, of stock-based compensation)	8,413,848	4,439,021	4,984,645
Amortization of stock-based compensation and other non-cash compensation charges	1,375,839	311,388	—
Amortization of goodwill	3,379,009	—	—
Write-off of in-process research and development	9,000,000	—	—
Total operating expenses	31,102,755	8,288,060	10,042,496
Loss from operations	(13,181,793)	(3,447,083)	(6,614,274)
Interest income	2,776,620	270,645	386,058
Interest expense	(1,529,578)	(60,003)	(112,698)
Foreign currency gains (losses)	133,062	(133,923)	63,401
Minority interest in Structural Proteomics	104,950	—	—
Net loss	$(11,696,739)	$ (3,370,364)	$ (6,277,513)
Net loss per share, basic and diluted	$ (0.89)	$ (3.00)	$ (8.20)

Shares used in calculating net loss per share, basic and diluted	13,176,576	1,125,040	765,263

See accompanying notes.

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Consolidated Statements of Stockholders' Equity (Deficit)

	Common stock		Additional paid-in capital	Deferred compensation
	Shares	Amount		
Balance at December 31, 1997	956,731	$ 957	$ 48,367	$ —
Exercise of options to purchase common stock	34,242	34	14,447	—
Issuance of common stock in exchange for a promissory note	430,000	430	171,570	—
Net loss	—	—	—	—
Balance at December 31, 1998	1,420,973	1,421	234,384	—
Exercise of options to purchase common stock	20,790	21	5,412	—
Issuance of common stock in exchange for a promissory note	170,000	170	67,830	—
Issuance of warrants to purchase preferred stock	—	—	138,080	—
Deferred compensation related to stock options and restricted stock	—	—	953,670	(953,670)
Amortization of deferred compensation	—	—	—	311,388
Comprehensive loss:				
Foreign currency translation adjustment	—	—	—	—
Net loss	—	—	—	—
Comprehensive loss	—	—	—	—
Balance at December 31, 1999	1,611,763	1,612	1,399,376	(642,282)
Common stock issued and options assumed for acquisitions	7,579,641	7,580	60,151,916	—
Common stock issued for cash	5,750,000	5,750	94,588,039	—
Exercise of options and warrants to purchase common stock	973,421	973	343,373	—
Issuance of warrants to purchase common stock	—	—	1,915,766	—
Conversion of preferred stock into common stock	8,016,412	8,016	39,020,526	—
Deferred compensation related to stock options and restricted stock	—	—	2,724,672	(2,724,672)
Amortization of deferred compensation and other non-cash compensation charges	—	—	41,261	1,334,576
Comprehensive loss:				
Foreign currency translation adjustment	—	—	—	—
Net loss	—	—	—	—
Comprehensive loss	—	—	—	—
Balance at December 31, 2000	23,931,237	$23,931	$200,184,929	$ (2,032,378)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Notes Receivable From Stockholder	Accumulated other comprehensive Income (loss)	Accumulated deficit	Total stockholders' equity (deficit)
Balance at December 31, 1997	$ —	$ —	$(10,084,552)	$ (10,035,228)

Exercise of options to purchase common stock	—	—	—	14,481
Issuance of common stock in exchange for a promissory note	(172,000)	—	—	—
Net loss	—	—	(6,277,513)	(6,277,513)
Balance at December 31, 1998	(172,000)	—	(16,362,065)	(16,298,260)
Exercise of options to purchase common stock	—	—	—	5,433
Issuance of common stock in exchange for a promissory note	(68,000)	—	—	—
Issuance of warrants to purchase preferred stock	—	—	—	138,080
Deferred compensation related to stock options and restricted stock	—	—	—	—
Amortization of deferred compensation	—	—	—	311,388
Comprehensive loss:				
Foreign currency translation adjustment	—	(55,448)	—	(55,448)
Net loss	—	—	(3,370,364)	(3,370,364)
Comprehensive loss	—	—	—	(3,425,812)
Balance at December 31, 1999	(240,000)	(55,448)	(19,732,429)	(19,269,171)
Common stock issued and options assumed for acquisitions	—	—	—	60,159,496
Common stock issued for cash	—	—	—	94,593,789
Exercise of options and warrants to purchase common stock	—	—	—	344,346
Issuance of warrants to purchase common stock	—	—	—	1,915,766
Conversion of preferred stock into common stock	—	—	—	39,028,542
Deferred compensation related to stock options and restricted stock	—	—	—	—
Amortization of deferred compensation and other non-cash compensation charges	—	—	—	1,375,837
Comprehensive loss:				
Foreign currency translation adjustment	—	110,351	—	110,351
Net loss	—	—	(11,696,739)	(11,696,739)
Comprehensive loss	—	—	—	(11,586,388)
Balance at December 31, 2000	$ (240,000)	$ 54,903	$(31,429,168)	$ 166,562,217

See accompanying notes.

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Consolidated Statements of Cash Flows

	Years ended December 31,		
	2000	**1999**	**1998**
Operating activities			
Net loss	$ (11,696,739)	$ (3,370,364)	$ (6,277,513)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation	2,966,335	360,322	561,049
Amortization	5,480,244	311,388	—
Non-cash interest expense for warrants issued	1,243,847	—	—
Write-off of in-process research and development	9,000,000	—	—
Change in operating assets and liabilities:			
Accounts receivable	(4,804,972)	(444,341)	(334,487)

Inventories	(1,415,559)	(357,037)	(423,365)
Other current assets	(1,373,796)	130,727	(65,907)
Accounts payable and accrued expenses	481,058	(567,171)	1,395,725
Deferred revenue	2,309,449	(774,987)	1,871,400
Deferred rent	22,677	(23,918)	6,069
Restricted cash and cash equivalents and other assets	1,252,200	(1,000,000)	—
Net cash provide by (used in) operating activities	3,464,744	(5,735,381)	(3,267,029)
Investing activities			
Purchases of property and equipment	(4,067,670)	(1,112,191)	(848,202)
Deposits and other assets	(870,347)	181,313	(7,331)
Purchase of patents and license rights	(143,673)	—	(1,212,497)
Purchase of other assets	(1,800,536)	(4,963,444)	—
Additional cash consideration for acquisition of Discovery Technologies	(1,721,775)	—	—
Purchase of Axys Advanced Technologies	(600,334)	—	—
Net cash used in investing activities	(9,204,335)	(5,894,322)	(2,068,030)
Financing activities			
Proceeds from equipment lease line	1,484,859	—	—
Principal payments on capital leases, equipment notes payable, line of credit, and promissory notes	(2,974,674)	(205,980)	(262,165)
Net proceeds from issuance of preferred stock	5,004,801	—	13,568,346
Net proceeds from issuance of common stock	94,938,135	5,433	14,481
Proceeds from convertible notes payable	2,000,000	4,000,000	2,448,395
Net cash provided by financing activities	100,453,121	3,799,453	15,769,057
Effect of exchange rate changes	92,067	—	—
Net increase (decrease) in cash and cash equivalents	94,805,597	(7,830,250)	10,433,998
Cash and cash equivalents at beginning of period	2,884,639	10,714,889	280,891
Cash and cash equivalents at end of period	$ 97,690,236	$ 2,884,639	$10,714,889
Supplemental disclosure of cash flow information			
Interest paid	$ 285,731	$ 60,004	$ 112,697
Supplemental schedule of non-cash investing and financing activities			
Conversion of convertible notes payable to preferred stock	$ 6,000,000	$ —	$ 2,448,395
Issuance of common stock for promissory note	$ —	$ 68,000	$ 172,000
Issuance of warrant to purchase preferred stock	$ 1,105,767	$ 138,080	$ —
Non-cash consideration for purchase of AAT	$ 59,769,495	$ —	$ —
Non-cash consideration for purchase of SPI	$ 1,200,000	$ —	$ —
Deferred acquisition payment for DTL	$ 931,335	$ 1,721,775	$ —

See accompanying notes.

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Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

Organization and Business

Discovery Partners International, Inc. (the "Company") was incorporated in California on March 22, 1995, under the name IRORI. The Company develops and offers libraries of drug-like compounds, proprietary instruments, consumables, drug discovery services and computational tools to

generate compound libraries, and test, screen and optimize potential drugs. In 1998, the Company changed its name to Discovery Partners International, Inc. In July 2000, the Company reincorporated in Delaware.

Consolidation

The consolidated financial statements include all the accounts of the Company and its wholly owned subsidiaries, IRORI Europe, Ltd., Discovery Technologies Ltd., ChemRx Advanced Technologies, Inc. and its majority owned subsidiary, Structural Proteomics, Inc. All intercompany accounts and transactions have been eliminated.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Reclassification

Certain prior year balances have been reclassified to conform to the 2000 presentation.

Cash Equivalents

The Company considers all highly liquid investments with a remaining maturity of less than three months when purchased to be cash equivalents. At December 31, 2000 and 1999, the cost of cash equivalents was the same as the market value. Accordingly, there were no unrealized gains and losses. The Company evaluates the financial strength of institutions at which significant investments are made and believes the related credit risk is limited to an acceptable level.

Long-Lived Assets

In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of,* if indicators of impairment exist, the Company assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the future cash flows associated with the use of the asset and records the asset at fair value. While the Company's current and historical operating and cash flow losses are indicators of impairment, the Company believes the future cash flows to be received from the long-lived assets will exceed the assets' carrying value, and accordingly, the Company has not recognized any impairment losses through December 31, 2000.

Inventories

Inventories are recorded at the lower of weighted average cost (approximates first-in first-out) or market. Inventories consist of the following:

	December 31,	
	2000	**1999**
Raw materials	$ 1,646,779	$ 588,048
Work-in process	1,787,383	601,432
Finished goods	13,179,138	412,006
	16,613,300	1,601,486
Less reserves	(6,826,295)	(84,189)
	$ 9,787,005	$1,517,297

Chemical compound libraries accounted for approximately $6.1 million of the total net inventory value at December 31, 2000.

Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2000	**1999**

Furniture and equipment	$12,501,966	$ 4,821,335
Software	790,389	362,108
Leasehold improvements	4,446,021	633,387
	17,738,376	5,816,830
Less accumulated depreciation and amortization	(8,170,505)	(1,161,603)
	$ 9,567,871	$ 4,655,227

Property and equipment, including equipment under capital leases and equipment notes payable, are stated at cost and depreciated over the estimated useful lives of the assets (three to seven years) or the term of the related lease, using the straight-line method. Amortization of assets acquired under capital leases is included in depreciation expense.

Patents and License Rights

The Company has purchased patents and license rights for the labeling of chemical libraries and related to products for sale and in development. The purchased patents and license rights are amortized ratably over a period of ten years.

Other Assets

Other assets consists of chemical compounds purchased by DTL for its screening services. The compounds are stated at cost and depreciated over the estimated useful lives of the assets (three to five years) using the straight line method.

Revenue Recognition

Product sales, which include the sale of combinatorial chemistry instruments and proprietary libraries, are recorded as products are shipped. Development contract revenues and high-throughput screening service revenues are recognized on a percentage of completion basis. Advances received under these development contracts and high-throughput screening service agreements are recorded as deferred revenue and recognized as costs are incurred over the term of the contract. Revenue from chemistry service agreements is recognized on a monthly basis and is based upon the number of full time equivalent (FTE) employees that actually worked on each agreement and the agreed-upon rate per FTE per month.

The Company does not have a history of significant returns of its products nor does it allow its customers the right to return its products.

Research and Development Costs

Costs incurred in connection with research and development is charged to operations as incurred.

Stock-Based Compensation

As permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company accounts for common stock options granted, and restricted stock sold, to employees, founders and directors using the intrinsic value method and, thus, recognizes no compensation expense for options granted, or restricted stock sold, with exercise prices equal to or greater than the fair value of the Company's common stock on the date of the grant. The

Company has recorded deferred stock compensation related to certain stock options which were granted with exercise prices below estimated fair value (see Note 7), which is being amortized on an accelerated amortization methodology in accordance with FIN 28.

Deferred compensation for options granted, and restricted stock sold, to consultants has been determined in accordance with SFAS No. 123 and EITF 96-18 as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Deferred charges for options granted, and restricted stock sold, to consultants are periodically remeasured until the underlying options vest.

Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income*, requires the Company to report in the consolidated financial statements, in addition to net income, comprehensive income (loss) and its components including foreign currency items and unrealized gains and losses on certain investments in debt and equity securities. For the years ended December 31, 2000 and 1999, the Company has disclosed comprehensive loss as a component of shareholders' equity. Comprehensive loss was the same as net loss for the year ended December 31, 1998.

Net Loss Per Share

Basic and diluted net loss per common share are presented in conformity with SFAS No. 128, *Earnings per Share*, and SAB 98, for all periods presented. Under the provisions of SAB 98, common stock and redeemable convertible preferred stock that has been issued or granted for nominal consideration prior to the anticipated effective date of the initial public offering must be included in the calculation of basic and diluted net loss per common share as if these shares had been outstanding for all periods presented. To date, the Company has not issued or granted shares for nominal consideration.

In accordance with SFAS No. 128, basic and diluted net loss per share has been computed using the weighted average number of shares of common stock outstanding during the period, less shares subject to repurchase. The Company has excluded all convertible preferred stock, outstanding stock options and warrants, and shares subject to repurchase from the calculation of diluted net loss per common share because all such securities are anti-dilutive for all applicable periods presented. The weighted average number of shares excluded from the calculation of diluted net loss per share for outstanding convertible preferred stock were 4,374,471, 6,603,780 and 5,665,232 for the years ended December 31, 2000, 1999 and 1998, respectively. The total number of shares excluded from the calculations of diluted net loss per share for options and warrants were 1,292,362, 383,396, and 1,437,691 for the years ended December 31, 2000, 1999 and 1998, respectively. The effect of such securities had they been dilutive, would have been included in the computation of diluted net loss per share using the treasury stock method.

Pro forma basic and diluted net loss per common share of $(0.67), $(0.44), and $(0.98) for the years ended December 31, 2000, 1999 and 1998, respectively, gives effect to the assumed conversion of preferred stock, which automatically converted to common stock upon the completion of the Company's initial public offering (using the "as-if converted" method) from the original date of issuance.

Segment Reporting

The Company has determined that it operates in only one segment.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and short-term investments. The Company limits its exposure to credit loss by placing its cash, cash equivalents and investments with high credit quality financial institutions.

Recently Issued Accounting Standards

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* was effective January 1, 2001. This statement establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments imbedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. The Company believes the adoption of

SFAS No. 133 will not have an effect on the financial statements because the Company does not engage in derivative or hedging activities.

In March 2000, the Financial Accounting Standards Board issued Financial Interpretation No. 44, or FIN 44, "Accounting for Certain Transactions Involving Stock Compensation — an interpretation of APB Opinion No. 25". FIN 44 clarifies the definition of employees for purposes of applying Accounting Practice Board Opinion No. 25, "Accounting for Stock Issued to Employees", the criteria for determining whether a plan qualifies as a non-compensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 became effective on July 1, 2000, but certain conclusions in FIN 44 cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN 44 has not had a material impact on the Company.

Foreign Currency Translation

The financial statements of IRORI Europe, Ltd. are measured using the U.S. dollar as the functional currency. The financial statements of Discovery Technologies Ltd. are measured using the local currency as the functional currency. Assets and liabilities of the Company are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at the average rate of exchange during the reporting period. The resulting foreign currency gains (losses) for IRORI Europe, Ltd. are included in the consolidated statement of operations. The resulting translation adjustments for Discovery Technologies Ltd. are unrealized and included as a separate component of other comprehensive income (loss). Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of these transactions.

3. Acquisitions

Axys Advanced Technologies, Inc.

On April 28, 2000, the Company acquired Axys Advanced Technologies, Inc. ("AAT"), a wholly owned subsidiary of Axys Pharmaceuticals, Inc. The acquisition was accounted for as a purchase in accordance with the provisions of APB No. 16.

The Company obtained a report from Houlihan Valuation Advisors, an independent valuation firm, and performed other procedures necessary to complete the purchase price allocation.

A summary of the AAT acquisition costs and allocation to the assets acquired and liabilities assumed is as follows:

Total acquisition costs:	
Cash paid at acquisition	$ 50,000
Issuance of promissory note	550,334
Issuance of common stock, warrant and stock options	59,769,495

Acquisition related expenses	345,099
	$60,714,928
Allocated to assets and liabilities as follows:	
Tangible assets acquired	$12,252,068
Assumed liabilities	(2,581,167)
In-process research and development	9,000,000
Assembled workforce	1,344,067
Below market value lease	1,221,105
Goodwill	39,478,855
	$60,714,928

The goodwill will be amortized on a straight-line basis over a period of ten years from the date of acquisition. The assembled workforce and below market lease intangible assets will be amortized on a straight-line basis over periods of three and four years, respectively, from the date of acquisition.

The valuation of the in-process research and development was determined based on a discounted cash flow analysis of projected future earnings for each project. The revenue stream from each research and development project was estimated based upon its stage of completion as of the acquisition date. The discount rates used for the

analysis were adjusted based on the stage of completion to give effect to uncertainties in meeting the projected cash flows. The discount rates used ranged from 20% to 40%.

Assuming that the acquisition of AAT had occurred on the first day of the Company's fiscal year ended December 31, 1999, pro forma condensed consolidated financial information would be as follows:

	Years ended December 31,	
	2000	1999
	(Unaudited)	
Revenues	$ 41,334,000	$ 27,050,000
Net loss	(3,543,000)	(4,170,000)
Net loss per share, basic and diluted	$ (0.27)	$ (3.71)

This pro forma information is not necessarily indicative of the actual results that would have been achieved had AAT been acquired the first day of the Company's fiscal year ended December 31, 1999, nor is it necessarily indicative of future results. The above pro forma condensed consolidated information does not include the $9.0 million write-off of in-process research and development that occurred in the Company's accounting for its acquisition of AAT in 2000.

Structural Proteomics, Inc.

On May 5, 2000, the Company acquired 75% of the outstanding shares of Structural Proteomics, Inc. (SPI) in exchange for $1,000,000 in cash and 150,000 shares of DPI common stock. The acquisition was accounted for as a purchase in accordance with the provisions of APB No. 16, resulting in a total purchase price of $2.2 million and recognition of goodwill of $1.9 million. The pro forma results of operations for the years ended December 31, 2000 and 1999 as if the acquisition of SPI had occurred on the first day of the Company's fiscal year ended December 31, 1999 are not materially different than the reported net loss.

4. Debt

Equipment Notes Payable and Capital Leases

At December 31, 2000, obligations under equipment notes totaled $1,794,328 payable in monthly installments through the year 2004 with a weighted-average interest rate of 9.77% and secured by the assets of the Company. In March 2000, the Company signed two equipment notes payable totaling $747,150, payable in monthly installments through the year 2003 with a weighted-average interest rate of 13.82% and secured by assets of the Company. In November 2000, the Company signed 3 additional equipment notes payable totaling $737,709, payable in monthly installments through the year 2004 with a weighted-average interest rate of 7.27% and secured by assets of the Company.

Notes Payable to Shareholders

On December 10, 1999, the Company borrowed $4.0 million from certain of its principal investors. The notes accrued interest at 8% per annum and were due and payable on the earlier of the closing of a preferred stock financing round or February 10, 2000. Subsequent to December 31,

1999, the noteholders informally extended the maturity of the notes until the closing of the redeemable convertible Series E preferred stock sale. The notes plus accrued interest were converted into redeemable convertible Series E preferred stock on April 7, 2000 (see Note 6 and 7).

On March 9, 2000, the Company borrowed $2.0 million from one of its principal investors. The promissory note accrued interest at 8% per annum and was due and payable upon the earlier of the closing of a preferred stock financing round or June 9, 2000. In connection with the note, the Company issued warrants to purchase a variable number of shares of redeemable convertible preferred stock at a purchase price of $5.00 per share. The note plus accrued interest was converted into redeemable convertible Series E preferred stock on April 7, 2000 (see Note 6 and 7).

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5. Commitments

Leases

The Company leases a facility in San Diego under an operating lease agreement that expires on August 31, 2006, and a second facility in South San Francisco under an operating lease agreement that expires on November 30, 2003. Rent expense was $908,036, $648,788 and $829,343 for the years ended December 31, 2000, 1999 and 1998, respectively. Additionally, the Company leases certain equipment under operating leases with initial terms in excess of one year.

Annual future minimum lease obligations under the Company's operating and capital leases as of December 31, 2000 are as follows:

	Operating Leases	Equipment Notes Payable and Capital Leases
2001	$ 971,741	$ 774,589
2002	990,966	691,136
2003	969,074	321,163
2004	674,240	19,889
2005	690,856	—
Thereafter	467,952	—
Total minimum lease payments	$4,764,832	1,806,777
Less amount representing interest		(201,494)
Total present value of minimum payments		1,605,283
Less current portion		(661,160)
Non-current portion		$ 944,123

At December 31, 2000, cost and accumulated amortization of property and equipment under capital leases was $2,472,228 and $523,050, respectively. At December 31, 1999, cost and accumulated amortization of property and equipment under capital leases was $624,947 and $170,183, respectively.

Letter of Credit

The Company signed a standby letter of credit for $700,000 required under the terms of the Company's lease of its facilities. The Company pledged $1.0 million of cash equivalents as collateral for the letter of credit. The amount is included in restricted cash and cash equivalents as of December 31, 2000 and 1999. The letter of credit expires in fiscal 2004.

6. Redeemable Convertible Preferred Stock

In April 2000, the Company issued 1,392,503 shares of redeemable convertible Series E preferred stock at $8.00 per share in exchange for the conversion of $6.0 million in notes payable to shareholders and $5.0 million in cash. All of the shares of redeemable convertible Series A, B, C, D and E preferred stock were converted into common stock upon the completion of the Company's initial public offering on July 27, 2000.

7. Shareholders' Equity

Common Stock

On July 27, 2000, the Company sold 5 million shares of common stock at $18.00 per share through an Initial Public Offering. On August 27, 2000, the underwriters exercised their option to acquire an additional 750,000 shares, also at $18.00 per share.

Stock Options

In November 1995, the Company adopted the 1995 Stock Option/Stock Issuance Plan, under which 2,350,000 shares of common stock were

reserved for issuance of stock and stock options granted by the Company. In July 2000, the Company adopted the 2000 Stock Incentive Plan (the "Plan") as the successor plan to the 1995 Stock Option/Stock Issuance Plan. 3,300,000 shares of common stock were reserved under the Plan, including

shares rolled over from the 1995 Plan. The Plan provides for the grant of incentive and nonstatutory options. The exercise price of incentive stock options must equal at least the fair value on the date of grant, and the exercise price of nonstatutory stock options may be no less than 85% of the fair value on the date of grant. The options generally vest over a four-year period and all expire ten years after the date of grant.

A summary of the Company's stock option activity and related information is as follows:

	Years Ended December 31,					
	2000		1999		1998	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	934,510	$ 0.71	980,075	$ 0.49	483,720	$ 0.31
Granted	1,602,755	7.03	191,500	1.50	1,087,700	0.51
Exercised	(359,362)	0.96	(190,790)	0.38	(464,242)	0.40
Forfeited	(91,061)	2.59	(46,275)	0.75	(127,103)	0.34
Outstanding at end of period	2,086,842	$ 5.44	934,510	$ 0.71	980,075	$ 0.49
Exerciseable	574,933	$ 1.65	418,469	$ 0.53	204,893	$ 0.35

Exercise prices for options outstanding as of December 31, 2000 ranged from $0.30 to $25.00. The weighted-average remaining contractual life of those options is approximately eight years. The weighted-average fair value of the options granted in 2000, 1999 and 1998 is $5.62, $0.39 and $0.13 per share, respectively.

At December 31, 2000, options for 1,108,502 shares were available for future grant.

Pro forma information regarding net income or loss is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions in 2000, 1999 and 1998: risk-free interest rate of 6.0% ; dividend yield of 0%; and a weighted-average life of five years. The Company used a volatility factor of 70%, 0%, and 0% during the years ended December 31, 2000, 1999 and 1998, respectively.

For purposes of adjusted pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period. The Company's adjusted pro forma information is as follows:

	Years Ended December 31,		
	2000	1999	1998
Adjusted pro forma net loss	$(13,301,547)	$(3,435,570)	$(6,296,500)
Adjusted pro forma net loss per share	$ (1.01)	$ (3.05)	$ (8.23)

The pro forma effect on net loss for 2000, 1999 and 1998 is not likely to be representative of the pro forma effects on reported net income or loss in future years because these amounts reflect less than four years of vesting.

Following is a further breakdown of the options outstanding as of December 31, 2000:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life In Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price Of Options Exercisable

$0.20—1.50	625,515	7.4	$ 0.80	387,328	$ 0.73
$2.50—6.56	876,982	8.9	$ 2.66	176,506	$ 2.61
$8.00—12.00	272,600	9.3	$ 8.88	1,099	$ 8.00
$14.11—25.00	311,745	9.7	$ 19.53	10,000	$ 19.88
	2,086,842			574,933	

Employee Stock Purchase Plan

In June 2000, the board of directors and shareholders adopted the Employee Stock Purchase Plan (the "Purchase Plan"). A total of 250,000 shares of the Company's common stock have been reserved for issuance under

the Purchase Plan. The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods. The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. In addition, the Purchase Plan provides for annual increases of shares available for issuance under the Purchase Plan beginning with fiscal 2001. Employee participation in the Purchase Plan has not yet commenced.

Deferred Stock Compensation

In conjunction with the Company's initial public offering completed in July 2000, the Company has recorded deferred stock compensation totaling approximately $2.7 million and $1.0 million during the years ended December 31, 2000 and 1999, respectively, representing the difference at the date of grant between the exercise or purchase price and estimated fair value of the Company's common stock as estimated by the Company's management for financial reporting purposes in accordance with APB No. 25. Deferred compensation is included as a reduction of stockholders' equity and is being amortized to expense on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation No. 28 over the vesting period of the options and restricted stock. During the years ended December 31, 2000 and 1999, the Company recorded amortization of stock-based compensation expense of approximately $1.4 million and $0.3 million, respectively.

Warrants

In years prior to 1999, the Company has issued warrants to purchase a total of 468,522 shares of common and preferred stock in connection with convertible bridge notes issued to investors and obligations under capital leases. The warrants had exercise prices ranging from $.01 to $2.00 per share. The Company determined the relative fair value of the warrants at issuance was not material; accordingly, no value has been assigned to the warrants.

In connection with the issuance of notes payable in December 1999 and March 2000, the Company issued warrants to investors to purchase a total of 234,738 shares of redeemable convertible preferred stock at a purchase price of $5.00 per share. The estimated fair value of the warrants of $1.2 million was based on using the Black Scholes valuation model and was recorded as interest expense in 2000.

703,260 warrants have been exercised as of December 31, 2000.

Common Shares Reserved For Future Issuance

At December 31, 2000 common shares reserved for future issuance consist of the following:

Warrants	200,000
Stock options	3,195,344
Employee Stock purchase plan	250,000
	3,645,344

8. Income Taxes

At December 31, 2000, the Company had federal and California income tax net operating loss carryforwards of approximately $16,970,000 and $12,860,000, respectively. The difference between the federal and California net tax operating loss carryforwards is primarily attributable to the capitalization of research and development expenses for California income tax purposes.

The federal and California tax loss carryforwards will begin to expire in 2010 and 2003, respectively, unless previously utilized. The Company also has federal and California research tax credit carryforwards of approximately $1,255,000 and $801,000, respectively, which will begin to expire in 2010 unless previously utilized.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of the Company's net operating loss and credit carryforwards may be limited if cumulative changes in ownership of more than 50% occur during any three year period.

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Significant components of the Company's deferred tax assets are shown below. A valuation allowance of $12,035,000 has been recognized to offset the deferred tax assets as realization of such assets is uncertain.

	December 31,	
	2000	1999
Deferred tax assets:		
Net operating loss carryforwards	$ 6,680,000	$ 5,776,000
Research and development credits	1,775,000	935,000
Capitalized research and development expenses	2,732,000	179,000
Other, net	848,000	632,000
Total deferred tax assets	12,035,000	7,522,000
Valuation allowance for deferred tax assets	(12,035,000)	(7,522,000)
Net deferred tax assets	$ —	$ —

9. Retirement Plan

In 1996, the Company established a 401(k) plan covering substantially all domestic employees. The Company pays all administrative fees of the plan. The plan contains provisions allowing for the Company to declare a match up to 25% of funds contributed to the plan by employees. There were no matching contributions declared by the Company for the years ended December 31, 2000, 1999 and 1998.

10. Significant Customers, Suppliers and Foreign Operations

Most of the Company's operations and long-lived assets are based in the United States. Discovery Technologies Ltd., located near Basel, Switzerland, had long-lived assets totalling $3,098,373 and $2,354,836 at December 31, 2000 and 1999, respectively.

The geographic breakdown of our revenues for the years ended December 31, 2000, 1999 and 1998 are as follows:

	2000	1999	1998
United States	66%	74%	58%
Foreign countries	34%	26%	42%
	100%	100%	100%

Major customers, responsible for 10% or more of revenues, include collaborative partners and pharmaceutical and biotechnology companies. The percentages of sales of each of these third party major customers to total revenue derived from third parties for the years ended December 31, 2000, 1999 and 1998 were as follows:

	Years Ended December 31,		
	2000	1999	1998
Customer A	14%	—	—
Customer B	12%	22%	8%
Customer C	10%	—	—
Customer D	7%	20%	3%
Customer E	1%	7%	23%

The Company depends on sole source suppliers for the mesh component of its reactors, the RF tags used in its commercial products and the two dimensional bar code tags used in its NanoKan reactors.

11. Quarterly Financial Data (Unaudited)

The following financial information reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for fiscal 2000 are as follows (in thousands, except per share data):

	2000 Quarter Ended			
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**
Revenues	$ 5,173	$ 9,528	$10,159	$11,403
Cost of product and services	3,053	4,724	5,034	5,531
Gross margin	2,120	4,804	5,125	5,872
Loss from operations	(437)	(9,435)	(1,582)	(1,727)
Net loss	$(1,630)	$(9,315)	$ (631)	$ (121)
Net loss per share, basic and diluted(1)	$ (1.23)	$ (1.03)	$ (0.03)	$ (0.01)
Pro forma net loss per share, basic and diluted(1), (2)	$ (0.21)	$ (0.55)	$ (0.03)	$ (0.01)

(1) Net loss per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net loss per share will not necessarily equal the total for the year.

(2) Pro forma basic and diluted net loss per common share gives effect to the assumed conversion of preferred stock, which automatically converted to common stock upon the completion of the Company's initial public offering (using the "as-if converted" method) from the original date of issuance.

12. Subsequent Events (Unaudited)

On January 12, 2001, the Company acquired Systems Integration Drug Discovery Company, Inc., a privately-held company located in Tucson, Arizona, for approximately $12 million in cash. The acquisition was accounted for as a purchase in accordance with the provisions of APB No. 16.

On February 27, 2001, the Company agreed to acquire Xenometrix, Inc., a publicly-held company located in Boulder, Colorado for approximately $2.5 million in cash. The acquisition is expected to close in the second quarter of 2001, and will be accounted for as a purchase in accordance with the provisions of APB No. 16.

EXHIBIT 10.22

LICENSE AGREEMENT

This License Agreement ("AGREEMENT") is made as of this 2nd day of January, 2001 (the "EFFECTIVE DATE") by and between ABBOTT LABORATORIES, an Illinois corporation, with its principal office at 100 Abbott Park Road, Abbott Park, IL 60064 ("ABBOTT") and DISCOVERY PARTNERS INTERNATIONAL, a Delaware corporation, with its principal office at 9640 Towne Centre Drive, San Diego, CA 92121 ("DPI").

WITNESSETH

WHEREAS, Abbott is the owner of certain proprietary rights and Know-How (as defined below) relating to arrayed compound screening ("ARCS"), a methodology and technology for continuous format high throughput screening of chemical compounds, as more fully defined below;

WHEREAS, DPI wishes to obtain, and Abbott wishes to grant to DPI and its Affiliates (as defined below), an exclusive license in the Territory (as defined below) under such proprietary rights and Know-How relating to the ARCS Technology (as defined below) to provide Services (as defined below) and develop and commercialize Products (as defined below) in the Field (as defined below) utilizing ARCS Technology.

NOW THEREFORE, in consideration of the mutual obligations and promises as set forth herein, the parties do hereby agree as follows:

1. DEFINITIONS. As used in this Agreement, the following terms shall have the following respective meanings:

1.1 "AFFILIATE" means any corporation, company, partnership, joint venture and/or firm which controls, is controlled by, or is under common control of either party hereto. For purposes of this definition, control shall mean direct or indirect ownership of more than fifty percent (50%) of the stock or participating shares entitled to vote for the election of directors (but only as long as such ownership exists).

1.2 "ARCS" means arrayed compound screening which comprises a method for screening chemical compounds by depositing compounds onto a plastic sheet in an array and contacting a gel containing reagents on top of the plastic sheet for testing or screening chemical compounds for biological or biochemical activity which can be performed in a continuous high throughput screening format, together with all equipment and materials utilized in performing ARCS, including, but not limited to, gels, reagents, compounds on sheets, compound spotting equipment, gel casting equipment, read-out mechanisms, and the like materials.

1.3 "ARCS TECHNOLOGY" means the Patents and Abbott's Know-How, including all Improvements made by Abbott during the Term.

1.4 "COMMERCIAL SALE" means the sale of a Product or Service in the Territory, by DPI or by any Affiliate, sublicensee or customer of DPI, or by any contract sales force of any of them to any unaffiliated third party, as evidenced by the selling party's invoice or other relevant document to such third party.

1.5 "CONFIDENTIAL INFORMATION" means any and all information or data relating to ARCS (including, but not limited to, ARCS Technology, DPI Technology and Products) which a party discloses to the other party, its employees or representatives, or is conceived or reduced to practice during the Term by either party or by a third party working with a party in connection with ARCS or in connection with this Agreement, whether in writing, orally or by observation, including, without limitation, all scientific,

clinical, technical, commercial, financial and business information and Know-How, and other information or data considered confidential in nature. Confidential Information shall not include information which:

(a) is known to the receiving party at the time of disclosure and documented by written records of the receiving party made prior to the date of disclosure;

(b) is subsequently disclosed to the receiving party without any obligations of confidence by an unaffiliated third person who has not obtained it directly or indirectly from the other party and who has the right to make such disclosure;

(c) becomes patented, published or otherwise part of the public domain;

(d) is independently developed by or for the receiving party by person(s) having no knowledge of or access to such information and without breach of any confidentiality obligation, as evidenced by its written records; or

(e) is required to be disclosed by legal, regulatory, statutory or governmental process or authorities, provided in each case the party disclosing information promptly informs the other and uses its best efforts to limit the disclosure and to maintain confidentiality to the maximum extent possible and permits the other party to attempt by appropriate legal means to limit such disclosure.

This Agreement shall constitute Confidential Information.

1.6 "DPI TECHNOLOGY" means any Improvements and Know-How developed by DPI and any and all patent applications and patents and amendments thereto, including foreign equivalents, and any and all substitutions, extensions, additions, reissues, re-examinations, renewals, divisions, continuations, continuations-in-part or supplementary protection certificates owned by or licensed to (with the right to sublicense) DPI during the Term (other than the Patents).

1.7 "EFFECTIVE DATE" shall have the meaning ascribed to such term in the opening paragraph of this Agreement.

1.8 "FIELD" means continuous format high throughput screening of chemical compounds.

1.9 "IMPROVEMENTS" means all additions, developments, modifications, enhancements and adaptations which (i) directly relate to or are used in connection with (A) ARCS Technology in the Field, as developed by Abbott; or (B) ARCS, as developed by DPI, and (ii) are conceived and reduced to practice during the Term. Ownership of Improvements shall be as set forth in Article 13 hereof.

1.10 "KNOW-HOW" means any proprietary technology, information, methods of use, processes, techniques, ideas or inventions (whether patentable or not) owned, possessed or used by Abbott or DPI, as the case may be, which is directly related to or used in connection with ARCS, including all trade secrets and any other information relating thereto.

1.11 "NET SALES" means gross sales of Services by DPI or by any Affiliate, sublicensee or customer of DPI; gross sales of any Product by DPI, by any Affiliate, sublicensee or customer of DPI; or by any contract sales force of any of them to unrelated third parties, in arm's length transactions, less any of the following charges or expenses that are incurred in connection with such gross sales during the Term:

(a) discounts, including cash discounts, customary trade allowances or rebates actually taken, and commissions;

(b) credits or allowances given or made for rejection, recall or return of previously sold Product actually taken;

(c) any tax or government charge, duty or assessment (including any tax such as a value added or similar tax or government charge) levied on the sale, transportation or delivery of a Product when included on the invoice or other written document between the parties as payable by the purchaser and collectable by DPI, its Affiliate or sub-licensee; and

(d) freight, postage, transportation, insurance and duties on shipment of Product when included on the invoice or other written document between the parties as payable by the purchaser and collectable by DPI, its Affiliate or sublicensee.

The parties acknowledge that Abbott shall be entitled to a direct royalty under Section 5.2 hereof on all Net Sales by DPI, any Affiliate, sublicensee or customer of DPI, or by any contract sales force of any of them. Net Sales shall also include all Sublicense Consideration received by DPI pursuant to Section 4.3(b) hereof.

1.12 "PATENTS" means the patent applications and patents listed in Exhibit A hereto and any and all other patent applications and patents and amendments thereto, including foreign equivalents, and any and all substitutions, extensions, additions, reissues, re-examinations, renewals, divisions, continuations, continuations-in-part or supplementary protection certificates owned by or licensed to (with the right to sublicense) Abbott during the Term relating to ARCS in the Field.

1.13 "PRODUCT" means any product developed hereunder by DPI, any Affiliate, sublicensee or customer utilizing ARCS and/or ARCS Technology in the Field.

1.14 "ROYALTY PERIOD" shall have the meaning ascribed to such term in Section 5.2(a) hereof.

1.15 "SERVICES" means providing continuous format high throughput screening of chemical compounds by DPI, any Affiliate, sublicensee or customer utilizing ARCS and/or ARCS Technology in the Field on behalf of third parties, together with any and all associated services provided to third parties, including, but not limited to, training services, equipment services, technical support services, consulting services, and the like services.

1.16 "SUBLICENSE CONSIDERATION" shall have the meaning ascribed to such term in Section 4.3(b) hereof.

1.17 "TERM" means the period commencing on the Effective Date and terminating as set forth in Article 8 below.

1.18 "TERRITORY" means the entire world.

1.19 "TRADEMARK" means any trademark registered, owned and chosen for Product by DPI in any country of the Territory.

1.20 "VALID CLAIM" means any claim issued on an unexpired Patent, which claim has not been held unenforceable, unpatentable or invalid by a decision of a court or other governmental agency of competent jurisdiction following exhaustion of all possible appeal processes, and which has not been admitted to be invalid or unenforceable through reissue, reexamination or disclaimer.

2. LICENSE GRANT.

2.1 (a) LICENSE GRANT TO DPI: Abbott hereby grants to DPI and its Affiliates an exclusive right and license in the Territory under ARCS Technology in the Field, with the right to grant sublicenses pursuant to Section 4.3 hereof, to utilize ARCS Technology in the Field: (i) to research, develop, modify, improve, make or have made, Products for Commercial Sale; and (ii) to provide Services utilizing ARCS Technology.

(b) LICENSE GRANT TO ABBOTT: DPI hereby grants to Abbott and its Affiliates a non-exclusive right and license in the Territory under DPI Technology and DPI Know-How: (i) to research, develop, modify, improve, make or have made devices, apparatus and equipment relating to ARCS; (ii) to license the ARCS Technology to its collaborative partners for use in collaborative projects to research, develop, make, have made, use, have used, and sell compounds; and (iii) to research, develop, make, have made, use, have used, and sell compounds for whatever use.

(c) RESERVATION: Notwithstanding the foregoing exclusive grant to the contrary, nothing contained in this Agreement shall preclude Abbott from further developing and utilizing ARCS, ARCS Technology, DPI Technology and DPI Know-How for its own internal purposes, including, but not limited to, researching, developing, making, having made, using, having used, and selling compounds for whatever purpose, and licensing the ARCS Technology, DPI Technology and DPI Know-How to its collaborative partners for use in collaborative projects to research, develop, make, have made, use, have used, and sell compounds for whatever purpose. No such development and utilization of ARCS Technology, DPI Technology and DPI Know-How by Abbott or its collaborative partners hereunder shall require any payment to DPI and DPI shall have no rights whatsoever to any compounds so developed by Abbott or its collaborative partners using ARCS Technology, DPI Technology and DPI Know-How.

3. TECHNOLOGY TRANSFER.

3.1 CONVEYANCE OF INFORMATION: Within forty-five (45) days following the Effective Date, Abbott shall convey to DPI the information under Abbott's and its Affiliates' control involving ARCS Technology in the Field. For purposes of this Section 3.1, information shall not be deemed under Abbott's or its Affiliates' control if such information was obtained from third parties and is protected by confidentiality agreements with third parties. With respect to such protected information, Abbott shall use reasonable efforts to obtain the consent of such third parties to release the protected information to DPI.

3.2 Review: Beginning one month following the Effective Date and during the Term, unless otherwise agreed by the parties, representatives of Abbott and representatives of DPI shall meet for informational purposes on a regular basis, at a mutually agreeable time and place, to exchange information and Know-How, to review the progress of and to coordinate their respective development efforts with respect to ARCS. Nothing contained in this Agreement shall require or obligate Abbott to further develop ARCS Technology, or to restrict Abbott from further developing ARCS Technology.

4. DEVELOPMENT/MANUFACTURING/SUBLICENSING.

4.1 DEVELOPMENT: DPI shall use the same commercially reasonable efforts that it would use for its own technology to further develop the ARCS and/or ARCS Technology to enable it to manufacture Products for Commercial Sale and provide Services. DPI shall have sole responsibility for designing, conducting and paying for the cost of the development of Products and Services and shall use commercially reasonable efforts to diligently conduct such development.

4.2 MANUFACTURING: DPI and its Affiliates shall have sole responsibility for manufacturing Product or having Product manufactured for it by a third party manufacturer.

4.3 SUBLICENSING:

(a) DPI may sublicense to unrelated third parties its rights under this Agreement. Each sublicense (any any sub-sublicense by any such third party) shall be in writing and shall include provisions acknowledging that such sublicense is subject to the license granted by Abbott to DPI under this Agreement, including the obligation of each sublicensee to pay direct royalties to Abbott on Net Sales as provided in Section 5.2 below, that each sublicensee shall make reports and keep and maintain records of Commercial Sales to at least the same extent as required under this Agreement, allowing Abbott the same access and audit rights permitted under this Agreement, and that each such sublicense shall be automatically terminated upon expiration or termination of this Agreement. Each sublicense shall also provide for the regular conveyance of information and Know-How developed by sublicensees to Abbott and DPI, as well as a license to Improvements developed by sublicensees to Abbott and DPI as provided in Section 13 hereof. DPI shall remain primarily liable for the performance of all sublicensees. DPI shall provide Abbott with a copy of each sublicense agreement within thirty (30) days of the execution thereof.

(b) All consideration received by DPI as a result of each sublicense of its rights under this Agreement and any sub-sublicense agreement (including, but not limited to, fees, payments, milestones, royalties, etc.) (collectively,

the "SUBLICENSE CONSIDERATION") shall be considered Net Sales under this Agreement and subject to royalty under Section 5.2 hereof.

5. ROYALTIES.

5.1 PRE-PAID, NON-REFUNDABLE ROYALTY. DPI shall pay to Abbott *** *** as a pre-paid and non-refundable royalty. ***.

5.2 ROYALTY PAYMENTS:

(a) ROYALTY RATE AND ROYALTY PERIOD: Beginning on the Effective Date, DPI shall pay to Abbott a royalty on annual aggregate worldwide Net Sales in accordance with the following schedule:

ANNUAL NET SALES	ROYALTY
Effective Date through Third (3rd) Anniversary	***

Fourth (4th) Year	***
Fifth (5th) Year	***
Sixth (6th) Year and Thereafter	***

All royalties earned by Abbott up to *** shall be credited against the pre-paid royalty made by DPI under Section 5.1 hereof.

The obligation of DPI, any Affiliate, sublicensee or customer to pay a royalty to Abbott shall continue until such time as U.S. Patent #5,976,813 containing a Valid Claim, identified in Exhibit A, has expired ("ROYALTY PERIOD"). Upon the end of the Royalty Period, DPI shall have an exclusive, perpetual and irrevocable license under ARCS Technology, with all of the rights granted under Article 2 hereof, and without any further obligation to Abbott, except for the payment obligations accruing prior to such date.

(b) ROYALTY REPORTS AND PAYMENTS: Within forty-five (45) days after the end of each calendar quarter, DPI shall prepare and deliver to Abbott a

*** Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission

report detailing the calculation of Net Sales in the Territory, for such just ended quarter along with the calculation of royalties due thereon pursuant to Section 5.2 (a) above. Each report shall be accompanied by full payment in U.S. dollars of the royalties shown thereon to be due, less any credits against such royalties under Section 5.2(a) above. In the event that conversion from foreign currency is required in calculating a royalty payment hereunder, the exchange rate used shall be the ratio in effect at the end of the last business day of the applicable quarter for which royalties are calculated, as reported by The Wall Street Journal, or a substantially similar global publication if The Wall Street Journal is no longer published.

(c) BOOKS AND RECORDS/AUDIT RIGHTS: DPI shall keep books and records accurately showing all Products manufactured, used or sold, and Services provided, under the terms of this Agreement. The relevant portions of such books and records shall be open to inspection by representatives of Abbott, at Abbott's cost, solely for the purposes of determining the correctness of the royalties payable under this Agreement. Such audit, conducted no more than one time per calendar year, shall be during normal business hours after reasonable advance notice and subject to suitable confidentiality provisions. In the event an audit shows a deficiency to be due, DPI shall immediately pay such deficiency along with the reasonable costs and expenses of the audit if the deficiency is more than five percent (5%) of the amount due during such audited period. If the audit shows that an excess was paid, DPI shall be entitled to deduct the amount of such excess from the payment due for the next calendar quarter. Such books and records shall be preserved for a period of at least three (3) years after the date of the royalty payment to which they pertain, and no audit may be conducted with respect to royalties due in any calendar year that is more than two (2) years preceding the calendar year in which the audit is being conducted. Books and records for a given calendar year may only be audited once.

(d) WITHHOLDING TAXES ON ROYALTIES: Where any sum due to be paid to Abbott hereunder is subject to any withholding or

similar tax, the parties shall use all reasonable efforts to do all such acts and to sign all such documents as will enable them to take advantage of any applicable double taxation agreement or treaty. In the event there is no applicable double taxation agreement or treaty, or if an applicable double taxation agreement or treaty reduces but does not eliminate such withholding or similar tax, DPI shall pay such withholding or similar tax to the appropriate government authority, deduct the amount paid from the amount due Abbott, and secure and send to Abbott the best available evidence of such payment sufficient to enable Abbott to obtain a deduction for such withheld taxes or obtain a refund thereof.

6. REPRESENTATIONS/WARRANTIES.

6.1 REPRESENTATIONS AND WARRANTIES OF ABBOTT: Abbott represents and warrants: (a) that it is duly organized, validly existing and in good standing under the laws of Illinois, (b) that it has full corporate power and authority to enter into this Agreement and to carry out its provisions, (c) that there are no outstanding agreements or assignments in existence that are inconsistent with the provisions of this Agreement, (d) that it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder, (e) that the execution, delivery and performance of this Agreement by it does not require the consent, approval or authorization of, or notice, filing or registration with, any governmental or regulatory authority, (f) that, to the best of its knowledge, it has delivered (or will deliver to DPI within forty-five (45) days as required under Section 3.1 hereof), all Abbott Know-How necessary to practice ARCS Technology, (g) that it is the owner of or has sufficient rights to ARCS Technology to grant the license granted herein free of any lien or encumbrance that would materially impair DPI's rights and obligations hereunder, (h) that, to the best of its knowledge, there is no suit, action or claim instituted or threatened by a third party against the ARCS Technology, (i) that it has not assigned or conveyed any interest in the intellectual property rights inconsistent with the rights granted hereunder, (j) that, to the best of its knowledge, it is not aware that any third party infringes Patents as of the Effective Date, and (k) that to the extent it has prosecuted any patent applications for Patents, it has prosecuted such applications in good faith.

6.2 REPRESENTATIONS AND WARRANTIES OF DPI: DPI represents and warrants: (a) that it is duly organized, validly existing and in good standing under the laws of Delaware, (b) that it has full corporate power and authority to enter into this Agreement and to carry out its provisions, (c) that there are no outstanding agreements or assignments in existence that are inconsistent with the provisions of this Agreement, (d) that it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder, (e) that the execution, delivery and performance of this Agreement by it does not require the consent, approval or authorization of, or notice, filing or registration with, any governmental agency or regulatory authority, (f) that it is the owner or has sufficient rights in DPI Know-How or any other intellectual property rights licensed to Abbott hereunder to grant the license granted herein free of any lien or encumbrance that would materially impair Abbott's rights and obligations hereunder, and (g) that it has not assigned or conveyed any interest in DPI Know-How or any other intellectual property rights inconsistent with the rights granted hereunder.

6.3 INDEMNIFICATION BY DPI: DPI shall indemnify, defend, save and hold Abbott, and each of its Affiliates, directors, officers, employees and agents harmless from and against any and all liabilities, actions, suits, claims, demands, prosecutions, damages, costs, expenses or money judgments finally awarded (including

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reasonable legal fees) (collectively, "LIABILITIES") incurred by or instituted or rendered against Abbott to the extent such Liabilities result from a third party claim arising from the willful misconduct or the negligent acts or omissions of DPI or its Affiliates or DPI's material breach of this Agreement, and provided that Abbott gives DPI prompt notice in writing of any such claim or lawsuit and permits DPI to undertake sole control of the defense and settlement thereof at DPI's expense. In any such claim or lawsuit:

(a) Abbott will cooperate in the defense by providing access to witnesses and evidence available to it. Abbott shall have the right to participate, at its expense, in any defense to the extent that in its reasonable judgment Abbott may be prejudiced by DPI"s sole defense thereof.

(b) With respect to this Agreement, Abbott shall not settle, offer to settle or admit liability in any claim or suit in which Abbott intends to seek indemnification by DPI without the written consent of a duly authorized officer of DPI.

6.4 INDEMNIFICATION BY ABBOTT: Abbott shall indemnify, defend, save and hold DPI and each of its Affiliates, officers, directors, employees and agents harmless from and against any Liabilities incurred by or instituted or rendered against DPI to the extent such Liabilities result from or arise out of any breach of any express warranty hereunder or non-fulfillment or non-performance by Abbott of any written or express agreement, covenant or obligation of Abbott under this Agreement, provided that DPI gives Abbott prompt notice in writing of any such claim or lawsuit and permits Abbott to undertake sole control of the defense and settlement thereof at Abbott's expense. In any such claim or lawsuit:

(a) DPI will cooperate in the defense by providing access to witnesses and evidence available to it. DPI shall have the right to participate, at its expense, in any defense to the extent that in its reasonable judgment DPI may be prejudiced by Abbott's sole defense thereof.

(b) With respect to this Agreement, DPI shall not settle, offer to settle or admit liability in any claim or suit in which DPI intends to seek indemnification by Abbott without the written consent of a duly authorized officer of Abbott.

6.5 REPORTING: Each party warrants that it shall advise the other promptly of any suspected defect in the ARCS Technology or in any Products.

6.6 LIMITATION: EXCEPT FOR THE EXPRESS WARRANTIES IN THIS ARTICLE 6, NEITHER PARTY MAKES ANY WARRANTIES, EXPRESS OR IMPLIED, IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE. EACH PARTY SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR

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PURPOSE. EXCEPT FOR VIOLATIONS OF ARTICLE 7 AND AMOUNTS FINALLY AWARDED FOR INDEMNIFICATION FOR THIRD PARTY LIABILITIES UNDER SECTIONS 6.3 AND 6.4, NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY HERETO OR TO ANY THIRD PARTY FOR ANY SPECIAL, CONSEQUENTIAL, EXEMPLARY OR INCIDENTAL DAMAGES (INCLUDING LOST OR ANTICIPATED PROFITS RELATING TO THE SAME) ARISING FROM ANY CLAIM RELATING TO THIS AGREEMENT, WHETHER SUCH CLAIM IS BASED ON CONTRACT, TORT (INCLUDING NEGLIGENCE) OR OTHERWISE, EVEN IF AN AUTHORIZED REPRESENTATIVE OF SUCH PARTY IS ADVISED OF THE

POSSIBILITY OR LIKELIHOOD OF SAME.

7. CONFIDENTIALITY AND NONDISCLOSURE.

7.1 NONDISCLOSURE: Neither party shall use or disclose any Confidential Information received by it from the other party pursuant to this Agreement without the prior written consent of the other, except that selected disclosures to potential or actual sublicensees, partners, contractors, customers and agents shall be permitted so long as the disclosing party shall ensure that the recipient of such information is under a duty of confidentiality to the disclosing party. This obligation will continue for a period of seven (7) years after termination or expiration of the Term, whichever is earlier.

7.2 RESTRICTION: Each party shall restrict dissemination of Confidential Information to those of its employees, contractors, customers, partners, agents and sublicensees (if any) who have an actual need to know and have a legal obligation to protect the confidentiality of such Confidential Information. All Confidential Information disclosed by one party to the other shall remain the sole property of the disclosing party and neither party shall obtain any right of any kind to the Confidential Information disclosed, except as granted under this Agreement.

7.3 RESTRICTION EXEMPTIONS: Nothing contained in this Article 7 shall be construed to restrict the parties from using or disclosing Confidential Information solely to the extent and solely as required:

(a) for regulatory, tax or customs reasons;

(b) for audit purposes;

(c) by court order or other governmental order or request; or

(d) to perform acts permitted by this Agreement.

If such a disclosure is required, the party required to make the disclosure shall provide the other party with prompt notice of the required disclosure in order to provide such party the opportunity to review the proposed disclosure and, if

deemed necessary by such party, to obtain a protective order covering all or part of such information.

8. TERM AND TERMINATION.

8.1 This Agreement shall continue in effect until the end of the Royalty Period unless and until terminated as provided in this Section 8.

8.2 If DPI determines in its reasonable scientific and commercial judgment that the ARCS Technology does not have a reasonable likelihood of commercial success, or that it is economically or technically impractical for DPI to continue developing and marketing Products and Services utilizing the ARCS Technology, DPI shall have the right to terminate this Agreement upon ninety (90) days written notice, at the end of which the termination shall be effective. Upon such termination DPI shall pay all payments or royalties which may have become due prior to the effective date of such termination, and DPI shall assign and Abbott shall be entitled to retain for its own use, all studies and information relating to the ARCS Technology and shall be granted a license to all Improvements and Know-How as set forth in Section 13 hereof. In no event shall any installment of the pre-paid royalty already paid under Section 5.1 be refundable under any circumstances.

8.3 Either party may terminate this Agreement by giving to the other party prior written notice of not less than thirty (30) days in the case of a monetary breach and of not less than ninety (90) days in the event the other party shall commit a non-monetary material breach of this Agreement, and such breaching party shall fail to cure, or commence action to cure, such breach during such thirty (30) or ninety (90) day period, as applicable. In the case of a non-monetary breach, the cure period may be extended for such longer period as may reasonably be necessary if cure is not reasonably possible within the initial ninety (90) day period, provided the breaching party continues its diligent efforts to cure. No such cancellation and termination shall release the breaching party from any obligations hereunder incurred prior thereto. In the event of a dispute whether a material breach has occurred, the existence of material breach shall be determined using the ADR procedure set forth in Exhibit B. A party's right to terminate this Agreement shall only apply if the breaching party fails to cure such breach in the manner required by the final judgment of the ADR hearing. In the event that this Agreement is terminated for DPI's material breach, Abbott shall be entitled to retain for its own use all funds previously paid by DPI, together with all Confidential Information, Know-How and Improvements generated by DPI hereunder, together with a fully paid-up license under Section 2.1(b) hereof. In the event that this Agreement is terminated for Abbott's material breach, DPI shall be entitled to retain for its own use all Confidential Information, Know-How and Improvements generated by Abbott hereunder together with a fully paid-up license under Section 2.1(a) hereof.

8.4 Either party may terminate this Agreement on thirty (30) days written notice if the other party passes a resolution or the court makes an order for its winding up; or has a receiver or administrator appointed over its business or all of its assets; or is or becomes bankrupt; or ceases its business operations. In the event that this Agreement is terminated under this Section 8.4 subject to the other terms of this Agreement, the terminating party shall be entitled to retain for its own use all Confidential Information, Know-How and Improvements generated hereunder, together with a fully paid-up license to it under Section 2.1 (a) or (b), as applicable. Notwithstanding the bankruptcy or insolvency of Abbott or DPI or the impairment of performance by Abbott or DPI of its obligations under this Agreement as a result of bankruptcy or insolvency of Abbott or DPI, the non-bankrupt/non-insolvent party shall be entitled to retain the licenses granted herein, without any further obligation to the other party other than the payment obligations under Article 5.

8.5 Termination of this Agreement shall be without prejudice to any rights of either party against the other which may have accrued up to the date such termination becomes effective.

8.6 All causes of action accruing to either party under this Agreement shall survive expiration or termination of this Agreement for any reason.

8.7 Upon any termination or expiration of this Agreement, each party shall promptly return to the other party all written Confidential Information, and all copies thereof (retaining one copy of the Confidential Information of the other in its confidential files for archival purposes only), which is not covered by a paid-up license or other rights specified herein surviving such termination or expiration.

9. INFRINGEMENT OF PATENTS BY THIRD PARTY. In the event of an actual or suspected infringement of a Patent by a third party, the following shall apply:

9.1 NOTICE: Each party shall promptly give the other written notice

if one of them becomes aware of any infringement by a third party of any Patent.

9.2 RIGHTS TO BRING INFRINGEMENT ACTION: If a third party infringes any Patent, and DPI can demonstrate to Abbott's reasonable satisfaction that such infringement has caused a twenty percent (20%) or greater reduction in Net Sales, then Abbott shall have the first right but not the obligation to institute and prosecute an action or proceeding to abate such infringement and to resolve such matter by settlement or otherwise. If the parties do not agree that an infringement caused a twenty percent (20%) or greater reduction in Net Sales, then the dispute shall be resolved according to the ADR procedure attached hereto as Exhibit B.

(a) ABBOTT ACTION: If Abbott elects to institute and prosecute an action or proceeding, Abbott shall notify DPI of its intention to bring an action or proceeding. Abbott shall keep DPI timely informed of material

developments in the prosecution or settlement of such action or proceeding. Abbott shall be responsible for all fees and expenses of any action or proceeding against infringers which Abbott initiates. DPI shall cooperate fully by joining as a party plaintiff if reasonably requested to do so by Abbott or if required to do so by law to maintain such action or proceeding and by executing and making available such documents as Abbott may reasonably request. DPI may be represented by counsel in any such legal proceedings. Abbott shall pay all third party expenses incurred by DPI in any such legal proceeding.

(b) In the event that the prepaid royalty provided for in Section 5.1 of this Agreement has been completely exhausted and DPI is able to demonstrate to Abbott's reasonable satisfaction that the third party infringement has caused a twenty percent (20%) or greater reduction in Net Sales, then during the pendency of any patent infringement action for the enforcement of any Patent by Abbott, DPI's royalty obligation shall be modified such that DPI shall pay directly to Abbott only one-half of the royalty otherwise payable under Section 5.2 of this Agreement, and the remaining one-half of such royalty shall be deposited into an interest-bearing joint escrow account with a mutually acceptable third party escrow holder.

(c) If Abbott is successful in such patent infringement action such that the defendant in such action is found to infringe Patents which is/are the subject of such action, then the amount of royalties held in escrow, together with all accrued interest thereon, shall be paid to Abbott and DPI's royalty obligation shall resume as provided for in Section 5.2 hereof. One-half of the proceeds awarded to Abbott in the infringement action shall belong to Abbott and the remainder shall be used first to pay Abbott for its documented and actual costs of enforcement, including attorneys' fees, expert fees and all other related expenses of the infringement action, and the balance shall be paid to DPI.

(d) If Abbott is unsuccessful in such patent infringement action such that the defendant in such action is found not to infringe such Patents, then the escrowed amount, less a sum sufficient to compensate Abbott for its documented and actual costs of enforcement, including attorneys' fees, expert fees, and all other related expenses of the infringement action, shall be paid to DPI and no additional royalties under Section 5.2 hereof shall be

payable to Abbott.

(e) DPI ACTION: If Abbott elects not to exercise such first right to institute and enforce an action or proceeding, DPI shall have the right, at its discretion, to institute and enforce an action or proceeding to abate such infringement and to resolve such matter by settlement or otherwise. Abbott shall cooperate fully by joining as a party plaintiff if reasonably requested to do so by DPI or if required to do so by law to maintain such

action and by executing and making available such documents as DPI may reasonably request. Abbott may be represented by counsel in any such action, at its own expense.

(i) All amounts of every kind and nature recovered from an action or proceeding of infringement brought by DPI shall belong to DPI, and shall first be used to reimburse DPI for its documented and actual costs of prosecution, second to reimburse Abbott for its documented and actual costs if it is represented by counsel in the proceedings, and the balance shall thereafter be considered Net Sales under this Agreement and subject to royalty payments under Section 5.2 hereof.

(ii) If DPI is unsuccessful in such patent infringement action such that the defendant in such action is allowed to continue the practice which DPI claimed was infringing the Patents, then no additional royalties under Section 5.2 hereof shall be payable to Abbott.

10. INFRINGEMENT OF THIRD PARTY RIGHTS; ABBOTT DEFENSE OF SUIT: If Abbott, DPI, or any of their Affiliates, sublicensees, distributors or other customers are sued or threatened with suit by a third party alleging infringement of patents or other intellectual property rights that are alleged to cover the manufacture, use, sale or distribution of one or more Products utilizing ARCS Technology, which suit is based upon alleged infringement by ARCS Technology, then Abbott or DPI, whichever is relevant, will promptly notify the other in writing and provide a copy of the lawsuit or claim. In the event (i) DPI chooses to control the defense of any such action, any settlement amounts or court-awarded damages, costs and fees (including reasonable attorneys' fees and professional fees) incurred in connection with such action shall be paid by DPI; or (ii) if DPI chooses not to control the defense of any such action, Abbott shall control the defense in such action and DPI shall fully cooperate with Abbott in the defense of any such action DPI's expenses will be paid by DPI. Nothing contained in this Section 10 shall be construed to impose liability on Abbott for ---------- damages awarded against DPI or for settlement amounts made by or on behalf of DPI in lieu of such damages. Abbott shall not settle any such action where DPI would be liable for settlement amounts without first obtaining DPI's prior written consent to such settlement.

11. PATENT PROSECUTION AND MAINTENANCE; PATENT COSTS.

11.1 DISCLOSURE OF PATENTS/APPLICATIONS TO DPI: Prior to the Effective Date, the parties acknowledge that Abbott has disclosed to DPI the complete text of, and all other information in its possession or control directly related to (a) all patent applications included in the Patents; and (b) all patents included in the Patents as well as all information in Abbott's, its Affiliates and its patent counsel's possession concerning the institution or possible institution of any interference, opposition, reexamination, reissue, revocation, nullification or any official proceeding involving an issued or granted patent included in the Patents.

11.2 PROSECUTION AND MAINTENANCE OF PATENTS BY ABBOTT: Abbott shall be solely responsible for the preparation, filing, prosecution and maintenance of the Patents owned by or assigned to Abbott, including oppositions and interferences. Abbott shall keep DPI reasonably informed with respect to the prosecution and maintenance of the Patents. If Abbott determines that it would otherwise terminate either the prosecution or maintenance of the Patents prior to the completion of normal prosecution thereof before the patent examiner or prior to the end of the term for maintenance therefor, as the case may be, then Abbott shall give DPI written notice of such determination (a "DETERMINATION NOTICE") that, under the circumstances, is reasonably in advance of any deadline for any material action due in connection with such prosecution or maintenance. Following receipt of such notice, DPI may continue such prosecution or maintenance, provided, however, that if the Royalty Period is still continuing, Abbott shall reimburse DPI for all reasonable costs and expenses associated with such prosecution or maintenance incurred from the date of the Determination Notice. If the Royalty Period is no longer continuing, then Abbott shall no longer have reimbursement responsibilities to DPI.

11.3 DISCLOSURE OF PATENTS/APPLICATIONS TO ABBOTT: During the Term, DPI shall disclose to Abbott the complete text of, and all other information in its possession or control directly related to (a) all patent applications applied for by DPI related to ARCS; and (b) all patents issued from such patent applications, as well as all information in DPI's, its Affiliates and its patent counsel's possession concerning the institution or possible institution of any interference, opposition, reexamination, reissue, revocation, nullification or any official proceeding involving an issued patent.

11.4 PROSECUTION AND MAINTENANCE OF PATENTS BY DPI: DPI shall be solely responsible for the preparation, filing, prosecution and maintenance of patents owned by or assigned to DPI (other than Patents), including oppositions and interferences. DPI shall keep Abbott reasonably informed with respect to the prosecution and maintenance of such patents.

11.5 PATENT MARKING: DPI shall ensure that all Products and associated Product and Services literature contains appropriate references to Abbott's Patents.

12. TRADEMARK: DPI may select any Trademark or Trademarks for the Product in the Territory. All costs related to the selection and maintenance of the Trademark(s) shall be borne by DPI. The Trademark(s) shall be owned by DPI, and Abbott shall have no claims or rights in or to the Trademark(s).

13. IMPROVEMENTS: All Improvements and any patents which relate to ARCS which are made solely by DPI and/or its Affiliates and/or sublicensees hereunder and which are conceived or reduced to practice during the Term, shall be the sole and exclusive property of DPI, its Affiliates and/or sublicensees, as applicable, provided, however, that

all such Improvements and patents shall be non-exclusively licensed to Abbott solely for its own use and for use with third party collaborations as permitted under Sections 2.1 (b) and (c) hereof on a worldwide, royalty-free, paid-up basis. All Improvements and any Patents which are made solely by Abbott and/or its Affiliates and which are conceived or reduced to practice during the Term, shall become part of ARCS Technology, licensed exclusively to DPI with all of the rights set forth in Section 2.1(a) hereof. All Improvements made jointly by Abbott and DPI (or by their Affiliates) hereunder shall become jointly owned,

provided that to the extent that such Improvements are owned by Abbott, they shall be included in the license granted to DPI under Section 2.1(a) hereof, and to the extent such Improvements are owned by DPI, they shall be included in the license granted to Abbott under Section 2.1(b) hereof. The provisions of this Article 13 are subject to the rights of the terminating party under Article 8 hereof. Upon termination of this Agreement under Article 8 hereof, except as provided in this Article 8 neither party shall be obligated to license any of its future improvements and/or patents to the other.

14. PATENTABLE INVENTIONS. If a patentable invention relating to ARCS is conceived or reduced to practice during the course of this Agreement and/or within six (6) months of expiration or termination of this Agreement, Abbott and DPI shall discuss such invention and the desirability of filing a United States patent application covering such invention as well as any foreign counterparts. The party owning the invention (or both parties if the invention is a joint invention) shall make the final decision with respect to any such filings. All patent applications and patents on inventions made in the course of this Agreement solely by employees of Abbott shall be owned by Abbott. All patent applications and patents on inventions made in the course of this Agreement solely by employees of DPI shall be owned by DPI. All patent applications and patents on inventions made jointly by employees of Abbott and employees of DPI during the course of this Agreement shall be jointly owned by Abbott and DPI. Each party shall be responsible for preparing, filing, prosecuting and maintaining patent applications and patents relating to sole inventions, as set forth in this Article 14, at its sole expense. DPI shall also be responsible for preparing, filing, prosecuting and maintaining, using counsel mutually acceptable to Abbott and DPI, patent applications and patents relating to inventions jointly owned by Abbott and DPI and the parties shall equally share all out-of-pocket costs (including attorney's fees) associated with such activities. The parties shall cooperate with each other in connection with any activities described herein and shall keep the other informed of all material developments regarding patent matters relating to any patent applications and patents filed hereunder. Each party shall, further, provide to the other a copy of any patent application which discloses Confidential Information prior to filing in the United States or elsewhere if reasonably possible, for review and comment by the other party. Any such patent application shall be maintained in confidence by the receiving party pursuant to Article 7 hereof. If a patent application on a joint invention encompassed by this Article 14 and either party, later, decides that it no longer wishes to continue to pay for its share of costs associated with prosecution and/or maintenance of such application (or any patent resulting therefrom), the party declining to pay for any further costs shall inform the other party of its decision to discontinue payment, in writing. Such non-declining party may then elect to continue prosecution and/or

maintenance of such application or patent at its sole expense. The party declining to pay for any further costs shall provide all reasonable assistance (including preparing any papers required to allow the other party to prosecute and/or maintain such application) required by the non-declining party in prosecuting and/or maintaining such application or patent. Further, if one party declines to pay for any further costs associated with prosecuting and/or maintaining such application or patent, and the other party elects to continue to pay for such costs, the party declining to pay for such costs shall lose all ownership rights to such application or patent and such rights shall vest totally in the party continuing to pay for such costs.

15. MISCELLANEOUS.

15.1 FORCE MAJEURE: If the performance by either party of any of its obligations under this Agreement shall be prevented by circumstances beyond its reasonable control which could not have been avoided by the exercise of reasonable diligence, then such party shall be excused from the performance of that obligation for the duration of the event. The affected party shall promptly notify the other party in writing should such circumstances

arise, give an indication of the likely extent and duration thereof, and shall use commercially reasonable efforts to resume performance of its obligations as soon as practicable.

15.2 NOTICES: Any notice required to be given or made under this Agreement by one of the parties hereto to the other shall be in writing, by personal delivery, registered U.S. mail or overnight courier, addressed to such other party at its address indicated below, or to such other address as the addressee shall have last furnished in writing to the addressor and shall be effective upon the date of receipt.

If to DPI: Discovery Partners International
9640 Towne Centre Drive
San Diego, CA 92121
Attn: President

With a copy to: Brobeck, Phleger & Harrison LLP
12390 El Camino Real
San Diego, CA 92130
Attn: Pamela Hiatt, Esq.

If to Abbott: Abbott Laboratories
100 Abbott Park Road
Dept. 467; Bldg. AP10
Abbott Park, IL 60064-
Attn: Divisional Vice President,
Advanced Technology

With a copy to: Abbott Laboratories
100 Abbott Park Road
Dept. 364; Bldg. AP6D
Abbott Park, IL 60064-6032
Attn: Senior Vice President,
General Counsel and Secretary

15.3 APPLICABLE LAW/COMPLIANCE: This Agreement shall be governed by and construed in accordance with the laws of the State of New York, excluding its conflict of laws provisions. Each party hereto shall comply with all applicable laws, rules, ordinances, guidelines, consent decrees and regulations of any federal, state or other governmental authority. The location of any ADR proceeding shall be in the metropolitan area of the party who did not initiate the ADR proceeding.

15.4 ENTIRE AGREEMENT: This Agreement and the Exhibits attached hereto contain the entire understanding of the parties with respect to the subject matter hereof. All express or implied agreements and understandings, either oral or written, heretofore made are expressly merged in and made a part of this Agreement. This Agreement may be amended, or any term hereof modified, only by a written instrument duly executed by both parties hereto.

15.5 COUNTERPARTS: This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

15.6 SEVERABILITY/HEADINGS: If any provision of this Agreement is deemed unenforceable, the remainder of the Agreement will not be affected and, if appropriate, the parties will attempt to replace the unenforceable provision with a new provision that, to the extent possible, reflects the parties' original intent. The captions and headings used in this Agreement are for reference only and are not to be construed in any way as terms or used to interpret the provisions of this Agreement.

15.7 ASSIGNMENT: Neither party may without written approval of the other assign this Agreement or transfer its interest or any part thereof under this Agreement to any third party except that

either party may assign this Agreement without consent to a third party that acquires all or substantially all of the business to which this Agreement pertains.

15.8 DISPUTE RESOLUTION: The parties hereto shall attempt to settle any dispute arising out of or relating to this Agreement in an amicable way. Except for claims for injunctive or other equitable relief, which may be brought in any court of competent jurisdiction, any controversy, claim or right of termination for cause which may arise under, out of, in connection with, or relating to this Agreement, or any breach thereof, shall be settled according to the Alternative Dispute Resolution provisions attached hereto as Exhibit B.

15.9 INDEPENDENT CONTRACTOR: It is understood that both parties hereto are independent contractors and engage in the operation of their own respective businesses and neither party hereto is to be considered the agent of the other party for any purpose whatsoever and neither party has any authority to enter into any contract or assume any obligation for the other party or to make any warranty or representation on behalf of the other party. Each party shall be fully responsible for its own employees, servants and agents, and the employees, servants and agents of one party shall not be deemed to be employees, servants and agents of the other party for any purpose whatsoever.

15.10 PUBLICITY: No press release or other public announcement shall be made by either party concerning the execution of this Agreement or the fact that DPI has licensed ARCS Technology from Abbott without the other party's prior written approval. Neither party shall use the name of the other party, its officers, the other party's employees and agents for purposes of any public commercial activity without the other party's prior written approval, except where the name of the other party must be disclosed as a matter of law. Should either party be required by law to make a disclosure, the disclosing party shall submit a copy of the proposed disclosure to the other party for review. The non-disclosing party shall have three (3) weeks to review and comment on the content of such disclosure. The disclosing party, subject to legal requirements, shall use all reasonable efforts to accommodate the non-disclosing party's comments.

15.11 SURVIVAL: The following provisions of this Agreement shall survive its expiration or termination: 6.3, 6.4, 6.5, 6.6, 7, 14, 15.3, 15.8, 15.9, 15.10 and 15.11.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date.

ABBOTT LABORATORIES	DISCOVERY PARTNERS INTERNATIONAL
By: /s/ Daniel W. Norbeck	By: /s/ Riccardo Pigliucci
Name: Daniel W. Norbeck	Name: Riccardo Pigliucci
Its: V.P. Pharmaceutical Discovery	Its: C.E.O.
Date: 1/15/01	Date: 1/2/2001

EXHIBIT A

TO
EXCLUSIVE LICENSE AGREEMENT
BETWEEN
ABBOTT LABORATORIES
AND
DISCOVERY PARTNERS INTERNATIONAL
DATED JANUARY 2, 2001

PATENTS AND PATENT APPLICATIONS

U.S. Patent No. 5,976,813

Country	Serial #	Filing Date	Patent #	Issue Date
U.S.	08/990,168	12/12/1997	5,976,813	11/02/1999

Corresponding Pending Foreign Patent Applications:

Country	Application #	Filing Date
Australia	18216/99	12/11/1998
Brazil	PI9815059-6	12/11/1998
Bulgaria	104564	12/11/1998
China	98812079.8	12/11/1998
Canada	2,310,684	12/11/1998
Czechoslovakia	PV 2000-2078	12/11/1998
European	98963130.4	12/11/1998
Hungary		12/11/1998
Israel	135,793	12/11/1998
Japan	2000-524662	12/11/1998
Korea	10-2000-7006	12/11/1998
Mexico	0005800	12/11/1998
Norway	20002079	12/11/1998
New Zealand	504112	12/11/1998
PCT	PCT/US98/264	12/11/1998
Poland	P-341655	12/11/1998
Slovak Republic	PV 0836-2000	12/11/1998
Turkey	2000/01647	12/11/1998
Taiwan	87120533	12/01/1998
U.S.	990,168	12/12/1997

EXHIBIT B

TO
EXCLUSIVE LICENSE AGREEMENT
BETWEEN
ABBOTT LABORATORIES
AND
DISCOVERY PARTNERS INTERNATIONAL
DATED JANUARY 2, 2001

ALTERNATIVE DISPUTE RESOLUTION

The parties recognize that a bona fide dispute as to certain matters may arise from time to time during the term of this Agreement which relates to either party's rights and/or obligations. To have such a dispute resolved by this

Alternative Dispute Resolution (ADR) provision, a party must send written notice of the dispute to the other party for attempted resolution by good faith negotiations between their respective presidents (or their equivalents) of the affected subsidiaries, divisions, or business units within twenty-eight (28) days after such notice is received (all references to "days" in this ADR provision are to calendar days). If the matter has not been resolved within twenty-eight (28) days of the notice of the dispute, or if the parties fail to meet within such twenty-eight (28) days, either party may initiate an ADR proceeding as provided herein. The parties shall have the right to be represented by counsel in such a proceeding.

1. To begin an ADR proceeding, a party shall provide written notice to the other party of the issues to be resolved by ADR. Within fourteen (14) days after receipt of such notice, the other party may, by written notice to the party initiating the ADR, add additional issues to be resolved within the same ADR.

2. Within twenty-one (21) days following receipt of the original ADR notice, the parties shall select a mutually acceptable neutral to preside in the resolution of any disputes in this ADR proceeding. If the parties are unable to agree on a mutually acceptable neutral within such period, either party may request the President of the CPR Institute for Dispute Resolution (CPR), 366 Madison Avenue, 14th Floor, New York, New York 10017, to select a neutral pursuant to the following procedures:

(a) The CPR shall submit to the parties a list of not less than five (5) candidates within fourteen (14) days after receipt of the request, along with a Curriculum Vitae for each candidate. No candidate shall be an employee, director, or shareholder of either party or any of their subsidiaries or affiliates.

(b) Such list shall include a statement of disclosure by each candidate of any circumstance likely to affect his or her impartiality.

(c) Each party shall number the candidates in order of preference (with the number one (1) signifying the greatest preference) and shall deliver the list to the CPR within seven (7) days following receipt of the list of candidates. If a party believes a conflict of interest exists regarding any of the candidates, the party shall provide a written explanation of the conflict to the CPR along with its list showing its order of preference for the candidates. Any party failing to return a list of preferences on time shall be deemed to have no order of preference.

(d) If the parties collectively have identified fewer than three (3) candidates deemed to have conflicts, the CPR shall designate as neutral the candidate for whom the parties collectively have indicated the greatest preference. If a tie shall result between two candidates, the CPR may designate either candidate. If the parties collectively have identified three (3) or more candidates deemed to have conflicts, the CPR shall review the explanations regarding conflicts, and, in its sole discretion, may either (i) immediately designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference, or (ii) issue a new list of not less than five (5) candidates, in which case the procedures set forth in subparagraphs 2(a) - 2(d) shall be repeated.

3. No earlier than twenty-eight (28) days or later than fifty-six (56) days after the selection, the neutral shall hold a hearing to resolve each of the issues identified by the parties. The ADR proceeding shall take place at a location agreed upon by the parties. If the parties cannot agree, the neutral shall designate a location other than the principle place of business of either party or any of their subsidiaries or affiliates.

4. At least seven (7) days prior to the hearing, each party shall submit the following to the other party and the neutral:

(a) a copy of all exhibits on which such party intends to rely in any oral or written presentation to the neutral;

(b) a list of any witnesses such party intends to call at the hearing, and a short summary of the anticipated testimony of each witness;

(c) a proposed ruling on each issue to be resolved, together with a request for a specific damage award or other remedy for each issue. The proposed rulings and remedies shall not contain any recitation of the facts or any legal arguments and shall not exceed one (1) page per issue.

(d) a brief in support of each party's proposed rulings and remedies provided that the brief shall not exceed twenty (20) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

Except as expressly set forth in subparagraphs 4(a) - 4(d), no discovery shall be required or permitted by any means, including depositions, interrogatories, requests for admissions, or production of documents.

5. The hearing shall be conducted on two (2) consecutive days and shall be governed by the following rules:

(a) Each party shall be entitled to five (5) hours of hearing time to present its case. The neutral shall determine whether each party has had the five (5) hours to which it is entitled.

(b) Each party shall be entitled, but not required, to make an opening statement, to present regular and rebuttal testimony, documents or other evidence, to cross-examine witnesses, and to make a closing argument. Cross-examination of witnesses shall occur immediately after their direct testimony, and cross examination shall be charged against the party conducting the cross-examination.

(c) The party initiating the ADR shall begin the hearing and, if it chooses to make an opening statement, shall address not only issues it raised but also any issues raised by the responding party. The responding party, if it chooses to make an opening statement, also shall address all issues raised in the ADR. Thereafter, the presentation of regular and rebuttal testimony and documents, other evidence, and closing arguments shall proceed in the same sequence.

(d) Except when testifying, witnesses shall be excluded from the hearing until closing arguments.

(e) Settlement negotiations, including any statements made therein, shall not be admissible under any circumstances. Affidavits prepared for purposes of the ADR hearing also shall not be admissible. As to all other matters, the neutral shall have sole discretion regarding the admissibility of any evidence.

6. Within seven (7) days following completion of the hearing, each party may submit to the other party and the neutral a post-hearing brief in support of its proposed rulings and remedies, provided that such brief shall not contain or discuss any new evidence and shall not exceed ten (10) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

7. The neutral shall rule on each disputed issue within fourteen (14) days following completion of the hearing. Such ruling shall adopt in its entirety the proposed ruling and remedy of one of the parties on each disputed issue but may adopt one party's proposed rulings and remedies on some issues and the other party's proposed rulings and remedies on other issues. The neutral shall not issue any written opinion or otherwise explain the basis of the ruling.

8. The neutral shall be paid a reasonable fee plus expenses. These fees and expenses, along with the reasonable legal fees and expenses of the prevailing party (including all expert witness fees and expenses), the fees and expenses of

a court recorder, and any expenses for a hearing room, shall be paid as follows:

(a) If the neutral rules in favor of one party on all disputed issues in the ADR, the losing party shall pay 100% of such fees and expenses.

(b) If the neutral rules in favor of one party on some issues, and the other party on other issues, the neutral shall issue with the rulings a written determination as to how such fees and expenses shall be allocated between the parties. The neutral shall allocate the fees and expenses in a way that bears a reasonable relationship to the outcome of the ADR, with the party prevailing on more issues, or on issues of greater value or gravity, recovering a relatively larger share of its legal fees and expenses.

9. The rulings of the neutral and the allocation of fees and expenses shall be binding, non-reviewable, and non-appealable, and may be entered as a final judgment in any court having jurisdiction.

10. Except as provided in paragraph 9 or as required by law, the existence of the dispute, any settlement negotiations, the ADR hearing, any submissions (including exhibits, testimony, proposed rulings, and briefs), and the rulings shall be deemed Confidential Information. The neutral shall have the authority to impose sanctions for unauthorized disclosure of Confidential Information.

EXHIBIT 10.44

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTICE OF GRANT OF STOCK OPTION

Notice is hereby given of the following option grant (the "Option") to purchase shares of the Common Stock of Discovery Partners International, Inc. (the "Corporation"):

Optionee: _____

Grant Date: _____

Vesting Commencement Date: _____

Exercise Price: $_____ per share

Number of Option Shares: _____ shares

Expiration Date: _____

Type of Option: _____ Incentive Stock Option
_____ Non-Statutory Stock Option

Exercise Schedule: The Option shall become exercisable for twenty-five percent (25%) of the Option Shares upon Optionee's completion of one (1) year of Service measured from the Vesting Commencement Date and shall become exercisable for the balance of the Option Shares in a series of thirty-six (36) successive equal monthly installments upon Optionee's completion of each additional month of Service over the thirty-six (36) month period measured from the first anniversary of the Vesting Commencement Date. In no event shall the Option become exercisable for any additional Option Shares after Optionee's cessation of Service.

Optionee understands and agrees that the Option is granted subject to and in accordance with the terms of the Discovery Partners International, Inc. 2000 Stock Incentive Plan (the "Plan"). Optionee further agrees to be bound by the terms of the Plan and the terms of the Option as set forth in the Stock Option Agreement attached hereto as Exhibit A. Optionee hereby acknowledges the receipt of a copy of the official prospectus for the Plan in the form attached hereto as Exhibit B. A copy of the Plan is available upon request made to the Corporate Secretary at the Corporation's principal offices.

Employment at Will. Nothing in this Notice or in the attached Stock Option Agreement or in the Plan shall confer upon Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining Optionee) or of Optionee, which rights are hereby expressly reserved by each, to terminate Optionee's Service at any time for any reason, with or without cause.

Definitions. All capitalized terms in this Notice shall have the meaning assigned to them in this Notice or in the attached Stock Option Agreement.

DATED: _____

DISCOVERY PARTNERS INTERNATIONAL, INC.

By: _____

Title:_____

_____
OPTIONEE

Address: _____

_____

ATTACHMENTS
EXHIBIT A - STOCK OPTION AGREEMENT
EXHIBIT B - PLAN SUMMARY AND PROSPECTUS

3

EXHIBIT A

STOCK OPTION AGREEMENT

Filed as Exhibit 10.45 to this Annual Report on Form 10-K

EXHIBIT B

PLAN SUMMARY AND PROSPECTUS

EMPLOYEES & CONSULTANTS

DISCOVERY PARTNERS INTERNATIONAL, INC.

2000 STOCK INCENTIVE PLAN

DISCRETIONARY OPTION GRANT PROGRAM

PLAN SUMMARY AND PROSPECTUS

The date of this Prospectus is August 22, 2000

TABLE OF CONTENTS

THIS DOCUMENT CONSTITUTES PART OF THE OFFICIAL PROSPECTUS COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933.

INFORMATION ON THE 2000 STOCK INCENTIVE PLAN DISCRETIONARY OPTION GRANT PROGRAM

Discovery Partners International, Inc., a Delaware corporation (the "Corporation"), is offering shares of its common stock (the "Common Stock") to eligible individuals in the Corporation's service pursuant to option grants and direct stock issuances made under the Corporation's 2000 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to offer the Corporation's employees, the non-employee members of the Board of Directors (the "Board"), and consultants and other independent advisors who provide services to the Corporation the opportunity to acquire an ownership interest in the Corporation as an incentive for such persons to continue in the Corporation's service. Unless the context indicates otherwise, all references to the Corporation in this Plan Summary and Prospectus include Discovery Partners International, Inc. and its parent and subsidiary corporations, whether now existing or subsequently established.

QUESTIONS AND ANSWERS ABOUT THE PLAN

This Plan Summary and Prospectus sets forth in question and answer format the principal terms of the option grants which may be made from time to time under the Discretionary Option Grant Program in effect under the Plan to individuals who are NOT officers or directors of the Corporation subject to the short-swing profit restrictions of the Federal securities laws.

GENERAL PLAN PROVISIONS

1. WHAT IS THE BASIC STRUCTURE OF THE DISCRETIONARY OPTION GRANT PROGRAM?

The Discretionary Option Grant Program is one of several equity incentive programs in effect under the Plan. Under the Discretionary Option Grant Program, options may be granted to eligible persons which will provide them with the right to purchase shares of Common Stock during their period of service with the Corporation at a fixed price per share equal to the fair market value of the Common Stock on the grant date.

2. WHEN DID THE PLAN BECOME EFFECTIVE?

The Plan became effective on July 27, 2000 in connection with the initial public offering of the Common Stock and serves as the successor to the Corporation's 1995 Stock Option/Stock Issuance Plan (the "Predecessor Plan").

All options outstanding under the Predecessor Plan have been transferred to the new Plan, and no further option grants or stock issuances will be made under the Predecessor Plan. Each option so transferred will continue to be governed by the terms of the agreement evidencing that option, and no provision of the new Plan will adversely affect or otherwise modify the rights of the holders of such transferred options with respect to their acquisition of shares of Common Stock thereunder.

3. WHO ADMINISTERS THE PLAN?

The Plan will be administered by the Compensation Committee. This committee is comprised of two (2) or more non-employee Board members appointed by the Board, and each member will serve for so long as the Board deems appropriate and may be removed by the Board at any time. A secondary committee of one or more Board members may be delegated separate but concurrent jurisdiction with the Compensation Committee to

administer the Discretionary Option Grant Program with respect to all employees and consultants not subject to the short-swing profit restrictions of the federal securities laws. The Compensation Committee and any secondary Board committee with administrative jurisdiction under the Plan will each be referred to in this document as the "Plan Administrator."

The Plan Administrator will have full authority, with respect to the option grants made under the Discretionary Option Grant Program, to determine the persons who are to be granted options, the time or times when such option grants are to be made, the number of shares to be subject to each such grant, the time or times when each option is to become exercisable, the vesting schedule applicable to the option shares and the maximum period for which the option is to remain outstanding.

4. WHO IS ELIGIBLE TO PARTICIPATE IN THE DISCRETIONARY OPTION GRANT PROGRAM?

Employees, non-employee Board members, consultants and other independent advisors in the Corporation's service will be eligible to participate in the Discretionary Option Grant Program.

5. HOW MANY SHARES OF COMMON STOCK MAY BE ISSUED UNDER THE PLAN?

The maximum number of shares of Common Stock issuable over the term of the Plan will initially be limited to three million three hundred thousand (3,300,000) shares (subject to adjustment for certain changes in the Corporation's capital structure). Such share reserve consists of (i) the number of shares which remained available for issuance under the Predecessor Plan at the time of the initial public offering of the Common Stock, including the shares subject to outstanding options under the Predecessor Plan transferred to the new Plan and the shares subject to outstanding options assumed under the AAT Plan, plus (ii) an additional increase of approximately one million one hundred thirty-four thousand three hundred forty-two (1,134,342) shares of Common Stock.

The number of shares of Common Stock available for issuance under the Plan will automatically increase on the first trading day in January each calendar year, beginning with calendar year 2001, by an amount equal to two

percent (2%) of the total number of shares of Common Stock outstanding on the last trading day in December in the immediately preceding calendar year, but in no event will any such annual increase exceed two million (2,000,000) shares.

No individual participating in the Plan may receive stock options, separately exercisable stock appreciation rights and direct share issuances for more than five hundred thousand (500,000) shares of Common Stock under the Plan per calendar year. Except for such restriction and certain other restrictions in connection with incentive stock option grants (see the "Incentive Options" section below), there are no limitations on the number of shares of Common Stock for which an eligible individual may be granted options under the Discretionary Option Grant Program.

Should one or more outstanding options under the Plan expire or terminate for any reason prior to exercise in full, the shares of Common Stock subject to the portion of each such option not so exercised will be available for subsequent issuance under the Plan. Unvested shares issued under the Plan and subsequently repurchased by the Corporation, at the original exercise price or issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan will be added back to the number of shares of Common Stock available for issuance under the Plan and may accordingly be reissued through one or more subsequent option grants or direct stock issuances under the Plan. Should the exercise price of an option under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the connection with the exercise of an option or the vesting of a stock issuance under the Plan, then the number of shares of Common Stock available for issuance under the Plan will be reduced by the gross number of shares for which the option is exercised or which vest under the stock issuance, and not by the net number of shares of Common Stock issued to the holder of such option or stock issuance. Shares subject to options which are surrendered pursuant to any stock appreciation rights exercised under the Plan will not be available for subsequent issuance.

The Common Stock will be made available either from authorized but unissued shares of Common Stock or from shares of Common Stock reacquired by the Corporation, including shares repurchased on the open market.

6. WHAT HAPPENS IF THERE IS A CHANGE IN THE CORPORATION'S CAPITAL STRUCTURE?

In the event of a Recapitalization (as defined below), appropriate adjustments will automatically be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities by which the share reserve is to increase automatically each calendar year pursuant to the automatic share increase provisions of the Plan, (iii) the maximum number and/or class of securities for which any one person may be granted stock options and direct stock issuances per calendar year and (iv) the number and/or class of securities and the exercise price per share in effect under each outstanding option. The adjustments to such outstanding options will preclude the dilution or enlargement of the rights and benefits available under those options.

For purposes of the Plan, a Recapitalization is any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration.

7. CAN THE PLAN BE AMENDED OR TERMINATED?

Yes. The Board has exclusive authority to amend or modify the Plan in any and all respects. However, no amendment or modification may, without the holder's consent, adversely affect such individual's rights and obligations under his or her outstanding options or direct stock issuances under the Plan. In addition, certain amendments to the Plan may require approval of the Corporation's stockholders.

The Plan will terminate upon the earliest to occur of (i) May 31,

2010, (ii) the date on which all shares available for issuance under the Plan are issued as fully-vested shares or (iii) the termination of all outstanding options in connection with a Corporate Transaction (see the "Early Termination of Options" section below). Should the Plan terminate on May 31, 2010, then any option grants outstanding at that time under the Discretionary Option Grant Program will continue to have force and effect in accordance with the provisions of the agreements evidencing those grants.

GRANT OF OPTIONS

8. HOW ARE OPTIONS GRANTED UNDER THE DISCRETIONARY OPTION GRANT PROGRAM?

The Plan Administrator will have complete discretion (subject to the limitations of the Plan) to determine when and to whom options will be granted under the Discretionary Option Grant Program and the terms of each such grant. Each option grant will be evidenced by one or more options documents (collectively, the "Option Agreement") executed by the Corporation and the optionee.

9. WHAT TYPE OF OPTIONS MAY BE GRANTED UNDER THE DISCRETIONARY OPTION GRANT PROGRAM?

The Plan Administrator may grant incentive stock options ("Incentive Options") designed to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or options which do not satisfy such requirements ("Non-Statutory Options"). For a discussion of the difference in tax treatment under the Code between Incentive Options and Non-Statutory Options, see the "Questions and Answers on Federal Tax Consequences" section below.

10. HOW IS THE EXERCISE PRICE DETERMINED?

The exercise price of an option will be determined by the Plan Administrator. However, the exercise price of an option will not be less than one hundred percent (100%) of the fair market value of the Common Stock on the grant date.

11. HOW IS THE FAIR MARKET VALUE OF THE COMMON STOCK DETERMINED?

The fair market value per share of Common Stock on any relevant date under the Plan will be the closing selling price per share on that date, as reported on the Nasdaq National Market and published in The Wall Street Journal. If the Common Stock is not traded on that day, the fair market value will be the closing selling price per share on the last preceding date for which such quotation exists.

12. CAN THE CORPORATION CANCEL MY OPTION AND GRANT ME A NEW OPTION?

Yes. The Plan Administrator has the authority to cancel outstanding options and to issue new options in replacement, but your consent will be required in connection with your participation in any such cancellation/regrant program. The new options can cover the same or a different number of shares of Common Stock and will have an exercise price per share not less than the fair market value of the Common Stock on the new grant date. In addition, it is likely that the new options will have a vesting schedule based on the new grant date, without any credit provided for the period the cancelled options were outstanding.

13. CAN I ASSIGN OR TRANSFER MY OPTION?

No. Your options generally cannot be assigned or transferred, except by the provisions of your will or the laws of inheritance following your death or pursuant to any beneficiary designation you have in effect for the options at the time of your death. However, one or more Non-Statutory Options may be structured so that those options will be assignable in whole or in part during your lifetime to one or more members of your immediate family or to a

trust established exclusively for one or more such family members. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. No such assignment will be permitted, however, unless in connection with your estate plan.

14. WHEN DO I ACQUIRE THE RIGHTS OF A STOCKHOLDER?

You will not have any stockholder rights with respect to the option shares. You will not acquire stockholder rights until you exercise the option, pay the exercise price and become a holder of record of the purchased shares.

EXERCISE OF OPTIONS

15. WHEN MAY I EXERCISE MY OPTION?

Your option will generally become exercisable for the option shares in a series of installments over the period that you remain in the Corporation's service. The exercise schedule applicable to your option will be determined by the Plan Administrator at the time of grant and will be set forth in the Option Agreement. You may exercise your option at any time for the shares for which your option is exercisable, provided you do so before the option terminates.

16. WHEN WILL MY OPTION TERMINATE?

No option granted under the Discretionary Option Grant Program may have a term in excess of ten (10) years. The actual expiration date of your option will be set forth in the Option Agreement. Your option may, however, terminate prior to its designated expiration date in the event of your termination of service or upon the occurrence of certain other events. See the "Early Termination of Options" section below.

17. HOW DO I EXERCISE MY OPTION?

To exercise your option, you must provide the Corporation with written notice of the exercise in which you indicate the number of shares to be purchased under your option. The notice must be accompanied by payment of the exercise price for the purchased shares, together with appropriate proof that the person exercising the option (if other than yourself) has the right to effect such exercise. You will be required to satisfy all applicable income and employment tax withholding requirements at that time. For information about such tax withholding, see the "Questions and Answers on Federal Tax Consequences" section below.

18. HOW DO I PAY THE EXERCISE PRICE?

The exercise price may be paid in cash or check payable to the Corporation or in shares of Common Stock. Any shares delivered in payment of the exercise price will be valued at fair market value on the exercise date and must have been held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes (generally a six (6)-month period).

Cashless exercises are also permitted. To use this procedure, you must provide irrevocable instructions to a Corporation-designated brokerage firm to effect the immediate sale of the shares of Common Stock purchased under your option and to pay over to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable withholding taxes. Concurrently with such instructions, you must also direct the Corporation to deliver the certificates for the purchased shares to the brokerage firm in order to complete the sale.

INCENTIVE OPTIONS

This section applies only to Incentive Options. Non-Statutory Options are not subject to these provisions.

19. WHO IS ELIGIBLE TO RECEIVE AN INCENTIVE OPTION?

Incentive Options may only be granted to individuals who are employees of the Corporation.

20. IS THERE A LIMITATION ON THE NUMBER OF SHARES FOR WHICH AN INCENTIVE OPTION MAY BECOME EXERCISABLE IN ANY ONE CALENDAR YEAR?

Yes. The aggregate fair market value of the shares of Common Stock (determined at the date of grant) for which an option may for the first time become exercisable in any calendar year as an Incentive Option under the Federal tax laws may not exceed $100,000. To the extent you hold two (2) or more Incentive Options which become exercisable for the first time in the same calendar year, the $100,000 limitation will be applied on the basis of the order in which those options were granted. Options which do not qualify for Incentive Option treatment under the Federal tax laws by reason of this dollar limitation may nevertheless be exercised as Non-Statutory Options in the calendar year in which they become exercisable for the excess number of shares.

EXAMPLE: On September 1, 2000, Sam Smith is granted an Incentive Option to purchase 20,000 shares of Common Stock at an exercise price of $15.00 per share, the fair market value of the Common Stock on that date. The option will become exercisable for the option

shares in a series of four successive equal annual installments, beginning September 1, 2001. When the option becomes exercisable for the second annual installment on September 1, 2002, the fair market value of the Common Stock is assumed to be $25.00 per share. On October 25, 2001, Sam is granted a second Incentive Option to purchase 10,000 shares of Common Stock at an exercise price of $20.00 per share, the fair market value of the Common Stock on that date. This option will also become exercisable for the option shares in a series of four successive equal annual installments beginning on October 25, 2002. When the option becomes exercisable for the first annual installment on that date, the fair market value of the Common Stock is assumed to be $25.00 per share.

The aggregate fair market value of the 5,000 shares of Common Stock (measured as of the grant date) which become exercisable under the first option in calendar year 2002 is $75,000. The aggregate fair market value of the 2,500 shares of Common Stock (measured as of the grant date) which become exercisable under the second option in calendar year 2002 is $50,000. Accordingly, 1,250 of the shares which first become purchasable in calendar year 2002 under the calendar year 2001 option will not qualify for favorable tax treatment as Incentive Options because the aggregate value (as measured as of the grant date) of the shares of Common Stock for which the two options first become exercisable in calendar year 2002 exceeds $100,000 ($75,000 + $50,000 = $125,000). The 1,250 shares which do not qualify for Incentive Option treatment under the calendar year 2001 option may be exercised as Non-Statutory Options.

21. CAN AN INCENTIVE OPTION LOSE ITS QUALIFIED STATUS?

Yes. An option granted as an Incentive Option will generally be taxed as a Non-Statutory Option if exercised more than three (3) months after you terminate employee status. Certain amendments or modifications to the option may also cause the loss of Incentive Option status, but no such amendment or modification may be made without your consent.

22. WHAT LIMITATIONS APPLY TO INCENTIVE OPTIONS GRANTED TO A 10% STOCKHOLDER?

If an Incentive Option is granted to an individual who is at the time the owner of stock possessing ten percent (10%) or more of the total

combined voting power of all classes of stock of the Corporation or any parent or subsidiary corporation, then the exercise price per share cannot be less than one hundred ten percent (110%) of the fair market value of the Common Stock on the grant date, and the option term may not exceed five (5) years from the grant date.

EARLY TERMINATION OF OPTIONS

23. WHAT HAPPENS TO MY OPTIONS IF MY SERVICE TERMINATES?

After your termination of service for any reason other than death, disability or Misconduct (as defined below in Question 24), you will have a limited period of time in which to exercise your outstanding options for any shares of Common Stock for which those options are exercisable on the date your service terminates. The length of this period will be set forth in your Option Agreement and will generally not be in excess of three (3) months. However, your option will in all events terminate on the specified expiration date of the option term. To the extent your options are not exercisable for one or more shares at the time of your termination of service, your options will immediately terminate and cease to be outstanding with respect to those unexercisable shares.

Unless your Option Agreement specifically provides otherwise, you will be deemed to continue in service for so long as you render services on a periodic basis to the Corporation, whether as (i) an employee, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance, (ii) a non-employee Board member or (iii) a consultant or other independent advisor.

The Plan Administrator has the discretion to extend the period during which you may exercise one or more of your options following your termination of service and/or to permit such options to be exercised not only with respect to the number of shares of Common Stock for which your options are at the time exercisable but also with respect to one or more additional installments for which your options would have become exercisable had you continued in service. You will be notified in writing in the event the Plan Administrator decides to provide you with any of those additional benefits.

24. WHAT HAPPENS TO MY OPTIONS IF I AM DISCHARGED FROM SERVICE FOR MISCONDUCT?

Should you be discharged from service for Misconduct or otherwise engage in Misconduct while your options are outstanding, then all of your outstanding options will immediately terminate. For purposes of the Plan, MISCONDUCT includes (i) any act of fraud, embezzlement or dishonesty, (ii) any unauthorized use or disclosure of confidential information or trade secrets of the Corporation or (iii) any other intentional misconduct adversely affecting the business or affairs of the Corporation in a material manner. However, the foregoing list is not inclusive of all the acts or omissions which may be considered as grounds for dismissal or discharge of any individual in the Corporation's service.

25. WHAT HAPPENS TO MY OPTIONS IF I DIE OR BECOME DISABLED?

If you die while any of your options are outstanding, the personal representative of your estate or the person or persons to whom the options are transferred by the provisions of your will or the laws of inheritance or pursuant to the beneficiary designation you have in effect for those options may exercise each of those options for any or all of the shares of Common Stock for which the option was exercisable on the date your service with the Corporation terminated, less any shares you may have subsequently purchased prior to your death. The right to exercise each such option will lapse upon the earlier to occur of (i) the expiration of the option term or (ii) the first anniversary of the date of your death.

If you terminate your service with the Corporation because you become permanently disabled, you will normally have a period of twelve (12)

months from the date of such termination of service during which to exercise your options for any or all of the shares for which those options were exercisable at the time of such termination. In no event, however, may you exercise any option after the specified expiration of the option term. For purposes of the Plan, you will be deemed to be PERMANENTLY DISABLED if you are unable to perform any substantial gainful activity by reason of any medically-determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) consecutive months or more.

NOTE: FOR OPTIONS TRANSFERRED FROM THE PREDECESSOR PLAN, YOU WILL HAVE UNTIL THE EARLIER OF (i) THE EXPIRATION DATE OF THE OPTION TERM OR (ii) THE LIMITED PERIOD PROVIDED IN THE OPTION AGREEMENT FOR THE EXERCISE OF THAT OPTION FOLLOWING YOUR TERMINATION OF SERVICE.

26. WHAT HAPPENS TO MY OPTIONS IF THE CORPORATION IS ACQUIRED OR MERGED?

In the event of a Corporate Transaction (as defined below), all options outstanding under the Discretionary Option Grant Program will automatically accelerate so that each such option will, immediately prior to the effective date of the Corporate Transaction, become exercisable for all the shares of Common Stock at the time subject to that option and may be exercised for any or all of those shares as fully vested shares. However, an outstanding option will NOT become exercisable on such an accelerated basis if and to the extent: (i) the option is assumed by the successor corporation, (ii) such option is replaced with a cash incentive program which preserves the option spread existing at the time of the Corporate Transaction on any shares for which the option is not otherwise at that time exercisable and provides for subsequent payout in accordance with the same exercise/vesting schedule applicable to those option shares or (iii) the acceleration of the option is subject to other limitations imposed by the Plan Administrator in the Option Agreement.

All outstanding options under the Discretionary Option Grant Program will, to the extent not assumed by the successor corporation, terminate and cease to be outstanding immediately following the completion of the Corporate Transaction.

Any Incentive Options accelerated upon the Corporate Transaction will remain exercisable as Incentive Options under the Federal tax laws only to the extent the applicable $100,000 limitation is not exceeded. If such limitation is exceeded, the option will be exercisable for the excess number of shares as a Non-Statutory Option.

A CORPORATE TRANSACTION will be deemed to occur upon (i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction or (ii) a sale, transfer or other disposition of all or substantially all the assets of the Corporation in liquidation or dissolution of the Corporation.

NOTE: THE OPTIONS TRANSFERRED FROM THE PREDECESSOR PLAN WILL VEST UPON AN ACQUISITION OF THE CORPORATION BY MERGER OR ASSET SALE AND BECOME IMMEDIATELY EXERCISABLE FOR ALL THE OPTION SHARES AS FULLY-VESTED SHARES, UNLESS THE REPURCHASE RIGHTS APPLICABLE TO THE OPTION SHARES ARE TRANSFERRED TO THE ACQUIRING COMPANY. THE OPTIONS WILL TERMINATE IMMEDIATELY AFTER THE ACQUISITION, UNLESS ASSUMED BY THE SUCCESSOR ENTITY.

27. WHAT HAPPENS TO MY OPTIONS THAT ARE ASSUMED UPON A CORPORATE TRANSACTION?

Each option under the Discretionary Option Grant Program which is assumed by the successor corporation will, immediately after the Corporate Transaction, be appropriately adjusted to apply to the number and class of securities which would have been issued to the optionee in consummation of the Corporate Transaction had the option been exercised immediately prior to the Corporate Transaction. Appropriate adjustments will also be made to the exercise

price payable per share, provided the aggregate exercise price for the option shares will remain the same. To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Corporate Transaction, the successor corporation may, in connection with the assumption of the option, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Corporate Transaction.

The Plan Administrator may structure one or more options granted under the Discretionary Option Grant Program so that those options will immediately vest and become exercisable for all the option shares upon an Involuntary Termination of the optionee's service within a designated period (not to exceed eighteen (18) months) following the effective date of a Corporate Transaction in which the options are assumed and do not otherwise vest. Any option so accelerated will remain exercisable for the vested shares until the expiration or sooner termination of the option term. In addition, the Plan Administrator may structure one or more of the Corporation's outstanding repurchase rights so that those rights will automatically terminate, and the shares subject those terminated rights will immediately vest, upon such an Involuntary Termination. You should review your Option Agreement to determine whether the options you hold will in fact accelerate upon such an Involuntary Termination.

An INVOLUNTARY TERMINATION will be deemed to occur upon (i) the optionee's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct or (ii) such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her duties and level of responsibilities or the level of management to which he or she reports, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and target bonus under any corporate performance- based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the optionee's consent.

NOTE: A NUMBER OF OUTSTANDING OPTIONS TRANSFERRED FROM THE PREDECESSOR PLAN INCLUDE A SPECIAL VESTING ACCELERATION PROVISION PURSUANT TO WHICH THOSE OPTIONS WILL VEST AND BECOME IMMEDIATELY EXERCISABLE FOR ALL THE OPTION SHARES AS FULLY-VESTED SHARES UPON AN INVOLUNTARY TERMINATION OF THE OPTIONEE'S SERVICE WITHIN EIGHTEEN (18) MONTHS FOLLOWING AN ACQUISITION OF THE CORPORATION BY A MERGER OR ASSET SALE.

28. WHAT HAPPENS TO MY OPTIONS IF THERE IS A CHANGE IN CONTROL OF THE CORPORATION?

The Plan Administrator may structure one or more options granted under the Discretionary Option Grant Program so that those options will immediately vest and become exercisable for all the option shares either upon the occurrence of a Change in Control or upon an Involuntary Termination of the optionee's service within a designated period (not to exceed eighteen (18) months) following the effective date of that Change in Control. You should review your Option Agreement to determine whether the options you hold will in fact accelerate upon such a Change in Control or subsequent Involuntary Termination.

Any option accelerated in connection with a Change in Control or subsequent Involuntary Termination will remain exercisable for fully-vested shares until the expiration or sooner termination of the option term. However, any Incentive Option so accelerated will remain exercisable as an Incentive Option under the Federal tax laws only to the extent the applicable $100,000 dollar limitation is not exceeded. If such limitation is exceeded, the option may be exercised for the excess number of shares as a Non-Statutory Option.

A CHANGE IN CONTROL will be deemed to occur in the event (i) any person directly or indirectly acquires securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's

outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders or (ii) there is a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time such election or nomination was approved by the Board.

NOTE: NONE OF THE OPTIONS TRANSFERRED FROM THE PREDECESSOR PLAN CONTAIN ANY CHANGE IN CONTROL ACCELERATION PROVISIONS.

DISPOSITION OF OPTION SHARES

29. WHEN CAN I SELL MY SHARES?

You may sell the shares you purchase under the Plan at any time without restriction, subject to any market black-out period imposed by the Corporation, provided you are NOT an officer or director of the Corporation subject to the short-swing profit limitations of the Federal securities laws.

MISCELLANEOUS

30. IS FINANCING AVAILABLE UNDER THE PLAN?

The Plan Administrator may assist you in the acquisition of shares of Common Stock under the Discretionary Option Grant Program by permitting you to pay the purchase price for the shares through a promissory note payable in one or more installments. The terms of any such promissory note, including the interest rate and terms of repayment, will be established in the sole discretion of the Plan Administrator. Promissory notes will be

made on a full-recourse basis, and the maximum credit available to you may not exceed the purchase price payable for the acquired shares plus any withholding tax liability incurred by you in connection with such acquisition. In addition, the Corporation will comply with all applicable requirements of Regulation U of the Board of Governors of the Federal Reserve System in connection with any financing extended under the Plan.

31. DO I HAVE THE RIGHT TO REMAIN EMPLOYED UNTIL MY OPTIONS UNDER THE DISCRETIONARY OPTION GRANT PROGRAM VEST?

No. Nothing in the Plan or in any option grant under the Discretionary Option Grant Program is intended to provide any person with the right to remain in the Corporation's service for any specific period, and both you and the Corporation will each have the right to terminate your service at any time and for any reason, with or without cause.

32. ARE THERE ANY CIRCUMSTANCES WHICH WOULD CAUSE ME TO LOSE MY RIGHTS WITH RESPECT TO AN OPTION OR A STOCK ISSUANCE?

Yes. The grant of options under the Discretionary Option Grant Program and the issuance of Common Stock under those options are subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan and the securities issuable thereunder. It is possible that the Corporation could be prevented from granting options or from issuing shares of Common Stock under the Discretionary Option Grant Program in the event one or more required approvals or permits were not obtained.

33. DOES THE PLAN RESTRICT THE AUTHORITY OF THE CORPORATION TO GRANT OR ASSUME OPTIONS OUTSIDE OF THE PLAN?

No. The Plan does not limit the authority of the Corporation to grant options outside of the Plan or to grant options to, or assume the options

of, any person in connection with the acquisition of the business and assets of any firm, corporation or other business entity.

34. DOES THE GRANT OF AN OPTION OR THE ISSUANCE OF SHARES UNDER THE PLAN AFFECT MY ELIGIBILITY TO PARTICIPATE IN OTHER PLANS OF THE CORPORATION?

No. Option grants made under the Discretionary Option Grant Program do not in any way affect, limit or restrict your eligibility to participate in any other stock plan or other compensation or benefit plan or program maintained by the Corporation.

35. WHAT IS A PARENT CORPORATION?

A corporation is a parent corporation if such corporation owns, directly or indirectly, securities representing fifty percent (50%) or more of the total combined voting power of the Corporation's outstanding securities.

36. WHAT IS A SUBSIDIARY CORPORATION?

A corporation is a subsidiary corporation if the Corporation owns, directly or indirectly, securities representing fifty percent (50%) or more of the total combined voting power of the outstanding securities of that corporation.

37. IS THE PLAN SUBJECT TO ERISA?

The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) or Section 401(a) of the Code.

QUESTIONS AND ANSWERS ON FEDERAL TAX CONSEQUENCES

The following is a general description of the Federal income tax consequences of option grants made under the Discretionary Option Grant Program. State and local tax treatment, which is not discussed below, may vary from such Federal income tax treatment. You should consult with your own tax advisor as to the tax consequences of your particular transactions under the Plan.

The tax consequences of Incentive Options and Non-Statutory Options differ as described below.

INCENTIVE OPTIONS

T1. WILL THE GRANT OF AN INCENTIVE OPTION RESULT IN FEDERAL INCOME TAX LIABILITY TO ME?

No.

T2. WILL THE EXERCISE OF AN INCENTIVE OPTION RESULT IN FEDERAL INCOME TAX LIABILITY TO ME?

No. You will not recognize taxable income at the time the Incentive Option is exercised. However, the amount by which the fair market value (at the time of exercise) of the purchased shares exceeds the exercise price paid for those shares will constitute an adjustment to your income for purposes of the alternative minimum tax (see the "Alternative Minimum Tax" section below). On or before January 31 of the calendar year following the calendar year in which you exercise your Incentive Option, you will receive an information statement from the Corporation indicating, among other items, the number of shares of Common Stock you purchased in connection with such exercise, the market price of the Common Stock on the exercise date and the price you paid for the purchased shares.

T3. WHEN WILL I BE SUBJECT TO FEDERAL INCOME TAX ON SHARES ACQUIRED UNDER AN INCENTIVE OPTION?

Generally, you will recognize income in the year in which you

make a disposition of the shares purchased under your Incentive Option.

T4. WHAT CONSTITUTES A DISPOSITION OF INCENTIVE OPTION SHARES?

A disposition of shares purchased under an Incentive Option will occur in the event you transfer legal title to those shares, whether by sale, exchange or gift, or you deliver such shares in payment of the exercise price of any other Incentive Option you hold. However, a disposition will not occur if you engage in any of the following transactions: a transfer of the shares to your spouse, a transfer into joint ownership with right of survivorship provided you remain one of the joint owners, a pledge of the shares as collateral for a loan, a transfer by bequest or inheritance upon your death or certain tax-free exchanges of the shares permitted under the Code.

T5. HOW IS MY FEDERAL INCOME TAX LIABILITY DETERMINED WHEN I DISPOSE OF MY SHARES?

Your Federal income tax liability will depend upon whether you make a qualifying or disqualifying disposition of the shares purchased under your Incentive Option. A qualifying disposition will occur if the sale or other disposition of the shares takes place more than two (2) years after the date the Incentive Option was granted and more than one (1) year after the date that option was exercised for the particular shares involved in the disposition. A disqualifying disposition is any sale or other disposition made before both of these requirements are satisfied.

T6. WHAT IF I MAKE A QUALIFYING DISPOSITION?

You will recognize a long-term capital gain equal to the excess of (i) the amount realized upon the sale or other disposition over (ii) the exercise price paid for the shares. You will recognize a long-term capital loss if the amount realized is lower than the exercise price paid for the shares. (For the tax rates applicable to capital gain, please see Question T17.)

EXAMPLE: On September 1, 2000, you are granted an Incentive Option for 1,000 shares with an exercise price of $15.00 per share. On September 1, 2002, you exercise the option for 500 vested shares when the market price is $25.00 per share. The purchased shares are held until January 1, 2004, when you sell them for $30.00 per share.

Because the disposition of the shares is made more than two (2) years after the grant date of the Incentive Option and more than one (1) year after the option was exercised for the shares sold on January 1, 2004, the sale represents a qualifying disposition of such shares, and for Federal income tax purposes, there will be a long-term capital gain of $15.00 per share.

T7. WHAT ARE THE NORMAL TAX RULES FOR A DISQUALIFYING DISPOSITION?

Normally, when you make a disqualifying disposition of shares purchased under an Incentive Option, you will recognize ordinary income at the time of the disposition in an amount equal to the excess of (i) the fair market value of the shares on the option exercise date over (ii) the exercise price paid for those shares. If the disqualifying disposition is effected by means of an arm's length sale or exchange with an unrelated party, the ordinary income will be limited to the amount by which (i) the amount realized upon the disposition of the shares or (ii) their fair market value on the exercise date, whichever is less, exceeds the exercise price paid for the shares. The amount of your disqualifying disposition income will be reported by the Corporation on your W-2 wage statement for the year of disposition, and any applicable withholding taxes which arise in connection with the disqualifying disposition will be deducted from your wages or otherwise collected from you.

Any additional gain recognized upon the disqualifying disposition will be capital gain, which will be long-term if the shares have been held for more than one (1) year following the exercise date of the option. (See Question T17 below for the tax rates applicable to capital gain.)

EXAMPLE: On September 1, 2000, you are granted an Incentive Option for 1,000 shares with an exercise price of $15.00 per share. On September 1, 2002, you exercise this option for 500 vested shares when the market price is $25.00 per share. The purchased shares are held until June 15, 2003, when you sell them for $30.00 per share.

Because the disposition of the shares is made less than one (1) year after the Incentive Option was exercised for the shares sold on June 15, 2003, the sale represents a disqualifying disposition of the shares, and for Federal income tax purposes, the gain upon the sale will be divided into two (2) components:

Ordinary Income: You will recognize ordinary income in the amount of $10.00 per share, the excess of the $25.00 per share market price of the shares on the date the option was exercised over the $15.00 per share exercise price.

Capital Gain: You will also recognize a short-term capital gain of $5.00 per share with respect to each share sold.

In the event the shares purchased under an Incentive Option are sold in a disqualifying disposition for less than the exercise price paid for those shares, you will not recognize any income but will recognize a capital loss equal to the excess of (i) the exercise price paid for the shares over (ii) the amount realized upon the disposition of those shares. For example, if the shares in the above Example are sold for $12.00 per share in the disqualifying disposition, you would simply recognize a short-term capital loss of $3.00 per share.

T8. WHAT ARE THE FEDERAL TAX CONSEQUENCES TO THE CORPORATION?

If you make a qualifying disposition of shares acquired upon the exercise of an Incentive Option, then no income tax deduction may be taken by the Corporation with respect to such shares. Should you make a disqualifying disposition of such shares, then the Corporation will be entitled to an income tax deduction equal to the amount of ordinary income you recognize in connection with the disposition. The deduction will, in general, be allowed to the Corporation in the taxable year in which the disposition occurs.

T9. WHAT ARE THE CONSEQUENCES OF PAYING THE EXERCISE PRICE OF AN INCENTIVE OPTION IN THE FORM OF SHARES OF COMMON STOCK ACQUIRED UPON THE EXERCISE OF AN EARLIER-GRANTED INCENTIVE OPTION IF THE DELIVERY OF THE SHARES RESULTS IN A DISQUALIFYING DISPOSITION?

If the delivery of the shares acquired under an earlier granted Incentive Option results in a disqualifying disposition, then you will be subject to ordinary income taxation on the excess of (i) the fair market value of the delivered shares at the time of their original purchase (or at the time any forfeiture restrictions applicable to those shares lapsed) over (ii) the exercise price paid for the delivered shares.

The tax basis and capital gain holding periods for the shares of Common Stock purchased upon exercise of the Incentive Option will be determined as follows:

(i) To the extent the purchased shares equal in number the delivered shares as to which there is a disqualifying disposition, the basis for the new shares will be equal to the fair market value of the delivered shares at the time they were originally purchased, (or at the time any forfeiture restrictions applicable to those share lapsed), and the capital gain holding period for these shares will include the period for which the delivered shares were held (measured from their original purchase date or (if later) from the lapse date of any forfeiture restriction applicable to those shares).

(ii) To the extent the number of purchased shares exceeds the number of delivered shares, the additional shares will have a zero basis and a capital gain holding period measured (in general) from the

exercise date.

T10. WHAT ARE THE CONSEQUENCES OF PAYING THE EXERCISE PRICE OF AN INCENTIVE OPTION IN THE FORM OF SHARES OF COMMON STOCK (i) ACQUIRED UNDER AN INCENTIVE OPTION AND HELD FOR THE REQUISITE HOLDING PERIODS, (ii) ACQUIRED UNDER A NON-STATUTORY OPTION OR (iii) ACQUIRED THROUGH OPEN-MARKET PURCHASES?

If the exercise price for the Incentive Option is paid with shares of Common Stock (i) acquired under an Incentive Option and held for the requisite minimum holding periods for a qualifying disposition, (ii) acquired under a Non-Statutory Option or (iii) acquired through open-market purchases, you will not recognize any taxable income (other than as described in the "Alternative Minimum Tax" section below) with respect to the shares of Common Stock purchased upon exercise of the Incentive Option. To the extent the purchased shares equal in number the shares of Common Stock delivered in payment of the exercise price, the new shares will have the same basis and holding period for capital gain purposes as the delivered shares. To the extent the number of purchased shares exceeds the number of delivered shares, the additional shares will have a zero basis and a capital gain holding period measured (in general) from the exercise date.

T11. WHAT ARE THE CONSEQUENCES OF A SUBSEQUENT DISPOSITION OF SHARES PURCHASED UNDER AN INCENTIVE OPTION WITH SHARES OF COMMON STOCK?

If the Incentive Option is exercised with shares of Common Stock, then those shares purchased under the Incentive Option which have a zero basis will be treated as the first shares sold or otherwise transferred in a disqualifying disposition. Accordingly, upon such a disqualifying disposition, you will recognize ordinary income with respect to the zero basis shares in an amount equal to their fair market value on the date the option was exercised for those shares. Any additional gain upon such disqualifying disposition will in most instances be taxed as short-term capital gain.

NON-STATUTORY OPTIONS

T12. WILL THE GRANT OF A NON-STATUTORY OPTION RESULT IN FEDERAL INCOME TAX LIABILITY TO ME?

No.

T13. WILL THE EXERCISE OF A NON-STATUTORY OPTION RESULT IN FEDERAL INCOME TAX LIABILITY TO ME?

Normally, you will recognize ordinary income in the year in which the Non-Statutory Option is exercised in an amount equal to the excess of (i) the fair market value of the purchased shares on the exercise date over (ii) the exercise price paid for those shares. This income will be reported by the Corporation on your W-2 wage statement for the year of exercise (or on a Form 1099 if you are not an employee), and you will be required to satisfy the tax withholding requirements applicable to this income.

T14. WILL I RECOGNIZE ADDITIONAL INCOME WHEN I SELL SHARES ACQUIRED UNDER A NON-STATUTORY OPTION?

Yes. You will recognize a capital gain to the extent the amount realized upon the sale of such shares exceeds their fair market value at the time you recognized the ordinary income with respect to their acquisition. A capital loss will result to the extent the amount realized upon the sale is less than such fair market value. The gain or loss will be long-term if the shares are held for more than one (1) year prior to the disposition. (Please see Question T17 below for tax rates applicable to capital gain.) The holding period will normally start at the time the Non-Statutory Option is exercised.

T15. WHAT ARE THE CONSEQUENCES OF PAYING THE EXERCISE PRICE OF A NON-STATUTORY OPTION IN THE FORM OF SHARES OF COMMON STOCK PREVIOUSLY ACQUIRED UPON THE EXERCISE OF EMPLOYEE OPTIONS OR

THROUGH OPEN-MARKET PURCHASES?

You will not recognize any taxable income to the extent the shares of Common Stock received upon the exercise of the Non-Statutory Option equal in number the shares of Common Stock delivered in payment of the exercise price. For Federal income tax purposes, these newly-acquired shares will have the same basis and capital gain holding period as the delivered shares. To the extent the delivered shares were acquired under an Incentive Option, the new shares received upon the exercise of the Non-Statutory Option will continue to be subject to taxation as Incentive Option shares in accordance with the Incentive Option principles discussed above.

The additional shares of Common Stock received upon the exercise of the Non-Statutory Option will, in general, have to be reported as ordinary income for the year of exercise in an amount equal to their fair market value on the exercise date. These additional shares will have a tax basis equal to such fair market value and a capital gain holding period measured (in general) from the exercise date.

T16. WHAT ARE THE FEDERAL TAX CONSEQUENCES TO THE CORPORATION?

The Corporation will be entitled to an income tax deduction equal to the amount of ordinary income you recognize in connection with the exercise of the Non-Statutory Option. The deduction will, in general, be allowed for the taxable year of the Corporation in which you recognize such ordinary income.

FEDERAL TAX RATES

T17. WHAT ARE THE APPLICABLE FEDERAL TAX RATES?

REGULAR TAX RATES. Effective for the 2000 calendar year, ordinary income in excess of $288,350 ($144,175 for a married taxpayer filing a separate return) will be subject to the maximum federal income tax rate of 39.6%. The applicable $288,350 or $144,175 threshold is subject to cost-of-living adjustments in taxable years beginning after December 31, 2000. Certain limitations are imposed upon a taxpayer's itemized deductions, and the personal exemptions claimed by the taxpayer are subject to phase-out. These limitations may result in the taxation of ordinary income at an effective top marginal rate in excess of 39.6%.

CAPITAL GAIN TAX RATES. Short-term capital gains are subject to the same tax rates as ordinary income. Long-term capital gain is subject to a maximum federal income tax rate of 20%, provided the capital asset is held for more than one (1) year prior to sale or other taxable disposition.

Beginning in 2001, capital gain recognized on the sale or disposition of capital assets held for more than five (5) years by individuals whose tax rate on ordinary income for the year of such sale or disposition is below 28% will be subject to tax at a rate of 8%.

Beginning in 2006, capital gain recognized on the sale or disposition of capital assets held for more than five (5) years by individuals whose tax rate on ordinary income for the year of such sale or disposition is 28% or more will be taxed at a rate of 18%, provided the holding period for such property begins after December 31, 2000. However, any capital gain recognized on the sale or disposition of shares of the Corporation's common stock acquired pursuant to options granted under the Discretionary Option Grant Program will not be eligible for the 18% tax rate unless those options are granted after December 31, 2000.

ITEMIZED DEDUCTIONS. For the tax year ending December 31, 2000, itemized deductions are reduced by 3% of the amount by which the taxpayer's adjusted gross income for the year exceeds $128,950 ($64,475 for a married taxpayer filing a separate return). However, the reduction may not exceed 80% of the total itemized deductions (excluding medical expenses, casualty and theft losses, and certain investment interest expense) claimed by the taxpayer. The applicable $128,950 or $64,475 threshold is subject to cost-of-living

adjustments in taxable years beginning after December 31, 2000.

PERSONAL EXEMPTIONS. In addition, the deduction for personal exemptions claimed by the taxpayer is reduced by 2% for each $2,500 ($1,250 for a married taxpayer filing a separate return) or fraction thereof by which the taxpayer's adjusted gross income for the year exceeds a specified threshold amount. The applicable thresholds for 2000 are $193,400 for married taxpayers filing joint returns (and in certain instances, surviving spouses), $161,150 for heads of households, $128,950 for single taxpayers and $96,700 for married taxpayers filing separate returns. Accordingly, the deduction is completely eliminated for any taxpayer whose adjusted gross income for the year exceeds the applicable threshold amount by more than $122,500. The threshold amounts will be subject to cost-of-living adjustments in taxable years beginning after December 31, 2000.

ALTERNATIVE MINIMUM TAX

T18. WHAT IS THE ALTERNATIVE MINIMUM TAX ?

The alternative minimum tax is an alternative method of calculating the income tax you must pay each year in order to assure that a minimum amount of tax is paid for the year. The first $175,000 ($87,500 for a married taxpayer filing a separate return) of your alternative minimum taxable income for the year over the allowable exemption amount is subject to alternative minimum taxation at the rate of 26%. The balance of your alternative minimum taxable income is subject to alternative minimum taxation at the rate of 28%. However, the portion of your alternative minimum taxable income attributable to capital gain recognized upon the sale or disposition of capital assets held for more than one (1) year will be subject to a reduced alternative minimum tax rate of 20% (10% for individuals whose tax rate on ordinary income is below 28%). Beginning in 2001, the alternative minimum tax rate applicable to capital gain recognized upon the sale or disposition of capital assets held for more than five (5) years will be equal to the capital gain tax rate in effect for such gain for regular tax purposes (see Question T17 above). The alternative minimum tax will, however, be payable only to the extent that it exceeds your regular federal income tax for the year (computed without regard to certain credits and special taxes).

T19. WHAT IS THE ALLOWABLE EXEMPTION AMOUNT?

The allowable exemption amount is $45,000 for a married taxpayer filing a joint return, $33,750 for an unmarried taxpayer and $22,500 for a married taxpayer filing a separate return. The allowable exemption amount is, however, to be reduced by $0.25 for each $1.00 by which the individual's alternative minimum taxable income for the year exceeds $150,000 for a married taxpayer filing a joint return, $112,500 for an unmarried taxpayer, and $75,000 for a married taxpayer filing a separate return.

T20. HOW IS THE ALTERNATIVE MINIMUM TAXABLE INCOME CALCULATED?

Your alternative minimum taxable income is based upon your regular taxable income for the year, adjusted to (i) include certain additional items of income and tax preference and (ii) disallow or limit certain deductions otherwise allowable for regular tax purposes.

T21. IS THE SPREAD ON AN INCENTIVE OPTION AT THE TIME OF EXERCISE NORMALLY INCLUDIBLE IN ALTERNATIVE MINIMUM TAXABLE INCOME?

Yes. The spread on the shares purchased under an Incentive Option (the excess of the fair market value of the purchased shares at the time of exercise over the aggregate exercise price paid for those shares) is normally included in the optionee's alternative minimum taxable income at the time of exercise, whether or not the shares are subsequently made the subject of a disqualifying disposition.

T22. HOW WILL THE PAYMENT OF ALTERNATIVE MINIMUM TAXES IN ONE YEAR AFFECT THE CALCULATION OF MY TAX LIABILITY IN A LATER YEAR?

If alternative minimum taxes are paid for one or more taxable years, a portion of those taxes (subject to certain adjustments and reductions) will be applied as a partial credit against your regular tax liability (but not alternative minimum tax liability) for subsequent taxable years. In addition, upon the sale or other disposition of the purchased shares, whether in the year of exercise or in any subsequent taxable year, your basis for computing the gain for purposes of alternative minimum taxable income (but not regular taxable income) will include the amount of the Incentive Option spread previously included in your alternative minimum taxable income.

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CORPORATION INFORMATION AND ANNUAL PLAN INFORMATION

Discovery Partners International, Inc. is a Delaware corporation which maintains its principal executive offices at 9640 Towne Centre Drive, San Diego, California 92121. The telephone number at the executive offices is (858) 455-8600. You may contact the Corporation at this address or telephone number for further information concerning the Plan and its administration.

A copy of the Corporation's Annual Report to Stockholders for each fiscal year will be furnished to each participant in the Plan, and additional copies will be furnished without charge to each participant upon written or oral request to the Corporate Secretary of the Corporation at its principal executive office or upon telephoning the Corporation at its principal executive office. In addition, any person receiving a copy of this Prospectus may obtain without charge, upon written or oral request to the Corporate Secretary, a copy of any of the documents listed below, which are hereby incorporated by reference into this Prospectus, other than certain exhibits to such documents.

(a) The Corporation's Registration Statement No. 333-36638 on Form S-1 filed with the SEC on May 9, 2000, together with the amendments filed thereto on Form S-1/A on June 23, 2000, July 21, 2000, July 26, 2000 and July 27, 2000 (upon which date two amendments were filed), respectively.

(b) The Corporation's Prospectus filed with the SEC on July 28, 2000 pursuant to Rule 424(b) of the Securities Act of 1933, as amended, in connection with the Corporation's Registration Statement No. 333-36638, in which there is set forth the audited financial statements for the Corporation's fiscal year ended December 31, 1999.

(c) The Corporation's Registration Statement on Form 8-A12G filed with the SEC on July 25, 2000, in which are described the terms, rights and provisions applicable to the Corporation's outstanding Common Stock.

The Corporation will also deliver to each participant in the Plan who does not otherwise receive such materials a copy of all reports, proxy statements and other communications distributed to the Corporation's stockholders.

EXHIBIT 10.45

DISCOVERY PARTNERS INTERNATIONAL, INC.

STOCK OPTION AGREEMENT

RECITALS

A. The Board has adopted the Plan for the purpose of retaining the services of selected Employees, non-employee members of the Board (or the board of directors of any Parent or Subsidiary) and consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. Optionee is to render valuable services to the Corporation (or a Parent or Subsidiary), and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the Corporation's grant of an option to Optionee.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in the attached Appendix.

NOW, THEREFORE, it is hereby agreed as follows:

1. GRANT OF OPTION. The Corporation hereby grants to Optionee, as of the Grant Date, an option to purchase up to the number of Option Shares specified in the Grant Notice. The Option Shares shall be purchasable from time to time during the option term specified in Paragraph 2 at the Exercise Price.

2. OPTION TERM. This option shall have a maximum term of ten (10) years measured from the Grant Date and shall accordingly expire at the close of business on the Expiration Date, unless sooner terminated in accordance with Paragraph 5 or 6.

3. LIMITED TRANSFERABILITY.

(a) This option shall be neither transferable nor assignable by Optionee other than by will or the laws of inheritance following Optionee's death and may be exercised, during Optionee's lifetime, only by Optionee. However, Optionee may designate one or more persons as the beneficiary or beneficiaries of this option, and this option shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee's death while holding this option. Such beneficiary or beneficiaries shall take the transferred option subject to all the terms and conditions of this Agreement, including (without limitation) the limited time period during which this option may, pursuant to Paragraph 5, be exercised following Optionee's death.

(b) If this option is designated a Non-Statutory Option in the Grant Notice, then this option may be assigned in whole or in part during Optionee's lifetime to one or more members of Optionee's family or to a trust established for the exclusive benefit of one or more such family members or to Optionee's former spouse, to the extent such assignment is in connection with the Optionee's estate plan or pursuant to a domestic relations order. The assigned portion shall be exercisable only by the person or persons who acquire a proprietary interest in the option pursuant to such assignment. The terms applicable to the assigned portion shall be the same as those in effect for this option immediately prior to such assignment.

4. DATES OF EXERCISE. This option shall become exercisable for the Option Shares in one or more installments as specified in the Grant Notice. As the option becomes exercisable for such installments, those installments shall

accumulate, and the option shall remain exercisable for the accumulated installments until the Expiration Date or sooner termination of the option term under Paragraph 5 or 6.

5. CESSATION OF SERVICE. The option term specified in Paragraph 2 shall terminate (and this option shall cease to be outstanding) prior to the Expiration Date should any of the following provisions become applicable:

(a) Should Optionee cease to remain in Service for any reason (other than death, Permanent Disability or Misconduct) while holding this option, then Optionee shall have a period of three (3) months (commencing with the date of such cessation of Service) during which to exercise this option, but in no event shall this option be exercisable at any time after the Expiration Date.

(b) Should Optionee die while holding this option, then the personal representative of Optionee's estate or the person or persons to whom the option is transferred pursuant to Optionee's will or the laws of inheritance shall have the right to exercise this option. However, if Optionee has designated one or more beneficiaries of this option, then those persons shall have the exclusive right to exercise this option following Optionee's death. Any such right to exercise this option shall lapse, and this option shall cease to be outstanding, upon the earlier of (i) the expiration of the twelve (12)-month period measured from the date of Optionee's death or (ii) the Expiration Date.

(c) Should Optionee cease Service by reason of Permanent Disability while holding this option, then Optionee shall have a period of twelve (12) months (commencing with the date of such cessation of Service) during which to exercise this option. In no event shall this option be exercisable at any time after the Expiration Date.

(d) During the limited period of post-Service exercisability, this option may not be exercised in the aggregate for more than the number of Option Shares for which the option is exercisable at the time of Optionee's cessation of Service. Upon the expiration of such limited exercise period or (if earlier) upon the Expiration Date, this option shall terminate and

cease to be outstanding for any exercisable Option Shares for which the option has not been exercised. However, this option shall, immediately upon Optionee's cessation of Service for any reason, terminate and cease to be outstanding with respect to any Option Shares for which this option is not otherwise at that time exercisable.

(e) Should Optionee's Service be terminated for Misconduct or should Optionee otherwise engage in any Misconduct while this option is outstanding, then this option shall terminate immediately and cease to remain outstanding.

6. SPECIAL ACCELERATION OF OPTION.

(a) This option, to the extent outstanding at the time of a Corporate Transaction but not otherwise fully exercisable, shall automatically accelerate so that this option shall, immediately prior to the effective date of such Corporate Transaction, become exercisable for all of the Option Shares at the time subject to this option and may be exercised for any or all of those Option Shares as fully vested shares of Common Stock. However, this option shall NOT become exercisable on such an accelerated basis, if and to the extent: (i) this option is, in connection with the Corporate Transaction, to be assumed by the successor corporation (or parent thereof) or (ii) this option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing at the time of the Corporate Transaction on any Option Shares for which this option is not otherwise at that time exercisable (the excess of the Fair Market Value of those Option Shares over the aggregate Exercise Price payable for such shares) and provides for subsequent payout in accordance with the same option exercise/vesting schedule for those Option Shares set forth in the Grant Notice.

(b) Immediately following the Corporate Transaction, this option

shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(c) If this option is assumed in connection with a Corporate Transaction, then this option shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction, and appropriate adjustments shall also be made to the Exercise Price, provided the aggregate Exercise Price shall remain the same. To the extent the actual holders of the Corporation's outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Corporate Transaction, the successor corporation may, in connection with the assumption of this option, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Corporate Transaction.

(d) This Agreement shall not in any way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

7. ADJUSTMENT IN OPTION SHARES. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the total number and/or class of securities subject to this option and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

8. STOCKHOLDER RIGHTS. The holder of this option shall not have any stockholder rights with respect to the Option Shares until such person shall have exercised the option, paid the Exercise Price and become a holder of record of the purchased shares.

9. MANNER OF EXERCISING OPTION.

(a) In order to exercise this option with respect to all or any part of the Option Shares for which this option is at the time exercisable, Optionee (or any other person or persons exercising the option) must take the following actions:

(i) Execute and deliver to the Corporation a Notice of Exercise for the Option Shares for which the option is exercised.

(ii) Pay the aggregate Exercise Price for the purchased shares in one or more of the following forms:

(a) cash or check made payable to the Corporation;

(b) a promissory note payable to the Corporation, but only to the extent authorized by the Plan Administrator in accordance with Paragraph 13;

(c) shares of Common Stock held by Optionee (or any other person or persons exercising the option) for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date; or

(d) through a special sale and remittance procedure pursuant to which Optionee (or any other person or persons exercising the option) shall concurrently provide irrevocable instructions (i) to a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the

settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased shares plus all

applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (ii) to the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent the sale and remittance procedure is utilized in connection with the option exercise, payment of the Exercise Price must accompany the Notice of Exercise delivered to the Corporation in connection with the option exercise.

(iii) Furnish to the Corporation appropriate documentation that the person or persons exercising the option (if other than Optionee) have the right to exercise this option.

(iv) Make appropriate arrangements with the Corporation (or Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state and local income and employment tax withholding requirements applicable to the option exercise.

(b) As soon as practical after the Exercise Date, the Corporation shall issue to or on behalf of Optionee (or any other person or persons exercising this option) a certificate for the purchased Option Shares, with the appropriate legends affixed thereto.

(c) In no event may this option be exercised for any fractional shares.

10. COMPLIANCE WITH LAWS AND REGULATIONS.

(a) The exercise of this option and the issuance of the Option Shares upon such exercise shall be subject to compliance by the Corporation and Optionee with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange (or the Nasdaq National Market, if applicable) on which the Common Stock may be listed for trading at the time of such exercise and issuance.

(b) The inability of the Corporation to obtain approval from any regulatory body having authority deemed by the Corporation to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option shall relieve the Corporation of any liability with respect to the non-issuance or sale of the Common Stock as to which such approval shall not have been obtained. The Corporation, however, shall use its best efforts to obtain all such approvals.

11. SUCCESSORS AND ASSIGNS. Except to the extent otherwise provided in Paragraphs 3 and 6, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and Optionee, Optionee's assigns, the legal representatives, heirs and legatees of Optionee's estate and any beneficiaries of this option designated by Optionee.

12. NOTICES. Any notice required to be given or delivered to the Corporation under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal corporate offices. Any notice required to be given or delivered to Optionee shall be in writing and addressed to Optionee at the address indicated below Optionee's signature line on the Grant Notice. All notices shall be deemed effective upon personal delivery or upon deposit in the

U.S. mail, postage prepaid and properly addressed to the party to be notified.

13. FINANCING. The Plan Administrator may, in its absolute discretion and without any obligation to do so, permit Optionee to pay the Exercise Price for the purchased Option Shares (to the extent such Exercise Price is in excess of the par value of those shares) by delivering a full-recourse promissory note payable to the Corporation. The terms of any such promissory note (including the interest rate, the requirements for collateral and the terms of repayment) shall be established by the Plan Administrator in its sole discretion.

14. CONSTRUCTION. This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under the Plan or this Agreement shall be conclusive and binding on all persons having an interest in this option.

15. GOVERNING LAW. The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to that State's conflict-of-laws rules.

16. EXCESS SHARES. If the Option Shares covered by this Agreement exceed, as of the Grant Date, the number of shares of Common Stock which may without stockholder approval be issued under the Plan, then this option shall be void with respect to those excess shares, unless stockholder approval of an amendment sufficiently increasing the number of shares of Common Stock issuable under the Plan is obtained in accordance with the provisions of the Plan.

17. ADDITIONAL TERMS APPLICABLE TO AN INCENTIVE OPTION. In the event this option is designated an Incentive Option in the Grant Notice, the following terms and conditions shall also apply to the grant:

(a) This option shall cease to qualify for favorable tax treatment as an Incentive Option if (and to the extent) this option is exercised for one or more Option Shares: (A) more than three (3) months after the date Optionee ceases to be an Employee for any reason other than death or Permanent Disability or (B) more than twelve (12) months after the date Optionee ceases to be an Employee by reason of Permanent Disability.

(b) No installment under this option shall qualify for favorable tax treatment as an Incentive Option if (and to the extent) the aggregate Fair Market Value (determined at the Grant Date) of the Common Stock for which such installment first becomes exercisable hereunder would, when added to the aggregate value (determined as of the respective date or dates of grant) of the Common Stock or other securities for which this option or any other

Incentive Options granted to Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should such One Hundred Thousand Dollar ($100,000) limitation be exceeded in any calendar year, this option shall nevertheless become exercisable for the excess shares in such calendar year as a Non-Statutory Option.

(c) Should the exercisability of this option be accelerated upon a Corporate Transaction, then this option shall qualify for favorable tax treatment as an Incentive Option only to the extent the aggregate Fair Market Value (determined at the Grant Date) of the Common Stock for which this option first becomes exercisable in the calendar year in which the Corporate Transaction occurs does not, when added to the aggregate value (determined as of the respective date or dates of grant) of the Common Stock or other securities for which this option or one or more other Incentive Options granted to Optionee prior to the Grant Date (whether under the Plan or any other option plan of the Corporation or any Parent or Subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars ($100,000) in the aggregate. Should the applicable One Hundred Thousand Dollar ($100,000) limitation be exceeded in the calendar year of such Corporate Transaction, the option may nevertheless be exercised for the excess shares in such calendar year as a Non-Statutory Option.

(d) Should Optionee hold, in addition to this option, one or more other options to purchase Common Stock which become exercisable for the first time in the same calendar year as this option, then the foregoing limitations on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

8

EXHIBIT I

NOTICE OF EXERCISE

I hereby notify Discovery Partners International, Inc. (the "Corporation") that I elect to purchase _____ shares of the Corporation's Common Stock (the "Purchased Shares") at the option exercise price of $_____ per share (the "Exercise Price") pursuant to that certain option (the "Option") granted to me under the Corporation's 2000 Stock Incentive Plan on _____, _____.

Concurrently with the delivery of this Exercise Notice to the Corporation, I shall hereby pay to the Corporation the Exercise Price for the Purchased Shares in accordance with the provisions of my agreement with the Corporation (or other documents) evidencing the Option and shall deliver whatever additional documents may be required by such agreement as a condition for exercise. Alternatively, I may utilize the special broker-dealer sale and remittance procedure specified in my agreement to effect payment of the Exercise Price.

_____, _____
Date

_____
Optionee

Address: _____

Print name in exact manner it is to appear on the stock certificate: _____

Address to which certificate is to be sent, if different from address above: _____

_____

Social Security Number: _____

9

APPENDIX

The following definitions shall be in effect under the Agreement:

A. AGREEMENT shall mean this Stock Option Agreement.

B. BOARD shall mean the Corporation's Board of Directors.

C. COMMON STOCK shall mean shares of the Corporation's common stock.

D. CODE shall mean the Internal Revenue Code of 1986, as amended.

E. CORPORATE TRANSACTION shall mean either of the following stockholder-approved transactions to which the Corporation is a party:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

F. CORPORATION shall mean Discovery Partners International, Inc., a Delaware corporation, and any successor corporation to all or substantially all of the assets or voting stock of Discovery Partners International, Inc. which shall by appropriate action adopt the Plan.

G. EMPLOYEE shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

H. EXERCISE DATE shall mean the date on which the option shall have been exercised in accordance with Paragraph 9 of the Agreement.

I. EXERCISE PRICE shall mean the exercise price per Option Share as specified in the Grant Notice.

J. EXPIRATION DATE shall mean the date on which the option expires as specified in the Grant Notice.

K. FAIR MARKET VALUE per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be deemed equal to the closing selling price per share of Common Stock on the date in question, as the price is reported by the National Association of Securities Dealers on the Nasdaq National Market and published in The Wall Street Journal. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists, or

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be deemed equal to the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange and published in The Wall Street Journal. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

L. GRANT DATE shall mean the date of grant of the option as specified in the Grant Notice.

M. GRANT NOTICE shall mean the Notice of Grant of Stock Option accompanying the Agreement, pursuant to which Optionee has been informed of the basic terms of the option evidenced hereby.

N. INCENTIVE OPTION shall mean an option which satisfies the requirements of Code Section 422.

O. MISCONDUCT shall mean the commission of any act of fraud, embezzlement or dishonesty by Optionee, any unauthorized use or disclosure by Optionee of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by Optionee adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of Optionee or any other individual in the Service of the Corporation (or any Parent or Subsidiary).

P. NON-STATUTORY OPTION shall mean an option not intended to satisfy the requirements of Code Section 422.

Q. NOTICE OF EXERCISE shall mean the notice of exercise in the form attached hereto as Exhibit I.

R. OPTION SHARES shall mean the number of shares of Common Stock subject to the option as specified in the Grant Notice.

S. OPTIONEE shall mean the person to whom the option is granted as specified in the Grant Notice.

T. PARENT shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

U. PERMANENT DISABILITY shall mean the inability of Optionee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which is expected to result in death or has lasted or can be expected to last for a continuous period of twelve (12) months or more.

V. PLAN shall mean the Corporation's 2000 Stock Incentive Plan.

W. PLAN ADMINISTRATOR shall mean either the Board or a committee of the Board acting in its capacity as administrator of the Plan.

X. SERVICE shall mean the Optionee's performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor.

Y. STOCK EXCHANGE shall mean the American Stock Exchange or the New York Stock Exchange.

Z. SUBSIDIARY shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

EXHIBIT 10.46

DISCOVERY PARTNERS INTERNATIONAL, INC.

STOCK ISSUANCE AGREEMENT

AGREEMENT made this _____ day of _____, by and between Discovery Partners International, Inc., a Delaware corporation, and _____, a Participant in the Corporation's 2000 Stock Incentive Plan.

All capitalized terms in this Agreement shall have the meaning assigned to them in this Agreement or in the attached Appendix.

A. PURCHASE OF SHARES

1. PURCHASE. Participant hereby purchases _____ shares of Common Stock (the "Purchased Shares") pursuant to the provisions of the Stock Issuance Program at the purchase price of $_____ per share (the "Purchase Price").

2. PAYMENT. Concurrently with the delivery of this Agreement to the Corporation, Participant shall pay the Purchase Price for the Purchased Shares in cash or check payable to the Corporation and shall deliver a duly executed blank Assignment Separate from Certificate (in the form attached hereto as Exhibit I) with respect to the Purchased Shares.

3. STOCKHOLDER RIGHTS. Until such time as the Corporation exercises the Repurchase Right, Participant (or any successor in interest) shall have all the rights of a stockholder (including voting, dividend and liquidation rights) with respect to the Purchased Shares, subject, however, to the transfer restrictions of this Agreement.

4. ESCROW. The Corporation shall have the right to hold the Purchased Shares in escrow until those shares have vested in accordance with the Vesting Schedule.

5. COMPLIANCE WITH LAW. Under no circumstances shall shares of Common Stock or other assets be issued or delivered to Participant pursuant to the provisions of this Agreement unless, in the opinion of counsel for the Corporation or its successors, there shall have been compliance with all applicable requirements of Federal and state securities laws, all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which the Common Stock is at the time listed for trading and all other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery.

B. TRANSFER RESTRICTIONS

1. RESTRICTION ON TRANSFER. Except for any Permitted Transfer, Participant shall not transfer, assign, encumber or otherwise dispose of any of the Purchased Shares which are subject to the Repurchase Right.

2. RESTRICTIVE LEGEND. The stock certificate for the Purchased Shares shall be endorsed with the following restrictive legend:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE UNVESTED AND SUBJECT TO CERTAIN REPURCHASE RIGHTS GRANTED TO THE CORPORATION AND ACCORDINGLY MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, ENCUMBERED, OR IN ANY MANNER DISPOSED OF EXCEPT IN CONFORMITY WITH THE TERMS OF A WRITTEN AGREEMENT DATED _____, _____ BETWEEN THE CORPORATION AND THE

REGISTERED HOLDER OF THE SHARES (OR THE PREDECESSOR IN INTEREST TO THE SHARES). A COPY OF SUCH AGREEMENT IS MAINTAINED AT THE CORPORATION'S PRINCIPAL CORPORATE OFFICES."

3. TRANSFEREE OBLIGATIONS. Each person (other than the Corporation) to whom the Purchased Shares are transferred by means of a Permitted Transfer must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Corporation that such person is bound by the provisions of this Agreement and that the transferred shares are subject to the Repurchase Right to the same extent such shares would be so subject if retained by Participant.

C. REPURCHASE RIGHT

1. GRANT. The Corporation is hereby granted the right (the "Repurchase Right"), exercisable at any time during the ninety (90)-day period following the date Participant ceases for any reason to remain in Service, to repurchase at the Purchase Price any or all of the Purchased Shares in which Participant is not, at the time of his or her cessation of Service, vested in accordance with the Vesting Schedule set forth in Paragraph C.3 of this Agreement or the special vesting acceleration provisions of Paragraph C.5 of this Agreement (such shares to be hereinafter referred to as the "Unvested Shares").

2. EXERCISE OF THE REPURCHASE RIGHT. The Repurchase Right shall be exercisable by written notice delivered to each Owner of the Unvested Shares prior to the expiration of the ninety (90)-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than thirty (30) days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to the Corporation on the closing date specified for the repurchase. Concurrently with the receipt of such stock certificates, the Corporation shall pay to Owner, in cash or cash equivalent (including the cancellation of any purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares to be repurchased from Owner.

3. TERMINATION OF THE REPURCHASE RIGHT. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Paragraph C.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Purchased Shares in which Participant vests in accordance with the following Vesting Schedule:

(i) Upon Participant's completion of one (1) year of Service measured from _____, _____, Participant shall acquire a vested interest in, and the Repurchase Right shall lapse with respect to, twenty-five percent (25%) of the Purchased Shares.

(ii) Participant shall acquire a vested interest in, and the Repurchase Right shall lapse with respect to, the remaining Purchased Shares in a series of thirty six (36) successive equal monthly installments upon Participant's completion of each additional month of Service over the thirty-six (36)-month period measured from the initial vesting date under subparagraph (i) above.

4. RECAPITALIZATION. Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any Recapitalization distributed with respect to the Purchased Shares shall be immediately subject to the Repurchase Right and any escrow requirements hereunder, but only to the extent the Purchased Shares are at the time covered by such right or escrow requirements. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of securities subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same.

5. CORPORATE TRANSACTION.

(a) Immediately prior to the consummation of any Corporate Transaction, the Repurchase Right shall automatically lapse in its entirety and the Purchased Shares shall vest in full, except to the extent the Repurchase Right is to be assigned to the successor corporation (or parent thereof) in connection with the Corporate Transaction.

(b) To the extent the Repurchase Right remains in effect following a Corporate Transaction, such right shall apply to the new capital stock or other property (including any cash payments) received in exchange for the Purchased Shares in consummation of the Corporate Transaction, but only to the extent the Purchased Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of the Corporate Transaction upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same. The new securities or other property (including cash payments) issued or

distributed with respect to the Purchased Shares in consummation of the Corporate Transaction shall immediately be deposited in escrow with the Corporation (or the successor entity) and shall not be released from escrow until Participant vests in such securities or other property in accordance with the same Vesting Schedule in effect for the Purchased Shares.

D. SPECIAL TAX ELECTION

1. SECTION 83(b) ELECTION. Under Code Section 83, the excess of the fair market value of the Purchased Shares on the date any forfeiture restrictions applicable to such shares lapse over the Purchase Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions" includes the right of the Corporation to repurchase the Purchased Shares pursuant to the Repurchase Right. Participant may elect under Code Section 83(b) to be taxed at the time the Purchased Shares are acquired, rather than when and as such Purchased Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within thirty (30) days after the date of this Agreement. Even if the fair market value of the Purchased Shares on the date of this Agreement equals the Purchase Price paid (and thus no tax is payable), the election must be made to avoid adverse tax consequences in the future. THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT II HERETO. PARTICIPANT UNDERSTANDS THAT FAILURE TO MAKE THIS FILING WITHIN THE APPLICABLE THIRTY (30)-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.

2. FILING RESPONSIBILITY. PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY, AND NOT THE CORPORATION'S, TO FILE A TIMELY ELECTION UNDER CODE SECTION 83(B), EVEN IF PARTICIPANT REQUESTS THE CORPORATION OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF.

E. GENERAL PROVISIONS

1. ASSIGNMENT. The Corporation may assign the Repurchase Right to any person or entity selected by the Board, including (without limitation) one or more stockholders of the Corporation.

2. AT WILL EMPLOYMENT. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining Participant) or of Participant, which rights are hereby expressly reserved by each, to terminate Participant's Service at any time for any reason, with or without cause.

3. NOTICES. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten (10) days advance written notice under this paragraph to all other parties to this Agreement.

4. NO WAIVER. The failure of the Corporation in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between the Corporation and Participant. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

5. CANCELLATION OF SHARES. If the Corporation shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Purchased Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and the Corporation shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

6. PARTICIPANT UNDERTAKING. Participant hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Participant or the Purchased Shares pursuant to the provisions of this Agreement.

7. AGREEMENT IS ENTIRE CONTRACT. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the terms of the Plan.

8. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California without resort to that State's conflict-of-laws rules.

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

10. SUCCESSORS AND ASSIGNS. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and upon Participant, Participant's assigns and the legal representatives, heirs and legatees of Participant's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first indicated above.

DISCOVERY PARTNERS INTERNATIONAL, INC.

By:_____

Title:_____

Address:_____

_____

PARTICIPANT

_____
Signature

Address:_____

_____

EXHIBIT 10.46

SPOUSAL ACKNOWLEDGMENT

The undersigned spouse of the Participant has read and hereby approves the foregoing Stock Issuance Agreement. In consideration of the Corporation's granting the Participant the right to acquire the Purchased Shares in accordance with the terms of such Agreement, the undersigned hereby agrees to be irrevocably bound by all the terms of such Agreement, including (without limitation) the right of the Corporation (or its assigns) to purchase any Purchased Shares in which the Participant is not vested at the time of his or her termination of Service.

_____
PARTICIPANT'S SPOUSE

Address:_____

_____

EXHIBIT I

ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED _____ hereby sell(s), assign(s) and transfer(s) unto Discovery Partners International, Inc. (the "Corporation"), _____ (_____) shares of the Common Stock of the Corporation standing in his or her name on the books of the Corporation represented by Certificate No. _____ herewith and do(es) hereby irrevocably constitute and appoint _____ Attorney to transfer the said stock on the books of the Corporation with full power of substitution in the premises.

Dated: _____, _____.

Signature _____

INSTRUCTION: Please do not fill in any blanks other than the signature line. Please sign exactly as you would like your name to appear on the issued stock certificate. The purpose of this assignment is to enable the Corporation to exercise the Repurchase Right without requiring additional signatures on the part of Participant.

EXHIBIT II

SECTION 83(b) TAX ELECTION

This statement is being made under Section 83(b) of the Internal Revenue Code, pursuant to Treas. Reg. Section 1.83-2.

(1) The taxpayer who performed the services is:

Name:
Address:
Taxpayer Ident. No.:

(2) The property with respect to which the election is being made is _____ shares of the common stock of Discovery Partners International, Inc.

(3) The property was issued on _____, _____.

(4) The taxable year in which the election is being made is the calendar year _____.

(5) The property is subject to a repurchase right pursuant to which the issuer has the right to acquire the property at the original purchase price if for any reason taxpayer's service with the issuer terminates. The issuer's repurchase right will lapse in a series of annual and monthly installments over a forty-eight (48)-month period ending on _____.

(6) The fair market value at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) is $_____ per share.

(7) The amount paid for such property is $_____ per share.

(8) A copy of this statement was furnished to Discovery Partners International, Inc. for whom taxpayer rendered the services underlying the transfer of property.

(9) This statement is executed on _____, _____.

_____ Spouse (if any)

_____ Taxpayer

This election must be filed with the Internal Revenue Service Center with which taxpayer files his or her Federal income tax returns and must be made within thirty (30) days after the execution date of the Stock Issuance Agreement. This filing should be made by registered or certified mail, return receipt requested. Participant must retain two (2) copies of the completed form for filing with his or her Federal and state tax returns for the current tax year and an additional copy for his or her records.

APPENDIX

The following definitions shall be in effect under the Agreement:

A. AGREEMENT shall mean this Stock Issuance Agreement.

B. BOARD shall mean the Corporation's Board of Directors.

C. COMMON STOCK shall mean shares of the Corporation's common stock.

D. CODE shall mean the Internal Revenue Code of 1986, as amended.

E. CORPORATE TRANSACTION shall mean either of the following stockholder-approved transactions:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

F. CORPORATION shall mean Discovery Partners International, Inc., a Delaware corporation, and any successor corporation to all or substantially all of the assets or voting stock of Discovery Partners International, Inc.

G. OWNER shall mean Participant and all subsequent holders of the Purchased Shares who derive their chain of ownership through a Permitted Transfer from Participant.

H. PARENT shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

I. PARTICIPANT shall mean the person to whom the Purchased Shares are issued under the Stock Issuance Program.

J. PERMITTED TRANSFER shall mean (i) a gratuitous transfer of the Purchased Shares, provided and only if Participant obtains the Corporation's prior written consent to such transfer, (ii) a transfer of title to the Purchased Shares effected pursuant to Participant's will or the laws of inheritance following Participant's death or (iii) a transfer to the Corporation in pledge as

security for any purchase-money indebtedness incurred by Participant in connection with the acquisition of the Purchased Shares.

K. PLAN shall mean the Corporation's 2000 Stock Incentive Plan.

L. PLAN ADMINISTRATOR shall mean either the Board or a committee of the Board acting in its administrative capacity under the Plan.

M. PURCHASE PRICE shall have the meaning assigned to such term in Paragraph A.1.

N. PURCHASED SHARES shall have the meaning assigned to such term in Paragraph A.1.

O. RECAPITALIZATION shall mean any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the Corporation's outstanding Common Stock as a class without the Corporation's receipt of consideration.

P. REPURCHASE RIGHT shall mean the right granted to the Corporation in accordance with Article C.

Q. SERVICE shall mean the Participant's performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an employee, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance, a non-employee member of the board of directors or an independent consultant.

R. STOCK ISSUANCE PROGRAM shall mean the Stock Issuance Program under the Plan.

S. SUBSIDIARY shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

T. VESTING SCHEDULE shall mean the vesting schedule specified in Paragraph C.3, pursuant to which the Purchased Shares are to vest in a series of installments over Participant's period of Service.

U. UNVESTED SHARES shall have the meaning assigned to such term in Paragraph C.1.

EXHIBIT 10.48

DISCOVERY PARTNERS INTERNATIONAL, INC.
STOCK PURCHASE AGREEMENT

I hereby elect to participate in the Employee Stock Purchase Plan (the "ESPP") for the offering period specified below, and I hereby subscribe to purchase shares of Common Stock of Discovery Partners International, Inc. (the "Corporation") in accordance with the provisions of this Agreement and the ESPP. I hereby authorize payroll deductions from each of my paychecks following my entry into the ESPP in the 1% multiple of my base salary (not to exceed a maximum of 10%) specified in my attached Enrollment Form.

The offering period is divided into a series of consecutive purchase intervals. Except for the initial purchase interval which will begin at the time of the initial public offering of the Common Stock and end on January 31, 2001, the purchase intervals will each be of six months duration and will run from the first business day of February to the last business day of July each year and from the first business day of August each year to the last business day of January in the following year. My participation will automatically remain in effect from one purchase interval to the next in accordance with my payroll deduction authorization, unless I withdraw from the ESPP or change the rate of my payroll deduction or unless my employment status changes. I may reduce the rate of my payroll deductions on one occasion per purchase interval, and I may increase my rate of payroll deductions to become effective at the beginning of any subsequent purchase interval.

My payroll deductions will be accumulated for the purchase of shares of Common Stock on the last business day of each purchase interval within the offering period. The purchase price per share will be equal to 85% of the lower of (i) the fair market value per share of Common Stock on the start date of the offering period or (ii) the fair market value per share on the purchase date. I will also be subject to ESPP restrictions (i) limiting the maximum number of shares which I may purchase per purchase interval, (ii) limiting the maximum number of shares which may be purchased in total by all participants per purchase interval and (iii) prohibiting me from purchasing more than $25,000 worth of Common Stock for each calendar year my purchase right remains outstanding.

I may withdraw from the ESPP at any time prior to the last business day of the purchase interval and elect either to have the Corporation refund all my payroll deductions for that interval or to have such payroll deductions applied to the purchase of Common Stock at the end of such interval. However, I may not rejoin that particular offering period at a later date and must wait until the start of a new offering to resume participation in the ESPP. Upon the termination of my employment for any reason, including death or disability, or my loss of eligible employee status, my participation in the ESPP will immediately cease, and all my payroll deductions for the purchase interval in which my employment terminates or my loss of eligibility occurs will immediately be refunded.

If I take an unpaid leave of absence, my payroll deductions will immediately cease, and any payroll deductions for the purchase interval in which my leave begins will, at my election, either be refunded or applied to the purchase of shares of Common Stock at the end of that purchase interval. If my re-employment is guaranteed by either law or contract, or if I return to active service within ninety (90) days, then upon my return my payroll deductions will automatically resume at the rate in effect when my leave began.

The Corporation will issue a stock certificate for the shares purchased on my behalf after the end of each purchase interval. The certificate will be issued in street name and will be deposited directly in my Corporation-designated brokerage account. I will notify the Corporation of any disposition of shares purchased under the ESPP, and I will satisfy all applicable income and employment tax withholding requirements at the time of such disposition.

The Corporation has the right, exercisable in its sole discretion, to amend or terminate all outstanding purchase rights under the ESPP

at any time, with such amendment or termination to become effective immediately following the end of any purchase interval. However, such purchase rights may be amended or terminated with an immediate effective date to the extent necessary to avoid the Corporation's recognition of compensation expense for financial reporting purposes, should the accounting principles applicable to the ESPP change. Upon any such termination, I will cease to have any further rights to purchase shares of common stock under this Agreement.

I have read this Agreement and hereby agree to be bound by the terms of both this Agreement and the ESPP. The effectiveness of this Agreement is dependent upon my eligibility to participate in the ESPP.

Date:

Signature of Employee_____

Printed Name:_____

Offering Period: Initial Offering Period ending July 31, 2002.

EXHIBIT 21.1

List of Subsidiaries

Name	Jurisdiction of Incorporation
Discovery Technologies Ltd.	Switzerland
ChemRx Advanced Technologies, Inc.	Delaware
Structural Proteomics, Inc.	New Jersey
Systems Integration Drug Discovery Company, Inc.	Arizona

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8) pertaining to the 2000 Stock Incentive Plan and Employee Stock Purchase Plan of Discovery Partners International, Inc. of our report dated February 15, 2001, with respect to the consolidated financial statements of Discovery Partners International, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2000.

ERNST & YOUNG LLP

San Diego, California
March 27, 2001