

FINANCIAL HIGHLIGHTS

STATEMENT OF OPERATIONS DATA

Year Ended December 31,	1999	1998	1997	1996
(in thousands, except per share data)				
Revenues	\$ 19,202	\$ 13,197	\$ 2,047	\$ —
Operating expenses:				
Research and development	29,570	16,605	6,061	1,741
Selling, general and administrative	9,194	7,552	3,825	1,345
Acquired in-process research and development	_	35,196	_	_
Amortization of goodwill	1,524	381	_	_
Total operating expenses	40,288	59,734	9,886	3,086
Interest income, net	685	1,844	745	221
Other income (expense)	30	(80)	_	_
Income tax expense	220	100	100	_
Net loss	(20,591)	(44,873)	(7,194)	(2,865)
Accretion of mandatory redemption value of preferred stock	_	_	(1,286)	(494)
Net loss attributable to common stockholders	\$(20,591)	\$(44,873)	\$ (8,480)	\$(3,359)
Basic and diluted net loss per common share	\$ (1.04)	\$ (2.86)	\$ (3.97)	\$ (5.87)
Shares used in computing basic and diluted net loss per common share	19,833	15,681	2,138	572

BALANCE SHEET DATA

Year Ended December 31,	1999	1998	1997	1996
(in thousands)				
Cash, cash equivalents and marketable securities	\$12,446	\$30,982	\$46,621	\$ 5,671
Working capital	5,423	26,573	42,255	4,581
Total assets	41,166	56,566	53,972	7,819
Total long-term debt and capital lease obligations	4,590	5,305	1,551	446
Total stockholders' equity	\$23,068	\$41,288	\$46,067	\$(4,187)

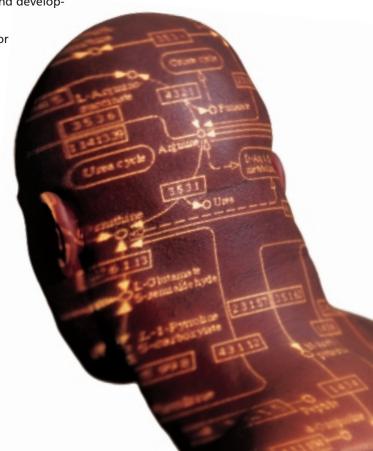
The Company has built and is commercializing what it believes to be the world's most comprehensive survey of gene expression in human and animal tissues.

Gene Logic Inc. is a leading provider of genomic information, enabling the discovery and development of pharmaceutical, biotechnology, health care and life science products through the systematic and industrialized application of genomics and bioinformatics.

Gene Logic markets two types of gene expression database products: custom gene expression databases and related software products, and the new GeneExpress database suite. The Company has built and is commercializing what it believes to be the world's most comprehensive survey of gene expression in human and animal tissues. Gene Logic offers shortcuts to innovation and discovery using the power of gene expression information by creating customized solution sets mapped to the specific needs of the pharmaceutical, biotechnology, health care and life sciences industries as well as individual consumers. The Company's premier product, the GeneExpress database suite, is a revolutionary new tool to accelerate the discovery and develop-

ment of new drugs, and to diagnose and treat disease.

The race to develop new drugs and new therapies for human disease has never been more intense. The pharmaceutical industry must roughly double the rate of new product introductions, while slicing development times in half, simply to maintain current levels of profitability over the next decade. Diagnostics manufacturers, research supply companies, academic researchers and health maintenance organizations face similar demands for speed and efficiency. At Gene Logic we have solutions to address these issues. Using Gene Logic's GeneExpress database suite, custom designed databases for specific applications, and the forthcoming Flow-thru Chip, the race can be won.



BIOINFORMATICS

the science dealing with the classification, storage, retrieval, and analysis of biological information.

COMBINATORIAL CHEMISTRY

a system that methodically synthesizes large numbers of compounds, each having a composition slightly different from the previous one.

CLUSTER TREE REPORT

a clustering of genes into functional pathways based on similar patterns in their gene expression profiles.

DATA MART

a subset of the GeneExpress database containing information specific to a particular disease indication (ie. oncology, CNS, cardiovascular).

DATA POINT

a measure of the expression level of a single gene, defined as the number of mRNA molecules per cell, in a tissue in which the gene is regulated, turned on or turned off.

DRUG DISCOVERY

the identification of new drug targets and leads.

DRUG LEAD

a compound that has shown evidence of pharmacological activity on a drug target.

DRUG TARGET

a gene, or the protein it encodes, that plays a role in a disease process and is the intended site of drug activity.

GENE EXPRESSION

the degree to which a gene is active in a certain tissue of the body, measured by the amount of mRNA in the tissue.

GENE FOLD-CHANGE REPORT

a quantification of changes, such as, from a normal to a diseased tissue, or from various tissues across stages of disease progression.

GENE SIGNATURE

the genes that are consistently expressed in samples of a given type.

GENE SIGNATURE DIFFERENTIAL

how gene expression changes from one type of sample to another, such as, from a normal tissue to its diseased state.

GENOMICS

the science dealing with analysis of the full range of genes in an organism.

MESSENGER RNA (mRNA)

the molecule that carries genetic information from a gene to the site in the cell where the information determines the order of amino acids in the synthesis of a protein.

PHARMACOGENOMICS

the application of genomic information to clinical trials to determine which patients, based on their genetic make-up, are best suited for specific therapeutic strategies.

PHYSIOLOGICAL PATHWAY

the sequence of interactions among proteins that regulates a function of living cells.

PROBE ARRAY

a silicon or glass chip to which small pieces of DNA, or probes, have been attached, with each probe representing a sequence of bases unique to a known gene or gene fragment. Also known as a microarray or DNA chip.

RESTRICTION ENZYME

any of a class of enzymes that cleave DNA at specific sequences, producing fragments useful in a variety of methods of genetic analysis.

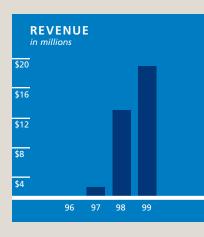
SCREENING

any of several methods for testing large numbers of compounds to discover those that may have pharmacological effects on a drug target.

SEQUENCE

the order of the chemical bases—adenine (A), thymine (T), cytosine (C), and guanine (G)—in a gene. The base sequence determines the order of amino acids making up the protein encoded by the gene.

LETTER TO SHAREHOLDERS



The successes of the past year marked a turning point

for our Company. We began 1999 with a very specific goal in mind: leveraging our success in developing and marketing customized research services, we would focus on building and selling genomic information products, specifically the GeneExpress database suite. By offering an array of information products of various types and prices from the same core database, we would dramatically leverage our technology investments.

In fact, we surpassed our own expectations in achieving our goals. We completed initial construction of the GeneExpress database suite, as well as launching it in November, ahead of schedule. By the end of 1999, we signed our first subscriber to the database.

Before we expand on how 1999 was a turning point

for Gene Logic, let us review the achievements we anticipated in last year's annual report and describe how we delivered on these goals:

Add additional collaborative agreements in drug discovery and toxicology.

In January, we expanded our collaboration with Japan Tobacco to incorporate a second disease indication in the area of benign prostatic hypertrophy. In September, we signed major agreements with two pharmaceutical companies, UCB Pharma and Fujisawa Pharmaceuticals. UCB Pharma will use our information to develop drugs against asthma and allergies, while Fujisawa Pharmaceuticals will explore treatments for diabetes.

Receive first milestone payments for drug targets entering screening.

In December, we achieved our first milestone payment in our drug discovery alliance with Japan Tobacco Inc. This milestone was the result of Japan Tobacco's moving one of our drug targets against renal disease into the first stages of screening.

Sign-up first subscribers to GeneExpress database.

In November, we launched the GeneExpress database suite. And, at the end of December, we signed up our initial subscriber, Therapeutic Genomics, specialists in the field of oncology.

We fully expect that the public and private efforts to complete the mapping of the entire human genome in 2000 will add tremendous value to our products.

Sign additional licenses for bioinformatic software.

As we realized the potential of marketing information products instead of services, we decided to devote much of our bioinformatics capabilities to the construction of the GeneExpress database. The potential for database products is far greater than the value of selling software licenses. Our bioinformatics software helps make GeneExpress a database that allows customers to easily conduct precise electronic experiments from their desktops.

Initiate screening for drug leads using the Flow-thru Chip™.

Throughout the year, scientists at Gene Logic successfully demonstrated that the Flow-thru Chip (FTC), can detect drug-dependent differential expression.

Beyond these critical goals that we clearly delivered

on, we also succeeded in achieving many additional milestones in key areas.

Strategic Agreements

In January, we signed a three-year agreement with Affymetrix, Inc. to purchase GeneChip® probe arrays for building the GeneExpress database. Gene Logic currently is the only company that can commercialize information products based on GeneChip® arrays.

Executive Management Team

We added two key executives to our senior management team. In October, we hired Philip L. Rohrer, Jr. as Chief Financial Officer. He previously served as Chief Financial Officer at BioWhittaker, Inc. In December, we recruited David S. Murray as Senior Vice President, Marketing and Sales. He was formerly Executive Vice President for Marketing and Sales at Dun & Bradstreet.

Custom Drug Discovery Programs

By year end, our major pharmaceutical customers had 24 drug discovery and development programs underway as a result of our custom gene expression database collaborations.

GeneExpress Subscribers

We not only signed our first subscriber in late December, we added two additional subscribers during early 2000: Pfizer Inc and another top-ten pharmaceutical company.



Dr. Michael J. Brennan
Chairman, Chief Executive Officer



Mark D. Gessler

President, Chief Operating Officer

Capital Raising

Early in 2000, we raised approximately \$270 million in the largest independent followon public offering in the history of biotechnology.

Revenue Growth

We were very pleased with our revenue growth for the year. Revenues totaled \$19.2 million, a 45% increase over 1998.

While recognizing the significant progress we've made

in 1999, we look forward to an even more rewarding year in 2000. We will continue to grow and diversify our customer base, and we will expand our work with existing customers through subscriptions to GeneExpress and commitments to custom databases. We aim to expand our leadership in developing and delivering functional gene expression information, refining new methods to profile gene expression and manage the ever-increasing volume of data.

We fully expect that the public and private efforts to complete the mapping of the entire human genome in 2000 will add tremendous value to our products. The sequence data available from this enterprise will enable our premier product, the GeneExpress database, to measure expression of all human genes, generating a vast and potentially complete encyclopedia of functional genomic information.

Our thanks to our shareholders, customers, and suppliers for their continued belief in Gene Logic's vision of high value gene expression information solution sets. And to our employees, our thanks for making that vision a reality.

Respectfully,

Dr. Michael J. Brennan
Chairman, Chief Executive Officer

23 March 2000

Mark D. Gessler

President, Chief Operating Officer



GeneExpress Database Suite

With the GeneExpress database suite, Gene Logic

is offering biology its deepest glimpse into the roots of health and disease. As the world's most systematic and comprehensive survey of human biology, it is a massive reference set of molecular information linking gene information with actual gene function, gathered largely from proprietary patient samples and related patient histories. Pharmaceutical and biotechnology researchers, academic and government scientists, and ultimately physicians can use this information—to develop new therapies and new drugs, understand biological pathways and their interactions more clearly, and diagnose and treat patients. It's like having thousands of virtual patients, healthy and diseased, accessible from your desktop, ready to be analyzed and tested through electronic experimentation—swiftly, precisely, safely, and accurately.

If the human genome contains the basic ingredients

for life, the GeneExpress database suite provides the cookbook—illustrating, in detail, the steps by which the ingredients are combined to cause both health and disease. Unlike database products that only supply raw DNA sequence information, GeneExpress reveals precise interrelationships between genes, their levels of expression, and their effects on cells and tissues. By conducting electronic experiments using GeneExpress, customers forge new pathways leading to faster, safer and more cost-efficient drug discovery and development. By comparing basic patterns of normal and diseased gene expression profiles, customers can pinpoint key genes responsible for diseases, which may help them find new disease-fighting drugs and diagnostic products. The GeneExpress database suite is also a powerful tool for academic research, as well as for basic and clinical medicine. The contents of the GeneExpress database suite can be versioned to serve large and small markets in need of truly functional biological information.

GeneExpress**

How it Works

It starts at the GeneExpress Homepage

GeneExpress is easily accessed through the Internet or a subscriber's corporate server. Subscribers simply log on to gain access to the entire database or a select portion that suits their needs.

Step One: Create a Sample Set

Subscribers can review each biological sample in GeneExpress and select a sample set of diseased or healthy samples with the specific clinical and laboratory characteristics under study—much like recruiting subjects for a clinical research experiment. For example, a researcher might select liver samples from men aged 50 with a history of alcoholism and hypertension. The Sample Set can be saved for future reference.

Step Two: Build a Gene Set

Using the Sample Set, a subscriber can then select what genes to view from that group of samples. For example, a researcher might want to see all the genes expressed in the samples of the sample set or only those genes from a specific chromosome.

Step Three: Create a new Gene Signature

From there, subscribers combine the Sample Set with the Gene Set to create a Gene Signature, a unique profile of gene expression patterns that consistently defines the condition under study. For example, one can compile all the genes that are always expressed in the livers of men in the sample. Subscribers can use a variety of formats to view the Gene Signature output, examine pathway maps, and analyze specific target genes. Clicking on an individual gene takes the subscriber directly to the medical literature on that gene. Users can also click to receive a Gene Signature Curve, a measurement of the statistical strength of the Gene Signature compiled by the user. The Gene Signature can be saved for future reference.

Step Four: Conduct a Gene Signature Differential

Here subscribers can conduct comparative analyses of Gene Signatures—examining the differences in patterns of gene expression between statistically relevant sets of healthy genes and diseased genes. These Gene Signature Differentials can also be visualized in a variety of formats.

Step Five: Identify Likely Candidates for Therapeutic Intervention

Using the GeneExpress, ultimately researchers can arrive at a small subset of genes that are most likely to be potential targets for therapeutic intervention.

Unlike database products that only supply raw DNA sequence information, GeneExpress provides explicit details of the interrelationships between genes, their levels of expression, and their effects on cells and tissues.

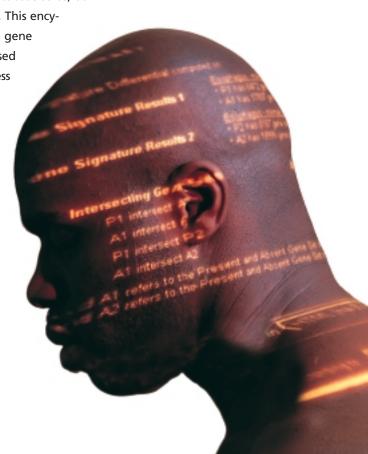
GeneExpress builds upon the unique combination of

advanced gene analysis technology and innovative bioinformatics software that Gene Logic has used since 1997 to build custom gene expression databases for pharmaceutical companies. At the heart of the GeneExpress database exist three core processes: a biorepository of human and animal tissues and cells; a rapid production process for measuring their gene expression levels; and software tools to access and analyze the results. Gene Logic employs its proprietary READS technology to measure unidentified genes as well as existing genes to detect nearly all mRNAs in a sample. Gene Logic also uses the Affymetrix, Inc. GeneChip® probe array technology to measure the gene expression levels of a sample across 42,000 human, 19,000 mouse, and 11,000 rat genes or ESTs whose information is embedded on the probe arrays. GeneExpress incorporates sophisticated software tools to help users access, analyze, and visualize the data content of the database.

In November 1999, we introduced the GeneExpress database suite, our proprietary reference set of gene expression information. This encyclopedia of genomic information contains over 50 million gene expression data points from over 1,500 normal and diseased human tissues, animal tissues and cell lines. The GeneExpress database suite is comprised of three interrelated component databases, or modules: BioExpress™, ToxExpress™ and PharmExpress™. GeneExpress enables researchers to overcome key bottlenecks in drug discovery and development through the systematic application of genomics and bioinformatics—to identify new drug targets, predict patterns of drug toxicity, and facili-

The GeneExpress database links quantitative gene expression measurements with extensive associative patient clinical information—there are more than 150 clinical attributes in the database—so researchers can ask highly specific questions about

tate clinical trials and patient management.



The GeneExpress Database Suite

The GeneExpress database suite is comprised of three distinct, yet interrelated, content modules:

BioExpress

The BioExpress database contains gene expression profiles of a broad survey of normal and diseased human tissue samples, which allows subscribers to study normal physiology, elucidate the mechanisms of disease, identify disease-associated pathways, and select and prioritize potential drug targets.

ToxExpress

The ToxExpress database is a reference library of gene expression profiles of rat (tissues and primary cells) and human (primary cells) samples that have shown toxic responses to known toxins. Subscribers can predict patterns of toxicity of drugs and other compounds prior to clinical testing.

PharmExpress

The PharmExpress database is a reference library of gene expression profiles of human and animal tissues and cell lines treated with commercially available therapeutic compounds. Subscribers can conduct comparative analyses on the mechanisms of action for compounds under study relative to compounds currently on the market.

The GeneExpress database is also highly flexible. Because it is data, the database can be versioned appropriately so that users can subscribe to selected segments, or Data Marts, of the database that relate to their disease niche. Currently, Gene Logic is creating Data Marts for sale to all current market segments in the areas of highest potential interest. These include: oncology, central nervous system (CNS) and cardiovascular system (CVS).

GeneExpress links gene expression data to complete patient history data—more than 150 clinical attributes—so researchers can ask penetrating questions about gene expression in disease.

what genes are doing in either general or highly specialized circumstances. For example, researchers can use GeneExpress to compare gene expression values between normal livers of normal men aged 20 to 30 and those with a history of heavy alcohol use. Using powerful bioinformatics tools within the database, researchers are able to explore the unique differences in detail, down to the most basic level of individual genes and their associated metabolic pathways.

The GeneExpress database suite has breadth as

well as depth. The Company is continuously expanding the content and value of the database. As of early 2000, it contained complete gene expression profiles on over 1,500 normal and diseased human samples. By the end of 2003, the GeneExpress database will include nearly 30,000 samples, representing nearly three billion gene expression data points—a massive repository of useful information about what genes are doing and how they change relative to specific scenarios and circumstances. Gene Logic plans to upgrade the GeneExpress database on a regular schedule; during the second quarter of 2000, the Company will introduce GeneExpress 2000, which includes additional analytic tools and enhanced functionality.

Gene Logic earns annual subscription fees from GeneExpress subscribers. As of early 2000, two top-tier pharmaceutical companies and one biotechnology company became subscribers. The Company intends to reach various market segments on a worldwide basis including: large pharmaceutical companies; small to mid-size pharmaceutical companies and all types of biotechnology companies; diagnostic companies; contract research organizations (CROs); and, researchers in both academia and government. Ultimately, the information within the GeneExpress database will be tailored to the consumer market as well.

Custom Gene Expression Databases and Data Management Software

Since 1997, Gene Logic has been meeting the demand for

companies that need highly selective data sets to probe directly and deeply into specific biological problems. Knowing the disease indications, these companies want to identify genes and their expression patterns to prioritize drug targets for therapeutic products.

Gene Logic currently has twelve customers for custom gene expression and other genomic databases and data management software. Eleven are major pharmaceutical and life science technology companies and one is a major agricultural company. Five of these agreements provide the Company with technology and database access fees, research funding and up-front payments, and research and product development milestone payments, as well as royalties based on product sales resulting from our technology or proprietary database information.

To build these custom gene expression databases, Gene Logic employs the same combined open and closed gene expression profiling methods used in building the GeneExpress database: Gene Logic's proprietary READS (Restriction Enzyme Analysis of Differentially Expressed Sequences) to find novel genes through its refined differential display technology; and, Affymetrix, Inc.'s GeneChip® microarrays for broad analysis of large numbers of known genes. Unlike the GeneExpress database suite, these custom data sets, which are related to specific disease indications, are generated from proprietary tissue samples and are provided by each customer.

Gene Logic's customers use these custom databases to discover drugs, predict toxic responses, profile patients' responses to medicines, and identify genes for agricultural products. The drug discovery customers are using Gene Logic's custom products to identify potential treatments for heart failure, kidney disease, osteoporosis, prostatic hypertrophy, infertility, psychiatric disorders and other major illnesses. Gene Logic has delivered to these customers a narrow selection among

Custom Discovery Database and Software Management Customers

formerly Rhöne-Poulenc Rorer Inc. pharmacogenomics

Aventis CropScience

formerly Hoechst Schering AgrEvo GmbH agriculture

Fujisawa Pharmaceutical Co., Ltd. diabetes

Japan Tobacco

renal disease, benign prostatic hypertrophy

Merck & Co.

pharmacogenomics

NV Organon

pharmaceutical unit of Akzo Nobel NV fertility, CNS

Procter & Gamble Pharmaceuticals heart failure, osteoporosis

Schering-Plough Research Institute pharmacogenomics

SmithKline Beecham

database development

UCB Research division of UCB Pharma asthma, allergies

Wyeth-Ayerst Research pharmaceutical and R&D division American Home Products Corp. predictive toxicology

thousands of genes, isolating the genes most likely to be useful drug targets. So far, 24 drug discovery and development programs have resulted from use of Gene Logic custom databases.

In addition, Gene Logic is developing bioinformatics software, database development and data integration solutions for a major pharmaceutical company and a life science technology company. Gene Logic receives annual software license fees and development fees from these customers. The Company has four additional agreements with major pharmaceutical companies to profile drugs at the preclinical and clinical trial stages of development. Gene Logic is also collaborating with a pharmaceutical company to develop a database for predicting drug toxicity.





Flow-thru Chip



Gene Logic's gene expression databases, built using a combination

of the Company's READS technology and Affymetrix Inc.'s GeneChip® probe arrays, allow a researcher to rapidly identify a subset of genes that may be relevant to a specific disease. In order to more precisely determine the role of these genes under specific experimental conditions—to screen a combinatorial chemistry-based compound library to look for those compounds that affect expression of genes in a beneficial way, or to develop a screening system to assess the toxicological potential of a series of new drug leads—researchers require a high-throughput, highly sensitive and cost effective tool for these purposes.

In addressing this market need, Gene Logic has developed, and received patents on, a proprietary three dimensional chip technology called the Flow-thru Chip (FTC). The FTC is a uniformly porous glass or silicon wafer, in contrast to flat, impenetrable materials used in traditional micro arrays. The pores, or microchannels, connect the upper and lower faces of the chip to enable fluid to flow through the chip. Probes for the subset of genes of interest are attached to the inner surfaces of these channels. Molecules from the samples flow through the channels and come into close proximity with the probes, which facilitates binding of the probes and the test molecules.

The Flow-thru Chip offers several key features that make it well suited to high-throughput screening applications for our pharmaceutical, biotechnology and life science customers:

SPEED. The small channels help samples bind more rapidly to their complementary probes compared to traditional arrays, since they force the molecules to travel closer to the probes.

SENSITIVITY. Because of its three-dimensional structure, the Flow-thru Chip has greater surface area for attachment of probes than conventional flat chips. This increased surface area translates into a higher probability of detecting molecules that are expressed in low volumes.

COST. The Flow-thru Chip is less expensive than traditional microarrays.

VERSATILITY. Because the small microchannels force probes and sample molecules to come into close contact with each other, the FTC may have other important uses. For example, it might be useful for analyzing interactions between two proteins, between proteins and DNA, or between proteins and small molecules.

During 1999, Gene Logic made significant progress in developing and filing patents on the Flow-thru Chip. Although Gene Logic will continue to use the FTC internally, the Company does not intend to manufacture and market the Flow-thru Chip ourselves for commercial sale. Gene Logic continues to pursue discussions with third parties to establish commercialization partnerships through which Gene Logic could receive technology transfer payments and profit-sharing or royal-ties on Flow-thru Chip sales. Gene Logic will retain all rights to the FTC for the foreseeable future.

THE BOARD OF DIRECTORS

pictured left to right (standing) Jules Blake, Charles Dimmler, G. Anthony Gorry (seated) Mark D. Gessler, Alan G. Walton, Michael J. Brennan (not shown: Jeffrey D. Sollender)



DIRECTORS

Michael J. Brennan, M.D., Ph.D. Chairman and Chief Executive Officer Gene Logic Inc.

Jules Blake, Ph.D.

Retired

Vice President, Research and Development Colgate-Palmolive Inc.

Charles L. Dimmler III

Managing Director
Burrill & Company

Mark D. Gessler

President and Chief Operating Officer Gene Logic Inc.

G. Anthony Gorry, Ph.D.

Vice President, Information Technology and Professor of Computer Science Rice University

Jeffrey D. Sollender

Founder
Biotechvest L.P.

Alan G. Walton, Ph.D., D.Sc. *General Partner*

Oxford Bioscience Partners

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Philip L. Rohrer, Jr.
Chief Financial Officer

J. Barry Buzogany

Senior Vice President and General Counsel

Douglas Dolginow, M.D. *Senior Vice President, Product Development*

Victor M. Markowitz, D.Sc. Senior Vice President and Chief Information Officer

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Senior Vice President, Marketing and Sales

Daniel R. Passeri

Senior Vice President, Business Development

Eric M. Eastman

Vice President, Technology Management and Research and Development