GENOME THERAPEUTICS CORP
Form S-4
December 15, 2003
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As filed with the Securities and Exchange Commission on December 15, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

GENOME THERAPEUTICS CORP.

(Exact Name of Registrant as Specified in Its Certificate of Incorporation)

Massachusetts	**2834**	**04-2297484**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

100 BEAVER STREET

WALTHAM, MASSACHUSETTS 02453

(781) 398-2300

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Stephen Cohen

Senior Vice President and Chief Financial Officer

Genome Therapeutics Corp.

100 Beaver Street

Waltham, Massachusetts 02453

(781) 398-2300

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

Patrick O Brien, Esq.

Ropes & Gray LLP

One International Place

Boston, Massachusetts 02109

(617) 951-7000

Christopher Dillon, Esq.

Gunderson Dettmer Stough Villeneuve

Franklin & Hachigian, LLP

155 Constitution Drive

Menlo Park, California 94025

(650) 321-2400

Approximate date of commencement of proposed sale to the public: As soon as possible after the effective date of this registration statement and the consummation of the merger described in this registration statement.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement number for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $.10 par value	28,571,405[1]	N/A	$678[2]	$1[3]

(1) Represents the estimated maximum number of shares of common stock of the registrant that may be issued pursuant to Agreement and Plan of Merger and Reorganization, dated as of November 17, 2003, among registrant, Guardian Acquisition, Inc., a wholly-owned subsidiary of registrant, GeneSoft Pharmaceuticals, Inc., and Luke Evnin, as the representative of the stockholders of GeneSoft Pharmaceuticals, Inc.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(f)(2) under the Securities Act of 1933, as amended. Because there is no market for Genesoft s securities and Genesoft has an accumulated capital deficit, the proposed maximum aggregate offering price was calculated as one-third of the par value per share of $0.0001 of (i) the 12,378,931 shares of Genesoft common stock to be exchanged in the merger, (ii) the 2,939,747 shares of Genesoft common stock issuable pursuant to options assumed in the merger and (iii) the 5,025,970 shares of Gensoft common stock issuable pursuant to warrants outstanding immediately prior to the merger, determined as of December 15, 2003.

(3) As the registration fee calculated pursuant to Rule 457(f)(2) would be less than $1, the registrant is paying the minimum registration fee of $1.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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PRELIMINARY DRAFT DATED DECEMBER 15, 2003 SUBJECT TO COMPLETION

[GENOME LOGO] **[GENOME LOGO]**

The boards of directors of Genome Therapeutics Corp. and GeneSoft Pharmaceuticals, Inc. have agreed to combine the two companies through a business combination transaction pursuant to which (i) a wholly-owned subsidiary of Genome will first merge with and into Genesoft, with Genesoft surviving as a wholly-owned subsidiary of Genome and (ii) immediately following the foregoing step, the surviving entity will be merged with and into a second wholly-owned subsidiary of Genome. Both steps will occur as part of a single integrated plan.

The boards of directors of Genome and Genesoft believe that the merger between the two companies is advisable and in the best interests of their respective stockholders.

Genome recommends that its stockholders vote (i) to approve the issuance of a total of 28,571,405 shares of Genome common stock pursuant to the merger agreement and the issuance of shares of Genome common stock upon the potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger and (ii) to approve the Amendment to Genome s Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000 shares of common stock. **Since the merger is conditioned upon the approval of the matters set forth in each of these proposals, Genome recommends that its stockholders vote for each proposal.**

If the merger is completed, each outstanding share of Genesoft common stock will be converted into a right to receive shares of Genome s authorized common stock, unless Genesoft s stockholders exercise appraisal or dissenters rights under the laws of Delaware or California, as applicable. Genome will issue a total of 28,571,405 shares of its common stock (i) in exchange for all shares of capital stock of Genesoft, (ii) as payment of certain interest and related amounts due to Genesoft s note holders and (iii) upon the exercise of Genesoft options and warrants, which will be assumed by Genome. We will determine the number of shares of Genome common stock into which each share of Genesoft common stock will be converted immediately prior to completion of the merger in accordance with formulas specified in the merger agreement and described in the attached materials.

Genesoft recommends that its stockholders vote (i) to adopt and approve the merger agreement and (ii) to amend and restate Genesoft s Seventh Amended and Restated Certificate of Incorporation to eliminate all authorized shares of Genesoft preferred stock if the merger is completed.

Genome common stock is listed in the Nasdaq National Market under the symbol GENE.

Your Vote is Very Important. Whether or not you plan to attend your company s stockholders meeting, please take the time to vote on the proposal(s) submitted for your company s meeting by completing and mailing the enclosed proxy card to us. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of the proposal(s) submitted at your meeting. Failure to return or sign your proxy card will have the effect of a vote against the merger and the related transactions, unless you attend your stockholders meeting and vote in person.

The dates, times and places of the stockholders meetings are as follows:

For Genome s stockholders: , 2004 at 10:00 a.m. local time, at Ropes & Gray LLP, One International Place, 36th floor, Boston, Massachusetts.

For Genesoft s stockholders: , 2004 at a.m. local time at .

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Following this letter you will find a formal notice of the special meeting of each company s stockholders and a joint proxy statement/prospectus. The joint proxy statement/prospectus provides you with detailed information concerning the merger and the related transactions as well as the other proposals to be presented and voted upon at the special meetings of stockholders of Genome and Genesoft. You may also obtain more information about Genome from documents that it has filed with the Securities and Exchange Commission.

Sincerely,

Steven M. Rauscher
Chairman, President and Chief Executive Officer of
Genome Therapeutics Corp.

David B. Singer
Chairman and Chief Executive Officer of
GeneSoft Pharmaceuticals, Inc.

Please give all of the information contained or incorporated by reference in the joint proxy statement/prospectus your careful attention. In particular, you should carefully consider the discussion in the section entitled Risk Factors beginning on page 24 of the joint proxy statement/prospectus. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the shares to be issued under, or passed upon the adequacy of, this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

The accompanying joint proxy statement/prospectus is dated , 2003 and was first mailed to stockholders of Genome and Genesoft on or about , 2003.

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GENOME THERAPEUTICS CORP.

100 Beaver Street

Waltham, Massachusetts 02453

(781) 398-2300

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

to be held on , 2004

To the Stockholders of Genome Therapeutics Corp.:

A special meeting of stockholders of Genome Therapeutics Corp. will be held on , 2004 at 10:00 a.m., local time, at Ropes & Gray, One International Place, 36th floor, Boston, Massachusetts, for the following purposes:

1. To consider and vote on a proposal to approve (i) the issuance of 28,571,405 shares of Genome common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated as of November 17, 2003, among Genome Therapeutics Corp., Guardian Acquisition, Inc., a wholly-owned subsidiary of Genome Therapeutics Corp., GeneSoft Pharmaceuticals, Inc., and Luke Evnin, as the representative of the Genesoft stockholders and (ii) the issuance of shares of Genome common stock upon the potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger. A copy of the merger agreement is attached as Annex A to the accompanying joint proxy statement/prospectus.

2. To consider and vote on a proposal to approve the Amendment to the Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000.

3. To transact any other business as may properly come before the special meeting and any adjournment or postponement of the special meeting.

Only stockholders of record of Genome Therapeutics Corp. as of the close of business on , 2004 are entitled to notice of, and will be entitled to vote at, the special meeting or any adjournment or postponement thereof. Assuming a quorum is present at the special meeting, approval of proposal 1 described above will require a majority of the votes of Genome Therapeutics Corp. common stock properly cast upon the proposal at the special meeting. Under the by-laws of Genome Therapeutics Corp., a quorum consists of a majority in interest of all stock issued and outstanding and entitled to vote at the meeting. Approval of proposal 2 described above will require the affirmative vote of a majority of the shares of Genome Therapeutics Corp. common stock outstanding as of the record date and entitled to vote on the proposal at the special meeting.

We invite you to attend the special meeting because it is important that your shares be represented at the meeting. Whether or not you plan to attend the special meeting, please sign, date and return the enclosed proxy card in the accompanying postage-paid envelope. Please note that, by delivering a proxy to vote at the special meeting, you are also granting a proxy to vote at any adjournments or postponements of the special meeting of Genome Therapeutics Corp. If you attend the meeting, you may vote in person, which will

revoke a signed proxy if you have already sent one in. You may also revoke your proxy at any time before the meeting in the manner described in the accompanying joint proxy statement/prospectus.

BY THE ORDER OF THE BOARD OF DIRECTORS,

Steven M. Rauscher

Chairman, President and Chief Executive Officer

Waltham, Massachusetts

, 2004

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THE MERGER

The merger is structured as a reverse triangular merger followed by a subsequent merger into a wholly-owned subsidiary of Genome as illustrated below. Both of these steps, which are intended to qualify as a tax-free reorganization under Section 368(a) of the Internal Revenue Code, will occur as part of a single integrated plan.

(1) Guardian Acquisition, Inc., a wholly-owned subsidiary of Genome Therapeutics Corp. merges with and into GeneSoft Pharmaceuticals, Inc., with GeneSoft Pharmaceuticals, Inc. surviving as a wholly-owned subsidiary of Genome Therapeutics Corp.

(2) The surviving entity from step (1) merges with and into Guardian Holdings, LLC, a wholly-owned subsidiary of Genome Therapeutics Corp.

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GENESOFT PHARMACEUTICALS, INC.

7300 Shoreline Court

South San Francisco, California 94080

650-837-1800

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

to be held on , 2004

To the Stockholders of GeneSoft Pharmaceuticals, Inc.:

A special meeting of stockholders of GeneSoft Pharmaceuticals, Inc. will be held on , 2004, at a.m., local time, at , for the following purposes:

1. To consider and vote on a proposal to adopt and approve the Agreement and Plan of Merger and Reorganization, dated as of November 17, 2003, among Genome Therapeutics Corp., a Massachusetts corporation, Guardian Acquisition, Inc., a Delaware corporation and a wholly-owned subsidiary of Genome Therapeutics Corp., GeneSoft Pharmaceuticals, Inc., a Delaware corporation, and Luke Evnin, as the representative of the Genesoft stockholders.

2. To consider and vote on a proposal to amend and restate GeneSoft Pharmaceuticals, Inc. s Seventh Amended and Restated Certificate of Incorporation to eliminate any authorized shares of GeneSoft Pharmaceuticals, Inc. preferred stock if the merger is completed.

3. To transact any other business as may properly come before the special meeting and any adjournment or postponement of the special meeting.

Only stockholders of record of GeneSoft Pharmaceuticals, Inc. as of the close of business on , 2004 are entitled to notice of, and will be entitled to vote at, the special meeting or any adjournment or postponement thereof. Approval of the merger agreement and the transactions contemplated by the merger agreement requires the affirmative vote of the holders of a majority of the shares of GeneSoft Pharmaceuticals, Inc. common stock outstanding as of the record date. Approval of the amendment and restatement of the Seventh Amended and Restated Certificate of Incorporation of GeneSoft Pharmaceuticals, Inc. requires the affirmative vote of the holders of a majority of the shares of GeneSoft Pharmaceuticals, Inc. common stock outstanding as of the record date.

Your vote is important. To ensure that your shares are represented at the special meeting, you are urged to complete, date and sign the enclosed proxy card and mail it promptly in the postage-prepaid envelope provided, whether or not you plan to attend the special meeting in person. You may revoke your proxy in the manner described in the accompanying joint proxy statement/prospectus at any time before it has been voted at the special meeting of GeneSoft Pharmaceuticals, Inc. If you attend the special meeting, you may vote in person even if you returned a proxy.

BY ORDER OF THE BOARD OF DIRECTORS,

David B. Singer

Chairman and Chief Executive Officer

South San Francisco, California

, 2004

Please do not send your stock certificates at this time. If the merger is completed, you will be sent instructions regarding the surrender of your stock certificates.

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ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about Genome from other documents that are not included in or delivered with this document. We have listed the documents containing this information on page 145. This information is available to you without charge upon your written or oral request. You can obtain those documents relating to Genome which are incorporated by reference in this joint proxy statement/prospectus by requesting them in writing or by telephone at the following address and telephone number:

GENOME THERAPEUTICS CORP.

100 Beaver Street

Waltham, Massachusetts 02453

(781) 398-2300

If you would like to request documents, you must do so by , 2004 in order to receive them before the special meeting of your company s stockholders. You will not be charged for any of these documents that you request.

For additional information regarding where you can find information about Genome and Genesoft, please see the section entitled Where You Can Find Additional Information beginning on page 145 of this joint proxy statement/prospectus. The information contained in this joint proxy statement/prospectus with respect to Genome was provided by Genome and the information contained in this joint proxy statement/prospectus with respect to Genesoft was provided by Genesoft.

SPECIAL NOTE REGARDING REFERENCES

References in this document to *www.genomecorp.com, www.genesoft.com*, any variations of the foregoing, or any other uniform resource locator, or URL, are inactive textual references only. The information on Genome s web site, Genesoft s web site or any other web site is not incorporated by reference into this document and should not be considered to be a part of this document.

NOTE ON TRADEMARKS

The following trademarks are the properties of the specified holders: FACTIVE® is the property of LG Life Sciences, Ltd., Nanobinder® is the property of Genesoft, Levaquin® is the property of Ortho-McNeil Pharmaceutical, Inc., Tequin® is the property of Bristol-Myers Squibb Company, Cipro® and Avelox® are both the property of Bayer Corporation, Biaxin® is the property of Abbott Laboratories, Zithromax® is the property of Pfizer Inc., Augmentin® is the property of GlaxoSmithKline, Ketek® is the property of Aventis Pharmaceuticals and Vanconin® is the property of Eli Lilly and Company. Unless otherwise indicated, trademarks or service marks appearing in this joint proxy statement/prospectus are the property of their respective holders.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why are Genome and Genesoft proposing the merger? (See pages 61 and 69)

A: Genome and Genesoft believe the merger will strengthen the outlook for both companies. Genome Therapeutics is a biopharmaceutical company focused on the discovery, development and commercialization of pharmaceutical products for specialty markets. Genesoft is a specialty pharmaceutical company focused on the discovery and development of novel anti-infective agents.

Genome is proposing the merger because it will enable Genome to realize its goal of becoming a biopharmaceutical company with an FDA approved anti-infective product with the potential to significantly increase Genome s revenue stream, permitting Genome to build a sales and marketing force that will benefit Ramoplanin and future product candidates of the combined company. Genesoft is proposing the merger because it will provide additional expertise and resources necessary to successfully launch FACTIVE in the U.S. and provide a broader portfolio of product candidates, including Ramoplanin.

Overall, both Genome and Genesoft believe the merger will provide added value to their respective stockholders. Achieving these anticipated benefits, however, is subject to risk and uncertainty, including the risks discussed in Risk Factors beginning on page 24.

Q: What will I, as a holder of Genesoft common stock or options or warrants to purchase Genesoft common stock, receive in the merger? (See page 81)

A: If you are a holder of Genesoft common stock, you will receive a number of shares of Genome common stock equal to the common exchange ratio for each share of Genesoft common stock you own. The common exchange ratio is determined by:

deducting the shares of Genome common stock to be issued to the holders of Genesoft s promissory notes as payment of accrued interest and related amounts from the total of 28,571,405 shares of Genome common stock issuable in the merger and

dividing that remaining number of Genome shares by the fully-diluted number of shares of Genesoft common stock outstanding on the closing date (assuming conversion or exercise of all Genesoft options and warrants).

The exact exchange ratio between Genesoft and Genome common stock will depend on the closing date of the merger, which will determine how much interest has accrued on the Genesoft promissory notes, as well as the price at which the accrued interest and other related amounts due to the Genesoft promissory notes are converted into Genome common stock. The interest and other related amounts will be converted into Genome common stock at a price of $2.84 per share, unless the issuance price per share of Genome common stock expected to be issued in the capital raising transaction to raise a minimum of $32 million to finance the combined company, which is a condition to the merger agreement (unless waived by both parties), is less than $2.84, in which case that lesser per share price will become the conversion price.

Each holder of an option or warrant to purchase shares of Genesoft common stock that does not terminate by its terms prior to the merger will receive an option or warrant to purchase a number of shares of Genome common stock equal to the product of the number of Genesoft shares for which such option or warrant was exercisable multiplied by the common exchange ratio.

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The following chart shows the approximate common exchange ratio that would be used to determine the per share consideration to be received by Genesoft stockholders assuming different possible closing dates and prices of shares sold in the financing:

		Merger Closing Date		
		February 28, 2004	**March 31, 2004**	**April 30, 2004**
	Prices of $2.84 or higher	1.188	1.186	1.184
Closing	$2.66	1.171	1.170	1.168
Financing	$2.48	1.153	1.151	1.149
Price	$2.30	1.131	1.129	1.127
	$2.12	1.106	1.103	1.101

Each Genesoft stockholder will receive 80% of the merger consideration otherwise due to it upon closing of the merger. The remainder will be placed in escrow, pursuant to the escrow agreement attached to this joint proxy statement/prospectus as Annex B, to cover potential indemnity claims and any payments relating to those claims by Genome under the merger agreement. An additional 400,000 shares of Genome common stock issuable to the Genesoft stockholders in the merger will be placed in escrow to fund potential issuances of equity to a senior clinical development officer that may be hired by the combined company. The shares to be placed in escrow will be deducted from the shares of Genome common stock to be received by the Genesoft stockholders on a pro rata basis. If a holder of a Genesoft option assumed by Genome pursuant to the merger agreement exercises any portion of the holder s option prior to the termination of the escrow fund, the holder will contribute a portion of the shares of Genome common stock issued upon exercise to the escrow fund in accordance with the terms of the escrow agreement. Subject to any claims made by Genome or its affiliates, officers, directors or employees, up to half of the indemnity escrow amount will be released from escrow one year after closing of the merger and the remainder will be released 18 months after closing. Adoption and approval of the merger agreement by Genesoft s stockholders will constitute approval by such stockholders of the indemnification obligations set forth in the merger agreement, the terms of the escrow agreement and the authority of the stockholders representative named in the merger agreement.

Q: What will happen to Genesoft as a result of the merger? (See page 80)

A: In the initial merger, Guardian Acquisition, Inc., a wholly-owned subsidiary of Genome, will be merged into Genesoft. Immediately thereafter, Genesoft will be merged into a second wholly-owned subsidiary of Genome in the second-step merger. As a result of the initial merger, the separate corporate existence of Guardian will cease, and Genesoft will continue as the surviving corporation of the initial merger and as a wholly-owned subsidiary of Genome. As a result of the second-step merger, the separate corporate existence of Genesoft will cease, and the second acquisition subsidiary, which is a Delaware limited liability company, will continue as the surviving company of the second-step merger and be wholly-owned by Genome.

Q: Will Genesoft stockholders be able to trade the Genome common stock that they receive in the merger? (See page 96)

A: Yes. The Genome common stock issued in the merger will be registered under the Securities Act and will be listed on the Nasdaq National Market under the symbol GENE. All shares of Genome common stock that you receive in the merger or upon exercise of Genesoft options or warrants assumed by Genome in the merger will be freely transferable unless you are deemed to be an affiliate of Genesoft at the time of the special meetings or your shares are subject to contractual transfer restrictions. Shares of Genome common stock received by persons deemed to be affiliates of Genesoft may only be sold in compliance with Rule 145 under the Securities Act or as otherwise permitted under the Securities Act.

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Q: When do Genesoft and Genome expect to complete the merger?

A: Genesoft and Genome expect to complete the merger when all of the conditions to completion of the merger contained in the merger agreement have been satisfied or waived. The stockholders of Genesoft must approve (i) the merger and the related transactions and (ii) the amendment and restatement of Genesoft s Seventh Amended and Restated Certificate of Incorporation at their special stockholders meeting. The stockholders of Genome must vote for the proposals (i) to approve the issuance of a total of 28,571,405 shares of Genome common stock pursuant to the merger agreement and the issuance of shares of Genome common stock upon the potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger and (ii) to approve the Amendment to Genome s Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000 shares of common stock.

Genesoft and Genome are working toward satisfying these conditions and completing the merger as soon as practicable. Genesoft and Genome currently anticipate they will complete the merger in the first quarter of 2004 following the respective special meetings of Genesoft s and Genome s stockholders, assuming their stockholders approve the merger and related transactions, Genome is able to successfully raise a minimum of $32 million to fund the combined company, unless waived by both parties, and the other merger conditions are satisfied or waived. However, because the merger is subject to some conditions which are beyond Genesoft s and Genome s control, the exact timing cannot be predicted.

Q: What happens if the merger is not completed? (See page 93)

A: If the merger is not completed, each of Genome and Genesoft will continue as independent companies. In addition, as a result of some termination events described in the merger agreement, Genome or Genesoft may be required to pay the other party a termination fee of $3,044,063.90 for certain termination events, and to reimburse the other for out-of-pocket expenses up to $1,000,000.00, including legal, accounting, investment banking, printing and other fees, related to this transaction if the merger is not completed. For a more complete discussion of requirements relating to payments of fees and expenses by each of Genome and Genesoft see the section entitled The Merger and Related Transactions The Merger Agreement Termination Fees in this joint proxy statement/prospectus.

Q: What vote is required to approve the merger and the related transactions? (See pages 45 and 50)

A: Approval of the merger agreement and the transactions contemplated by the merger agreement and approval of the amendment and restatement of the Seventh Amended and Restated Certificate of Incorporation of Genesoft each requires the affirmative vote of the holders of a majority of the shares of Genesoft common stock outstanding as of the record date.

Approval of the issuance of Genome common stock to the Genesoft stockholders pursuant to the merger agreement and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes to be exchanged for Genesoft promissory notes in connection with the merger will require a majority of the votes of Genome common stock properly cast upon this proposal at the special meeting. Approval of the increase in authorized Genome shares will require the affirmative vote of a majority of the shares of Genome common stock outstanding as of the record date and entitled to vote on the proposal at the special meeting.

The boards of directors of Genesoft and Genome have approved the merger agreement, the merger and the transactions contemplated by the merger agreement.

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Q: How do I vote on the merger? (See pages 47 and 51)

A: First, please review the information contained or incorporated by reference in this joint proxy statement/prospectus, including the annexes, as it contains important information about Genome, Genesoft and the merger. It also contains important information about what each of the boards of directors of Genome and Genesoft, respectively, considered in evaluating the merger. Next, complete and sign the enclosed proxy card, and then mail it in the enclosed return envelope as soon as possible so that your shares can be voted at your company s special meeting of stockholders at which, (a) in the case of Genesoft, the merger and the related transactions and the amendment and restatement of Genesoft s Seventh Amended and Restated Certificate of Incorporation will be presented and voted upon or, (b) in the case of Genome, the increase in Genome authorized shares, the issuance of Genome common stock to the security holders of Genesoft in the merger and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes to be exchanged for Genesoft promissory notes in connection with the merger. You may also attend the special meeting of your company in person and vote at the special meeting instead of submitting a proxy.

Q: What happens if I don t indicate how to vote my proxy? (See pages 47 and 51)

A: If you sign and send in your proxy, but do not include instructions on how to vote your properly signed proxy card, your shares will be voted (a) FOR the adoption and approval of the merger and the related transactions and the amendment and restatement of Genesoft s Seventh Amended and Restated Certificate of Incorporation, if you are a Genesoft stockholder, or (b) FOR the increase in Genome authorized shares and the issuance of Genome common stock to the security holders of Genesoft in the merger and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes to be exchanged for Genesoft promissory notes in connection with the merger, if you are a Genome stockholder.

Q: What happens if I don t return a proxy card? (See pages 46 and 51)

A: Not returning your proxy card will have the same effect as voting (a) against adoption and approval of the merger agreement and approval of the merger and the amendment and restatement of Genesoft s Seventh Amended and Restated Certificate of Incorporation, if you are a Genesoft stockholder, and (b) against the increase in Genome authorized shares and the issuance of Genome common stock to the security holders of Genesoft in the merger, if you are Genome stockholder.

Q: Can I change my vote after I have mailed my signed proxy card? (See pages 47 and 51)

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting of your company s stockholders. You can do this in one of three ways:

first, you can send a written notice stating that you would like to revoke your proxy to the appropriate address below;

second, you can complete and submit a later-dated proxy card to the appropriate address below; or

third, you can attend the special meeting of Genome or Genesoft, as appropriate, and vote in person. Your attendance at the special meeting alone will not revoke your proxy. You must vote at the special meeting in order to revoke your previously submitted proxy.

You should send any notice of revocation or your completed new proxy card, as the case may be, to:

For Genome Stockholders:

Genome Therapeutics Corp.

100 Beaver Street

Waltham, MA 02453

Attn: Stephen Cohen

Chief Financial Officer

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For Genesoft Stockholders:

GeneSoft Pharmaceuticals, Inc.

7300 Shoreline Court

South San Francisco, CA 94080

Attn: Asha Rajagopal

Director of Finance

Q: If my broker holds my Genome shares in street name, will my broker vote these shares for me? (See page 47)

A: No. Your broker will not be able to vote your shares without instructions from you. If you do not provide your broker with voting instructions, your shares may be considered present at the special meeting for purposes of determining a quorum, but will not be considered to have been voted in favor of the increase in Genome authorized shares and the issuance of Genome common stock to the security holders of Genesoft in the merger and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes to be exchanged for Genesoft promissory notes in connection with the merger. As a result, failure to provide your broker with voting instructions will have the effect of a vote against the increase in Genome authorized shares, the issuance of Genome common stock to the security holders of Genesoft and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes to be exchanged for Genesoft promissory notes in connection with the merger. If you have instructed a broker to vote your shares and wish to change your vote, you must follow the directions received from your broker to change those instructions.

Q: Should I send my Genesoft stock certificates now? (See page 82)

A: No. If the merger is completed, Genome will send you written instructions for exchanging your Genesoft stock certificates for Genome stock certificates. Please do not send in your stock certificates with your proxy. If you send your stock certificates to Genome, Genome assumes no risk of loss.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this document, please complete and sign your proxy card and return it in the enclosed, postage-paid envelope as soon as possible so that your shares may be represented at your special meeting.

Q: Am I entitled to appraisal rights in connection with the merger? (See page 52 and 54)

A: Appraisal and dissenters rights are available to Genesoft stockholders under the respective laws of Delaware and California, as applicable, in connection with the merger. Appraisal or dissenters rights are not available to Genome stockholders.

Q: Are there any risks I should consider in deciding whether to vote for the merger?

A:

Yes. In the section entitled Risk Factors beginning on page 24 of this joint proxy statement/prospectus, Genome and Genesoft have described a number of risk factors that you should consider.

Q: What are the tax consequences to a Genesoft stockholder of the merger? (See page 94)

A: It is the opinion of Genesoft and Genome s respective legal counsel that, based on facts and representations provided to such counsel and assumptions stated in the opinions, the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. As a consequence of the merger

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qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, we expect that the exchange of shares of Genesoft common stock by the stockholders of Genesoft for shares of Genome common stock will not cause a Genesoft stockholder to recognize gain or loss for United States federal income tax purposes. A Genesoft stockholder will recognize gain or loss with respect to cash received upon proper exercise of its appraisal rights pursuant to the merger. These opinions will not bind the Internal Revenue Service, which could take a different view. The tax consequences to a Genesoft stockholder will depend on the facts of such holder s particular situation. Therefore, we urge each Genesoft stockholder to consult with its own tax advisor to determine the particular tax consequences of the merger to it. To review the tax consequences in greater detail, see the section entitled The Merger and Related Transactions Material United States Federal Income Tax Consequences of the Merger beginning on page 94 of this joint proxy statement/prospectus.

Q: Where can I find more information about the companies and who can help answer my questions about the proposals?

A: You can find more information about Genome and Genesoft from various sources described under Where You Can Find Additional Information on page 145.

If you have any questions about the proposals presented in this joint proxy statement/prospectus, you should contact:

For Genome Stockholders:

Genome Therapeutics Corp.

100 Beaver Street

Waltham, MA 02453

Attn: Christopher Taylor

Senior Director of Investor Relations

(781) 398-2300

For Genesoft Stockholders:

GeneSoft Pharmaceuticals, Inc.

7300 Shoreline Court

South San Francisco, CA 94080

Attn: Asha Rajagopal

Director of Finance

(650) 837-1800

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SUMMARY

The following is a summary of the information contained in this joint proxy statement/prospectus. This summary may not contain all of the information that is important to you. You should carefully read this entire joint proxy statement/prospectus and the other documents referred to for a more complete understanding of the merger and related transactions. In particular, you should read the annexes attached to this joint proxy statement/prospectus, including the merger agreement, which is attached to this joint proxy statement/prospectus as Annex A. We have included page references in parentheses to direct you to a more complete description of the topics presented in this summary. In addition, important business and financial information concerning Genome is incorporated by reference into this joint proxy statement/prospectus. You may obtain the information incorporated by reference into this joint proxy statement/prospectus without charge by following the instructions in the section entitled Where You Can Find Additional Information beginning on page 145 of this joint proxy statement/prospectus.

The Companies

GENOME THERAPEUTICS CORP.

100 Beaver Street

Waltham, Massachusetts 02453

www.genomecorp.com

Genome Therapeutics is a biopharmaceutical company focused on the discovery, development and commercialization of pharmaceutical products.

Genome has nine established product development programs. Genome is managing the development and commercialization of its lead product candidate, Ramoplanin, in the United States and Canada. This product is in a Phase III clinical trial for the prevention of bloodstream infections caused by vancomycin-resistant enterococci (VRE) and a Phase II trial for the treatment of patients with *Clostridium difficile*-associated diarrhea (CDAD). The company has seven product discovery and development alliances with pharmaceutical companies including Amgen, AstraZeneca, bioMérieux, Schering-Plough and Wyeth. Genome s biopharmaceutical product candidates are all currently in discovery or development phases and are neither approved by the FDA nor available for commercial sale.

Over the past two years, Genome s primary business focus has evolved from providing basic research and genomic services for pharmaceutical companies to more downstream efforts emphasizing clinical development and commercialization of its own product candidates. The company continues to reduce its expenditures in the early-stage product discovery research areas, including genomics research, and to focus its resources on later stage drug discovery and development. This evolution in the company s strategic focus reflects its goals of getting products to market more rapidly and generating more substantial revenues and, ultimately, profits for the company s stockholders.

The address for Genome s executive offices is 100 Beaver Street, Waltham, Massachusetts 02453 and its telephone number is (781) 398-2300.

For more information on the business of Genome, please refer to Genome s Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and Form 10-Q for the quarterly period ended September 27, 2003. Please refer to the section of this joint proxy statement/prospectus entitled Where You Can Find Additional Information on page 145 to find out where you can obtain copies of Genome s Annual Report as well as the other documents Genome files with the Securities and Exchange Commission.

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GENESOFT PHARMACEUTICALS, INC.

7300 Shoreline Court

South San Francisco, CA 94080

www.genesoft.com

Genesoft is an emerging pharmaceutical company based in South San Francisco, California, that has a FDA-approved anti-infective product and a portfolio of product development programs. Genesoft s lead product is FACTIVE (gemifloxacin mesylate), an orally administered, broad-spectrum fluoroquinolone antibiotic to which the company has an exclusive license to develop and market in North America, France, Germany, the United Kingdom, Luxembourg, Ireland, Italy, Spain, Portugal, Belgium, the Netherlands, Austria, Greece, Sweden, Denmark, Finland, Norway, Iceland, Switzerland, Andorra, Monaco, San Marino and Vatican City. FACTIVE was approved for sale in the United States on April 4, 2003 by the FDA. Following the completion of the proposed merger with Genome, the combined company intends to launch the product in the second half of 2004.

The address for Genesoft s executive offices is 7300 Shoreline Court, South San Francisco, California 94080 and its telephone number is (650) 837-1800.

For more information on the business of Genesoft, please refer to the section of this joint proxy statement/prospectus entitled Information About Genesoft beginning on page 108.

Voting Requirements for the Merger and Other Matters (See pages 45 and 50)

Assuming a quorum is present at the special meeting, the affirmative vote of the holders of a majority of the votes of Genome common stock properly cast at the special meeting will be required to approve the issuance of a total of 28,571,405 shares of Genome common stock to the Genesoft security holders pursuant to the merger agreement and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger. The affirmative vote of a majority of the Genome shares outstanding as of the record date and entitled to vote on the proposal at the special meeting will be required to approve the Amendment to the Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000 shares. Holders of Genome common stock will be entitled to cast one vote per share of Genome common stock owned as of , 2004, the record date for the Genome special meeting of stockholders at which the proposals will be presented and voted upon.

The affirmative vote of the holders of a majority of the outstanding shares of Genesoft common stock as of the record date will be required (i) to approve the merger agreement and the transactions contemplated by the merger agreement and (ii) to approve the amendment and restatement of the Seventh Amended and Restated Certificate of Incorporation of Genesoft. Holders of Genesoft common stock will be entitled to cast one vote per share of Genesoft common stock owned as of , 2004, the record date for the Genesoft special meeting of stockholders at which the proposals will be presented and voted upon.

Share Ownership of Genome Directors and Officers (See page 46)

As of the close of business on the record date for the special meeting of Genome stockholders at which the proposals described in this joint proxy statement/prospectus will be presented and voted upon, directors and officers of Genome (and their respective affiliates) collectively owned approximately % of the outstanding shares of Genome common stock entitled to vote at the special meeting.

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This does not include shares of Genome common stock issuable upon the exercise of presently exercisable options which these directors and officers hold. If all of these stock options were exercised prior to the record date for the special meeting, the directors and executive officers of Genome (and their respective affiliates) would collectively beneficially own approximately % of the outstanding shares of Genome common stock entitled to vote at the special meeting.

The directors and executive officers of Genome have entered into a voting agreement with Genesoft, pursuant to which each such person has agreed to vote the shares owned beneficially by such person in favor of the merger and the related transactions. See Voting Agreements below.

Share Ownership of Genesoft Directors and Officers (See page 51)

As of the close of business on the record date for the special meeting of Genesoft stockholders at which the merger agreement will be presented and voted upon, directors and officers of Genesoft (and their respective affiliates) collectively owned approximately % of the outstanding shares of Genesoft common stock entitled to vote at the special meeting on the merger agreement.

The directors and executive officers of Genesoft have entered into a voting agreement with Genome, pursuant to which each such person has agreed to vote the shares owned beneficially by such person in favor of the merger and the related transactions. See Voting Agreements below.

Interests of Directors and Executive Officers of Genome in the Merger (See page 78)

Genome s stockholders should be aware that some Genome executive officers and directors may have interests in the merger that may be different from, or in addition to, their interests as stockholders of Genome in considering the recommendation of the Genome board of directors that Genome s stockholders vote in favor of the proposals (i) to approve the issuance of a total of 28,571,405 shares of Genome common stock pursuant to the merger agreement and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger and (ii) to approve the Amendment to the Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000 shares.

Genome s board of directors was aware of, and considered, these interests among other matters during its deliberations on the merits of the proposals specified above and in making its recommendation to Genome s stockholders that they vote for each of the proposals specified above.

Interests of Directors and Executive Officers of Genesoft in the Merger (See page 79)

In considering the recommendation of Genesoft s board of directors that Genesoft stockholders vote in favor of approval of the merger agreement, Genesoft stockholders should be aware that some Genesoft executive officers and directors may have interests in the merger that may be different from, or in addition to, their interests as stockholders of Genesoft.

Genesoft s board of directors was aware of, and considered, these interests among other matters during its deliberations on the merits of the merger and related transactions and in making its recommendation to Genesoft s stockholders that they vote for the merger and related transactions.

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Board Recommendations to Stockholders and Reasons for the Merger

Recommendation of Genome s Board of Directors (See page 48)

After careful consideration, Genome s board of directors determined that the merger is advisable, is in the best interests of Genome s stockholders, and is on terms that are fair to the stockholders of Genome. **Accordingly, Genome s board of directors approved the merger and the related transactions and recommends that its stockholders vote FOR the proposals (i) to approve the issuance of a total of 28,571,405 shares of Genome common stock pursuant to the merger agreement and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger and (ii) to approve the Amendment to the Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000 shares. Since the merger is conditioned upon the approval of the matters set forth in each of these proposals, Genome recommends that its stockholders vote for each proposal.**

Genome s Reasons for the Merger (See page 69)

In reaching its decision to approve the merger agreement and the transactions contemplated by the merger agreement, Genome s board of directors consulted with management of Genome, as well as its financial and legal advisors, and considered a number of potential benefits and factors pertaining to the merger, including the following:

- the merger will enable Genome to realize its goal of becoming a biopharmaceutical company with an FDA approved anti-infective product;
- potential revenue stream from FACTIVE will allow Genome to build a sales and marketing infrastructure that will benefit Ramoplanin and future product candidates;
- the merger will help position Genome as a key participant in the commercialization of anti-infective therapeutics;
- the merger will increase the visibility of Genome and provide a stronger portfolio of products to serve as the basis for raising additional capital for the company; and
- the merger will significantly enhance Genome s management expertise, clinical development staff, intellectual property and technical resources.

Genome s board of directors also identified a number of potentially negative factors, including the following:

- the risk that the potential benefits of the merger might not be realized;

the risk that FACTIVE might not launch in the second half of 2004, causing a delay in the realization of potential revenue;

the risk that FACTIVE may not attain commercial acceptance and generate the level of revenues expected;

the challenges and risks involved in combining the businesses of two geographically distant companies;

the effect of the announcement on Genome s share price;

the risk of diverting management s focus and resources from other strategic opportunities and from operational matters while working to complete and implement the merger;

the risk that Genome will not be able to raise a minimum of $32 million of capital, which is a condition to the closing unless both parties agree to waive this condition;

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- the risk that LG Life Sciences will not be able to supply FACTIVE in a timely manner, or maintain its manufacturing facilities in accordance with regulatory requirements;

- the risk that the merger would not be completed; and

- the other risks described under Risk Factors beginning on page 24.

Recommendation of Genesoft s Board of Directors (See page 55)

After careful consideration, Genesoft s board of directors has determined that the merger is advisable, in the best interests of Genesoft stockholders and on terms that are fair to the stockholders of Genesoft. **Accordingly, Genesoft s board of directors has approved the merger and the related transactions and recommends that stockholders vote FOR the proposals to (i) adopt and approve the merger agreement and (ii) to amend and restate Genesoft s Seventh Amended and Restated Certificate of Incorporation to eliminate all authorized shares of Genesoft preferred stock if the merger is completed.**

Genesoft s Reasons for the Merger (See page 61)

In reaching its decision to approve the merger agreement and the transactions contemplated by the merger agreement, Genesoft s board of directors consulted with management of Genesoft, as well as its financial and legal advisors, and considered a number of potential benefits and factors pertaining to the merger, including the following:

- the strategic fit of Genesoft s and Genome s respective core anti-infective product portfolios and the increased number of potential products of the combined company;

- the proposed merger would substantially increase Genesoft s immediate capital resources and the combined company is expected to have greater leverage in obtaining financing for its operations;

- the difficulty in (and the related cost of) obtaining additional financing for Genesoft as a stand-alone enterprise and Genesoft s management s assessment of possible strategic alternatives; and

- the amount and nature of the merger consideration to be received by the Genesoft stockholders.

Genesoft s board of directors also identified a number of potential negative factors pertaining to the merger, including the following:

- the risk that the transaction might not be completed in a timely matter or at all and, if not completed, the difficulty as a stand-alone company in being able to raise sufficient funds to meet its obligations;

- the risk that the potential benefits of the merger may not be realized;

the risk of management and employee disruption associated with the merger, including the risk that key personnel may decide not to continue employment with Genome after the merger;

terms of the merger agreement and related agreements that limit the ability of Genesoft and its representatives to pursue alternative transactions; and

the other risks described above under Risk Factors .

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Opinion of Genome s Financial Advisor (See page 71)

In deciding to approve the merger, the Genome board of directors received an opinion from its financial advisor, Harris Nesbitt Corp. that, based upon and subject to the factors and assumptions set forth in the opinion, as of November 10, 2003, the aggregate stock consideration to be issued by Genome to Genesoft s security holders in the merger and the related transactions was fair, from a financial point of view, to Genome.

The full text of the Harris Nesbitt Corp. written opinion which sets forth the assumptions made, matters considered and limitations on the review undertaken is attached to this joint proxy statement/prospectus as Annex C. We encourage you to read the opinion carefully in its entirety as well as the section of this joint proxy statement/prospectus entitled The Merger and Related Transactions Opinion of Genome s Financial Advisor. The opinion of Harris Nesbitt Corp. does not constitute a recommendation as to how any holder of Genome or Genesoft common stock should vote on the merger.

Opinion of Genesoft s Financial Advisor (See page 63)

In deciding to approve the merger, the Genesoft board of directors considered the opinion of Merrill Lynch, Pierce, Fenner & Smith Incorporated, its financial advisor in connection with the merger, that, as of November 12, 2003 and subject to the factors and assumptions set forth in the opinion, the common exchange ratio was fair, from a financial point of view, to the holders of Genesoft shares, other than Genome and its affiliates. The Merrill Lynch opinion does not address any other aspect of the merger, including the merits of the underlying decision by Genesoft to engage in the merger, and does not constitute a recommendation to any stockholder as to how such stockholder should vote on the proposed merger or any matter related thereto.

The full text of the Merrill Lynch written opinion, which sets forth the assumptions made, matters considered, and qualifications and limitations on the review undertaken by Merrill Lynch, is included in this joint proxy statement/prospectus as Annex D. We encourage you to read the opinion, as well as the section of this joint proxy statement/prospectus entitled The Merger and Related Transactions Opinion of Genesoft s Financial Advisor, carefully and in its entirety.

Voting Agreements (See page 90)

The directors and executive officers of Genome, who collectively have voting control over approximately 0.5% of the outstanding shares of Genome, have entered into voting agreements with Genesoft, pursuant to which each such person has agreed to vote the shares of Genome common stock beneficially owned by such person in favor of the increase in Genome s authorized shares and the issuance of Genome common stock to the Genesoft stockholders pursuant to the merger agreement, in favor of any other matter relating to consummation of the transactions contemplated by the merger agreement and against any other merger or similar transaction involving Genome.

Certain directors, executive officers and stockholders of Genesoft, who collectively have voting control over approximately 63% of the outstanding shares of Genesoft, have entered into similar voting agreements with Genome to vote the shares of Genesoft common stock beneficially owned by such person in favor of the merger agreement, in favor of any other matter relating to consummation of the transactions contemplated by the merger agreement and against any other merger or similar transaction involving Genesoft.

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Structure and Effects of the Merger (See page 80)

In the initial merger, Guardian Acquisition, a wholly-owned subsidiary of Genome, will be merged into Genesoft. Immediately thereafter, Genesoft will be merged into a second wholly-owned subsidiary of Genome in the second-step merger. As a result of the initial merger, the separate corporate existence of Guardian Acquisition will cease, and Genesoft will continue as the surviving corporation of the initial merger and as a wholly-owned subsidiary of Genome. As a result of the second-step merger, the separate corporate existence of Genesoft will cease, and the second acquisition subsidiary, which is a Delaware limited liability company, will continue as the surviving company of the second-step merger and be wholly-owned by Genome.

At the effective time of the merger, each share of Genesoft common stock will be cancelled and terminated and will be automatically converted into the right to receive the number of shares of Genome common stock equal to the common exchange ratio as described in The Merger The Merger Agreement Conversion of Genesoft Stock.

Indemnification (See page 90)

If the merger agreement is approved and the merger occurs, all holders of Genesoft capital stock who have not perfected dissenters rights under Delaware or California law will be deemed to have agreed, subject to the limitations described below, to indemnify Genome and its affiliates, officers, directors and employees against losses due to:

- any inaccuracy or breach of any representation or warranty of Genesoft contained in the merger agreement or any certificate required to be delivered in connection with the merger agreement;
- any breach of, non-compliance with or non-fulfillment of any covenant or agreement made by Genesoft in the merger agreement or any certificate required to be delivered in connection with the merger agreement;
- any fraudulent action, and any violation of any criminal law by Genesoft; or
- any claim by a holder or former holder of Genesoft s equity interests or any other person seeking to assert, or based upon: (i) ownership or rights of ownership to any shares of capital stock of Genesoft; (ii) any rights of a stockholder of Genesoft, including any option, preemptive rights, rights to notice or to vote or any appraisal rights under the applicable provisions of the DGCL; (iii) any rights under the organizational documents of Genesoft; (iv) any claim that his, her or its equity interests were wrongfully repurchased, canceled, terminated or otherwise limited by Genesoft; or (v) any claim in connection with the issuance of any equity interests or otherwise, regardless of whether an action, suit or proceeding can or has been made against Genesoft.

Genome s right to indemnification is limited to the merger consideration placed in escrow pursuant to the escrow agreement attached to this joint proxy statement/prospectus as Annex B (and described on page 97), representing 20% of the Genome common stock that would otherwise be due to Genesoft stockholders in the merger. Genome is entitled to indemnification after all losses exceed $676,458.64 in the aggregate, and then for losses in excess of such amount. Luke Evnin will serve as Genesoft stockholders representative under the escrow agreement. Subject to any claims made by Genome or its affiliates, officers, directors or employees and any payments related to those claims, up to half of the escrow amount will be released from escrow one year after closing of the merger and the remainder will be released 18 months after closing.

Genome has agreed to indemnify Genesoft s stockholders against losses due to:

any inaccuracy or breach of any representation or warranty of Genome contained in the merger agreement or any certificate required to be delivered in connection with the merger agreement;

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any breach of, non-compliance with or non-fulfillment of any covenant or agreement made by Genome in the merger agreement or any certificate required to be delivered in connection with the merger agreement; or

any fraudulent action and any violation of any criminal law by Genome.

The aggregate indemnification obligations of Genome will not exceed $13,529,172.87 and indemnification is available only when Genesoft losses exceed $676,458.64 in the aggregate, and then only for losses in excess of such amount.

Completion and Effectiveness of the Merger

The closing of the merger will take place as promptly as practicable following satisfaction or waiver of the closing conditions set forth in the merger agreement, including, without limitation, the condition that Genome raise a minimum of $32 million to finance the combined company (unless waived by both parties). Although Genome and Genesoft are working toward satisfying these conditions and completing the merger in the first quarter of 2004, the exact timing cannot be predicted as the merger is subject to specified conditions, some of which are beyond Genome s and Genesoft s control.

Assuming that the other conditions to completion of the merger have been satisfied or waived, the merger will become effective at the time specified in the certificates of merger filed with the Secretary of the State of Delaware with respect to the merger.

Management After the Merger (See page 130)

Upon consummation of the merger, the combined company will be led by a board of directors consisting of: Luke Evnin, Ph.D., Managing Director of MPM Asset Management, Robert J. Hennessey, former Chairman and CEO of Genome, Vernon R. Loucks, Jr., former Chairman and CEO of Baxter International, Steven Rauscher, President and CEO of the combined company, William S. Reardon, former partner at PricewaterhouseCoopers, Norbert G. Riedel, Ph.D., Corporate Vice President and Chief Scientific Officer at Baxter International, William Rutter, Ph.D., Professor Emeritus of Biochemistry at the University of California, San Francisco and Founder of Chiron, David B. Singer, Chairman of the Board of the combined company and David K. Stone, Managing Director of Flagship Ventures.

The management of the combined company will consist of the following: Steven Rauscher as Chief Executive Officer and President, Stephen Cohen as Senior Vice President and Chief Financial Officer and Martin Williams as Senior Vice President of Corporate Development and Marketing.

Genesoft and Genome are Prohibited from Soliciting Other Offers (See page 86)

Each of Genesoft and Genome has agreed that, while the merger is pending, it will not solicit, initiate or encourage, or, except with respect to an unsolicited superior offer as described in The Merger The Merger Agreement, engage in discussions with any third parties regarding certain types of extraordinary transactions, such as a merger, consolidation or other similar transaction involving it.

Conditions to Completion of the Merger (See page 88)

Genome s and Genesoft s obligations to complete the merger are subject, unless waived by Genome, Genesoft or both parties, as applicable, to specified conditions described under The Merger and Related Transactions The Merger Agreement Conditions to Completion of the Merger.

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Termination of the Merger Agreement and Payment of Termination Fee (See pages 92 and 93)

Genome and Genesoft may terminate the merger agreement by mutual agreement and under other circumstances specified in the merger agreement. Genome and Genesoft have agreed that if the merger agreement is terminated under certain circumstances described under The Merger and Related Transactions The Merger Agreement Termination Fees, Genome or Genesoft will pay the other party s transaction expenses of up to $1,000,000 and an additional $3,044,063.90 if Genome or Genesoft, as the case may be, enters into (or announces its intention to enter into) an agreement to consummate a competing merger or acquisition transaction within 12 months of terminating the merger agreement.

Material United States Federal Income Tax Consequences of the Merger (See page 94)

Genome and Genesoft have structured the merger to qualify as a reorganization under the Internal Revenue Code. It is the intention of Genome and Genesoft that no gain or loss will generally be recognized by Genesoft stockholders for federal income tax purposes on the exchange of shares of Genesoft common stock solely for shares of Genome common stock.

Tax matters are very complicated, and the tax consequences of the merger to the Genesoft stockholders will depend on the facts of each Genesoft stockholder s own situation. Each Genesoft stockholder should consult his, her or its tax advisor for a full understanding of the tax consequences of the merger.

Accounting Treatment of the Merger (See page 96)

The merger will be accounted for as a purchase by Genome under accounting principles generally accepted in the United States.

Regulatory Approvals Required to Complete the Merger (See page 96)

Neither Genome nor Genesoft is aware of any material governmental or regulatory approval required for completion of the merger, other than compliance with applicable corporate laws of the Commonwealth of Massachusetts and the State of Delaware and federal and state securities laws.

Appraisal Rights (See pages 52 and 54)

Appraisal rights are available to Genesoft stockholders under the respective laws of Delaware and California in connection with the merger. Appraisal rights are not available to Genome stockholders.

Restrictions on the Ability to Sell Genome Common Stock Received in the Merger (See page 96)

All shares of Genome common stock that Genesoft stockholders receive in the merger will be freely transferable unless a Genesoft stockholder is deemed to be an affiliate of Genesoft at the time of the special meetings or such shares are subject to contractual restrictions. Shares of Genome common stock received by persons deemed to be affiliates of Genesoft may only be sold in compliance with Rule 145 under the Securities Act or as otherwise permitted under the Securities Act.

Listing of Genome Common Stock (See page 143)

The shares of Genome common stock are listed on the Nasdaq National Market under the symbol GENE.

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GENOME SUMMARY SELECTED CONSOLIDATED FINANCIAL DATA

The following summary selected consolidated statement of operations data for each of the three fiscal years ended December 31, 2000, 2001 and 2002 and the summary selected consolidated balance sheet data as of December 31, 2001 and 2002 set forth below, are derived from the historical audited consolidated financial statements included in Genome s Annual Report on Form 10-K for the year ended December 31, 2002. The financial statements for the year ended December 31, 2002 have been audited by Ernst & Young LLP, independent auditors. The financial statements for the two years ended December 31, 2001 have been audited by other independent auditors. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information incorporated by reference herein. The summary selected consolidated statement of operations data for the fiscal years ended December 31, 1998 and 1999, and the summary selected consolidated balance sheet data as of December 31, 1998, 1999 and 2000 are derived from Genome s historical audited consolidated financial statements.

Genome derived the summary selected consolidated balance sheet and statement of operations data as of and for the nine months ended September 28, 2002 and September 27, 2003, respectively, from its unaudited condensed consolidated financial statements. These statements include, in the opinion of management, all normal and recurring adjustments that are necessary for a fair statement of results in accordance with generally accepted accounting principles. The operating results for the nine months ended September 27, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. It is important that you read the following summary historical data along with the historical consolidated financial statements and related notes in Genome s Annual Report on Form 10-K for the year ended December 31, 2002 and Genome s quarterly reports on Form 10-Q filed with the Securities and Exchange Commission, which are incorporated by reference into this joint proxy statement/prospectus, and other Genome documents to which we refer. See Where You Can Find Additional Information on page 145.

	Year Ended December 31,					Nine Months Ended	
	1998	1999	2000	2001	2002	Sept. 28, 2002	Sept. 27, 2003
	(in thousands, except per share amounts)					(Unaudited)	
Statement of Operations Data:							
Revenues:							
Biopharmaceutical	$ 18,135	$ 18,162	$ 11,851	$ 18,438	$ 7,716	$ 6,206	$ 5,519
Genomics services	3,913	6,666	13,594	17,302	15,271	10,943	1,799
Total revenues	22,048	24,828	25,445	35,740	22,987	17,149	7,318
Net loss	$ (12,968)	$ (3,940)	$ (5,847)	$ (10,090)	$ (34,017)	$ (25,175)	$ (28,455)
Net loss per common share, basic and diluted	$ (0.71)	$ (0.21)	$ (0.27)	$ (0.45)	$ (1.48)	$ (1.10)	$ (1.16)
Weighted average common shares outstanding, basic and diluted	18,290	18,627	21,377	22,572	22,921	22,881	24,581

	December 31,					Sept. 28,	Sept. 27,
	1998	1999	2000	2001	2002	2002	2003
	(in thousands)					(Unaudited)	
Balance Sheet Data:							
Cash and cash equivalents, restricted cash, warrant and long and short-term marketable securities	$ 30,819	$ 26,778	$ 73,010	$ 67,341	$ 50,866	$ 58,381	$ 25,786
Working capital	19,750	19,447	51,601	44,156	36,511	43,607	15,174
Total assets	48,921	45,443	90,251	82,740	65,845	72,936	30,739
Total liabilities	21,364	16,596	17,564	16,008	30,428	28,863	11,393

Stockholders equity	27,557	28,847	72,687	66,732	35,417	44,073	19,346

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GENESOFT SUMMARY SELECTED FINANCIAL DATA

The following summary financial data should be read in conjunction with the Genesoft Management s Discussion and Analysis of Financial Condition and Results of Operations section included later in this joint proxy statement/prospectus, and Genesoft s financial statements and related notes included in the back of this prospectus. Genesoft has derived the statements of operations data for the years ended December 31, 2000, 2001 and 2002 from its audited financial statements which are included in this joint proxy statement/prospectus. Genesoft has derived the statements of operations and balance sheet data as of and for the nine months ended September 30, 2002 and 2003 from its unaudited financial statements which are also included in this joint proxy statement/prospectus. These unaudited statements include, in the opinion of management, all normal and recurring adjustments that are necessary for a fair statement of results in accordance with generally accepted accounting principles.

	Year Ended December 31,					Nine Months Ended	
	1998	1999	2000	2001	2002	Sept. 30, 2002	Sept. 30 2003
	(in thousands, except per share amounts)					(Unaudited)	
Statement of Operations Data:							
Total revenues	$	$ 2,520	$ 4,187	$ 2,059	$ 5,402	$	$ 3,072
Net loss	(770)	(2,987)	(7,921)	(18,321)	(25,569)	(18,368)	(19,796)
Basic and diluted net loss per common share	$ (1.03)	$ (2.92)	$ (8.27)	$ (15.69)	$ (12.81)	$ (14.04)	$ (1.69)
Weighted average shares used in computing basic and diluted net loss per common share	745	1,024	957	1,168	1,996	1,308	11,729

	December 31,					Sept. 30,	Sept. 30
	1998	1999	2000	2001	2002	2002	2003
	(in thousands)					(Unaudited)	
Balance Sheet Data:							
Cash and cash equivalents, short-term investments and restricted cash	$ 3,195	$ 12,405	$ 29,379	$ 24,714	$ 5,951	$ 7,225	$ 7,826
Working capital (net capital deficiency)	2,703	12,056	22,644	18,208	(3,076)	715	(20,993)
Total assets	3,406	14,037	35,918	40,162	19,432	20,539	25,799
Total liabilities	548	1,200	6,202	7,498	11,983	6,270	32,924
Stockholders equity (net capital deficiency)	2,858	12,837	29,716	32,664	7,448	14,269	(7,125)

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SELECTED COMBINED COMPANY

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following selected unaudited pro forma condensed combined financial information has been derived from and should be read in conjunction with the Unaudited Pro Forma Condensed Combined Financial Information and related notes included in this joint proxy statement/prospectus on page 100. This information is based on the historical balance sheets and related historical statements of operations of Genome and the historical balance sheets and related historical statements of operations of Genesoft, using the purchase method of accounting for business combinations under accounting principles generally accepted in the United States. This information is for illustrative purposes only. The companies may have performed differently had they always been combined. You should not rely on the selected unaudited pro forma condensed combined financial information as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the merger. For the interim period, Genome s nine months ended September 27, 2003 was combined with Genesoft s nine months ended September 30, 2003.

	Pro Forma Year Ended December 31, 2002	Pro Forma Nine Months Ended September 27, 2003
Statement of Operations Data:		
Total revenues	$ 28,389	$ 10,390
Net loss	(67,352)	(54,076)
Net loss per share, basic and diluted	(1.39)	(1.08)
Shares used in computing net loss per share, basic and diluted	48,401	50,061
Balance Sheet Data:		
Cash and cash equivalents, restricted cash and long and short-term marketable securities		$ 23,915
Working capital (net capital deficiency)		(17,820)
Total assets		139,944
Total liabilities		46,620
Stockholders equity		93,324

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COMPARATIVE HISTORICAL AND PRO FORMA PER SHARE DATA

The following table sets forth certain historical per share data of Genome and Genesoft and combined per share data on an unaudited pro forma basis after giving effect to the merger using the purchase method of accounting. For purposes of the table below, Genome has estimated that 25,479,517 shares of Genome common stock will be issued to existing Genesoft common stockholders and promissory note holders at the closing of the merger and the remainder of the 28,571,405 shares of Genome common stock to be issued in the merger will be reserved for issuance upon the exercise of Genesoft options and warrants assumed in the merger.

The following data should be read in connection with the separate historical financial statements of Genesoft included in this joint proxy statement/prospectus and the separate historical financial statements of Genome incorporated by reference in this joint proxy statement/prospectus, as well as the unaudited pro forma condensed combined financial information included in this joint proxy statement/prospectus. The unaudited pro forma combined per share data do not necessarily indicate the operating results that would have been achieved had the merger been completed as of the beginning of the earliest period presented and should not be taken as representative of future operations. The results may have been different if the companies had always been consolidated. For the interim period, Genome s nine months ended September 27, 2003 was combined with Genesoft s nine months ended September 30, 2003.

	Year Ended December 31, 2002	Nine Months Ended September 27, 2003
Genome Historical:		
Basic and diluted net loss per share	$ (1.48)	$ (1.16)
Book value per common share	1.54	.74
Genesoft Historical:		
Basic and diluted net loss per share	(12.81)	(1.69)
Book value per common share	0.69	(0.58)
Pro Forma Combined:		
Basic and diluted net loss per share	(1.39)	(1.08)
Book value per common share		1.81
Equivalent Pro Forma Combined[1]:		
Basic and diluted net loss per share	(1.65)	(1.28)
Book value per common share		2.15

(1) The equivalent pro forma combined represents the pro forma combined amount multiplied by the estimated exchange ratio of 1.188. See Unaudited Pro Forma Combined Financial Statements of Genome and Genesoft.

No options or warrants outstanding are included in the calculation of diluted loss per share because their impact would have been anti-dilutive to loss per share for each period presented. Neither Genome nor Genesoft has paid a cash dividend to its stockholders.

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COMPARATIVE PER SHARE

MARKET PRICE DATA AND DIVIDEND INFORMATION

	GENE*	
Calendar Quarters	**High**	**Low**
2001:		
First Quarter	11.120	5.500
Second Quarter	16.850	4.940
Third Quarter	13.850	4.690
Fourth Quarter	8.270	5.520
2002:		
First Quarter	7.050	5.000
Second Quarter	5.640	2.200
Third Quarter	2.100	1.340
Fourth Quarter	2.330	1.030
2003:		
First Quarter	2.070	1.280
Second Quarter	3.750	1.450
Third Quarter	3.430	2.410
Fourth Quarter (through December 12, 2003)	3.320	2.630

* Based on closing price.

Recent Closing Prices

The following table shows the closing prices per share of Genome common stock as reported on the Nasdaq National Market on (1) November 17, 2003, the business day preceding the public announcement that Genome and Genesoft had entered into the merger agreement, and (2) , 2004, the last full trading day for which closing prices were available at the time of the printing of this joint proxy statement/prospectus.

The following table also includes the equivalent price per share of Genesoft common stock on those dates. This equivalent per share price reflects the value of the Genome common stock Genesoft stockholders would receive for each share of Genesoft common stock if the merger was completed on either of these dates. These amounts are estimates based on the number of outstanding shares of Genesoft common stock on the date of this joint proxy statement/prospectus, and may change at the completion of the merger as a result of those factors described in the section of this joint proxy statement/ prospectus entitled The Merger and Related Transactions The Merger Agreement Conversion of Genesoft Stock.

	Genome Common Stock	**Genesoft Equivalent Price Per Share**
November 17, 2003	$ 2.85	$ 3.39[(1)]
, 2004	$	$ [(1)]

(1) Assumes that the merger closes on February 28, 2004 and the price at which shares are sold in the transaction to fund the combined company is at least $2.84 per share. The actual number of shares of Genome common stock issued to the holders of Genesoft s promissory notes will vary based on a variety of factors described in The Merger and Related Transactions The Merger Agreement Conversion of Genesoft Stock.

Because the market price of Genome common stock may increase or decrease before the completion of the merger, you are urged to obtain current market quotations.

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As of the date of this joint proxy statement/prospectus, there were approximately stockholders of record of Genome who held an aggregate of shares of Genome common stock.

As of the date of this joint proxy statement/prospectus, there were approximately stockholders of record of Genesoft who held an aggregate of shares of Genesoft common stock.

Dividend Policy

Except as set forth below, neither Genome nor Genesoft has ever declared or paid dividends on its common stock in the past, and neither company intends to pay such dividends in the foreseeable future. Any determination to pay dividends after consummation of the merger will be at the discretion of the combined company s board of directors and will depend on the combined company s financial condition, results of operations, capital requirements and other factors the combined company s board of directors deems relevant.

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CAUTIONARY STATEMENTS

REGARDING FORWARD-LOOKING STATEMENTS IN THIS

JOINT PROXY STATEMENT/PROSPECTUS

This joint proxy statement/prospectus and the documents incorporated by reference into this joint proxy statement/prospectus contain forward-looking statements about the merger, Genome and Genesoft within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the judgment of the managements of Genome and Genesoft, as the case may be, regarding future events. Forward-looking statements typically are identified by use of terms such as may, will, should, plan, expect, intend, anticipate, estimate, and similar words, although some forward-looking stat expressed differently. Genome, Genesoft or the combined company do not plan to update these forward-looking statements. You should be aware that actual results could differ materially from those contained in the forward-looking statements due to a number of risks affecting the business of Genome, Genesoft or the combined company.

Although each company believes that its plans, intentions and expectations as reflected in or suggested by these forward-looking statements are reasonable, it can give no assurance that these plans, intentions or expectations will be achieved. Genome stockholders and Genesoft stockholders are cautioned that all forward-looking statements involve risks and uncertainties and actual results may differ materially from those discussed as a result of various risk factors described in the section entitled Risk Factors . Listed below and discussed elsewhere in this joint proxy statement/prospectus are some important risks, uncertainties and contingencies which could cause each company s actual results, performances or achievements to be materially different from the forward-looking statements made in this joint proxy statement/prospectus, particularly if the merger is not completed. These risks, uncertainties and contingencies include, but are not limited to, the following:

- the ability of the combined company to launch and successfully commercialize FACTIVE in the U.S.;
- the ability of the combined company to obtain regulatory approval to commercialize FACTIVE in Europe and other foreign markets;
- the ability of the combined company to successfully complete required clinical trials of Ramoplanin and to obtain regulatory approval to commercialize Ramoplanin;
- the satisfaction or waiver of the conditions to closing of the merger, including receipt of stockholder approvals;
- the ability of the combined company to raise sufficient capital to fund its programs following the merger;
- the expected closing date of the merger;
- the risk that the merger will not close;
- the risk that the merger will not qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code for United States federal income tax purposes;
- the risk that Genome will not integrate the acquired business successfully;

the risk that Genome will incur unanticipated costs to integrate and restructure the acquired business;

fluctuations in the trading price and volume of Genome common stock;

competitive factors, such as price competition from other products and competition from other comparable companies; and

the cost of complying with current and future governmental regulations.

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In addition, events may occur in the future that Genome or Genesoft are not able to accurately predict or control and that may cause actual results to differ materially from the expectations described in these forward-looking statements.

In evaluating the merger and the related transactions, you should carefully consider the discussion of risks and uncertainties discussed in the section entitled Risk Factors and the risk factors set forth in Exhibit 99.1 to Genome s Quarterly Report on Form 10-Q for the quarter ended September 27, 2003 and those set forth in other filings that the company may make with the Securities and Exchange Commission from time to time.

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RISK FACTORS

In addition to the other information contained or incorporated by reference in this joint proxy statement/prospectus, (i) Genesoft stockholders should carefully consider the following factors in voting on whether to approve the merger and the related transactions and the consequent investment in Genome common stock and (ii) Genome stockholders should carefully consider the following factors in voting on whether to approve the issuance of shares of Genome common stock to Genesoft security holders, including issuances to the Genesoft note holders upon potential conversion of the Genome convertible notes that they will obtain in the merger, and the amendment to Genome s articles of organization increasing Genome s authorized common stock. In addition, you should keep the following risk factors in mind when you read forward-looking statements in this joint proxy statement/prospectus. Please refer to the section entitled Cautionary Statements Regarding Forward-Looking Statements in this Joint Proxy Statement/Prospectus beginning on page of this joint proxy statement/prospectus.

Risks Related to the Merger Transaction

The issuance of 28,571,405 shares of Genome common stock to Genesoft security holders in the merger will substantially reduce the percentage interests of Genome security holders.

If the merger is completed, 28,571,405 shares of Genome common stock will be issued to current Genesoft security holders, including shares of Genome common stock to be issued upon the exercise of Genesoft options and warrants that Genome will assume. As of November 30, 2003, Genome had 31,451,099 shares of its common stock outstanding, outstanding options exercisable into 4,086,634 shares of its common stock, outstanding warrants exercisable into 3,221,250 shares of common stock or a total of 38,758,983 shares of common stock on a fully diluted basis. The issuance of the 28,571,405 shares of Genome common stock to current Genesoft stockholders will cause a significant reduction in the relative percentage interests of current Genome stockholders in earnings, voting, liquidation value and book and market value.

The issuance of at least $32 million of securities of Genome to finance the combined company will substantially reduce the percentage interests of both Genome and Genesoft stockholders in the combined company.

As a condition to the closing of the merger, Genome must raise a minimum of $32 million of capital to finance the combined company, unless both parties agree to waive this condition. Genome intends to sell its securities in order to raise the capital. The type of security to be sold and price at which it will be sold are subject to market conditions and negotiations with investors. The securities may be sold at a discount to the market price at the time of sale. The issuance of the securities to finance the combined company will cause a significant reduction in the relative percentage interests of Genome stockholders and Genesoft stockholders in the earnings, voting power, liquidation value and book and market value of the combined company.

Because the number of shares of Genome common stock to be issued in the merger is fixed, Genome stockholders are exposed to the risk that the market price of Genome common stock could increase and Genesoft stockholders are exposed to the risk that the market price of Genome common stock could decrease.

Under the merger agreement, 28,571,405 shares of Genome common stock will be issued to current Genesoft security holders, including shares of Genome common stock to be issued upon the exercise of Genesoft options and warrants that Genome will assume and shares to be issued to the holders of Genesoft s promissory notes as payment of accrued interest and related amounts. The number of shares to be issued is fixed and

will not be adjusted if the price of Genome common stock increases or decreases prior to the completion of the merger. The price of Genome common stock at the closing of the merger might vary from its price on the date of this joint proxy statement/prospectus and on the dates of the Genome and Genesoft stockholders special meetings.

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These prices might vary because of changes in the business, operations or prospects of Genome or Genesoft, market assessments of the likelihood that the merger will be completed, the timing of the completion of the merger, the prospects of post-merger operations, regulatory considerations, general market and economic conditions and other factors. Because the date that the merger is completed will be later than the dates of the Genome and Genesoft stockholders special meeting, the price of Genome common stock on such dates might not be indicative of its price on the date the merger is completed. As a result, the market value of the shares of Genome common stock that Genome will be required to issue to former Genesoft security holders upon completion of the merger might be greater or lesser than the value attributed to Genesoft s business and assets at the time the merger agreement was entered into and/or the date it is approved by Genome or Genesoft stockholders. We urge you to obtain current market quotations for Genome common stock, and to be aware that the price of Genome common stock might change dramatically after the Genome and Genesoft stockholders special meetings.

The assumption by Genome of approximately $24 million of debt of Genesoft at the closing will substantially increase its leverage and, to the extent that a portion of this debt is subsequently converted into Genome common stock, will substantially reduce the percentage interests of both Genome and Genesoft stockholders in the combined company.

Upon the closing of the merger, Genome will assume approximately $24 million of debt of Genesoft. Genome will pay approximately $1.7 million of this debt at closing. The remainder of the debt consists of promissory notes of Genesoft that Genome will exchange for convertible promissory notes of Genome, which will bear interest at 5% per annum and have a maturity date of five years from the closing date. If these notes are not converted into shares of Genome common stock during the five-year period, the subsequent payment of these notes at maturity may require Genome to expend a significant portion of its capital resources. Depending upon the combined company s capital resources at the maturity date, the payment of these notes could impair the combined company s working capital and prevent it from pursuing important clinical development and commercialization programs.

The $22,309,647 in aggregate original principal amount of convertible notes of Genome to be issued at the closing of the merger will be convertible into shares of Genome common stock at the holder s election at any time after the closing of the merger at a price per share equal to one hundred and ten percent of the average closing price of Genome common stock for the five trading days preceding the closing date of the merger, subject to subsequent adjustment. In addition, following the one year anniversary of the closing of the merger, the combined company will have the right to force conversion if the price of Genome common stock closes above 150% of the then effective conversion price for 15 consecutive days. The conversion of all or a substantial portion of these convertible notes would cause a significant reduction in the relative percentage interests of Genome stockholders and Genesoft stockholders in the earnings, voting power, liquidation value and book and market value of the combined company.

Upon the consummation of the merger, Genome will be required to pay $8 million to LG Life Sciences, Ltd. under Genesoft s License and Option Agreement with LG Life Sciences for FACTIVE, which will diminish the combined company s financial resources.

Upon the closing of the merger, Genome will be required to pay $8 million to LG Life Sciences as a milestone payment under Genesoft s License and Option Agreement with LG for FACTIVE. This payment will consume a substantial portion of the combined company s available cash at closing and, depending upon how much capital has been raised at that point, may limit the combined company s ability to pursue additional development or commercialization programs.

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The combined company may not realize all of the anticipated benefits of the merger.

The success of the merger will depend, in part, on the ability of the combined company to realize the anticipated synergies, cost savings and growth opportunities from integrating the business of Genome with the business of Genesoft. The combined company s success in realizing these benefits and the timing of this realization depends upon the successful integration of the operations of Genesoft. The integration of two independent companies, especially when one company is located on the West Coast and the other on the East Coast, is a complex, costly and time-consuming process. The difficulties of combining the operations of the companies and realizing the expected benefits of the merger include, among others:

- coordinating commercial and clinical development initiatives and staffs for FACTIVE and Ramoplanin;
- raising sufficient capital to fund the significant expenditures that are needed to launch and successfully commercialize FACTIVE and the further clinical development of Ramoplanin;
- retaining key employees;
- consolidating research and development operations;
- consolidating corporate and administrative infrastructures and physical plant;
- integrating and managing the technology of two companies; and
- minimizing the diversion of management s attention from ongoing business concerns.

Genome and Genesoft cannot assure you that the integration of Genesoft with Genome will result in the realization of the full benefits anticipated by them to result from the merger.

Genome and Genesoft may suffer negative consequences if the merger is not completed.

If the merger is not completed for any reason, Genome and/or Genesoft will be subject to a number of material risks, including:

- the provision in the merger agreement which provides that under specified circumstances either Genome or Genesoft could be required to pay the other a termination fee of approximately $3 million, plus up to $1 million of expenses incurred in connection with the merger;
- the market price of Genome common stock may decline to the extent that the current market price of such shares reflects a market assumption that the merger will be completed, or for other reasons;

costs related to the merger, such as legal and accounting fees, must be paid even if the merger is not completed;

benefits that Genome and Genesoft expect to realize from the merger would not be realized;

the diversion of management attention from the day-to-day business of the companies and the unavoidable disruption to their employees during the period before completion of the merger may make it difficult for Genome and Genesoft to regain their financial position and strategic focus if the merger does not occur;

if the merger is terminated and Genesoft s board of directors seeks another merger or business combination, Genesoft s stockholders cannot be certain that Genesoft will be able to (i) find a partner willing to pay an equivalent or more attractive price than the price to be paid by Genome in the merger or (ii) raise sufficient financing to pay its obligations and continue the operation of its business;

employees important to the success of either company as a stand-alone company may have left in anticipation of the merger; and

business opportunities important to either company as a stand-alone company may have been terminated or not pursued by either that company or third parties in anticipation of the merger.

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If the merger does not close, Genome may not be able to obtain repayment of the $6.2 million bridge loan made to Genesoft.

Coincident with the signing of the merger agreement, Genome made a bridge loan of $6.2 million to Genesoft pursuant to a promissory note issued by Genesoft, which is repayable within 60 days of an event of default (as defined in the note) or termination of the merger agreement, unless the merger agreement is terminated by Genesoft due to a failure of Genome to obtain the stockholder vote necessary to approve the merger, in which case it is repayable within 180 days of termination. However, if the note becomes repayable, it is uncertain whether Genome will be able to obtain repayment due to Genesoft s lack of liquid assets, and even if Genome is able to obtain repayment, Genome may be required to expend additional resources and time to foreclose on assets of Genesoft.

The cash resources of the combined company could be materially depleted if a substantial number of Genesoft stockholders exercise their dissenters rights under California law or appraisal rights under Delaware law.

Holders of Genesoft capital stock who dissent and do not consent to the approval and adoption of the merger agreement may be entitled to certain dissenters rights under the California Corporations Code and to appraisal rights under Delaware General Corporation Law, or DGCL, in connection with the merger. If the merger is consummated, a holder of record of Genesoft stock who complies with the statutory procedures will be entitled to have those shares appraised by the Delaware Court of Chancery under Section 262 of the DGCL and to receive payment for the fair value of those shares instead of the consideration provided for in the merger agreement. Similarly, under Chapter 13 of the California Corporations Code, a holder of Genesoft common stock who complies with the statutory procedures will be entitled to have its shares converted into the right to receive from Genesoft such consideration as may be determined to be due under the statute. These rights are described under The Special Meeting of Genesoft Stockholders Appraisal Rights Under Delaware General Corporation Law and The Special Meeting of Genesoft Stockholders Dissenters Rights Under California Corporations Code of this joint proxy statement/prospectus. If a substantial number of Genesoft stockholders exercise their dissenters rights under California law or appraisal rights under Delaware law, as the case may be, the combined company may be required to make substantial payments in cash to these stockholders, thereby materially depleting the cash resources of the combined company.

Directors and officers of Genome and Genesoft have potential conflicts of interest that may have influenced them to recommend the merger.

Some of the directors of Genome and Genesoft who recommend that you vote in favor of the merger and the officers of Genome and Genesoft who provided information to their board of directors relating to the merger have employment, indemnification and severance benefit arrangements and rights to acceleration of stock options that provide them with interests in the merger that may differ from yours. The receipt of compensation or other benefits in the merger may have influenced these directors in making their recommendation that you vote in favor of the transactions called for by the merger agreement and these officers in making recommendations to their board of directors relating to the merger. See The Merger Interests of Directors and Executive Officers of Genome in the Merger and Interests of Directors and Executive Officers of Genesoft in the Merger.

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Risks Related to the Business of our Combined Company

Both Genome and Genesoft have a history of significant operating losses and expect these losses to continue in the future.

Genome had a net loss of approximately $28,455,000 for the nine months ended September 27, 2003 and as of September 27, 2003, Genome had an accumulated deficit of approximately $154,231,000. Genome had a net loss of approximately $34,017,000 for the fiscal year ended December 31, 2002, and, as of December 31, 2002, Genome had an accumulated deficit of approximately $125,775,000. For the fiscal year ended December 31, 2001, Genome had a net loss of approximately $10,090,000, and for the fiscal year ended December 31, 2000, Genome had a net loss of approximately $5,847,000. The losses have resulted primarily from costs incurred in research and development, including Genome s clinical trials, and from general and administrative costs associated with Genome s operations. These costs have exceeded Genome s revenues which to date have been generated principally from collaborations, government grants and sequencing services.

Genesoft had a net loss of approximately $19,796,000 for the nine months ended September 30, 2003 and as of September 30, 2003, Genesoft had an accumulated deficit of approximately $75,364,000. Genesoft had a net loss of approximately $25,569,000 for the fiscal year ended December 31, 2002, and, as of December 31, 2002, Genesoft had an accumulated deficit of approximately $55,568,000. For the fiscal year ended December 31, 2001, Genesoft had a net loss of approximately $18,321,000, and for the fiscal year ended December 31, 2000, Genesoft had a net loss of approximately $7,921,000. The losses have resulted primarily from costs incurred in research and development, including Genesoft s clinical trials, and from general and administrative costs associated with our operations. These costs have exceeded Genesoft s revenues which to date have been generated principally from funding from the U.S. government.

We anticipate that our combined company will incur additional losses this year and in future years and cannot predict when, if ever, our combined company will achieve profitability. These losses are expected to increase following the consummation of the merger as our combined company significantly increases its expenditures in the sales and marketing area to prepare for the commercial launch of FACTIVE. Our combined company also plans to continue to expand its research and development and clinical trial activities. In addition, our partners product development efforts which utilize our genomic discoveries are at an early stage and, accordingly, we do not expect our losses to be substantially mitigated by revenues from milestone payments or royalties under those agreements for a number of years, if ever.

We will need to raise additional funds in the future.

As described above, we need to raise a minimum of $32 million as a condition to the closing of the merger, unless this condition is waived by both parties. If we raise that money, we believe that those new funds along with our existing cash and marketable securities together with borrowings under equipment financing arrangements and anticipated cash flow from operations would be sufficient to support our current plans for the combined company for approximately 12 months following the closing of the merger. We expect to raise additional capital over the course of the twelve months following the closing of the merger for our combined company. In particular, we will need additional funds to support our sales and marketing activities, and fund clinical trials and other research and development activities of our combined company. We may seek funding through additional public or private equity offerings, debt financings or agreements with customers. Our ability to raise additional capital, however, will be heavily influenced by the investment market for biotechnology companies and the progress of the FACTIVE and Ramoplanin commercial and clinical development programs over that period. Additional financing may not be available when needed, or, if available, may not be available on favorable terms. If our combined company cannot obtain adequate financing on acceptable terms when such financing is required, its business will be adversely affected.

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Future fund raising could dilute the ownership interests of our stockholders.

In order to raise additional funds, our combined company may issue equity or convertible debt securities in the future. Depending upon the market price of the shares of our combined company at the time of any transaction, we may be required to sell a significant percentage of the outstanding shares of common stock of our combined company in order to fund its operating plans, potentially requiring a stockholder vote. In addition, our combined company may have to sell securities at a discount to the prevailing market price, resulting in further dilution to our stockholders.

The business of our combined company will be very dependent on the commercial success of FACTIVE.

FACTIVE will be the only commercial product of our combined company upon the closing of the merger and we expect it will account for substantially all of the revenues of our combined company for at least the next several years. FACTIVE has FDA marketing approval for the treatment of community-acquired pneumonia of mild to moderate severity, or CAP, and acute bacterial exacerbations of chronic bronchitis, or ABECB. The commercial success of FACTIVE will depend upon its acceptance by regulators, physicians, patients and other key decision-makers as a safe, therapeutic and cost-effective alternative to other anti-infectives and other products used, or currently being developed, to treat CAP and ABECB. If FACTIVE is not commercially successful, our combined company will have to find additional sources of funding or curtail or cease operations.

In December 2000, the FDA issued a non-approvable letter to the prior owner of rights to FACTIVE due, in part, to safety concerns arising out of an increased rate of rash relative to comparator drugs, especially in young women. While the FDA did approve FACTIVE for marketing in April 2003, it required, as a post-marketing study commitment, that Genesoft conduct a prospective, randomized study comparing FACTIVE (5,000 patients) to an active comparator (2,500 patients) in patients with CAP or ABECB. This study will include patients of different ethnicities, to gain safety information in populations not substantially represented in the existing clinical trial program, specifically as it relates to rash. Patients will be evaluated for clinical and laboratory safety. This Phase IV trial is in the design stage and the FDA required, as a condition to its approval, that the trial be initiated by March 2004. The results of this trial, as well as other safety information arising out of the marketing of the product, could restrict our ability to commercialize FACTIVE.

Our combined company will need to develop marketing and sales capabilities to successfully commercialize FACTIVE and our other product candidates.

FACTIVE will be the first FDA approved product of our combined company. Accordingly, following the closing of the merger, our combined company will have very limited marketing and sales experience. Our combined company will need to develop a marketing and sales staff to successfully commercialize FACTIVE and our other product candidates, including Ramoplanin. In order to launch FACTIVE in the second half of 2004, our combined company will need to rapidly assemble a sales and marketing force. The development of these marketing and sales capabilities will require significant expenditures, management resources and time. Our combined company may be unable to build such a sales force, the cost of establishing such a sales force may exceed any product revenues, or the marketing and sales efforts of our combined company may be unsuccessful. Failure to successfully establish sales and marketing capabilities in a timely and regulatory compliant manner or to find suitable sales and marketing partners may prevent our combined company from successfully launching FACTIVE in 2004, which would materially adversely affect the business and results of operations of our combined company.

Our combined company will depend on third parties to manufacture our product candidates, including FACTIVE and Ramoplanin.

Our combined company will not have the internal capability to manufacture commercial quantities of pharmaceutical products under the FDA s current Good Manufacturing Practices. Genesoft has entered into an agreement with LG Life Sciences to manufacture bulk quantities of FACTIVE. Genome has entered into an

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agreement with Biosearch (which merged with Versicor Inc. in March 2003 and subsequently changed its name to Vicuron Pharmaceuticals Inc.) to manufacture bulk quantities of Ramoplanin, and our combined company expects to enter into similar agreements with third parties for the manufacture of future product candidates. Although the LG Life Sciences facilities have previously been inspected by the FDA, they had not been actively manufacturing product for 32 months until their re-start of activity in October 2003. Future inspections may find deficiencies in the facilities or processes that may delay or prevent the manufacture or sale of FACTIVE.

Genesoft expects to purchase its requirements for the final drug product from LG Life Sciences for 2004, which final drug product will be tableted and packaged for LG Life Sciences by SB Pharmco at its manufacturing facility in Puerto Rico. This arrangement with SB Pharmco is expected to conclude by the end of 2004. Genesoft is in discussions with a new secondary manufacturer to assume these responsibilities for subsequent periods. Genesoft may be unable, however, to successfully complete these arrangements. If our combined company is unable to obtain an agreement with a qualified finish and fill contractor to provide services by the end of 2004, the commercialization of FACTIVE could be delayed and our business may be adversely affected. In addition, we cannot assure you that SB Pharmco or any new secondary manufacturer will be able to avoid batch failures or other production delays.

We cannot be certain that LG Life Sciences, Vicuron or future manufacturers will be able to deliver commercial quantities of product candidates to our combined company or that such deliveries will be made on a timely basis. Currently, the only source of supply for FACTIVE bulk drug product is LG Life Sciences facility in South Korea, and if such facility were damaged or otherwise unavailable, our combined company would incur substantial costs and delay in the commercialization of FACTIVE. If our combined company is forced to find an alternative source for Ramoplanin or other product candidates, we could also incur substantial costs and delays in the commercialization of such products. Our combined company may not be able to enter into alternative supply arrangements at commercially acceptable rates, if at all. Also, if our combined company changes the source or location of supply or modifies the manufacturing process, regulatory authorities will require us to demonstrate that the product produced by the new source or from the modified process is equivalent to the product used in any clinical trials that we had conducted.

Moreover, while our combined company may choose to manufacture products in the future, we have no experience in the manufacture of pharmaceutical products for clinical trials or commercial purposes. If our combined company decides to manufacture products, it would be subject to the regulatory requirements described above. In addition, our combined company would require substantial additional capital and would be subject to delays or difficulties encountered in manufacturing pharmaceutical products. No matter who manufactures the products, our combined company will be subject to continuing obligations regarding the submission of safety reports and other post-market information.

Our combined company cannot expand the indications for which it will market FACTIVE unless it receives FDA approval for each additional indication. Failure to expand these indications will limit the size of the commercial market for FACTIVE.

In April 2003, Genesoft received approval from the FDA for the use of FACTIVE to treat community-acquired pneumonia of mild to moderate severity and acute bacterial exacerbations of chronic bronchitis. One of the objectives of our combined company is to expand the indications for which FACTIVE is approved for marketing by the FDA, including for the indication of acute bacterial sinusitis. While clinical trials for acute bacterial sinusitis have previously been completed, our combined company may need to conduct additional clinical trials in order to market FACTIVE for this indication. In order to market FACTIVE for other indications, our combined company will need to conduct additional clinical trials, obtain positive results from those trials and obtain FDA approval for such proposed indications. If our combined company is unsuccessful in expanding the approved indications for the use of FACTIVE, the size of the commercial market for FACTIVE will be limited.

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Failure to obtain regulatory approval in foreign jurisdictions will prevent our combined company from marketing FACTIVE abroad.

In order to market FACTIVE in the European Union and other foreign jurisdictions for which we have rights to market the product, our combined company or its distribution partners must obtain separate regulatory approvals. Obtaining foreign approvals may require additional trials and expense. Our combined company may not be able to obtain approval or may be delayed in obtaining approval from any or all of the jurisdictions in which it seeks approval to market FACTIVE.

Sales of FACTIVE in European countries in which Genesoft does not have rights to market the product could adversely affect sales in the European countries in which Genesoft has exclusive rights to market the product.

Genesoft s exclusive rights to market FACTIVE in Europe are limited to France, Germany, the United Kingdom, Luxembourg, Ireland, Italy, Spain, Portugal, Belgium, the Netherlands, Austria, Greece, Sweden, Denmark, Finland, Norway, Iceland, Switzerland, Andorra, Monaco, San Marino and Vatican City. These countries include the current members of the European Union. However, over the next several years, a number of additional European countries in which Genesoft does not have rights to market FACTIVE may be admitted as members of the European Union. If LG Life Sciences were to sell FACTIVE or license a third party to sell FACTIVE in such countries after they are admitted to the European Union, our combined company s ability to maintain its projected profit margins based on sales in the territories covered by the LG Life Sciences license agreement may be adversely affected because customers in Genesoft s territory may purchase FACTIVE from neighboring countries in the European Union and our combined company s ability to prohibit such purchases may be limited under European Union antitrust restrictions.

Failure to secure distribution partners in foreign jurisdictions will prevent our combined company from marketing FACTIVE abroad.

Our combined company intends to market FACTIVE through distribution partners in most, if not all, of the international markets for which we have a license to market the product. This will include the European Union. Our combined company may not be able to secure distribution partners at all, or those that we do secure may not be successful in marketing and distributing FACTIVE. If we are not able to secure distribution partners or those partners are unsuccessful in their efforts, it would significantly limit the revenues that we expect to obtain from the sales of FACTIVE.

The development and commercialization of the products of our combined company may be terminated or delayed, and the costs of development and commercialization may increase, if third parties who our combined company relies on to manufacture and support the development and commercialization of its products do not fulfill their obligations.

The development and commercialization strategy of our combined company entails entering into arrangements with corporate and academic collaborators, contract research organizations, distributors, third-party manufacturers, licensors, licensees and others to conduct development work, manage its clinical trials, manufacture its products and market and sell its products outside of the United States. Our combined company will not have the expertise or the resources to conduct such activities on its own and, as a result, will be particularly dependent on third parties in these areas.

Our combined company may not be able to maintain its existing arrangements with respect to the commercialization of FACTIVE or establish and maintain arrangements to develop and commercialize Ramoplanin or any additional product candidates or products it may acquire on terms

that are acceptable to it. Any current or future arrangements for development and commercialization may not be successful. If our combined company is not able to establish or maintain agreements relating to FACTIVE, Ramoplanin or any additional products it may acquire on terms which it deems favorable, its results of operations would be materially adversely affected.

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Third parties may not perform their obligations as expected. The amount and timing of resources that third parties devote to developing, manufacturing and commercializing the products of our combined company are not within our control. Furthermore, the interests of our combined company may differ from those of third parties that manufacture or commercialize the products of our combined company. Disagreements that may arise with these third parties could delay or lead to the termination of the development or commercialization of the product candidates of our combined company, or result in litigation or arbitration, which would be time consuming and expensive.

If any third party that manufactures or supports the development or commercialization of the products of our combined company breaches or terminates its agreement with our combined company, or fails to conduct its activities in a timely and regulatory compliant manner, such breach, termination or failure could:

- delay or otherwise adversely impact the development or commercialization of FACTIVE, Ramoplanin, our other product candidates or any additional product candidates that our combined company may acquire or develop;
- require our combined company to undertake unforeseen additional responsibilities or devote unforeseen additional resources to the development or commercialization of its products; or
- result in the termination of the development or commercialization of the products of our combined company.

Clinical trials are costly, time consuming and unpredictable, and our combined company will have limited experience conducting and managing necessary preclinical and clinical trials for our product candidates.

Genesoft s lead product, FACTIVE, will need to complete a Phase IV post-approval clinical trial in compliance with FDA requirements pursuant to the product s approval. Additionally, clinical trials may be necessary to gain approval to market the product for the treatment of acute bacterial sinusitis. Additional clinical trials will be required to gain approval to market FACTIVE for other indications. Genome s lead product candidate, Ramoplanin, is in a Phase III clinical trial for the prevention of bloodstream infections caused by vancomycin-resistant enterococci, also known as VRE, and a Phase II clinical trial to assess the safety and efficacy of Ramoplanin to treat *Clostridium difficile*-associated diarrhea (CDAD). Prior clinical and preclinical trials for Ramoplanin were conducted by Biosearch Italia S.p.A. and its licensees, from whom we acquired our license to develop Ramoplanin.

Our combined company may not be able to demonstrate the safety and efficacy of Ramoplanin or of FACTIVE in indications other than those for which it has already been approved or our other products, in each case, to the satisfaction of the FDA, or other regulatory authorities. Our combined company may also be required to demonstrate that its proposed products represent an improved form of treatment over existing therapies and it may be unable to do so without conducting further clinical studies. Negative, inconclusive or inconsistent clinical trial results could prevent regulatory approval, increase the cost and timing of regulatory approval or require additional studies or a filing for a narrower indication.

The speed with which our combined company is able to complete its clinical trials and its applications for marketing approval will depend on several factors, including the following:

- the rate of patient enrollment, which is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the study and the nature of the protocol;

fluctuations in the infection rates for patients enrolled in our trials;

compliance of patients and investigators with the protocol and applicable regulations;

prior regulatory agency review and approval of our applications and procedures;

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- analysis of data obtained from preclinical and clinical activities which are susceptible to varying interpretations, which interpretations could delay, limit or prevent regulatory approval;

- changes in the policies of regulatory authorities for drug approval during the period of product development; and

- the availability of skilled and experienced staff to conduct and monitor clinical studies, to accurately collect data and to prepare the appropriate regulatory applications.

In addition, the cost of human clinical trials varies dramatically based on a number of factors, including the order and timing of clinical indications pursued, the extent of development and financial support from alliance partners, the number of patients required for enrollment, the difficulty of obtaining clinical supplies of the product candidate, and the difficulty in obtaining sufficient patient populations and clinicians.

Our combined company will have limited experience in conducting and managing the preclinical and clinical trials necessary to obtain regulatory marketing approvals. Our combined company may not be able to obtain the approvals necessary to conduct clinical studies. Also, the results of the clinical trials of our combined company may not be consistent with the results obtained in preclinical studies or the results obtained in later phases of clinical trials may not be consistent with those obtained in earlier phases. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after experiencing promising results in early animal and human testing. If regulatory approval of a drug is granted, such approval is likely to limit the indicated uses for which it may be marketed. Furthermore, even if a product of our combined company gains regulatory approval, the product and the manufacturer of the product will be subject to continuing regulatory review, including the requirement to conduct post-approval clinical studies. Our combined company may be restricted or prohibited from marketing or manufacturing a product, even after obtaining product approval, if previously unknown problems with the product or its manufacture are subsequently discovered.

The product candidates of our combined company will face significant competition in the marketplace.

FACTIVE is approved for the treatment of community-acquired pneumonia of mild to moderate severity and acute bacterial exacerbations of chronic bronchitis. There are several classes of antibiotics that are primary competitors for the treatment of these indications, including:

- other fluoroquinolones such as Levaquin® (levofloxacin), a product of Ortho-McNeil Pharmaceutical, Inc., Tequin® (gatifloxacin), a product of Bristol-Myers Squibb Company, and Cipro® (ciprofloxacin) and Avelox® (moxifloxacin), both products of Bayer Corporation;

- macrolides such as Biaxin® (clarithromycin), a product of Abbott Laboratories and Zithromax® (azithromycin), a product of Pfizer Inc.; and

- penicillins such as Augmentin® (amoxicillin/clavulanate potassium), a product of GlaxoSmithKline.

In addition, a new drug application for Ketek®, a ketolide antibiotic from Aventis Pharmaceuticals, has been submitted to the FDA and Ketek is currently marketed in Europe. Many generic antibiotics are also currently prescribed to treat these infections.

Ramoplanin is currently in development for the prevention of bloodstream infections caused by vancomycin-resistant enterococci (VRE). We have no knowledge of any product currently approved by the FDA for this indication, nor are we aware of any product candidate currently in clinical trials for this indication. It is possible that competition exists without our knowledge and that current discovery and preclinical efforts are ongoing for this indication. Ramoplanin is also in clinical development for the treatment of *Clostridium difficile*-associated diarrhea (CDAD). We are aware of two products currently utilized in the marketplace Vancomin® (vancomycin), a product of Eli Lilly, and metronidazole, a generic product for treatment of this indication. We

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are also aware of at least three companies with products in development for the treatment of CDAD Geltex/Genzyme in Phase II; ImmuCell in Phase I/II; and Acambis in Phase I/II. It is also possible that other companies are developing competitive products for this indication. Genesoft is aware that Vicuron and Novartis Pharma are jointly developing PDF inhibitor agents that may compete with any PDF products developed by our combined company.

All of our other internal product programs are in earlier stages and have not yet reached clinical development and are not yet indication specific. Our alliance-related product development programs are also all in preclinical stages, and it is therefore not possible to identify any product profiles or competitors for these product development programs at this time. Our industry is very competitive and it therefore is likely that if and when product candidates from our early stage internal programs or our alliance programs reach the clinical development stage or are commercialized for sale, these products will also face competition.

Many of the competitors of our combined company will have substantially greater capital resources, facilities and human resources than our combined company. Furthermore, many of those competitors are more experienced than our combined company in drug discovery, development and commercialization, and in obtaining regulatory approvals. As a result, those competitors may discover, develop and commercialize pharmaceutical products or services before our combined company. In addition, the competitors of our combined company may discover, develop and commercialize products or services that are more effective than, or otherwise render non-competitive or obsolete, the products or services that our combined company or its collaborators are seeking to develop and commercialize. Moreover, these competitors may obtain patent protection or other intellectual property rights that would limit the rights of our combined company or the ability of our collaborators to develop or commercialize pharmaceutical products or services.

Health care insurers and other payers may not pay for our combined company s products or may impose limits on reimbursement.

The ability of our combined company to commercialize FACTIVE, Ramoplanin and its future products will depend, in part, on the extent to which reimbursement for such products will be available from third-party payers, such as Medicare, Medicaid, health maintenance organizations, health insurers and other public and private payers. If our combined company succeeds in bringing FACTIVE, Ramoplanin or other products in the future to market, we cannot assure you that third-party payers will pay for such products or will establish and maintain price levels sufficient for realization of an appropriate return on our investment in product development. If adequate coverage and reimbursement levels are not provided by government and private payers for use of the products of our combined company, our products may fail to achieve market acceptance and the results of operations of our combined company may be materially adversely affected.

Many health maintenance organizations and other third-party payers use formularies, or lists of drugs for which coverage is provided under a health care benefit plan, to control the costs of prescription drugs. Each payer that maintains a drug formulary makes its own determination as to whether a new drug will be added to the formulary and whether particular drugs in a therapeutic class will have preferred status over other drugs in the same class. This determination often involves an assessment of the clinical appropriateness of the drug and sometimes the cost of the drug in comparison to alternative products. We cannot assure you that FACTIVE, Ramoplanin or any of the future products of our combined company will be added to payers formularies, whether the products of our combined company will have preferred status to alternative therapies, nor whether the formulary decisions will be conducted in a timely manner. Our combined company may also decide to enter into discount or formulary fee arrangements with payers, which could result in our receiving lower or discounted prices for FACTIVE, Ramoplanin or future products.

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Our combined company will rely upon existing and prospective alliance partners, licensees and government grants and contracts as a source of revenue for its operations and as a means of developing and commercializing its products.

The strategy of our combined company for developing and commercializing therapeutic, vaccine and diagnostic products depends, in part, on strategic alliances and licensing arrangements with pharmaceutical and biotechnology partners. Genome currently has alliances with AstraZeneca, Amgen, bioMérieux, Schering-Plough and Wyeth. Genome has received a substantial portion of its revenue from these alliances, and the combined company expects to continue to earn revenues from them. Under these arrangements, the combined company will be entitled to receive payments and royalties based on the achievement by it and its partners of certain development milestones and the successful development of products arising from the collaborations. Although Genome has achieved many of the scientific milestones under its agreements, the combined company cannot assure you that it will continue these achievements in the future or that milestones dependent on its partners development and commercialization activities will be attained.

In order to maintain the collaboration agreements with each of Amgen and Wyeth, the combined company must fulfill certain obligations, including carrying out research programs agreed to by the parties, keeping records of its research activities, providing periodic reports on the status of each research program, devoting qualified personnel to each research program, and providing its collaborators with reasonable technical assistance in using the know-how or other information that it has licensed to them. Under Genome s other collaboration agreements, Genome has fulfilled all of its research and development obligations and the combined company will have no material obligations going forward. Genome believes that it is currently in compliance with its obligations under its collaboration agreements, but there can be no assurance that the combined company will be able to successfully complete its obligations in the future due to, among other things, an inability to achieve scientific goals or a lack of qualified personnel.

If the partners of our combined company develop products using our discoveries, it will rely on these partners for product development, regulatory approval, manufacturing and marketing of those products before it can receive some of the milestone payments, royalties and other payments to which it may be entitled under the terms of some of its alliance agreements. Genome s agreements with its partners typically allow the partners significant discretion in electing whether to pursue any of these activities. Our combined company will not be able to control the amount and timing of resources its partners may devote to its programs or potential products. As a result, there can be no assurance that the partners of our combined company will perform their obligations as expected.

The strategy of our combined company will include entering into multiple, concurrent alliances and business partnerships, including, but not limited to in-licensing and co-promotion agreements. There can be no assurance that our combined company will be able to manage multiple alliances and partnerships successfully. The risks our combined company will face in managing multiple alliances and partnerships include maintaining confidentiality among partners, avoiding conflicts between partners and avoiding conflicts between our combined company and its partners. If our combined company fails to manage its alliances and partnerships effectively, or if any of the problems described above arise, one or more of the following could occur which could have a material adverse effect on the business of our combined company:

- use of significant resources to resolve conflicts,
- delay in, or an adverse effect on, sales and marketing efforts for the combined company s products,
- delay in development activities,
- legal claims involving significant time,

expense,

loss of reputation, and

termination of one or more alliances, or loss of capital and loss of revenues.

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Both Genome and Genesoft have applied for and received grants from the U.S. government in the past. The strategy of our combined company going forward will include the continued pursuit of government grants and contracts. We can not assure you that our combined company will obtain any additional grants or that our existing grants will continue to be funded. If our combined company is unable to obtain additional grants or maintain its existing grants, its revenues would be adversely affected.

Development of therapeutic, diagnostic and vaccine products by the strategic alliance partners of our combined company based on its discoveries will be subject to the high risks of failure inherent in the development or commercialization of biopharmaceutical products.

There can be no assurance of the successful development or commercialization of any products by the strategic alliance partners of our combined company. Successful development and commercialization will be subject to numerous risks at each stage. For example, there can be no assurance that the high-throughput screening or lead optimization processes for a given strategic alliance will identify any compounds suitable for clinical development. Even if product candidates based on discoveries of our combined company undergo clinical trials, there can be no assurance that those clinical trials will indicate that the product candidates are safe or effective. The pace at which the clinical trials proceed is also uncertain. Furthermore, after the completion of clinical trials, a product could fail to receive necessary regulatory approvals due to negative, inconclusive or insufficient clinical data or other reasons beyond the control of our combined company. Even if the necessary regulatory approvals for a product are obtained, it may be difficult or impossible to manufacture the product on a large scale, be uneconomical to market, fail to be developed prior to the successful marketing of similar products by competitors or infringe on proprietary rights of third parties.

The failure of our combined company to acquire and develop additional product candidates or approved products will impair its ability to grow.

As part of its growth strategy, our combined company intends to acquire and develop additional product candidates or approved products. The success of this strategy depends upon its ability to identify, select and acquire biopharmaceutical products that meet its criteria. Our combined company may not be able to acquire the rights to additional product candidates and approved products on terms that it finds acceptable, or at all.

New product candidates acquired or in-licensed by our combined company may require additional research and development efforts prior to commercial sale, including extensive preclinical and/or clinical testing and approval by the FDA and corresponding foreign regulatory authorities. All product candidates are prone to the risks of failure inherent in pharmaceutical product development, including the possibility that the product candidate will not be safe, non-toxic and effective or approved by regulatory authorities. In addition, it is uncertain whether any approved products that our combined company develops or acquires will be:

- manufactured or produced economically;
- successfully commercialized; or
- widely accepted in the marketplace.

Future acquisitions may absorb significant resources and may be unsuccessful.

As part of its strategy, our combined company may pursue acquisitions of businesses or assets, investments and other relationships and alliances. Acquisitions may involve significant cash expenditures, debt incurrence, additional operating losses, dilutive issuances of equity securities, and expenses that could have a material adverse effect on the financial condition and results of operations of our combined company. For example, to the extent that our combined company elects to pay the purchase price for such acquisitions in shares of its stock, the issuance of additional shares of its stock will be dilutive to our stockholders. Acquisitions involve numerous other risks, including:

difficulties integrating acquired technologies and personnel into the business of our combined company;

diversion of management from daily operations;

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inability to obtain required financing on favorable terms;

entering new markets in which our combined company has little or no previous experience;

potential loss of key employees or customers of acquired companies;

assumption of the liabilities and exposure to unforeseen liabilities of acquired companies; and

amortization of the intangible assets of acquired companies.

It may be difficult for our combined company to complete these types of transactions quickly and to integrate the businesses efficiently into its business. Any acquisitions or investments by our combined company may ultimately have a negative impact on its business and financial condition.

Our combined company will depend on key personnel in a highly competitive market for skilled personnel.

Our combined company will be highly dependent on the principal members of our senior management and key scientific and technical personnel. The loss of any of its personnel could have a material adverse effect on its ability to achieve its goals. Our combined company will maintain the existing employment agreements with the following officers of Genome: Steven M. Rauscher, President and Chief Executive Officer; Stephen Cohen, Senior Vice President and Chief Financial Officer; and Martin D. Williams, Senior Vice President, Corporate Development & Marketing. The term of each employment agreement continues until it is terminated by the officer or the combined company. Genome does not currently maintain key person life insurance on any of its employees.

The future success of our combined company is dependent upon its ability to attract and retain additional qualified sales and marketing, clinical development, scientific and managerial personnel. The plan to launch the commercial sale of FACTIVE during the second half of 2004 will require the combined company to hire approximately 90 to 100 new employees, primarily with expertise in the areas of sales and marketing. Like others in our industry, our combined company may face, and in the past Genome and Genesoft have faced from time to time, difficulties in attracting and retaining certain employees with the requisite expertise and qualifications. Genome and Genesoft believe that their historical recruiting periods and employee turnover rates are similar to those of others in their industry, however, we cannot be certain that our combined company will not encounter greater difficulties in the future.

The intellectual property protection and other protections of our combined company may be inadequate to protect its products.

The success of our combined company will depend, in part, on its ability to obtain commercially valuable patent claims and protect its intellectual property. Genome currently has 15 issued U.S. patents, 86 pending U.S. patent applications, 10 issued foreign patents and 39 pending foreign patent applications. These patents and patent applications primarily relate to the field of human and pathogen genetics. Genome s material patents are as follows:

U.S. Patent No. 6,380,370 granted April 30, 2002, relating to *Staphylococcus epidermidis;* expiring August 13, 2018

U.S. Patent No. 6,551,795 granted April 22, 2003, relating to *Pseudomonas aeruginosa;* expiring February 18, 2019

U.S. Patent No. 6,562,958 granted May 13, 2003, relating to *Acinetobacter baumannii;* expiring June 4, 2019

U.S. Patent No. 6,583,275 granted June 24, 2003, relating to *Enterococcus faecium;* expiring June 30, 2018

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U.S. Patent No. 6,583,266 granted June 24, 2003, relating to *Mycobacterium tuberculosis* and *leprae;* expiring June 24, 2020

U.S. Patent No. 6,605,709 granted August 12, 2003, relating to *Proteus mirabilis*; expiring April 5, 2020

U.S. Patent No. 6,6105,836 granted August 26, 2003, relating to *Klebsiella pneumoniae*; expiring January 27, 2020

U.S. Patent No. 6,617,156 granted September 9, 2003, relating to *Enterococcus faecalis*; expiring August 13, 2018

Genesoft currently owns or licenses 34 issued U.S. patents, approximately 42 pending U.S. patent applications, approximately 40 issued foreign patents and approximately 104 pending foreign patent applications. These patents and patent applications primarily relate to the chemical composition, use, and method of manufacturing FACTIVE, to metalloenzyme inhibitors, their uses, and their targets, and to DNA-Nanobinder compounds and their use as anti-infective therapeutics. The following list of U.S. patents (along with their foreign counterparts) constitutes Genesoft s material patents:

U.S. Patent No. 5,633,262 filed June 15, 1995, entitled Quinoline carboxylic acid derivatives having 7-(4-amino-methyl-3-oxime) pyrrolidine substituent and processes for preparing thereof, licensed from LG Life Sciences; expiring June 15, 2015.

U.S. Patent No. 5,776,944 filed April 4, 1997, entitled 7-(4-aminomethyl-3-methyloxyiminopyrroplidin-1-yl)-1-cyclopropyl-6-fluoro-4-oxo-1,4-dihydro-1,8-naphthyridine-3-carboxylic acid and the process for the preparation thereof, licensed from LG Life Sciences; expiring June 15, 2015.

U.S. Patent No. 5,869,670 filed March 27, 1998, entitled 7-(4-aminomethyl-3-methyloxyiminopyrrolidin-1-yl)-1-cyclopropyl-6-fluoro-4-oxo-1,4-dihydro-1,8-naphthyridine-3-carboxylic acid and the process for the preparation thereof, licensed from LG Life Sciences; expiring June 15, 2015.

U.S. Patent No. 5,962,468 filed November 9, 1998, entitled 7-(4-aminomethyl-3-methyloxyiminopyrrolidin-1-yl)-1-cyclopropyl-6-fluoro-4-oxo-1,4-dihydro-1,8-naphthyridine-3-carboxylic acid and the process for the preparation thereof, licensed from LG Life Sciences; expiring June 15, 2015.

U.S. Patent No. 6,423,690, entitled Antibacterial agents, licensed from Vernalis; expiring February 5, 2019.

U.S. Patent No. 6,441,042, entitled Hydroxamic acid derivatives as antibacterials, licensed from Vernalis; expiring May 14, 2019.

While it is difficult to assess the value of our combined company s intellectual property portfolio, we anticipate that the patents named above will provide a competitive advantage in certain instances in the pathogen and anti-infective field by requiring others to obtain a license from us if they wish to produce competing products.

Neither Genome nor Genesoft is currently involved in any litigation, settlement negotiations, or other legal action regarding patent issues and neither Genome nor Genesoft is aware of any patent litigation threatened against them. The patent position of both Genome and Genesoft involves complex legal and factual questions, and legal standards relating to the validity and scope of claims in the applicable technology fields are still evolving. Therefore, the degree of future protection for the proprietary rights of our combined company is uncertain.

The patents that Genome licenses to Ramoplanin under the License and Supply Agreement with Vicuron include claims relating to methods of manufacturing Ramoplanin as well as methods increasing the yield of the active compound. Genome also has applications pending relating to various novel uses of Ramoplanin. The

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patent covering the chemical composition of Ramoplanin has expired. To provide additional protection for Ramoplanin, Genome relies on proprietary know-how relating to maximizing yields in the manufacture of Ramoplanin, as well as the five year data exclusivity provisions under the Hatch-Waxman Act.

LG Life Sciences, as owner of U.S. Patent Nos. 5,776,944 and 5,962,468, submitted requests for reexamination to the U.S. Patent & Trademark Office, or PTO, in order to place additional references into the record of each patent. Both requests were granted by the PTO. Patent 468 has been reexamined with relatively minor modifications to the claims and confirmed patentable over the submitted references. The reexamination of Patent 944 is currently pending. If the PTO does not confirm the claims in this patent as patentable, our patent protection with respect to FACTIVE in the U.S. may be weakened.

The risks and uncertainties that our combined company will face with respect to its patents and other proprietary rights include the following:

- the pending patent applications that Genome and Genesoft have filed or to which they have exclusive rights may not result in issued patents or may take longer than expected to result in issued patents;
- the claims of any patents which are issued may be limited from those in the patent applications and may not provide meaningful protection;
- our combined company may not be able to develop additional proprietary technologies that are patentable;
- the patents licensed or issued to our combined company or our partners may not provide a competitive advantage;
- other companies may challenge patents licensed or issued to our combined company or our partners;
- patents issued to other companies may harm the ability of our combined company to do business;
- other companies may independently develop similar or alternative technologies or duplicate the technologies of our combined company; and
- other companies may design around technologies our combined company has licensed or developed.

In addition, Genome is aware that some companies have published patent applications relating to nucleic acids and proteins from various pathogenic organisms. If these companies receive issued patents, their patents may limit the ability of our combined company and the ability of its collaborators to practice under any patents that may be issued to our combined company or its collaborators. Because of this, our combined company or its collaborators may not be able to obtain patents with respect to the genes of infectious agents or the value of certain other patents issued to our combined company or its collaborators may be limited. Also, even if a patent were issued to our combined company, the scope of coverage or protection afforded to such patent may be limited.

Our combined company will bear substantial responsibilities under its license agreements for FACTIVE and Ramoplanin, and there can be no assurance that our combined company will successfully fulfill its responsibilities.

Under Genome s agreement with Vicuron, its has obtained an exclusive license to develop and market oral Ramoplanin in the United States and Canada. Under this agreement, Genome is responsible, at its expense, for the clinical and non-clinical development of Ramoplanin in Genome s field, the prevention and treatment of human disease, in the United States and Canada, including the conduct of clinical trials and the filing of drug approval applications with the FDA and other applicable regulatory authorities. Vicuron is responsible for providing us with all information in its possession relating to Ramoplanin in Genome s licensed field, for cooperating with Genome in obtaining regulatory approvals of Ramoplanin and for using diligent efforts to provide us with bulk Ramoplanin sufficient to carry out Genome s clinical development activities. Genome believes that it is currently in compliance with its obligations under the License and Supply Agreement, but there

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can be no assurance that our combined company will be able to remain in compliance due to the limitations on its resources and the many risks of conducting clinical trials, as described above in Clinical trials are costly, time consuming and unpredictable, and our combined company has limited experience conducting and managing necessary preclinical and clinical trials for its product candidates .

Under Genome s agreement with Vicuron, Vicuron has the obligation to prosecute patents relating to Ramoplanin that are made by Vicuron personnel or conceived jointly by Genome personnel and Vicuron personnel. Genome has the obligation to prosecute patents relating to Ramoplanin that are made solely by Genome s personnel. Genome has the right to control any suits brought by a third party alleging that the manufacture, use or sale of Ramoplanin in its licensed field in the United States or Canada infringes upon their rights. Our combined company will bear the costs of any such actions, which could be substantial; provided that if our combined company is obligated to pay any royalties or other payments to a third party to sell Ramoplanin as a result of this litigation, including any settlement reached with Vicuron s consent, Vicuron is obligated to pay that expense.

Genome also has the primary right to pursue actions for infringement of any patent licensed from Vicuron under the License and Supply Agreement within the United States and Canada within its licensed field. Vicuron has the primary right to pursue actions for infringement of any patents that it licenses to Genome under the License and Supply Agreement outside of Genome s licensed field within the United States and Canada and for all purposes outside of the United States and Canada. If the party with the primary right to pursue the infringement actions elects not to pursue it, the other party generally has the right to pursue it. The costs of any infringement actions are first paid out of any damages recovered and are then allocated to the parties depending upon their interest in the suit. The costs of pursuing any such action could substantially diminish the resources of our combined company.

Under Genesoft s License and Option Agreement with LG Life Sciences, its has obtained an exclusive license to develop and market FACTIVE in North America and France, Germany, the United Kingdom, Luxembourg, Ireland, Italy, Spain, Portugal, Belgium, the Netherlands, Austria, Greece, Sweden, Denmark, Finland, Norway, Iceland, Switzerland, Andorra, Monaco, San Marino and Vatican City. Under this agreement, Genesoft is responsible, at its expense and through consultation with LG Life Sciences, for the clinical and commercial development of FACTIVE in the countries covered by the license, including the conduct of clinical trials, the filing of drug approval applications with the FDA and other applicable regulatory authorities and the marketing, distribution and sale of FACTIVE in its territory. The agreement also requires a minimum sales commitment over a period of time, which if not met, could result in the technology being returned to LG Life Sciences. Genesoft believes that it is currently in compliance with its obligations under its agreement with LG Life Sciences, but there can be no assurance that our combined company will be able to remain in compliance due to the limitations on its resources and the many risks of conducting clinical trials, as described above in Clinical trials are costly, time consuming and unpredictable, and our combined company has limited experience conducting and managing necessary preclinical and clinical trials for its product candidates and the challenges inherent in the commercialization of new products as described above in The product candidates of our combined company will face significant competition in the marketplace .

Under Genesoft s License and Option Agreement with LG Life Sciences, LG Life Sciences has the obligation to diligently maintain its patents and the patents of third parties to which it has rights that, in each case, relate to FACTIVE. Genesoft has the right to control any litigation relating to suits brought by a third party alleging that the manufacture, use or sale of FACTIVE in its licensed field in the territories covered by the license infringes upon their rights. Our combined company will bear the costs of any such actions, which could be substantial.

Genesoft also has the primary right to pursue actions for infringement of any patent licensed from LG Life Sciences under the License and Option Agreement within the territories covered by the license. If Genesoft elects not to pursue any infringement action, LG Life Sciences has the right to pursue it. The costs of any infringement actions are first paid out of any damages recovered. If Genesoft is the plaintiff, the remainder of the damages are

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retained by Genesoft, subject to its royalty obligations to LG Life Sciences. If LG Life Sciences is the plaintiff, the remainder of the damages are divided evenly between the parties, subject to Genesoft s royalty obligations to LG Life Sciences. The costs of pursuing any such action could substantially diminish the resources of our combined company.

The proprietary position of our combined company may depend on its ability to protect trade secrets.

Our combined company will rely on trade secret protection for its confidential and proprietary information and procedures. Genome and Genesoft currently protect such information and procedures as trade secrets. Our combined company will continue to protect our trade secrets through recognized practices, including access control, confidentiality agreements with employees, consultants, collaborators, and customers, and other security measures. These confidentiality agreements may be breached, however, and our combined company may not have adequate remedies for any such breach. In addition, the trade secrets of our combined company may otherwise become known or be independently developed by competition.

Our combined company may infringe the intellectual property rights of third parties and may become involved in expensive intellectual property litigation.

The intellectual property rights of biotechnology companies, including our combined company, are generally uncertain and involve complex legal, scientific and factual questions. The success of our combined company in developing and commercializing biopharmaceutical products may depend, in part, on its ability to operate without infringing on the intellectual property rights of others and to prevent others from infringing on its intellectual property rights.

There has been substantial litigation regarding patents and other intellectual property rights in the biopharmaceutical industry. Our combined company may become party to patent litigation or proceedings at the U.S. Patent and Trademark Office or a foreign patent office to determine its patent rights with respect to third parties which may include competitors in the biopharmaceutical industry. Interference proceedings in the U.S. Patent and Trademark Office or opposition proceedings in a foreign patent office may be necessary to establish which party was the first to discover such intellectual property. Our combined company may become involved in patent litigation against third parties to enforce its patent rights, to invalidate patents held by such third parties, or to defend against such claims. The cost to our combined company of any patent litigation or similar proceeding could be substantial, and it may absorb significant management time. Our combined company does not expect to maintain separate insurance to cover intellectual property infringement. The general liability insurance policy of our combined company may not cover infringement by it of the intellectual property rights of others, depending upon the circumstances. The aggregate coverage provided under Genome s existing general liability insurance policy is $10,000,000. We do not currently intend to increase the amount of this insurance following completion of the merger, though our combined company will continue to evaluate the sufficiency of its coverage levels periodically. If an infringement litigation against our combined company is resolved unfavorably, our combined company may be enjoined from manufacturing or selling certain of its products or services without a license from a third party. Our combined company may not be able to obtain such a license on commercially acceptable terms, or at all.

Our combined company may not be able to obtain meaningful patent protection for discoveries under its government contracts.

Under the government grants and contracts of our combined company, the government will have a statutory right to practice or have practiced any inventions developed under the government research contracts. In addition, under certain circumstances, such as inaction on the part of our combined company or its licensees to achieve practical application of the invention or a need to alleviate public health or safety concerns not reasonably satisfied by our combined company or its licensees, the government will have the right to grant to

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other parties licenses to any inventions first reduced to practice under the government grants and contracts. If the government grants such a license to a third party, the patent position of our combined company may be jeopardized. In addition, the government will have ownership rights in the data and discoveries derived from any materials furnished to our combined company by the government.

International patent protection is uncertain.

Patent law outside the United States is uncertain and is currently undergoing review and revision in many countries. Further, the laws of some foreign countries may not protect the intellectual property rights of our combined company to the same extent as U.S. laws. Our combined company may participate in opposition proceedings to determine the validity of its or its competitors foreign patents, which could result in substantial costs and diversion of its efforts.

The activities of our combined company will involve hazardous materials and may subject it to environmental liability.

The research and development activities of our combined company will involve the controlled use of hazardous and radioactive materials and biological waste. Our combined company will be subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and certain waste products. Although Genome and Genesoft believe that their existing safety procedures for handling and disposing of these materials comply with legally prescribed standards, our combined company will not be able to completely eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, our combined company could be held liable for damages or penalized with fines, and this liability could exceed its resources. We do not expect our combined company to maintain separate insurance to cover contamination or injuries relating to hazardous materials. Such liabilities may not be covered by Genome s existing general liability insurance coverage, depending upon the circumstances. The aggregate coverage provided under our general liability insurance policy is $10,000,000. We do not currently intend to increase the amount of this insurance following completion of the merger, though our combined company will continue to evaluate the sufficiency of its coverage levels periodically.

If a successful product liability claim or series of claims is brought against our combined company for uninsured liabilities or in excess of insured liabilities, our combined company could be forced to pay substantial damage awards.

The use of any of our combined company s product candidates in clinical trials, and the sale of any approved products, might expose our combined company to product liability claims. Genome currently maintains, and we expect that our combined company will continue to maintain, product liability insurance coverage in the amount of $10 million per occurrence and $10 million in the aggregate. Such insurance coverage might not protect our combined company against all of the claims to which our combined company might become subject. Our combined company might not be able to maintain adequate insurance coverage at a reasonable cost or in sufficient amounts or scope to protect us against potential losses. In the event a claim is brought against us, our combined company might be required to pay legal and other expenses to defend the claim, as well as uncovered damage awards resulting from a claim brought successfully against us. Furthermore, whether or not we are ultimately successful in defending any such claims, our combined company might be required to direct financial and managerial resources to such defense and adverse publicity could result, all of which could harm our combined company s business.

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Risks Related to The Securities Market

Genome s stock price is highly volatile and we expect the stock price of our combined company to remain highly volatile.

The market price of Genome stock has been highly volatile and we expect the stock price of our combined company to remain highly volatile due to the risks and uncertainties described in this section of the prospectus, as well as other factors, including:

- our ability to successfully launch and commercialize FACTIVE;
- the revenues that we may derive from the sale of FACTIVE, as compared to analyst estimates;
- the results of our clinical trials for Ramoplanin and additional indications for FACTIVE and the pace of our progress in those clinical trials;
- our ability to license or develop other compounds for clinical development;
- the timing of achievement of our development milestones and other payments under our strategic alliance agreements;
- termination of, or an adverse development in, our strategic alliances;
- conditions and publicity regarding the biopharmaceutical industry generally;
- price and volume fluctuations in the stock market at large which do not relate to our operating performance; and
- comments by securities analysts, or our failure to meet market expectations.

Over the two-year period ended December 12, 2003, the closing price of Genome common stock as reported on the Nasdaq National Market ranged from a high of $7.18 to a low of $1.03. The stock market has from time to time experienced extreme price and volume fluctuations that are unrelated to the operating performance of particular companies. In the past, companies that have experienced volatility have sometimes been the subject of securities class action litigation. If litigation were instituted on this basis, it could result in substantial costs and a diversion of management s attention and resources.

Genome has issued warrants to purchase 3,221,250 shares of common stock and the re-sale of the shares underlying these warrants could cause a dilution of the stockholders of our combined company.

On June 4, 2003, as part of the Amendment, Redemption and Exchange Agreement pertaining to Genome s convertible notes held by two institutional investors, Genome issued warrants that are exercisable to purchase 511,250 shares of common stock at an exercise price of $3.53

per share (subject to future weighted average anti-dilution adjustments for issuances of securities and other adjustments), which are exercisable and expire on June 4, 2008. In connection with the issuance of these convertible notes, Genome is also obligated to issue to the placement agent warrants that are exercisable to purchase up to 100,000 shares of common stock at an exercise price of $15.00 per share, which warrants expire on March 5, 2005. On September 29, 2003 and October 15, 2003, Genome had closings of a private placement transaction in which Genome issued warrants to purchase 1,910,000 and 700,000 shares of common stock, respectively, at an exercise price of $3.48. The September 2003 warrants become exercisable on March 29, 2004 and remain exercisable until September 29, 2008. The October 2003 warrants become exercisable on April 15, 2004 and remain exercisable until October 15, 2008. The shares underlying all of these warrants are registered for re-sale. If any of the warrants are exercised, these shares could be sold into the market creating dilution of the ownership of the stockholders of our combined company at that time.

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Multiple factors beyond our control may cause fluctuations in the operating results of our combined company and may cause its business to suffer.

The revenues and results of operations of our combined company may fluctuate significantly, depending on a variety of factors, including the following:

- the pace of our commercial launch of FACTIVE;
- the level of acceptance by physicians and third party payors of FACTIVE;
- the progress of our clinical trials for FACTIVE, Ramoplanin and our other product candidates;
- our success in concluding deals to acquire additional approved products and product candidates;
- the introduction of new products and services by our competitors;
- regulatory actions; and
- expenses related to, and the results of, litigation and other proceedings relating to intellectual property rights.

Our combined company will not be able to control many of these factors. In addition, if the revenues of our combined company in a particular period do not meet expectations, it may not be able to adjust its expenditures in that period, which could cause its business to suffer. We believe that period-to-period comparisons of the financial results of our combined company will not necessarily be meaningful. You should not rely on these comparisons as an indication of our future performance. If the operating results of our combined company in any future period fall below the expectations of securities analysts and investors, our stock price may fall, possibly by a significant amount.

Certain of the financial statements of Genome have been audited by Arthur Andersen LLP, and the ability to recover damages from Arthur Andersen may be limited.

Prior to June 24, 2002, Arthur Andersen LLP served as Genome s independent public accountants. Genome s inability to obtain the consent of Arthur Andersen to include its report on certain financial statements audited by Arthur Andersen and incorporated by reference in this prospectus may limit your recovery against Arthur Andersen. SEC rules require Genome to include or incorporate by reference in this prospectus certain historical financial statements for the years ended December 31, 2001 and 2000 that were audited by Arthur Andersen. As a result of the well-publicized events concerning Arthur Andersen, Genome has not been able to obtain the consent of Arthur Andersen to the inclusion of its audit report in this prospectus and will not be able to obtain Arthur Andersen s consent in the future. The absence of this consent may limit any recovery to which you might be entitled against Arthur Andersen. It is also likely that these events concerning Arthur Andersen would adversely affect its ability to satisfy any claims Genome might have arising from its provision of auditing and other services to Genome.

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THE SPECIAL MEETING OF GENOME STOCKHOLDERS

Genome is furnishing this joint proxy statement/prospectus to all stockholders of record of Genome common stock in connection with the solicitation of proxies by the Genome board of directors for use at the special meeting of Genome stockholders to be held on , 2004, and at any adjournment or postponement of the special meeting.

Date, Time and Place of Meeting

The special meeting will be held at Ropes & Gray LLP, One International Place, 36th floor, Boston, Massachusetts on , 2004, at 10:00 a.m., local time.

Purpose of the Special Meeting

At the special meeting, and any adjournment or postponement thereof, Genome stockholders will be asked:

1. To consider and vote on a proposal to approve (i) the issuance of 28,571,405 shares of Genome common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated as of November 17, 2003, among Genome Therapeutics Corp., Guardian Acquisition, Inc., a wholly-owned subsidiary of Genome Therapeutics Corp., GeneSoft Pharmaceuticals, Inc., and Luke Evnin, as the representative of the Genesoft stockholders and (ii) the issuance of shares of Genome common stock upon the potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger.

2. To consider and vote on a proposal to approve the Amendment to the Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000.

3. To transact any other business as may properly come before the special meeting and any adjournment or postponement of the special meeting.

A copy of the merger agreement is attached to this joint proxy statement/prospectus as Annex A. Genome stockholders are encouraged to read the merger agreement in its entirety and the other information contained in this joint proxy statement/prospectus carefully before deciding how to vote.

Record Date

The Genome board of directors has fixed the close of business on , 2004 as the record date for determination of Genome stockholders entitled to notice of and to vote at the special meeting.

Votes Required for the Merger and Other Matters

Assuming a quorum is present at the special meeting, the affirmative vote of the holders of a majority of the votes of Genome common stock properly cast at the special meeting will be required to approve the issuance of a total of 28,571,405 shares of Genome common stock to the Genesoft security holders pursuant to the merger agreement and the issuance of Genome common stock upon the potential conversion of the Genome convertible notes, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger. The affirmative vote of a majority of the Genome shares outstanding as of the record date and entitled to vote on the proposal at the special meeting will be required to approve the Amendment to the Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000 shares. Holders of Genome common stock will be entitled to cast one vote per share of Genome common stock owned as of , 2004, the record date for the Genome special meeting of stockholders at which the proposals will be presented and voted upon.

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As of the close of business on the record date for the special meeting of Genome stockholders at which the proposals described in this joint proxy statement/prospectus will be presented and voted upon, directors and officers of Genome (and their respective affiliates) collectively owned approximately % of the outstanding shares of Genome common stock entitled to vote at the special meeting.

This does not include shares of Genome common stock issuable upon the exercise of presently exercisable options which these directors and officers beneficially own. If all of these stock options were exercised prior to the record date for the special meeting, the directors and executive officers of Genome (and their respective affiliates) would collectively beneficially own approximately % of the outstanding shares of Genome common stock entitled to vote at the special meeting.

Quorum, Abstentions and Broker Non-Votes

Consistent with Massachusetts law and under the Genome s by-laws, a majority of the shares entitled to be cast on a particular matter, present in person or represented by proxy, constitutes a quorum as to such matter. Votes cast by proxy or in person at the special meeting will be counted by persons appointed by the company to act as inspector of elections for the special meeting. Genome has appointed EquiServe Trust Company N.A. to function as the inspector of elections of the special meeting. The inspector of elections will ascertain whether a quorum is present, tabulate votes and determine the voting results on all matters presented to Genome stockholders at the special meeting. If less than a quorum is present at the special meeting, the holders of Genome common stock representing a majority of the voting power present at the special meeting or the inspector of elections may adjourn the meeting. At any subsequent reconvening of the special meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the subsequent reconvening of the special meeting.

Approval of proposal 1 described above will require a majority of the votes of Genome common stock properly cast upon this proposal at the special meeting. Approval of proposal 2 described above will require the affirmative vote of a majority of the shares of Genome common stock outstanding as of the record date and entitled to vote on the proposal at the special meeting. The election inspectors will count shares represented by proxies that reflect abstentions or broker non-votes (i.e., shares represented at the special meeting held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have or does not exercise the discretionary voting power on a particular matter) only as shares that are present and entitled to vote on the matter for purposes of determining the presence of a quorum, but abstentions, broker non-votes and proxies that withhold authority to vote will not be counted as votes properly cast for purposes of determining the outcome of voting on any matter. In addition, the failure of a Genome stockholder to return a proxy will have the same effect as a vote against each of the proposals described above. **Consequently, Genome stockholders are urged to return the enclosed proxy card marked to indicate their vote.**

Solicitation of Proxies and Expenses

Genome will bear its own expenses in connection with the solicitation of proxies for the special meeting.

In addition to solicitation by mail, directors, officers and employees of Genome may solicit proxies from stockholders by telephone, facsimile, e-mail or in person. No additional compensation will be paid to these individuals for those services. Genome may retain outside agencies for the purpose of soliciting proxies, in which case Genome will pay the fees and expenses of those agencies. Record holders such as brokerage houses, nominees, fiduciaries and other custodians will be requested to forward soliciting materials to beneficial owners and to request authority for the exercise of proxies, and, upon the request of such record holders, they will be reimbursed for their reasonable expenses incurred in sending proxy materials to beneficial owners.

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Voting of Proxies at the Special Meeting and Revocation of Proxies

Genome requests that all holders of Genome common stock on the record date complete, date and sign the accompanying proxy card and promptly return it in the accompanying envelope or otherwise mail it to Genome. Brokers holding voting shares in street name may vote the shares only if the beneficial owner provides instructions on how to vote. Brokers will provide directions to beneficial owners on how to instruct your broker to vote the shares. Please note, however, that if the holder of record of your shares is your broker, bank or other nominee and you wish to vote at the special meeting, you must bring a letter from the broker, bank or other nominee confirming that you are the beneficial owner of the shares. All properly executed proxies that Genome receives prior to the vote at the special meeting, and that are not revoked, will be voted in accordance with the instructions indicated on the proxy card. If no direction is indicated on such proxies, such proxies will be voted in favor of the proposals (i) to approve the issuance of a total of 28,571,405 shares of Genome common stock pursuant to the merger agreement and the issuance of shares of Genome common stock upon the potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger and (ii) to approve the Amendment to Genome s Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000 shares of common stock.

A Genome stockholder may revoke a previously submitted proxy at any time prior to its use by:

- delivering to the Secretary of Genome a later-dated signed notice of revocation;
- delivering to the Secretary of Genome a later-dated, signed proxy (which will automatically replace any earlier dated proxy card that you returned); or
- attending the special meeting and voting in person.

Attendance at the special meeting does not in itself constitute the revocation of a previously submitted proxy.

If your shares are held in street name, your broker or nominee may permit you to vote by telephone or electronically. Please check your proxy card or contact your broker or nominee to determine whether either of these methods of voting is available to you.

No Appraisal Rights

Holders of Genome common stock do not have appraisal or dissenters rights under Massachusetts law in connection with the merger or any other matter presented to Genome stockholders at the special meeting.

Other Matters to be Voted on

Genome knows of no matters that will be presented for consideration at the special meeting other than those stated in this joint proxy statement/prospectus. However, if any other matters do properly come before the special meeting, the proxy holders will vote proxies in accordance with their best judgment regarding such matters.

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Recommendation of Genome s Board of Directors

Since the merger is conditioned upon the approval of the matters set forth in each of the proposals described below, Genome recommends that its stockholders vote for each proposal.

Proposal 1. To consider and vote on a proposal to approve (i) the issuance of 28,571,405 shares of Genome common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated as of November 17, 2003, among Genome Therapeutics Corp., Guardian Acquisition, Inc., a wholly-owned subsidiary of Genome Therapeutics Corp., GeneSoft Pharmaceuticals, Inc., and Luke Evnin, as the representative of the Genesoft stockholders and (ii) the issuance of shares of Genome common stock upon the potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger.

On November 10, 2003, Genome s board of directors authorized Genome management to execute the merger agreement and consummate the transactions contemplated by the merger agreement and the related documents. For information about the factors considered by the Genome board of directors to approve the merger, see the section entitled Consideration of the Merger by Genome s Board of Directors beginning on page 69 of this joint proxy statement/prospectus.

In connection with the merger, Genome, Genesoft, and holders of Genesoft promissory notes issued during financing rounds in December 2002-January 2003 and April-May 2003 have entered into a note amendment and exchange agreement that restructures $22,309,647 of Genesoft notes. Upon the closing of the merger, these notes will be converted into new convertible promissory notes to be issued by Genome. The new notes will be convertible at any time prior to the maturity, at the option of the holder, into shares of Genome common stock at a 10% premium to the average trading price of Genome common stock for the five trading days immediately preceding the date of the closing of the merger. For a description of the note amendment and exchange agreement, see The Merger Other Material Agreements Relating to the Merger Note Amendment and Exchange Agreement.

After careful consideration, Genome s board of directors determined that the merger is advisable and in the best interests of Genome s stockholders. Accordingly, Genome s board of directors approved the merger and the related transactions, and recommends that its stockholders vote FOR (i) the issuance of 28,571,405 shares of Genome common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated as of November 17, 2003, among Genome Therapeutics Corp., Guardian Acquisition, Inc., a wholly-owned subsidiary of Genome Therapeutics Corp., GeneSoft Pharmaceuticals, Inc., and Luke Evnin, as the representative of the Genesoft stockholders and (ii) the issuance of shares of Genome common stock upon the potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger.

Proposal 2. To consider and vote on a proposal to approve the Amendment to the Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000.

On November 10, 2003, Genome s board of directors voted, subject to approval by the stockholders, to amend Article 4 of the company s Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000.

On , 2004, Genome had shares of its common stock outstanding, shares of common stock reserved for issuance upon exercise of outstanding stock options or for future awards under its equity incentive plans and shares of common stock reserved for

issuance upon exercise of outstanding warrants.

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Genome needs additional shares of authorized common stock in order to issue 28,571,405 shares of its common stock pursuant to the merger agreement and to complete the sale of at least $32 million of its securities as a condition to the closing of the merger and to have sufficient shares reserved for potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be issued to the holders of Genesoft promissory notes in connection with the merger. In addition, Genome s board of directors believes that it is desirable to have available a substantial additional number of authorized but unissued shares of Genome common stock which may be issued from time to time, without further action by the stockholders, to provide for stock splits or stock dividends, to be able to take advantage of acquisition opportunities, to meet future capital needs and for other general corporate purposes.

The issuance of additional authorized shares of Genome common stock may dilute the voting power and equity interest of present stockholders. It is not possible to predict in advance whether the issuance of additional shares will have a dilutive effect on earnings per share as it depends on the specific events associated with a particular transaction. Shares of authorized but unissued Genome common stock may be issued from time to time by Genome s board of directors without further stockholder action unless such action is required by the law of The Commonwealth of Massachusetts, under which the company is incorporated, the company s Articles of Organization, or the rules of the Nasdaq. Additional authorized but unissued shares of Genome common stock might be used in the context of a defense against or response to possible or threatened hostile takeovers. For example, such additional shares could be used to dilute the stock ownership of parties seeking to obtain control of the company, to increase the total amount of consideration necessary for a party to obtain control, or to increase the voting power of friendly third parties. These uses could have the effect of making it more difficult for a third party to remove incumbent management or to accomplish a given transaction, even if such actions would generally be beneficial to stockholders. Genome s board of directors has concluded, however, that the advantages of the additional authorized shares outweigh any potential disadvantages.

Genome s board of directors recommends that its stockholders vote FOR the approval of the Amendment to the Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000.

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THE SPECIAL MEETING OF GENESOFT STOCKHOLDERS

Genesoft is furnishing this joint proxy statement/prospectus to all stockholders of record of Genesoft common stock in connection with the solicitation of proxies by Genesoft s board of directors for use at the special meeting of Genesoft stockholders to be held on , 2004, and at any adjournment or postponement of the special meeting. This joint proxy statement/prospectus also is being furnished to Genesoft stockholders as a prospectus for Genome Therapeutics common stock to be issued in connection with the merger.

Date, Time and Place of Meeting

The special meeting will be held at on , 2004, at a.m., local time. This joint proxy statement/prospectus and accompanying form of proxy card are first being mailed to Genesoft stockholders on or about , 2004.

Purpose of the Special Meeting

At the special meeting, and any adjournment or postponement thereof, Genesoft stockholders will be asked:

1. To consider and vote on a proposal to adopt and approve the Agreement and Plan of Merger and Reorganization, dated as of November 17, 2003, among Genome Therapeutics Corp., a Massachusetts corporation, Guardian Acquisition, Inc., a Delaware corporation and a wholly-owned subsidiary of Genome Therapeutics Corp., GeneSoft Pharmaceuticals, Inc., a Delaware corporation, and Luke Evnin, as the representative of the Genesoft stockholders.

2. To consider and vote on a proposal to amend and restate Genesoft s Seventh Amended and Restated Certificate of Incorporation to eliminate any authorized shares of Genesoft preferred stock if the merger is completed.

3. To transact any other business as may properly come before the special meeting and any adjournment or postponement of the special meeting.

A copy of the merger agreement is attached to this joint proxy statement/prospectus as Annex A. Genesoft stockholders are encouraged to read the merger agreement in its entirety and the other information contained in this joint proxy statement/prospectus carefully before deciding how to vote.

Record Date

Genesoft s board of directors has fixed the close of business on , 2004 as the record date for determination of Genesoft stockholders entitled to notice of and to vote at the special meeting.

Votes Required

Approval of the merger agreement and the transactions contemplated by the merger agreement requires the affirmative vote of the holders of a majority of the shares of Genesoft common stock outstanding as of the record date. Approval of the amendment and restatement of the Seventh Amended and Restated Certificate of Incorporation of Genesoft requires the affirmative vote of the holders of a majority of the shares of Genesoft common stock outstanding as of the record date.

As of the close of business on the record date for the special meeting, shares of Genesoft common stock were outstanding, and held by approximately stockholders of record.

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As of the close of business on the record date for the special meeting of Genesoft stockholders at which the merger and the related transactions and the amendment and restatement of the Seventh Amended and Restated Certificate of Incorporation will be presented and voted upon, directors and officers of Genesoft (and their respective affiliates) collectively owned an aggregate of shares of Genesoft common stock (exclusive of any shares issuable upon the exercise of options or warrants or conversion of notes), or approximately % of the outstanding shares of Genesoft common stock entitled to vote at the special meeting on the merger and the related transactions and the restatement of the Seventh Amended and Restated Certificate of Incorporation. Genome has entered into voting agreements with the holders of approximately 7,881,334 shares of Genesoft common stock (exclusive of any shares issuable upon the exercise of options or warrants or conversion of notes), or approximately % of the outstanding shares of Genesoft common stock requiring such persons to vote FOR approval and adoption of the merger agreement.

Quorum and Abstentions

A majority of all voting shares of Genesoft common stock issued and outstanding as of the record date, represented in person or by proxy, constitutes a quorum for the transaction of business at the special meeting. If a quorum is not present at the special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies. At any subsequent reconvening of the special meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the subsequent reconvening of the special meeting.

If you submit a proxy that indicates an abstention from voting on all matters presented at the special meeting, your shares will be counted as present for the purpose of determining the existence of a quorum at the special meeting, but will not be voted on any matter presented at the special meeting. Consequently, your abstention will have the same effect as a vote against the proposal to adopt and approve the merger agreement. In addition, the failure of a Genesoft stockholder to return a proxy will have the effect of a vote against the proposal to adopt and approve the merger agreement. **Consequently, Genesoft stockholders are urged to return the enclosed proxy card marked to indicate their vote.**

Solicitation of Proxies and Expenses

Genesoft will bear its own expenses in connection with the solicitation of proxies for the special meeting.

Voting of Proxies at the Special Meeting and Revocation of Proxies

Genesoft requests that all holders of voting common stock on the record date complete, date and sign the accompanying proxy card and promptly return it in the accompanying envelope or otherwise mail it to Genesoft. All properly executed proxies that Genesoft receives prior to the vote at the special meeting, and that are not revoked, will be voted in accordance with the instructions indicated on the proxy card. If no direction is indicated on such proxies, such proxies will be voted in favor of adoption and approval of the merger agreement.

A Genesoft stockholder may revoke a previously submitted proxy at any time prior to its use by:

delivering to the Secretary of Genesoft a later-dated signed notice of revocation;

delivering to the Secretary of Genesoft a later-dated, signed proxy (which will automatically replace any earlier dated proxy card that you returned); or

attending the special meeting and voting in person.

Attendance at the special meeting does not in itself constitute the revocation of a previously submitted proxy.

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Any written notice of revocation should be sent to GeneSoft Pharmaceuticals, Inc., 7300 Shoreline Court, South San Francisco, California 94080, Attention: Secretary, or hand delivered to the Secretary of Genesoft at or before the taking of the vote at the special meeting.

Appraisal Rights Under Delaware General Corporation Law

If the merger is consummated, a holder of record of Genesoft stock who properly makes a demand for appraisal, as described below, will be entitled to have those shares appraised by the Delaware Court of Chancery under Section 262 of the Delaware corporation statute and to receive payment for the fair value of those shares instead of the consideration provided for in the merger agreement. In order to be eligible to receive this payment, however, a Genesoft stockholder must (1) continue to hold his or her shares through the time of the merger; (2) strictly comply with the procedures discussed under Section 262; and (3) not vote in favor of the merger agreement. This joint proxy statement/prospectus is being sent to all holders of record of Genesoft stock on the record date for the Genesoft special meeting and constitutes notice of the appraisal rights available to those holders under Section 262.

THE STATUTORY RIGHT OF APPRAISAL GRANTED BY SECTION 262 REQUIRES STRICT COMPLIANCE WITH THE PROCEDURES IN SECTION 262. FAILURE TO FOLLOW ANY OF THESE PROCEDURES MAY RESULT IN A TERMINATION OR WAIVER OF APPRAISAL RIGHTS UNDER SECTION 262. THE FOLLOWING IS A SUMMARY OF THE PRINCIPAL PROVISIONS OF SECTION 262.

The following summary is not a complete statement of Section 262 of the Delaware corporation statute, and is qualified in its entirety by reference to Section 262 which is incorporated herein by reference, together with any amendments to the laws that may be adopted after the date of this joint proxy statement/prospectus. A copy of Section 262 is attached as Annex E to this joint proxy statement/prospectus.

A holder of Genesoft stock who elects to exercise appraisal rights under Section 262 must deliver a written demand for appraisal of its shares of Genesoft prior to the vote on the merger agreement. A vote against the merger agreement does not constitute a demand for appraisal. The written demand must identify the stockholder of record and state the stockholder s intention to demand appraisal of his or her shares. All demands should be delivered to Asha Rajagopal of Genesoft, 7300 Shoreline Court, South San Francisco, California 94080.

Only a holder of shares of Genesoft stock on the date of making a written demand for appraisal who continuously holds those shares through the time of the merger is entitled to seek appraisal. Demand for appraisal must be executed by or for the holder of record, fully and correctly, as that holder s name appears on the holder s stock certificates representing shares of Genesoft stock. If Genesoft stock is owned of record in a fiduciary capacity by a trustee, guardian or custodian, the demand should be made in that capacity. If Genesoft stock is owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be made by or for all owners of record. An authorized agent, including one or more joint owners, may execute the demand for appraisal for a holder of record; that agent, however, must identify the record owner or owners and expressly disclose in the demand that the agent is acting as agent for the record owner or owners of the shares.

A record holder such as a broker who holds shares of Genesoft stock as a nominee for beneficial owners, some of whom desire to demand appraisal, must exercise appraisal rights on behalf of those beneficial owners with respect to the shares of Genesoft stock held for those beneficial owners. In that case, the written demand for appraisal should state the number of shares of Genesoft stock covered by it. Unless a demand for appraisal specifies a number of shares, the demand will be presumed to cover all shares of Genesoft stock held in the name of the record owner.

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BENEFICIAL OWNERS WHO ARE NOT RECORD OWNERS AND WHO INTEND TO EXERCISE APPRAISAL RIGHTS SHOULD INSTRUCT THE RECORD OWNER TO COMPLY WITH THE STATUTORY REQUIREMENTS WITH RESPECT TO THE EXERCISE OF APPRAISAL RIGHTS BEFORE THE DATE OF THE GENESOFT SPECIAL MEETING.

Within 10 days after the effective date of the merger, the surviving corporation to the merger is required to send notice of the approval of the merger agreement to all stockholders who are entitled to appraisal rights.

Within 120 days after the effective date of the merger, the surviving corporation or any stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of Genesoft stock held by all stockholders seeking appraisal. A dissenting stockholder must serve a copy of the petition on the surviving corporation. If no petition is filed by either the surviving corporation or any dissenting stockholder within the 120-day period, the rights of all dissenting stockholders to appraisal will cease. Stockholders seeking to exercise appraisal rights should not assume that the surviving corporation will file a petition with respect to the appraisal of the fair value of their shares or that the surviving corporation will initiate any negotiations with respect to the fair value of those shares. The surviving corporation is under no obligation to and has no present intention to take any action in this regard. Accordingly, stockholders who wish to seek appraisal of their shares should initiate all necessary action with respect to the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262. **FAILURE TO FILE THE PETITION ON A TIMELY BASIS WILL CAUSE THE STOCKHOLDER S RIGHT TO AN APPRAISAL TO CEASE.**

Within 120 days after the effective date of the merger, any stockholder who has complied with subsections (a) and (d) of Section 262 is entitled, upon written request, to receive from the surviving corporation a statement setting forth the total number of shares of Genesoft stock not voted in favor of the merger agreement with respect to which demands for appraisal have been received by the surviving corporation and the number of holders of those shares. The statement must be mailed within 10 days after the surviving corporation has received the written request or within 10 days after the time for delivery of demands for appraisal under subsection (d) of Section 262 has expired, whichever is later.

If a petition for an appraisal is filed in a timely manner, at the hearing on the petition, the Delaware Court of Chancery will determine which stockholders are entitled to appraisal rights and will appraise the shares of Genesoft stock owned by those stockholders. The court will determine the fair value of those shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, to be paid, if any, upon the fair value.

Stockholders who consider seeking appraisal should consider that the fair value of their shares under Section 262 could be more than, the same as, or less than, the value of the consideration provided for in the merger agreement without the exercise of appraisal rights. The Court of Chancery may determine the cost of the appraisal proceeding and assess it against the parties as the Court deems equitable. Upon application of a dissenting stockholder, the Court may order that all or a portion of the expenses incurred by any dissenting stockholder in connection with the appraisal proceeding (including, without limitation, reasonable attorney s fees and the fees and expenses of experts) be charged pro rata against the value of all shares of Genesoft stock entitled to appraisal. In the absence of a court determination or assessment, each party bears its own expenses.

Any stockholder who has demanded appraisal in compliance with Section 262 will not, after the merger, be entitled to vote his or its Genesoft stock for any purpose or receive payment of dividends or other distributions, if any, on the Genesoft stock, except for dividends or distributions, if any, payable to stockholders of record at a date prior to the merger.

A stockholder may withdraw a demand for appraisal and accept the consideration payable pursuant to the merger agreement at any time within 60 days after the merger. If an appraisal proceeding is properly instituted, it may not be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and any

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such approval may be conditioned on the Court of Chancery s deeming the terms to be just. If, after the merger, a holder of Genesoft stock who had demanded appraisal for his shares fails to perfect or loses his right to appraisal, those shares will be treated under the merger agreement as if they were converted into the consideration payable pursuant to the merger agreement at the time of the merger.

IN VIEW OF THE COMPLEXITY OF THESE PROVISIONS OF THE DELAWARE CORPORATE LAW, ANY GENESOFT STOCKHOLDER WHO IS CONSIDERING EXERCISING APPRAISAL RIGHTS SHOULD CONSULT A LEGAL ADVISOR.

Dissenters Rights Under California Corporations Code

Holders of Genesoft capital stock who dissent and do not consent to the approval and adoption of the merger agreement may be entitled to certain dissenters rights under the California Corporations Code (California Law) in connection with the merger. Such holders who perfect their dissenters rights and follow certain procedures in the manner prescribed by Chapter 13 of the California Law will be entitled to have their shares converted into the right to receive from Genesoft such consideration as may be determined to be due pursuant to the California Law. Any stockholder who wishes to dissent and to seek the payment in cash of the fair market value of his, her or its shares, or who wishes to preserve his, her or its right to do so, should review this section carefully, since failure to comply with the procedures set forth in Chapter 13 of the California Law may result in the loss of such rights. The term fair market value will be determined as of November 17, 2003, the day before the announcement of the terms of the proposed merger, excluding any appreciation or depreciation resulting from the proposed merger, but adjusted for any stock split, or share dividend that becomes effective thereafter.

DISSENTERS RIGHTS GRANTED BY CHAPTER 13 OF THE CALIFORNIA LAW REQUIRE STRICT COMPLIANCE WITH THE PROCEDURES IN CHAPTER 13. FAILURE TO FOLLOW ANY OF THESE PROCEDURES MAY RESULT IN A TERMINATION OR WAIVER OF DISSENTERS RIGHTS UNDER CHAPTER 13. THE FOLLOWING IS A SUMMARY OF THE PRINCIPAL PROVISIONS OF CHAPTER 13.

The following summary is not a complete statement of Chapter 13 of the California Law, and is qualified in its entirety by reference to Chapter 13 which is incorporated herein by reference, together with any amendments to the laws that may be adopted after the date of this joint proxy statement/prospectus. A copy of Chapter 13 is attached as Annex F to this joint proxy statement/prospectus.

Each stockholder who elects to exercise dissenters rights must make written demand upon Genesoft for the purchase of such shares. The demand must be made no later than the date of the special meeting. The stockholder s demand must state the number and class of shares held of record by the stockholder that the stockholder demands that Genesoft purchase, as well as a statement by the stockholder as to what such holder claims the fair market value of such share was as of November 17, 2003, the day prior to the announcement of the merger. The statement of fair market value constitutes an offer by the Genesoft stockholder to sell the shares at such price. Neither voting against, abstaining from voting nor failing to vote on the merger agreement constitutes such written demand. All demands should be delivered to Asha Rajagopal of Genesoft, 7300 Shoreline Court, South San Francisco, California 94080.

Within 10 days after stockholder approval of the merger agreement, Genesoft is required to send notice of the approval of the merger agreement to all stockholders who have demanded dissenters rights. The notice must be accompanied by a copy of Sections 1300-1304 of the California Law. The notice shall also state the price determined by Genesoft to be the fair market value of the Genesoft stock with respect to which dissenters rights are properly exercised under Chapter 13 of the California Law and a brief description of the procedure to be followed by a stockholder who elects to dissent.

Within the same 30-day period following the mailing of the notice, the dissenting stockholder must submit to Genesoft for endorsement certificates for any shares that the Genesoft stockholder demands Genesoft

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purchase. If Genesoft and the stockholder agree upon the price of the dissenting shares, the dissenting stockholder is entitled to the agreed price with interest at the legal rate on judgments from the date of such agreement. Payment must be made within 30 days of the later of the date of the agreement between the Genesoft stockholder and Genesoft or the date the contractual conditions to the merger are satisfied or waived.

If Genesoft and the stockholder cannot agree as to the fair market value or as to the fact that such shares are dissenting shares, such stockholder may file within six months of the date of mailing of the notice a complaint with the superior court of the proper county demanding judicial determination of such matters. Genesoft will then be required to make any payments in accordance with such judicial determination. If the complaint is not filed within the specified six-month period, the stockholder s rights as a dissenter are lost.

Genesoft dissenting shares lose their status as such if (i) Genesoft abandons the merger, (ii) the stockholder and Genesoft do not agree as to the fair market value of such shares and a complaint is not filed within six months of the date the Genesoft notice was mailed; or (iii) the dissenting stockholder withdraws, with the consent of Genesoft, his or her demand for purchase of such shares.

Other Matters to be Voted On

Genesoft knows of no matters that will be presented for consideration at the special meeting other than those stated in this joint proxy statement/prospectus. However, if any other matters do properly come before the special meeting, the proxy holders will vote proxies in accordance with their best judgment regarding such matters.

Recommendation of Genesoft s Board of Directors

Genesoft s board of directors has determined that the merger is advisable, in the best interests of Genesoft stockholders and on terms that are fair to the stockholders of Genesoft. **Accordingly, Genesoft s board of directors has approved the merger and the related transactions and recommends that stockholders vote FOR adoption and approval of the merger agreement and related transactions**. In considering such recommendation, Genesoft stockholders should be aware that some Genesoft directors and officers have interests in the merger that are different from, or in addition to, those of Genesoft stockholders. For more information about these interests, see the section entitled The Merger and Related Transactions Interests of Directors and Executive Officers of Genesoft in the Merger beginning on page 79 of this joint proxy statement/prospectus.

Genesoft s board of directors also recommends that Genesoft stockholders vote FOR the approval of the amendment and restatement of the Seventh Amended and Restated Certificate of Incorporation to eliminate any authorized shares of Genesoft preferred stock if the merger is completed.

The matters to be considered at the special meeting are of great importance to the stockholders of Genesoft. Accordingly, Genesoft stockholders are urged to read and carefully consider the information presented in this joint proxy statement/prospectus, and to complete, date, sign and promptly return the enclosed proxy in the enclosed postage-prepaid envelope.

Genesoft stockholders should not send any stock certificates with their proxy cards. A transmittal form with instructions for the surrender of Genesoft common stock certificates will be mailed to you promptly following completion of the merger. For more information regarding the procedures for exchanging Genesoft stock certificates for Genome Therapeutics stock certificates, see the section entitled The Merger and Related Transactions The Merger Agreement Exchange of Genesoft Certificates beginning on page 82 of this joint proxy statement/prospectus.

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THE MERGER AND RELATED TRANSACTIONS

The following is a description of the material aspects of the merger and related transactions, including the merger agreement and certain other agreements entered into in connection with the merger agreement. While we believe that the following description covers the material terms of the merger, the merger and the related transactions and agreements, the description may not contain all of the information that is important to you. You should carefully read this entire document and the other documents we refer to for a more complete understanding of the merger and the related transactions. In particular, the following summary of the merger agreement is not complete and is qualified in its entirety by reference to the copy of the merger agreement attached to this joint proxy statement/prospectus as Annex A and incorporated by reference herein. You should read the merger agreement carefully and in its entirety for a complete understanding of the terms of the merger and related transactions.

Background of the Merger

Since 2001, one of Genome s principal strategies has been the in-licensing and/or acquisition of late stage development product candidates, approved products or marketed products. During the period from early 2001 through the present, numerous potential opportunities have been identified and evaluated by Genome. In October 2001, Genome successfully in-licensed Ramoplanin, a novel antibiotic, to supplement its product portfolio. During 2002, one of the product candidates Genome evaluated was an anti-infective, FACTIVE, discovered by LG Life Sciences, Ltd., a South Korean company. Genome investigated this opportunity, but did not obtain rights to the product.

Genesoft was founded in 1997 and is focused on the discovery and development of anti-infective products. During 2002, Genesoft identified an opportunity to license FACTIVE from LG Life Sciences and it subsequently entered into an agreement with LG Life Sciences to license FACTIVE on October 22, 2002.

In December 2002, Genesoft raised capital through the sale of promissory notes in order to fund its operations and manage the continued clinical development of FACTIVE.

At a regular meeting of Genesoft s board of directors on January 21, 2003, the board discussed a variety of strategic options available to Genesoft. The board also discussed and approved engaging a financial advisor to explore and advise on various strategic alternatives.

On February 21, 2003, Genesoft retained Merrill Lynch, Pierce, Fenner & Smith Incorporated to act as its financial advisor in connection with any strategic transaction. In the spring of 2003, Merrill Lynch, on behalf of Genesoft, began a process of soliciting interest from numerous specialty pharmaceutical, major pharmaceutical and biotechnology companies in entering into a strategic transaction with Genesoft. As part of this process, which continued through the fall of 2003, Merrill Lynch contacted a total of nearly 60 companies.

On March 27, 2003, Genesoft s board of directors expanded the scope and authority of a previously constituted transaction committee, composed of David Singer, the Chairman and CEO of Genesoft, and directors William Rutter and Vernon Loucks, to include the authority to review and advise on business combination transactions.

After continued clinical development, the FDA approved FACTIVE for sale in the U.S. on April 4, 2003.

In April 2003, Genesoft raised additional funds through the sale of promissory notes to replenish its depleted cash assets and to provide for Genesoft s continued operations.

During the summer of 2003, Genesoft entered into preliminary discussions with various companies, including Genome, regarding a possible business combination transaction, asset sale or co-promotion arrangement involving FACTIVE. Genesoft s board of directors met several times during July and August for

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updates on the status of discussions with other parties and to consider alternative strategies for Genesoft, including whether to raise capital in order to commercialize FACTIVE as an independent company. The transaction committee of Genesoft s board of directors, now composed of Messrs. Singer, Rutter, Loucks and Dr. Luke Evnin of MPM Capital and a director of Genesoft, also met regularly, together with legal and financial advisors, to discuss the merits of possible combinations or other transactions with third parties.

On July 27, 2003, Steven Rauscher, President, CEO, and Chairman of Genome, was contacted via telephone by Dr. Evnin regarding a potential strategic transaction with Genesoft.

On July 29, 2003, Mr. Rauscher held a further discussion via telephone with Dr. Evnin, concerning a potential strategic transaction between Genome and Genesoft. Dr. Evnin advised Mr. Rauscher that Merrill Lynch had been retained to conduct a process to explore Genesoft s strategic alternatives.

On July 30, 2003, Genome and Genesoft entered into a mutual non-disclosure agreement providing for the safeguarding of confidential information that the parties might share with one another during their discussions. Also on July 30, 2003, Mr. Rauscher and Mr. Singer conducted a phone conversation and agreed that a logical next step in the initial review processes of both parties was to conduct a joint meeting during which each party would describe its existing programs and potential synergies between the two organizations would be explored.

On August 6, 2003, a team from Genesoft consisting of Dr. Evnin, Gary Patou, President, Tom Feldman, Vice President Sales and Marketing, Glenn Tillotson, Director, Scientific Affairs, and Christine Nash, FACTIVE Product Manager met with members of Genome s senior management team, including Mr. Rauscher, Stephen Cohen, Senior Vice President and Chief Financial Officer, and Martin Williams, Senior Vice President, Corporate Development and Marketing, at its Waltham, Massachusetts headquarters. Genesoft s team presented an overview of their company, as well as descriptions of their research and development programs, including the development and commercialization program for FACTIVE. The Genome team also provided an overview of their company.

On August 12, 2003, Mr. Rauscher and Dr. Evnin conducted a follow-up call and reviewed the preliminary discussions that had occurred between the parties. Mr. Rauscher informed Dr. Evnin that he planned to discuss Genome s preliminary review of a strategic transaction with Genesoft at Genome s next board meeting, scheduled for August 21, 2003.

On August 21, 2003, Genome held its regularly scheduled board of directors meeting. As part of the planned agenda, Mr. Rauscher presented an update on overall corporate development activities, including management s preliminary findings on a potential strategic transaction with Genesoft. The board voted to authorize Mr. Rauscher and other senior executives of Genome to pursue further discussions and negotiations with Genesoft regarding a potential transaction, subject to the board s approval of any terms or agreements. The board also voted to appoint a transaction committee consisting of directors Robert Hennessey, David Stone and Steven Rauscher, which would be authorized and empowered to direct and assist Genome in its evaluation of a possible transaction with Genesoft.

On August 21, 2003, Mr. Rauscher called Mr. Singer to inform him that Genome s board had authorized further discussions regarding a potential strategic transaction between the two companies. Mr. Rauscher and Mr. Singer agreed that a logical next step would be for Genome to begin the due diligence review of Genesoft s documentation relating to its FACTIVE and other product programs and to review Genesoft s finances.

On August 25, 2003, Genome sent a team comprised of Messrs. Rauscher, Cohen, Williams and other members of Genome s business development staff to California to visit Genesoft s facility in South San Francisco and to commence the due diligence review of documentation regarding Genesoft s product programs and finances at the offices of Merrill Lynch. The members of the Genome team were assisted by members of

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Ropes & Gray LLP, Genome s outside counsel, in their due diligence activities. The Genome team along with their legal advisors continued their due diligence review at the offices of Merrill Lynch on August 26, focusing on documents necessary to provide a preliminary overview of Genesoft s contractual commitments, financial statements and condition, capital structure and funding requirements.

On August 27, 2003, Genome met with members of Genesoft management led by Messrs. Singer and Patou at the Genesoft facility in South San Francisco. Messrs. Rauscher, Cohen and Williams made presentations focusing primarily on Genome s Ramoplanin program, as well as the finances of Genome. Messrs. Singer, Patou and other members of Genesoft management made presentations regarding the status of their FACTIVE program and their other ongoing discovery programs and assets.

On August 28, 2003, the Genome and Genesoft teams reconvened at the Genesoft facility, with Dr. Evnin and representatives of Merrill Lynch also present. Both the Genome and Genesoft teams gave further presentations regarding Ramoplanin and FACTIVE, respectively, and the parties engaged in preliminary discussions regarding the synergies of a combined entity and its preliminary financial profile.

On August 29 and 30, 2003, Mr. Rauscher engaged in several telephone discussions with Messrs. Evnin, Singer and Patou summarizing the meetings of the previous three days and discussing potential synergies and areas where both parties needed to engage in further diligence.

Through the month of August, Genesoft, with the assistance of Merrill Lynch, continued to explore other possible business combinations, asset sales or co-promotion arrangements involving FACTIVE with various other parties.

On September 9, 2003, Mr. Rauscher held a conference telephone call with Messrs. Evnin, Singer and Patou. The parties discussed potential synergies that could be realized by a combined entity and identified open diligence issues that required further review by each party. Based on the discussion, Mr. Rauscher suggested that the next step would be to update the transaction committee of his board of directors and get further direction.

On September 11, 2003, a special meeting of the transaction committee of Genome was held by telephone conference call. The participants in the call included Messrs. Cohen, Williams and other members of management and Messrs. Hennessey, Stone and Rauscher, the members of the transaction committee. Mr. Rauscher outlined the discussions that had taken place between the parties, the potential synergies presented by a potential merger of the two companies, the potential competition for the opportunity and the numerous diligence and other issues that needed further review. The transaction committee recommended continuation of discussions with Genesoft and authorized management to submit a letter setting forth Genome s interest in a potential merger transaction with Genesoft. Following the meeting, Genome submitted this letter to Genesoft.

On September 12, 2003, Mr. Rauscher and Mr. Singer discussed the letter submitted by Genome and the open diligence issues on both sides.

On September 17, 2003, the board of directors of Genome held an informal information conference call during which a number of topics were discussed, including the status of discussions with Genesoft.

On September 17, 2003, the board of directors of Genesoft met with and was updated by its management team and Merrill Lynch on the status of preliminary discussions with various parties. The board also reviewed Genesoft s existing operations and financial results and condition.

On September 18, 2003, Mr. Rauscher and Mr. Singer had discussions by telephone regarding Genome s due diligence on the manufacturing of the active pharmaceutical ingredient for FACTIVE.

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On September 19, 2003, Mr. Rauscher had further due diligence discussions with Dr. Patou concerning the manufacturing plan for FACTIVE and related FDA matters. Genome s legal advisors sent preliminary comments on a form of merger agreement to the legal advisors of Genesoft.

On September 22, 2003 and September 23, 2004, Mr. Rauscher had telephone conversations with both Mr. Singer and Dr. Patou concerning potential structures of a combined entity, including the valuation of Genesoft, board composition and future financing needs of a combined company.

Between September 22, 2003 and October 1, 2003, each of the parties continued their due diligence reviews of the other party.

Through the month of September, Genesoft, with the assistance of Merrill Lynch, continued to explore possible other business combinations, asset sales or co-promotion arrangements involving FACTIVE with various other parties.

On October 1, 2003, Mr. Singer and representatives of Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, Genesoft s outside counsel, and Merrill Lynch met with Messrs. Rauscher, Cohen and Williams, other members of Genome management and Genome s legal advisor at Genome s headquarters in Waltham, Massachusetts. The parties conducted preliminary discussions concerning open due diligence matters for both parties, the valuations of Genesoft and Genome and the financial needs of the combined company.

On October 6, 2003, Messrs. Rauscher, Cohen and Williams and representatives from their legal advisor traveled to Genesoft s headquarters in South San Francisco to conduct additional due diligence. From October 6 through October 10, the Genome team conducted due diligence review of documents and discussions with Genesoft management at Genesoft s headquarters. In addition, during this period the parties held multiple discussions regarding the restructuring of Genesoft s outstanding promissory notes, the manufacturing of FACTIVE and the cash needs of a combined company moving forward. The parties and their respective legal advisors also continued negotiation of the terms of a merger agreement and related ancillary documents.

From October 7 through October 14, 2003, representatives of each of Genome and Genesoft and each of the parties legal advisors continued their due diligence reviews and conducted numerous telephone conferences to discuss diligence matters and the terms and conditions of the merger agreement and related matters.

On October 15, 2003, the Genome board of directors held a regularly scheduled informational call, and among other topics, Mr. Rauscher updated the board on the status of ongoing discussion with Genesoft regarding a potential merger transaction. While numerous outstanding diligence and economic issues remained to be discussed and resolved, the board concurred that discussions should continue.

On October 15, 2003, Mr. Rauscher called Mr. Singer to inform him that, following Genome s board call, Genome intended to continue to move forward with discussions regarding a potential merger transaction.

On October 15, 2003, representatives of Genesoft s legal advisor visited the headquarters of Genome in Waltham, Massachusetts to conduct a due diligence review of Genome documents.

On October 16 and 17, 2003, members of Genesoft management joined Genesoft s legal advisors in their due diligence review of documents, product programs and finances at Genome s headquarters.

From October 18, 2003 through October 28, 2003, representatives of each of Genome and Genesoft and each of the parties legal advisors continued their due diligence reviews and conducted numerous telephone conferences to discuss diligence matters, the terms and conditions of the merger agreement, the valuation of Genesoft, the restructuring of Genesoft s convertible notes, Genesoft s cash needs between the signing of a merger agreement and the potential closing date, the budget of a combined company moving forward and other related matters.

On October 29, 2003, Dr. Patou visited Genome s headquarters and met with a number of company employees, including Mr. Rauscher, Mr. Cohen, Mr. Williams, Dr. Richard Labaudiniere, Senior Vice President of Research and Development, and members of Genome s clinical development team. The parties discussed the roles and responsibilities for a combined management team, as well as clinical development matters.

On October 30, 2003, Mr. Rauscher and Mr. Singer discussed the proposed valuations of Genesoft and Genome and the status of the potential transaction in preparation for their respective scheduled board of directors meetings. They also engaged in discussions regarding the potential financing required to fund a combined company going forward.

During the month of October, Genesoft and Merrill Lynch continued to explore possible other business combinations, asset sales or co-promotion arrangements involving FACTIVE with various other parties.

On November 3, 2003, Mr. Rauscher and Mr. Singer discussed via telephone potential employment agreements for members of Genesoft management and initial terms for restructuring of Genesoft s debt, as well as other terms and conditions for a potential merger transaction.

On November 6, 2003, Genome held a special meeting of its board of directors. During this meeting, Mr. Rauscher, Mr. Cohen and Mr. Williams outlined the status of discussions with Genesoft, outstanding diligence matters and the financial projections of a combined company. A representative from Ropes & Gray LLP summarized for the board the terms and conditions of the proposed merger agreement and related documents and the remaining outstanding issues. Mr. Rauscher discussed the potential synergies of combining the two companies along with the risks of combining the two companies. The board authorized Genome s management to continue discussions and negotiations with Genesoft.

On November 7, 2003, Genesoft held a special meeting of its board of directors. During this meeting, Mr. Singer provided an update of current developments at Genesoft. Messrs. Singer and Patou presented a description of Genome and its product programs, as well as a summary of a combined company. Representatives from Merrill Lynch reviewed for the board their preliminary analysis of the proposed merger and related transactions. A representative from Genesoft s legal counsel summarized for the board in detail the preliminary terms and conditions of the proposed merger agreement and related documents, the remaining outstanding issues and a tentative timeline to signing and closing the transaction.

On November 8 and 9, 2003, Messrs. Rauscher, Cohen and Williams and representatives of Ropes & Gray LLP held telephone conference calls with Mr. Singer and representatives of Gunderson Dettmer to discuss the terms and conditions of the merger agreement, the documents relating to the refinancing of Genesoft s promissory notes, the documents relating to the proposed bridge loan to Genesoft as well as other open diligence and economic issues.

On November 10, 2003, Genome held a special meeting of its board of directors at which all of its directors were present either in person or by telephone. Harris Nesbitt Corp., Genome s financial advisor, reviewed with the board its financial analysis of the proposed merger and related transactions with Genesoft and delivered to the board its opinion, which was subsequently confirmed in writing, that based upon and subject to the factors and assumptions set forth in the opinion, as of November 10, 2003, the aggregate stock consideration to be issued by Genome to Genesoft s security holders in the merger and the related transactions was fair, from a financial point of view, to Genome. Mr. Rauscher and a representative of Ropes & Gray LLP updated the board on the latest negotiations regarding the terms and conditions of the merger agreement and the related open business issues. The board held an executive session and full discussion of the proposed transaction followed. Subject to resolution of the outstanding issues in the merger agreement and related documents in a manner consistent with the provisions explained to the board and the receipt of required third party consents, the board authorized Genome management to execute the merger agreement and the

related documents.

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On November 10, 2003, Genesoft held a special meeting of its board of directors. During this meeting, Mr. Singer and legal counsel of Genesoft provided an update of the proposed merger and related transactions and the remaining outstanding issues. Mr. Singer and legal counsel also responded to a number of questions and comments raised by members of the board regarding the transaction.

On November 11, 2003, at a special meeting of Genesoft s board of directors, Mr. Singer and legal counsel to Genesoft provided a further update on the proposed merger and related transactions, including a summary of unresolved issues. Representatives from Merrill Lynch gave a detailed presentation on the economic and financial terms and structure of the proposed transaction and a financial analysis of a combined company. A full discussion among the board of the proposed transactions ensued.

From November 11 through November 15, 2003, numerous phone calls between Genome and Genesoft and their respective legal advisors took place to negotiate the remaining issues in the merger agreement and to obtain certain required third party consents to the execution of the merger agreement.

On November 12, 2003, Genesoft held a special meeting of its board of directors. Merrill Lynch reviewed with the board its financial analysis of the proposed merger and related transactions with Genome and delivered to the board its opinion, which was subsequently confirmed in writing, that as of November 12, 2003 and subject to the factors and assumptions set forth in the opinion, the common exchange ratio was fair, from a financial point of view, to holders of shares of Genesoft common stock, other than Genome and its affiliates. A full discussion among the board of the proposed transactions followed. Subject to the appropriate resolution of the outstanding issues and the obtaining of third party consents, the board approved the merger and authorized Genesoft s management to execute the merger agreement and the related documents.

On November 13, 2003, Genome held a special meeting of its board of directors to update them on the negotiations regarding the remaining issues in the merger and the related transactional documents. Mr. Rauscher updated the board on issues regarding employment matters for executives of Genesoft. A representative of Ropes & Gray LLP reviewed the matters still subject to negotiation in the merger agreement with the board and discussed the status of third party consents required for the execution of the merger agreement. The board held an executive session and full discussion of the proposed transaction followed. The board confirmed its authorization for Genome s management to execute the merger agreement and the related documents, subject to the resolution of the outstanding issues in a manner consistent with the terms outlined to the board.

On November 16, 2003, Mr. Singer traveled to Genome s headquarters in Waltham to work directly with Messrs. Rauscher, Cohen and Williams to resolve the remaining outstanding issues and to help obtain the required third party consents to the signing of the merger agreement. These discussions and efforts continued through the 17th of November.

On November 17, 2003, after the close of business, Genome and Genesoft executed the merger agreement and related agreements.

On November 18, 2003, before the opening of business, Genome and Genesoft issued a joint press release announcing the execution of the merger agreement.

Consideration of the Merger by Genesoft s Board of Directors

In reaching its decision to approve the merger agreement and the transactions contemplated by the merger agreement, Genesoft s board of directors consulted with management of Genesoft, as well as its financial and legal advisors, and considered a number of potential benefits and factors pertaining to the merger, including the following:

- the judgment, advice and analysis of Genesoft s management with respect to the potential strategic, financial and operational benefits of the proposed transaction, including management s favorable recommendation of the transaction based in part on the business, product, financial and legal due diligence investigation performed with respect to Genome;

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the strategic fit of Genesoft s and Genome s respective core anti-infective product portfolios;

the increased number of potential products of the combined company increases the opportunity for commercial success while decreasing the potential adverse impact that could result from failure of individual products to perform successfully;

the proposed merger would substantially increase Genesoft s capital resources by providing Genesoft with immediate access to Genome s existing cash assets as well as the proceeds of a financing to raise a minimum of $32 million, which is a condition to the closing of the merger, unless waived by both parties;

the difficulty in (and the related cost of) obtaining additional financing for Genesoft as a stand-alone enterprise given the current position of the company and the existing financing environment for private companies similar to Genesoft;

the combined company is expected to have greater leverage in obtaining financing for its operations;

the proposed merger will exchange illiquid shares of privately held Genesoft for shares in an entity that is publicly traded on Nasdaq;

the fact that the proposed transaction provides for the restructuring of Genesoft s convertible notes into shares of Genome common stock and new convertible notes of Genome and that, without the proposed transaction, certain of the notes would have been due in December 2003;

the fact that Genome was willing to provide Genesoft with the interim financing described under The Merger and Related Transactions Other Material Agreements Relating to the Merger Bridge Loan ;

the exchange ratio in the proposed merger and the resulting ownership interest of Genome by former stockholders of Genesoft (including the ownership interest after giving effect to a financing to raise a minimum of $32 million, which is a condition to the closing of the merger, unless waived by both parties);

Genesoft s management s assessment of possible strategic alternatives, including remaining a separate company, entering into joint ventures, co-promotion arrangements or combining with a third party;

the fact that Genesoft s management believed that a more attractive offer would not be available based on previous discussions with other companies and the solicitation of interest from numerous third parties by Genesoft s financial advisor over the prior months;

the opinion of Merrill Lynch to the effect that, as of November 12, 2003, and subject to the factors and assumptions set forth in the opinion, the common exchange ratio was fair, from a financial point of view, to the holders of Genesoft common stock, other than Genome and its affiliates; and

the other terms and attributes of the merger, including its expected tax treatment as a tax-free reorganization for United States federal income tax purposes.

Genesoft s board of directors also identified a number of potential negative factors pertaining to the merger, including the following:

the risk that the transaction might not be completed in a timely matter or at all and, if not completed, the difficulty as a stand-alone company in being able to raise sufficient funds to meet its obligations;

the risk that the potential benefits of the merger may not be realized;

the risk of management and employee disruption associated with the merger, including the risk that key personnel may decide not to continue employment with Genome after the merger;

terms of the merger agreement and related agreements that limit the ability of Genesoft and its representatives to pursue alternative transactions; and

the other risks described above under Risk Factors .

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Opinion of Financial Advisor to Genesoft

Genesoft retained Merrill Lynch, Pierce, Fenner & Smith Incorporated to act as its financial advisor in connection with the merger. As part of its engagement, Genesoft requested that Merrill Lynch evaluate the fairness of the common exchange ratio, from a financial point of view, to the holders of Genesoft shares (other than Genome and its affiliates). On November 12, 2003, Merrill Lynch delivered its oral opinion to the Genesoft board of directors, subsequently confirmed in writing, that, as of that date and subject to the factors and assumptions set forth in the opinion, the common exchange ratio was fair, from a financial point of view, to the holders of Genesoft shares, other than Genome and its affiliates.

The full text of Merrill Lynch s opinion, dated November 12, 2003, which sets forth the assumptions made, matters considered, and qualifications and limitations on the review undertaken by Merrill Lynch, is included in this joint proxy statement/prospectus as Annex D and is incorporated into this joint proxy statement/prospectus by reference. The summary of the Merrill Lynch fairness opinion set forth in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. Genesoft stockholders are urged to read such opinion carefully and in its entirety.

Merrill Lynch s opinion was prepared for, and addressed to, the Genesoft board of directors for the information of such directors and is directed only to the fairness, from a financial point of view, of the common exchange ratio to the holders of Genesoft shares (other than Genome and its affiliates). The Merrill Lynch opinion does not address any other aspect of the merger, including the merits of the underlying decision by Genesoft to engage in the merger, and does not constitute a recommendation to any stockholder as to how such stockholder should vote on the proposed merger or any matter related thereto. In addition, the Merrill Lynch opinion does not address, the fairness to, or any other consideration of, the holders of any class of securities, creditors or other constituencies of Genesoft, other than holders of Genesoft shares, and the Merrill Lynch opinion does not address the fairness to any person of the terms of the Note Amendment and Exchange Agreement, substantially in the form of the draft dated November 12, 2003, among Genesoft, Genome and the holders listed on the signature page thereto or any other financing arrangement to be entered into by Genesoft or Genome in connection with the merger. Merrill Lynch did not express any opinion as to the prices at which Genome shares will trade following the announcement or consummation of the merger.

In arriving at its opinion, Merrill Lynch, among other things:

(1) Reviewed certain publicly available business and financial information relating to Genesoft and Genome that Merrill Lynch deemed to be relevant;

(2) Reviewed certain information, including financial forecasts, relating to the business, earnings, cash flow, cash and other resource requirements, assets, liabilities and financing and other prospects of Genesoft and Genome furnished to Merrill Lynch by Genesoft and Genome, respectively;

(3) Conducted discussions with certain members of senior management and representatives of Genesoft made available to Merrill Lynch concerning the matters described in clauses (1) and (2) above;

(4) Reviewed the market price of Genome shares and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;

(5)

Reviewed the valuation multiples for Genesoft shares and Genome shares and compared them with those of certain publicly traded companies that Merrill Lynch deemed to be relevant;

(6) Compared the proposed financial terms of the merger with the financial terms of certain other transactions that Merrill Lynch deemed to be relevant;

(7) Participated in certain discussions and negotiations among representatives of Genesoft and Genome and their financial and legal advisors;

(8) Reviewed a draft dated November 12, 2003 of the merger agreement; and

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(9) Reviewed such other financial studies and analyses and took into account such other matters as Merrill Lynch deemed necessary, including Merrill Lynch s assessment of general economic, market and monetary conditions.

In preparing its opinion, Merrill Lynch has assumed and relied on the accuracy and completeness of all information supplied or otherwise made available to Merrill Lynch, discussed with or reviewed by or for Merrill Lynch, or publicly available, and has not assumed any responsibility for independently verifying such information or undertaken an independent evaluation or appraisal of any of the assets or liabilities of Genesoft or Genome or been furnished with any such evaluation or appraisal, nor has Merrill Lynch evaluated the solvency or fair value of Genesoft or Genome under any state or federal laws relating to bankruptcy, insolvency or similar matters. In addition, Merrill Lynch has not assumed any obligation to conduct any physical inspection of the properties or facilities of Genesoft or Genome. With respect to the financial forecast information furnished to or discussed with Merrill Lynch by Genesoft or Genome, Merrill Lynch has assumed that they have been reasonably prepared and reflect the best currently available estimates and judgment of Genesoft s or Genome s management as to the expected future financial performance of Genesoft or Genome, as the case may be. Merrill Lynch also assumed that the final form of the merger agreement would be substantially similar to the last draft reviewed by Merrill Lynch and that the merger will be consummated in accordance with the terms of the merger agreement without waiver of any of the conditions precedent to the merger contained in the merger agreement. Merrill Lynch further assumed that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes.

Merrill Lynch s opinion is necessarily based on market, economic and other conditions as they existed and can be evaluated on, and on the information made available to Merrill Lynch, as of the date of the opinion. Merrill Lynch assumed that in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the merger, no restrictions, including any divestiture requirement or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the merger. Merrill Lynch also assumed that the consideration to be received by the holders of Genesoft shares pursuant to the merger will not be reduced as a result of hold harmless or indemnification provisions of the merger agreement. In connection with Merrill Lynch s engagement, Merrill Lynch was requested to solicit indications of interest from, and held discussions with, a substantial number of third parties regarding the possible acquisition of all or a part of the company.

The following is a summary of the material analyses that Merrill Lynch performed in arriving at its opinion and presented to the Genesoft board of directors dated November 12, 2003. The Merrill Lynch opinion is based upon Merrill Lynch s consideration of the collective results of all such analysis, together with other factors referenced in its written opinion. Some of the financial analyses summarized below include information presented in tabular format. In order to understand fully Merrill Lynch s financial analysis, the tables must be read together with the text of the summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Merrill Lynch s financial analyses.

Genesoft Financial Analysis

The implied equity values set forth in this Genesoft Financial Analysis section compare to the merger s implied offer value of $72 million, based on the issuance of 28,571,405 Genome shares, the assumption of $22 million of net debt and based on the per share closing price of Genome common stock on November 11, 2003, after deducting the number of Genome shares to be issued to Genesoft s bridge debt holders in connection with the merger.

Discounted Cash Flow Analysis. Merrill Lynch performed a discounted cash flow analysis of the projected unlevered free cash flows that Genesoft could produce over the years 2004 through 2015, the expected useful

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patent life of Genesoft s lead product, based on projections from Genesoft management, without giving effect to the merger. Merrill Lynch calculated the following implied equity values for Genesoft by utilizing discount rates ranging from 15% to 18%, and assuming approximately $22 million of debt:

	Low	High
	(in millions)	
Implied Valuation Range	$ 70	$ 100

Selected Comparable Public Companies Analysis. Using publicly available information, Merrill Lynch compared selected financial and other data of Genesoft to corresponding data for selected publicly traded companies with operations that for purposes of this analysis may be considered reasonably comparable to the operations of Genesoft. Merrill Lynch compared Genesoft with the biotechnology and specialty pharmaceutical companies listed below.

Biotechnology Companies:
- Amgen Inc.
- Chiron Corp.
- Genzyme Corp.
- Gilead Sciences Inc.
- IDEC Pharmaceuticals Corp.
- MedImmune Inc.
- Serono

Specialty Pharmaceutical Companies:
- Altana AG
- Biovail Corp.
- Enzon Pharmaceuticals Inc.
- King Pharmaceuticals, Inc.
- Medicis Pharmaceutical Corp.
- Novo Nordisk A/S
- Shire Pharmaceuticals Group
- Teva Pharmaceutical Industries
- Watson Pharmaceuticals Inc

For each of these comparable companies, Merrill Lynch calculated the price per share of common stock as a multiple of estimated 2004 earnings per share, or the forward P/E multiple. All multiples were based on closing stock prices on November 7, 2003. Estimated financial data for the selected companies were based on publicly available research analysts estimates. This analysis yielded a range of forward P/E multiples for the selected companies of 18.0x to 22.0x. Merrill Lynch then applied this range of multiples to Genesoft s estimated 2007 net income, which Merrill Lynch assumed would be Genesoft s first full fiscal year of profitability based on Genesoft management s projections, to derive an estimated 2006 equity value for Genesoft. Utilizing a discount rate of 17% to discount to present value Genesoft s estimated 2006 equity value, Merrill Lynch calculated the following range of implied equity values for Genesoft:

	Low	High
	(in millions)	
Implied Valuation Range	$ 75	$ 95

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Selected Comparable Transactions Analysis. Using publicly available information, Merrill Lynch reviewed and analyzed certain financial and operating data relating to selected biotechnology and specialty pharmaceutical product acquisition transactions with respect to Genesoft, including, but not limited to, the following transactions:

Comparable Product Acquisition Transactions

Announcement Date	Acquiror	Product (Seller)
3/18/03	Novartis AG	Enablex (Pfizer Inc.)
1/29/03	King Pharmaceuticals, Inc.	Skelaxin, Sonata (Elan Corp.)
10/02/02	Enzon Pharmaceuticals Inc.	Abelcet (Elan Corp.)
5/3/02	Schering AG	Leukine (Immunex)
10/29/01	Biovail Corp.	Zovirax (GlaxoSmithKline PLC)
9/26/01	IVAX Corp.	Naserel, Nasalide (Elan Corp.)
8/9/01	King Pharmaceuticals, Inc.	Corizide, Corgard, Delestrogen, Florinef (Bristol-Myers Squibb Co.)
7/10/01	Andrx Corp.	Entrex (Elan Corp.)
7/2/01	Galen Holdings PLC	Estrace Tablets (Bristol-Myers Squibb Co.)
2/5/01	Alza	Flexeril (Merck & Co Inc.)
1/2/01	Biovail Corp.	Cardizem (Aventis SA)

Comparable Biotechnology Acquisition Transactions

Announcement Date	Acquiror	Target
6/17/03	Cell Therapeutics Inc.	Novuspharma SpA
5/19/03	Chiron Corp.	PowderJect
2/10/03	Johnson & Johnson Inc.	Scios
1/23/03	C.A.T.	Oxford Glycosciences
1/16/03	Johnson & Johnson Inc.	3 Dimensional
12/4/02	Gilead Sciences Inc.	Triangle
11/21/02	H. Lundbeck A/S	Synaptic
11/13/02	Johnson & Johnson Inc.	OraPharma
12/13/01	Amgen Inc.	Immunex
12/5/01	Millennium	COR
12/3/01	MedImmune Inc.	Aviron
4/30/01	Vertex Pharmaceuticals Inc.	Aurora Biosciences

Merrill Lynch examined the multiples of transaction value to last twelve months revenue for the selected transactions and derived a reference range of 3.0x to 4.0x. Merrill Lynch then applied this range to Genesoft s 2007 revenue, which Merrill Lynch assumed would be Genesoft s first full fiscal year of profitability, to derive an estimated 2007 transaction value for Genesoft. Merrill Lynch calculated the following range of implied equity values for Genesoft, by discounting to present value, utilizing a 17% discount rate, the estimated 2007 transaction value for Genesoft and subtracting net debt of approximately $22 million:

	Low	High
	(in millions)	
Implied Valuation Range	$ 90	$ 125

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Genome Financial Analysis

Discounted Cash Flow Analysis. Merrill Lynch performed a discounted cash flow analysis of the projected unlevered free cash flows that Genome could produce over the years 2004 through 2017, the expected useful patent life of Genome s lead product, based on projections from Genome management, without giving effect to the merger. Merrill Lynch calculated the following implied equity values for Genome, by utilizing discount rates ranging from 22% to 27% and assuming approximately $35 million of net cash:

	Low	High
	(in millions)	
Implied Valuation Range	$ 80	$ 105

Selected Comparable Public Companies Analysis. Merrill Lynch compared selected financial and stock market data of Genome to corresponding data for the biotechnology companies listed under Genesoft Financial Analysis Selected Comparable Public Companies Analysis. Merrill Lynch applied a forward P/E multiple range of 20.0x to 25.0x to Genome s estimated 2008 net income, which Merrill Lynch assumed would be Genome s first full fiscal year of profitability based on Genome management s projections, to derive an estimated 2007 equity value for Genome. Utilizing a discount rate of 25% to discount to present value Genome s estimated 2007 equity value, Merrill Lynch calculated the following range of implied equity values for Genome:

	Low	High
	(in millions)	
Implied Valuation Range	$ 140	$ 180

Selected Comparable Transaction Analysis. Merrill Lynch reviewed and analyzed certain financial and operating data relating to selected biotechnology company acquisition transactions with respect to Genome, including the transactions listed under Genesoft Financial Analysis Selected Comparable Transactions Analysis. Merrill Lynch derived a reference range of multiples of transaction value to last twelve months revenue for the selected transactions of 5.0x to 7.0x. Merrill Lynch then applied this range to Genome s 2008 revenue, which Merrill Lynch assumed would be Genome s first full year of profitability, to derive an estimated 2008 transaction value for Genome. Utilizing a 25% discount rate, Merrill Lynch then discounted to present value Genome s estimated 2008 transaction value and then added net cash of approximately $35 million to derive the following range of implied equity values:

	Low	High
	(in millions)	
Implied Valuation Range	$ 145	$ 190

Implied Genesoft Ownership Analysis

Based on the implied equity values for Genesoft and Genome derived from the Discounted Cash Flow, Selected Comparable Public Companies and Selected Comparable Transactions analyses described above, Merrill Lynch derived ranges of the implied equity value that Genesoft would represent of the combined company on a percentage basis and hence the implied relative ownership of Genesoft stockholders in the combined

company. The implied ranges are summarized below:

Analysis	Low	High
Discounted Cash Flow Analysis	40%	56%
Selected Comparable Public Companies Analysis	29%	40%
Selected Comparable Transactions Analysis	32%	46%

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Merrill Lynch noted that, as of November 11, 2003, based on the implied equity value of Genesoft in the merger and the then current fully-diluted market value of Genome, Genesoft would represent approximately 43% of the combined company and that Genesoft stockholders would own approximately 36% of the combined company.

Other Factors

In the course of preparing its opinion, Merrill Lynch also reviewed and considered other information and data, including the following:

- the trading characteristics of Genome shares; and
- historical market prices for Genome shares.

The summary set forth above does not purport to be a complete description of all the analyses performed by Merrill Lynch in arriving at its opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. No company, business or transaction used in such analysis as a comparison is identical to Genesoft, Genome or the merger, nor is an evaluation of the results of each analysis entirely mathematical. Rather, it involves complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the merger, public trading or other values of the companies, business segments or transactions being analyzed. In arriving at its opinion, Merrill Lynch did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Merrill Lynch believes that its analysis must be considered as a whole and that selecting portions of its analysis and factors, or focusing on information presented in tabular format, without considering all of the analyses and factors of the narrative description of the analyses, would create a misleading or incomplete view of the process underlying its opinion.

In performing its analyses, Merrill Lynch made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Genesoft and Genome. The estimates contained in the analysis performed by Merrill Lynch and the ranges of valuation resulting from any particular analysis are not necessarily indicative of actual values or predictive future results or values, which may be significantly more or less favorable than those suggested by such analyses. In addition, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities may actually be sold. Accordingly, such analyses and estimates are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, and none of Genesoft, Genome, Merrill Lynch or any other person assumes responsibility if future results are materially different from those projected. As described above, the Merrill Lynch fairness opinion and analyses were among the factors taken into consideration by the Genesoft board of directors in making its determination to approve the merger agreement and the merger. Consequently, Merrill Lynch s fairness opinion and analyses should not be viewed as determinative of the decision of the Genesoft board of directors or Genesoft s management with respect to the fairness of the common exchange ratio.

Genesoft retained Merrill Lynch based upon Merrill Lynch s experience and expertise. Merrill Lynch is a nationally recognized investment banking firm. Merrill Lynch, as part of its investment banking business, is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities and valuations for corporate and other purposes.

Merrill Lynch has, in the past, provided financial advisory and financing services to Genesoft and Genome and/or its affiliates and may continue to do so and has received, and may receive, fees for the rendering of such

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services. In the ordinary course of its business, Merrill Lynch and its affiliates may actively trade Genome shares and other securities of Genome for its own account and for the account of customers and, accordingly, may at any time hold a long or short position in such securities.

Pursuant to the terms of a letter agreement between Genesoft and Merrill Lynch, Genesoft has agreed to pay Merrill Lynch a customary fee in connection with the merger, substantially all of which is contingent upon the consummation of the merger. Genesoft has agreed to reimburse Merrill Lynch for all reasonable expenses, including reasonable fees and disbursements of Genesoft s counsel, up to a specified maximum, and has agreed to indemnify Merrill Lynch and related persons and entities against certain liabilities, including liabilities under the federal securities laws, arising out of Merrill Lynch s engagement.

Consideration of the Merger by Genome s Board of Directors

The decision of Genome s Board of Directors to approve the merger was based on several potential benefits of the merger that it believes will contribute to Genome s success. Beginning in 2001, the primary strategic focus for Genome has been to become a product-focused biopharmaceutical company. Genome believes that the merger with Genesoft will:

- enable Genome to realize its goal of becoming a biopharmaceutical company with an FDA approved anti-infective product;
- significantly increase Genome s revenue stream, permitting Genome to build a sales and marketing force that will benefit Ramoplanin and future product candidates;
- position Genome as a key participant in the commercialization of anti-infective products;
- increase the visibility of Genome and provide a stronger portfolio of products to serve as a basis for raising additional capital for the company; and
- significantly enhance Genome s management expertise, clinical development staff, intellectual property and technical resources.

Since 2001, Genome has had ongoing efforts to identify and evaluate product candidates in clinical development and approved products for potential in-licensing or acquisition. One such opportunity that came to fruition was the in-licensing of the anti-infective product candidate Ramoplanin from Biosearch Italia (now merged with Versicor, Inc. to become Vicuron Pharmaceuticals, Inc.) in October of 2001. Since the time of that transaction, Genome has been seeking additional product candidates and approved products, particularly in the anti-infective area, to strengthen Genome s product portfolio.

Through the merger with Genesoft, Genome will obtain the rights to FACTIVE, which was approved by the FDA for the treatment of community-acquired pneumonia of mild to moderate severity and acute bacterial exacerbations of chronic bronchitis in April 2003. Subject to raising at least $32 million of capital, which is a condition to the closing of the merger (unless waived by both parties), Genome expects the commercial launch of FACTIVE to occur in the second half of 2004. Genome expects that revenues from the launch of FACTIVE, an orally administered, broad-spectrum fluoroquinolone antibiotic, will drive the combined company s near-term growth as a biopharmaceutical company. Genome believes that these revenues will also support the growth of its sales and marketing expertise, which will benefit other product candidates in its pipeline, such as Ramoplanin. Strengthened by a broader portfolio of products and product candidates, including FACTIVE, Ramoplanin and a number of earlier stage product opportunities, Genome believes that the combined company will be a more prominent

participant in the commercialization of anti-infectives and will have a broader foundation upon which to raise future capital.

In connection with its approval of the merger and recommendation that the stockholders approve the issuance of the Genome common stock in connection with the merger, the board of directors of Genome

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consulted with its legal advisors concerning the duties of the members of the board, as well as with members of management and Genome s financial advisors. The board of directors of Genome also considered the following information and factors in reaching its decision to approve the merger:

- the benefits described above;
- the amount of Genome common stock to be issued in the merger and the resulting ownership interest of Genome by former security holders of Genesoft;
- presentations by senior members of Genome s management regarding the strategic advantages of merging with Genesoft, as well as the results of management s operational and legal due diligence review;
- historical information concerning Genome s and Genesoft s respective businesses, financial performance and condition, management, competitive position and overall operations;
- Genome s management s view as to the financial condition of Genesoft based on management s due diligence and other available information;
- the characteristics of FACTIVE, including:
  - FDA approved labeling and indications;
  - therapeutic advantages of the product, including its effectiveness in treating infections caused by organisms resistant to other antibiotics;
  - once-daily dosing; and
  - patent life;
- the strategic fit of Genome and Genesoft, including the belief that the merger has the potential to enhance stockholder value;
- the management team for the combined company;
- the financial analysis of Harris Nesbitt Corp., and its written opinion to the effect that, as of November 10, 2003, and based upon and subject to the factors and assumptions set forth in the opinion, the aggregate stock consideration to be issued by Genome in the merger and related transactions was fair, from a financial point of view, to Genome;
- the terms and conditions of the merger agreement, the note amendment and exchange agreement, the bridge loan to Genesoft and the other related documents;

the likelihood that the merger will be completed;

the expected tax treatment of the merger as a tax-free reorganization for United States federal income tax purposes;

the impact of the merger on Genome s stockholders and employees.

Genome s board of directors also identified and considered the potential adverse consequences of other factors on the proposed merger, including;

the risk that the potential benefits of the merger might not be realized;

the risk that FACTIVE might not launch in the second half of 2004, causing a delay in the realization of revenue;

the risk that FACTIVE may not attain commercial acceptance and generate the level of revenues expected;

the challenges and risks involved in combining the businesses of two geographically distant companies;

the effect of the announcement on Genome s share price;

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the risk of diverting management s focus and resources from other strategic opportunities and from operational matters while working to complete and implement the merger;

the risk that Genome will not be able to raise a minimum of $32 million of capital, which is a condition to the closing, unless waived by both parties;

the risk that LG Life Sciences will not be able to supply FACTIVE in a timely manner, or maintain its manufacturing facilities in accordance with regulatory requirements; and

the risk that the merger would not be completed.

This discussion of the information and factors considered by the Genome board of directors is not intended to be exhaustive, but includes the material factors considered. The Genome board of directors did not assign particular weight to the factors it considered in approving the merger. In considering all the information above, the individual members of the board of directors may have considered one factor more important than another. However, the Genome board of directors considered all of these factors as a whole, and overall considered them to be favorable to support its determination to approve the merger.

Opinion of Financial Advisor to Genome

On November 10, 2003, Harris Nesbitt Corp., or Harris Nesbitt, delivered its oral opinion, which it subsequently confirmed in writing, to Genome s board of directors to the effect that, as of such date, and based upon and subject to the factors and assumptions set forth therein, the aggregate stock consideration to be issued by Genome to the security holders of Genesoft in the merger and the related transactions under the note amendment and exchange agreement described in the section of this joint proxy statement/prospectus entitled Other Material Agreements Relating to the Merger is fair to Genome from a financial point of view.

The full text of the opinion of Harris Nesbitt dated November 10, 2003, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex C to this proxy statement/prospectus and is incorporated by reference. The opinion of Harris Nesbitt was provided for the information and assistance of Genome s board of directors in connection with its consideration of the merger and related transactions. The opinion of Harris Nesbitt addresses only the fairness, from a financial point of view, of the aggregate merger consideration to be issued by Genome and does not constitute a recommendation as to how any stockholder should vote at the special meeting. This summary of the Harris Nesbitt opinion is qualified by the full text of such opinion, and Genome s stockholders are urged to read the Harris Nesbitt opinion in its entirety.

For purposes of its opinion, Harris Nesbitt has:

Reviewed Genome s Annual Reports on Form 10-K and related publicly-available financial information for the three fiscal years ended December 31, 2000, 2001, 2002 and Genome s Form 10-Q and the related unaudited financial information for the nine months ended September 27, 2003;

Reviewed certain financial and operating information relating to the business, earnings, cash flow, assets and prospects of Genesoft and Genome, furnished to it by Genesoft and Genome, as the case may be;

Reviewed certain financial projections prepared by the management of Genesoft and Genome;

Conducted discussions with members of senior management of Genesoft and Genome concerning their respective operations, financial condition and prospects;

Reviewed the historical market prices and trading activity for the shares of the common stock of Genesoft and Genome and compared them with those of certain publicly-traded companies which it deemed to be reasonably similar to Genesoft and Genome;

Compared the financial performance of Genesoft and Genome with that of certain companies which it deemed to be reasonably similar to Genesoft and Genome, respectively;

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Compared the proposed financial terms to Genome of the merger and related transaction with the financial terms of certain other mergers and acquisitions which it deemed to be relevant;

Reviewed a draft of the merger agreement dated November 10, 2003;

Reviewed drafts, each dated November 10, 2003, of the note amendment and exchange agreement, and forms of the voting agreements, registration rights agreement and escrow agreement to be executed in connection with the merger; and

Reviewed such other financial studies, performed such other analyses and investigations and took into account such other matters as it deemed appropriate.

Harris Nesbitt assumed and relied upon the accuracy and completeness of all information reviewed by it, and did not independently verify such information or undertake an independent valuation or appraisal of the assets of Genesoft, nor was Harris Nesbitt furnished with any such valuation or appraisal. Harris Nesbitt noted that it understood that in connection with the merger, Genome would lend $6,200,000 to Genesoft; however Harris Nesbitt did not review the documents providing for this loan and expressed no opinion on its terms.

With respect to the financial projections, Harris Nesbitt assumed that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of senior management of Genesoft and Genome of their respective future competitive, operating and regulatory environments and related financial performance of Genesoft and Genome.

Harris Nesbitt did not review the books and records of Genesoft or Genome and did not conduct a physical inspection of the properties or facilities of Genesoft or Genome. Harris Nesbitt assumed that the executed versions of the merger agreement and related agreements identified above as reviewed by Harris Nesbitt would not differ in any material respect from the last draft it reviewed and that the merger and related transaction would be consummated on the terms set forth therein without waiver or modification of any material terms. The Harris Nesbitt opinion is necessarily based on economic, market and other conditions and circumstances as they exist and can be evaluated on, and the information made available to us as of, November 10, 2003.

The following is a summary of the financial analyses used by Harris Nesbitt in connection with providing its opinion. Some of these summaries of financial analyses include information presented in tabular format. In order to understand fully the financial analyses used by Harris Nesbitt, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth below in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Harris Nesbitt s financial analyses.

Discounted Cash Flow Analysis of Genesoft. Harris Nesbitt performed a discounted cash flow analysis of Genesoft to calculate the present value of the stand-alone unlevered free cash flows that Genesoft would generate from January 1, 2004 through December 31, 2010, assuming that Genesoft s operating performance would be as reflected in the projections of Genesoft s management as to the potential future financial performance of Genesoft.

Harris Nesbitt discounted the estimated unlevered free cash flows provided by the model using discount rates ranging from 12.5% to 27.5%. Harris Nesbitt calculated terminal values based on multiples of projected 2008 net income, 2010 net income and 2007 revenue, and then discounted these terminal values. The implied range of values calculated by Harris Nesbitt for Genesoft derived from the discounted cash flow analysis is presented below:

		20% Discount Rate
		($ in millions)
2008	Net Income	$ 60-120
2010	Net Income	$ 235-365
2007	Revenue	$ 400-570

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Selected Comparable Public Companies Analysis of Genesoft

Profitable Biotechnology Companies. Using publicly available information, Harris Nesbitt compared certain financial and other information for Genesoft with the corresponding financial and other information for the following publicly-traded profitable biotechnology companies: Amgen Inc., Biogen Inc., Chiron Corp., Genentech Inc., Genzyme Corp., Gilead Sciences Inc., IDEC Pharmaceuticals Corp. and MedImmune Inc. Each of these companies was selected for comparison because it was a profitable publicly-traded biotechnology company.

The financial information compared included (1) equity value, (2) enterprise value, (3) ratio of enterprise value to revenue, (4) ratio of enterprise value to gross profit, (5) ratio of enterprise value to EBITDA, which is earnings before interest, taxes, depreciation and amortization, (6) ratio of share price to earnings, (7) ratio of equity value to book value, (8) long-term projected growth rate and (9) ratio of share price to earnings to long-term projected growth rate.

Developmental Stage Companies. Using publicly available information, Harris Nesbitt compared certain financial and other information for Genesoft with the corresponding financial and other information for the following publicly-traded developmental stage biotechnology companies: Cubist Pharmaceuticals Inc., InterMune Pharmaceuticals Inc., Nabi Biopharmaceuticals Inc., Sciclone Pharmaceuticals Inc., The Medicines Company, Vicuron Pharmaceuticals, Inc., and XOMA Limited. Each of these was selected because it is comparable based on either its phase of development, the therapeutic indications for which it is developing products, or both.

The financial information compared included (1) equity value, (2) enterprise value, (3) ratio of enterprise value to revenue, (4) ratio of enterprise value to gross profit, (5) ratio of enterprise value to EBITDA, which is earnings before interest, taxes, depreciation and amortization, (6) ratio of share price to earnings, (7) ratio of equity value to book value, (8) long-term projected growth rate and (9) ratio of share price to earnings to long-term projected growth rate.

Harris Nesbitt calculated the enterprise value, defined as the total market value of equity on a diluted basis plus the estimated market value of debt and minority interest minus cash, of Genesoft and each of the companies identified above in the paragraphs entitled Profitable Biotechnology Companies and Developmental Stage Companies, respectively, as a multiple of its respective 2004 and 2005 projected revenue, gross profit and EBITDA. The following table presents the enterprise valuation multiples of Genesoft compared to the corresponding multiples for the selected comparable companies:

	Profitable Biotechnology Companies	Developmental Stage Companies	Genesoft at Deal Price Multiples[1,2]	Implied Equity Value of Genesoft Based on:[3]	
				Median	
	Median Multiple	Median Multiple		Profitable	Developmental
			($ in millions)		
Enterprise Value/					
2004 Revenue	6.7x	9.4x	38.6x	NM[4]	$ 3.8
2004 Gross Profit	7.9x	11.7x	43.3x	NM[4]	$ 6.9
2004 EBITDA	16.2x	46.5x	NM[4]	NM[4]	NM[4]
2005 Revenue	5.9x	6.8x	3.8x	$ 143.1	$ 170.5
2005 Gross Profit	7.0x	9.3x	7.7x	$ 76.2	$ 107.8

2005 EBITDA	14.6x	35.4x	NM[4]	NM[4]	NM[4]

[1] Assumes Genesoft enterprise value of $108.2 million ($85.7 million equity value + $22.5 of Genesoft net debt).
[2] Assumes Genesoft equity value (paid by Genome of $85.7 million).
[3] Equity value = enterprise value less Genesoft net debt of $22.5 million.
[4] Not measurable.

The implied range of values calculated by Harris Nesbitt for Genesoft derived from the comparable public companies analysis is $75 170 million.

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Precedent M&A Transactions Valuation Analysis of Genesoft

Harris Nesbitt compared certain financial information of Genesoft with the same publicly available information with respect to 17 acquisition transactions identified below that Harris Nesbitt believed to be appropriate for comparison. These transactions were selected because the acquired businesses are biotechnology and pharmaceuticals companies. The following table presents the selected transactions used in Harris Nesbitt s analysis:

Announcement Date	Target	Acquiror
11/3/03	CIMA Labs	Cephalon Inc.
10/14/03	Oculex Pharmaceuticals	Allergan Inc.
8/8/03	Nostrum Pharmaceuticals	Elite Pharmaceuticals
8/4/03	SangStat Medical	Genzyme General
7/17/03	Cyclis Pharmaceuticals	Arqule Inc.
6/20/03	Biogen, Inc.	IDEC Pharmaceuticals
4/15/03	Diacrin, Inc.	GenVec Inc.
2/25/03	Corvas International	Dendreon Corporation
2/10/03	Cell Pathways	OSI Pharmaceuticals
2/10/03	Scios	Johnson & Johnson
2/4/03	Eos Biotechnology	Protein Design Labs
12/4/02	Triangle Pharmaceuticals	Gilead Sciences Inc.
11/21/02	Synaptic Pharmaceutical	H. Lunbeck A/S
11/13/02	Anthrogenesis	Celegene
11/12/02	Maxia Pharmaceuticals	Incyte Genomics
11/11/02	Variagenics	Hyseq Pharmaceuticals
10/21/02	Meridian Medical Technologies	King Pharmaceuticals

The following table summarizes the range of ratio of equity value to book value and ratios of enterprise value to revenue, gross profit and EBITDA for the latest twelve months for Genesoft and each of the comparable acquired businesses prior to acquisition:

Multiple based on:	Genesoft at Transaction Value	Reference Range		Median Multiple	Mean Multiple
		Low	High		
Equity Value / Book Value	NM[1]	0.7x	10.1x	2.7x	3.5x
Enterprise Value / Revenue	NA	1.3x	30.8x	7.9x	13.1x
Enterprise Value / Gross Profit	NA	1.6x	34.2x	12.2x	16.3x
Enterprise Value / EBITDA	NM[1]	10.0x	45.6x	22.7x	25.2x

[1] Not measurable.

No transaction included in the comparable transaction analysis is identical to the contemplated merger between Genesoft and Genome. Harris Nesbitt made judgments and assumptions with regard to industry performance, size of the businesses acquired, timing of the transactions, current business, economic, market and financial conditions and other matters. This analysis did not lead to specific conclusions regarding the implied merger consideration, in the aggregate, but rather was part of Harris Nesbitt s evaluation of the relevancy of the analysis of the precedent transactions with regard to the particular circumstances of the contemplated merger.

The average implied range of values calculated by Harris Nesbitt for Genesoft derived from the analyses performed is $192.5 306.3 million.

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Discounted Cash Flow Analysis of Genome. Harris Nesbitt performed a discounted cash flow analysis of Genome to calculate the present value of the stand-alone unlevered free cash flows that Genome would generate from January 1, 2004 through December 31, 2010, assuming that Genome s operating performance would be as reflected in the projections of Genome s management as to the potential future financial performance of Genome.

Harris Nesbitt discounted the estimated unlevered free cash flows provided by the model using discount rates ranging from 22.5% to 37.5%. Harris Nesbitt calculated terminal values based on multiples of projected 2008 net income, 2010 net income and 2007 revenue, and then discounted these terminal values. The implied range of values calculated by Harris Nesbitt for the Genome derived from the discounted cash flow analysis is presented below.

		30% Discount Rate	
		($ in millions)	
2008	Net Income	$75	130
2010	Net Income	$210	315
2007	Revenue	$85	115

Selected Comparable Public Companies Analysis of Genome

Profitable Biotechnology Companies. Using publicly available information, Harris Nesbitt compared certain financial and other information for Genome with the corresponding financial and other information for the following publicly-traded profitable biotechnology companies: Amgen, Biogen, Chiron Corp., Genentech, Genzyme Corp., Gilead Sciences, IDEC Pharmaceuticals Corp. and Medimmune. Each of these companies was selected for comparison because it was a profitable publicly-traded biotechnology company.

The financial information compared included (1) equity value, (2) enterprise value, (3) ratio of enterprise value to revenue, (4) ratio of enterprise value to gross profit, (5) ratio of enterprise value to EBITDA, which is earnings before interest, taxes, depreciation and amortization, (6) ratio of share price to earnings, (7) ratio of equity value to book value, (8) long-term projected growth rate and (9) ratio of share price to earnings to long-term projected growth rate.

Developmental Stage Companies. Using publicly available information, Harris Nesbitt compared certain financial and other information for Genome with the corresponding financial and other information for and with the following publicly-traded developmental stage biotechnology companies: Cubist Pharmaceuticals, InterMune, Nabi Biopharmaceuticals, Sciclone Pharmaceuticals, The Medicines Company, Vicuron Pharmaceuticals and Xoma. Each of these companies was selected for comparison because it was a developmental stage publicly-traded biotechnology company.

The financial information compared included (1) equity value, (2) enterprise value, (3) ratio of enterprise value to revenue, (4) ratio of enterprise value to gross profit, (5) ratio of enterprise value to EBITDA, which is earnings before interest, taxes, depreciation and amortization, (6) ratio of share price to earnings, (7) ratio of equity value to book value, (8) long-term projected growth rate and (9) ratio of share price to earnings to long-term projected growth rate.

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Harris Nesbitt calculated the enterprise value, defined as the total market value of equity on a diluted basis plus the estimated market value of debt and minority interest minus cash, of Genome and each of the companies listed in the above paragraphs entitled Profitable Biotechnology Companies and Developmental Stage Companies as a multiple of its respective 2004 and 2005 projected revenue, gross profit and EBITDA. The following table presents the enterprise valuation multiples of Genome compared to the corresponding multiples for the selected comparable companies:

	Profitable Biotechnology Companies	Developmental Stage Companies		Extended Equity Value of Genome Based on:[1]	
				Median	
	Median Multiple	Median Multiple	Genome at Current Price of $3.00 Multiples	Profitable[2]	Developmental[3]
			($ in millions)		
Enterprise Value/					
LTM Revenue	8.8x	19.5x	5.4x	$ 156.8	$ 297.9
LTM Gross Profit	10.2x	19.7x	11.1x	$ 106.7	$ 168.1
LTM EBITDA	20.1x	43.7x	NM[4]	NM	NM
2004 Revenue	6.7x	9.4x	15.8x	$ 71.6	$ 83.8
2004 Gross Profit	7.9x	11.7x	15.8x	$ 76.9	$ 94.3
2004 EBITDA	16.2x	46.5x	NM	NM	NM
2005 Revenue	5.9x	6.8x	54.6x	$ 49.2	$ 50.4
2005 Gross Profit	7.0x	9.3x	54.6x	$ 50.7	$ 53.6
2005 EBITDA	14.6x	35.4x	NM	NM	NM
Equity Value/					
Book Value	4.3x	5.8x	5.8x	$ 82.3	$ 112.8

1 Equity value = enterprise value less Genome net debt of ($41.5) million.

2 Enterprise value was derived by multiplying Profitable Biotechnology Companies Median Multiples (Revenue, Gross Profit, EBITDA) by Genome s corresponding financial data for each time period (i.e. LTM, 2004, 2005). Equity value was then calculated by subtracting out net debt of ($41.5) million. In the case of extended equity value based on a book value median multiple, equity value was derived by multiplying the Profitable Biotechnology Companies Median book value multiple by Genome s book value.

3 Enterprise value was derived by multiplying Developmental Biotechnology Companies Median Multiples (Revenue, Gross Profit, EBITDA) by Genome s corresponding financial data for each time period (i.e. LTM, 2004, 2005). Equity value was then calculated by subtracting out net debt of ($41.5) million. In the case of extended equity value based on a book value median multiple, equity value was derived by multiplying the Developmental Biotechnology Companies Median book value multiple by Genome s book value.

4 Not Measurable

The implied range of values calculated by Harris Nesbitt for Genome derived from the comparable public companies analysis is $50 150 million.

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Precedent M&A Transactions Valuation Analysis of Genome

Harris Nesbitt compared certain financial information of Genome with the same publicly available information with respect to the same 17 acquisition transactions used for comparison to Genome above. These transactions were selected because the acquired businesses are biotechnology and pharmaceuticals companies.

The following table summarizes the range of ratio of equity value to book value and ratios of enterprise value to revenue, gross profit and EBITDA for the latest twelve months for Genome and each of the comparable acquired businesses prior to acquisition:

Multiple based on:	Genome at Price of $3.00	Reference Range		Median Multiple	Mean Multiple
		Low	High		
Equity Value / Book Value	5.8x	0.7x	10.1x	2.7x	3.5x
Enterprise Value / Revenue	5.4x	1.3x	30.8x	7.9x	13.1x
Enterprise Value / Gross Profit	11.1x	1.6x	34.2x	12.2x	16.3x
Enterprise Value / EBITDA	NM	10.0x	45.6x	22.7x	25.2x

The implied range of values calculated by Harris Nesbitt for Genome derived from the precedent M&A transactions analysis is $50 145 million.

No transaction included in the comparable transaction analysis is identical to the proposed merger between Genome and Genesoft. Harris Nesbitt made judgments and assumptions with regard to industry performance, size of the businesses acquired, timing of the transactions, current business, economic, market and financial conditions and other matters. This analysis did not lead to specific conclusions regarding the implied merger consideration, in the aggregate, but rather was part of Harris Nesbitt s evaluation of the relevancy of the analysis of the precedent transactions with regard to the particular circumstances of the contemplated merger.

The average implied range of values calculated by Harris Nesbitt for Genome derived from the analyses performed is $94 171 million.

The preparation of a fairness opinion is a complex process involving subjective judgments, and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Harris Nesbitt considered the results of all of its analyses and all of the factors it considered as a whole and did not assign specific weights to particular analyses or factors considered, but, rather, made qualitative judgments as to the significance and relevance of all the analyses and factors considered. Accordingly, Harris Nesbitt believes that its analyses, and the summary set forth above, must be considered as a whole, and that selecting portions of the analyses and of the factors considered by Harris Nesbitt, without considering all of the analyses and factors, could create a misleading or incomplete view of the processes underlying the opinion of Harris Nesbitt.

With regard to the precedent M&A transactions analysis and the comparable public companies analysis summarized above, Harris Nesbitt selected such precedent transactions and such comparable companies on the bases noted above; however, no transaction or company utilized as a comparison in these analyses summarized above is identical to Genesoft or Genome. As a result, these analyses are not purely mathematical, but

also take into account significant differences in financial, operating and other characteristics of the transactions and the subject companies and other factors that could affect the value of the subject companies to which Genesoft and Genome are being compared.

In its analyses, Harris Nesbitt made numerous assumptions with respect to Genesoft and Genome, industry performance, general business, economic, market and financial conditions, and other matters, many of which are beyond the control of Genesoft and Genome. Any estimates contained in Harris Nesbitt s analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by these analyses. Estimates of values of companies do not purport to be

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appraisals or necessarily to reflect the prices at which companies may actually be sold. Because these estimates are inherently subject to uncertainty, neither Genome, Genesoft, Harris Nesbitt or any other person assumes responsibility if future results or actual values differ materially from the estimates.

Genome retained Harris Nesbitt based upon its experience and expertise. Harris Nesbitt is a nationally recognized investment banking and advisory firm. Harris Nesbitt, as part of its investment banking business, is continuously engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Harris Nesbitt is a full service securities firm engaged in securities trading and brokerage activities, financing and financial advisory services in addition to its investment banking activities. In the ordinary course of its trading, brokerage, and financing activities, Harris Nesbitt or its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions, for its own account or the accounts of its customers, in debt or equity securities of Genesoft or its affiliates.

Pursuant to Harris Nesbitt s engagement letter, Genome agreed to pay Harris Nesbitt a fee of $250,000 when Harris Nesbitt rendered its opinion. None of the consideration to be paid to Harris Nesbitt is contingent on the completion of the merger or the related transactions. In addition, Genome also has agreed to reimburse Harris Nesbitt for its reasonable travel and other expenses incurred in connection with its engagement and to indemnify Harris Nesbitt and certain related persons against certain liabilities, including certain liabilities under the federal securities laws, and expenses relating to or arising out of its engagement.

Interests of Directors and Executive Officers of Genome in the Merger

Genome s stockholders should be aware that some Genome executive officers and directors may have interests in the merger that may be different from, or in addition to, their interests as stockholders of Genome in considering the recommendation of the Genome board of directors that Genome s stockholders vote in favor of the proposals (i) to approve the issuance of a total of 28,571,405 shares of Genome common stock pursuant to the merger agreement and the issuance of shares of Genome common stock upon the potential conversion of the convertible notes of Genome, in an aggregate principal amount of $22,309,647, to be exchanged for Genesoft promissory notes in connection with the merger and (ii) to approve the Amendment to Genome s Articles of Organization to increase the number of shares of Genome common stock the company is authorized to issue from 50,000,000 to 175,000,000 shares of common stock.

Governance Structure and Management Positions

The merger agreement provides for the initial composition of the board of directors of the combined company and the executive officer positions for the combined company, and specified members of Genome s existing board of directors and its executive officers will retain their positions in the combined company. See Management of the Combined Company After the Merger.

Severance and Other Arrangements

Genome has amended the employment agreements with Steven Rauscher, Stephen Cohen and Martin Williams, its executive officers.

As amended, the employment agreements with Messrs. Rauscher, Cohen and Williams provide that, in the event employment is terminated by Genome other than for cause, or by the executive for good reason, within twenty-four months following the consummation of the merger, then the executive will receive continuation of base salary and benefits coverage for 18 months, in the case of Mr. Rauscher, and 12 months, in the case of Messrs. Cohen and Williams. In such event, all of the executive s unvested options and non-exercisable restricted

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shares will vest and become exercisable. All of the executive s options will remain exercisable until the earlier of two years from the date of termination of the executive s employment and the final exercise date of the option.

For purposes of the employment agreements, termination for cause means the executive s termination by Genome as a result of executive s (i) material failure to perform (other than by reason of disability), or material negligence in the performance of, the executive s duties and responsibilities to Genome; (ii) material breach of the executive s employment agreement or any other agreement between the executive and Genome; (iii) commission of a felony or other crime involving an act of moral turpitude; or (iv) material act of dishonesty or breach of trust resulting or intended to result, directly or indirectly, in a personal gain or enrichment at the expense of Genome.

For purposes of the employment agreements, an executive may terminate his employment with Genome for good reason following the occurrence, after the consummation of the merger, of any one or more of the following events without his consent: any change in the executive s position with Genome that results in a material diminution in the executive s position, authority or duties as such position, authority or duties existed immediately prior to the merger or Genome takes any action that would require the executive to have his principal place of work changed to any location outside a thirty-five mile radius of the City of Boston.

Genome has also amended the terms of the stock options granted to its directors. For those directors of Genome that will not be continuing as directors following the merger, all of such directors unvested options will become exercisable upon the consummation of the merger and all of his options will remain exercisable until the earlier of two years from the date of the closing of the merger and the final exercise date of the option. With respect to the non-employee directors of Genome that will continue to be directors following the merger, if, within two years following the merger, a director is either not nominated to serve as a director or is not elected by the shareholders to serve as a director, all of such director s unvested options will become exercisable upon such director ceasing to be a director of Genome and all of the director s options will remain exercisable until the earlier of two years from the date such director ceases to be a director of Genome and the final exercise date of the option.

Interests of Directors and Executive Officers of Genesoft in the Merger

In considering the recommendation of Genesoft s board of directors that Genesoft s stockholders vote in favor of approval of the merger agreement, Genesoft stockholders should be aware that some Genesoft executive officers and directors may have interests in the merger that may be different from, or in addition to, their interests as stockholders of Genesoft. Genesoft s board of directors was aware of these interests during its deliberations on the merits of the merger and in making its recommendation to Genesoft s stockholders that they vote for the merger.

Governance Structure and Management Positions

The merger agreement provides for the initial composition of the board of directors of the combined company and the executive officer positions for the combined company, and specified members of Genesoft s board of directors will serve on the board of directors of the combined company. See Management of the Combined Company After the Merger.

Indemnification; Directors and Officers Insurance

Under the merger agreement, Genome has agreed to indemnify all directors and officers of Genesoft to the same extent such persons are indemnified by Genesoft prior to the merger for all acts or omissions occurring at or prior to the merger by such individuals in such capacities. Genome has also agreed to provide, for six years after the merger, directors and officers liability insurance in respect of acts or omissions occurring prior to the merger covering each person currently covered by the directors and officers liability insurance policy of

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Genesoft on terms and in amounts no less favorable than those of the policies of Genome, provided that Genome will not be required to pay an annual premium for the insurance in excess of approximately $54,000. Genome has agreed to maintain charter and by-law provisions with respect to indemnification and advancement of expenses that are at least as favorable to the intended beneficiaries as those contained in the charter and by-laws of Genesoft as in effect on the date the merger agreement was signed.

Severance and Other Arrangements

In January 2003, the board of directors of Genesoft approved a severance plan for, and the grant of options to, employees and officers of Genesoft in anticipation of a possible merger or other sale of Genesoft.

Under the terms of Mr. Singer s agreements with Genesoft, he will be entitled to receive severance payments and to have the vesting of his options accelerated. Due to the fact that Mr. Singer will not be offered a position as an employee of the combined company following the merger, immediately prior to the merger, Genesoft will pay to Mr. Singer a cash severance payment equal to $472,500. In addition, upon consummation of the merger, options to purchase approximately 531,000 shares of Genesoft common stock held by Mr. Singer will become vested and exercisable.

Following the merger, in connection with Mr. Singer s service as chairman of board of directors of Genome, Genome has agreed to provide Mr. Singer an office and the services of an assistant that is an employee of Genome until December 31, 2004.

Amendment and Exchange of Genesoft Promissory Notes

As described more fully in this document under the caption The Merger and Related Transactions Other Material Contracts Relating to the Merger Note Amendment and Exchange Agreement, Mr. Singer, Mr. Rutter (including trusts and family members of Mr. Rutter) and certain investment funds affiliated with Dr. Evnin and MPM Capital Management each hold promissory notes of Genesoft, the principal amount of which will be converted into convertible promissory notes of Genome at the time of the merger. The interest and other amounts payable under the Genesoft notes will be converted into shares of Genome common stock at the time of the merger. Mr. Singer holds $100,000 of these Genesoft promissory notes, Mr. Rutter (including trusts and family members of Mr. Rutter) holds $1,300,000 of these Genesoft promissory notes and investment funds affiliated with Dr. Evnin and MPM Capital Management hold $5,750,000 of these Genesoft promissory notes. Each of Messrs. Singer, Rutter and Evnin are directors of Genesoft and are anticipated to serve as directors of Genome following the merger.

The Merger Agreement

The following is a summary of the material provisions of the Agreement and Plan of Merger and Reorganization, dated as of November 17, 2003 by and among Genome Therapeutics Corp., a Massachusetts corporation, Guardian Acquisition, Inc., a Delaware corporation and a wholly-owned subsidiary of Genome, GeneSoft Pharmaceuticals, Inc., a Delaware corporation, and Luke Evnin, as representative of the Genesoft stockholders, a copy of which is attached hereto as Annex A, and incorporated herein by reference. The following summary is qualified in its entirety by reference to the text of the merger agreement.

The Merger

In the initial merger, Guardian Acquisition, Inc. will be merged into Genesoft. Immediately thereafter, Genesoft will be merged into a second wholly-owned subsidiary of Genome, which is a Delaware limited liability company, in the second-step merger. As a result of the initial merger, the separate corporate existence of Guardian will cease, and Genesoft will continue as the surviving corporation of the initial merger and as a wholly-owned subsidiary of Genome. As a result of the second-step merger, the separate corporate existence of Genesoft will cease, and the second acquisition subsidiary will continue as the surviving company of the second-step merger and be wholly-owned by Genome.

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The closing of the merger will take place as promptly as practicable following satisfaction or waiver of the conditions to closing set forth in the merger agreement. The merger will become effective at the time specified in the certificates of merger filed with the Secretary of the State of Delaware with respect to the merger.

Conversion of Genesoft Stock

At the effective time of the merger, each share of Genesoft common stock will be cancelled and terminated and will be automatically converted into the right to receive the number of shares of Genome common stock equal to the common exchange ratio (as defined below). No fractional shares of Genome common stock will be issued in connection with the merger. Any fractional shares of Genome common stock that would be issuable upon the conversion or exchange of a share of Genesoft common stock will be rounded up or down to the nearest whole share (with 0.5 being rounded up).

At the effective time of the merger, Genome will assume all options to purchase Genesoft common stock. Immediately after the effective time of the merger, each such assumed option will be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under such option at the effective time of the merger, such number of shares of Genome common stock that is equal to the number of shares of Genesoft common stock subject to the unexercised portion of such option multiplied by the common exchange ratio (rounded down to the nearest whole number). The per share exercise price for the shares of Genome common stock issuable upon exercise of such assumed option will be equal to the exercise price per share of such option in effect immediately prior to the effective time of the merger divided by the common exchange ratio (rounded up to the nearest whole cent).

At the effective time of the merger, each warrant to acquire shares of Genesoft common stock that does not terminate by its terms at or prior to the effective time of the merger will be converted into a warrant to acquire shares of Genome common stock. Each warrant so converted will continue to have, and be subject to, the same terms and conditions set forth in such warrant immediately prior to the effective time of the merger, except that (i) such warrant will be exercisable for that number of whole shares of Genome common stock (rounded down to the nearest whole number) equal to the product of (x) the number of shares of Genesoft for which such warrant was exercisable immediately prior to the effective time of the merger multiplied by (y) the common exchange ratio, and (ii) the per share exercise price for the shares of Genome common stock issuable upon exercise of such assumed warrant will be equal to the exercise price per share of Genesoft common stock at which such warrant was exercisable immediately prior to the effective time of the merger divided by the common exchange ratio (rounded up to the nearest whole cent).

The term common exchange ratio means the quotient obtained by dividing (x) the aggregate merger consideration (as defined below) by (y) the fully diluted common shares amount (as defined below).

The term aggregate merger consideration means 28,571,405 shares of Genome common stock less the sum of (x) the preference shares (as defined below) and (y) the accrued interest shares (as defined below).

The term fully diluted common shares amount means the sum of (x) the number of shares of Genesoft common stock issued and outstanding immediately prior to the effective time of the initial merger and (y) the number of shares of Genesoft common stock issuable upon exercise, conversion and/or exchange of all convertible securities, including options and warrants, of Genesoft issued and outstanding immediately prior to the effective time of the merger.

The term preference shares means the quotient obtained by dividing (x) the sum of (i) the interest accrued up to December 10, 2003 on the Genesoft promissory notes issued in December 2002 and January 2003, (ii) 150% of the principal amount of such promissory notes and (iii) the amount of interest payable on each such

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promissory note from and after December 10, 2003 until the closing of the initial merger by (y) the lower of (i) the closing financing price (as defined below) and (ii) the average closing sale price (as defined below).

The term accrued interest shares means the quotient obtained by dividing (x) the sum of (i) the interest accrued up to December 15, 2003 on the Genesoft promissory notes issued in April and May 2003 and (ii) the amount of interest payable on each such promissory from and after December 15, 2003 until the closing of the initial merger by (y) the lower of (i) the closing financing price and (ii) the average closing sale price.

The term closing financing price means the issuance price per share of Genome common stock issued in the closing financing (as defined below).

The term average closing sale price means the average closing price of Genome common stock on the Nasdaq for the five trading days immediately preceding the date of public announcement of the transactions contemplated by the merger agreement, which was $2.84.

The term closing financing means the sale of shares of Genome common stock, warrants exercisable for shares of Genome common stock, notes convertible into shares of Genome common stock or notes in an amount equal to at least $32 million.

As indicated above, the common exchange ratio and the amount of the merger consideration is subject to change depending on several variables, including (i) the date of the closing of the merger (which will affect the amount of interest accrued on the promissory notes and thus the number of preference shares and accrued interest shares) and (ii) the closing financing price (which, if lower than the average closing sale price, will be used to calculate the number of preference shares and accrued interest shares). Since these variables will not be determined until shortly prior to the effective time of the merger, the precise amount of the merger consideration to be issued to he holders of Genesoft stock in the merger will not be known until immediately prior to the effective time of the merger. Assuming the merger will close on February 28, 2004 and that the closing financing price equals or exceeds the average closing sale price, the common exchange ratio would be approximately 1.188. Thus, Genesoft stockholders would receive 1.188 shares of Genome common stock for each share of Genesoft common stock held by them.

The following chart shows the common exchange ratio that would determine the per share consideration to be received by Genesoft stockholders assuming different merger closing dates and closing financing prices:

		Merger Closing Date		
		February 28, 2004	**March 31, 2004**	**April 30, 2004**
Closing Financing Price	Prices of $2.84 or higher	1.188	1.186	1.184
	$2.66	1.171	1.170	1.168
	$2.48	1.153	1.151	1.149
	$2.30	1.131	1.129	1.127
	$2.12	1.106	1.103	1.101

Exchange of Genesoft Certificates

Within three business days after the effective time of the merger, Genome and the exchange agent will cause to be mailed to each record holder of certificates representing Genesoft stock a letter of transmittal and instructions for use in surrendering such certificates and receiving the merger consideration therefor. Upon the surrender of each such certificate for cancellation to the exchange agent, together with a properly completed and executed letter of transmittal and such other documents as may reasonably be required by Genome, Genome will cause to be issued to the holder of such Genesoft stock certificate in exchange therefore a separate stock certificate representing the number of Genome shares due to such holder and the certificate representing Genesoft stock will be cancelled. Each such Genesoft stock certificate will represent solely the right to receive the merger consideration therefor until so surrendered and exchanged.

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Representations and Warranties

The merger agreement contains representations and warranties by each of Genesoft, Genome, and Guardian as to, among other things:

- Corporate organization and similar corporate matters
- Capitalization
- Authorization of the merger agreement and required consents, approvals and permits
- Financial statements
- Absence of material changes or events
- Absence of litigation
- Employee benefit plans and employee matters
- Contracts
- Environmental matters
- Intellectual property
- Filing of tax returns and payment of taxes
- Assets; absence of liens and encumbrances
- Affiliate transactions
- Insurance

In the merger agreement, Genesoft also made representations and warranties as to:

- Its ownership of lots of FACTIVE drug product and the saleability of that product

In the merger agreement, Genome and Guardian also made representations and warranties as to:

- Genome s filings with the Securities and Exchange Commission
- Interim operations of Guardian
- Valid issuance of shares of Genome common stock

Conduct of Business Pending the Merger

Pursuant to the merger agreement, Genesoft has agreed that prior to the effective time of the merger, Genesoft will conduct its business only in the ordinary and usual course consistent with past practice and will use all reasonable efforts to preserve the business, and maintain good relations with, its employees, customers, suppliers, and distributors. Except as expressly contemplated by the merger agreement (including the schedules thereto), or as approved by Genome (which consent will not be unreasonably withheld), Genesoft will not take certain actions, including the following:

- amend or otherwise change its certificate of incorporation or by-laws or equivalent organizational documents;
- issue, sell, pledge, dispose of, grant, encumber, authorize or propose the issuance, sale, pledge, disposition, grant or encumbrance of any shares of its capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such capital stock or any other ownership interest (including, without limitation, any phantom interest), of Genesoft, except pursuant to the terms of options, warrants or preferred stock outstanding on the date of the merger agreement and except for grants of options to purchase up to 100,000 shares of Genesoft common stock pursuant to Genesoft s stock plan;

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sell, lease, license, pledge, grant, encumber or otherwise dispose of any of its properties or assets unrelated to FACTIVE, except in the ordinary course of business, consistent with past practice;

sell, lease, license, pledge, grant, encumber or otherwise dispose of any of its properties or assets related to FACTIVE, including any co-promotion agreement relating to FACTIVE;

declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock;

cancel any indebtedness or waive any claims or rights of substantial value;

make any change in any method of accounting or accounting practice or policy other than those required by U.S. GAAP;

enter into, amend, modify or terminate any contract, commitment or agreement related to Genesoft s ability to sell, have sold, market, develop, distribute, import or manufacture FACTIVE (including, without limitation, any co-promotion agreement related to FACTIVE), or waive any material rights thereunder;

enter into, amend, modify or terminate any contract, commitment or agreement that obligates Genesoft to make payments other than any payments contemplated and permitted by the pre-closing budget and spending plan agreed to by Genesoft and Genome;

split, combine, subdivide, redeem or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or purchase or otherwise acquire, directly or indirectly, any shares of its capital stock except from former employees, directors and consultants in accordance with agreements providing for the repurchase of shares in connection with any termination of service by such party;

acquire (including, without limitation, by merger, consolidation, or acquisition of stock or assets) any interest or any assets in any corporation, partnership, other business organization or any division thereof;

incur, other than to Genome, any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any person, or make any loans or advances;

authorize any capital expenditure in excess of $50,000, in the aggregate;

enter into any lease or contract for the purchase or sale of any property, real or personal, except in the ordinary course of business, consistent with past practice;

increase, or agree to increase, the compensation payable, or to become payable, to its officers or employees, except for increases in accordance with past practice in salaries or wages of its employees who are not its officers, or grant any severance or termination pay to, or enter into any employment or severance agreement with, any of its directors, officers or other employees, or establish, adopt, enter into or amend any collective bargaining, bonus, profit sharing, compensation, stock option, restricted stock, retirement, employment, severance or other plan, agreement, or arrangement for the benefit of any director, officer or employee; except for amendments that may be required by law;

accelerate, amend or change the period of exercisability or the vesting schedule of restricted stock or options granted under any option plan, employee stock plan or other agreement or authorize cash payments in exchange for any options granted under any of such plans except as specifically required by the terms of such plans or any such agreement;

extend any offers of employment to potential employees who would receive cash compensation at a rate of $100,000 per year or more or extend any consulting or independent contracting offers that are not cancelable on prior notice of 30 days or less;

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other than as contemplated by the merger agreement, enter into, or perform, any transaction with, or for the benefit of any affiliate of Genesoft (other than payments made to officers, directors and employees in the ordinary course of business);

initiate any clinical trial;

schedule or conduct any meeting with FDA or other regulatory authority;

settle any litigation;

amend, modify or terminate in any material respect any material contract;

waive any rights related to confidentiality under any contract or agreement;

make, change or revoke any material tax election, elect or change any method of accounting for tax purposes, settle any action in respect of taxes or enter into any contractual obligation in respect of taxes with any tax authority; or

authorize any of, or commit or agree to take, whether in writing or otherwise, to do any of the foregoing actions.

Pursuant to the merger agreement, Genome has agreed that prior to the effective time of the merger, Genome will conduct its business only in the ordinary and usual course consistent with past practice and will use all reasonable efforts to preserve the business, and maintain good relations with, its employees, customers, suppliers, and distributors. Except as expressly contemplated by the merger agreement (including the schedules thereto), or as approved by Genesoft (which consent may not be unreasonably withheld), Genome will not take certain actions, including the following:

amend or otherwise change its certificate of incorporation or by-laws or equivalent organizational documents;

issue, sell, pledge, dispose of, grant, encumber, authorize or propose the issuance, sale, pledge, disposition, grant or encumbrance of any shares of its capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such capital stock or any other ownership interest (including, without limitation, any phantom interest), of Genome, except pursuant to the terms of options, warrants or preferred stock outstanding on the date of the merger agreement and except for grants of options to purchase up to 644,000 shares of Genome common stock pursuant to Genome s stock plan;

sell, lease, license, pledge, grant, encumber or otherwise dispose of any of its properties or assets, except in the ordinary course of business, consistent with past practice;

declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock;

cancel any indebtedness or waive any claims or rights of substantial value;

make any change in any method of accounting or accounting practice or policy other than those required by U.S. GAAP;

split, combine, subdivide, redeem or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of shares of its capital stock, or purchase or otherwise acquire, directly or indirectly, any shares of its capital stock except from former employees, directors and consultants in accordance with agreements providing for the repurchase of shares in connection with any termination of service by such party;

acquire (including, without limitation, by merger, consolidation, or acquisition of stock or assets) any interest or any assets in any corporation, partnership, other business organization;

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incur, other than to Genesoft, any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any person, or make any loans or advances;

authorize any capital expenditure in excess of $100,000, in the aggregate;

enter into any lease or contract for the purchase or sale of any property, real or personal except in the ordinary course of business, consistent with past practice;

increase, or agree to increase, the compensation payable, or to become payable, to its officers or employees, except for increases in accordance with past practice in salaries or wages of its employees who are not its officers, or grant any severance or termination pay to, or enter into any employment or severance agreement with, any of its directors, officers or other employees, or establish, adopt, enter into or amend any collective bargaining, bonus, profit sharing, compensation, stock option, restricted stock, retirement, employment, severance or other plan, agreement, or arrangement for the benefit of any director, officer or employee; except for amendments that may be required by law;

accelerate, amend or change the period of exercisability or the vesting schedule of restricted stock or options granted under any option plan, employee stock plan or other agreement or authorize cash payments in exchange for any options granted under any of such plans except as specifically required by the terms of such plans or any such agreement;

extend any offers of employment to potential employees who would receive cash compensation at a rate of $100,000 per year or more or extend any consulting or independent contracting offers that are not cancelable on prior notice of 30 days or less;

other than as contemplated by the merger agreement, enter into, or perform, any transaction with, or for the benefit of any affiliate of Genome (other than payments made to officers, directors and employees in the ordinary course of business);

initiate any clinical trial;

schedule or conduct any meeting with FDA or other regulatory authority;

settle any litigation;

amend, modify or terminate in any material respect any material contract or waive any material rights thereunder;

waive any rights related to confidentiality under any contract or agreement;

make, change or revoke any material tax election, elect or change any method of accounting for tax purposes, settle any action in respect of taxes or enter into any contractual obligation in respect of taxes with any tax authority; or

authorize any of, or commit or agree to take, whether in writing or otherwise, to do any of the foregoing actions.

Covenants

Both Genome and Genesoft have agreed not to solicit, initiate or knowingly encourage (including by way of furnishing nonpublic information), any inquiries or the making of any proposal by any person concerning a competing merger or other acquisition transaction, or enter into or maintain or continue discussions or negotiate with any person in furtherance of any inquiries or agree to or endorse any other merger or acquisition transaction; except that either company s board of directors may furnish information to, or entering into discussions or negotiations with, any person or entity that makes a superior proposal. A superior proposal means an unsolicited proposal or offer regarding a merger or acquisition transaction that the company s board of directors determines in good faith provides greater value to the company s stockholders than the merger between Genome

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and Genesoft, is not subject to regulatory approvals that give rise to a significant risk that the proposal will not be consummated and for which financing is committed or, in the good faith judgment of the company s board of directors, is reasonably capable of being obtained.

Genome and Genesoft have agreed to notify the other promptly after receipt of any proposal for, or inquiry respecting, any competing merger or other acquisition transaction, or any request for nonpublic information in connection with such proposal. Genome and Genesoft have agreed to cease and terminate all discussions or negotiations concerning competing merger or acquisition transactions that existed prior to the signing of the merger agreement.

Each of Genome and Genesoft has agreed that it will afford to the other party access, at all reasonable times, from the date of the merger agreement to the effective time of the merger, to its properties, records, contracts and personnel.

Genesoft has agreed to use its reasonable best efforts to obtain stockholder approval of the merger agreement.

Genome has agreed to use its reasonable best efforts to obtain stockholder approval of the increase in the number of authorized shares of Genome common stock and the issuance, pursuant to the merger agreement, of shares of Genome common stock to Genesoft stockholders.

Each of Genome and Genesoft has agreed to notify the other in writing promptly after learning of any claim, action, suit, arbitration, mediation, proceeding or investigation by or before any court, arbitrator or arbitration panel, board or other governmental entity initiated by it or against it, or known by it to be threatened against it or any of its officers, directors, employees or stockholders in their official capacity.

Pursuant to the merger agreement, Genome and Genesoft have agreed to give each other prompt notice of (i) the occurrence, or non-occurrence, of any event the occurrence, or non-occurrence, of which would be likely to cause any representation or warranty contained in the merger agreement to be untrue or inaccurate, in any material respect, or any covenant, condition or agreement contained in the merger agreement not to be complied with or satisfied, in any material respect; and (ii) any failure or inability of Genome or Genesoft, as the case may be, to comply, in any material respect, with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under the merger agreement.

Genome and Genesoft have agreed to comply with, and will cause their respective representatives to comply with, all of their respective obligations under the confidentiality agreement dated as of July 29, 2003, by and between Genome and Genesoft.

Genome has agreed to indemnify and hold harmless Genesoft s past and present officers and directors for a period of six years following the closing of the merger to the same extent they are indemnified on the date of the merger agreement for acts or omissions prior to the closing of the merger. Genome will provide such insurance for the same period on terms no less favorable than in effect on the date of the merger agreement, provided that Genome will not be required to pay an annual premium for the insurance in excess of approximately $54,000.

Genome has agreed to use its reasonable best efforts to enter into and complete agreements to sell shares of its common stock, warrants, convertible notes or notes in an amount equal to at least $32 million.

Genome and Genesoft have agreed to take all appropriate action and do all things necessary to consummate the merger and the other transactions contemplated by the merger agreement.

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Conditions to Completion of the Merger

The obligations of Genesoft and Genome to consummate the merger are subject to the satisfaction or waiver, where permissible, of certain conditions, including the following:

- The merger agreement must be approved and adopted by the requisite affirmative vote of the stockholders of Genesoft in accordance with applicable law and Genesoft s certificate of incorporation and by-laws;

- The increase in Genome authorized shares and the issuance of shares to Genesoft stockholders must be approved and adopted by the requisite affirmative vote of the stockholders of Genome in accordance with the Nasdaq rules and Genome s by-laws;

- No governmental entity or court of competent jurisdiction located or having jurisdiction in the United States will have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, decree, judgment, injunction or other order, whether temporary, preliminary or permanent which is then in effect and has the effect of making the merger illegal or otherwise prohibiting consummation of the merger;

- Any waiting period (and any extension thereof) applicable to the consummation of the merger under the HSR Act will have expired or been terminated;

- Genome will have obtained the proceeds from the sale of at least $32 million of Genome securities;

- The appropriate registration statement relating to the issuance of the shares of Genome common stock pursuant to the merger agreement must have become effective under the Securities Act of 1933, as amended, and will not be the subject of any stop order or proceeding seeking a stop order; and

- The exchange by Genesoft note holders of Genesoft promissory notes for Genome promissory notes must have occurred.

The obligation of Genesoft to consummate the merger is subject to the satisfaction or waiver, where permissible, of certain additional conditions, including:

- The representations and warranties made by Genome in the merger agreement must be true and correct as of the effective time of the merger except (i) that those representations and warranties that address matters only as of a particular date must remain true and correct as of such date, (ii) for changes contemplated by the merger agreement, and (iii) where the failure of the representations and warranties to be so true and correct would not be reasonably likely to have a material adverse effect, and Genesoft must have received a certificate of the Chief Executive Officer of Genome to that effect;

- Each of Genome and Guardian must have performed or complied in all material respects with all agreements and covenants required by the merger agreement to be performed or complied with by it on or prior to the effective time of the merger, and Genesoft must have received a certificate of a duly authorized officer of Genome to that effect;

Genesoft must have received the opinion of Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP (counsel to Genesoft) to the effect that the merger will be treated for Federal income tax purposes as a reorganization qualifying under the provisions of Section 368(a) of the United States Internal Revenue Code of 1986, as amended, which opinion must not have been withdrawn or modified in any material respect;

Genesoft must have received the opinion of Ropes & Gray LLP (counsel to Genome) substantially in the form attached to the merger agreement;

If necessary, Genome must have filed with the Nasdaq National Market a Notification Form for Listing Additional Shares with respect to the shares of Genome common stock to be issued pursuant to the merger agreement and pursuant to Genesoft options;

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Since September 27, 2003, there will have occurred no events nor will there exist any circumstances which singly or in the aggregate have resulted in, or are reasonably likely to result in, a material adverse effect on Genome;

Genome and an escrow agent must have entered into an escrow agreement as provided by the merger agreement;

Genome must have taken all necessary action to constitute the Genome board of directors, effective upon the effective time of the merger, as provided in the merger agreement; and

Genome must have taken all necessary action to appoint, effective upon the effective time of the merger, the executive officers listed in the merger agreement.

The obligation of Genome to consummate the merger is subject to the satisfaction or waiver, where permissible, of certain additional conditions, including:

The representations and warranties made by Genesoft in the merger agreement must be true and correct as of the effective time of the merger except (i) that those representations and warranties that address matters only as of a particular date will remain true and correct as of such date, (ii) for changes contemplated by the merger agreement, and (iii) where the failure of such representations and warranties to be so true and correct would not be reasonably likely to have a material adverse effect, and Genome must have received a certificate of the Chief Executive Officer of Genesoft to that effect;

Genesoft must have performed or complied in all material respects with all agreements and covenants required by the merger agreement to be performed or complied with by it on or prior to the effective time of the merger and Genome must have received a certificate of the Chief Executive Officer of Genesoft to that effect;

Genesoft must have received the consents and approvals set forth in the Genesoft disclosure schedule to the merger agreement and all other authorizations, consents, orders and approvals the failure of which to obtain would be reasonably likely to have a material adverse effect on Genesoft;

Genome must have received the opinion of Ropes & Gray LLP (counsel to Genome) to the effect that the merger will be treated for Federal income tax purposes as a reorganization qualifying under the provisions of Section 368(a) of the United States Internal Revenue Code of 1986, as amended, which opinion must not have been withdrawn or modified in any material respect;

Since September 30, 2003, there will have occurred no events nor will there exist any circumstances which singly or in the aggregate have resulted in, or are reasonably likely to result in, a material adverse effect on Genesoft;

Genome must have received written confirmation of matters relating to Genome s license to FACTIVE from LG Life Sciences, Ltd., in a form and substance agreed to by Genome and Genesoft prior to the date of the merger agreement;

Genome must be reasonably satisfied that LG Life Sciences has the capability to and will, upon the terms set forth in the License and Option Agreement by and between Genesoft and LG Life Sciences dated as of October 22, 2002, as amended, including, without limitation, the product specifications and manufacturing practices referred to in the agreement, supply the active pharmaceutical ingredient in FACTIVE and FACTIVE final product (as provided in the License Agreement) to Genesoft in a timeframe and in sufficient amounts to meet the need for FACTIVE final product anticipated by Genesoft and Genome;

Each of the Third Amended and Restated Investors Rights Agreement by and between Genesoft, John D. Baldeschwieler, Peter B. Dervan, Ph.D., and the other stockholders party to that agreement, dated as of August 8, 2002, as amended, the Fifth Amended and Restated Voting Agreement by and between Genesoft and the other stockholders party to that agreement, dated as of August 8, 2001, and all rights to observe or obtain notice of meetings of the Board of Directors of Genesoft must have been terminated effective as of the effective time of the merger;

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There must not be pending any suit, action, investigation or proceeding to which a governmental entity is a party prohibiting the consummation of the merger or any of the other transactions contemplated by the merger agreement;

The escrow agent and the stockholders representative must have entered into an escrow agreement;

Genome must have received the opinion of Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP (counsel to Genesoft), reasonably satisfactory to Genome, substantially in the form attached to the merger agreement;

Genome must have received a certificate executed by the Secretary of Genesoft attaching and certifying as to matters customary for a transaction of this sort;

Genesoft must have taken appropriate steps, which steps are reasonably satisfactory to Genome, to ensure that the consummation of the merger or any of the other transactions contemplated by the merger agreement will not, by themselves or after taking into account the satisfaction of any other condition or conditions or the occurrence of any other event or events, result in the payment of any excess parachute payment within the meaning of Section 280G of the United States Internal Revenue Code of 1986, as amended;

Genesoft will have delivered to Genome a certification (in such form as may be reasonably requested by counsel to Genome) conforming to the requirements of Treasury Regulations 1.1445-2(c)(3) and 1.897-2(h); and

Genesoft will have amended its certificate of incorporation so that no Genesoft preferred stock will be authorized.

Voting Agreement

Each of the directors and executive officers of Genome, who collectively hold an aggregate of approximately 0.5% of the outstanding shares of Genome s stock, have agreed to vote their shares of Genome stock in favor of the increase in Genome s authorized shares and the issuance of Genome common stock to the Genesoft stockholders pursuant to the merger agreement, in favor of any other matter relating to consummation of the transactions contemplated by the merger agreement and against any other merger or similar transaction involving Genome.

Stockholders of Genesoft, who collectively hold an aggregate of approximately 63% of the shares of Genesoft s stock outstanding as of November 30, 2003, have agreed to vote their shares in favor of the merger agreement, in favor of any other matter relating to consummation of the transactions contemplated by the merger agreement and against any other merger or similar transaction involving Genesoft. The percentage of shares subject to these agreements will be reduced if Genesoft s board of directors changes its recommendations in favor of the merger agreement due to a superior proposal.

Indemnification

If the merger agreement is approved and the merger occurs, all holders of Genesoft capital stock who have not perfected appraisal or dissenters rights under Delaware law or California law, as applicable, will be deemed to have agreed, subject to the limitations described below, to indemnify Genome and its affiliates, officers, directors and employees against losses due to:

any inaccuracy or breach of any representation or warranty of Genesoft contained in the merger agreement or any certificate required to be delivered in connection with the merger agreement;

any breach of, non-compliance with or non-fulfillment of any covenant or agreement made by Genesoft in the merger agreement or any certificate required to be delivered in connection with the merger agreement;

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any fraudulent action, and any violation of any criminal law by Genesoft; or

any claim by a holder or former holder of Genesoft s equity interests or any other person seeking to assert, or based upon: (i) ownership or rights of ownership to any shares of capital stock of Genesoft; (ii) any rights of a stockholder of Genesoft, including any option, preemptive rights, rights to notice or to vote or any appraisal rights under the applicable provisions of the DGCL; (iii) any rights under the organizational documents of Genesoft; (iv) any claim that his, her or its equity interests were wrongfully repurchased, canceled, terminated or otherwise limited by Genesoft; or (v) any claim in connection with the issuance of any equity interests or otherwise, regardless of whether an action, suit or proceeding can or has been made against Genesoft.

Any party seeking indemnification under the merger agreement must deliver notice to the indemnifying party within 30 days of the incurrence of any losses. Genome s right to indemnification is limited to the merger consideration placed in escrow pursuant to the escrow agreement attached to this joint proxy statement/prospectus as Annex B (and described on page 97), representing 20% of the Genome common stock that would otherwise be due to Genesoft stockholders in the merger. If a holder of a Genesoft option assumed by Genome pursuant to the merger agreement exercises any portion of such holder s option prior to the termination of the escrow fund, such holder will contribute a portion of the shares of Genome common stock issued upon exercise to the escrow fund in accordance with the provisions of the escrow agreement. Genome is entitled to indemnification after all losses exceed $676,458.64 in the aggregate, and then only for losses in excess of such amount. Luke Evnin will serve as stockholders representative under the escrow agreement. Subject to any claims made by Genome or its affiliates, officers, directors or employees and any payments related to those claims, up to one-half of the indemnity escrow amount will be released from escrow one year after closing of the merger and the remainder will be released 18 months after closing. Luke Evnin is a general partner of MPM Capital. MPM Capital is a direct or indirect parent and/or control person of MPM Asset Management LLC, funds managed or advised by it (including BB BioVentures LP, MPM Bio Ventures Parallel Fund, LP and MPM Asset Management Investors 1998 LLC), and is the general partner of such funds. BB BioVentures LP directly owns 1,779,496 shares of Genesoft common stock, MPM BioVentures Parallel Fund, LP directly owns 254,372 shares of Genesoft common stock and MPM Asset Management Investors 1998 LLC directly owns 23,659 shares of Genesoft common stock, in each case, as of November 30, 2003.

ADOPTION AND APPROVAL OF THE MERGER AGREEMENT BY GENESOFT S STOCKHOLDERS SHALL CONSTITUTE APPROVAL BY SUCH STOCKHOLDERS OF THE INDEMNIFICATION OBLIGATIONS SET FORTH IN THE MERGER AGREEMENT, THE TERMS OF THE ESCROW AGREEMENT AND THE AUTHORITY OF THE STOCKHOLDER S REPRESENTATIVE.

Genome has also agreed to indemnify Genesoft s stockholders against losses due to:

any inaccuracy or breach of any representation or warranty of Genome contained in the merger agreement or any certificate required to be delivered in connection with the merger agreement;

any breach of, non-compliance with or non-fulfillment of any covenant or agreement made by Genome in the merger agreement or any certificate required to be delivered in connection with the merger agreement; or

any fraudulent action, and any violation of any criminal law by Genome.

The aggregate indemnification obligations of Genome will not exceed $13,529,172.87 and are available once Genesoft losses exceed $676,458.64 in the aggregate, and then for losses in excess of such amount.

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Termination of the Merger Agreement

Genome and Genesoft may terminate the merger agreement by mutual written consent duly authorized by the boards of directors of each of Genome and Genesoft. In addition, either Genome or Genesoft may terminate the merger agreement if:

- The merger has not been consummated by April 30, 2004; provided that the party seeking to terminate has not materially breached its obligations in a manner that contributed to the failure to complete the merger; and provided further, that this period shall be extended to May 30, 2004 if the merger has not closed by April 30, 2004 as a result of the related registration statement filed with the Securities and Exchange Commission not having become effective;

- Genome or Genesoft s respective stockholders have not approved the merger and related transactions; or

- There is any final and non-appealable order preventing consummation of the merger.

The merger agreement may also be terminated by Genome if:

- Genesoft has breached any representation, warranty, covenant or agreement, or any representation or warranty has become untrue, except for such exceptions as are provided in the merger agreement; provided, that if the breach is curable, and for so long as Genesoft continues to exercise best efforts to cure the breach, Genome may not terminate;

- Genesoft s board shall have withdrawn or adversely modified its approval or recommendation of the merger;

- Genesoft s board shall have recommended to the stockholders a competing merger or acquisition transaction or shall have entered into any letter of intent accepting any competing merger or acquisition transaction;

- Genesoft s board fails to reject a competing merger or acquisition transaction within 10 days following public announcement or receipt of the proposal for such competing merger or acquisition transaction;

- Genesoft shall have failed to include in the joint proxy statement its board recommendation of the merger or shall have failed to hold its stockholder meeting as promptly as practicable;

- Genesoft s board fails to reaffirm its board recommendation of the merger within five business days after Genome requests in writing that such recommendation be reaffirmed; or

- Genesoft shall have willfully breached its non-solicitation obligations.

The merger agreement may also be terminated by Genesoft if:

Genome and Guardian have breached any representation, warranty, covenant or agreement, or any representation or warranty has become untrue, except for such exceptions as are provided in the merger agreement; provided, that if the breach is curable, and for so long as Genome and Guardian continue to exercise best efforts to cure the breach, Genesoft may not terminate;

Genome s board shall have withdrawn or adversely modified its approval or recommendation of the merger;

Genome s board shall have recommended to the stockholders a competing merger or acquisition transaction or shall have entered into any letter of intent accepting any competing merger or acquisition transaction;

Genome s board fails to reject a competing merger or acquisition transaction within 10 days following public announcement or receipt of the proposal for such competing merger or acquisition transaction;

Genome shall have failed to include in the joint proxy statement its board recommendation or shall have failed to hold its stockholder meeting as promptly as practicable;

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Genome s board fails to reaffirm its board recommendation of the merger within five business days after Genesoft requests in writing that such recommendation be reaffirmed; or

Genome shall have willfully breached its non-solicitation obligations.

Termination Fees

Genesoft has agreed to pay Genome s transaction expenses up to $1,000,000 if the merger agreement is terminated:

By Genome or Genesoft due to the failure of Genesoft s stockholders to approve the merger;

By Genome due to Genesoft s board withdrawing or adversely modifying its approval or recommendation of the merger;

By Genome due to Genesoft s board recommending to the stockholders a competing merger or acquisition transaction or entering into any letter of intent accepting any competing merger or acquisition transaction;

By Genome due to Genesoft s board s failure to reject a competing merger or acquisition transaction within 10 days following public announcement or receipt of the proposal for such competing merger or acquisition transaction;

By Genome due to Genesoft s failure to include in the joint proxy statement its board recommendation of the merger or failure to hold its stockholder meeting as promptly as practicable;

By Genome due to Genesoft s board s failure to reaffirm its board recommendation of the merger within five business days after Genome requests in writing that such recommendation be reaffirmed; or

By Genome due to Genesoft willfully breaching its non-solicitation obligations.

Genesoft has agreed to pay Genome an additional $3,044,063.90 if the merger is terminated for any of the above reasons and within 12 months of such termination Genesoft enters into (or announces its intention to enter into) an agreement to consummate a competing merger or acquisition transaction.

Genome has agreed to pay Genesoft s transaction expenses up to $1,000,000 if the merger agreement is terminated:

By Genesoft or Genome due to the failure of Genome s stockholders to approve the merger;

By Genesoft due to Genome s board withdrawing or adversely modifying its approval or recommendation of the merger;

By Genesoft due to Genome s board recommending to the stockholders a competing merger or acquisition transaction or entering into any letter of intent accepting any competing merger or acquisition transaction;

By Genesoft due to Genome s board s failure to reject a competing merger or acquisition transaction within 10 days following public announcement or receipt of the proposal for such competing merger or acquisition transaction;

By Genesoft due to Genome s failure to include in the joint proxy statement its board recommendation or failure to hold its stockholder meeting as promptly as practicable;

By Genesoft due to Genome s board s failure to reaffirm its board recommendation of the merger within five business days after Genesoft requests in writing that such recommendation be reaffirmed; or

By Genesoft due to Genome willfully breaching its non-solicitation obligations.

Genome has agreed to pay Genesoft an additional $3,044,063.90 if the merger is terminated for any of the above reasons and within 12 months of such termination Genome enters into (or announces its intention to enter into) an agreement to consummate a competing merger or acquisition transaction.

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Amendment of the Merger Agreement

Genesoft and Genome may mutually amend any provision of the merger agreement at any time prior to the closing by action taken by or on behalf of their respective boards of directors. Any amendment of the merger agreement must be in writing and signed by all of the parties. Any waiver of any right or remedy under the merger agreement must be in writing and signed by the party giving such waiver.

Material United States Federal Income Tax Consequences of the Merger

The discussion below summarizes the material United States federal income tax considerations of the merger generally applicable to common stockholders of Genesoft who are United States persons, as defined for United States federal income tax purposes, and who hold their Genesoft common stock as a capital asset. For United States federal income tax purposes, a United States person is:

- a United States citizen or resident alien as determined under the Internal Revenue Code;
- a corporation or partnership (as defined by the Internal Revenue Code) that is organized under the laws of the United States, any state or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over its administration and at least one United States person is authorized to control all of its substantial decisions.

The discussion below is based on current provisions of the Internal Revenue Code, currently applicable United States Treasury regulations promulgated thereunder, and judicial and administrative decisions and rulings.

No ruling from the Internal Revenue Service has been or will be sought. Future legislative, judicial or administrative changes or interpretations could alter or modify the statements and conclusions set forth herein, and such changes or interpretations could be retroactive and could affect the tax consequences of the merger to Genome, Genesoft and the stockholders of Genesoft.

The discussion below does not purport to deal with all aspects of federal income taxation that may affect particular stockholders or note holders in light of their individual circumstances or that may affect stockholders subject to special treatment under federal income tax law. Stockholders subject to special treatment include insurance companies, tax-exempt organizations, financial institutions, mutual funds, broker-dealers, foreign individuals and entities, stockholders subject to the alternative minimum tax provisions of the Internal Revenue Code, stockholders who hold Genesoft capital stock as qualified small business stock within in the meaning of Section 1202 of the Internal Revenue Code, stockholders who hold their stock as part of a hedge, wash sale, appreciated financial position, straddle, conversion or other risk reduction transaction, and stockholders who have acquired their stock upon exercise of employee options or otherwise as compensation. In addition, the discussion below does not consider the effect of any applicable state, local or foreign tax laws, nor does it consider the tax consequences of other transactions effectuated before, after or concurrently with the merger (whether or not any such transaction are undertaken in connection with the merger, including, but not limited to, transactions effected pursuant to the note amendment and exchange agreement entered into by and among Genome, Genesoft and holders of certain Genesoft promissory notes). Finally, the discussion below does not consider the tax consequences of the merger

to holders of notes or of options, warrants or other similar rights to acquire Genesoft stock, including the assumption by Genome of outstanding options and subscriptions to acquire Genesoft stock.

You are urged to consult with your tax advisor as to the tax consequences of the merger to you in light of your particular circumstances, including the applicability and effect of any state, local or foreign tax laws.

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It is the opinion of Genome s counsel, Ropes & Gray LLP, and Genesoft s counsel, Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP, that, for United States federal income tax purposes, the merger of a wholly-owned subsidiary of Genome with and into Genesoft, and the immediate subsequent merger of the surviving entity with and into a second wholly-owned subsidiary of Genome, will be treated as a reorganization within the meaning of section 368(a) of the Internal Revenue Code. It is a condition to completion of the merger that Ropes & Gray LLP and Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP issue such opinions to Genome and to Genesoft, respectively. Such opinions will be based on certificates executed by officers of Genome and Genesoft containing representations regarding past, current and future matters that are customary for transactions of this nature. If any of the representations is inaccurate or incorrect, the conclusions stated in the opinions could be affected. The opinions will not be binding on the Internal Revenue Service or the courts, and there can be no assurance that the Internal Revenue Service or the courts will not take a contrary view.

The following are the material United States federal income tax consequences that will generally result from treatment of the merger as a reorganization described in Section 368(a) of the Internal Revenue Code:

A holder of Genesoft common stock will not recognize any gain or loss upon the receipt of Genome common stock (including escrowed shares) in exchange for Genesoft common stock in the merger.

A Genesoft stockholder s aggregate tax basis in the Genome common stock received in the merger (including escrowed shares) in exchange for such stockholder s Genesoft common stock will be the same as the aggregate basis of the Genesoft common stock surrendered in the exchange.

A Genesoft stockholder s holding period for the Genome common stock received in the merger (including escrowed shares) in exchange for such stockholder s Genesoft common stock will include the holding period for the Genesoft common stock surrendered in the exchange.

Holders of Genesoft stock who exercise dissenters rights with respect to their shares of Genesoft stock and who receive payment for the shares in cash will generally recognize gain or loss measured by the difference between the amount of cash received and the stockholders basis in the shares surrendered, provided that the payment is neither essentially equivalent to a dividend within the meaning of Section 302 of the Internal Revenue Code nor has the effect of a distribution of a dividend within the meaning of Section 356(a)(2) of the Internal Revenue Code. These payments are hereinafter collectively referred to as a dividend equivalent transaction. A sale of Genesoft stock pursuant to an exercise of dissenters rights will generally not be a dividend equivalent transaction if, as a result of such exercise, such stockholder owns no shares of Genesoft stock (either actually or constructively within the meaning of Section 318 of the Internal Revenue Code) immediately after the merger. If the payment of cash received by a Genesoft stockholder exercising his, her or its dissenters rights is considered a dividend equivalent transaction, then such stockholder may recognize ordinary income for federal income tax purposes in an amount equal to the entire amount of cash so received.

No gain or loss will be recognized by a Genesoft stockholder upon the distribution of escrowed shares to the Genesoft stockholder upon termination of the escrow.

Upon the distribution of escrowed shares to Genome in satisfaction of an indemnification claim, a Genesoft stockholder will likely recognize gain or loss in an amount equal to the difference between the value of the stockholder s escrowed shares distributed to Genome (as determined under the escrow agreement) and the stockholder s adjusted basis in such shares.

None of Genome, Genesoft, the combined company, or any stockholder of Genome will recognize any gain or loss as a result of the merger.

As noted above, no ruling from the Internal Revenue Service has been or will be sought in connection with the merger, and the opinions issued by Genome and Genesoft s respective counsel will not be binding upon the Internal Revenue Service. The Internal Revenue Service is therefore not precluded from asserting a contrary

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opinion. If the Internal Revenue Service were to challenge successfully the reorganization status of the merger, a holder of Genesoft common stock would recognize gain or loss with respect to such stockholder s shares of Genesoft common stock surrendered in the merger. The gain or loss would be equal to the difference between (i) the fair market value of the Genome common stock received in the merger, and (ii) the Genesoft stockholder s adjusted tax basis in the Genesoft common stock surrendered in the merger. Such stockholder s total tax basis in the Genome common stock received would equal its fair market value and such stockholder s holding period for the stock would begin the day after the merger.

Each Genesoft stockholder who receives shares of Genome common stock in the merger is required to file a statement with his, her or its federal income tax return setting forth the stockholder s basis in the shares of Genesoft common stock surrendered and the fair market value of Genome common shares received in the merger, and is required to retain permanent records of these facts.

Accounting Treatment of the Merger

The merger will be accounted for as a purchase by Genome under accounting principles generally accepted in the United States. Under the purchase method of accounting, Genome will be considered the acquiror and the assets and liabilities of Genesoft will be recorded, as of the completion of the merger, at their respective fair values and added to those of Genome. Reported financial condition and results of operations of Genome issued after completion of the merger will reflect Genesoft s balances and results after completion of the merger, but will not be restated retroactively to reflect the historical financial position or results of operations of Genesoft. Following the completion of the merger, the earnings of the combined company will reflect purchase accounting adjustments, including in-process research and development charges and amortization and depreciation expense for acquired tangible and intangible assets. The most significant of the intangible assets identified will have finite lives and relate to FACTIVE. These amounts will be amortized over their expected useful lives. Goodwill will also be recorded, however, pursuant to SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets, goodwill will no longer be subject to amortization. Rather, goodwill be subject to at least an annual assessment for impairment based on a fair value test. For purposes of disclosing pro forma information in this joint proxy statement/prospectus, the combined company has made a preliminary determination of the purchase price allocation, based upon current estimates and assumptions, which is subject to revision upon consummation of the merger.

Regulatory Filings and Approvals Required to Complete the Merger

Neither Genome nor Genesoft is aware of any material governmental or regulatory approval required for completion of the merger, other than compliance with applicable corporate laws of the Commonwealth of Massachusetts and the State of Delaware and federal and state securities laws.

Restrictions on Sales of Genome Common Stock by Affiliates of Genesoft

The shares of Genome common stock to be issued in connection with the merger have been registered under the Securities Act and will be freely transferable under the Securities Act, except for shares of Genome common stock issued to any person who is deemed to be an affiliate of Genesoft at the time of the special meetings and shares subject to other contractual restrictions. Persons who may be deemed to be affiliates of Genesoft include individuals or entities that control, are controlled by, or are under common control of Genesoft and may include Genesoft s officers and directors, as well as its principal stockholders. Affiliates of Genesoft may resell their shares of Genome common stock acquired in connection with the merger only (1) in transactions permitted by Rule 145 under the Securities Act, (2) under an effective registration statement under the Securities Act or (3) in compliance with an exemption from the registration requirements of the Securities Act. Generally, Rule 145 permits resales of stock received in a registered offering by an affiliate of Genesoft as long as Genome has complied with certain reporting

requirements and the selling stockholder complies with volume and manner of sale restrictions set forth in Rules 144 and 145.

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This joint proxy statement/prospectus does not cover resales of Genome common stock received by any person upon completion of the merger, and no person is authorized to make any use of this joint proxy statement/prospectus in connection with any resale.

Listing on the Nasdaq National Market of Genome Common Stock to be Issued in the Merger

Genome common stock is listed in the Nasdaq National Market under the symbol GENE.

Other Material Agreements Relating to the Merger

Escrow Agreement

Upon the closing of the merger, Genome will enter into an escrow agreement with Luke Evnin, as stockholders representative of the Genesoft stockholders, and a commercial bank, or its designee, as escrow agent. Under the terms of the merger agreement and the escrow agreement, twenty percent (20%) of the shares of the Genome common stock issuable to the Genesoft stockholders in the merger will be placed in escrow to cover potential indemnity claims by Genome under the merger agreement and an additional 400,000 shares of Genome common stock issuable to the Genesoft stockholders will be placed in escrow to fund potential issuances of equity to a senior clinical development officer that may be hired by our combined company. These amounts will be deducted from the shares of Genome common stock to be received by the Genesoft stockholders on a pro rata basis. Additionally, if a holder of a Genesoft option assumed by Genome pursuant to the merger agreement exercises any portion of such holder s option prior to the termination of the escrow fund, a portion of the shares of Genome common stock issued upon such exercise will be withheld and contributed to the escrow fund. Subject to any claims made by Genome or its affiliates, officers, directors or employees and any payments related to those claims, up to one half of the indemnity escrow amount will be released from escrow one year after closing of the merger and the remainder, if any, will be released 18 months after closing. Subject to any claims made by Genome and payments related to those claims, the employment escrow amount will be released from escrow 12 months after closing. The escrow agent will disburse the indemnity escrow amounts only pursuant to an instrument signed by Genome and not objected to by the stockholders representative or an order of a court of competent jurisdiction or an arbitrator as provided under the escrow agreement or under the provisions of the escrow agreement governing distribution of the escrow fund following termination of the escrow agreement. The escrow agent will disburse the employment escrow amounts pursuant to an instrument signed by Genome and notice given to the stockholders representative. Any amounts withdrawn from the escrow will be withdrawn from each stockholder and optionholder that has contributed to the escrow on a pro rata basis, according to each such stockholder s or optionholder s respective share of the escrowed amount. The escrowed shares will be valued for purposes of indemnity claims based on the sales prices per share of Genome common stock on the Nasdaq National Market over the 5 trading days immediately preceding the date distribution of such shares is required under the escrow agreement. A stockholder with shares in escrow will have all rights with respect to the shares in escrow except for the right to possess and sell, assign or pledge such shares.

Bridge Loan

Genome has loaned $6.2 million to Genesoft for operations prior to close. The loan is subject to spending in accordance with a pre-closing budget and spending plan agreed to by Genesoft and Genome. The note issued by Genesoft to Genome is due and payable 60 days following the termination of the merger agreement, except if the merger agreement terminates due to a failure of Genome s stockholders to approve the merger, in which case the note will be payable 180 days after termination of the merger agreement. The note will become immediately due and payable upon any of the following events of default:

Genesoft fails to pay when due any principal or interest due under the note;

Genesoft breaches any covenant under the note or the merger agreement;

Genesoft defaults on any of its other outstanding debt obligations;

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Genesoft enters into bankruptcy, whether voluntarily or involuntarily;

The merger agreement, the note, or any warrants issued to Genome by Genesoft shall cease to be enforceable; or

Genesoft spends cash or incurs obligations to expend cash in a manner that does not conform with the pre-closing budget and spending plan.

Genome has agreed to subordinate its right to payment under the note to the rights of payment of equipment lenders of Genesoft and has agreed with these lenders, under particular circumstances, to forebear from taking action to collect upon the note for up to 180 days from the time it is due. Interest accrues on the note at a rate of 5% per annum, except that the interest will be recalculated at a rate of 4% per month from the date of issuance upon the occurrence of any of the above listed events of default or if the merger terminates as a result of any of the following:

the merger has not been consummated by April 30, 2004 as a result of Genesoft s failure to satisfy its obligations under the merger agreement;

Genesoft has breached any representation, warranty, covenant or agreement, or any representation or warranty has become untrue, except for such exceptions as are provided in the merger agreement;

Genesoft s board shall have withdrawn or adversely modified its approval or recommendation of the merger;

Genesoft s board shall have recommended to the stockholders a competing merger or acquisition transaction or shall have entered into any letter of intent accepting any competing merger or acquisition transaction;

Genesoft s board fails to reject a competing merger or acquisition transaction within 10 days following public announcement or receipt of the proposal for such competing merger or acquisition transaction;

Genesoft shall have failed to include in the joint proxy statement its board recommendation of the merger or shall have failed to hold its stockholder meeting as promptly as practicable;

Genesoft s board fails to reaffirm its board recommendation of the merger within five business days after Genome requests in writing that such recommendation be reaffirmed;

Genesoft shall have willfully breached its non-solicitation obligations; or

Genesoft s stockholders fail to approve the merger.

If the merger terminates for any of the reasons listed above, Genome is entitled to convert all or any portion of the outstanding principal and accrued interest under the promissory note into, at Genome s option, (i) Genesoft common stock at the per share price of $3.39 or (ii) any consideration that holders of Genesoft notes issued pursuant to the note and warrant purchase agreement dated as of April 15, 2003, as amended, receive or become entitled to receive prior to the repayment date of the promissory note.

Pursuant to the loan, Genome was granted a security interest in all of Genesoft s assets. This security interest is junior to the security interests of Genesoft s equipment lessors. In connection with the loan, Genome was issued a warrant to purchase 457,838 shares of Genesoft common stock at $3.39 per share. The warrant is only exercisable if the merger agreement is terminated for one of the reasons listed above and will become null and void upon the completion of the merger with Genesoft.

Note Amendment and Exchange Agreement

Genome, Genesoft, and holders of Genesoft promissory notes issued during financing rounds in December 2002-January 2003 and April-May 2003, referred to as the December and April notes, respectively, have entered into a note amendment and exchange agreement that restructures $22,309,647 of Genesoft notes. As a result of this agreement, the maturity date of the December and April notes was extended to the later of the current

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maturity dates of the notes and the date 60 days following the termination of merger agreement. The interest rate of the notes was amended to 5% per annum commencing on December 10, 2003 for the December notes and December 15, 2003 for the April notes. Upon the closing of the merger, the December and April notes will be converted into Genome notes. Outstanding principal under the December and April notes will be converted into the initial principal amount under new promissory notes issued by Genome. These new notes will have a maturity date five years from the date of the closing of the merger and will bear interest at 5% per annum and will be convertible at any time at the option of the holder into shares of Genome common stock at a 10% premium to the average trading price of Genome common stock for the five trading days immediately preceding the date of the closing of the merger. Accrued interest through the closing of the merger under the December and April notes, and the amount that would be payable upon a change in control under the December notes, will be converted into shares of Genome common stock as described in The Merger The Merger Agreement Conversion of Genesoft Stock. The shares issued at the closing of the merger and the shares issuable upon conversion of the new promissory notes are subject to a registration rights agreement between Genome and the Genesoft note holders. The note amendment and exchange agreement places limitations on Genome s ability to incur additional debt that has a maturity prior to six months after the maturity of the Genome promissory notes to be issued to the Genesoft note holders.

Registration Rights Agreement

Genome and the holders of the Genesoft promissory notes to be converted pursuant to the note amendment and exchange agreement have entered into a registration rights agreement. Under this agreement, Genome must file a shelf registration statement covering the resale of shares of Genome common stock (i) issued by it as payment in respect of the interest and related amounts and (ii) issuable by it upon conversion of the notes within 30 days of the closing of the merger. Genome must use its best efforts to have this registration statement declared effective within 120 days of the closing of the merger. If Genome fails to meet these deadlines, the former Genesoft debtholders will be entitled to customary damages payments.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial statements combine the historical consolidated balance sheets and statements of operations of Genome and Genesoft, giving effect to the merger using the purchase method of accounting under accounting principles generally accepted in the United States and the assumptions and adjustments described below. The unaudited pro forma condensed combined financial statements are presented for illustrative purposes only to aid you in your analysis of the financial aspects of the merger, and do not purport to be indicative of the consolidated financial position and results of operations for future periods or the results that actually would have been realized had Genome and Genesoft been a consolidated company during the specified periods.

The unaudited pro forma condensed combined financial statements are based on the respective audited and unaudited historical consolidated financial statements and the notes thereto of Genome and Genesoft.

The pro forma adjustments were based upon available information and certain assumptions described in the notes to the unaudited pro forma condensed combined financial statements that Genome s management believes are reasonable under the circumstances. The pro forma adjustments are based on the information available at the date of this joint proxy statement/prospectus and a preliminary determination of the purchase price allocation and are subject to change based on completion of the transaction, and such changes may be material. The closing of the merger is contingent on Genome raising at least $32 million to finance the combined companies (unless waived by both parties). These unaudited pro forma condensed combined financial statements do not include any adjustment to record the expected proceeds from this offering or the dilutive effect of the issuance of shares related to this offering.

The unaudited pro forma condensed combined financial statements and accompanying notes should be read in conjunction with the historical consolidated financial statements and notes thereto of Genome included in its Annual Report on Form 10-K for the year ended December 31, 2002, and its quarterly report on Form 10-Q for the nine months ended September 27, 2003, incorporated by reference in this joint proxy statement/prospectus, and the separate historical financial statements and notes thereto of Genesoft for the year ended December 31, 2002 and the nine months ended September 30, 2003 included in this joint proxy statement/prospectus.

The unaudited pro forma condensed consolidated balance sheet is as of September 27, 2003 as it relates to Genome and is as of September 30, 2003 as it relates to Genesoft. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2002 and for the nine months ended September 27, 2003 assume that the merger occurred as of January 1, 2002. For the interim period, Genome s nine months ended September 27, 2003 was combined with Genesoft s nine months ended September 30, 2003.

Under the purchase method of accounting, the total estimated purchase price, calculated as described in Note 1 to these unaudited pro forma condensed combined financial statements, is allocated to the net tangible and intangible assets to be acquired in connection with the merger, based on their estimated fair values. A preliminary valuation and purchase price allocation was conducted to determine the fair value of these assets at the transaction date. This preliminary valuation and purchase price allocation is the basis for the estimates of fair value reflected in these unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial information has been prepared based upon available information and certain assumptions described in the accompanying notes and the estimated fair value of assets to be acquired and liabilities to be assumed from Genesoft. The unaudited pro forma condensed combined financial statements do not include any adjustments for liabilities resulting from integration plans.

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Unaudited Pro Forma Condensed Consolidated

Statements of Operations

Nine Months Ended September 27, 2003

(in thousands, except per share amounts)

	Genome	Genesoft	Pro Forma Adjustments	Pro Forma Combined
Total Revenues	$ 7,318	$ 3,072	$	$ 10,390
Costs and Expenses:				
Cost of revenues	1,902			1,902
Research and development	17,541	8,896	4,514 (2b)	30,951
Restructuring charge	4,733			4,733
Convertible debt retirement expense	5,540			5,540
Selling, general and administrative	5,463	7,306	1,311 (2a)	14,080
Total costs and expenses	35,179	16,202	5,825	57,206
Loss from operations	(27,861)	(13,130)	(5,825)	(46,816)
Other Income (Expense):				
Other income	460	59		519
Other expense	(1,054)	(6,725)		(7,779)
Net other income (expense)	(594)	(6,666)		(7,260)
Net loss	$ (28,455)	$ (19,796)	$ (5,825)	$ (54,076)
Net Loss per Common Share:				
Basic and diluted	$ (1.16)	$ (1.69)	$	$ (1.08)
Weighted Average Shares Used in Computing Net Loss per Share:				
Basic and diluted	24,581	11,729		50,061

See accompanying notes to pro forma condensed combined financial statements.

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Unaudited Pro Forma Condensed Consolidated

Statements of Operations

Year Ended December 31, 2002

(in thousands, except per share amounts)

	Genome	Genesoft	Pro Forma Adjustments	Pro Forma Combined
Total Revenues:	$ 22,987	$ 5,402	$	$ 28,389
Costs and Expenses:				
Cost of services	15,020			15,020
Research and development	32,435	26,283	6,018 (2b)	64,736
Selling, general and administrative	9,382	4,542	1,748 (2a)	15,672
Total costs and expenses	56,837	30,825	7,766	95,428
Loss from operations	(33,850)	(25,423)	(7,766)	(67,039)
Other Income (Expense):				
Other income	1,769	564		2,333
Other expense	(1,936)	(710)		(2,646)
Net other income (expense)	(167)	(146)		(313)
Net loss	$ (34,017)	$ (25,569)	$ (7,766)	$ (67,352)
Net Loss per Common Share:				
Basic and diluted	$ (1.48)	$ (12.81)	$	$ (1.39)
Weighted Average Shares Used in Computing Net Loss per Share:				
Basic and diluted	22,921	1,996		48,401

See accompanying notes to pro forma condensed combined financial statements.

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Unaudited Pro Forma Condensed Consolidated

Balance Statement

September 27, 2003

(in thousands)

	Genome	Genesoft	Pro Forma Adjustments	Pro Forma Combined
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 14,270	$ 4,129	$ (9,697)(2c),(2e)	$ 8,702
Marketable securities (held-to-maturity)	9,832			9,832
Marketable securities (available-for-sale)	983			983
Interest receivable	240			240
Accounts receivable	179	1,131		1,310
Unbilled costs and fees	129			129
Prepaid expenses and other current assets	350	51		401
Total current assets	25,983	5,311	(9,697)	21,597
Property and equipment, net	3,907	10,170		14,077
Long-term marketable securities (held-to-maturity)	701			701
Restricted cash		3,697		3,697
Intangible assets		6,575	73,797 (2i)	80,372
Goodwill			19,306 (2i)	19,306
Other assets	148	46		194
Total Assets	$ 30,739	$ 25,799	$ 83,406	$ 139,944
LIABILITIES AND SHAREHOLDERS EQUITY				
Current Liabilities:				
Current maturities of long-term obligations	$ 1,167	$ 19,689	$ (1,697)(2c)	$ 19,159
Accounts payable	247	1,168		1,415
Clinical trial expense accrual and other accrued liabilities	8,544	5,447	4,000 (2d)	17,991
Deferred revenue	852			852
Total Current Liabilities	10,810	26,304	2,303	39,417
Long-term obligations, net of current maturities	583	6,620		7,203
Shareholders Equity:				
Common stock, par value	2,617	1	2,547 (2f)	5,165
Additional paid-in capital	170,797	68,238	19,628 (2g)	258,663
Accumulated deficit	(154,231)	(75,364)	63,587 (2h)	(166,008)
Other shareholders equity	163		(4,659)	(4,496)
Total Shareholders Equity	19,346	(7,125)	81,103	93,324
Total Liabilities and Shareholders Equity	$ 30,739	$ 25,799	$ 83,406	$ 139,944

See accompanying notes to pro forma condensed combined financial statements.

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Notes to Unaudited Pro Forma Condensed Combined Financial Statements

Note 1 Description of Merger and Purchase Price

On November 17, 2003, Genome entered into a definitive agreement to acquire Genesoft in a transaction to be accounted for as a purchase under accounting principles generally accepted in the United States. Under the terms of the merger agreement, Genome will issue an aggregate of 28,571,405 shares of its common stock, options and warrants to purchase Genome common shares to existing shareholders, promissory note holders and holders of stock options and warrants of Genesoft. The exact amount of common stock, stock options, and warrants to be issued by Genome will be determined at the closing date of the merger based on a common exchange ratio as determined by:

deducting the shares of Genome common stock to be issued to the holders of Genesoft s promissory notes as payment of accrued interest and related amounts from the total of 28,571,405 shares of Genome common stock issuable in the merger and

dividing that remaining amount of Genome shares by the fully-diluted number of shares of Genesoft common stock outstanding on the closing date (assuming conversion or exercise of all Genesoft options and warrants).

The exact exchange ratio between Genesoft and Genome common stock will depend on the closing date of the merger, which will determine how much interest has accrued on the Genesoft promissory notes, as well as the price at which the accrued interest and other related amounts of the Genesoft promissory note holders are converted into Genome common stock. The interest and other related amounts will be converted into Genome common stock at a price of $2.84 per share, unless the issuance price per share of Genome common stock expected to be issued in the capital raising transaction to raise a minimum of $32 million to finance the combined company, which is a condition to the merger agreement (unless waived by both parties), is less than $2.84, in which case that lesser per share price will become the conversion price. As noted above, these unaudited pro forma condensed combined financial statements do not include the proceeds from this offering or the dilutive effect of the shares that would be issued. Had these shares been included in unaudited condensed combined pro forma financials, pro forma earnings per share would have been approximately $1.13 and $0.89 for the year ended December 31, 2002 and nine months ended September 30, 2003, respectively, assuming 11 million shares were sold at $3.05 per share less closing costs.

Each holder of a stock option or warrant to purchase shares of Genesoft common stock that does not terminate by its terms prior to the merger will receive an option or warrant to purchase a number of shares of Genome common stock equal to the product of the number of Genesoft shares for which such option or warrant was exercisable multiplied by the common exchange ratio.

Coincident with the signing of the merger agreement, Genome made a bridge loan of $6.2 million to Genesoft pursuant to a promissory note issued by Genesoft, which is repayable within 60 days of an event of default (as defined in the note) or termination of the merger agreement, unless the merger agreement is terminated by Genesoft due to a failure of Genome to obtain the stockholder vote necessary to approve the merger, in which case it is repayable within 180 days of termination.

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The estimated total purchase price of the merger is calculated as follows (in thousands):

Issuance of 25,479,517 shares of Genome common stock to existing Genesoft common shareholders, promissory note holders and warrant holders	$ 75,674
Fair value of 3,043,547 options issued in exchange for Genesoft stock options	8,372
Payment to LG Life Sciences related to FACTIVE license	8,000
Bridge loan and related accrued interest to be forgiven at closing	6,287
Fair value of 48,341 warrants issued in exchange for Genesoft warrants	81
Estimated direct transaction costs incurred by Genome	4,000
	102,414
Less: Amount related to unvested stock options allocated to deferred compensation	(4,659)
Total Estimated Purchase Price	$ 97,755

The fair value of the Genome shares used in determining the purchase price was $2.97 per share based on the average closing price of Genome s stock from the two days before through two days after November 18, 2003, the date of the public announcement of the merger. The fair value of the options and warrants to be assumed by Genome in connection with the merger is determined based on a stock price of $2.97 per share using the Black-Scholes method with the following assumptions: risk free interest rate of 3.8%, volatility of 84% and no expected dividend. The options have an expected life of four years, which is based on historical Genome experience. The warrants expire in October 2007 and June 2011.

Deferred compensation reflects the estimated intrinsic value of approximately 1.7 million shares of unvested stock options that will be outstanding as of February 28, 2004.

The preliminary allocation of the purchase price is as follows (in thousands):

Current assets	$ 5,311
Property, plant and equipment, net	10,170
In-process research and development	11,777
Intangible assets	80,372
Goodwill	19,306
Other assets	46
Restricted cash	3,697
Current liabilities	(26,304)
Long-term liabilities	(6,620)
Total	$ 97,755

The final determination of the purchase price allocation will be based on the fair values of the assets, including the fair value of in-process research and development and other intangibles, and the fair value of liabilities assumed at the date of the closing of the merger. The purchase price will remain preliminary until Genome is able to finalize its valuation of significant intangible assets acquired, including in-process research and development, and adjust the fair value of other assets and liabilities acquired. The final determination of the purchase price allocation is

expected to be completed as soon as practicable after the date of the closing of the merger. Once the merger is complete, the final amounts allocated to assets and liabilities acquired could differ significantly from the amounts presented in the unaudited pro forma condensed consolidated financial information above.

The valuation of the purchased intangible assets of $80.4 million was based on the result of a valuation using the income approach and applying a risk adjusted discount rate of between 15% to 22%. The valuation of purchased intangible assets include Genesoft s lead product and developed technology, FACTIVE, valued at

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$72.7 million, an orally administered, broad-spectrum flouroquinolone antibiotic which was approved by the FDA for the treatment of acute bacterial exacerbation of chronic bronchitis (ABECB) and community-acquired pneumonia (CAP) of mild to moderate severity. The valuation of purchased intangible assets also includes the value of a manufacturing and supply agreement for FACTIVE with a third party of $5.2 million. The valuation of purchased intangible assets also includes a Biowarfare Countermeasures / DNA-Nanobinder research program, valued at $2.5 million, supported by the U.S. Department of Defense to develop oral, small molecule treatments for bio-warfare threats, including smallpox, anthrax and malaria. FACTIVE is expected to be launched by September 2004 with cash flows from product sales to begin in the fourth quarter of 2004. The valuation of the Biowarfare Countermeasures / DNA-Nanobinder research program assumes that funding from the U.S government or other sources would be available to support this research program through 2006 . However, there is no guarantee that funding to support this program would be available beyond early 2004.

The valuation of the in-process research and development of $11.8 million represents a peptide deformylase inhibitor research program (PDF) for the development of GSQ-83698 and oral PDF inhibitors, licensed from British Biotech (now Vernalis) for the treatment of community-acquired infections. In-process research and development also includes three novel metalloenzyme bacterial targets from Vernalis that the combined company may elect to initiate a drug discovery program to develop therapeutics directed against these targets.

Goodwill of $19.3 million represents the excess of the purchase price over the fair market value of the tangible and identifiable intangible assets. The unaudited pro forma condensed combined consolidated statements of operations do not reflect the amortization of goodwill acquired in the proposed merger consistent with the guidance in Financial Accounting Standards Board (FASB) Statement No, 142, *Goodwill and Other Intangible Assets.*

Note 2 Pro Forma Adjustments

The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

(a) An adjustment has been made to reflect the amortization of deferred compensation related to the intrinsic value of the unvested portion of stock options issued by Genome to holders of Genesoft stock options at the close of the merger. Deferred compensation will be amortized over the remaining vesting period of these options. Amounts adjusted for the year ended December 31, 2002 and nine months ended September 27, 2003 were $1,748,000 and $1,311,000, respectively.

(b) An adjustment to reflect amortization expense on estimated intangible assets based on an estimated useful life of 15 years for FACTIVE and the related manufacturing and supply agreement, and an estimated useful life of 3 years for the Biowarfare Countermeasures / DNA-Nanobinder research program. Amounts adjusted for the year ended December 31, 2002 and nine months ended September 27, 2003 were $6,018,000 and $4,514,000, respectively.

(c) An adjustment has been made for payment of $1,697,000 by Genome to certain promissory note holders of Genesoft at the closing date of the merger.

(d) An adjustment has been made to accrue estimated merger costs of $4,000,000 expected to be incurred by Genome in connection with the merger, consisting primarily of financial advisory and legal and accounting fees.

(e) An adjustment has been made to reflect a payment of $8,000,000 by Genome to LG Life Sciences at the closing of the merger under Genesoft s License Agreement with LG Life Sciences for FACTIVE.

(f) An adjustment to eliminate the par value of Genesoft historical common stock of $1,000 has been made in consideration of the merger offset by the par value of $2,548,000 of new Genome securities issued in consideration of the merger.

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(g) The reduction in pro forma combined additional paid-in-capital is as follows (in thousands):

Elimination of Genesoft additional paid-in capital	$ (68,238)
Value of new Genome securities issued in consideration of the merger (including options and warrants of $8,453 and a bridge loan of $6,287)	90,414
Less par value assigned to common stock	(2,548)
	$ 19,628

(h) The reduction in pro forma combined accumulated deficit is as follows (in thousands):

Elimination of Genesoft s historical accumulated deficit	$ 75,364
Charge for in-process research and development	(11,777)
	$ 63,587

(i) An adjustment has been made to reflect the estimated valuation of the purchased intangible assets of $80.4 million less the historical value of Genesoft s intangible assets of $6.6 million and goodwill of $19.3 million, as further explained above.

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INFORMATION ABOUT GENESOFT

Genesoft s Business

Genesoft is a specialty pharmaceutical company based in South San Francisco focused on the discovery and development of novel anti-infective agents. FACTIVE (gemifloxacin mesylate) is the company s lead product, an orally administered, broad-spectrum fluoroquinolone antibiotic recently approved by the FDA for the treatment of acute bacterial exacerbations of chronic bronchitis, or ABECB, and community-acquired pneumonia, or CAP, of mild to moderate severity. Under an agreement with LG Life Sciences, Genesoft exclusively licensed the rights to develop and commercialize FACTIVE in North America, France, Germany, the United Kingdom, Luxembourg, Ireland, Italy, Spain, Portugal, Belgium, the Netherlands, Austria, Greece, Sweden, Denmark, Finland, Norway, Iceland, Switzerland, Andorra, Monaco, San Marino and Vatican City. By virtue of its *in vitro* potency, favorable pharmacokinetic profile, and clinical efficacy as demonstrated in clinical trials, Genesoft believes that FACTIVE is well positioned to become an important antibiotic for the treatment of respiratory tract infections. See FACTIVE Competitive Advantages below.

Genesoft is also developing two classes of novel mode of action antibiotics. The first, peptide deformylase, or PDF, inhibitors, represent a new class of molecules that target an essential bacterial enzyme and have antibacterial activities suitable for the potential treatment of respiratory tract infections. The second, DNA-Nanobinder compounds, target certain DNA sequences and have the potential to serve as biological warfare countermeasures.

Infectious Diseases Market

Bacterial infections comprise the sixth leading cause of death in the U.S. and anti-infectives, consisting of antibacterials, antivirals, and antifungals, are the third largest product segment in the pharmaceutical industry, accounting for more than $30 billion in annual sales worldwide in 2002. Antibacterials represent the largest segment of the anti-infective market, accounting for $20 billion of total worldwide anti-infective sales in 2002. The principal structural classes of antibiotics include beta-lactams, quinolones, macrolides, tetracyclines, aminoglycosides, glycopeptides and trimethoprim combinations. Penicillin, a member of the beta-lactam class, which also includes extended-spectrum penicillins, cephalosporins and carbapenems, was first developed in the 1940s. Nalidixic acid, the earliest member of the quinolone class, was discovered in the 1960s. Major advances were made in the 1970s with the development of new beta-lactams and in the 1980s with the development of new quinolones and macrolides.

Bacterial resistance to existing antibiotics has been increasing in recent years, leading to bacterial infection recurrences, treatment failures and higher costs. These factors have fueled a growing need for more effective products in existing antibiotic classes, as well as for products with new mechanisms of action.

Community Respiratory Diseases

Acute Bacterial Exacerbation of Chronic Bronchitis (ABECB). Chronic bronchitis is a health problem associated with significant morbidity and mortality. It is estimated that chronic bronchitis affects up to 13 million individuals or approximately 4% to 6% of adults in the United States. Patients with chronic bronchitis are prone to frequent exacerbations, characterized by increased cough and other symptoms of respiratory distress. Longitudinal studies have estimated that 1 to 4 exacerbations occur each year in patients with chronic bronchitis, and such

exacerbations are estimated to account for approximately 12 million physician visits per year in the U.S. Antibiotic therapy, the standard treatment for ABECB, is typically effective in reducing the course of illness for patients.

Community-Acquired Pneumonia (CAP). CAP is a common and serious illness in the United States. The 3 to 4 million reported cases per year of CAP result in approximately 10 million physician visits, 1 million hospitalizations, 64 million days of restricted activity, and 64,000 deaths annually, making CAP the seventh leading cause of death in the United States, and the most common cause of death due to infectious diseases.

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Antibiotics are the mainstay of treatment for most patients with pneumonia, and where possible, antibiotic treatment should be specific and individualized. However, since the responsible pathogen is not identified in a high proportion of patients with CAP, an empiric approach to treatment is usually necessary. Over the last decade, resistance to penicillin and macrolides has increased significantly, and in many cases, quinolones are now recommended as a first line of therapy due to their efficacy against a wide range of respiratory pathogens, including many resistant strains. The recent treatment guidelines from the Infectious Diseases Society of America recommend quinolones as a first line treatment for certain higher-risk patients with CAP.

FACTIVE

In April 2003, FACTIVE (gemifloxacin mesylate) was approved by the FDA for the treatment of ABECB and CAP of mild to moderate severity. In July 2003, FACTIVE was approved to treat CAP caused by susceptible strains of multi-drug resistant *Streptococcus pneumoniae*, or *S. pneumoniae*, a growing clinical concern. Multi-drug resistant *S. pneumoniae*, or MDRSP, is defined as *S. pneumoniae* resistant to two or more of the following antibiotics: penicillin, second-generation cephalosporins (such as cefuroxime), macrolides, tetracyclines, and trimethoprim/sulfamethoxazole. FACTIVE is the only antimicrobial currently approved for this indication.

FACTIVE has potent *in vitro* activity against a wide range of Gram-positive, Gram-negative and atypical pathogens, including key respiratory pathogens, such as *S. pneumoniae, Haemophilus influenzae,* and *Moraxella catarrhalis,* and is bactericidal at clinically achievable concentrations. FACTIVE targets two enzymes in bacteria and has minimum inhibitory concentrations, or MICs, as low as 0.03 µg/ml for *S. pneumoniae*. FACTIVE has been studied in nearly 7,000 patients and has a good overall safety and tolerability profile comparable to other currently marketed antibiotics.

FACTIVE has been the subject of over 200 publications. Among the research published are data indicating FACTIVE s ability to reduce the number of ABECB recurrences over a six-month period following treatment.

Within the antibiotic market, quinolones, a product class with close to $3 billion in annual sales in the U.S., have been gaining market share at the expense of older antibiotics, according to IMS Health. Genesoft expects this trend to continue as resistance to older antibiotic classes increases. Due to its microbiological activity and clinical efficacy, FACTIVE, a new branded quinolone, represents an alternative choice for the treatment of certain respiratory tract infections.

Mechanism of Action

FACTIVE acts by inhibiting bacterial DNA synthesis through the inhibition of both DNA gyrase and topoisomerase IV, two enzymes that are essential for bacterial growth and survival. *S. pneumoniae* showing mutations in both DNA gyrase and topoisomerase IV (double mutants) are resistant to most fluoroquinolones. Since FACTIVE has the ability to inhibit both target enzymes at therapeutically relevant drug levels, some of these *S. pneumoniae* double mutants remain susceptible to FACTIVE.

FACTIVE is also active against many strains of *S. pneumoniae* that are resistant to other classes of antibiotics. There is no known bacterial cross-resistance between FACTIVE and any other class of antimicrobials.

Clinical Efficacy

FACTIVE was studied for the treatment of acute bacterial exacerbation of chronic bronchitis in three pivotal, double-blind, randomized, active-controlled clinical trials using 320 mg once daily for 5 days. In these non-inferiority studies, a total of 826 patients received treatment with FACTIVE and 822 patients received treatment with active comparator, namely levofloxacin, clarithromycin, or amoxicillin/clavulanate. The primary

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efficacy parameter was clinical response at follow-up. The results for the principal ABECB studies demonstrate that FACTIVE given once daily for 5 days was at least as effective as the comparators given for 7 days. The clinical success rates for each of these three trials were as follows:

FACTIVE	5 days (320 mg):	88.2%
Levofloxacin	7 days (500 mg):	85.1%
FACTIVE	5 days (320 mg):	86.0%
Clarithromycin	7 days (500 mg bid):	84.8%
FACTIVE	5 days (320 mg):	93.6%
Amoxicillin/clavulanate	7 days (500 mg/125 mg, 3 times/day, or tid):	93.2%

FACTIVE was also studied for the treatment of community-acquired pneumonia in three double-blind, randomized, active-controlled clinical studies, one open, active-controlled study, and two uncontrolled studies. In total, 1,349 patients with CAP were treated with FACTIVE, including 1,037 patients treated for 7 days; 927 patients with CAP were treated with an active comparator. The primary efficacy parameter for each of these three trials was clinical response at follow-up. The results of these studies showed that FACTIVE was effective in the treatment of mild to moderate CAP. The clinical success rates for FACTIVE in studies with a fixed 7-day duration ranged from 89% to 92%.

In the pivotal CAP comparator study, a 7-day treatment regimen of FACTIVE 320 mg once daily was shown to be as effective as a 10-day treatment course of amoxicillin/clavulanate (500 mg/125 mg tid). The clinical success rates for the two treatment arms were:

FACTIVE	7 days (320 mg):	88.7%
Amoxicillin/clavulanate	10 days (500 mg/125 mg tid):	87.6%

Clinical studies showed that FACTIVE was effective in the treatment of CAP due to penicillin-resistant *S. pneumoniae*, or PRSP. Of 11 patients with PRSP treated with FACTIVE for 7 days, 100% achieved both clinical and bacteriological success at follow-up.

FACTIVE is also effective in the treatment of CAP due to MDRSP. In clinical trials, of 22 patients with MDRSP treated with FACTIVE for 7 days, 19 (87%) achieved both clinical and bacteriological success at follow-up. FACTIVE is the first antibiotic approved to treat mild to moderate CAP caused by these multi-drug resistant organisms.

Competitive Advantages

The potential competitive advantages of FACTIVE include the following:

- FACTIVE is active against many bacterial isolates resistant to other classes of antibiotics, and is the only antibiotic approved to treat community-acquired pneumonia of mild to moderate severity due to multi-drug resistant *S. pneumoniae.*

FACTIVE has a dual targeting mechanism of action in *S. pneumoniae*, which targets two enzymes essential for bacterial growth and survival at therapeutically relevant drug levels, and has low *in vitro* potential for resistance generation.

FACTIVE can be dosed once daily, with short courses of therapy for both ABECB (5 days) and CAP (7 days).

FACTIVE has patent protection into 2015 (with possible regulatory extension), longer than any currently marketed fluoroquinolones or other antibiotics widely used to treat respiratory tract infections.

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Safety and Tolerability

FACTIVE has been studied extensively in nearly 7,000 patients and has a favorable safety profile. The incidence of adverse events reported for FACTIVE was low and comparable to comparator drugs, namely beta-lactam antibiotics, macrolides and other fluoroquinolones. Most adverse events were described as mild to moderate.

Although rash was more frequent among FACTIVE-treated patients in the total patient population than among those who received comparator drugs, in the adult population most at risk for CAP of mild to moderate severity and ABECB (patients over 40 years of age) and at the approved dosage (320 mg for 7 days or less), the rate of rash with FACTIVE was low and comparable to that seen with other antibiotics.

As a post-marketing study commitment, the FDA required that Genesoft conduct a prospective, randomized study comparing FACTIVE (5,000 patients) to an active comparator (2,500 patients) in patients with CAP or ABECB. This study will include patients of different ethnicities, to gain safety information in populations not substantially represented in the existing clinical trial program, specifically as it relates to rash. Patients will be evaluated for clinical and laboratory safety. This Phase IV trial is in the design stage and the FDA required, as a condition to its approval, that the trial be initiated by March 2004.

Additional Development Plans

FACTIVE has also been the subject of additional clinical trials for other indications. Two double-blind, randomized, active-controlled clinical studies were conducted to examine the efficacy of FACTIVE 320 mg once daily for 7 days in the treatment of patients with acute bacterial sinusitis, or ABS. In these studies, 540 patients received FACTIVE and 536 patients received active comparator, namely trovafloxacin or cefuroxime. The primary efficacy parameter was clinical success at follow-up. The result of these clinical trials showed comparable clinical success for patients treated with FACTIVE and those treated with comparator drugs. In addition, a double-blind, randomized, active-controlled clinical study comparing a FACTIVE 7-day treatment regimen for ABS with a FACTIVE 5-day treatment regimen showed similar efficacy between the two treatment arms. Two open-label studies also support the efficacy of FACTIVE given for 5 days for the treatment of ABS. Genesoft anticipates pursuing this indication in the future.

An intravenous formulation of FACTIVE is also in development. Genesoft is currently evaluating plans for the completion of this intravenous formulation program.

Product Pipeline

Genesoft s current pharmaceutical programs reflect its commitment to the research and development of novel anti-infective therapeutics. The pipeline spans discovery research and preclinical development to early clinical trials and pre-launch activities.

Peptide Deformylase Inhibitors. In August 2002, Genesoft entered into a research and license agreement with British Biotech Pharmaceuticals Ltd., now Vernalis, to co-develop inhibitors of peptide deformylase, or PDF, a novel iron-binding enzyme essential for bacterial growth but not

involved in human cytoplasmic protein synthesis. Genesoft believes that PDF inhibitors represent an excellent opportunity for the development of novel mode of action antibiotics. In September 2003, Genesoft assumed full responsibility for the development and commercialization of these compounds.

Preclinical studies of GSQ-83698, Genesoft s most advanced PDF inhibitor, indicated that the compound may have potential for the treatment of hospitalized patients suffering from CAP. An intravenous formulation of GSQ-83698 entered Phase I clinical trials in October 2002, and the drug was well tolerated and demonstrated good pharmacokinetic properties. GSQ-83698 has exhibited good *in vitro* activity against many of the important

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respiratory tract pathogens, but has limited activity against *H. influenzae*. Rather than devote additional resources to the clinical development of GSQ-83698, Genesoft has chosen to focus on the optimization of second-generation PDF inhibitors.

This second-generation research program has focused on developing orally available PDF compounds with the potential to target the broader community-based antibiotic market. Several compounds have been identified with improved properties, including good activity against *H. influenzae.* With continued success, Genesoft anticipates selecting a development candidate and initiating IND-enabling studies.

Biowarfare Countermeasures/DNA-Nanobinder Program. In an ongoing research effort supported by the Defense Advanced Research Projects Agency, or DARPA, Genesoft is developing DNA-Nanobinder compounds to target biological warfare agents, Gram-positive pathogens, and some parasitic organisms. DNA-Nanobinder compounds selectively target pathogen DNA and bind with high affinity to functionally important adenine/thymine, or A/T, rich DNA sequences, thereby inhibiting DNA and RNA synthesis. These compounds derive their spectrum of activity from the fact that most biowarfare threat agents contain A/T rich DNA sequences in essential elements of their genome. DNA-Nanobinder compounds are being investigated as a medical defense against anthrax, smallpox, and malaria. GSQ-7302, Genesoft s most advanced DNA-Nanobinder compound, has demonstrated *in vitro* activity against these pathogens, and efficacy in a small animal model for anthrax infection.

Intellectual Property

In October 2002, Genesoft exclusively licensed from LG Life Sciences the rights to develop and commercialize FACTIVE in North America, France, Germany, the United Kingdom, Luxembourg, Ireland, Italy, Spain, Portugal, Belgium, the Netherlands, Austria, Greece, Sweden, Denmark, Finland, Norway, Iceland, Switzerland, Andorra, Monaco, San Marino and Vatican City. This license covers 11 issued U.S. patents and a broad portfolio of corresponding foreign patents and patent applications. The U.S. patents are currently set to expire at various dates, ranging from June 2015, in the case of the principal patents relating to FACTIVE, to September 2019. Genesoft has filed patent term extension applications, covering the regulatory review process, for the principal patents related to FACTIVE. If granted, these extensions would extend the exclusivity period through April 2017.

The patents that Genesoft licenses to FACTIVE under the agreement with LG Life Sciences include claims related to the chemical composition of FACTIVE, its use for the prophylaxis and treatment of bacterial infections, and methods of manufacturing FACTIVE. Genesoft also has the exclusive right to use FACTIVE trademarks, trade names, domain names and logos in conjunction with the use or sale of the product in the territories covered by the license.

Genesoft has exclusively licensed rights from Vernalis for the research, development, and commercialization of certain anti-infectives under Vernalis patent portfolio of 5 issued U.S. patents, 1 pending U.S. patent, 24 issued foreign patents, and 36 pending foreign patent applications. The patents that Genesoft licenses from Vernalis relate to metalloenzyme inhibitors (including peptide deformylase inhibitors), their uses, and their targets.

Genesoft s patent portfolio related to DNA-Nanobinder compounds and their applications as anti-infective therapeutics consists of one issued U.S. patent, 10 pending U.S. patent applications and 8 pending foreign patent applications. In addition, Genesoft licenses 14 issued U.S. patents, 10 pending U.S. patents, 10 issued foreign patents, and 36 pending foreign patent applications from the California Institute of Technology. Some of Genesoft s patents and patent applications related to DNA-Nanobinder compounds resulted from research funded by the U.S. government, and the government has a standard statutory nonexclusive government purpose license and march-in rights if, for example, Genesoft fails to actively develop the technology or public health concerns are implicated.

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Partnerships and Collaborations

LG Life Sciences. In October of 2002, Genesoft entered into a partnership with LG Life Sciences to license exclusive commercialization rights to FACTIVE in the territories specified above under Intellectual Property. The term of the agreement coincides with FACTIVE s patent life which currently expires in 2015, but the patent could be extended for an additional two years. The arrangement included the payment to LG Life Sciences of an up-front fee of $5.5 million and the issuance to LG Life Sciences of approximately 14% of Genesoft s fully-diluted shares outstanding as of April 2003. The arrangement also provides for Genesoft s payment of royalties on future product sales. Genesoft is required to buy bulk drug requirements from LG Life Sciences (see below), and will pay LG Life Sciences a royalty on sales in the U.S. and the territories covered by the license in Europe. The gross margin on product sales, including royalty obligations, is projected to be approximately 75% during the first two years, and in the 65 to 70% range after those periods. Genesoft is responsible, at its expense and through consultation with LG Life Sciences, for the clinical and commercial development of FACTIVE in the territories covered by the license. This arrangement requires a minimum sales commitment over a period of time, which if not met, could result in the technology being returned to LG Life Sciences. Genesoft is obligated to purchase from LG Life Sciences, and LG is obligated to supply to Genesoft, all of Genesoft s anticipated commercial requirements for FACTIVE bulk drug substance as further described in the Manufacturing section below. Upon delivery of the first shipment of FACTIVE, which is anticipated to occur within the next two months, Genesoft will be obligated to make a $2.5 million milestone payment to LG Life Sciences as well as a payment of $4.8 million for the purchase of the drug inventory. Upon the closing of the merger, the combined company will be obligated to make an $8 million milestone payment to LG Life Sciences. The arrangement also provides for potential additional milestone payments to LG Life Sciences of up to $22 million, primarily upon achieving sales targets.

Vernalis. In August of 2002, Genesoft entered into a strategic partnership with British Biotech Pharmaceuticals Ltd., now Vernalis, to co-develop GSQ-83698 and oral PDF inhibitors for the treatment of community-acquired infections. In 2002, Genesoft paid fees to Vernalis totaling $5 million in connection with the original agreement and issued 356,252 shares of Genesoft common stock upon the achievement of a milestone under the agreement. In September 2003, the companies entered into an agreement whereby Genesoft would assume sole responsibility for the development and commercialization of these compounds. Genesoft also obtained an exclusive worldwide license or sub-license, as applicable, to develop and commercialize three novel bacterial targets for purposes of the treatment of infections from Vernalis as part of this agreement. Genesoft is obligated to pursue the development of these targets and, if appropriate, to pursue the regulatory approval and commercialization of them. Under the agreement, Genesoft has obligations to make royalty payments to Vernalis on future product sales. Additionally, Genesoft may be required to make future milestone payments to Vernalis of up to $18.8 million.

Defense Advanced Research Projects Agency. In December 1998, Genesoft received a three-year, $12.3 million grant in the aggregate from DARPA to conduct research on the regulation of pathogen gene expression and to endeavor to develop oral therapeutics against bio-warfare threat agents, including anthrax, smallpox and malaria. This grant ended in June 2002. In November 2002, Genesoft entered into a $3.0 million contract with DARPA to continue the same research. This contract was amended in April 2003 to include the U.S. Army as a party and to provide for an additional $5.5 million to fund the research through early 2004.

California Institute of Technology. In September of 1998, Genesoft entered into a license agreement with CIT for the development of DNA-Nanobinders for human gene regulation, under which Genesoft obtained an exclusive worldwide license to a number of patents described above under Intellectual Property. As an up-front fee, Genesoft paid CIT $5,000 and issued CIT 42,750 shares of its common stock. Professor Peter Dervan, one of Genesoft s founders and a director of the company, leads the research effort related to this collaboration at CIT. Genesoft is obligated to pursue the development and commercialization of products based on the technology licensed from CIT. Genesoft is also obligated to pay royalties on possible future product sales and any costs relating to the preparation, filing, prosecution and maintenance of existing and new patents covered by the license agreement.

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Manufacturing

Under the terms of Genesoft s licensing agreement with LG Life Sciences, LG Life Sciences agreed to supply all of Genesoft s anticipated commercial requirements for FACTIVE bulk drug substance and Genesoft agreed to purchase all of its requirements for the bulk drug substance from LG Life Sciences. LG Life Sciences is expected to supply the FACTIVE bulk drug substance from its manufacturing facility in South Korea. The LG Life Sciences facility is subject to on-going government regulation, including FDA regulations requiring compliance with current Good Manufacturing Practices, or cGMP. For 2004, the final drug product will be tableted and packaged for LG Life Sciences by SB Pharmco at its manufacturing facility in Puerto Rico. This arrangement with SB Pharmco is expected to conclude by the end of 2004. Genesoft is in discussions with a new secondary manufacturer to assume these responsibilities for subsequent periods.

Facilities

Genesoft subleases approximately 68,000 square feet of laboratory and administrative space at 7000 Shoreline Court, South San Francisco, California 94080. The yearly base rent for this facility is approximately $3,697,000. Genesoft s sublease for this facility expires on March 31, 2011. Genesoft has sub-subleased approximately 30,200 square feet of the facility through December 31, 2004. Genesoft receives approximately $1,700,000 in

yearly base rent from the sub-sublease. Genesoft is considering additional subleases and other options for portions of this space.

Legal Proceedings

Genesoft is not aware of any actual, threatened or pending legal proceeding to which it is a party or to which any of its property is subject that could result in material adverse change in the business or financial condition of Genesoft.

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GENESOFT MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with Genesoft s financial statements and notes thereto appearing elsewhere in this joint proxy statement/prospectus. This discussion and analysis contains forward-looking statements about Genesoft within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements represent the judgment of the management of Genesoft regarding future events. Forward-looking statements typically are identified by use of terms such as may, will, should, plan, expect, intend, anticipate, estimate, and similar words, although some forward-look statements are expressed differently. Genesoft does not plan to update these forward-looking statements. You should be aware that actual results could differ materially from those contained in the forward-looking statements due to a number of risks affecting the business of Genesoft.

Although Genesoft believes that its plans, intentions and expectations as reflected in or suggested by these forward-looking statements are reasonable, it can give no assurance that these plans, intentions or expectations will be achieved. Genesoft stockholders are cautioned that all forward-looking statements involve risks and uncertainties and actual results may differ materially from those discussed as a result of various risk factors described in the section entitled Risk Factors and elsewhere in this joint proxy statement/prospectus.

Some of the important risk factors that could cause Genesoft s actual results to differ materially from those expressed in Genesoft s forward-looking statements include, but are not limited to:

- risks related to Genesoft s approved product, FACTIVE, such as (i) Genesoft s inability to obtain the financial resources and personnel to commercialize FACTIVE, (ii) competitors in the antibiotic market introducing superior products that are more effective, more cost-effective and marketed more effectively and (iii) Genesoft s business in the future could expose it to potential product liability risks;

- Genesoft s inability to successfully develop and obtain regulatory approval of products based on metalloenzyme inhibitors, including peptide deformylase (PDF) inhibitors, and DNA-Nanobinder technology;

- Genesoft s history of operating losses, and negative working capital which resulted in a going concern qualification to its December 31, 2002 financial statements, and Genesoft s need to raise future capital to support Genesoft s product development and research initiatives;

- intensified competition from pharmaceutical or biotechnology companies that may have greater resources and more experience than Genesoft;

- Genesoft s inability to obtain or enforce Genesoft s intellectual property rights;

- Genesoft s dependence on key personnel; and

- Genesoft s issued debt burden which totaled approximately $22.0 million at September 30, 2003.

Overview

Since its inception in 1997, Genesoft has devoted its efforts to the research and development of its licensed technology. To date, Genesoft has generated no revenues from product sales and has depended upon equity financings, interest on invested funds, research funding from the government and financing through debt to provide the capital required to pursue its intended business activities. Genesoft has a net accumulated deficit of $75.4 million through September 30, 2003. The accumulated deficit has resulted principally from Genesoft s efforts to develop drug candidates and the associated administrative costs required to support these efforts.

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Genesoft expects to incur significant additional operating losses over the next several years due to the costs associated with launching FACTIVE and its ongoing development and clinical efforts. Genesoft s potential for future profitability is dependent on its ability to successfully launch FACTIVE, its ability to effectively develop its metalloenzyme inhibitor compounds and its ability to license and develop new compounds.

Major Research and Development Projects

FACTIVE

Genesoft s ongoing regulatory activities related to FACTIVE (gemifloxacin mesylate), its lead product, comprised 28% of its total research and development expenditures for the fiscal year ended December 31, 2002 (including $5.5 million in licensing fees paid to LG Life Sciences), 3% of total research and development expenditures for the nine month period ended September 30, 2002, and 13% of total research and development expenditures for the nine month period ended September 30, 2003.

In October 2002, the company entered into a partnership with LG Life Sciences to develop and commercialize FACTIVE, a novel quinolone antibiotic, in North America, France, Germany, the United Kingdom, Luxembourg, Ireland, Italy, Spain, Portugal, Belgium, the Netherlands, Austria, Greece, Sweden, Denmark, Finland, Norway, Iceland, Switzerland, Andorra, Monaco, San Marino and Vatican City. The term of the agreement coincides with the compound s patent life which currently expires in 2015. The patent could be extended for an additional two years pursuant to Genesoft s request for an extension related to the regulatory process. The product was approved for sale in the United States in April 2003 for the treatment of acute bacterial exacerbation of chronic bronchitis and community-acquired pneumonia of mild to moderate severity. The arrangement with LG Life Sciences included up-front fees, milestone payments and royalties on sales. In addition, Genesoft issued LG Life Sciences common stock equivalent to 14% of the equity in Genesoft on a fully diluted basis as of the time of FDA approval. The bulk product will be manufactured by LG Life Sciences. Genesoft will purchase its requirements for the final drug product from LG Life Sciences for 2004, which final drug product will be tableted and packaged for LG Life Sciences by SB Pharmco at its manufacturing facility in Puerto Rico. This arrangement with SB Pharmco is expected to conclude by the end of 2004. Genesoft is in discussions with a new secondary manufacturer to assume these responsibilities for subsequent periods.

The successful commercialization of FACTIVE is subject to many risks and uncertainties, including an inability to successfully market the product due to competition from other competing drugs, inability to recruit and retain a successful sales management team and sales force, and the inability to raise the financial resources required to launch the drug. A failure to successfully commercialize FACTIVE would have a significant negative impact on Genesoft s operations, financial position and liquidity.

Metalloenzyme Inhibitors (MEI), including PDF Inhibitors

Genesoft s ongoing clinical trials and other research activities related to Genesoft s MEI program comprised 23% of Genesoft s total research and development expenditures for fiscal 2002 (including $5 million in in-license and milestone fees paid in August and October 2002 to British Biotech Pharmaceuticals Ltd. (now Vernalis)), 29% of total research and development expenditures for the nine month period ended September 30, 2002 and 25% of total research and development expenditures for the nine month period ended September 30, 2003.

In August 2002, Genesoft entered into a three-year joint collaboration with Vernalis to co-develop GSQ-83698, a novel PDF inhibitor which, based on human pharmacokinetic and tolerability information, may have potential to treat patients hospitalized with community-acquired

pneumonia, or CAP. In addition, Genesoft commenced an optimization research project to deliver second-generation oral peptide deformylase development candidates for the treatment of respiratory tract infections, or RTI. In September 2003, Genesoft assumed full responsibility for the MEI program, including some additional limited research assets such as three novel

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metalloenzyme bacterial targets. The transfer of remaining Vernalis assets to Genesoft related to this program is nearly complete. Genesoft s license agreement with Vernalis provides Genesoft with exclusive rights to develop and market GSQ-83698 and any molecules that are developed from the oral PDF inhibitor program. Genesoft is obligated to pay a royalty on product sales and to make other milestone payments.

Rather than devote additional resources to the clinical development of GSQ-83698, Genesoft has chosen to focus on the optimization of second-generation orally available PDF compounds. Although GSQ-83698 has exhibited good *in vitro* activity against many of the important respiratory tract pathogens, it has limited activity against *H. influenzae.* The second-generation PDF compounds have demonstrated improved properties, including good activity against *H. influenzae.* With continued success, Genesoft anticipates selecting a development candidate and initiating IND-enabling studies.

The successful commercialization of the PDF inhibitor molecules is subject to many risks and uncertainties, including Genesoft s inability to realize the potential of Genesoft s initial discoveries due to scientific failures or lack of skilled personnel. In addition, Genesoft s success in achieving its goals depends, for example, upon whether Genesoft s compounds warrant clinical development, whether any such compounds demonstrate the required safety and efficacy in clinical trials in order to support a regulatory approval and whether Genesoft is able to successfully manufacture and commercialize the product. As a result of these many risks and uncertainties, Genesoft cannot predict when material cash inflows from Genesoft s MEI inhibitor project will commence, if ever. A failure to successfully commercialize Genesoft s PDF inhibitor compounds would have a significant negative impact on Genesoft s operations, financial position and liquidity.

Department of Defense Collaboration

A second major research and development project of Genesoft s is the fulfillment of Genesoft s research obligations related to Genesoft s contract with the U.S. Department of Defense and related agencies.

The research and development expense to support this program was 34% of total research and development expenses in fiscal 2001, 18% of total research and development expenses in fiscal 2002, 27% of total research and development expenses for the nine months ended September 30, 2002 and 26% of total research and development expenses for the nine months ended September 30, 2003. Research and development expense to support this alliance was 29% of the total research and development expense from January 1, 1999 through September 30, 2003.

Genesoft has had substantial funding since 1999 from agencies within the U.S. Department of Defense to develop oral, small molecule treatments for bio-warfare threats, including smallpox, anthrax and malaria. In research, Genesoft has shown its compounds to be efficacious *in vitro* against smallpox, anthrax and malaria and *in vivo* against cowpox, anthrax and malaria.

In December 1998, Genesoft received a three-year, $12.3 million grant in the aggregate from DARPA to conduct research on the regulation of pathogen gene expression and to endeavor to develop oral therapeutics against bio-warfare threat agents, including anthrax, smallpox and malaria. This grant ended in June 2002. In November 2002, Genesoft entered into a $3.0 million contract with DARPA to continue the same research. This contract was amended in April 2003 to include the U.S. Army as a party and to provide for an additional $5.5 million to fund the research through early 2004. Genesoft is subject to the risk that this contract may be terminated prior to its specified expiration date or that the contract may not be renewed further.

Genesoft s ability to obtain the goals for this collaboration is subject to numerous risks, including Genesoft s inability to realize the potential of Genesoft s initial discoveries due to scientific failures or lack of skilled personnel. In addition, Genesoft s success in achieving its goals depends, for example, upon whether Genesoft s compounds warrant clinical development, whether any such compounds demonstrate the required safety and efficacy in clinical trials in order to support a regulatory approval and whether Genesoft is able to

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successfully manufacture and commercialize the product. Due to these uncertainties, Genesoft cannot be certain if Genesoft will obtain additional funding under this program. A failure to obtain additional funding and to advance Genesoft s program towards product approvals would have a significant negative impact on Genesoft s operations, financial position and liquidity.

Internally Funded Research Program

Genesoft conducts its own internally funded program which stems from technology that was licensed from California Institute of Technology, or CIT, called DNA-Nanobinder technology. The use of compounds generated from this technology has been explored in various therapeutic areas. However, a number of technical hurdles associated with the early development of this technology, including limited cellular uptake, binding specificity, and building block stability has slowed progress in some of the therapy areas. Genesoft s current focus has been to use the DNA-Nanobinder compounds in the discovery and research of potential drug candidates in the anti-infective area. In June 2002, Genesoft entered into a contract with Dow Pharmaceuticals for the development of a topical antibacterial to treat skin infections such as infected diabetic foot ulcers and secondarily infected traumatic lesions. Under this collaboration, a topical DNA-Nanobinder preparation was investigated. This program is currently on hold for financial reasons.

These research efforts represented 66% of total research and development expenditures in fiscal 2001, 31% of expenditures in fiscal 2002, 41% of expenditures during the nine month period ended September 30, 2002 and 36% of expenditures during the nine month period ended September 30, 2003. These efforts comprised 47% of the total research and development expense from inception in August 1997 through September 30, 2003.

Genesoft s ability to obtain its goals for its internally funded research program is subject to numerous risks, including Genesoft s inability to make new discoveries due to scientific failures or lack of skilled personnel. Even if Genesoft succeeds in identifying novel lead series, Genesoft may not be successful in developing these discoveries further due to lack of resources and skilled personnel and the inability to find a strategic partner in an increasingly competitive environment for strategic alliances. Due to all of these uncertainties, Genesoft can provide no assurance that Genesoft will ever receive any material cash inflows from this program.

Going Concern

Genesoft has generated negative cash flows from operations since inception and has minimal capital resources at December 31, 2002. Genesoft has been able to fund its cash needs to date through the sale of its preferred and common stock and debt financings. The ability of Genesoft to manage its operating expenses to a level that can be financed by existing cash flows and its ability to obtain additional funding is therefore critical to Genesoft s ability to continue operating as a going concern. These conditions raise substantial doubt about Genesoft s ability to continue as a going concern. Genesoft s management intends to merge Genesoft with Genome (See Note 12 to its financial statements included elsewhere in this joint proxy statement/prospectus) and obtain additional financing or enter into collaborative arrangements. The outcome of management s intentions is not presently determinable. As such, no adjustments have been made that might result from this situation.

Genesoft s continuation as a going concern is primarily dependent upon its ability to merge or obtain alternative sources of capital. In the event Genesoft is unable to secure alternative financing sources, it is likely that any of the following alternatives will be pursued: (1) pursue a co-promotion collaboration; or (2) pursue other available protective remedies.

Critical Accounting Policies & Estimates

Genesoft s management discussion and analysis of its financial condition and results of operations are based on its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires Genesoft to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of

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contingent assets and liabilities at the date of the financial statements as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, Genesoft evaluates its estimates and judgments. Genesoft bases its estimates on historical experience and on various other factors that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While Genesoft s significant accounting policies are more fully described in Note 1 to its financial statements included elsewhere in this joint proxy/prospectus, Genesoft believes that the following accounting

policies relating to the fair value of common stock, the impairment of assets, revenue recognition and stock compensation are most critical to a full understanding and evaluation of its reported financial results.

Fair Value of Common Stock

Genesoft has issued various equity instruments including common stock, warrants and options as part of the various transactions it has entered into including those related to the FACTIVE license agreement with LG Life Sciences, the license agreement with Vernalis and option grants to consultants and employees. Genesoft must make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenues and expenses during the reporting periods related to the valuation of equity instruments issued in these transactions. Genesoft utilizes third party valuation experts and industry accepted valuation models to estimate the fair market value of these equity instruments; however, the methods utilized by these various valuation methodologies require the use of estimates and assumptions. On an ongoing basis, Genesoft evaluates its estimates and judgments.

Impairment of Assets

Genesoft is required to make judgments about the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying value of these assets may be impaired or not recoverable. In order to make such judgments, Genesoft is required to make assumptions about the value of these assets in the future including future prospects for earnings and cash flows. If impairment is indicated, Genesoft writes those assets down to their fair value that is generally determined based on discounted cash flows. Judgments and assumptions about the future are complex, subjective and can be affected by a variety of factors including industry and economic trends, Genesoft s market position and the competitive environment of the businesses in which Genesoft operates.

Revenue Recognition

Grant revenue is recognized as the costs stipulated under the grant contracts are incurred.

Stock Compensation

Genesoft accounts for employee stock options using the intrinsic-value method in accordance with Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees, Financial Accounting Standards Board, or FASB, Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB No. 25, and related interpretations and have adopted the disclosure-only provisions of Statement of Financial Accounting Standards, or SFAS, No. 123, Accounting for Stock-Based Compensation, or SFAS No. 123.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Genesoft has elected to continue to follow the intrinsic value method of accounting as prescribed by APB No. 25. The information regarding net loss as required by SFAS No. 123, presented in Note 1 to its financial statements,

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has been determined as if Genesoft had accounted for its employee stock options under the fair value method of that statement. The resulting effect on net loss pursuant to SFAS No. 123 is not likely to be representative of the effects on net loss pursuant to SFAS No. 123 in future years, since future years are likely to include additional grants and the irregular impact of future years vesting.

Results of Operations

Nine Months Ended September 30, 2002 and September 30, 2003

Genesoft s total revenues increased to $3.1 million for the nine months ended September 30, 2003 compared with no revenue for the period ended September 30, 2002. In November 2002, DARPA awarded Genesoft a new four month contract for $3 million. This was increased by $5.5 million for 12 months in April 2003. Genesoft believes that revenues from DARPA will remain relatively stable, if the contract is renewed in April 2004. Genesoft also believes that it will recognize product revenues as a result of its first product launch (FACTIVE) projected for late summer of 2004.

Research and development expenses decreased $5.6 million (39%) to $8.9 million for the nine month period ended September 30, 2003 compared to $14.5 million for the nine month period ended September 30, 2002. The decrease was primarily due to a decrease of $1.3 million (51%) in salary expense to scientific management and staff due to reduction in staffing levels in order to control expenditures (which primarily impacted the MEI inhibitor program), a decrease of $2.0 million (45%) in facility related allocation due to the reduction in scientific headcount and a decrease of approximately $470,000 (24%) in consultants used in the internal programs. Additionally, in August 2002, Genesoft paid Vernalis $4 million in technology license fees. There was no comparable payment to Vernalis in 2003. The decrease was partially offset by an increase in research and development expenses due to increased regulatory related fees for FACTIVE of $1.0 million and a payable of $775,000 in research costs to Vernalis to reconcile program costs and FTE requirements per the contract. Genesoft believes that R&D expenses will remain relatively stable or be reduced as Genesoft tries to partner its MEI inhibitor program.

Marketing expenses increased to $2.1 million for the nine month period ended September 30, 2003 compared to no expenses in the period ended September 30, 2002. Genesoft licensed FACTIVE in October 2002, and started its marketing efforts when the product was approved in April 2003. Marketing expenses will continue to increase as Genesoft incurs expenses for the launch of FACTIVE in late summer 2004.

General and administrative expenses increased by $1.6 million (44%) to $5.2 million for the nine months ended September 30, 2003 compared to $3.6 million for the nine months ended September 30, 2002. The increase in general and administrative expense was primarily due to an increase of $1.5 million (136%) in facility related allocation due to the change in ratio of scientific to general and administrative staff and an increase of approximately $224,000 (26%) in travel and legal services due to increased activity in seeking alliances and potential strategic transactions. These increases were somewhat offset by a decrease in consulting expenses of approximately $319,000 (45%) as a result of reduced expenditures in the areas of business development and human resources. General and administrative expenses should remain relatively stable or be reduced as Genesoft continues to control its expenditures in this area.

Other income decreased by approximately $262,000 (82%) to $59,000 for the nine months ended September 30, 2003 compared to $321,000 for the nine months ended September 30, 2002. The decrease was as a result of lower interest income as a result of lower average cash balances for the period ended December 31, 2002 and lower interest rates earned on invested cash balances in that period. Other income should increase as Genesoft raises more funds through financings resulting in higher cash balances earning interest.

Other expense increased by $6.2 million (1170%) to $6.7 million for the nine months ended September 30, 2003 compared to approximately $530,000 for the nine months ended September 30, 2002. The increase was a

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result of the interest on the bridge loans which were entered into in December 2002 and April 2003. Interest expense accrued on the bridge loans was $5.5 million through September 30, 2003. Other expense should decrease as Genesoft either pays off or converts its loans in the upcoming months. This decrease is subject to the completion of the merger as planned.

Twelve Months Ended December 31, 2002 compared with Twelve Months Ended December 31, 2001

Genesoft s total revenues increased by $3.3 million (157%) to $5.4 million for the twelve months ended December 31, 2002 compared to $2.1 million for the comparable period ended December 31, 2001. This increase was due to additional funding from DARPA. In September 2002, DARPA awarded Genesoft additional grant funds of $3.5 million. Additionally, a new four month contract for $3 million was awarded in November 2002.

Research and development expenses increased by $10.1 million (62%) to $26.3 million for the twelve months ended December 31, 2002 compared to $16.2 million for twelve months ended December 31, 2001. The increase in research and development expenses was primarily due to $5 million in technology licensing and milestone fees paid to Vernalis for access to the Metalloenzyme Inhibitor technology platform; a $5.5 million license fee paid to LG Life Sciences for rights to FACTIVE, a quinolone antibiotic; increased lab supply and contract service expenses of approximately $741,000 (26%) due to toxicology and other analytical expenses related to the DARPA contract. These expenses were somewhat offset by a decrease of approximately $369,000 (10%) in salary expense to scientific management and staff due to reduction in staffing levels in order to control expenditures, which primarily impacted the internal DNA-Nanobinder related programs, as well as a reduction in rent and related facility expense of $1.5million (23%) as a result of subleasing additional space in its facility to a subtenant.

General and administrative expenses decreased by approximately $286,000 (6%) to $4.5 million for the twelve months ended December 31, 2002 compared to $4.8 million for the twelve months ended December 31, 2001. The decrease in general and administrative expenses was primarily due to approximately $233,000 (14%) decrease in administrative salaries and relocation expenses due to reduction in staffing levels and one time relocation charges in 2001 and a decrease of approximately $432,000 (28%) due to subleasing additional space in its facility. This was somewhat offset by an increase of approximately $333,000 (29%) in professional service fees such as legal and consulting fees due to increased activities in business development and human resources related to the licensing of FACTIVE from LG Life Sciences and analyzing other licensing and collaborative opportunities.

Other income decreased by approximately $688,000 (55%) to $564,000 in the twelve months ended December 31, 2002 compared to $1.3 million for the twelve months ended December 31, 2001. The decrease was due to lower interest income resulting from lower cash balances for the period ended December 31, 2002 and lower interest rates earned on invested cash balances.

Other expense increased by approximately $152,000 (27%) to $710,000 in the twelve months ended December 31, 2002 compared to approximately $558,000 for the twelve months ended December 31, 2001. The increase was primarily due to a full year of interest expense on Genesoft s equipment financing . In 2001, the first installment of $3.7 million was drawn in June 2001, followed by the second draw in August 2001 of approximately $512,000 and the last draw of approximately $ 464,000 in October 2001.

Twelve Months Ended December 31, 2001 compared with Twelve Months Ended December 31, 2000

Genesoft s total revenues decreased by $2.1 million (51%) to $2.1 million for the twelve months ended December 31, 2001 compared to $4.2 million for the comparable period ended December 31, 2000. This decrease was due to decreased funding from DARPA. Funds from the DARPA grant were depleted by May 2001 whereas in the comparable period ended December 31, 2000 Genesoft was fully funded for twelve months.

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Research and development expenses increased by $4.8 million (42%) to $16.2 million in the twelve months ended December 31, 2001, from $11.4 million for the twelve months ended December 31, 2000. The increase in research and development expenses was primarily due to an increase of $1.3 million (54%) in salaries for scientific management and staff due to increased headcount primarily to support the DNA-Nanobinder antibacterial and mammalian programs, an increase of approximately $618,000 (42%) in professional service fees related to consultants used in the DNA-Nanobinder antibacterial and mammalian programs, an increase of $4.4 million (197%) in facility related expenses comprised primarily of an increase in rent expense due to the move to a new, larger facility and associated expenses, including depreciation expense due to the depreciation commencing on leasehold improvements related to the new facility, and other facility-related expenses such as utilities, repairs and maintenance, and office-related expenses. These expenses were somewhat offset by decreased lab supply and outside contract services expenses of $1.0 million (25%) as toxicology and scale up synthesis related to the DNA-Nanobinder antibacterial program were completed in the prior year.

General and administrative expenses increased $3.0 million (164%) to $4.8 million in the twelve months ended December 31, 2001, from $1.8 million for the twelve months ended December 31, 2000. The increase in general and administrative expenses was primarily due to approximately $857,000 (138%) increase in administrative salaries and relocation expenses due to increased headcount to build Genesoft s infrastructure; an

increase of approximately $446,000 (162%) in professional service fees for consulting in the areas of business development and human resources; an increase of $1.2 million (367%) comprised primarily of an increase in rent expense due to the move to a new larger facility and associated expenses, including depreciation expense due to the depreciation on leasehold improvements for the new facility, and other facility-related expenses such as utilities, repairs and maintenance, and office-related expenses.

Other income increased approximately $20,000 (2%) to $1.25 million in the twelve months ended December 31, 2001 compared to $1.23 million for the twelve months ended December 31, 2000. This was primarily a result of interest income being stable between years as the cash balances and interest rates were relatively unchanged during the two years.

Other expense increased approximately $504,000 (927%) to $558,000 in the twelve months ended December 31, 2001 from approximately $54,000 for the twelve months ended December 31, 2000. The increase was primarily due to an increase in interest expense as a result of equipment and leasehold related financing transactions in 2001.

Income Taxes

At December 31, 2002, Genesoft had net operating loss carry-forwards for federal income taxes of $10.0 million. If not utilized, federal net operating loss carry-forwards will begin to expire in 2007. Genesoft s utilization of the net operating loss and tax credit carry-forwards may be subject to annual limitations pursuant to Section 382 of the Internal Revenue Code, and similar state provisions, as a result of changes in its ownership structure. The annual limitations may result in the expiration of net operating losses and credits prior to utilization.

At December 31, 2001 and 2002, Genesoft had deferred tax assets representing the benefit of net operating loss carryforwards and certain start-up costs capitalized for tax purposes. Genesoft did not record a benefit for the deferred tax assets because realization of the benefit was uncertain and, accordingly, a valuation allowance is provided to offset the deferred tax assets.

Liquidity and Capital Resources

Genesoft s primary sources of cash have been through government grants and contracts, borrowings under equipment lending facilities and proceeds from the sale of equity and debt securities.

As of September 30, 2003, Genesoft had cash, cash equivalents and short-term and long-term marketable securities of approximately $7,826,000, of which $3,697,000 was restricted.

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In June of 2000 and August of 2001, Genesoft completed private placements of its series C and series D convertible preferred stock, respectively. The series C involved the issuance of 4,890,000 shares at $5.00 per share raising $24,405,000 in net proceeds. The series D involved the issuance of 5,450,000 shares at $4.00 per share raising $20,650,000 in net proceeds. Each share of preferred stock was convertible, at the option of the holder, into one share of common stock. In December 2002, in connection with Genesoft s raising of funds from a bridge loan (see further discussion below), all convertible preferred stock was converted to common stock.

Genesoft s operating activities used cash of approximately $6,992,000, $16,647,000 , $22,006,000, $16,153,000 and $13,342,000 for the years ended December 31, 2000, 2001 and 2002 and the nine months ended September 30, 2002 and 2003, respectively. Cash used in Genesoft s operating activities for the fiscal year ended 2000 was primarily due to its net loss and increases in accounts receivable and prepaid expenses. These uses of cash were partially offset by increases in accounts payable, other assets, accrued bonus and other accrued liabilities as well as non-cash expenses, such as, depreciation and amortization, interest expense and accounting charges for stock issuances to consultants. Cash used in Genesoft s operating activities for the fiscal year ended 2001 was primarily due to its net loss and decreases in accounts payable, accrued patent expenses and accrued leasehold improvements. These uses of cash were partially offset by decreases in accounts receivable, other assets, accrued bonus and other accrued liabilities, increases in deferred rent payable as well as non-cash expenses, such as, depreciation and amortization, interest expense and accounting charges for stock issuances to consultants. Cash used in Genesoft s operating activities for the fiscal year ended 2002 was primarily due to its net loss and increases in accounts receivable and other assets. These uses of cash were partially offset by increases in accounts payable, other accrued liabilities, deferred rent payable and decreases in prepaid expenses as well as non-cash expenses, such as, depreciation and amortization, interest expense and accounting charges for stock issuances to consultants and collaborators. Additionally, Genesoft realized gains on its short-term investments as well as disposal of equipment. Cash used in its operating activities for the nine months ended September 30, 2002 was primarily due to its net loss and increases in accounts receivable, other assets and decreases in its accounts payable. These uses of cash were partially offset by increases in other accrued liabilities, deferred rent payable and decreases in prepaid expenses as well as non-cash expenses, such as, depreciation and amortization, interest expense. Additionally, Genesoft realized gains on its short-term investments as well as disposal of equipment. Cash used in Genesoft s operating activities for the nine months ended September 30, 2003 was primarily due to its net loss and increases in accounts receivable and decreases in its accounts payable. These uses of cash were partially offset by increases in bridge loans, other accrued liabilities, deferred rent payable and decreases in prepaid expenses and other assets as well as non-cash expenses, such as, depreciation and amortization, interest expense and stock issued to consultants and collaborators. Additionally, Genesoft realized gains on its short-term investments.

Genesoft s investing activities (used)/provided cash of approximately ($12,946,000), ($15,905,000), $16,320,000, $14,614,000 and $369,000 for the years ended December 31, 2000, 2001, 2002 and the nine months ended September 30, 2002 and 2003, respectively. Cash used by Genesoft s investing activities for fiscal year 2000 was primarily due to purchases of marketable securities and property and equipment and the issuance of a standby letter of credit to its landlord for the building deposit, which is secured by a restricted cash account. Cash used by Genesoft s investing activities for fiscal year 2001 was primarily due to purchases of marketable securities and property and equipment. The uses were partially offset by the conversion of marketable securities to cash and cash equivalents. Cash provided by Genesoft s investing activities for the fiscal year 2002, was primarily through the conversion of marketable securities to cash and cash equivalents, proceeds received from the sale of property and equipment. These uses were partially offset by the purchases of marketable securities and property and equipment. Cash provided by Genesoft s investing activities for the nine months ended September 30 and September 30, 2002, respectively, was primarily through the conversion of marketable securities to cash and cash equivalents, proceeds received from the sale of property and equipment. These uses were partially offset by the purchases of marketable securities and property and equipment. Cash provided by Genesoft s investing activities for the nine months ended September 30, 2003, was primarily through the conversion of marketable securities to cash and cash equivalents. These uses were partially offset by the purchases of marketable securities and property and equipment.

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Capital expenditures totaled $2,386,000, $12,174,000, $209,000, $151,000 and $7,000 for the years ended December 31, 2000, 2001, 2002 and the nine months ended September 30, 2002 and 2003, respectively, consisting primarily of the investment in leasehold improvements and purchases of laboratory and computer equipment. Genesoft s currently estimates that it will not acquire any new equipment or make additions to leasehold improvements prior to the consummation of the proposed merger with Genome. Genesoft s capital expenditures will mainly result from the replacement of any defective equipment.

Genesoft s financing activities provided cash of approximately $26,206,000, $24,016,000, $3,435,000 and $15,222,000 for the years ended December 31, 2000, 2001, 2002 and the nine months ended September 30, 2003, respectively. For the nine months ended September 30, 2002, Genesoft s financing activities used cash of $1,427,000. For the fiscal year ended 2000, Genesoft s cash was provided primarily from proceeds received from the sale of convertible preferred stock totaling $24.4 million in net proceeds, proceeds received from entering into an additional loan agreement for $1.9 million, as well as proceeds received from issuances of stock from employee early exercise of options through its employee option plan. These proceeds from financing activities were partially offset by payments of obligations of $323,000 and the repurchase of unvested stock from terminated employees. For the fiscal year ended 2001, Genesoft s cash was provided primarily from proceeds received from the sale of convertible preferred stock totaling $20.6 million in net proceeds, proceeds received from entering into an additional loan agreement for $4.7 million, as well as proceeds received from issuances of stock from employee early exercise of options through the employee option plan. These proceeds from financing activities were partially offset by payments of obligations of $1,279,000 and the repurchase of unvested stock from terminated employees. For the fiscal year ended 2002, Genesoft s cash was provided primarily from proceeds received from entering into a bridge loan and additional loan agreements for $6.5 million, as well as proceeds received from issuances of stock from employee early exercise of options through the employee option plan. These proceeds from financing activities were partially offset by payments of obligations of $3,032,000 and the repurchase of unvested stock from terminated employees. For the nine months ended September 30, 2002, Genesoft s cash was used by payments of obligations of $1,409,000 and the repurchase of unvested stock from terminated employees. The use was partially offset by issuances of stock from the employee early exercise of options through the employee option plan. For the nine months ended September 30, 2003, Genesoft s cash was provided primarily from proceeds received from entering into a bridge loan for $18.8 million as well as proceeds received from the issuances of stock from employee early exercise of options through the employee option plan. These proceeds from financing activities were partially offset by payments of obligations of $3,625,000 and the repurchase of unvested stock from terminated employees.

Contractual obligations

In December of 2002 and April of 2003, Genesoft entered into convertible bridge loan agreements with various existing and new investors in the aggregate principal amount of $22,300,000. The December bridge loan was in the original principal amount of approximately $5 million, had an interest rate of 6% per annum, carries a liquidation preference of $7.5 million and required the conversion of all existing Genesoft preferred stock to common stock. The April bridge loan was in the original principal amount of approximately $17.3 million and had an initial interest rate of 17% per annum which increased to 4% per month on August 15, 2003 since the loan was not repaid by that date. The December bridge loan is convertible, at the option of the holders, into common stock of Genesoft upon the closing of a financing transaction at the price per share paid in that financing transaction. The April bridge loan is convertible, at the option of the holders, into common stock of Genesoft at any time after December 15, 2003 at a price of $5.00 per share. In connection with the signing of the merger agreement with Genome, the December and April bridge loans were amended to provide that interest would accrue on the loans at a rate of 5% per annum from and after December 10, 2003, in the case of the December bridge loans, and from and after December 15, 2003, in the case of the April bridge loans. The maturity date of the December bridge loans was amended to be the later of December 10, 2005 and 60 days following the termination or expiration of the merger agreement. The maturity date of the April bridge loans was amended to be the later of December 15, 2005 and 60 days following the termination or expiration of the merger agreement. Upon the closing of the merger, the December and April bridge loans will be exchanged for convertible

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promissory notes of Genome. See The Merger and Related Transactions Other Material Agreements Relating to the Merger Note Amendment and Exchange Agreement for more detail.

In connection with the December and April bridge loans, Genesoft issued warrants to purchase 5,000,678 of its shares of common stock at an exercise price of $0.01 per share and 360,593 of its common stock at an exercise price of $12 per share. These warrants and the conversion feature on the bridge loans were valued, using the Black-Scholes option pricing model, at $1.2 million which is being amortized to interest expense over the term of the notes.

Genesoft has two loan agreements under which it has financed the purchase of office and laboratory equipment and leasehold improvements. Genesoft has borrowed approximately $6,600,000 in the aggregate from financial institutions, of which approximately $1,889,000 remains outstanding at September 30, 2003. This amount is repayable over the next 15 months, with $1,518,000 repayable over the next 12 months. At the closing of the merger with Genome, the combined company will be required to pay off one of these loans under which $1,019,306 is currently outstanding. In connection with these financing arrangements, Genesoft issued warrants to purchase 40,702 shares of common stock at an exercise price of $13.47 per share. These warrants were valued, using the Black-Scholes option pricing model, at $408,000 which is being amortized to interest expense over the term of the agreement.

In December 2002, Genesoft issued a promissory note to LG Life Sciences for $3,000,000 which represented the balance due on the up-front in-license fee of $5,500,000. The note, which had a maturity date of April 29, 2003, was unsecured and had an interest rate of 10% per annum compounded quarterly. In December 2002, Genesoft prepaid $125,000 of the outstanding balance and in April 2003 Genesoft paid back the entire remaining amount due under the note.

The future minimum payments under the operating leases (gross) and financing arrangements, by year, are as follows:

	Operating Leases	Notes Payable and Bridge Loan
Three months ending December 31, 2003	$ 533,925	$ 24,714,412
Year ending December 31,		
2004	2,198,940	1,714,354
2005	4,075,654	5,918,301
2006	4,218,296	
2007	4,365,944	
Thereafter	13,384,023	
	$ 28,776,782	32,347,067
Less interest		(6,897,842)
Less discount		(731,631)
		24,717,595
Less current portion		(19,689,234)

Long-term portion	$ 5,028,361

Genesoft plans to continue to invest in the launch of FACTIVE as well as its internal research programs, primarily the MEI inhibitors. Pursuant to its partnership with LG Life Sciences, upon delivery of the first shipment of FACTIVE, which is anticipated to occur in the next two months, Genesoft will be obligated to make a $2.5 million milestone payment to LG Life Sciences as well as a payment of $4.8 million for the purchase of the drug inventory. Upon the closing of the merger, the combined company will be obligated to make an $8 million milestone payment to LG Life Sciences.

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On November 17, 2003, Genome loaned to Genesoft $6.2 million in connection with the signing of the merger. This loan, along with Genesoft s existing capital resources are expected to fund Genesoft s operations through the closing of the merger. If, however, the closing of the merger is delayed or if Genesoft s liabilities increase, there can be no assurance that these funds will be sufficient. For further detail on the terms of this loan, see The Merger and Related Transactions Other Material Agreements Relating to the Merger Bridge Loan.

In the future, Genesoft, as part of the combined company following the merger, will need to raise additional capital in order to continue to fund its programs. Additional financing may not be available when needed or, if available, it may not be on terms acceptable to the combined company. Any additional capital that the combined company raises by issuing equity or convertible debt securities will dilute the ownership of existing stockholders of Genesoft in the combined company.

Quantitative and Qualitative Disclosures about Market Risk

The primary objective of Genesosft s investment activities is to preserve its capital for the purpose of funding operations while at the same time maximizing the income Genesoft receives from its investments without significantly increasing risk. To achieve these objectives, Genesoft s investment policy allows it to maintain a portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds and corporate debt securities. Genesoft s cash and cash equivalents through September 30, 2003 included liquid money market accounts. Genesoft s short-term investments included readily marketable debt securities. Due to the short-term nature of these instruments, a 1% movement in market interest rates would not have a significant impact on the total value of Genesoft s portfolio as of September 30, 2003.

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GENESOFT PRINCIPAL AND MANAGEMENT STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of Genesoft common stock as of November 30, 2003 by:

- each person known by Genesoft to own beneficially 5% or more of the Genesoft stock;
- each director of Genesoft;
- each executive officer of Genesoft; and
- all of the directors and executive officers of Genesoft as a group.

The percentages shown are based on 12,378,931 shares of Genesoft common stock outstanding as of November 30, 2003. Unless otherwise indicated, the address for each stockholder is c/o GeneSoft Pharmaceuticals, Inc., 7300 Shoreline Court, South San Francisco, California 94080. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of capital stock listed as owned by such person or entity.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
David B. Singer	1,229,778(1)	9.3 %
Gary Patou	811,790(2)	6.2 %
Peter B. Dervan	618,096(3)	5.0 %
Vernon R. Loucks	195,938(4)	1.6 %
Luke B. Evnin	5,594,802(5)	35.2 %
William J. Rutter	818,095(6)	6.4 %
Edward M. Scolnick	17,812(7)	0.1 %
LG Life Sciences	2,856,368(8)	23.1 %
Entities affiliated with MPM Capital	5,594,802(9)	35.2 %
Novartis Forschungsttiftung	1,647,344(10)	12.1 %
SunAmerica Investments, Inc.	1,440,330(11)	10.4 %
Entities affiliated with Maverick Capital, Ltd.	1,728,393(12)	12.3 %
All directors and executive officers as a group (7 persons)	9,286,311(13)	51.5%

(1) Includes 14,250 shares of common stock held by the Singer-Kapp Family 2000 Trust and 200,000 shares of common stock held by the Singer-Kapp Long-Term Trust. Includes 826,965 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of options.

(2) Includes 811,790 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of options.

(3) The address of this stockholder is 1200 E. California Boulevard, MS 164-30, Pasadena, CA 91125.

(4) The address of this stockholder is 1101 Skokie Boulevard, Suite 240, Northbrook, Illinois 60062.

(5) Includes 1,779,496 shares of common stock held by BB BioVentures L.P.; 23,659 shares of common stock held by MPM Asset Management Investors 1998 LLC; and 254,372 shares of common stock held by MPM BioVentures Parallel Fund, L.P. Includes 2,477,964 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by BB BioVentures, L.P.; 32,343 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by MPM Asset Management Investors 1998 LLC; and 302,190 shares of common stock that may be acquired within 60 days of November 30, 2003

upon exercise of warrants held by MPM BioVentures Parallel Fund, L.P. Includes 706,340 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by BB BioVentures L.P.; 9,219 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by MPM Asset Management Investors 1998 LLC; and 86,139 shares of common stock that may be acquired within 60 days

of November 30, 2003 upon conversion of promissory notes held by MPM BioVentures Parallel Fund, L.P. Dr. Evnin has shared voting and dispositive power over shares held by BB BioVentures L.P., MGM Asset Management Investors 1998 LLC and MPM BioVentures Parallel Fund, L.P. The address of this stockholder is 601 Gateway Boulevard, Suite 360, South San Francisco, California 94080.

(6) Includes 356,251 shares of common stock held by the William J. Rutter Revocable Trust U/A/D 4/11/02. Includes 310,416 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by the William J. Rutter Revocable Trust U/A/D 4/11/02. Includes 133,616 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by the William J. Rutter Revocable Trust U/A/D 4/11/02. Includes 17,812 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of options. The address of this stockholder is One Market Street, Suite 1475, San Francisco, CA 94105.

(7) Includes 17,812 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of options. The address of this stockholder is 770 Sunneytown Pike, WP26-25, West Point, Pennsylvania 19486.

(8) The address of this stockholder is LG Twin Tower, 20, Yoido-dong, Youngdungpo-gu, Seoul, Korea.

(9) Includes 1,779,496 shares of common stock held by BB BioVentures L.P.; 23,659 shares of common stock held by MPM Asset Management Investors 1998 LLC; and 254,372 shares of common stock held by MPM BioVentures Parallel Fund, L.P. Includes 2,477,964 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by BB BioVentures, L.P.; 32,343 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by MPM Asset Management Investors 1998 LLC; and 302,190 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by MPM BioVentures Parallel Fund, L.P. Includes 706,340 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by BB BioVentures L.P.; 9,219 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by MPM Asset Management Investors 1998 LLC; and 86,139 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by MPM BioVentures Parallel Fund, L.P. The address of this stockholder is 601 Gateway Boulevard, Suite 360, South San Francisco, California 94080.

(10) Includes 1,020,833 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants. Includes 267,232 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes. The address of this stockholder is WSJ-200.220, Lichstrasse 354056, Basel, Switzerland.

(11) Includes 104,166 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants. Includes 1,336,164 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes. The address of this stockholder is 1 SunAmerica Center, Los Angeles, California 90067.

(12) Includes 76,437 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by Maverick Fund LDC; 34,520 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by Maverick Fund USA, Ltd; 14,041 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of warrants held by Maverick Fund II, Ltd. Includes 980,477 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by Maverick Fund LDC; 442,804 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by Maverick Fund, Ltd.; and 180,114 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes held by Maverick Fund II, Ltd. The address of this stockholder is 300 Crescent Court, Suite 1850, Dallas, TX 75201.

(13) Includes 1,674,379 shares of common stock that may be acquired within 60 days of November 30, 2003 upon exercise of options. Includes 3,122,913 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of warrants. Includes 935,314 shares of common stock that may be acquired within 60 days of November 30, 2003 upon conversion of promissory notes.

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GENESOFT MANAGEMENT

The following directors of Genesoft will become directors of Genome following the closing of the merger:

Name	Age	Position
David B. Singer	41	Chairman
Luke Evnin, Ph.D.	40	Director
Vernon R. Loucks, Jr.	69	Director
William Rutter, Ph.D.	76	Director

David B. Singer joined Genesoft as founding President and Chief Executive Officer in September of 1998. Mr. Singer previously served as founding President and Chief Executive Officer of both Affymetrix, Inc., a company focused on developing state-of-the-art technology for acquiring, analyzing and managing complex genetic information for use in biomedical research, and Corcept Therapeutics, Inc. Prior to Genesoft, Mr. Singer was Senior Vice President and Chief Financial Officer of Heartport, Inc. He is a member of the board of directors at Affymetrix (NASDAQ: AFFX), Corcept and Physician Dynamics, Inc. Mr. Singer received his B.A. in History from Yale College and his M.B.A. from The Graduate School of Business at Stanford University. He is a Henry Crown Fellow of the Aspen Institute and Sterling Fellow of Yale University.

Luke Evnin, Ph.D., is a Managing Director of MPM Asset Management LLC, a venture capital firm. Prior to joining MPM in 1998, Dr. Evnin was a general partner at Accel Partners, focusing on investing in a broad range of life sciences companies. From October 1998 to July 2002, Dr. Evnin served as a director of Sonic Innovations. Dr. Evnin received his A.B. degree from Princeton University and his Ph.D. in Molecular Biology from the University of California, San Francisco. Dr. Evnin also serves on the boards of several private companies.

Vernon R. Loucks, Jr. is the Chief Executive Officer of Segway LLC, a company providing solutions to short distance travel, since January 2003. Mr. Loucks served as Chairman of Baxter International Inc., and held the position of Chief Executive Officer from May 1980 to January 2000. He is a director of Affymetrix, Inc., Anheuser-Busch Companies, Inc., Capital and Limited (Singapore) and Emerson Electric Co. He is a member of The Business Council and is the former chairman and co-founder of the Healthcare Leadership Council. Mr. Loucks is a trustee of Rush-Presbyterian/St. Luke s Medical Center in Chicago, and has served as a director of the Harvard Business School Board of Directors and as Senior Fellow of the Yale Corporation. Mr. Loucks holds a B.A. degree in History from Yale College and a M.B.A. from the Harvard Graduate School of Business Administration. He is a veteran of the U.S. Marine Corps. Mr. Loucks also serves on the board of a private equity firm.

William Rutter, Ph.D., is Professor Emeritus of Biochemistry at the University of California, San Francisco. Dr. Rutter is Chairman, Chief Executive Officer and principal shareholder of Synergenics LLC, a company that provides financial resources, facilities, financial, legal support and strategic advice to start-up biotech companies, since July 2002. Dr. Rutter was a founder of Chiron and served as the company s Chief Executive Officer and Chairman of the Board. Dr. Rutter also was a consultant to Chiron from February 2000 until May 2002. He continues to serve as a Director of Chiron. Dr. Rutter services as a director of Ciba-Geigy, Ltd. and subsequently Novartis from 1995 until April 1999. From January 2000 to present, Dr. Rutter has served as a director of Sangamo Biosciences, Inc. From 1969 to 1982, Dr. Rutter was Chairman of the Department of Biochemistry and Biophysics at the University of California, San Francisco. Dr. Rutter received his B.A. from Harvard University and his Ph.D. from the University of Illinois. Dr. Rutter has received numerous awards for his scientific work and is a member of the National Academy of Sciences and the American Academy of Arts and Sciences. Dr. Rutter also serves on the boards of other privately-held biotechnology companies.

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MANAGEMENT OF THE COMBINED COMPANY AFTER THE MERGER

Directors

The board of the combined company will consist of Luke Evnin, Robert J. Hennessey, Vernon R. Loucks, Jr., Steven Rauscher, William S. Reardon, Norbert G. Riedel, William Rutter, David B. Singer and David K. Stone. David B. Singer will serve as Chairman of the board of directors.

Committees of the Board of Directors

The board of directors will have an audit committee and a stock option and compensation committee, each consisting of at least three independent directors, and a nominating committee, consisting of two independent directors. Each committee will perform the functions traditionally performed by such committee.

Compensation of Directors

Directors of the combined company will be subject to the existing compensation structure for Genome s current directors. Each non-employee director of the combined company will receive his annual retainer, currently set at $10,000, for the fiscal year, and a non-employee chairman of each sub-committee will also receive an additional retainer, currently set at $4,000, for the fiscal year, each in the form of a stock option grant that provides the right to purchase share of Genome common stock at a 70% discount to the fair market value. These grants will vest quarterly over a year from the date of grant. The grant size (number of options) will be determined by dividing the annual retainer fee by 70% of the fair market value of the Genome common stock on the date of grant. In addition, upon their initial election to the board, non-employee directors will also be granted options to receive an aggregate 17,000 shares of Genome common stock that will vest equally over three years with an exercise price equal to the fair market value at date of grant. As a long term incentive in connection with their re-election to the board, directors will, upon their re-election to the board, also be granted options to receive an aggregate of 8,500 shares of Genome common stock that will vest equally over three years with an exercise price equal to the fair market value at date of grant. Upon a change of control if, within two years following the change of control, a director is either not nominated to serve as a director or is not elected by the shareholders to serve as a director, all of such director s unvested options will become exercisable upon such director ceasing to be a director of Genome and all of the director s options will remain exercisable until the earlier of two years from the date such director ceases to be a director of Genome and the final exercise date of the option. In addition, each director will have the option to receive all of his board meeting fees and sub-committee fees, currently set at $2,000 and $1,250, respectively, per meeting, in the form of cash or a stock option grant on the same terms described above for the annual retainer. Meeting fees will be reduced by fifty percent if the director attends a meeting via teleconference.

Management

The management of the combined company will consist of the following: Steven Rauscher as Chief Executive Officer and President, Stephen Cohen as Senior Vice President and Chief Financial Officer and Martin Williams as Senior Vice President of Corporate Development and Marketing.

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GENOME PRINCIPAL AND MANAGEMENT STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Genome common stock as of November 30, 2003 by:

- each person who has reported to the Securities and Exchange Commission beneficial ownership of more than 5% of the outstanding shares of Genome common stock;
- each director of Genome;
- the chief executive officer of Genome and the three other most highly compensated executive officers of Genome who were serving as executive officers on December 31, 2002; and
- all executive officers and directors of Genome as a group.

The percentages shown are based on 31,451,099 shares of Genome common stock outstanding as of November 30, 2003.

Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of capital stock listed as owned by such person or entity.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent of Class
Marc B. Garnick	51,590(2)	*
Robert J. Hennessey	782,777(2)	2.4 %
Philip Leder	135,412(2)	*
Lawrence Levy(3)	18,131(2)	*
Steven M. Rauscher	542,877(2)	1.7 %
Norbert G. Riedel	55,527(2)	*
David K. Stone	40,599(2)	*
William S. Reardon	8,964(2)	
Stephen Cohen	126,525(2)	*
Richard F. Labaudiniere	118,538(2)	*
Martin D. Williams	96,463(2)	*
All directors and executive officers as a group (11 persons)	1,977,403(4)	5.9 %

* Less than 1%.

(1) The address of all such persons is c/o the Company, 100 Beaver Street, Waltham, Massachusetts, 02453.

(2) Includes 49,330 shares for Dr. Garnick, 734,317 shares for Mr. Hennessey, 128,154 shares for Dr. Leder, 15,051 shares for Mr. Levy, 496,952 shares for Mr. Rauscher, 8,964 shares for Mr. Reardon, 52,008 shares for Dr. Riedel, 40,599 shares for Mr. Stone, 107,476 shares for Mr. Cohen, 116,496 shares for Dr. Labaudiniere and 96,463 shares for Mr. Williams, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following November 30, 2003. Includes 24,000 restricted shares for Mr. Rauscher, which are subject to repurchase by the company based on a vesting schedule. Excludes

options which have been granted to directors and executive officers which will not become vested within 60 days following November 30, 2003.

(3) Represents shares held by Northern Ventures Corporation, over which Mr. Levy has shared voting and dispositive power.

(4) Includes a total of 1,845,810 shares that may be issuable upon the exercise of vested options or options that are to become vested within 60 days following November 30, 2003. Includes 24,000 restricted shares, which are subject to repurchase by the company based on a vesting schedule. Excludes options which have been granted to directors and executive officers which will not become vested within 60 days following November 30, 2003.

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COMPARISON OF RIGHTS OF HOLDERS

OF GENOME COMMON STOCK AND HOLDERS

OF GENESOFT CAPITAL STOCK

Genome is a Massachusetts corporation subject to the provisions of the Massachusetts Business Corporation Law or MBCL. Genesoft is a Delaware corporation subject to the provisions of the Delaware General Corporation Law or DGCL. Upon completion of the merger, Genesoft stockholders, whose rights are currently governed by the Genesoft charter, by-laws and the DGCL, will become stockholders of Genome and their rights will be governed by the Genome charter, by-laws and the MBCL.

The following description summarizes material differences which may affect the rights of holders of Genome common stock and Genesoft capital stock. This is not a complete statement of all those differences, or a complete description of the specific provisions referred to in this summary. The identification of specific differences is not intended to indicate that other equally or more significant differences do not exist. For additional information regarding the specific rights of holders of Genome common stock, you should read the section of this proxy statement/prospectus entitled Description of Genome Common Stock beginning on page 143. You should also read carefully the relevant provisions of the MBCL and the DGCL and the respective charters and by-laws of Genome (which are incorporated by reference in this proxy statement/prospectus) and Genesoft for a more complete understanding of these differences.

	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
CORPORATE GOVERNANCE	The rights of Genome stockholders are governed by Massachusetts law and Genome s charter and by-laws. Upon completion of the merger, the rights of Genome stockholders will continue to be governed by Massachusetts law and Genome s charter and by-laws.	The rights of Genesoft stockholders are currently governed by Delaware law and Genesoft s charter and by-laws. Upon completion of the merger, the rights of Genesoft stockholders will be governed by Massachusetts law and Genome s charter and by-laws.
AUTHORIZED CAPITAL STOCK	Genome has authority to issue 50,000,000 shares of common stock (i) 49,375,000 shares are designated as common stock, par value $.10 per share, and (ii) 625,000 shares are designated series B restricted stock, par value $.10 per share. Genome is seeking approval from its stockholders through this proxy statement/prospectus to amend its Articles of Organization to increase the number of shares of common stock the company is authorized to issue from 50,000,000 to 175,000,000.	The authorized capital stock of Genesoft consists of 43,450,000 shares of common stock and 24,975,000 shares of preferred stock. Of the authorized preferred stock, 5,425,000 shares are designated as series A preferred stock, 6,000,000 shares are designated as series B preferred stock, 6,600,000 shares are designated as series C preferred stock, 5,950,000 shares are designated as series D preferred stock and 1,000,000 shares are designated as series 1 preferred stock. Genesoft is seeking approval from its stockholders through this proxy statement/prospectus to amend and restated its

certificate of incorporation to eliminate any authorized shares of preferred stock if the merger is completed.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
BOARD AUTHORITY TO ISSUE CAPITAL STOCK	The Genome by-laws provide that the directors may, at any time and from time to time, issue additional shares of capital stock up to the amount authorized in the charter.	Section 161 of the DGCL provides that the directors may, at any time and from time to time, issue additional shares of capital stock up to the amount authorized in the charter.
DIVIDENDS AND STOCK REPURCHASES	Under the MBCL, a corporation may pay dividends or repurchase its own stock so long as: the corporation is solvent; the dividend or repurchase does not render the corporation insolvent; and the dividend or repurchase does not violate the corporation s charter. Genome s board of directors may declare and pay dividends on common stock only from legally available funds for the payment of such dividends. Genome has never paid cash dividends on any of its series of common stock. The holders of Genome s series B restricted stock, none of which is outstanding, are not entitled to receive dividends.	Under the DGCL, a corporation may pay dividends out of surplus or net profits for the current or preceding fiscal year, provided that the capital of the corporation is not less than the aggregate liquidation preference of the corporation s outstanding stock having a preference upon distribution of assets. Genesoft s board of directors may declare and pay dividends on capital stock only from legally available funds for the payment of such dividends. Under Genesoft s charter, the holders of the series A preferred stock, series B preferred stock, series C preferred stock and series D preferred stock, none of which are outstanding, are entitled to receive dividends at the rate of 8% of the original purchase price of such shares, per share, per annum, and the holders of the series 1 preferred stock shall be entitled to receive dividends at the rate of $0.24 per share, per annum (in each case adjusted for any combinations, consolidations, stock splits, or stock distributions or dividends or the like with respect to such shares). Such dividends are payable only when, as, and if declared by the board of directors and are non-cumulative. No dividends (other than those payable solely in Genesoft common stock) may be paid on any common stock during any fiscal year until dividends required to be paid on the preferred stock have been paid or declared and set apart for that fiscal year and any prior year in which dividends accumulated but remain unpaid. No right accrues to holders of shares of preferred stock by reason of the fact that dividends on said shares were not declared in any prior year, nor will any unpaid dividend bear

or accrue any interest.

Genesoft has never paid cash dividends on its capital stock.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
LIQUIDATION RIGHTS	Upon a liquidation, dissolution or winding up of Genome s affairs, the holders of Genome common stock are entitled to receive, prior to the holders of series B restricted stock, the greater of $5.00 per share of common stock or an amount for each share of common stock equal to 10 times the amount available to holders of series B restricted stock. No series B restricted stock is currently outstanding.	In the event of any liquidation, dissolution or winding up of the Corporation, the holders of the series D preferred stock shall be entitled to receive, prior and in preference to any distribution to any other stockholders, the amount of $4.00 for each share of series D preferred stock then held by them (adjusted for any combinations, consolidations, stock splits, or stock distributions or dividends or the like with respect to such shares), plus any declared but unpaid dividends on such shares. No series D preferred stock is currently outstanding. Upon completion of the above distribution, the holders of the series A preferred stock, series B preferred stock and series C preferred stock shall be entitled to receive, prior and in preference to any distribution to any other stockholders, (i) the amount of $1.00 per share for each share of series A preferred stock then held by them, (ii) the amount of $2.50 per share for each share of series B preferred stock then held by them and (iii) the amount of $5.00 per share for each share of series C preferred stock then held by them (in each case adjusted for any combinations, consolidations, stock splits, or stock distributions or dividends or the like with respect to such shares); plus any declared but unpaid dividends onsuch shares. No series A preferred stock, series B preferred stock or series C preferred stock is currently outstanding. Upon completion of the above distributions, the holders of the series 1 preferred stock shall be entitled to receive, prior and in preference to any distribution to any other stockholders, the amount of $1.50 per share for each share of series 1 preferred stock then held by them (adjusted for any combinations, consolidations, stock splits, or stock distributions or dividends or the like with respect to such shares), plus any declared but unpaid dividends on such shares. No series 1 preferred stock is currently outstanding. Upon the completion of the above distributions, the remaining assets of Genesoft available for distribution to stockholders shall be distributed among the holders of series A preferred stock, series 1 preferred stock and common stock pro rata based on the number of shares of common stock held by each (assuming full conversion of all such series A preferred stock and series 1 preferred stock), until with respect to the holders of series A preferred stock and the holders of series 1 preferred stock, such holders shall have received an aggregate of $2.50 per share and $3.00 per share, respectively (adjusted for any combinations, consolidations, stock splits, or stock distributions or dividends or the like with respect to such shares); thereafter, if assets remain, the holders of the common stock of Genesoft shall receive all of the remaining assets of the corporation pro rata based on the number of shares of common stock held by each.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
VOTING RIGHTS	Each holder of Genome common stock is entitled to one vote per share in all matters. The holders of Genome s series B restricted stock are not entitled to vote.	Holders of Genesoft common stock have one vote per share held by them. The holders of preferred stock are entitled to the number of votes equal to the number of shares of common stock into which their preferred shares could be converted. Holders of preferred stock have voting rights and powers equal to the voting rights and powers of the common stock.
REDEMPTION, EXCHANGE AND CONVERSION FEATURES	Under Genome s charter, holders of common stock have no redemption rights and Genome has no option to exchange or redeem any shares of common stock.	Under Genesoft s charter, holders of capital stock have no redemption rights and Genesoft has no option to exchange or redeem any shares of capital stock. Each share of series A preferred stock, series B preferred stock, series D preferred stock and series 1 preferred stock is convertible at any time, at the option of the holder thereof, into such number of shares of common stock as is determined by dividing the sum of the original purchase price of such share (in each case as adjusted for any combinations, consolidations, stock splits, or stock distributions or dividends or the like) plus any declared but unpaid dividends by the original purchase price of such share (in each case adjusted for any dilutive events). Each share of series C preferred stock is convertible at any time, at the option of the holder thereof, into such number of shares of common stock as is determined by dividing the sum of the original purchase price of such share (in each case as adjusted for any combinations, consolidations, stock splits, or stock distributions or dividends or the like) plus any declared but unpaid dividends by $4.79617 (in each case adjusted for any dilutive events).

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
MEETINGS OF STOCKHOLDERS; NOTICE		
	A special meeting of stockholders may be called at any time by the president or by the board of directors.	Special meetings of the stockholders may be called at any time by the President. A special meeting will also be called by the President or Secretary at the written request of either (i) a majority of the board of directors or (ii) stockholders owning a majority in amount of the entire issued and outstanding capital stock of Genesoft. Such request shall state the purpose or purposes of the proposed meeting.
	A written notice stating the time, place and purpose of the meeting shall be given at least 7 days before the meeting to each stockholder entitled to notice.	A written notice stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not fewer than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote. Business transacted at any special meeting shall be limited to the purposes stated in the notice.
STOCKHOLDER ACTION BY WRITTEN CONSENT		
		Under the DGCL, stockholders may take any action without a meeting.
	Under the MBCL and Genome s charter, stockholders may take any action without a meeting so long as they act by unanimous written consent.	
		Genesoft s by-laws provide that any action allowed or required to be taken at any annual or special meeting, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having at least the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of an action by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
STOCKHOLDER PROPOSALS	For a stockholder proposal to be considered at Genome s annual meeting, the proposal must be received by the company not less than 120 days before the date of the company s proxy statement released to stockholders in connection with the previous year s annual meeting. However, if the date of the annual meeting changes by more than 30 days from the date of the previous year s annual meeting, the deadline is a reasonable time before the company begins to print and mail its proxy materials. Stockholders have a reasonable time before the company begins to print and mail its proxy materials to submit proposals for a special meeting of stockholders.	For a stockholder proposal to be considered at Genesoft s annual meeting, the proposal must be properly brought before the meeting.
QUORUM FOR MEETING OF STOCKHOLDERS	The holders of a majority in interest of all outstanding stock entitled to vote at a Genome stockholder meeting, present in person or represented by proxy, constitutes a quorum for transacting business at a meeting.	The holders of fifty percent (50%) of the issued and outstanding shares of Genesoft stock entitled to vote at a meeting, present in person or represented by proxy, constitutes a quorum for transacting business at any meeting of the stockholders.
STOCKHOLDER INSPECTION RIGHTS	By law, stockholders have the right for a proper purpose to inspect the company s charter, by-laws, records of all meetings of incorporators and stockholders, and stock and transfer records, including the stockholder list. Additionally, stockholders have a qualified right to inspect other books and records of the corporation.	Under the DGCL any stockholder has the right to inspect the company s stock ledger, stockholder list, and other books and records for a purpose reasonably related to the person s interest as a stockholder.
NUMBER OF DIRECTORS	Genome currently has eight directors. Genome s by-laws provide that the board of directors shall be at least three and not more than nine. The number of directors is fixed by the board and may be enlarged at any time by a vote of the stockholders or by a vote of the majority of directors.	Genesoft currently has seven directors. The number of directors may be determined by resolution of the board of directors or by the stockholders at the annual meeting of stockholders.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
CLASSIFICATION OF BOARD OF DIRECTORS	Genome s board of directors consists of a single class. Each director is elected for a one year term at the annual meeting of the stockholders.	Genesoft s board of directors consists of a single class. Each director holds office until his successor is elected and qualified.
REMOVAL OF DIRECTORS	A director may be removed (i) with or without cause by a majority of stockholders or (ii) with cause by the majority of the directors. Vacancies, including vacancies resulting from the enlargement of the board, may be filled by the stockholders or, in the absence of stockholder action, by the majority of the directors.	Any director may be removed, with or without cause, by the holders of a majority of shares entitled to vote at an election of directors. Under Genesoft s by-laws vacancies on the board of directors may be filled by a majority of the directors then in office.
LIMITATION ON PERSONAL LIABILITY OF DIRECTORS AND OFFICERS	Genome s charter provides that directors shall not be personally liable to Genome or its stockholders for monetary damages for breaching their fiduciary duties except to the extent eliminating or limiting their liability is not permitted under the MBCL as in effect at the time such liability is determined.	Genesoft s charter provides that directors shall not be personally liable to Genesoft or its stockholders for monetary damages for breaching their fiduciary duties except to the extent eliminating or limiting their liability is not permitted under the DGCL.
INDEMNIFICATION OF DIRECTORS AND OFFICERS	Massachusetts law permits, and Genome s by-laws provide for, indemnification of directors and officers for all expenses and liabilities imposed upon them due to any proceeding in which they may become involved by serving or having served as directors or officers. Indemnification is denied, however, if the person is found not to have acted in good faith with the reasonable belief that his or her action was in Genome s best interest. The MBCL does not explicitly address indemnifying persons against judgments in actions brought by or in the right of the corporation. The previously discussed standard applies to these cases.	Genesoft s by-laws provide that Genesoft shall, to the fullest extent permitted by the DGCL as amended from time to time, indemnify any director or officer who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative, by reason of being or having been a director or officer of Genesoft. The DGCL does not permit a corporation to indemnify persons against judgments in actions brought by or in the right of the corporation.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
AMENDMENTS TO CHARTER	Under the MBCL, a majority vote of stockholders is required to amend some charter provisions primarily involving changes in the amount and par value of the company s authorized stock. For most other amendments, the MBCL requires a two-thirds vote, such as to authorize the sale, mortgage, pledge, lease or exchange of all the company s property or assets. The MBCL does, however, permit a corporate charter to specify a threshold vote of less than two-thirds, but of at least a majority.	Under DGCL, a majority vote of stockholders is required to amend a company s charter. However, under Genesoft s charter, any amendments to the preferred stock conversion provisions must be approved by two-thirds of each series of preferred stock (voting as separate classes) and any amendment to the charter which would adversely change any of the rights, preferences or privileges of any shares of preferred stock must be approved by a vote of two-thirds of the outstanding preferred stock that would be adversely effected.
AMENDMENTS TO BY-LAWS	Genome s by-laws may be amended, altered or repealed, and new by-laws may be adopted, at any annual or special meeting of the stockholders called for the purpose, by a majority vote of the stockholders. The directors may also make, amend or repeal the by-laws, except that the directors shall not take any action with respect to the indemnification and amendment provisions or take any action unless permitted by law.	Genesoft s by-laws may be adopted, amended or repealed by the vote or the written consent of stockholders entitled to exercise a majority of the voting power of the corporation. Genesoft s by-laws may also be adopted, amended or repealed by the board of directors.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
ANTI-TAKEOVER PROVISIONS	The Massachusetts Business Combination statute prohibits a Massachusetts corporation from engaging in a business combination with a person owning 5% or more of the corporation s voting stock without the approval of its board of directors to acquire that stock (referred to as an interested stockholder) for three years from the time the person became an interested stockholder, unless the: board of directors approves the stock acquisition or the combination transaction before the person becomes an interested stockholder; the interested stockholder acquires 90% of the outstanding voting stock of the company (excluding stock owned by directors-officers or some employee stock plans) in one transaction; or the combination transaction is approved by the board of directors and by two-thirds of the outstanding voting stock not owned by the interested stockholder. Genome is subject to the Massachusetts Business Combination statute unless it elects, with stockholder approval, not to be. Under its by-laws, Genome has elected not to be governed by this statute.	Section 203 of the DGCL prohibits a Delaware corporation from engaging in a business combination with a person owning 15% or more of the corporation s voting stock, or an interested stockholder, for three years following the time that person became an interested stockholder, unless (i) the board of directors approves the stock acquisition or the business combination before the person becomes an interested stockholder; (ii) the person became an interested stockholder and 85% owner of the voting stock in the same transaction, excluding shares owned by directors and officers and shares owned by some employee stock plans; or (iii) the combination transaction is approved by the board of directors and by holders of at least two-thirds of the outstanding voting stock not owned by the interested stockholder. A Delaware corporation can elect in its charter or by-laws not to be governed by Section 203. Genesoft has not made that election.
CONTROL SHARE ACQUISITION STATUTE	The Massachusetts Control Share Acquisition statute provides that a person that acquires 20%, 33 1/3% or a majority of the corporation s voting stock, in each case, cannot vote the shares exceeding that threshold unless a majority of the outstanding shares not owned by the acquiror and the corporation s officers and employee-directors vote to permit it to do so with respect to such acquisition. Under its by-laws, Genome has elected not to be governed by this statute.	Delaware does not have a Control Share Acquisition statute.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
STOCKHOLDER RIGHTS PLAN	Genome does not have a stockholders rights plan.	Genesoft does not have a stockholders rights plan.
PROVISIONS RELATING TO SOME BUSINESS COMBINATIONS	Under the MBCL, the affirmative vote of two-thirds of the outstanding shares of each class of stock (or such lower proportion permitted by the charter, but not less than a majority) is required to authorize a merger or consolidation of Genome into any other corporation, or the sale, lease, or exchange of all or substantially all of Genome s property and assets. Under the MBCL, unless the corporation s charter otherwise provides for a stockholder vote, a surviving corporation need not obtain stockholder approval for a merger if: any shares of the surviving corporation to be issued or delivered in the merger will not increase the number of shares of common stock outstanding before the merger by more than 15%; and the merger agreement does not amend the charter of the surviving corporation.	Under the DGCL, the affirmative vote of a majority of the outstanding stock entitled to vote is required to authorize a merger or consolidation. Under Genesoft s charter, the affirmative vote of two-thirds of the then outstanding shares of preferred stock (voting together as a single class and on an as converted basis) is necessary to effect any sale or other conveyance of all or substantially all of the assets of Genesoft or any of its subsidiaries, or any consolidation or merger involving Genesoft or any of its subsidiaries, in which in excess of 50% of Genesoft s voting power is transferred, or any reorganization or recapitalization of Genesoft.

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	RIGHTS OF GENOME STOCKHOLDERS	RIGHTS OF GENESOFT STOCKHOLDERS
APPRAISAL OR DISSENTERS RIGHTS		
	Under the MBCL, a properly dissenting stockholder is entitled to receive the appraised value of his shares when the corporation votes to: sell, lease, or exchange all or substantially all of its property and assets; adopt an amendment to its charter that adversely affects the rights of the stockholder; or merge or consolidate with another corporation. No appraisal rights are available, however, to stockholders of a corporation surviving the merger, if the merger does not require the approval of these stockholders. In order to exercise their appraisal rights, stockholders must not vote in favor of the corporate action triggering the appraisal right. Also, they must send the corporation a written objection to the corporate action stating their intention to demand payment for their shares. If stockholders follow the appraisal procedures set out under Massachusetts law, the fair value of their stock will be determined as of the day before effectiveness of the corporate action. The appraisal rights provisions are the only remedy for stockholders who object to the corporate action, unless the corporate action is determined to have been illegal, fraudulent or in breach of the board s fiduciary duties.	Under the DGCL, the right of dissenting stockholders to obtain the fair value for their shares is available in connection with some mergers or consolidations. Unless otherwise provided in the corporate charter, appraisal rights are not available to stockholders when the corporation will be the surviving corporation in a merger and no vote of its stockholders is required to approve the merger. In addition, no appraisal rights are available to holders of shares of any class of stock which is either: (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the NASD; (ii) held of record by more than 2,000 stockholders; and, in the case of both (i) and (ii), those stockholders are not required by the terms of the merger to accept anything other than (1) shares of stock of the surviving corporation, (2) shares of stock of another corporation which, on the effective date of the merger or consolidation, are nationally listed or held of record by more than 2,000 holders, (3) cash instead of fractional shares of stock, or (4) any combination of the consideration set forth in (1) through (3). Under the California Corporations Code, a properly dissenting stockholder is entitled to receive the fair market value of his shares in connection with a reorganization or merger requiring stockholder approval. In order to exercise its appraisal rights, a stockholder must not vote in favor of the reorganization or merger. Also, it must make written demand upon the corporation no later than the date of the special meeting. The fair market value is determined as of the day before the first announcement of the terms of the proposed reorganization or merger. If the corporation and a stockholder cannot agree as to the fair market value, the stockholder may file within six months a complaint with the superior court demanding judicial determination of such value. If the complaint is not filed within the specified six-month period, the stockholder s rights as a dissenter are terminated.

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DESCRIPTION OF GENOME COMMON STOCK

The following summary of the terms of Genome common stock does not purport to be complete and is subject to and qualified in its entirety by reference to Genome s charter and by-laws, copies of which are on file with the Securities and Exchange Commission as exhibits to previous Securities and Exchange Commission filings by Genome. Please refer to Where You Can Find Additional Information below for directions on obtaining these documents.

Genome has authority to issue 50,000,000 shares of common stock (i) 49,375,000 shares are designated as common stock, par value $.10 per share, and (ii) 625,000 shares are designated series B restricted stock, par value $.10 per share. As of November 30, 2003, Genome had 31,451,099 shares of its common stock outstanding. There are no shares of series B restricted stock issued or outstanding.

Genome Common Stock

Each holder of Genome common stock is entitled to one vote per share in all matters. The holders of Genome common stock are entitled to share ratably in any dividends that may be declared by the Genome board of directors. Upon a liquidation or dissolution, the holders of Genome common stock are entitled to receive, prior to the holders of series B restricted stock, the greater of $5.00 per share of Genome common stock or an amount for each share of Genome common stock equal to 10 times the amount available to holders of series B restricted stock. There are no preemptive or other subscription rights, conversion rights, or redemption or sinking fund provisions with respect to shares of Genome common stock. All of the outstanding shares of Genome common stock are, and the shares of Genome common stock offered by this joint proxy statement/prospectus will be, duly authorized, validly issued, fully paid and nonassessable.

Genome Series B Restricted Stock

Genome s Restated Articles of Incorporation, as amended, provide that the holders of Genome series B restricted stock are not entitled to vote or receive dividends. No shares of Genome series B restricted stock are outstanding and Genome has no current intention to issue any shares of series B restricted stock.

Transfer Agent and Registrar

The transfer agent and registrar for Genome common stock is EquiServe Trust Company N.A. Its telephone number is (781) 575-3400 and its address is: PO Box 43010, Providence, Rhode Island 02940-3010.

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LEGAL MATTERS

The validity of the shares of Genome common stock offered by this joint proxy statement/prospectus will be passed upon for Genome by Ropes & Gray LLP.

EXPERTS

The financial statements of Genesoft (a development stage company) at December 31, 2001 and 2002, and for each of the three years in the period ended December 31, 2002, included in this joint proxy statement/prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon (which contain an explanatory paragraph describing conditions that raise substantial doubt about the ability of Genesoft to continue as a going concern as described in Note 1 to the financial statements) appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Genome at December 31, 2002, and for the year ended December 31, 2002, incorporated by reference in this joint proxy statement/prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon incorporated by reference herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements for the years ended December 31, 2001 and 2000 and as of December 31, 2001, and included in Genome s 2002 Annual Report had been audited by Arthur Andersen LLP, independent accountants, as indicated in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given the authority of such firm as experts in auditing and accounting. Arthur Andersen has not consented to the inclusion of their report in this prospectus, and in reliance on Rule 437a under the Securities Act, Genome has not obtained their consent to do so. Genome refers you to Risk Factors Risks Related to the Securities Market Certain of our financial statements have been audited by Arthur Andersen LLP, and the ability to recover damages from Arthur Andersen may be limited. contained in the Risk Factors of this joint proxy statement/prospectus.

OTHER MATTERS

As of the date of this joint proxy statement/prospectus, neither the Genome board of directors nor Genesoft s board of directors knows of any matter that will be presented for consideration at the Genome special meeting or the Genesoft special meeting, respectively, other than as described in this joint proxy statement/prospectus.

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates other reports by reference that are not presented in or delivered with this document.

All reports, proxy and information statements and other information filed by Genome pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this joint proxy statement/prospectus and before the date of the Genome special meeting described herein are incorporated by reference into this joint proxy statement/prospectus from the date of filing of those reports, proxy and information statements and other information. This means that Genome can disclose important information to you by referring you to other information Genome has filed with the Securities and Exchange Commission.

You should rely only on the information contained in this joint proxy statement/prospectus or which is referred to herein. Neither Genome nor Genesoft has authorized anyone to provide you with different information.

The following documents, which have been filed by Genome with the Securities and Exchange Commission, are incorporated by reference into this joint proxy statement/prospectus:

(a) Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

(b) Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002.

(c) Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2003.

(d) Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2003.

(e) Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 2003.

(f) Current Report on Form 8-K as filed on January 2, 2003.

(g) Current Report on Form 8-K as filed June 5, 2003.

(h) Current Report on Form 8-K as filed June 13, 2003.

(i) Current Report on Form 8-K as filed on October 1, 2003.

(j) Current Report on Form 8-K as filed on October 16, 2003.

(k) Current Report on Form 8-K as filed on November 18, 2003.

(l) The description of Genome common stock contained in its registration statement on Form 10/A filed with the Securities and Exchange Commission on January 9, 1996 under the Exchange Act, including any amendment or reports filed for the purpose of updating such description.

(m) Proxy Statement filed on April 2, 2003 for the stockholders meeting held on May 8, 2003.

Genome will provide to you, without charge, upon your written or oral request, a copy of any or all of the documents that it incorporates by reference, (other than exhibits to such documents unless such exhibits are specifically incorporated by reference into the documents that this prospectus incorporates). Written or oral requests for copies should be directed to Christopher Taylor, Investor Relations, 100 Beaver Street, Waltham, Massachusetts 02453, telephone number (781) 398-2300.

Any request for documents should be made by , 2004 to ensure timely delivery prior to the special meeting of Genome stockholders at which the adoption and approval of the merger and the related transactions will be considered and voted upon and the special meeting of Genesoft stockholders at which the adoption and approval of the merger and the related transactions will be considered and voted upon.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference into this joint proxy statement/prospectus will be deemed to be modified or superseded for purposes of this joint proxy statement/prospectus to the extent that a statement contained in this joint proxy statement/prospectus or

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any other subsequently filed document that is deemed to be incorporated by reference into this joint proxy statement/prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this joint proxy statement/prospectus.

Genome files reports, proxy statements and other information with the Securities and Exchange Commission. Copies of these reports, proxy statements and other information may be inspected and copied at the public reference facility maintained by the Securities and Exchange Commission at the following location:

Public Reference Room

Judiciary Plaza

Room 1024

450 Fifth Street, N.W.

Washington, D.C. 20549

Copies of these materials also can be obtained by mail at prescribed rates from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 or by calling the Securities and Exchange Commission at 1-800-SEC-0330. These materials are also available to the public on the Securities and Exchange Commission s website at http://www.sec.gov and the Investors section of Genome s website at http://www.genomecorp.com.

Genome has filed a registration statement on Form S-4 under the Securities Act with the Securities and Exchange Commission with respect to Genome common stock to be issued to Genesoft stockholders in the merger. This joint proxy statement/prospectus constitutes the prospectus of Genome as part of the registration statement. This joint proxy statement/prospectus does not contain all of the information set forth in the registration statement because certain parts of the registration statement are omitted in accordance with the rules and regulations of the Securities and Exchange Commission. Statements made in this joint proxy statement/prospectus as to the content of any contract, agreement or other document referred to are not necessarily complete. With respect to each contract, agreement or other document to be filed or incorporated by reference as an exhibit to the registration statement, you should refer to the corresponding exhibit, when it is filed, for a more complete description of the matter involved and read all statements in this joint proxy statement/prospectus in light of that exhibit. The registration statement and its exhibits are available for inspection and copying as set forth above.

Genesoft stockholders should call Asha Rajagopal at 7300 Shoreline Court, South San Francisco, California 94080, telephone number (650) 837-1800 with any request for any documentation referred to in this joint proxy statement/prospectus.

This joint proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this joint proxy statement/prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction. Neither the delivery of this joint proxy statement/prospectus nor any distribution of securities pursuant to this joint proxy statement/prospectus shall, under any circumstances, create any implication that there has been no change in the information set forth or incorporated into this joint proxy statement/prospectus by reference or in the affairs of Genome, or Genesoft since the date of this joint proxy statement/prospectus. The information contained in this joint proxy statement/prospectus with respect to Genome was provided by Genome and the information contained in this joint proxy statement/prospectus with respect to Genesoft was provided by Genesoft.

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

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Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders

GeneSoft Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of GeneSoft Pharmaceuticals, Inc. (a development stage company) as of December 31, 2002 and 2001, and the related statements of operations, stockholders equity (net capital deficiency), and cash flows for the years then ended and for the period from August 12, 1997 (inception) through December 31, 2002. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GeneSoft Pharmaceuticals, Inc. (a development stage company) at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended and for the period from August 12, 1997 (inception) through December 31, 2002, in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that GeneSoft Pharmaceuticals, Inc. (a development stage company) will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring operating losses and has a working capital deficiency. These conditions raise substantial doubt about the Company s ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Palo Alto, California

April 28, 2003, except for Note 12

as to which the date is

November 17, 2003

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Balance Sheets

	December 31,		September 30,
	2002	2001	2003
Assets			*(Unaudited)*
Current assets:			
Cash and cash equivalents	$ 1,880,794	$ 4,132,162	$ 4,129,274
Short-term investments	373,437	16,885,099	
Grants receivable	713,437	109,950	1,130,850
Tenant allowance receivable			
Prepaid expenses and other current assets	141,334	368,676	50,851
Total current assets	3,109,002	21,495,887	5,310,975
Restricted cash	3,696,840	3,696,840	3,696,840
Property and equipment, net	12,290,802	14,969,544	10,170,004
Intangible and other assets	335,000		6,621,236
Total assets	$ 19,431,644	$ 40,162,271	$ 25,799,055
Liabilities and stockholders equity			
Current liabilities:			
Accounts payable	$ 1,554,167	$ 1,134,372	$ 1,167,845
Other accrued liabilities	770,314	362,292	5,447,333
Accrued leasehold improvements			
Accrued bonus			
Accrued patent expenses			
Current portion of lease commitments, promissory notes, and bridge loan	3,860,021	1,790,931	19,689,234
Total current liabilities	6,184,502	3,287,595	26,304,412
Long-term liabilities:			
Long-term portion of commitments, promissory notes, and bridge loan	4,511,510	3,428,970	5,028,361
Deferred rent payable	927,498	421,590	1,231,455
Security deposit	359,775	359,775	359,775
Total long-term liabilities	5,798,783	4,210,335	6,619,591
Commitments			
Stockholders equity:			
Preferred stock, $0.0001 par value: 24,975,000 shares are authorized at September 30, 2003 (unaudited) and December 31, 2002, 31,025,000 shares are authorized at December 31, 2001:			
Series A convertible preferred stock: 5,425,000 shares designated at September 30, 2003 (unaudited), December 31, 2002 and December 31, 2001. None issued and outstanding at September 30, 2003 (unaudited) and December 31, 2002, and December 31, 2001		5,350,417	
Series B convertible preferred stock: 6,000,000 shares designated at September 30, 2003 (unaudited), December 31, 2002, and December 31, 2001. None issued and outstanding at September 30, 2003 (unaudited) and 5,420,000 outstanding at December 31, 2002, and 4,527,400 shares issued and outstanding at December 31, 2001		11,190,814	
Series C convertible preferred stock: 6,600,000 shares designated at September 30, 2003 (unaudited) and December 31, 2002, 4,890,000 shares designated at December 31, 2001. None issued and outstanding at September 30, 2003 (unaudited) and December 31, 2002, and		24,814,092	

4,890,000 shares issued and outstanding at December 31, 2001			
Series D convertible preferred stock: 5,950,000 shares designated at September 30, 2003 (unaudited) and December 31, 2002, 13,000,000 shares designated at December 31, 2001. None issued and outstanding at September 30, 2003 (unaudited) and December 31, 2002, and 5,450,000 shares issued and outstanding at December 31, 2001		20,649,701	
Series 1 convertible preferred stock: 1,000,000 shares designated in 2002, none outstanding at December 31, 2002 and September 30, 2003 (unaudited)			
Common stock, $0.0001 par value: 43,450,000 shares are authorized at September 30, 2003 (unaudited) and December 31, 2002, 45,000,000 shares are authorized at December 31, 2001. 12,378,931, 10,808,540, and 1,504,047 shares issued and outstanding at September 30, 2003 (unaudited), December 31, 2002, and December 31, 2001, respectively	63,016,056	420,789	68,238,679
Other accumulated comprehensive income		237,193	194
Deficit accumulated during the development stage	(55,567,697)	(29,998,665)	(75,363,821)
Total stockholders equity (net capital deficiency)	7,448,359	32,664,341	(7,124,948)
Total liabilities and stockholders equity (net capital deficiency)	$ 19,431,644	$ 40,162,271	$ 25,799,055

See accompanying notes.

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Statements of Operations

	Year ended December 31,			Period from August 12, 1997 (inception) through December 31,	Nine months ended September 30,		Period from August 12, 1997 (inception) through September 30,
	2002	2001	2000	2002	2003	2002	2003
					(Unaudited)		(Unaudited)
Grant revenue	$ 5,401,895	$ 2,059,176	$ 4,186,751	$ 14,167,895	$ 3,072,350	$	$ 17,240,245
Operating expenses:							
Research and development	26,283,501	16,245,449	11,454,934	59,536,123	8,895,882	14,534,786	68,432,005
Marketing					2,059,396		2,059,396
General and administrative	4,541,718	4,828,042	1,825,410	12,276,734	5,246,839	3,623,601	17,523,573
Total operating expenses	30,825,219	21,073,491	13,280,344	71,812,857	16,202,117	18,158,387	88,014,974
Operating loss	(25,423,324)	(19,014,315)	(9,093,593)	(57,644,962)	(13,129,767)	(18,158,387)	(70,744,729)
Other income	564,099	1,251,633	1,226,872	3,436,073	59,097	321,135	3,495,170
Other expense	(709,807)	(557,970)	(54,309)	(1,358,808)	(6,725,454)	(530,291)	(8,084,262)
Net loss	$ (25,569,032)	$ (18,320,652)	$ (7,921,030)	$ (55,567,697)	$ (19,796,124)	$ (18,367,543)	$ (75,363,821)
Basic and diluted net loss per share	$ (12.81)	$ (15.69)	$ (8.27)		$ (1.69)	$ (14.04)	
Weighted-average shares used in calculating basic and diluted net loss per share	1,996,472	1,167,611	957,311		11,728,821	1,307,881	

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Statements of Stockholders Equity (Net Capital Deficiency)

Period from August 12, 1997 (inception) through September 30, 2003

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series D Convertible Preferred Stock		Series 1 Convertible Preferred Stock		Common Stock		Other Accumulated Comprehensive Income	Deficit Accumulated During the Development Stage	Total Stockholders Equity (Net Capital
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	(Loss)	Stage	Deficiency)
Issuance of common stock to founders in October 1997 at $0.0048 per share for cash		$		$		$		$		$	730,317	$ 3,500	$	$	$ 3,500
Issuance of common stock in September 1998 at $0.14 per share for license to technology											42,750	6,000			6,000
Issuance of common stock in November 1998 at $0.0048 per share for cash											42,750	204			204
Issuance of Series A convertible preferred stock at $1.00 per share to investors in October 1998 through December 1998 for cash, net of issuance costs of $69,583	3,537,500	3,467,917													3,467,917
Issuance of Series A convertible preferred stock at $1.00 per share to investors in October 1998 upon conversion of notes payable to stockholders	150,000	150,000													150,000

Net loss											(769,840)	(769,840)
Balance at December 31, 1998	3,687,500	3,617,917					815,817	9,704		(769,840)		2,857,781
Issuance of Series A convertible preferred stock in February 1999 at $1.00 per share	1,732,500	1,732,500										1,732,500
Issuance of Series B convertible preferred stock in September 1999 at $2.50 per share, net of issuance costs of $127,686			4,527,400	11,190,814								11,190,814
Options exercised for cash during 1999							420,912	75,900				75,900
Options exercised in October in connection with Series B convertible preferred stock issuance							8,100	5,684				5,684
Compensation expense related to issuance of stock awards to consultants								10,246				10,246
Net loss											(2,987,143)	(2,987,143)
Unrealized loss on available-for-sale securities										(48,907)		(48,907)
Comprehensive loss												(3,036,050)
Balance at December 31, 1999	5,420,000	5,350,417	4,527,400	11,190,814			1,244,829	101,534	(48,907)	(3,756,983)		12,836,875
Issuance of Series C convertible preferred stock at $5.00 per share in June 2000, net of issuance costs of $44,277					4,890,000	24,405,724						24,405,724
Issuance of a warrant to purchase 13,600 shares of Series C convertible preferred stock at $5.00 per share						37,808						37,808
Options exercised for cash							282,180	187,075				187,075
Shares repurchased at $0.70 per share							(3,562)	(2,500)				(2,500)
Compensation expense related to issuance of stock awards to consultants								26,714				26,714
Net loss											(7,921,030)	(7,921,030)
Unrealized gain on										145,545		145,545

available-for-sale securities													
Comprehensive loss													(7,775,485)
Balance at December 31, 2000 (carried forward)	5,420,000	5,350,417	4,527,400	11,190,814	4,890,000	24,443,532				1,523,447	312,823	96,638	(11,678,013)	29,716,211

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Statements of Stockholders Equity (Net Capital Deficiency) (continued)

Period from August 12, 1997 (inception) through September 30, 2003

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series D Convertible Preferred Stock		Series 1 Convertible Preferred Stock		Common Stock		Other Accumulated Comprehensive Income	Defic Accumu During Develop
	hares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	(Loss)	Stag
420,000	$ 5,350,417	4,527,400	$ 11,190,814	4,890,000	$ 24,443,532		$		$		1,523,447	$ 312,823	$ 96,638	$ (11,67
						5,450,000	20,649,701							
					370,560									
											57,231	53,222		
											(129,712)	(77,462)		
												57,706		
											4,631	6,500		

										48,450	68,000		(18,32
												140,555	
420,000	5,350,417	4,527,400	11,190,814	4,890,000	24,814,092	5,450,000	20,649,701			1,504,047	420,789	237,193	(29,99
											1,829		
								356,252	28,500				
										1,692,076	135,366		
										4,688	4,996		
										(49,906)	(38,392)		
											457,944		
420,000)	(5,350,417)	(4,527,400)	(11,190,814)	(4,890,000)	(24,814,092)	(5,450,000)	(20,649,701)	(356,252)	(28,500)	7,657,635	62,033,524		(25,56
												(237,193)	
	$		$		$		$		$	10,808,540	$ 63,016,056	$	$ (55,56

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Statements of Stockholders Equity (Net Capital Deficiency) (continued)

Period from August 12, 1997 (inception) through September 30, 2003

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series D Convertible Preferred Stock		Series 1 Convertible Preferred Stock		Common Stock		Other Accumulated Comprehensive Income	Deficit Accumulated During the Development	Total Stockholders Equity (Net Capital
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	(Loss)	Stage	Deficiency)
Balance at December 31, 2002 (brought forward)	$		$		$		$		$		10,808,540	$ 63,016,056	$	$ (55,567,697)	$ 7,448,359
Warrants exercised for cash to $0.01 per share (unaudited)											376,000	3,760			3,760
Options exercised for cash at $0.70 to $1.40 per share through 2003 (unaudited)											37,552	36,441			36,441
Shares repurchased at $0.28 to $1.40 per share through 2003 (unaudited)											(7,453)	(2,958)			(2,958)
Issuance of warrants to purchase 360,593 shares of common stock at $12 per share in April 2003 (unaudited)												766,634			766,634
Common stock issued to LG at $3.50 per share in April 2003 (unaudited)											1,164,292	4,075,022			4,075,022
Common stock issued to consultants at $0.08 to $3.50 per share in 2003												343,724			343,724
Net loss (unaudited)														(19,796,124)	(19,796,124)
Unrealized gain (loss) on available-for-sale securities (unaudited)													194		194
Comprehensive loss (unaudited)															(19,795,930)

Balance at September 30, 2003 (unaudited)	$	$	$	$	$	12,378,931	$ 68,238,679	$	194	$ (75,363,821)	$	(7,124,948)

See accompanying notes.

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Statements of Cash Flows

	Year ended December 31,			Period from August 12, 1997 (inception) through December 31,	Nine month period ended September 30,		Period from August 12, 1997 (inception) through September 30,
	2002	2001	2000	2002	2003	2002	2003
					(Unaudited)		(Unaudited)
Operating activities							
Net loss	$ (25,569,032)	$ (18,320,652)	$ (7,921,030)	$ (55,567,697)	$ (19,796,124)	$ (18,367,543)	$ (75,363,821)
Adjustments to reconcile net loss to net cash used in operating activities:							
Depreciation and amortization	2,867,731	2,073,610	692,695	5,919,627	2,396,246	2,176,583	8,315,875
Stock awards to consultants for services	1,829	125,706	26,714	164,495	343,724		508,219
Stock issued to licensor	163,866			163,866			163,866
Amortization of note payable discount	141,375	81,125	1,512	224,012	677,300	99,445	901,312
(Gain)/loss on property and equipment disposal	(10,000)		8,378	(1,622)		(10,000)	(1,622)
Realized gain on sale of short-term investments	(224,586)			(224,586)	(1,590)	(242,493)	(226,176)
Changes in assets and liabilities:							
Accounts receivable	(603,487)	1,229,902	(622,016)	(351,130)	(417,413)	(3,567)	(768,543)
Prepaid expenses and other current assets	227,342	(38,657)	(169,819)	(90,535)	90,483	132,712	(52)
Other assets	(335,000)		41,500	(335,000)	(2,480,000)	(20,000)	(2,815,000)
Accounts payable	419,795	(432,951)	556,534	815,473	(386,321)	(455,461)	429,152
Accrued patent expenses		(240,000)		(240,000)			(240,000)
Accrued leasehold improvements		(1,681,619)		(1,681,619)			(1,681,619)
Accrued lease deposit		359,775		359,775			359,775
Accrued interest on bridge loan					5,452,607		5,452,607
Deferred rent payable	505,908	421,590		927,498	303,957	379,431	1,231,455
Accrued bonus		(238,274)	148,808				
Other accrued liabilities	408,022	13,051	244,930	1,010,314	474,665	157,928	1,484,979
Net cash used in operating activities	(22,006,237)	(16,647,394)	(6,991,794)	(48,907,129)	(13,342,466)	(16,152,965)	(62,249,593)
Investing activities							
Purchase of short-term investments	(887,947)	(22,806,019)	(6,863,453)	(42,610,853)	193	(360,316)	(42,610,660)
Maturities of short-term investments				5,000,000			5,000,000
Sales of short-term investments	17,407,000	19,075,000		37,482,000	375,027	15,115,000	37,857,027
Purchase of property and equipment	(209,216)	(12,174,339)	(2,385,967)	(16,181,028)	(6,660)	(151,096)	(16,187,688)

Sale of property and equipment	10,227			10,227		10,227	10,227
Restricted cash			(3,696,840)	(3,696,840)			(3,696,840)
Net cash provided (used) in investing activities	16,320,064	(15,905,358)	(12,946,260)	(19,996,494)	368,560	14,613,815	(19,627,934)
Financing activities							
Proceeds from issuance of lease commitments, promissory notes, and bridge loan	6,500,000	4,663,737	1,938,925	13,823,124	18,809,666		32,632,790
Payment of lease commitments and notes payable	(3,031,801)	(1,279,455)	(322,776)	(4,710,092)	(3,624,523)	(1,409,204)	(8,334,615)
Proceeds from issuance of convertible preferred stock, net of issuance costs		20,649,701	24,405,724	61,452,340			61,452,340
Proceeds from issuance of common stock	4,996	59,722	187,075	337,397	40,201	5,038	377,598
Repurchase of common stock	(38,392)	(77,462)	(2,500)	(118,354)	(2,958)	(22,817)	(121,312)
Net cash provided by (used in) financing activities	3,434,803	24,016,243	26,206,448	70,784,415	15,222,386	(1,426,983)	86,006,801
Net increase (decrease) in cash	(2,251,370)	(8,536,509)	6,268,394	1,880,794	2,248,480	(2,966,133)	4,129,274
Cash at beginning of period	4,132,164	12,668,671	6,400,277		1,880,794	4,132,162	
Cash at end of period	$ 1,880,794	$ 4,132,162	$ 12,668,671	$ 1,880,794	$ 4,129,274	$ 1,166,029	$ 4,129,274

See accompanying notes.

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Statements of Cash Flows (continued)

	Year ended December 31,			Period from August 12, 1997 (inception) through December 31,	Nine month period ended September 30,		Period from August 12, 1997 (inception) through September 30,
	2002	2001	2000	2002	2003	2002	2003
					(Unaudited)		(Unaudited)
Supplemental disclosure of cash flow information							
Cash paid for interest	$ 546,599	$ 450,484	$ 52,777	$ 1,086,602	$ 257,816	$ 430,784	$ 1,344,418
Schedule of noncash investing and financing activities							
Conversion of placement fees to common stock	$	$ 68,000	$	$ 68,000	$	$	$ 68,000
Conversion of notes payable to preferred stock	$	$	$	$ 150,000	$	$	$ 150,000
Issuance of stock to collaborators	$ 163,866	$	$	$ 163,866	$	$	$ 163,866
Conversion of preferred to common stock	$ 62,033,524	$	$	$ 62,085,024	$	$	$ 62,085,024
Issuance of warrants in connection with financing agreement	$ 457,944	$ 370,560	$ 37,808	$ 866,312	$ 766,632	$	$ 1,632,944

See accompanying notes.

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization, Business, and Basis of Presentation

GeneSoft Pharmaceuticals, Inc. (a development stage company) (the Company) was incorporated in the state of Delaware on August 12, 1997. The Company was organized to develop a family of small molecule drugs to treat gene-mediated diseases. The Company s activities to date have consisted principally of raising capital, acquiring intellectual property, recruiting staff, and conducting research and development. Accordingly, the Company is considered to be in the development stage, and expects to incur continuing losses and require additional financial resources to achieve commercialization of its products. The Company operates in only one segment, the development of biopharmaceutical products.

The Company anticipates working on a number of long-term development projects which will involve experimental and unproven technology. The projects may require many years and substantial expenditures to complete, and may ultimately be unsuccessful. Additionally, the Company s approved product, FACTIVE, will require substantial funds to market and launch. Therefore, the Company will need to obtain additional funds from outside sources to continue its research and development activities, fund operating expenses, pursue regulatory approvals, and build production, sales, and marketing capabilities, as necessary.

Going Concern

The Company has generated negative cash flows from operations since inception and has a working capital deficiency and has minimal capital resources at September 30, 2003. The company has been able to fund its cash needs to date through the sale of its preferred and common stock and debt financings. The ability of the Company to manage its operating expenses to a level that can be financed by existing cash flows and its ability to obtain additional funding is therefore critical to the Company s ability to continue operating as a going concern.These conditions raise substantial doubt about the Company s ability to continue as a going concern. The Company s management intends to merge the Company with another corporation and obtain additional financing or enter into collaborative arrangements. The outcome of management s intentions is not presently determinable. As such, no adjustments have been made that might result from this situation.

The Company s continuation as a going concern is primarily dependent upon its ability to merge and obtain alternative sources of capital.

In the event the Company is unable to secure alternative financing sources, it is likely that any of the following alternatives will be pursued: (1) pursue a co-promotion collaboration; or (2) pursue other available protective remedies.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Unaudited Interim Consolidated Results

The accompanying balance sheet as of September 30, 2003, the statements of operations and cash flows for the nine months ended September 30, 2002 and 2003 and the statements of stockholders equity (net capital deficiency) for the nine months ended September 30, 2003 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Notes to Financial Statements (Continued)

management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company s financial position as of September 30, 2003 and the results of operations and cash flows for the nine months ended September 30, 2003 and 2002. The financial data and other information disclosed in these notes to financial statements as of September 30, 2003 and related to the nine-month periods ended September 30, 2003 and 2002 are unaudited. The results for the nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003 or for any other interim period or for any other future year.

Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments in debt securities with a remaining maturity from the date of purchase of 90 days or less to be cash equivalents. Cash equivalents consist of money market funds. The Company s short-term investments consist entirely of mutual funds with investments in debt securities.

All cash equivalents and short-term investments are classified as available-for-sale as the Company may sell the investment prior to the maturity date in order to take advantage of market conditions. Available-for-sale securities are carried at estimated market values at December 31, 2002 and 2001. Unrealized gains and losses on available-for-sale securities are excluded from earnings and recorded as a separate component of stockholders equity (net capital deficiency). The cost of securities sold is based on the specific identification method.

Other Intangible Assets

Intangible assets with definite useful lives are amortized on a straight-line basis over a period of fifteen years, the life of the agreement. Intangible assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. Intangible assets consist of capitalized license costs incurred through the Company s licensing arrangement with LG Life Sciences subsequent to approval of FACTIVE in April 2003 and are being amortized over the term of the license. License costs prior to approval were charged to research and development expense.

The Company will periodically evaluate whether changes have occurred that would require revision of the remaining estimated useful lives of these assets or otherwise render the assets unrecoverable. If such an event occurred, the Company would determine whether the other intangibles were impaired. To date, no such impairment losses have been recorded.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, generally three years. Leasehold improvements are amortized on a straight-line basis over the shorter of their useful life or the remaining life of the lease.

Research and Development

Research and development expenses consist of costs incurred for internally sponsored research and development as well as costs for in-licensed technology. These costs include direct labor and supplies, in-license fees and indirect research-related overhead expenses consisting primarily of facility costs.

Stock-Based Compensation

In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148), the Company has elected to follow Accounting

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Notes to Financial Statements (Continued)

Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, and to adopt the pro forma disclosure alternative described in SFAS 123 in accounting for stock awards to employees.

No compensation expense is recognized in the Company s financial statements in connection with the stock options granted to employees. The weighted-average fair value of these options at December 31, 2002 and 2001 of $0.60 and $0.57, and at September 30, 2003 and 2002 of $0.22 and $0.50, was estimated at the date of grant using a minimum value option pricing model with the following assumptions: a risk-free interest rate of 3.0% and 6.0%, respectively, a weighted-average expected life of the option of eight years and nine years, respectively, and a dividend yield of zero.

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS 123, as amended by SFAS 148, to stock-based employee compensation.

	Year ended December 31,			Nine-month period ended September 30,	
	2002	2001	2000	2003	2002
				(Unaudited)	
Net loss as reported	$ (25,569,032)	$ (18,320,652)	$ (7,921,030)	$ (19,796,124)	$ (18,367,543)
Less: Total stock-based employee compensation expense determined under fair-value-based method for all awards	(240,720)	(183,609)	(85,523)	(284,160)	(237,314)
Pro forma net loss	$ (25,809,752)	$ (18,504,261)	$ (8,006,553)	$ (20,080,284)	$ (18,604,857)
Net loss per share as reported	$ (12.81)	$ (15.69)	$ (8.27)	$ (1.69)	$ (14.04)
Pro forma net loss per share	$ (12.93)	$ (15.85)	$ (8.36)	$ (1.71)	$ (14.22)
Total shares used in calculation	1,996,472	1,167,611	957,311	11,728,821	1,307,881

Option grants to non-employees are accounted for in accordance with SFAS 123 and Emerging Issues Task Force Consensus No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, which requires the value of such options to be periodically remeasured as they vest over a performance period.

Net Loss per Share

Basic loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding. Basic earnings per share does not include shares subject to the Company s right of repurchase, which lapse ratably over the related vesting term. Diluted loss per share is calculated by dividing net loss available to common stockholders by the weighted-average number of shares of common stock outstanding plus shares of potential common stock. Shares of potential common stock are composed of shares of common stock subject to the Company s right of repurchase and shares of common stock issuable upon the exercise of stock options (using the treasury stock method). The calculation of diluted net loss per share excludes shares of potential common stock if the effect is anti-dilutive.

Revenue

Grant revenue is recorded as grant costs are incurred as stipulated by the underlying contract.

Comprehensive Income (Loss)

The only item of other comprehensive income (loss) that the Company currently reports is unrealized gains (losses) on short-term investments, which are included in comprehensive loss in the statements of stockholders equity (net capital deficiency).

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Notes to Financial Statements (Continued)

Recently Issued Accounting Standards

In November 2002, the Financial Accounting Standards Board (the FASB) issued the FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), which clarifies the requirements for a guarantor s accounting and disclosures of certain guarantees issued and outstanding. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at its inception of guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor s fiscal year-end. The disclosure requirements on this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company s results of operations or financial position.

In November 2002, the EITF issued EITF Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* (EITF 00-21). EITF 00-21 addresses how to account for arrangements that may involve delivery or performance of multiple products, services, and/or rights to use assets, and if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. It does not change otherwise applicable revenue recognition criteria. It applies to arrangements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The adoption of EITF 00-21 did not have a material impact on the Company s results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS 150). SFAS 150 establishes standards for the classification and measurement of financial instruments with characteristics of both liabilities and equity. FAS 150 is effective for financial instruments entered into or modified after May 31, 2003, except for certain mandatorily redeemable financial instruments for which the FASB announced on November 5, 2003 deferred effective dates for certain provisions of FAS 150. The adoption of FAS 150 and the subsequent deferred effective dates did not and will not have a material effect on the Company s financial position or results of operations.

2. Cash and Cash Equivalents

At September 30, 2003, the Company reported $4,129,274 as cash and cash equivalents. Additionally, as a requirement of a lease agreement, the Company obtained a letter of credit with a bank for $3,696,840. The Company is obligated to maintain a minimum balance of $3,696,840 in the bank s security accounts, which has been recorded as restricted cash. At December 31, 2002 and September 30, 2003, the Company was in compliance with this requirement.

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GeneSoft Pharmaceuticals, Inc.

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Notes to Financial Statements (Continued)

3. Investments

Gross unrealized gains on available-for-sale securities were $0 and $237,193 as of December 31, 2002 and 2001, respectively, and $194 as of September 30, 2003. The following is a summary of available-for-sale securities:

September 30, 2003 (Unaudited)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash equivalents:				
Money market funds	$ 4,129,080	$ 194	$	$ 4,129,274

December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash equivalents:				
Money market funds	$ 28,532	$	$	$ 28,532
Short-term investments:				
Mutual fund securities	$ 373,437	$	$	$ 373,437

December 31, 2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash equivalents:				
Money market funds	$ 2,850,761	$	$	$ 2,850,761
Short-term investments:				
Mutual fund securities	$ 16,647,906	$ 237,193	$	$ 16,885,099

4. Property and Equipment

Property and equipment consisted of the following:

	December 31,

	2002	2001	September 30, 2003
			(Unaudited)
Laboratory equipment	$ 4,479,650	$ 4,363,210	$ 4,479,650
Computer and office equipment	1,077,478	994,702	1,081,138
Leasehold improvements	12,643,956	12,654,183	12,643,956
	18,201,084	18,012,095	18,207,744
Less: accumulated depreciation and amortization	(5,910,282)	(3,042,551)	(8,037,740)
	$ 12,290,802	$ 14,969,544	$ 10,170,004

At September 30, 2003, all of the Company s property and equipment was pledged as security to repay the outstanding notes payable to a financing company.

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Notes to Financial Statements (Continued)

5. Leases, Commitments, Promissory Notes, and Bridge Loan

The Company leases its office facilities under an operating lease arrangement that expires on March 1, 2011. Rent expense under the operating lease amounted to $4,202,748, $3,568,253, $541,995 and $9,175,463 for the years ended December 31, 2002, 2001, 2000 and for the period from August 12, 1997 (inception) through December 31, 2002, respectively. Rent expense under the operating leases amounted to $3,152,064, $3,153,061, and $12,327,527 for the period ended September 30, 2003 and 2002 and for the period from August 12, 1997 (inception) through September 30, 2003, respectively.

A portion of the leased facilities is subleased to an external party. Rental income under this sublease which is offset against lease expense was $1,584,190, $351,000, and $0 during the years ended December 31, 2002, 2001, and 2000, respectively. Rental income under this sublease was $1,258,219, $1,176,070 and $3,193,409 during the period ended September 30, 2003, 2002, and the period from August 12, 1997 (inception) through September 30, 2003, respectively. The aggregate future minimum rental to be received under the noncancelable sublease amounts to $2,161,515 at September 30, 2003 and is due through December 2004.

To fund purchases of equipment required for research, the Company and a financial institution entered into a Master Security Agreement effective September 15, 2000. Under the terms of this agreement, the Company granted the financial institution a security interest in and against all property acquired under all existing and future debts, obligations, and liabilities between the parties.

On October 26, 2000 and December 28, 2000, the Company issued promissory notes to the financial institution in the amount of $744,177 and $1,194,748, respectively, to finance equipment under the Master Security Agreement. The promissory notes are payable in 48 equal monthly installments of $19,497 and $31,302, and bear interest at 12.27% per annum. At December 31, 2002 and September 30, 2003, $1,029,951 and $652,374 remained outstanding, respectively.

In connection with the Master Security Agreement, the Company issued warrants to the financial institution to purchase 13,600 shares of Series C convertible preferred stock at $5.00 per share (converted in 2002 to 5,050 warrants to purchase common stock at $14 per share as a result of the conversion and reverse split discussed in Note 8), the fair value on the date of issuance. The warrants vested immediately and are exercisable until October 3, 2007. The warrants are outstanding as of September 30, 2003.

The fair value of the warrants issued to the financial institution of $37,808 was recorded as a discount against the promissory notes. The discount is being amortized to interest expense over the term of the promissory notes. The Company calculated the fair value of the warrants issued to the financial institution using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 6%, a contractual life of seven years, a dividend yield of 0%, and a volatility of 65%.

In April 2001, the Company entered into a new Master Security Agreement jointly with two financial institutions. Under the terms of this agreement, the Company granted the financial institutions a security interest in and against all property acquired under all existing and future debts, obligations, and liabilities between parties.

In June, July, and September 2001, the Company issued promissory notes to the financial institutions under a new Master Security Agreement for $3,668,585, $511,613, and $463,538, respectively. In December 2002, the Company renegotiated its promissory notes and prepaid $1,000,000 of the outstanding liability and re-amortized the balance payable under the promissory notes to $37,302 per month for January to May 2003, increasing to $96,938 per month thereafter through the end of the term on December 2004. The interest rate on this loan is 11.44%. At September 30, 2003, $1,236,935 remained outstanding under these notes.

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Notes to Financial Statements (Continued)

In connection with the new Master Security Agreement, the Company issued warrants to the financial institutions to purchase 96,000 shares of Series C convertible preferred stock at $5.00 per share (converted to 35,652 shares at $13.47 per share in December 2002). The warrants vested immediately and are exercisable until June 13, 2011. The warrants are outstanding as of September 30, 2003.

The fair value of the warrants issued to the financial institutions of $370,560 was recorded as a discount against the promissory notes. The discount is being amortized to interest expense over the term of the promissory notes. The Company calculated the fair value of the warrants issued to the financial institution using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 5.5%, a contractual life of 10 years, a dividend yield of 0%, and a volatility factor of 65%.

In December 2002 and January 2003, the Company entered into a bridge loan agreement for $5,000,678. The bridge loan is unsecured and bears interest at a fixed rate of 6% per annum. The bridge loan may be converted into the Company s common stock upon the close of an equity financing round of at least $2,500,000. The bridge loan has a liquidation preference of up to $10 million payable in cash upon sale or in the event of an initial public offering. The bridge loan becomes due on December 6, 2005 if not converted to common stock by that date.

In connection with the issuance of the bridge loan agreement, the Company issued warrants to purchase 5,000,678 shares of the Company s common stock at an exercise price of $0.01 per share. The fair value of the warrants issued to the financial institution of $245,000 was recorded as a discount against the promissory notes, of which $61,250 was amortized to interest expense in the nine months ended September 30, 2003. The discount is being amortized to interest expense over the term of the promissory notes. The Company calculated the fair value of the warrants issued to the financial institution using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 5.5%, a contractual life of 10 years, a dividend yield of 0%, and a volatility factor of 65%.

After deducting the fair value of the warrants from the proceeds of the bridge loan issuance, the convertible bridge loan proceeds were subject to a beneficial conversion feature valued at $228,972 of which $53,235 was recorded as interest expense in 2003 in accordance with Emerging Issues Task Force (EITF) 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, as amended by EITF No. 00-27 Application of Issue 98-5 to Certain Convertible Instruments. The remaining $175,737 will be amortized to interest expense over the remaining term of the bridge loan.

In April of 2003, the Company entered into a second bridge loan agreement (the loan) for approximately $17.3 million. The loan matures on December 15, 2003. The interest rate on the loan is 17% through August 15, 2003, and 4% per month from August 16, 2003 through December 15, 2003. In the event that repayment does not occur as of the extended maturity date, the note may be converted into common stock at a value of $5.00 per share. In conjunction with the loan, the Company issued 360,593 warrants to purchase common stock at $12 per share. The fair value of the warrants issued to the lender of $385,837 was recorded as a discount against the bridge loan. The discount is being amortized to interest expense over the term of the bridge loan. The Company calculated the fair value of the warrants using the Black-Scholes option pricing model. With the following assumptions: a risk-free interest rate of 5%, a contractual Life of 5 years, dividend yield of 0% and a volatility factor of 65%.

The conditions of the second loan amended the terms of the December 2002 bridge loan. The liquidation preference was revised from the $10 million liquidation preference to $7.5 million. The amendment provided for

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Notes to Financial Statements (Continued)

the liquidation preference to be paid either upon the sale, an initial public offering or maturity of the note. Beginning in April 2003, the Company began accreting up to the liquidation preference to the maturity date of the note through charges to interest expense. As of September 30, 2003, $1,251,795 was recorded as interest expense related to this liquidation preference.

Interest expense of $709,807, $531,610, $54,309, and $1,342,448 was incurred during the years ended December 31, 2002, 2001, 2000, and the period from inception to December 31, 2002, respectively in relation to notes payable. Interest expense of $6,456,666, $530,291 and $7,799,114 was incurred during the period ended September 30, 2003, 2002, and the period from inception to September 30, 2003, respectively, in relation to notes payable.

After deducting the fair value of the warrants from the proceeds of the bridge loan issuance, the convertible bridge loan proceeds were subject to a beneficial conversion feature valued at $380,797 of which $237,998 was recorded as interest expense in 2003 in accordance with Emerging Issues Task Force (EITF) 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, as amended by EITF No. 00-27, *Application of Issue 98-5 to Certain Convertible Instruments.* The remaining $142,799 will be amortized to interest expense over the term of the bridge loan.

The future minimum payments under the operating leases (gross of sublease income) and financing arrangements, by year, are as follows:

	Operating Leases	Notes Payable and Bridge Loan
Year ending December 31,		
2003 (three months)	$ 533,925	$ 24,714,412
2004	2,198,940	1,714,354
2005	4,075,654	5,918,301
2006	4,218,296	
2007	4,365,944	
Thereafter	13,384,023	
	$ 28,776,782	32,347,067
Less interest		(6,897,841)
Less discount		(731,631)
		24,717,595

Less current portion	(19,689,234)
Long-term portion	$ 5,028,361

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Notes to Financial Statements (Continued)

6. License and Collaboration Agreements

California Institute of Technology

In September 1998, the Company entered into a license agreement (the Agreement) with the California Institute of Technology (CalTech), which was amended twice, in February 1999 and in January 2000. Under the Agreement, CalTech granted an exclusive license to the Company, with the right to grant and authorize sublicenses. As an up-front fee, the Company paid CalTech $5,000 and issued 42,750 shares of its common stock. The Company has to pay an annual minimum fee of $10,000 as well as any cost related to preparation, filing, prosecution, and maintenance of existing and new patents covered under the Agreement. The Company is also obligated to pay future royalties on product sales. A portion (16.7%) of these costs are reimbursable by CalTech. Prosecution costs incurred in the amount of $240,000, were paid in full during 2001. No such cost were incurred in 2002 or for the nine months ended September 30, 2003.

Dow Pharmaceuticals

In June 2002, the Company entered into a contract with Dow Pharmaceuticals for the development of a topical antibacterial to treat skin infections such as infected diabetic foot ulcers and secondarily infected traumatic lesions. Under this collaboration, a topical DNA-Nanobinder preparation was investigated. This program is currently on hold for financial reasons.

British Biotech Pharmaceuticals Limited

In August 2002, the Company entered into a three-year strategic partnership with British Biotech Pharmaceutical Ltd. (now Vernalis) to co-develop GSQ-83698, a novel antibiotic to treat intractable Gram-positive respiratory infections in hospital-based patients. GSQ-83698 entered Phase I clinical trials in the United Kingdom on October 1, 2002. The Company will be responsible for commercializing the product in the United States and the rest of the world, excluding Europe and Japan. The parties will split development funding and worldwide profits equally.

Additionally, the Company agreed to co-develop oral PDF inhibitors for the treatment of community-acquired Gram-positive and Gram-negative infections. The Company will be responsible for commercializing the product in the United States and all countries other than those in Europe and Japan. The parties will split development funding and worldwide profits such that the Company is responsible for approximately 63% of the costs that included at least 12 full-time equivalent (FTE) personnel. Any shortfall in the required FTEs will be reimbursable to the other party at a rate of $250,000 and $150,000 per FTE per year for employees working in the United States and the United Kingdom, respectively.

The Company also licensed three novel metalloenzyme bacterial targets from Vernalis. The Company intends to initiate a drug discovery program to develop small molecule therapeutics against three of these targets. The targets provide an important set of early stage discovery programs for the Company.

During 2002, the Company made an up-front payment of $4,000,000, a $1,000,000 clinical milestone payment and issued equity in order to access this technology. This technology is at an early stage of development and the risks inherent in drug development in order to take compounds such as these to commercial viability are very high. This risk assessment resulted in recording the up-front payment and milestone as research and development expenses during 2002.

In September 2003, the Company agreed to assume full responsibility for the program. The respective parties performed a reconciliation of FTEs and costs to date and the Company agreed to pay Vernalis $775,000 by December 20, 2003. This amount is recorded in other accrued liabilities at September 30, 2003.

As a result of this amendment, the Company is obligated to make royalty payments on future product sales. Additionally, milestone payments of up to $18.8 million could also be payable over the term of the license.

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Notes to Financial Statements (Continued)

LG Life Sciences, LTD

In October 2002, the Company entered into a partnership with LG Life Sciences (LG) to license rights in North America and the territories covered by the license in Europe to FACTIVE® (gemifloxacin) (the product), a novel quinolone antibiotic. The term of the agreement coincides with the compound s patent life which currently expires in 2015. The patent could be extended for an additional two years. The product was approved for sale in the United States in April 2003. The arrangement with LG includes up-front fees, milestone payments, and royalties on sales. In addition, the Company issued LG 1,164,292 shares of common stock in April 2003.

To secure the license to this product, the Company made an up-front payment of $5,500,000, $3,000,000 of which was settled by way of a promissory note. The Company paid all costs required to obtain regulatory approval of the product. Although the product is approved, the agreement with LG requires a minimum sales commitment over a period of time, which if not met, could result in the technology being returned to LG. Because of the risks inherent with successfully obtaining Federal Drug Administration (FDA) approval of a product in 2002, the Company included the up-front payments made to LG in research and development costs.

The Company is subject to future milestone payments of up to $35.0 million over the term of the license. In April 2003, the Company obtained FDA approval for the sale of FACTIVE in the United States. The approval triggered the first milestone payment to LG. The amount of the milestone payment ($5 million) is payable as follows: $2.5 million payable 30 days after approval and $2.5 million payable contingent on the receipt and acceptance of the first order of drug product scheduled to occur by the end of the year. The first installment was paid as scheduled, and has been capitalized and being amortized over the term of the license.

The Company is obligated to pay LG Life Sciences a royalty on sales in the U.S. and the territories covered by the license in Europe.

The Company is obligated to purchase its requirements for the final drug product from LG Life Sciences for 2004. In 2004, the final drug product will be tableted and packaged for LG Life Sciences by SB Pharmco at its manufacturing facility in Puerto Rico. This arrangement with SB Pharmco is expected to conclude by the end of 2004. Genesoft is in discussions with a new secondary manufacturer to assume these responsibilities for subsequent periods.

Pursuant to its partnership with LG Life Sciences, upon delivery of the first shipment of FACTIVE, which is anticipated to occur in the next two months, Genesoft will be obligated to make a $2.5 million milestone payment to LG Life Sciences as well as a payment of $4.8 million for the purchase of the drug inventory. Upon the closing of the merger, the combined company will be obligated to make an $8 million milestone payment to LG Life Sciences.

7. Accounts Receivable and Grant Revenue

In December 1998, the Company was awarded a government grant to research the regulation of pathogen gene expression by DNA-binding polyamides. The original term of the grant commenced on the effective date of the grant, December 1998, and continues for a period of three years thereafter. Defense Advance Research Project Agency (DARPA) was assigned as project officer. The amount of this grant available to the Company was $2,263,000. The Company was entitled to receive payments made on a cost reimbursement basis. Title to all property and equipment purchased by the Company with grant proceeds will vest to the Company upon acquisition of the property and equipment. Either party may terminate this grant, in whole or in part, upon notice to and consultation with the other party, and upon agreement of the parties that continuation of the project would not produce beneficial results commensurate with the further expenditures of funds. In addition, the grant may be revoked upon a finding that the Company had failed materially to meet the provisions of the grant. The Company recognizes grant revenue as costs reimbursable under the grant are incurred and the terms of the government agreement are met.

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Notes to Financial Statements (Continued)

Effective November 2, 1999, an amendment to the grant was approved by DARPA. The amendment stipulated that the amount available under the grant increased by $3,008,200 for a total of $5,271,200. An additional amendment was approved on April 4, 2000, which increased the funds available for payment to a total amount of $5,786,600. On November 21, 2000, DARPA approved an amendment to the grant and made a total budget of $8,766,000 fully available to the Company. In September 2002, DARPA further amended the grant and made funds of $12,282,194 available to the Company. During 2002, all amounts available under the grant were billed. As of December 31, 2002, the Company had received $12,107,194 in cash and the remaining $175,000 was included in accounts receivable. As of September 30, 2003, the $175,000 remains in accounts receivable.

In November 2002, the Company entered into a new contract with DARPA for $3,000,000 for further research. In April 2003, the Company entered into an extension of this contract for an additional $5,500,000 for further research. At September 30, 2003, the Company had billed $4,916,675 under this contract. At September 30, 2003, the Company had received $4,003,069 in cash and the remaining $913,606 was included in accounts receivable.

8. Stockholders Equity (Net Capital Deficiency)

Stock Split

In December 2002, the Board of Directors approved a 1 for 2.807 reverse stock split of the Company s common stock in conjunction with the bridge financing. All stock information in these financial statements has been retroactively adjusted to reflect the reverse split.

Common Stock

In October 1997, the Company issued 730,317 shares of common stock to the founders at $0.0048 per share, subject to repurchase by the Company with repurchase rights lapsing over a 60-month period from the date of issuance. At September 30, 2003, the repurchase rights have lapsed.

In November 1998, the Company issued 21,375 shares of common stock to a consultant at $0.0048 per share. The shares are subject to repurchase by the Company, with repurchase rights lapsing ratably over a 48-month period commencing November 2, 1999. The Company recorded compensation expense relating to the stock issuance as services are provided by the consultant, which approximates the vesting schedule. Compensation charges of $1,760 and $7,500 were recorded in 2002 and 2001, respectively, related to these consultant grants. The Company calculated these charge using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 6%, a

contractual life of seven years, a dividend yield of 0%, and a volatility of 65%. At December 31, 2002, the repurchase rights had lapsed.

In October 2002, in conjunction with the licensing of FACTIVE (Note 6), the Company issued 1,692,076 shares of common stock to LG Life Sciences. This stock was issued at fair value of $0.08 and recorded in the Company s financial statements as a charge to research and development. The agreement with LG provided for anti-dilution protection from the date of the licensing agreement (October 2002) until the approval of FACTIVE, with the issuance of antidilution shares being contingent upon product approval by the FDA. In April 2003, in conjunction with the approval of FACTIVE, the Company issued an additional 1,164,292 shares of common stock to LG. The stock was issued at fair value of $3.50 and was capitalized in the Company s financial statements as an intangible asset being amortized over the term of the license.

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Notes to Financial Statements (Continued)

Convertible Preferred Stock

At September 30, 2003, the Company was authorized to issue up to 24,975,000 shares of preferred stock, issuable in series, with the rights and preferences of each designated series to be determined by the Company s board of directors. To date, 5,425,000, 6,000,000, 6,600,000, 13,000,000 and 1,000,000 shares have been designated as Series A, B, C, D and Series 1 convertible non-redeemable preferred stock, respectively.

In August 2002, the Company issued 1,000,000 shares of Series 1 preferred stock (converted to 356,252 shares of common stock, as described below) to British Biotech Pharmaceuticals Ltd. in accordance with the technology agreement which provided for issuance of Series 1 Preferred Stock on the meeting of a clinical milestone. This stock was issued at fair value of $0.08 per share and recorded as research and development expense in August 2002.

In December 2002, in conjunction with the bridge financing, the Company converted all shares of Series A, Series B, Series D and Series 1 convertible non-redeemable preferred stock to common stock at a ratio of one share of common stock for each 2.807 shares of nonredeemable convertible preferred stock held and all shares of Series C convertible nonredeemable preferred stock at a rate of one share of common stock for each 2.693 shares of nonredeemable convertible preferred stock held, after taking into account antidilution protection which resulted from the issuance of Series D preferred stock.

9. Accounting for Stock-Based Compensation Stock Options

1998 Stock Plan

The 1998 Stock Plan (the Plan) was adopted in June 1998 and provides for the issuance of stock options. As of December 31, 2002, the Company had reserved 4,011,814 shares of common stock for issuance under the Plan.

Stock options granted under the Plan may be either incentive stock options or nonstatutory stock options. Incentive stock options may be granted to employees with exercise prices of no less than the fair value and nonstatutory options may be granted to employees, directors, or consultants at exercise prices of no less than 85% of the fair value of the common stock on the grant date, as determined by the board of directors. If, at the time the Company grants an option, the optionee directly or by attribution owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, the option price shall be at least 110% of the fair value and shall not be exercisable more than five years after the date of grant. For all grants prior to December 31, 2001, options become exercisable as determined by the board of directors, at

the rate of 20% at the end of the first year with the remaining balance vesting ratably over the next four years. For all grants beginning in 2002, options become exercisable as determined by the board of directors at a rate of 25% at the end of the first year with the remaining balance vesting ratably over the next three years. Except as noted above, options expire no more than 10 years after the date of grant or earlier if employment is terminated.

The Plan allows for the early exercise of options before they have vested. Any unvested shares so purchased are subject to repurchase by the Company upon termination of the purchaser s employment or services. The repurchase right lapses over the normal vesting schedule. At December 31, 2002, and September 30, 2003, there were 88,703 and 22,208 shares subject to repurchase relating to the early exercise of options at a weighted-average exercise price of $0.70 and $0.41 per share, respectively.

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Notes to Financial Statements (Continued)

Stock Options

Option activity under the Plan is as follows:

		Outstanding Options	
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price Per Share
Balance at December 31, 1999	212,777	323,654	$ 0.508
Shares reserved	712,504		
Shares repurchased	3,562		
Options granted	(726,042)	726,042	$ 1.178
Options exercised		(282,180)	$ 0.654
Options canceled	91,528	(91,528)	$ 0.691
Balance at December 31, 2000	294,329	675,988	$ 1.142
Shares reserved	178,126		
Shares repurchased	100,499		
Options granted	(282,864)	282,864	$ 1.40
Options exercised		(57,231)	$ 1.024
Options canceled	115,017	(115,017)	$ 1.142
Balance at December 31, 2001	405,107	786,604	$ 1.229
Shares reserved	2,155,766		
Shares repurchased	49,906		
Options granted	(140,274)	140,274	$ 1.40
Options exercised		(4,688)	$ 1.06
Options canceled	211,230	(211,230)	$ 1.32
Balance at December 31, 2002	2,681,735	710,960	$ 1.23
Shares reserved *(Unaudited)*			
Shares repurchased *(Unaudited)*	3,178		
Options granted *(Unaudited)*	(2,312,544)	2,312,544	$ 0.17
Options exercised *(Unaudited)*		(37,552)	$ 1.06
Options canceled *(Unaudited)*	116,205	(116,205)	$ 0.83
Balance at September 30, 2003 *(unaudited)*	488,574	2,869,747	$ 0.39

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Notes to Financial Statements (Continued)

Details of the Company s stock options at December 31, 2002 are as follows:

Options Outstanding and Exercisable		
Exercise Price	Number of Shares Under Option	Weighted-Average Remaining Contractual Life (In years)
$0.28	91,616	6.12
$0.70	28,500	7.21
$1.40	590,844	8.26
	710,960	

In the nine months ended September 30, 2003 and 2002, the Company granted 56,800 and 26,718 options, respectively, to consultants under the Plan with exercise prices equal to the market price of the options determined by the Company s board of directors with vesting periods from one to five years. Additionally, on August 2003, the Company issued 70,000 options outside of the Plan. The Company recognized compensation charges of $1,829 in 2002, $50,205 in 2001, and $26,714 in 2000 and $343,724 for the nine months ended September 30, 2003 relating to these options. To determine the fair value of options earned by consultants in 2003 and 2002, the Black-Scholes valuation model was applied, using the following assumptions: a risk-free interest rate of 5.0%, respectively; a weighted-average contractual life of approximately 10 years; a volatility of 65%; common stock prices of $0.08 and $3.50 per share in 2002 and 2003, respectively; and no dividends

Stock Issuance Program

A stock issuance program was adopted in June 1998 (the Stock Issuance Program) and provides for the direct and immediate issuance of shares of common stock without any intervening option grants at purchase prices of not less than 85% of the fair market value of the common stock on the issue date, as determined by the board of directors. If, at the time the Company issues shares, the purchaser directly or by attribution owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, the purchase price shall be at least 100% of the fair value on the issue date. Shares of common stock may be issued under the Stock Issuance Program for cash or check, payable to the Company, or for past services rendered to the Company.

Shares of common stock issued under the Stock Issuance Program may, at the discretion of the board of directors, be fully and immediately vested upon issuance or may vest in one or more installments over the participant s period of service or upon attainment of specified performance objectives. However, the board of directors may not impose a vesting schedule upon any stock issuance affected under the Stock Issuance Program which is more restrictive than 20% per year vesting, with initial vesting to occur not later than one year after the issuance date. Such limitation shall not apply to any common stock issuances made to the officers of the Company, nonemployee board members, or independent consultants.

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GeneSoft Pharmaceuticals, Inc.

(a development stage company)

Notes to Financial Statements (Continued)

Common Shares Reserved