NATIONAL RETAIL PROPERTIES, INC.
Form 4
May 02, 2011

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
LANIER TED B

(Last) (First) (Middle)

450 S. ORANGE AVENUE, SUITE 900

(Street)

ORLANDO, FL 32801

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NATIONAL RETAIL PROPERTIES, INC. [NNN]

3. Date of Earliest Transaction (Month/Day/Year)
04/29/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/29/2011	04/29/2011	A		1,116 (1)	A	$ 26.43	57,384	D	
Common Stock								14,000	I	By Spouse
Common Stock								5,000	I	By Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LANIER TED B 450 S. ORANGE AVENUE SUITE 900 ORLANDO, FL 32801	X			

Signatures

/s/ Ted B. Lanier	05/02/2011
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares were acquired pursuant to a stock award under the National Retail Properties 2007 Performance Incentive Plan in a transaction 16-b.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ctors is not provided for in Discovery Partners certificate of incorporation, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election.

No Preemptive or Similar Rights

Discovery Partners common stock is not entitled to preemptive rights and is not subject to conversion or redemption.

200

Table of Contents

Right to Receive Liquidation Distributions

If Discovery Partners voluntarily or involuntarily liquidates, dissolves or winds-up, the holders of common stock will be entitled to receive after distribution in full of the preferential amounts, if any, to be distributed to the holders of preferred stock or any series of preferred stock, all of the remaining assets available for distribution ratably in proportion to the number of shares of common stock held by them. Holders of Discovery Partners common stock have no preferences or any preemptive conversion or exchange rights. The outstanding common stock is, and the shares offered by Discovery Partners in the merger will be, fully paid and non-assessable. The rights, preferences and privileges of holders of Discovery Partners common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock, which Discovery Partners may designate and issue in the future. Upon the closing of the merger, there will be no shares of Discovery Partners preferred stock outstanding.

Anti-Takeover Provisions

The provisions of the DGCL, Discovery Partners certificate of incorporation and bylaws may have the effect of delaying, deferring, or discouraging another person from acquiring control of Discovery Partners. Such provisions could limit the price that some investors might be willing to pay in the future for Discovery Partners common stock. These provisions of the DGCL and Discovery Partners certificate of incorporation and bylaws may also have the effect of discouraging or preventing certain types of transactions involving an actual or threatened change of control of Discovery Partners, including unsolicited takeover attempts, even though such a transaction may offer Discovery Partners stockholders the opportunity to sell their stock at a price above the prevailing market price.

Discovery Partners is subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with an interested stockholder for a period of three years following the time that such stockholder became an interested stockholder, unless:

- the board of directors of the corporation approves either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder, prior to the time the interested stockholder attained that status;

- upon the closing of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (a) by persons who are directors and also officers and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- at or subsequent to such time, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

With certain exceptions, an interested stockholder is a person or group who or which owns 15% or more of the corporation s outstanding voting stock (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and stock with respect to which the person has voting rights only), or is an affiliate or associate of the corporation and was the owner of 15% or more of such voting stock at any time within the previous three years.

In general, Section 203 defines a business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;

- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;

201

Table of Contents

subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or

the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

A Delaware corporation may opt out of this provision with an express provision in its original certificate of incorporation or an express provision in its amended and restated certificate of incorporation or bylaws resulting from a stockholders amendment approved by at least a majority of the outstanding voting shares. However, Discovery Partners has not opted out of this provision. Section 203 could prohibit or delay mergers or other takeover or change-in-control attempts and, accordingly, may discourage attempts to acquire Discovery Partners.

Discovery Partners certificate of incorporation and bylaws provide that its board will be divided into three classes of directors serving staggered, three-year terms. The classification of the board has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of members of the board. Subject to the rights of the holders of any outstanding series of preferred stock, the certificate of incorporation authorizes only the Discovery Partners board of directors to fill vacancies, including newly created directorships. Accordingly, this provision could prevent a stockholder from obtaining majority representation on the board of directors by enlarging the board of directors and filling the new directorships with its own nominees. The Discovery Partners certificate of incorporation also provides that directors may be removed by stockholders only for cause and only by the affirmative vote of holders of 66 $^{2}/_{3}$% of the outstanding shares of voting stock.

Discovery Partners certificate of incorporation also provides that stockholders may not take action by written consent, but may only take action at duly called annual or special meetings of stockholders. The Discovery Partners certificate of incorporation further provides that special meetings of Discovery Partners stockholders may be called only by the chairman of the board of directors, the chief executive officer or a majority of the board of directors. This limitation on the right of stockholders to call a special meeting could make it more difficult for stockholders to initiate actions that are opposed by Discovery Partners board of directors. These actions could include the removal of an incumbent director or the election of a stockholder nominee as a director. They could also include the implementation of a rule requiring stockholder ratification of specific defensive strategies that have been adopted by the board of directors with respect to unsolicited takeover bids. In addition, the limited ability of the Discovery Partners stockholders to call a special meeting of stockholders may make it more difficult to change the existing board and management.

Discovery Partners bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder s notice must be delivered to or mailed and received at Discovery Partners principal executive offices not less than 120 days prior to the date of Discovery Partners annual meeting. The bylaws also specify certain requirements as to the form and content of a stockholder s notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

The authorized but unissued shares of Discovery Partners common stock and preferred stock are available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions, employee benefit plans and poison pill rights plans. One of the effects of the reverse stock split will be to effectively increase the proportion of authorized shares which are unissued relative to those which are issued. This could result in the combined company s management being able to issue more shares without further stockholder approval and could render more difficult or discourage an attempt to obtain control of Discovery Partners by

Table of Contents

means of a proxy contest, tender offer, merger or otherwise. Discovery Partners currently has no plans to issue shares, other than in connection with the merger, the transactions contemplated thereby and in the ordinary course of business.

Transfer Agent

The transfer agent for Discovery Partners common stock is American Stock Transfer & Trust Company.

Listing

Discovery Partners common stock is quoted on the NASDAQ Global Market under the symbol DPII. Discovery Partners has agreed to cause the shares of Discovery Partners common stock Infinity securityholders will be entitled to receive pursuant to the merger to be listed on the NASDAQ Global Market.

Prior to consummation of the merger, Discovery Partners intends to file an initial listing application with the NASDAQ Global Market pursuant to NASDAQ s reverse merger rules. If such application is accepted, Discovery Partners anticipates that its common stock will be listed on the NASDAQ Global Market following the closing of the merger under the trading symbol INFI.

Preferred Stock

Discovery Partners board of directors is authorized to provide for the issuance of shares of preferred stock in one or more series, and to fix for each series voting rights, if any, designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions as provided in a resolution or resolutions adopted by the board of directors. Discovery Partners board of directors has authorized the issuance of Series A junior participating preferred stock which includes terms and conditions which could discourage a takeover or other transaction that holders of some or a majority of common stock might believe to be in their best interests. In addition, Discovery Partners board of directors may authorize the issuance of preferred stock in which holders of preferred stock might receive a premium for their shares over the then market price. Discovery Partners has no present plans to issue any shares of preferred stock.

Series A Junior Participating Preferred Stock

Each outstanding share of Discovery Partners common stock has attached to it one preferred share purchase right that entitles the registered holder to purchase from Discovery Partners a unit of one one-thousandth of a share of its Series A junior participating preferred stock, which is referred to herein as the Junior Preferred Stock, at a price of $19.00 per unit. The description and terms of the rights are set forth in a rights agreement dated as of February 13, 2003 by and between the Company and American Stock Transfer & Trust Company, as rights agent, which is referred to herein as the Rights Agreement.

Until the earlier to occur of (i) the close of business on the tenth day after a public announcement that a person or group of affiliated or associated persons has acquired beneficial ownership of 15% or more of Discovery Partners outstanding common stock or (ii) 10 business days (or such later date as may be determined by action of Discovery Partners board of directors prior to such time as any person becomes an acquiring person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 15% or more of such outstanding common stock (the earlier of such dates is the distribution date), the rights will be evidenced by Discovery Partners common stock certificates.

The Rights Agreement provides that, until the distribution date, the rights will be transferred with and only with Discovery Partners common stock. Until the distribution date (or earlier redemption or expiration of the rights), Discovery Partners common stock certificates, upon transfer or new issuance of common stock will contain a notation incorporating the Rights Agreement by reference. Until the distribution date (or earlier

Table of Contents

redemption or expiration of the rights), the surrender for transfer of any certificates of Discovery Partners common stock will also constitute the transfer of the rights associated with the common stock represented by such certificate. As soon as practicable following the distribution date, if any, separate certificates evidencing the rights will be mailed to holders of record of Discovery Partners common stock as of the close of business on the distribution date and such separate rights certificates alone will evidence the rights.

The rights are not exercisable until the distribution date. The rights will expire at the close of business on February 24, 2013 unless that final expiration date is extended or unless the rights are earlier redeemed or exchanged by Discovery Partners, in each case as described below.

The purchase price payable, and the number of units of Junior Preferred Stock or other securities or property issuable, upon exercise of the rights are subject to adjustment from time to time to prevent dilution (a) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Junior Preferred Stock, (b) upon the grant to holders of the units of Junior Preferred Stock of certain rights or warrants to subscribe for or purchase units of Junior Preferred Stock at a price, or securities convertible into units of Junior Preferred Stock with a conversion price, less than the then current market price of the units of Junior Preferred Stock or (c) upon the distribution to holders of the units of Junior Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends paid out of earnings or retained earnings or dividends payable in units of Junior Preferred Stock) or of subscription rights or warrants other than those referred to above).

The number of outstanding rights and the number of units of Junior Preferred Stock issuable upon exercise of each right are also subject to adjustment in the event of a stock split of Discovery Partners common stock or a stock dividend on the common stock payable in common stock or subdivisions, consolidations or combinations of the common stock occurring, in any such case, prior to the distribution date.

The Junior Preferred Stock purchasable upon exercise of the rights will not be redeemable. Each share of Junior Preferred Stock will be entitled to an aggregate dividend of 1,000 times the dividend declared per share of Discovery Partners common stock. In the event of liquidation, the holders of the shares of Junior Preferred Stock will be entitled to an aggregate payment of 1,000 times the payment made per share of Discovery Partners common stock. Each share of Junior Preferred Stock will have 1,000 votes, voting together with the Discovery Partners common stock. Finally, in the event of any merger, consolidation or other transaction in which shares of Discovery Partners common stock are exchanged, each share of Junior Preferred Stock will be entitled to receive 1,000 times the amount received per share of common stock. These rights are protected by customary anti-dilution provisions.

Because of the nature of the dividend, liquidation and voting rights, the value of each unit of Junior Preferred Stock purchasable upon exercise of each right should approximate the value of one share of common stock.

If, after the rights become exercisable, Discovery Partners is acquired in a merger or other business combination transaction with an acquiring person or one of its affiliates, or 50% or more of Discovery Partners consolidated assets or earning power are sold to an acquiring person or one of its affiliates, proper provision will be made so that each holder of a right will thereafter have the right to receive, upon exercise thereof at the then current exercise price of the right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the right.

If any person or group of affiliated or associated persons becomes the beneficial owner of 15% or more of the outstanding shares of Discovery Partners common stock, proper provision will be made so that each holder of a right, other than rights beneficially owned by the acquiring person (which will thereafter be unexercisable), will have the right to receive upon exercise that number of shares of Discovery Partners common stock or units of Junior Preferred Stock (or cash, other securities or property) having a market value of two times the exercise price of the right.

Table of Contents

At any time after the acquisition by a person or group of affiliated or associated persons of beneficial ownership of 15% or more of the outstanding shares of Discovery Partners common stock and prior to the acquisition by such person or group of 50% or more of the outstanding common stock, the board of directors of Discovery Partners may exchange the rights (other than rights owned by such person or group which have become void), in whole or in part, at a exchange ratio per unit of Junior Preferred Stock equal to the purchase price divided by the then current market price per unit of Junior Preferred Stock on the earlier of (i) the date on which any person becomes an acquiring person and (ii) the date on which a tender or exchange offer is announced which, if consummated would result in the offerer being the beneficial owner of 15% or more of the shares of Discovery Partners common stock then outstanding.

With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments require an adjustment of at least 1% in the purchase price. No fractional shares of Junior Preferred Stock will be issued (other than fractions which are integral multiples of one one-thousandth of a share of Junior Preferred Stock, which may, at the election of Discovery Partners, be evidenced by depositary receipts) and, in lieu thereof, an adjustment in cash will be made based on the market price of the units of Junior Preferred Stock on the last trading day prior to the date of exercise.

At any time on or prior to the earlier of (i) the close of business on the tenth day after a public announcement that a person or group of affiliated or associated persons acquires beneficial ownership of 15% or more of the outstanding Discovery Partners common stock (unless the board of directors extends the ten day period) or (ii) the tenth business day after a person commences, or announces its intention to commence, a tender offer or exchange offer that would result in the bidder s beneficial ownership of 15% or more of the shares of Discovery Partners common stock, the board of directors of Discovery Partners may redeem the rights in whole, but not in part, at a price of $0.01 per right. The redemption of the rights may be made effective at such time, on such basis and with such conditions as the board of directors in its sole discretion may establish. Immediately upon any redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the redemption price. The rights are also redeemable under other circumstances as specified in the Rights Agreement.

The terms of the rights may be amended by the board of directors of Discovery Partners without the consent of the holders of the rights except that from and after such time that there is an acquiring person no amendment may adversely affect the interests of the holders of the rights.

Until a right is exercised, the holder of a right will have no rights by virtue of ownership as a stockholder of Discovery Partners, including, without limitation, the right to vote or to receive dividends.

The rights have certain anti-takeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire Discovery Partners on terms not approved by Discovery Partners board of directors, except pursuant to an offer conditioned on a substantial number of rights being acquired. The rights should not interfere with any merger or other business combination approved by the board of directors since the rights may be redeemed by Discovery Partners at the redemption price prior to the occurrence of a distribution date. In addition, the rights will not be triggered in connection with the merger with Infinity because the Rights Agreement has been amended to specifically exclude the acquisition of Discovery Partners common stock by stockholders of Infinity from the provisions of the Rights Agreement.

The Rights Agreement and the amendment of the Rights Agreement entered into in connection with the merger with Infinity specifying the terms of the rights has been previously filed with the SEC and are incorporated by reference as exhibits into the registration statement of which this joint proxy statement/ prospectus is a part. The foregoing description of the rights is qualified in its entirety by reference to the Rights Agreement.

Table of Contents

COMPARISON OF RIGHTS OF HOLDERS OF DISCOVERY PARTNERS STOCK AND INFINITY STOCK

Both Discovery Partners and Infinity are incorporated under the laws of the State of Delaware and, accordingly, the rights of the stockholders of each are currently, and will continue to be, governed by the DGCL. If the merger is completed, Infinity stockholders will be entitled to become stockholders of Discovery Partners, and their rights will be governed by the DGCL, the certificate of incorporation of Discovery Partners and the bylaws of Discovery Partners, as amended, to the extent applicable, as described in Discovery Partners Proposal Nos. 2, 3 and 4, the amendment to Discovery Partners certificate of incorporation, attached as *Annex D* to this joint proxy statement /prospectus, and the amendment to Discovery Partners bylaws, attached as *Annex E* to this joint proxy statement/prospectus. For more information on these proposed amendments to Discovery Partners certificate of incorporation and bylaws, see Matters Being Submitted To a Vote of Discovery Partners Stockholders on page 109 of this joint proxy statement/prospectus.

The following is a summary of the material differences between the rights of Discovery Partners stockholders and the rights of Infinity stockholders under each company s respective certificate of incorporation and bylaws. While Discovery Partners and Infinity believe that this summary covers the material differences between the two, this summary may not contain all of the information that is important to you. This summary is not intended to be a complete discussion of the respective rights of Discovery Partners and Infinity stockholders and is qualified in its entirety by reference to the DGCL and the various documents of Discovery Partners and Infinity that are referred to in this summary. You should carefully read this entire joint proxy statement/prospectus and the other documents referred to in this joint proxy statement/prospectus for a more complete understanding of the differences between being a stockholder of Discovery Partners and being a stockholder of Infinity. Discovery Partners has filed copies of its certificate of incorporation and bylaws with the SEC, which are exhibits to the registration statement of which this joint proxy statement/prospectus is a part, and will send copies of these documents to you upon your request. Infinity will also send copies of its documents referred to herein to you upon your request. See the section entitled Where You Can Find More Information on page 222 of this joint proxy statement/prospectus.

	Discovery Partners	**Infinity**
Authorized Capital Stock	Discovery Partners certificate of incorporation authorizes the issuance of up to 100,000,000 shares of common stock, par value $0.001 per share, and 1,000,000 shares of preferred stock, par value $0.001 per share.	Infinity s fifth restated certificate of incorporation authorizes the issuance of up to 81,022,221 shares of common stock, par value $0.0001 per share, and 45,977,779 shares of preferred stock, par value $0.0001 per share, of which 9,000,000 shares are designated as Series A preferred stock, 24,866,667 shares are designated as Series B preferred stock, 11,111,112 shares are designated as Series C preferred stock, and 1,000,000 shares are designated as Series D preferred stock.
Number of Directors	Discovery Partners bylaws provide that the number of directors shall initially be seven, and shall at no time be less than six or more than ten. The number of directors shall be fixed by resolution of 66 2/3% of the directors then in office or by 66 2/3% of the stockholders at the annual meeting of stockholders. The Discovery Partners	Infinity s amended and restated bylaws provide that the number of directors be established by the board of directors or by the stockholders at the annual meeting of stockholders. The Infinity board of directors currently consists of eleven directors.

Table of Contents

	Discovery Partners	Infinity
	board of directors currently consists of five directors, with one vacancy on the board. If Discovery Partners Proposal No. 4 in this joint proxy statement/prospectus is approved, the total number of directors that constitute Discovery Partners board of directors will increase to twelve directors. If Discovery Partners Proposal No. 4 in this joint proxy statement/prospectus is not approved, the total number of directors that constitute Discovery Partners board of directors will be fixed at the maximum of ten directors upon the consummation of the merger.	
Stockholder Nominations and Proposals	Discovery Partners bylaws provide that in order for a stockholder to make a director nomination or propose business at an annual meeting of the stockholders, the stockholder must give timely written notice to Discovery Partners secretary not later than the close of business on the 120th day prior to the first anniversary of the preceding year s annual meeting (with certain adjustments if the date of the annual meeting is advanced by more than 60 days or delayed by more than 90 days from the first anniversary of the preceding year s annual meeting).	Infinity s fifth amended certificate of incorporation and amended and restated bylaws are silent as to stockholder nominations and proposals.
Classification of Directors	Discovery Partners certificate of incorporation and bylaws provide that the board of directors is divided into three classes: Class I, Class II and Class III. Each director serves for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected.	Infinity s fifth amended certificate of incorporation and amended and restated bylaws do not provide for the division of the board of directors into classes.
Removal of Directors	Under Discovery Partners certificate of incorporation and bylaws, a director may be removed from office only with cause by the affirmative vote of the holders of 66 2/3% of the voting power of all of the then-outstanding shares of capital stock that would be entitled to vote in the election of directors.	Under Infinity s fifth restated certificate of incorporation, a director or the entire board of directors may be removed, with or without cause.
Filling Vacancies on the Board of Directors	Discovery Partners certificate of incorporation and bylaws provide that any vacancy or newly created directorships in the board of directors shall be filled only	Infinity s fifth amended certificate of incorporation and amended and restated bylaws provide that any vacancy or newly created directorships in the board of

Table of Contents

	Discovery Partners	Infinity
	by vote of a majority of the directors in office, although less than a quorum, or by a sole remaining director, provided that the term of each director shall continue until the election and qualification of a successor and be subject to such director s earlier death, resignation or removal. If, at the time of any vacancy, the directors then in office constitute less than a majority of the board, the Court of Chancery may, upon application of any stockholder(s) holding at least 10% of the total shares of voting stock outstanding and entitled to vote in the election of directors, order an election to be held to fill any vacancies or to replace the directors chosen by the directors then in office.	directors shall be filled only by vote of a majority of the directors in office, although less than a quorum, or by a sole remaining director, provided that the term of each director shall continue until the election and qualification of a successor and be subject to such director s earlier death, resignation or removal; provided, however, that with respect to any vacancy (other than a vacancy caused by removal) in the office of a director occurring among the directors elected by the holders of a class or series of stock, the remaining directors so elected by that class or series may by affirmative vote (or consent in lieu thereof) of a majority thereof, elect a successor or successors to hold office for the unexpired term of the director or directors whose place or places shall be vacant. If, at the time of any vacancy, the directors then in office constitute less than a majority of the board, the Court of Chancery may, upon application of any stockholder(s) holding at least 10% of the total shares of voting stock outstanding and entitled to vote in the election of directors, order an election to be held to fill any vacancies or to replace the directors chosen by the directors then in office.
Stockholder Action by Written Consent	Discovery Partners certificate of incorporation specifies that no action shall be taken by the stockholders except at an annual or special meeting of the stockholders and that no action shall be taken by the stockholders by written consent.	Infinity s amended and restated bylaws provide that any action to be taken at any annual or special meeting of stockholders 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 not less than 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. Stockholders may act by written consent to elect directors, provided, however, if such written consent is less than unanimous such action by written consent may be in lieu of holding an annual meeting only if all of the directorships to which directors could be elected at an annual meeting held at the effective time of such action are vacant and are filled by such action. Prompt notice of

Table of Contents

	Discovery Partners	Infinity
		the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.
Notice of Annual Meeting	Under Discovery Partners bylaws, written notice of the annual meeting must include the date, time and place of such meeting. Notice shall be given not less than 10 nor more than 60 days prior to the annual meeting to each stockholder entitled to vote at such meeting.	Under Infinity s amended and restated bylaws, written notice of the annual meeting must include the date, time and place of such meeting. Notice shall be given not less than 10 nor more than 60 days prior to the annual meeting to each stockholder entitled to vote at such meeting.
Special Meeting of Stockholders	Discovery Partners certificate of incorporation and bylaws provide that a special meeting of stockholders may be called by the chief executive officer, the chairman of the board or a majority of the board of directors. Stockholders are not entitled to call special meetings of stockholders unless permitted under the DGCL. Written notice of special meetings must include the date, time, place and purpose and must be given not less than 10 nor more than 60 days prior to the special meeting to each stockholder entitled to vote at such meeting.	Infinity s amended and restated bylaws provide that a special meeting of stockholders may be called by the president and shall be called by the president or secretary at the request in writing of (i) a majority of the board of directors, (ii) stockholders owning at least 10% of the entire capital stock issued and outstanding and entitled to vote or (iii) stockholders owning at least 25% of the Series B preferred stock issued and outstanding and entitled to vote. Written notice of special meetings must include the date, time, place and purpose and must be given not less than 10 nor more than 60 days prior to the special meeting to each stockholder entitled to vote at such meeting.
Amendment of Certificate of Incorporation	Discovery Partners certificate of incorporation provides that Discovery Partners reserves the right to repeal, alter, amend or rescind any provision of the certificate of incorporation.	Infinity s fifth amended certificate of incorporation provides that, except as otherwise provided in the certificate of incorporation, Infinity reserves the right to amend, alter, change or repeal any provision contained in the certificate of incorporation.
Amendment of Bylaws	Discovery Partners bylaws provide that the affirmative vote of a majority of the voting power of all of the then-outstanding shares of capital stock entitled to vote generally in the election of directors may amend, alter or adopt the bylaws, and the board of directors also has the power to adopt, amend or repeal by a vote of the majority of the board of directors, unless a different vote is required pursuant to the certificate of incorporation, bylaws or applicable law;	Infinity s fifth amended certificate of incorporation and amended and restated bylaws provide the board of directors and the stockholders with the power to alter, amend, repeal or adopt the bylaws at any regular or special meeting of the stockholders or the board of directors.

Table of Contents

	Discovery Partners	Infinity
	provided, however, the affirmative vote of the holders of at least 66 2/3% of the voting power of all of the then-outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class, shall be required to alter, amend or repeal certain provisions of the bylaws relating to stockholder meetings and directors.	
Voting Stock	Under Discovery Partners certificate of incorporation and bylaws, the holders of common stock are entitled to vote at all meetings of the stockholders and shall be entitled to cast one vote in person or by proxy for each share of stock held by them respectively as of the record date fixed by the Discovery Partners board of directors.	Under Infinity s fifth amended certificate of incorporation and amended and restated bylaws, the holders of common stock are entitled to one vote for each share of stock held by them and holders of preferred stock are entitled to one vote for each share of common stock into which such share of preferred stock held by them is convertible into; provided, however, that holders of Series A and Series B preferred stock (each voting as a separate class) are entitled to elect two directors and holders of common stock (voting as a separate class) are entitled to elect one director. Each share of preferred stock is currently convertible into one share of common stock.
Conversion Rights and Protective Provisions	Under Discovery Partners certificate of incorporation, holders of Discovery Partners stock have no preemptive or other rights, except as such rights are expressly provided by contract.	Under Infinity s fifth amended certificate of incorporation, the affirmative vote of the holders of a majority of the outstanding shares of Series A, Series B, Series C and Series D preferred stock, voting together as a single class, is required to (i) sell, liquidate, wind-up, convey or otherwise dispose of all or substantially all of the assets of Infinity or merge into or consolidate with any other corporation (other than a wholly owned subsidiary corporation or in a transaction in which Infinity is the acquiring party) or effect any transaction or series of related transactions in which more than 50% of the voting power of Infinity is transferred or (ii) sell, convey, license or otherwise transfer all or substantially all of Infinity s technology or intellectual property. In accordance with the conversion prices specified in the fifth amended certificate of incorporation, each share of preferred stock shall be convertible, at the option of the holder thereof at any time and shall

Table of Contents

	Discovery Partners	Infinity
		automatically convert upon a Qualified IPO (as defined in the certificate of incorporation) or the date specified by written consent or agreement of the holders of at least a majority of the then outstanding shares of Series A, Series B, Series C and Series D preferred stock voting together as a single class. In the event of a liquidation, dissolution or winding up of Infinity, the holders of Series B, Series C and Series D receive preferential treatment over Series A and common stockholders, and Series A holders receive preferential treatment over common stockholders.
Dividends	Discovery Partners bylaws provide that, subject to the provisions of Discovery Partners certificate of incorporation and applicable law, the board of directors may declare dividends pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of capital stock, subject to the provisions of the certificate of incorporation and applicable law. Before payment of any dividend, the board of directors may set aside any funds of the company available for dividends as the board of directors from time to time, in its absolute discretion, thinks proper as a reserve for any purpose the board of directors thinks conducive to the interests of Discovery Partners.	Infinity s amended and restated bylaws provide that, subject to the provisions of Infinity s fifth amended certificate of incorporation and applicable law, the board of directors may declare dividends pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of capital stock, subject to the provisions of the fifth amended certificate of incorporation and applicable law; provided, however, that holders of shares of Series A and Series B preferred stock shall be entitled to receive dividends in preference to holders of common stock, Series C and Series D preferred stock; provided, further, that holders of shares of Series C and Series D preferred stock shall be entitled to receive dividends in preference to holders of common stock. Before payment of any dividend, the board of directors may set aside any funds of the company available for dividends as the board of directors from time to time, in its absolute discretion, thinks proper as a reserve for any purpose the board of directors thinks conducive to the interests of Infinity.
Indemnification and Limitation of Liability	Discovery Partners bylaws provide that Discovery Partners shall indemnify its directors and executive officers to the fullest extent permissible under the DGCL; provided, however, that Discovery Partners may limit the extent of such indemnification by individual contracts with its directors and executive	Infinity s fifth amended certificate of incorporation and amended and restated bylaws provide that Infinity shall, to the fullest extent permissible under the DGCL, indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding,

Table of Contents

Discovery Partners	Infinity
officers; and, provided, further, that Discovery Partners shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person or any proceeding by such person against Discovery Partners or its directors, officers, employees or other agents unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the board of directors, and (iii) such indemnification is provided by Discovery Partners, in its sole discretion, pursuant to its powers under the DGCL.	whether civil, criminal, administrative or investigative, by reason of the fact that he is or was, or has agreed to become, a director or officer of Infinity against all expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by or on behalf of such person in connection with such action, suit or proceeding and any appeal therefrom.

Table of Contents

PRINCIPAL STOCKHOLDERS OF DISCOVERY PARTNERS

Except where specifically noted, the following information and all other information contained in this joint proxy statement/prospectus do not give effect to the reverse stock split described in Discovery Partners Proposal No. 2.

The following table shows information known to Discovery Partners with respect to the beneficial ownership of Discovery Partners common stock as of April 30, 2006 by:

- each person or group of affiliated persons who is known by Discovery Partners to own beneficially more than 5% of Discovery Partners common stock;
- each of Discovery Partners current directors;
- each of Discovery Partners named executive officers identified below; and
- all of Discovery Partners directors and executive officers as a group.

To the knowledge of Discovery Partners, and except as indicated in the footnotes to this table and subject to community property laws where applicable and the voting agreements entered into by executive officers and directors of Discovery Partners with Infinity, the persons named in the table have sole voting and investment power with respect to all shares of Discovery Partners common stock shown as beneficially owned by them. Beneficial ownership and percentage ownership are determined in accordance with the rules of the SEC. The column titled Number of Shares Beneficially Owned includes shares of common stock subject to stock options which were exercisable or will become exercisable within 60 days after April 30, 2006. These shares underlying options are deemed outstanding for computing the percentage of the person or group holding such options, but are not deemed outstanding for computing the percentage of any other person or group. The address for those persons for which an address is not otherwise indicated is: 9640 Towne Centre Drive, San Diego, California 92121.

Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class Owned
Directors and Named Executive Officers		
Craig Kussman(1)	267,500	1.0%
Douglas Livingston(2)	128,125	*
Urs Regenass(3)	97,000	*
Richard Neale(4)	94,493	*
Alan Lewis(5)	75,000	*
Colin Dollery(6)	70,000	*
Harry Hixson, Jr.(7)	75,000	*
Daniel Harvey(8)	52,628	*
Michael Venuti(9)	33,750	*
Herm Rosenman(10)	42,500	*
All directors and executive officers as a group (10 persons)	935,966	3.5%
Five Percent Stockholders		
Royce & Associates LLC(11)	3,203,900	12.1%
Wells Fargo & Company(12)	3,028,625	11.5%
Dimensional Fund Advisors Inc.(13)	1,973,841	7.5%
Eliot Rose Asset Management LLC(14)	1,516,760	5.7%

* Less than 1%

(1)

Includes 250,000 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006 and 17,500 shares of vested restricted stock, to be issued in the future under a deferred stock issuance award.

Table of Contents

(2) Consists of 128,125 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006.
(3) Consists of 90,000 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006 and 7,000 shares of vested restricted stock, to be issued in the future under a deferred stock issuance award.
(4) Consists of 55,000 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006 and 33,284 shares of common stock, issued under a restricted stock award, of which 30,000 shares remain unvested as of April 30, 2006. The remaining 6,209 shares relate to common stock purchases made under Discovery Partners Employee Stock Purchase Plan.
(5) Consists of 75,000 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006.
(6) Consists of 70,000 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006.
(7) Consists of 75,000 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006.
(8) Consists of 20,000 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006 and 26,628 shares of common stock, issued under a restricted stock award, of which 24,000 shares remain unvested as of April 30, 2006. The remaining 6,000 shares relate to common stock purchases made under Discovery Partners Employee Stock Purchase Plan.
(9) Consists of 33,750 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006.
(10) Consists of 42,500 shares of common stock issuable upon exercise of stock options exercisable within 60 days of April 30, 2006.
(11) Based on information reported in a Form 13G filed with the SEC on January 18, 2006. Royce & Associates LLC has sole voting power and sole dispositive power over the shares. The stockholder s business address is 1414 Avenue of the Americas, New York, NY 10019.
(12) Based on information reported in a Form 13G filed with the SEC on January 31, 2006. Affiliated entity Wells Capital Management Incorporated holds 817,728 shares of voting power and 2,881,615 shares of dispositive power. Affiliated entity Wells Fargo Funds Management, LLC holds 2,146,915 shares of sole voting power and 147,010 shares of dispositive power. Wells Fargo & Company, as parent holding company of the aforementioned affiliates, is deemed to hold 2,964,643 shares of voting power and 3,028,625 of dispositive power. The stockholder s business addresses are as follows; Wells Fargo & Company, 420 Montgomery Street, San Francisco, CA 94104, Wells Capital Management Incorporated and Wells Fargo Funds Management, LLC, 525 Market Street, San Francisco, CA 94105. Wells Fargo & Company and affiliates disclaim beneficial ownership.
(13) Based on information reported in a Form 13G filed with the SEC on February 6, 2006. Dimensional Fund Advisors Inc. has sole voting power and sole dispositive power over the shares and disclaims beneficial ownership. The stockholder s business address is 1299 Ocean Avenue, 11th Floor, Santa Monica, CA 90401.
(14) Based on information reported in a Form 13G filed with the SEC on February 10, 2006. The 1,516,760 shares held by Eliot Rose Asset Management, LLC may also be deemed beneficially owned by Gary S. Siperstein as a result of his ownership interest in Eliot Rose Asset Management, LLC. Eliot Rose Asset Management, LLC and Gary S. Siperstein have sole dispositive power over the shares. The stockholder s business address is 10 Weybosset Street, Suite 401, Providence, RI 02903.

Table of Contents

PRINCIPAL STOCKHOLDERS OF INFINITY

The following table and the related notes present information on the beneficial ownership of shares of Infinity common stock and Infinity preferred stock as of April 30, 2006, except as noted in the footnotes, by:

- each director and named executive officer of Infinity,
- each person or group who is known to the management of Infinity to be the beneficial owner of more than 5% of any class of Infinity s voting securities outstanding as of April 30, 2006, and
- all current directors and current executive officers of Infinity as a group.

Unless otherwise indicated in the footnotes to this table and subject to the voting agreements entered into by executive officers and directors of Infinity with Discovery Partners, Infinity believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned.

The number of shares owned, total shares beneficially owned and the percentage of preferred stock and common stock beneficially owned below assumes, in each case, the conversion of all 39,719,447 shares of Infinity preferred stock into 39,719,447 shares of Infinity common stock. The percentage of preferred stock beneficially owned is based on 39,719,447 shares of Infinity preferred stock outstanding as of April 30, 2006. The percentage of common stock beneficially owned is based on 12,502,614 shares of Infinity common stock outstanding as of April 30, 2006. Shares of Infinity common stock subject to options that are currently exercisable or are exercisable within 60 days of April 30, 2006 are treated as outstanding and beneficially owned by the person holding them for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other stockholder. Stock options granted by Infinity are subject to a right of early exercise, pursuant to which an optionee can exercise unvested stock options and receive, upon exercise, shares of restricted common stock. Options that have been exercised and now constitute shares of restricted common stock have not been deemed exercisable or outstanding. Unless otherwise indicated below, the address for each person and entity named in the table is: c/o Infinity Pharmaceuticals, Inc., 780 Memorial Drive, Cambridge, MA 02139.

Name and Address of Beneficial Owner	Number of Shares Owned	+	Common Stock Underlying Options Exercisable Within 60 Days	=	Total Shares Beneficially Owned	Percent of Preferred Stock Beneficially Owned	Percent of Common Stock Beneficially Owned	Percent of Preferred Stock and Common Stock Beneficially Owned
5% Stockholders								
Prospect Venture Partners II, L.P.(1)	6,287,500				6,287,500	14.6%	3.9%	12.0%
Amgen Inc.(2)	5,555,555				5,555,555	14.0%		10.6%
Novartis AG(3)	5,399,999				5,399,999	13.6%		10.3%
Entities affiliated with Venrock Associates(4)	5,265,378				5,265,378	13.3%		10.1%
Entities affiliated with Advent Venture Partners LLP(5)	4,000,000				4,000,000	10.1%		7.7%
Prospect Venture Partners, L.P.(6)	3,354,167				3,354,167	7.2%	3.9%	6.4%
HBM BioVentures (Cayman) Ltd.(7)	2,666,667				2,666,667	6.7%		5.1%
Vulcan Ventures Inc.(8)	2,666,667				2,666,667	6.7%		5.1%
Johnson & Johnson Development Corporation(9)	2,222,224				2,222,224	5.6%		4.3%
Steven Holtzman(10)	1,021,713		401,500		1,423,213	*	10.5%	2.7%
Stuart Schreiber(11)	1,340,000				1,340,000		10.7%	2.6%
Adelene Perkins(12)	805,000		101,500		906,500		7.2%	1.7%

Holtzman-Stewart 1996 Irrevocable Trust(13)	802,454	802,454	6.4%	1.5%

Table of Contents

Name and Address of Beneficial Owner	Number of Shares Owned	+	Common Stock Underlying Options Exercisable Within 60 Days	=	Total Shares Beneficially Owned	Percent of Preferred Stock Beneficially Owned	Percent of Common Stock Beneficially Owned	Percent of Preferred Stock and Common Stock Beneficially Owned
Other Named Executive Officer and Directors								
Julian Adams(14)	567,942		621,711		1,189,653		9.1%	2.3%
D. Ronald Daniel(15)	60,000				60,000		*	*
Anthony Evnin(4)	5,265,378				5,265,378	13.3%		10.1%
Richard Klausner(16)	150,000		10,000		160,000		1.3%	*
Eric Lander(17)	330,000				330,000	*	2.2%	*
Patrick Lee(5)	4,000,000				4,000,000	10.1%		7.7%
Arnold Levine(18)	85,000				85,000		*	*
Franklin Moss(19)	252,292				252,292	*	1.4%	*
Philip Needleman(20)	50,000				50,000		*	*
Vicki Sato(21)	50,000		35,000		85,000		*	*
James Tananbaum(22)	6,896,875				6,896,875	14.6%	8.8%	13.2%
All directors and executive officers as a group (13 persons)	19,534,200		1,169,711		20,703,911	38.4%	36.3%	38.8%

* Less than 1%

(1) Consists of 487,500 shares of Infinity common stock and 5,800,000 shares of Infinity preferred stock. Voting and investment power with respect to the shares held by Prospect Venture Partners II, L.P. are held by its general partner, Prospect Management Co. II, L.L.C. The managing members of Prospect Management Co. II, L.L.C. are David Schnell, James Tananbaum, Alex Barkas and Russell Hirsch, each of whom disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.
The address of Prospect Venture Partners II, L.P. is 435 Tasso St., Ste. 200, Palo Alto, CA 94301.

(2) Consists of 5,555,555 shares of Infinity preferred stock.
The address of Amgen Inc. is One Amgen Center Drive, Thousand Oaks, CA 91320-1799.

(3) Consists of 4,333,333 shares of Infinity preferred stock held by Novartis Pharma AG and 1,066,666 shares of Infinity preferred stock held by Novartis Bioventures Ltd. Novartis AG, as the parent of each of Novartis Pharma AG and Novartis BioVentures Ltd., may be deemed to beneficially own such shares.
The address of Novartis AG is Lichtstrasse 35, 4056-Basel, Switzerland.

(4) Consists of 946,711 shares of Infinity preferred stock held by Venrock Associates, 4,213,334 shares of Infinity preferred stock held by Venrock Associates III, L.P. and 105,333 shares of Infinity preferred stock held by Venrock Entrepreneurs Fund III, L.P. Venrock Associates is a limited partnership of which Anthony Evnin is a General Partner. The General Partners of Venrock Associates, Michael Brooks, Eric Copeland, Anthony Evnin, Bryan Roberts, Ray Rothrock, Anthony Sun and Michael Tyrrell, share voting and investment power with respect to securities held of record by Venrock Associates. Venrock Associates III, L.P. is a limited partnership of which Venrock Management III LLC is the General Partner. The Members of Venrock Management III LLC, Michael Brooks, Eric Copeland, Anthony Evnin, Linda Hanauer, Bryan Roberts, Ray Rothrock, Anthony Sun and Michael Tyrrell, share voting and investment power with respect to securities held of record by Venrock Associates III, L.P. Venrock Entrepreneurs Fund III, L.P. is a limited partnership of which VEF Management III LLC is the General Partner. The Members of VEF Management III LLC, Michael Brooks, Eric Copeland, Anthony Evnin, Bryan Roberts, Ray Rothrock, Anthony Sun and Michael Tyrrell, share voting and investment power with respect to securities held of record by Venrock Entrepreneurs Fund III, L.P. Anthony Evnin disclaims beneficial ownership of all such securities listed above, except to the extent of his pecuniary interest therein.
The address of Venrock Associates is 30 Rockefeller Plaza, Room 5508, New York, NY 10112.

(5) Consists of 19,576 shares of Infinity preferred stock held by Advent Management III Limited Partnership, 2,024,144 shares of Infinity preferred stock held by Advent Private Equity Fund III A , 991,844 shares of Infinity preferred stock held by Advent Private Equity Fund III B , 276,672 shares of Infinity preferred stock held by Advent Private Equity Fund III C , 544,208 shares of Infinity preferred stock held by Advent Private Equity Fund III D , 65,252 shares of Infinity preferred stock held by Advent Private Equity Fund III Affiliates

Table of Contents

and 78,304 shares of Infinity preferred stock held by Advent Private Equity Fund III GmbH Co. KG. Advent Venture Partners LLP owns 100% of Advent Management III Limited, which is General Partner of Advent Management III Limited Partnership, which is General Partner of each of Advent Private Equity Fund III A , Advent Private Equity Fund III B , Advent Private Equity Fund III C , Advent Private Equity Fund III D and Advent Private Equity Fund III Affiliates. Advent Venture Partners LLP also owns 100% of Advent Limited. Advent Limited owns 100% of Advent Private Equity GmbH, which is General Partner of Advent Private Equity Fund III GmbH Co. KG. Voting and investment power over the shares held by each of the partnerships constituting Advent Private Equity Fund III is exercised by Advent Venture Partners LLP in its role as manager. The partners of Advent Venture Partners LLP are Sir David Cooksey (chairman), Jeryl Andrew, Peter Baines, Jerry Benjamin, David Cheesman, Frederic Court, Leslie Gabb, Mohammed Shahzad Ahmed Malik, Patrick Lee, Martin McNair, Raj Parekh, William Neil Pearce and Nicholas Teasdale. Patrick Lee disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. Each fund disclaims beneficial ownership of the others shares.
The address of Advent Venture Partners LLP is 25 Buckingham Gate, London, SW1E 6LD, United Kingdom.

(6) Consists of 487,500 shares of Infinity common stock and 2,866,667 shares of Infinity preferred stock. Voting and investment power with respect to the shares held by Prospect Venture Partners, L.P. are held by its general partner, Prospect Management Co., L.L.C. The managing members of Prospect Management Co., L.L.C. are David Schnell and Alex Barkas, each of whom disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

The address of Prospect Venture Partners, L.P. is 435 Tasso St., Ste. 200, Palo Alto, CA 94301.

(7) Consists of 2,666,667 shares of Infinity preferred stock. All shares held of record by HBM BioVentures (Cayman) Ltd. The board of directors of HBM BioVentures (Cayman) Ltd. has sole voting and investment power with respect to the shares held by such entity and acts by majority vote. The board of directors of HBM BioVentures (Cayman) Ltd. is comprised of John Arnold, Colin Shaw, Richard Coles, Dr. Andreas Wicki and John Urquhart, none of whom has individual voting or investment power with respect to such shares except to the extent of any pecuniary interest therein.

The address of HBM BioVentures (Cayman) Ltd. is Centennial Towers, Third Floor, 2454 West Bay Road, Grand Cayman, Cayman Islands, B.W.I.

(8) Consists of 2,666,667 shares of Infinity preferred stock. Paul G. Allen, the sole stockholder of Vulcan Ventures Inc., holds voting and investment power with respect to such shares.

The address of Vulcan Ventures Inc. is 505 5th Avenue South, Suite 900, Seattle WA 98104.

(9) Consists of 2,222,224 shares of Infinity preferred stock.

The address of Johnson & Johnson Development Corporation is 410 George Street, New Brunswick, NJ 08901.

(10) Consists of 955,046 shares of Infinity common stock, of which 273,792 shares were subject to a right of repurchase in favor of Infinity as of April 30, 2006, and 66,667 shares of Infinity preferred stock. Of the 401,500 shares underlying options, 308,417 shares issuable upon exercise of such options would be subject to a right of repurchase in favor of Infinity if such options had been exercised as of April 30, 2006.

(11) Consists of 1,340,000 shares of Infinity common stock.

(12) Consists of 805,000 shares of Infinity common stock, of which 235,167 shares were subject to a right of repurchase in favor of Infinity as of April 30, 2006. Of the 101,500 shares underlying options, 94,875 shares issuable upon exercise of such options would be subject to a right of repurchase in favor of Infinity if such options had been exercised as of April 30, 2006.

(13) Consists of 802,454 shares of Infinity common stock. Christopher M. Leich, as trustee of the Holtzman-Stewart 1996 Irrevocable Trust, holds voting and investment power over the shares held by the trust.

The address of Mr. Leich is c/o Ropes & Gray LLP, One International Place, Boston, MA 02110.

(14) Consists of 567,942 shares of Infinity common stock, of which 267,437 shares were subject to a right of repurchase in favor of Infinity as of April 30, 2006. Of the 621,711 shares underlying options, 475,965 shares issuable upon exercise of such options would be subject to a right of repurchase in favor of Infinity if such options had been exercised as of April 30, 2006.

(15) Consists of 60,000 shares of Infinity common stock.

(16) Consists of 150,000 shares of Infinity common stock.

(17) Consists of 280,000 shares of Infinity common stock held by Dr. Lander, of which 48,753 shares were subject to a right of repurchase in favor of Infinity as of April 30, 2006, and 50,000 shares of Infinity preferred stock held by Dr. Lander.

Table of Contents

(18) Consists of 85,000 shares of Infinity common stock, of which 17,849 shares were subject to a right of repurchase in favor of Infinity as of April 30, 2006.

(19) Consists of 25,625 shares of Infinity common stock held by Mr. Moss, 150,000 shares of Infinity common stock held by Mr. Moss, together with Kimberley S. Moss, as joint tenants with the right of survivorship, and 76,667 shares of Infinity preferred stock held by Mr. Moss.

(20) Consists of 50,000 shares of common stock, of which 17,708 shares were subject to a right of repurchase in favor of Infinity as of April 30, 2006.

(21) Consists of 50,000 shares of Infinity common stock. Of the 35,000 shares underlying options, 17,708 shares issuable upon exercise of such options would be subject to a right of repurchase in favor of Infinity if such options had been exercised as of April 30, 2006.

(22) Consists of 609,375 shares of Infinity common stock held by a trust for which Dr. Tananbaum serves as trustee and has voting and investment power, and 487,500 shares of Infinity common stock and 5,800,000 shares of Infinity preferred stock held by Prospect Venture Partners II, L.P. Dr. Tananbaum is a Managing Member of Prospect Management Co. II, LLC., the General Partner of Prospect Venture Partners II, L.P. Dr. Tananbaum disclaims beneficial ownership of the shares of Infinity capital stock held by Prospect Venture Partners II, L.P., except to the extent of his pecuniary interest therein.

Table of Contents

PRINCIPAL STOCKHOLDERS OF COMBINED COMPANY

The following table and the related notes present certain information with respect to the beneficial ownership of the combined company upon consummation of the merger, by (1) each director and executive officer of the combined company, (2) each person or group who is known to the management of Discovery Partners and Infinity to become the beneficial owner of more than 5% of the common stock of the combined company upon the consummation of the merger and (3) all directors and executive officers of the combined company as a group. Unless otherwise indicated in the footnotes to this table and subject to the voting agreements entered into by directors and executive officers of Discovery Partners and Infinity, Discovery Partners and Infinity believe that each of the persons named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned.

The percent of common stock of Discovery Partners is based on 26,436,931 shares of common stock of Discovery Partners outstanding as of April 30, 2006. The percent of preferred stock and common stock of Infinity is based on 12,504,614 shares of common stock and 39,719,447 shares of preferred stock of Infinity outstanding as of April 30, 2006 and assumes the conversion of all 39,719,447 shares of Infinity preferred stock into 39,719,447 shares of Infinity common stock. The percent of common stock of the combined company is based on 81,528,225 shares of common stock of the combined company outstanding upon the consummation of the merger and assumes that Discovery Partners net cash balance, as calculated pursuant to the merger agreement, is greater than or equal to $70 million and less than or equal to $75 million at the closing of the merger, such that the exchange ratios for the different classes, series and tranches of Infinity capital stock will be as follows, subject, in each case, to adjustment to account for the reverse stock split: (i) each share of Infinity common stock will receive 0.95118 shares of Discovery Partners common stock; (ii) each share of Infinity Series A preferred stock will receive 0.84509 shares of Discovery Partners common stock; (iii) each share of Infinity Series B preferred stock held by Prospect Ventures Partners and Venrock Associates and their affiliates will receive 1.07472 shares of Discovery Partners common stock; (iv) each share of Infinity Series B preferred stock held by stockholders other than Prospect Ventures Partners and Venrock Associates and their affiliates will receive 1.20900 shares of Discovery Partners common stock; (v) each share of Infinity Series C preferred stock will receive 1.12126 shares of Discovery Partners common stock; and (vi) each share of Infinity Series D preferred stock will receive 1.14607 shares of Discovery Partners common stock. Shares of Discovery Partners common stock subject to options that are currently exercisable or are exercisable within 60 days after April 30, 2006 are treated as outstanding and beneficially owned by the person holding them for the purpose of computing the percentage ownership of Discovery Partners common stock of that person but are not treated as outstanding for the purpose of computing the percentage ownership of Discovery Partners common stock of any other person. Shares of Infinity common stock subject to options that are currently exercisable or are exercisable within 60 days of April 30, 2006 are treated as outstanding and beneficially owned by the person holding them for the purpose of computing the percentage ownership of preferred stock and common stock of Infinity of that person but are not treated as outstanding for the purpose of computing the percentage ownership of preferred stock and common stock of Infinity of any other stockholder. Stock options granted by Infinity are subject to a right of early exercise, pursuant to which an optionee can exercise unvested stock options for shares of restricted stock. This table also assumes that the proposal to amend the Discovery Partners bylaws is approved at Discovery Partners special meeting.

Table of Contents

Name of Beneficial Owner	Percent of Common Stock of Discovery Partners	Percent of Preferred Stock and Common Stock of Infinity	Percent of Common Stock of the Combined Company
5% Stockholders			
Amgen Inc.		10.6%	7.6%
Novartis AG		10.3%	7.6%
Prospect Venture Partners II, L.P.		12.0%	7.5%
Entities affiliated with Venrock Associates		10.1%	6.2%
Entities affiliated with Advent Venture Partners LLP		7.7%	5.9%
HBM BioVentures (Cayman) Ltd.		5.1%	4.0%
Vulcan Ventures Inc.		5.1%	4.0%
Royce & Associates LLC	12.1%		3.9%
Wells Fargo & Company	11.5%		3.7%
Prospect Venture Partners, L.P.		6.4%	3.7%
Dimensional Fund Advisors Inc.	7.5%		2.4%
Eliot Rose Asset Management LLC	5.7%		1.9%
Directors and Executive Officers			
Steven Holtzman		2.7%	1.7%
Julian Adams		2.3%	1.4%
Adelene Perkins		1.7%	1.1%
D. Ronald Daniel		*	*
Anthony Evnin		10.1%	6.2%
Harry Hixson	*		*
Eric Lander		*	*
Patrick Lee		7.7%	5.9%
Arnold Levine		*	*
Franklin Moss		*	*
Herm Rosenman	*		*
Vicki Sato		*	*
James Tananbaum		13.2%	8.2%
Michael Venuti	*		*
All directors and executive officers as a group (14 persons)	*	38.8%	25.2%

* Less than 1%

Table of Contents

LEGAL MATTERS

Cooley Godward LLP, San Diego, California, will pass upon the validity of the Discovery Partners common stock offered by this joint proxy statement/prospectus.

EXPERTS

The consolidated financial statements of Discovery Partners International, Inc. at December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005, included in this joint proxy statement/prospectus, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report, 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 financial statements of Infinity Pharmaceuticals, Inc. at December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005, included in this joint proxy statement/prospectus, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report, appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

Discovery Partners files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that Discovery Partners files at the SEC s public reference rooms in Washington, D.C.; New York, New York; and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Discovery Partners SEC filings are also available to the public from commercial document retrieval services and on the website maintained by the SEC at http://www.sec.gov. Reports, proxy statements and other information concerning Discovery Partners also may be inspected at the offices of the National Association of Securities Dealers, Inc., Listing Section, 1735 K Street, Washington, D.C. 20006.

As of the date of this joint proxy statement/prospectus, Discovery Partners has filed a registration statement on Form S-4 to register with the SEC the Discovery Partners common stock that Infinity stockholders will be entitled to receive in the merger. This joint proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of Discovery Partners, as well as a proxy statement of Infinity and Discovery Partners for their respective special meetings.

Discovery Partners has supplied all information contained in this joint proxy statement/prospectus relating to Discovery Partners, and Infinity has supplied all information contained in this joint proxy statement/ prospectus relating to Infinity.

If you would like to request documents from Discovery Partners or Infinity, please send a request in writing or by telephone to either Discovery Partners or Infinity at the following address:

Discovery Partners International, Inc.	Infinity Pharmaceuticals, Inc.
9640 Towne Centre Drive	780 Memorial Drive
San Diego, California 92121	Cambridge, MA 02139
(858) 455-8600	(617) 453-1000
Attn: Investor Relations	Attn: Investor Relations

You should rely only on the information contained in this joint proxy statement/prospectus to vote your shares at the special meetings. Neither Discovery Partners nor Infinity has authorized anyone to provide you with information that differs from that contained in this joint proxy statement/prospectus. This joint proxy statement/prospectus is dated [ ], 2006. You should not assume that the information contained in this joint proxy statement/prospectus is accurate as of any date other than that date, and neither the mailing of this joint proxy statement/prospectus to stockholders nor the issuance of shares of Discovery Partners common stock in the merger shall create any implication to the contrary.

Information on Discovery Partners Website

Information on any Discovery Partners website is not part of this joint proxy statement/prospectus and you should not rely on that information in deciding whether to approve any of the proposals described in this joint proxy statement/prospectus, unless that information is also in this joint proxy statement/prospectus.

Information on Infinity s Website

Information on any Infinity website is not part of this joint proxy statement/prospectus and you should not rely on that information in deciding whether to approve any of the proposals described in this joint proxy statement/prospectus, unless that information is also in this joint proxy statement/prospectus.

Table of Contents

Trademark Notice

Discovery Partners, Discovery Partners logos and all other Discovery Partners product and service names are registered trademarks or trademarks of Discovery Partners in the United States and in other select countries. Infinity, the Infinity logos and all other Infinity product and service names are registered trademarks or trademarks of Infinity in the United States and in other select countries. ® and indicate U.S. registration and U.S. trademark, respectively. Other third-party logos and product/trade names are registered trademarks or trade names of their respective companies.

Stockholder Proposals

The deadline for stockholders to submit proposals to be considered for inclusion in the combined company s proxy statement for next year s annual meeting of stockholders is December 20, 2006. Such proposals may be included in next year s proxy statement if they comply with certain rules and regulations promulgated by the SEC and the procedures set forth in the combined company s bylaws, as amended, which, among other things, require notice to be delivered or mailed and received at the combined company s executive offices. In addition, the deadline for stockholders to submit proposals, including director nominations, that will not be included in the combined company s proxy statement for next year s annual meeting of stockholders is on or before January 11, 2007 (120 days prior to May 11, 2007, the anniversary of the date of Discovery Partners 2006 annual meeting).

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005 and no material weaknesses have been identified.

Our management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report which follows this report herein.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the

Board of Directors of Discovery Partners International, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Discovery Partners International, Inc. (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment about the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005, and our report dated March 10, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 10, 2006

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Discovery Partners International, Inc.

We have audited the accompanying consolidated balance sheets of Discovery Partners International, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Discovery Partners International, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Discovery Partners International, Inc. s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Diego, California

March 10, 2006

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,231,257	$ 13,148,242
Short-term investments	59,254,873	66,870,268
Accounts receivable, net	5,673,509	12,786,101
Inventories, net	578,842	2,390,608
Prepaid expenses	1,734,030	1,748,423
Other current assets	961,715	995,792
Assets of discontinued operations		2,508,920
Total current assets	92,434,226	100,448,354
Restricted cash	1,060,753	1,120,050
Property and equipment, net	7,950,765	7,095,978
Prepaid royalty, net		4,827,715
Patent and license rights, net	717,707	1,890,924
Other assets, net	116,230	259,720
Total assets	$ 102,279,681	$ 115,642,741
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,093,095	$ 2,639,798
Restructuring accrual	927,890	293,929
Accrued compensation	1,298,425	2,296,206
Deferred revenue	2,357,915	884,734
Liabilities of discontinued operations		965,832
Total current liabilities	6,677,325	7,080,499
Deferred rent	420,067	155,159
Other long-term liabilities	108,000	
Total liabilities	7,205,392	7,235,658
Stockholders equity:		
Preferred stock, $.001 par value, 1,000,000 shares authorized, no shares issued and outstanding at December 31, 2005 and 2004		
Common stock, $.001 par value, 100,000,000 shares authorized, 26,441,902 and 26,117,509 issued and outstanding at December 31, 2005 and 2004, respectively	26,442	26,118
Common stock issuable	1,596,500	2,656,600
Treasury stock, at cost, 306,933 and 228,702 shares at December 31, 2005 and 2004, respectively	(1,037,190)	(793,813)
Additional paid-in capital	209,237,267	207,804,460
Deferred compensation	(919,217)	(2,187,229)
Accumulated other comprehensive income	63,779	629,502
Accumulated deficit	(113,893,292)	(99,728,555)
Total stockholders equity	95,074,289	108,407,083
Total liabilities and stockholders equity	$ 102,279,681	$ 115,642,741

See accompanying notes

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2005	2004	2003
Revenues:			
Services	$ 34,836,977	$ 44,267,657	$ 45,209,251
Cost of revenues:			
Services	25,107,968	25,144,923	27,618,277
Gross margin	9,729,009	19,122,734	17,590,974
Operating expenses:			
Research and development	3,919,065	1,546,091	513,735
Selling, general and administrative	16,084,182	15,379,176	13,733,873
Impairment of long-lived assets	4,721,367		
Restructuring	1,040,258		1,872,986
Total operating expenses	25,764,872	16,925,267	16,120,594
Income (loss) from continuing operations	(16,035,863)	2,197,467	1,470,380
Interest income	2,023,836	1,424,860	1,797,980
Interest expense	(4,808)	(6,136)	(40,745)
Foreign currency transaction gains (losses), net	38,978	(264,646)	(12,803)
Other income, net	270,565	89,219	73,044
Income (loss) from continuing operations before provision for income taxes	(13,707,292)	3,440,764	3,287,856
Provision for income taxes	13,243	55,584	10,075
Net income (loss) from continuing operations	(13,720,535)	3,385,180	3,277,781
Discontinued operations:			
Gain on sale from discontinued operations	393,899		
Gain (loss) from discontinued operations	(838,101)	517,592	(2,218,868)
Net income (loss)	$ (14,164,737)	$ 3,902,772	$ 1,058,913
Basic and diluted:			
Continuing operations	$ (0.53)	$ 0.13	$ 0.13
Discontinued operations	(0.02)	0.02	(0.09)
Net income (loss) per share	$ (0.55)	$ 0.15	$ 0.04
Weighted average shares outstanding:			
Basic	25,919,393	25,318,937	24,343,721
Diluted	25,919,393	26,271,625	25,076,805

See accompanying notes.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock			Treasury Stock				Accumulated Other		
	Shares	Amount	Common Stock Issuable	Shares	Amount	Additional Paid in Capital	Deferred Compensation	Comprehensive Income (loss)	Accumulated Deficit	Total Stockholders Equity
Balance at December 31, 2002	24,371,131	$ 24,371	$	(35,000)	$ (119,250)	$ 200,691,363	$ (260,226)	$ 885,485	$ (104,690,240)	$ 96,531,503
Exercise of options to purchase common stock	267,430	267				597,713				597,980
Amortization of stock-based compensation							514,929			514,929
Repurchase of company stock				(181,886)	(656,201)					(656,201)
Issuance of common stock	53,770	54				113,270				113,324
Issuance of restricted stock and rights to common stock	52,500	53	1,026,000			283,447	(1,309,500)			
Comprehensive loss:										
Foreign currency translation adjustment								781,393		781,393
Unrealized gain (loss) on investments								(694,908)		(694,908)
Net income									1,058,913	1,058,913
Comprehensive loss										1,145,398
Balance at December 31, 2003	24,744,831	$ 24,745	$ 1,026,000	(216,886)	$ (775,451)	$ 201,685,793	$ (1,054,797)	$ 971,970	$ (103,631,327)	$ 98,246,933
Exercise of options to purchase common stock	135,591	136				375,830				375,966
Amortization of stock-based compensation						73,121	942,915			1,016,036
Repurchase of company stock				(11,816)	(18,362)	(43,192)	28,653			(32,901)
Issuance of common stock	1,147,087	1,147				5,239,598				5,240,745
Issuance of restricted stock and rights to common stock	90,000	90	1,630,600			473,310	(2,104,000)			
Comprehensive income:										
Foreign currency translation								18,695		18,695

adjustment										
Unrealized gain (loss) on investments								(361,163)		(361,163)
Net income									3,902,772	3,902,772
Comprehensive income										3,560,304
Balance at December 31, 2004	26,117,509	$ 26,118	$ 2,656,600	(228,702)	$ (793,813)	$ 207,804,460	$ (2,187,229)	$ 629,502	$ (99,728,555)	$ 108,407,083
Exercise of options to purchase common stock	200,310	200				300,239				300,439
Amortization of stock-based compensation						26,582	1,044,039			1,070,621
Repurchase of company stock				(33,231)	(104,527)					(104,527)
Issuance of common stock	52,583	52				131,081				131,133
Issuance of restricted stock and rights to common stock	71,500	72	257,900			386,028	(644,000)			
Forfeiture of rights to common stock			(1,318,000)	(45,000)	(138,850)	588,877	867,973			
Comprehensive income:										
Foreign currency translation adjustment								(980,129)		(980,129)
Unrealized gain (loss) on investments								414,406		414,406
Net loss									(14,164,737)	(14,164,737)
Comprehensive income										(14,730,460)
Balance at December 31, 2005	26,441,902	$ 26,442	$ 1,596,500	(306,933)	$ (1,037,190)	$ 209,237,267	$ (919,217)	$ 63,779	$ (113,893,292)	$ 95,074,289

See accompanying notes.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2005	2004	2003
Operating activities			
Net income (loss)	$ (14,164,737)	$ 3,902,772	$ 1,058,913
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization	5,212,888	5,439,567	4,791,870
Stock based compensation	1,017,370	946,504	501,499
Impairment of long-lived assets	4,721,367		
Restructuring expense	1,040,258		1,872,986
Gain on sale of discontinued operations	(393,899)		
Loss on disposal of fixed assets	112,943	161,157	
Realized loss on investments	133,810	180,125	21,177
Change in operating assets and liabilities:			
Accounts receivable	6,566,563	(2,905,908)	(1,505,639)
Inventories	1,782,596	(115,887)	827,144
Other current assets	7,115	(542,734)	(224,384)
Accounts payable and accrued expenses	(2,005,618)	(1,213,513)	2,380,077
Contract loss accrual			(837,522)
Restructuring accrual	(406,297)	(450,212)	(1,128,845)
Deferred revenue	1,599,811	(1,876,882)	343,371
Deferred rent	265,792	57,195	(6,976)
Restricted cash	56,415	76,622	(248,382)
Net cash provided by operating activities	5,546,377	3,658,806	7,845,289
Net cash provided by operating activities from discontinued operations	510,196	1,091,168	674,457
Investing activities			
Purchases of property and equipment	(2,846,344)	(2,070,629)	(2,091,102)
Net cash paid for certain tangible assets of Biofrontera Discovery GmbH	(1,477,487)		
Proceeds from sale of discontinued operations	1,736,610		
Other assets	5,324	43,936	380,976
Purchase of patents, license rights and prepaid royalties	(2,274)	(94,864)	(2,210,617)
Purchases of short term investments	(45,953,012)	(57,982,297)	(63,541,103)
Proceeds from sales and maturity of short term investments	53,340,885	54,860,404	59,052,271
Net cash provided by (used in) investing activities	4,803,702	(5,243,450)	(8,409,575)
Net cash used in investing activities from discontinued operations	(52,241)	(122,847)	(80,794)
Financing activities			
Principal payments on capital leases and equipment notes payable	(244,656)		(1,056,270)
Net proceeds from issuance of common stock	454,151	5,616,711	711,304
Purchase of treasury stock	(80,915)	(18,354)	(289,000)
Net cash provided by (used in) financing activities	128,580	5,598,357	(633,966)
Effect of exchange rate changes	146,401	320,182	141,346
Net increase (decrease) in cash and cash equivalents	11,083,015	5,302,216	(463,243)
Cash and cash equivalents at beginning of year	13,148,242	7,846,026	8,309,269
Cash and cash equivalents at end of year	$ 24,231,257	$ 13,148,242	$ 7,846,026
Supplemental disclosure of cash flow information			
Interest paid	$ 4,908	$	$ 38,601
Income taxes paid	$ 5,580	$ 42,007	$ 8,339
Supplemental schedule of non cash investing and financing activities			

Unrealized gain (loss) on investments	$ 147,932	$ (361,163)	$ (694,908)
Common stock received in payment of notes receivable	$ 23,612	$	$ 367,201
Deferred compensation related to the issuance of restricted stock	$ 644,000	$ 2,104,000	$ 1,309,500
Purchases of property and equipment also included in accounts payable at year end	$ (483,000)	$	$

See accompanying notes.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Amounts in dollars, except where noted)

1. Organization and Basis of Presentation

Organization and Business

Discovery Partners International, Inc. (the Company) was incorporated in California on March 22, 1995, under the name IRORI. The Company develops and offers libraries of drug-like compounds, drug discovery services, computational tools to generate compound libraries, and testing and screening services to optimize potential drugs. Additionally, the Company licenses proprietary gene profiling systems. In 1998, the Company changed its name to Discovery Partners International, Inc. In July 2000, the Company reincorporated in Delaware.

Basis of Presentation

The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries: Discovery Partners International AG (DPI AG), which wholly owns Discovery Partners International GmbH (DPI GmbH); ChemRx Advanced Technologies, Inc.; Xenometrix, Inc.; Discovery Partners International L.L.C. (DPI LLC); Structural Proteomics, Inc. (substantially inactive); Systems Integration Drug Discovery Company, Inc. (substantially inactive) and Irori Europe, Ltd. (substantially inactive). All intercompany accounts and transactions have been eliminated.

The consolidated financial statements have been recast to reflect the results of operations, financial positions and cash flows of our former instrumentation product lines as discontinued operations. The amounts included in the results for discontinued operations consist of revenues, cost of sales and operating expenses associated with the former operations of the instrumentation product lines excluding any allocations for facilities and other corporate support. All footnotes included herein exclude the amounts related to the assets and liabilities sold as part of the instrumentation product lines.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as inventory, prepaid royalty, patents, license rights, property, plant, and equipment and restructuring accruals, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company invests its excess cash in marketable securities, principally asset-backed securities, corporate notes and government securities. The Company has established guidelines that maintain safety and liquidity of its cash equivalents. These guidelines are periodically reviewed and modified if necessary.

The Company considers all highly liquid investments with a remaining maturity of less than three months when purchased to be cash equivalents. At December 31, 2005 and 2004, the cost of cash equivalents was the same as the market value. Accordingly, there were no unrealized gains and losses. The Company evaluates the financial strength of institutions at which significant investments are made and believes the related credit risk is limited to an acceptable level.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Investments

The Company applies Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, to its investments. Under SFAS No. 115, the Company classifies its investments as Available-for-Sale and records such assets at estimated fair value in the balance sheet, with unrealized gains and losses, if any, reported in stockholders equity (other comprehensive income). The Company invests its excess cash balances in marketable debt securities, consisting primarily of, government securities, corporate bonds and notes and asset-backed securities, with strong credit ratings. The Company limits the amount of investment exposure as to institutions, maturity and investment type. The realized gains and losses of securities sold is determined based on the specific identification method.

Short-term investments consist of the following:

	Maturity	Amortized	Unrealized		Market
December 31, 2005	**in Years**	**Cost**	**Gains**	**Losses**	**Value**
Asset Backed Securities	1 or less	$ 12,826,353	$ 10	$ (11,546)	$ 12,814,817
Corporate Securities	1 or less	7,499,879	1,391		7,501,270
Total short-term investments		20,326,232	1,401	(11,546)	20,316,087
US Government Securities	1 to 2	8,748,292		(54,575)	8,693,717
Asset Backed Securities	1 to 2	21,341,979	2,923	(158,360)	21,186,542
Corporate Securities	1 to 2	8,110,503	501	(52,477)	8,058,527
Certificate of Deposits	1 to 2	1,000,000			1,000,000
Total long-term investments		39,200,774	3,424	(265,412)	38,938,786
		$ 59,527,006	$ 4,825	$ (276,958)	$ 59,254,873

	Maturity	Amortized	Unrealized		Market
December 31, 2004	**in Years**	**Cost**	**Gains**	**Losses**	**Value**
US Government Securities	1 or less	$ 23,393,889	$	$ (44,290)	$ 23,349,599
Asset Backed	1 or less	2,000,000	204		2,000,204
Corporate Securities	1 or less	6,624,211	223	(29,753)	6,594,681
Equities	1 or less	5,000,000			5,000,000
Total short-term investments		$ 37,018,100	$ 427	$ (74,043)	$ 36,944,484
US Government Securities	1 to 2	6,281,935		(78,657)	6,203,278
Asset Backed	1 to 2	20,200,016	1,015	(550,457)	19,650,574
Corporate Securities	1 to 2	4,082,763		(10,831)	4,071,932
Total long-term investments		$ 30,564,714	$ 1,015	$ (639,945)	$ 29,925,784

$ 67,582,814	$ 1,442	$ (713,988)	$ 66,870,268

The Company had realized losses on the sale of investments totaling $133,810, $180,125 and $21,177 in 2005, 2004 and 2003, respectively. All realized gains and losses are reclassified out of other comprehensive income (loss) in the period recognized based on specific identification of each security disposed. Proceeds from the sale of short-term investments totaled $7,328,537, $7,885,040 and $13,832,408 in the years ended December 31, 2005, 2004 and 2003, respectively. Interest receivable on investment securities at December 31, 2005 and 2004 totaled $339,225 and $321,517, respectively, and is included in other current assets in the consolidated balance sheets.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Investments considered to be temporarily impaired at December 31, 2005 are as follows:

		Less than 12 months of temporary impairment	
	Number of Investments	Fair Value	Unrealized Losses
Asset Backed Securities	24	$ 27,570,601	$ (169,906)
US Government Securities	8	8,693,718	(54,575)
Corporate Securities	4	7,490,041	(52,477)
Total temporarily impaired securities	36	$ 43,754,360	$ (276,958)

There are no investments held at December 31, 2005, which are considered to be temporarily impaired beyond 12 months. The Company will record an impairment charge if the securities continue to be impaired beyond twelve months or other factors indicate there is permanent impairment. The Company regularly monitors and evaluates the realizable value of its marketable securities. When assessing marketable securities for other-than-temporary declines in value, the Company considers such factors as, among other things, how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost and the market in general.

The Company believes that the decline in value of its marketable securities is temporary and related to the change in market interest rates since purchase. The decline is not related to any company or industry specific event, and all portfolio investments are investment grade quality. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a change in the market interest rate environment.

Accounts Receivable, net

Accounts receivable, net consists of the following:

	December 31,	
	2005	2004
Receivables	$ 5,250,288	$ 12,308,406
Unbilled receivables	496,474	527,695
Allowance for doubtful accounts	(73,253)	(50,000)
	$ 5,673,509	$ 12,786,101

Unbilled receivables are a difference in contractually based billing terms versus amounts recognized in accordance with our revenue recognition policies. We establish an allowance for doubtful accounts using the specific identification method.

Long-Lived Assets

The Company assesses potential impairments to its long-lived and intangible assets when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered, in accordance with SFAS No. 144, Accounting for

Impairment or Disposal of Long-lived Assets. An impairment loss is recognized when the carrying amount of the long-lived and intangible asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived and intangible asset is not recoverable if it exceeds the sum of

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived and intangible asset exceeds its fair value and is recorded as a reduction in the carrying value of the related asset and a charge to operating expense.

The Company has stated within this joint proxy statement/prospectus that it is contemplating various strategic options that include the divestiture of various operating assets, a merger and, if necessary, a liquidation of all of the assets of the Company. These events and circumstances have been evaluated in determining if the carrying amount of the Company s assets at December 31, 2005 are impaired. The Company considered all available evidence and determined there is insufficient information to establish whether or not the carrying amount of the assets may be fully recovered should one of these events occur. As such, no additional related impairment charges were recorded at December 31, 2005.

In the event the Company divests the various operating assets of the Company, it is possible that it may not successfully recover the $8.8 million of total long-lived assets (excluding restricted cash) that is reflected on the consolidated balance sheet at December 31, 2005, which may result in future impairment charges up to this amount. There are one or more viable alternatives that would not lead to a loss on the recoverability of the Company s long-lived assets. In the event the Company engages in a merger or acquisition transaction, it is possible that the value realized by its shareholders in such a transaction may be significantly less than the $95.1 million of shareholders equity recorded on its consolidated financial statements as of December 31, 2005, due to the fact that the Company s market capitalization is significantly below the book value of shareholders equity. Lastly, in the event that the Company is unsuccessful with a divestiture of its assets or is unable to successfully conclude any merger or acquisition activity, it is possible that the Company s Board of Directors could decide to liquidate all of the Company s assets, in which event the value realized by its shareholders would be significantly less than the $95.1 million of shareholders equity recorded on the consolidated financial statements as of December 31, 2005.

Fair Value of Financial Instruments

Financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities, are carried at cost, which management believes approximates fair value because of the short-term maturity of these instruments.

Inventories

Inventories consist of the following:

	December 31,	
	2005	**2004**
Raw materials	$ 457,752	$ 439,583
Work-in process	400,546	1,967,118
Finished goods	17,359,676	18,063,966
	18,217,974	20,470,667
Less reserves	(17,639,132)	(18,080,059)
	$ 578,842	$ 2,390,608

Inventories are recorded at the lower of cost or market. The cost of inventory includes the cost of raw materials, labor and related overhead. The Company records write-downs of inventory for estimated

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

obsolescence or non-marketability if there is an excess of cost of inventory over the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than we have projected, additional inventory write-downs may be required. As of December 31, 2005, 98% of the inventory reserve is associated with chemical compound finished goods inventory. A portion of the net inventory balance represents work-in-process related to ongoing chemistry projects with three customers. Estimated losses on any deliverables are recorded when they become apparent. As of December 31, 2005, we have reserved approximately $73,653 against the work-in-process representing the anticipated losses on the sale of certain chemical compound libraries. The anticipated losses are based on estimated revenue that will be recognized upon shipment of the compound libraries as well as the total historical and estimated future costs associated with these revenues. The actual losses on the sale of these libraries could differ from management s estimates.

As of December 31, 2005, $159,304 of the inventory reserve is associated with raw materials inventory deemed obsolete as a result of the restructuring of the facilities in South San Francisco and the termination of the Pfizer contract. Estimated losses on any deliverables are recorded when they become apparent.

Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2005	**2004**
Furniture and equipment	$ 23,710,779	$ 20,796,435
Software	1,902,692	4,751,112
Leasehold improvements	5,719,965	6,524,780
	31,333,436	32,072,327
Less accumulated depreciation and amortization	(23,382,671)	(24,976,349)
	$ 7,950,765	$ 7,095,978

Property and equipment, including equipment under capital leases, are stated at cost and depreciated over the estimated useful lives of the assets (three to seven years) or the term of the related lease, whichever is shorter, using the straight-line method. Maintenance and repairs are charged to operations as incurred. Amortization of assets acquired under capital leases is included in depreciation expense. Depreciation and amortization expense of property and equipment totaled $3,496,863, $3,309,336 and $4,520,686 for the years ended December 31, 2005, 2004 and 2003, respectively. Any costs related to satisfying contractual obligations upon the retirement or abandonment of assets is measured at fair value at the time of purchase of the asset and recorded as a long-term liability and an additional cost of the asset. Such amounts are recognized in line with depreciation expense.

During 2005, the Company announced the restructuring of its chemistry operations in South San Francisco in connection with the non-renewal of its chemistry collaboration with Pfizer (representing 54% of its revenues in 2005). This event required the reevaluation of the recoverability of the gross carrying value of the long-lived assets used in this facility. The Company identified property and equipment that would cease to be used beyond the first quarter of fiscal 2006 (the period when the restructuring would be complete). The change to the estimate of the useful lives of these assets resulted in $202,934 of accelerated depreciation charges recognized in the fourth quarter of fiscal 2005. The Company determined the carrying value (after consideration of the change in estimated useful lives discussed above) was recoverable through the first quarter of fiscal 2006 and no additional impairment charges were required.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Prepaid Royalty, Patents and License Rights

Prepaid royalty, patents and license rights consist of the following:

	December 31, 2005			December 31, 2004		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Prepaid royalty	$	$	$	$ 6,034,643	$ (1,206,928)	$ 4,827,715
Patents	1,864,293	(1,146,586)	717,707	2,862,020	(971,096)	1,890,924
License rights	6,667	(6,667)		256,666	(256,666)	
Total intangible assets	$ 1,870,960	$ (1,153,253)	$ 717,707	$ 9,153,329	$ (2,434,690)	$ 6,718,639

Amortization expense related to amortizable intangible assets was $1,382,416, $1,536,487, and $776,252 for the years ended December 31, 2005, 2004 and 2003, respectively. During 2005 the Company sold patents in connection with sale of its instrumentation product lines that resulted in a reduction of the gross carrying value of patents of $1.0 million.

During 2005, the Company recorded $4.7 million in impairment charges on intangible long-lived assets. Approximately $3.7 million of the impairment charges related to the prepaid royalty to Abbott Laboratories related to the µARCS screening technology. In connection with the restructuring of the chemistry operations the Company decided to discontinue the commercialization of the µARCS screening technology. All available evidence was considered and determined that no further benefit would be realized by use of this asset in current revenue generating or operating activities nor would any future cash flows be generated by use of this asset. In addition, $1.0 million of impairment charges related to patent rights to a proprietary gene profiling system that is licensed and enables the Company to offer toxicology research products and services. The loss of a customer required the reevaluation of the recoverability of the gross carrying value of the asset. The Company considered all available evidence and developed estimates based on historical rates of attrition of the customer base, future cash generating capacity and future expenditures necessary to maintain the asset. An expected present value technique, in which a series of cash flow scenarios that reflect the range of possible outcomes were discounted to estimate the fair value of the asset.

The estimated annual amortization expense of all intangible assets for the years ended December 31 after 2005 is as shown in the following table. Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments and other factors.

2006	$ 134,580
2007	134,580
2008	134,580
2009	134,580
2010	134,580
Thereafter	44,807
	$ 717,707

Other Assets

Other assets consist of chemical compounds purchased by DPI AG for its screening services. The compounds are stated at cost and depreciated over the estimated useful lives of the assets (four years) using the straight-line method. The net carrying value of these assets approximates or is less than their net realizable value.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Revenue Recognition

Chemistry services. Revenue from the sale of chemical compounds delivered under chemistry collaborations is recorded as the compounds are shipped. Revenue under chemistry service agreements that are compensated on a full-time equivalent, or FTE, basis is recognized on a monthly basis and is based upon the number of FTE employees that actually worked on each project and the agreed-upon rate per FTE per month.

Compound repository services. In August 2004, the Company entered into a multi-year contract with the NIH to establish and maintain a Small Molecule Repository to manage and provide up to one million chemical compounds to multiple NIH Screening Centers as part of the NIH Roadmap Initiative. Revenue under this contract is recorded as costs are incurred, which include indirect costs that are based on provisional rates estimated by management at the time a proposal is submitted. The Company has determined that actual indirect costs are greater than the provisional rates and management fully intends to negotiate recovery of these higher costs with the government. Since this is the first government contract and the Company has no historical experience negotiating final indirect cost rates with the government, all cost overruns have been expensed and any potential recovery will be recognized as revenue upon receipt of monies. This contract is funded, in its entirety, by the NIH, Department of Health and Human Services. Payments to the Company for performance under this contract are subject to audit by the Defense Contract Audit Agency (DCAA) and is subject to government funding. The Company records a reserve against receivables for estimated losses that may result from rate negotiations and/or lack of government funding availability. As of December 31, 2005, no such reserve was considered necessary.

Screening services. High throughput screening service revenues are recognized on the proportional performance method. Advances received under these high throughput screening service agreements are initially recorded as deferred revenue, which is then recognized proportionately as costs are incurred over the term of the contract. Certain of these contracts may allow the customer the right to reject the work performed; however, there is no history of material rejections and historically the Company has been able to recognize revenue without realizing any losses from any rejections.

Other licenses. Other licenses revenue includes royalty revenue due to the Company under the Xenometrix patent licensing agreements. Royalty revenue is recognized upon receipt of monies, provided there is no future obligation with respect to such payments.

Integrated drug discovery collaborations may provide chemistry services revenue, screening services revenue, milestone payments and other revenues. Revenue for each of these elements of such collaborations is recognized as described above. Revenue from milestone payments would be recognized upon receipt of monies.

From time to time the Company may receive requests from customers to bill and hold goods for them. In these cases, as long as the specific revenue recognition criteria under accounting principles generally accepted in the United States at the time of the bill and hold are met, including the customer accepting the risk of loss and the transfer of ownership of such goods occurring prior to shipment, the revenue is recognized.

Shipping and Handling Costs

Costs incurred for shipping and handling of products are included in cost of revenues. Amounts billed to customers for such costs are reported as revenue.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Restructuring Costs

The Company accounts for restructuring costs in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The Company recognizes the fair value of one-time termination benefits when both the appropriate approval for taking action has been obtained, and when a liability is incurred (i.e., when the plan has been communicated to employees). If employees are required to render service beyond a 60 day minimum retention period, the fair value of the obligation is determined on the date of the communication to the employee and recognized over the service period. In determining costs to consolidate excess facilities, the Company estimates the fair value of the obligation at the cease-use date based on the remaining lease rentals, reduced by estimated sublease rentals that could be reasonably obtained for the property. As a result, in the event we are unsuccessful in entering into a sublease, the Company could incur future restructuring charges. Liabilities related to the consolidation of excess facilities are recorded when the premises have been vacated. The cumulative effect of any changes to the plan subsequent to the communication date and cease-use date are recognized in the period of the change.

Research and Development Costs

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

Stock-Based Compensation

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, the Company accounts for common stock options granted to employees and directors using the intrinsic value method and, thus, recognizes no compensation expense for such stock-based awards where the exercise prices are equal to or greater than the fair value of the Company s common stock on the date of the grant. The Company has recorded deferred stock compensation related to certain stock options which were granted with exercise prices below estimated fair value, restricted stock and rights to acquire restricted stock (see Note 6). In accordance with APB Opinion No. 25, deferred compensation is included as a reduction of stockholders equity and is being amortized to expense on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation No. 28 over the vesting period of the options, restricted stock and rights to acquire restricted stock.

Pro forma information regarding net income or loss is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options and shares issued pursuant to the Company s 2000 Employee Stock Purchase Plan under the fair value method of that Statement. The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for option grants:

	Years Ended December 31,		
	2005	2004	2003
Risk-free interest rate	4.0%	3.5%	3.5%
Dividend yield	0%	0%	0%
Volatility factor	78%	79%	87%
Weighted average life in years	5.3	5.8	6.7

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

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

	Years Ended December 31,		
	2005	2004	2003
Net income (loss), as reported	$ (14,164,737)	$ 3,902,772	$ 1,058,913
Deduct: Total stock-based compensation expense determined under fair value based method	(2,292,441)	(2,900,964)	(2,979,216)
Pro forma net income (loss)	$ (16,457,178)	$ 1,001,808	$ (1,920,303)
Income (loss) per share:			
Basic and diluted as reported	$ (0.55)	$ 0.15	$ 0.04
Basic and diluted pro forma	$ (0.63)	$ 0.04	$ (0.08)

Comprehensive Income (Loss)

SFAS No. 130, Reporting Comprehensive Income, requires the Company to report in the consolidated financial statements, in addition to net income, comprehensive income (loss) and its components including foreign currency items and unrealized gains and losses on certain investments in debt and equity securities. For the three years in the period ended December 31, 2005, the Company has disclosed comprehensive income (loss) in its consolidated statements of stockholders equity. The accumulated balances for each item included in accumulated other comprehensive income (loss) is as follows:

	December 31,		
	2005	2004	2003
Foreign currency translation adjustment	$ 361,919	$ 1,342,048	$ 1,323,353
Unrealized loss on investments	(298,140)	(712,546)	(351,383)
Accumulated other comprehensive income	$ 63,779	$ 629,502	$ 971,970

Net Income (Loss) Per Share

Basic and diluted net income (loss) per share is presented in conformity with SFAS No. 128, Earnings per Share. In accordance with SFAS No. 128, basic net income (loss) per share has been computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding (including vested deferred stock units) during the period, less shares subject to repurchase. Diluted net income (loss) per share has been computed by dividing net income (loss) by the weighted-average number of common and common stock equivalent shares outstanding during the period calculated using the treasury stock method, less shares subject to repurchase. Common equivalent shares, composed of outstanding stock options, restricted stock and contingently issuable stock are included in diluted net income (loss) per share to the extent these shares are dilutive. The computations for basic and diluted earnings per share are as follows:

	Income (Numerator)	Shares (Denominator)	Earnings Per Share
Year Ended December 31, 2005			
Basic earnings per share, as reported:			
Net loss	$ (14,164,737)	25,919,393	$ (0.55)

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

	Income (Numerator)	Shares (Denominator)	Earnings Per Share
Diluted earnings per share:			
Dilutive stock options			
Common stock issuable			
Net loss plus assumed conversions	$ (14,164,737)	25,919,393	$ (0.55)
Year Ended December 31, 2004			
Basic earnings per share, as reported:			
Net income	$ 3,902,772	25,318,937	$ 0.15
Diluted earnings per share:			
Dilutive stock options		587,742	
Common stock issuable		364,946	
Net income plus assumed conversions	$ 3,902,772	26,271,625	$ 0.15

The total number of shares issuable upon exercise of stock options excluded from the calculation of diluted earnings per share since they are anti-dilutive were 2,278,043, 1,940,315 and 1,845,012 in 2005, 2004 and 2003, respectively.

Segment Reporting

The Company considers its operations to be a single reportable segment.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and short-term investments. The Company believes it has reduced its exposure to credit loss to an acceptably low level by placing its cash, cash equivalents and investments with financial institutions and corporations that are believed to be of high credit quality and by limiting its exposure to any single investment.

Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123R (revised 2004), Shared-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees (Opinion No. 25), and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach to accounting for share-based payments in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statement based on their fair values. SFAS No. 123R is effective at the beginning of the first interim or annual period beginning after December 16, 2005. SFAS No. 123R permits public companies to adopt its requirements using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

2. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company plans to adopt SFAS No. 123R using the modified-prospective method, which will impact all periods beginning after December 16, 2005. As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using the intrinsic value method provided by Opinion No. 25 and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123R s fair value method will have a significant impact on our future results from operations, although it will have no impact on our overall financial position. As a result of the anticipated adoption of SFAS No. 123R, the Compensation Committee of the Board of Directors approved the acceleration of vesting on stock options with exercise prices of $5.75 or more effective February 21, 2005, which did not result in an accounting charge under the Opinion No. 25 intrinsic value method. The Company has not determined the impact of adoption of SFAS No. 123R since it will depend on levels of share-based payments granted in the future. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), we have not recognized excess tax deductions historically due to our accumulated loss position.

Foreign Currency Translation

The financial statements of DPI AG are measured using the local currency, the Swiss Franc, as the functional currency. The financial statements of DPI GmbH are re-measured using the Swiss Franc as the functional currency, after transacting in its local currency, the Euro. The financial statements of DPI GmbH are consolidated with the DPI AG financials. DPI AG accounts are translated from their local currency to the U.S. dollar using the current exchange rate in effect at the balance sheet date for the balance sheet accounts, and using the average exchange rate during the period for revenues and expense accounts. The effects of translation for consolidated DPI AG are recorded as a separate component of stockholders equity (accumulated other comprehensive income (loss)). DPI AG conducts its business with customers in local currencies. Exchange gains and losses arising from these transactions are recorded using the actual exchange differences on the date the transaction is settled. The carrying value of consolidated net assets of DPI AG at December 31, 2005 totaled $4,795,736 (excluding intercompany balances).

The financial statements of DPI LLC are remeasured from the local currency, the Japanese Yen, to its functional currency, the U.S. dollar. Exchange gains and losses arising from transactions are recorded using the actual exchange differences on the date the transaction is settled. The carrying value of net liabilities of DPI LLC at December 31, 2005 totaled $15,474 (excluding intercompany balances).

3. Discontinued Operations

On October 7, 2005, the Company entered into an Asset Purchase Agreement with IRORI Discovery, Inc., now known as Nexus Biosystems (Nexus), pursuant to which the Company agreed to sell certain assets and liabilities to Nexus, including the IRORI® chemical synthesis products, the Crystal Farm® automated protein crystallization products, and the Universal Store compound storage systems products for a purchase price of

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

$1,941,576, inclusive of a purchase price adjustment. Nexus is a California company whose Chief Executive Officer, John Lillig, was previously the Chief Technology Officer, Vice President and General Manager, Discovery Systems for the Company. The sale of net assets pursuant to the Asset Purchase Agreement was completed on October 12, 2005. The sale price for the assets was effectively based on the total book value of the net assets and the cash cost of operations for the assets sold through the closing date. As of December 31, 2005, the Company had received $1,736,610 in proceeds from Nexus for payment of the net assets. The remaining amount due of $204,966 is included in other current assets within the balance sheet at December 31, 2005 and is fully reserved. The Company recognized a gain on sale of the net assets totaling $393,899 for the year ended December 31, 2005. The Company incurred $177,616 for the year ended December 31, 2005 in costs related to the sale of these net assets that are included in the gain on sale.

The Company s consolidated financial statements and related notes contained herein have been recast to reflect the financial position, results of operations and cash flows of the instrumentation product lines as a discontinued operation. The Company did not account for its instrumentation product lines as a separate legal entity. Therefore, the following selected financial data for the Company s discontinued operations is presented for informational purposes only and does not necessarily reflect what the net sales or earnings would have been had the businesses operated as a stand-alone entity. The financial information for the Company s discontinued operations excludes allocations of certain DPI assets, liabilities and expenses to those operations, such as facility charges. These amounts have been excluded from discontinued operations on the basis that these assets, liabilities and expenses were not transferred in the sale of these product lines and are considered by management to reflect most fairly or reasonably the incremental results of operations that were sold.

The following tables set forth, for the periods indicated, selected financial data of the Company s discontinued operations:

Selected Financial Data for Discontinued Operations

Statement of Operations and Cash Flows

	Years Ended December 31,		
	2005	**2004**	**2003**
Revenues	$ 2,026,280	$ 7,296,391	$ 4,617,341
Cost of revenues	841,858	3,953,467	3,783,939
Gross margin	1,184,422	3,342,924	833,402
Research and development	1,462,407	2,252,453	1,978,512
Selling, general and administrative	506,865	517,894	1,060,028
Amortization of stock-based compensation	53,251	54,985	13,730
Total operating expenses	2,022,523	2,825,332	3,052,270
Gain (loss) from discontinued operations	$ (838,101)	$ 517,592	$ (2,218,868)

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Balance Sheet

(Assets and Liabilities Held for Sale)

	December 31, 2004
Accounts receivable, net	$ 1,547,676
Inventories, net	451,079
Prepaids and other current assets	4,150
Property and equipment, net	110,182
Intangible assets, net	395,833
Total Assets	$ 2,508,920
Accounts payable and accrued expenses	$ 778,329
Deferred revenue	187,503
Total Liabilities	$ 965,832

4. Restructuring Accrual

In November 2005, the Company announced the termination of discussions with Pfizer around a new collaboration for services in the design and development of compounds exclusively for Pfizer. With the absence of a new contract with Pfizer, the Company initiated the process of reducing its chemistry operational capacity in a restructuring of its South San Francisco facility. Under the restructuring plan, 50 employees were involuntarily terminated, including scientific, operational and administrative staff. In the fourth quarter of 2005, the Company recorded $928,000 of restructuring expenses, which consisted of accrued one-time termination benefits. The Company required all employees to render service for a minimum of 60 days to receive termination benefits. As a result, the fair value of the obligation was determined on the date of communication to the employee and will be recognized over the service period. In determining costs to consolidate excess facilities, the Company estimates the fair value of the obligation at the cease-use date based on the remaining lease rentals, reduced by estimated future sublease rentals that could be reasonably obtained for the property, even if the Company is unsuccessful in entering into a sublease. Liabilities related to the consolidation of excess facilities are recorded when the premises have been vacated. As of December 31, 2005, no such accrual for lease obligations was recognized as the facility will be utilized through the first quarter of 2006. Moving, relocation and other costs related to consolidation of facilities are expensed as incurred and are included in operating expenses. The Company expects to incur a total of approximately $2.5 million related to this restructuring event, inclusive of termination benefits and lease obligations (net of sublease income). The Company expects to utilize future accruals related to this event by December 2008.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

In April 2003, the Company announced that it would consolidate its domestic chemistry facilities into two locations: in South San Francisco for primary screening library design and synthesis programs and in San Diego for lead optimization and medicinal chemistry projects. Restructuring charges totaled $1,872,986 for the year ended December 31, 2003 and $112,368 for the year ended December 31, 2005. There were no additional restructuring costs incurred 2004. During the year ended December 31, 2005 all final payments were made under the restructuring plan and the estimated charges of $17,304 previously accrued for were reversed to reflect actual payments made. Restructuring charges were comprised of the following in the aggregate:

	Years Ended December 31,		
	2005	2004	2003
Severance and Retention Bonuses for Involuntary Employee Terminations	$ 927,890	$	$ 375,599
Costs to Exit Certain Contractual and Lease Obligations	112,368		919,171
Moving, Relocation and Other Costs Related to Consolidation of Facilities			578,216
Total Restructuring Expense	$ 1,040,258	$	$ 1,872,986

The following table summarizes the activity and balances of the restructuring reserve:

	Severance and Retention Bonuses for Involuntary Employee Terminations	Costs to Exit Certain Contractual and Lease Obligations	Total
Balance at December 31, 2003	$	$ 744,141	$ 744,141
Reserve Established			
Utilization of reserve:			
Payments		(450,212)	(450,212)
Balance at December 31, 2004		293,929	293,929
Reserve Established	927,890	112,368	1,040,258
Utilization of reserve:			
Payments		(406,297)	(406,297)
Balance at December 31, 2005	$ 927,890	$	$ 927,890

The Company expects to incur additional restructuring charges associated with lease obligations in 2006, which will be utilized through fiscal 2008. As terminated employees complete their service arrangements, the Company will incur additional restructuring charges associated termination benefits through fiscal 2006. The Company expects to complete the utilization of the obligation recorded at December 31, 2005 by January 2006.

5. Commitments and Contingencies

Leases

The Company leases certain buildings under operating leases, which expire at varying dates through June 2013. Rent expense was $3,244,134, $2,727,901 and $2,495,943 for the years ended December 31, 2005, 2004, and 2003, respectively.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Annual future minimum lease obligations under the Company s operating leases as of December 31, 2005 are as follows:

	Operating Leases
2006	$ 3,433,276
2007	3,283,629
2008	3,283,629
2009	1,237,025
2010	1,023,390
Thereafter	2,117,285
Total minimum lease payments	$ 14,378,234

At December 31, 2005 and 2004, there were no capital lease obligations.

Licensing and Purchase Commitments

The Company sells certain products under licensing and purchasing agreements. The licensing agreements require payments based upon various percentages of sales from products. Terms of the licensing agreements generally range from the remaining life of the patent up to 25 years. Total license costs incurred under these agreements were $44,075, $104,502 and $34,403 for the years ended December 31, 2005, 2004 and 2003, respectively.

To maintain exclusivity, certain of the licensing agreements require guaranteed minimum annual license payments. Future minimum guaranteed payments at December 31, 2005 are as follows:

	Minimum payments
2006	$ 15,000
2007	15,000
2008	10,000
2009	10,000
2010	10,000
Thereafter	30,000
Total minimum license payments	$ 90,000

The Company also has purchase commitments from time to time for the purchase of capital expenditures and raw materials. Obligations under these commitments totaled $2,012,913 at December 31, 2005. Purchase commitments for equipment expire in 2006.

Executive Employment Agreements

The Company has entered into employment agreements with key executives that provide for the continuation of salary if terminated for reasons other than cause, as defined in those agreements. At December 31, 2005, the future employment contract commitments for such key executives totaled approximately $500,000 for the fiscal year ending December 31, 2005 and none for years thereafter.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

The Company has entered into change in control agreements with the following current officers of the Company: Michael Venuti, Craig Kussman, Urs Regenass, Douglas Livingston, Richard Neale and Daniel Harvey. In the event of both a change in control and termination of an officer s employment (either by the Company without cause or by the officer for good reason) either before, and in connection with, the change in control or within 365 days after the change in control, the officer will be entitled to a severance payment equal to the officer s average bonus for the three prior full calendar years of employment with the Company multiplied by the number of days in the calendar year through the date of termination divided by 365 and the greater of 100% of the officer s annual base salary in effect immediately prior to the change in control of the Company or the officer s annual base salary in effect at the time notice of termination is given. Additionally, for purposes of determining the vesting of the officers awards made under the 2000 Stock Incentive Plan, as well as any unvested shares of Company stock acquired pursuant to that Plan, the officer will be treated as if he had completed an additional 12 months of service immediately before the date on which his employment is terminated.

The initial term of these agreements expires December 31, 2004 and automatically renews thereafter on an annual basis unless either party gives notice by September 30th of the preceding year and no change of control of the Company has occurred during the 18 months before that notice.

Restricted Cash

The Company has restricted cash of $1,060,753 and $1,120,050 as of December 31, 2005 and 2004, respectively, collateralizing obligations under operating lease and line of credit agreements.

6. Stockholders Equity

Common Stock

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

On May 4, 2004, our secondary public offering was declared effective by the SEC. A total of 8,305,300 shares of common stock at a price of $5.00 per share were made available to the public. Axys Pharmaceuticals, Inc., then a stockholder of the Company, registered 7,222,000 shares for resale, with the remaining 1,083,300 shares registered for sale by the Company to the underwriters to cover over-allotments. We received proceeds from the offering, of the shares registered for sale by the Company, of $5.1 million net of discounts.

On October 4, 2001, the Company s Board of Directors authorized a Stock Repurchase Plan, whereby the Company was authorized to repurchase up to 2,000,000 shares of the Company s common stock at no more than $3.50 per share. In October 2001, the Company purchased 35,000 shares of its common stock for a total of $119,250 pursuant to its Stock Repurchase Plan. In February 2003, an additional 115,000 shares were purchased for a total of $289,000.

For the year ended December 31, 2005, the Company accepted 33,231 shares of the Company s common stock in lieu of cash from former employees in payment of obligations to the Company totaling $104,527.

Stock Options

In November 1995, the Company adopted the 1995 Stock Option/Stock Issuance Plan, under which 2,350,000 shares of common stock were reserved for issuance of stock and stock options granted by the

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Company. In July 2000, the Company adopted the 2000 Stock Incentive Plan (the Plan) as the successor plan to the 1995 Stock Option/Stock Issuance Plan. 3,300,000 shares of common stock were reserved under the Plan, including shares rolled over from its 1995 Plan. The Plan provides for the grant of incentive and nonstatutory options. The exercise price of options must equal at least the fair value on the date of grant. The options generally vest over a four-year period. Options granted prior to January 1, 2003 are exercisable immediately, subject to the Company s right of repurchase. Options granted after January 1, 2003 are exercisable as the options vest. All options expire no later than ten years after the date of grant.

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

	Years Ended December 31,					
	2005		2004		2003	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	3,362,362	$ 5.40	3,396,560	$ 5.34	3,566,852	$ 5.44
Granted	163,700	3.66	370,100	5.75	475,000	3.74
Exercised	(200,310)	1.50	(135,591)	2.78	(263,873)	2.23
Forfeited	(506,169)	6.21	(268,707)	6.36	(382,119)	6.50
Outstanding at end of period	2,819,583	$ 5.32	3,362,362	$ 5.40	3,395,860	$ 5.34
Exercisable	2,614,939	$ 5.46	2,851,667	$ 5.48	2,992,117	$ 5.52

Following is a further breakdown of the options outstanding as of December 31, 2005:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$ 0.20 2.50	62,583	2.8	$ 1.82	62,583	$ 1.82
$ 2.51 5.00	1,220,142	4.5	$ 3.63	1,030,583	$ 3.67
$ 5.01 12.00	1,473,183	3.9	$ 6.29	1,458,098	$ 6.29
$12.01 24.00	63,675	3.9	$ 18.93	63,675	$ 18.93
	2,819,583			2,614,939	

Exercise prices for options outstanding as of December 31, 2005 ranged from $0.20 to $24.00 per share. The weighted-average remaining contractual life of those options is approximately 4.1 years. The weighted-average fair value of the options granted in 2005, 2004 and 2003 are $2.45, $4.39 and $2.97 per share, respectively.

At December 31, 2005, options for 3,475,667 shares were available for future grant under the Plan.

Employee Stock Purchase Plan

In June 2000, the Board of Directors and stockholders adopted the Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods. The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

period, whichever is lower. In addition, the Purchase Plan provides for annual increases of shares available for issuance under the Purchase Plan beginning with fiscal 2001. Employee participation in the Purchase Plan commenced August 1, 2002. As of December 31, 2005 a total of 1,931,280 shares of the Company s common stock were reserved for future issuance under the Purchase Plan of which 958,380 remain unregistered at December 31, 2005. Pursuant to the Purchase Plan, the participating employees purchased 52,583 shares of the Company s common stock during 2005.

Deferred Stock Compensation

The Company awarded 142,500 shares of restricted stock and rights to acquire 500,000 shares of restricted stock in August 2003 and July 2004, collectively, pursuant to the Company s 2000 Stock Incentive Plan to certain of the Company s key employees resulting in an increase in deferred compensation of $3.4 million. The restricted stock and rights to acquire restricted stock vest in annual installments over a four-year period. In April 2005, Michael C. Venuti, PhD, upon employment as the Company s Chief Scientific Officer, was awarded a restricted stock grant for 200,000 shares of the Company s common stock pursuant to the Company s 2000 Stock Incentive Plan resulting in an increase in deferred compensation of $644,000. The restricted stock will vest at the end of five years from the grant date except that vesting can be accelerated if certain conditions are met.

In accordance with Opinion No. 25, deferred compensation is included as a reduction of stockholders equity and is being amortized to expense on an accelerated basis in accordance with Financial Accounting Standards Board Interpretation No. 28 over the vesting period of the options, restricted stock and rights to acquire restricted stock. During 2005 and 2004, the Company recorded stock-based compensation expense, for continuing operations, of $1,017,370 and $946,504, respectively. Common stock issuable represents the fair value at the time of grant of the shares issuable in the future.

Stockholder Rights Agreement

On February 13, 2003, the Company s Board of Directors adopted a Rights Agreement (the Agreement). The Agreement provides for a dividend distribution of one preferred share purchase right for each outstanding share of the Company s common stock held of record at the close of business on February 24, 2003. The rights are not currently exercisable. Under certain conditions involving an acquisition or proposed acquisition by any person or group holding 15 percent or more of the Company s outstanding common stock, the rights permit the holders to purchase from the Company one unit consisting of one-thousandth of a share of the Company s Series A junior participating preferred stock at a price of $19.00 per unit, subject to adjustment. Under certain conditions, the rights may be redeemed by the Company s Board of Directors in whole, but not in part, at a price of $0.01 per right.

Common Shares Reserved For Future Issuance

At December 31, 2005 common shares reserved for future issuance consist of the following:

Stock and stock options	3,475,667
Employee stock purchase plan	1,931,280
	5,406,947

7. Income Taxes

At December 31, 2005, the Company had federal and California income tax net operating loss carryforwards of approximately $28.9 million and $14.7 million, respectively. At December 31, 2005, the Company also had

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

foreign income tax net operating loss carryforwards of approximately $9.93 million which will begin to expire in 2008. The difference between the federal and California tax net operating loss carryforwards is primarily attributable to the capitalization of research and development expenses and the percentage limitation on the carryover of net operating losses for California income tax purposes.

The federal tax loss carryforwards will begin to expire in 2010 unless previously utilized. The California tax loss carryforwards will continue to expire in 2006. The Company also has federal and California research tax credit carryforwards of approximately $2.7 million and $1.4 million, respectively. The federal research tax credit carryforwards will begin to expire in 2011 unless previously utilized. The California research tax credits will carry forward indefinitely. Pursuant to Internal Revenue Code Sections 382 and 383, use of the net operating loss and credit carryforwards may be limited because of a cumulative change in ownership of more than 50%, which may have occurred for tax purposes. As of December 31, 2005, the Company had approximately $30.2 million in tax-deductible goodwill and other intangibles related to the purchase of Axys Advanced Technologies in May 2000. The majority of this amount is amortized over a 15-year period for tax purposes.

Significant components of the Company s deferred tax assets are shown below. A valuation allowance of $40.0 million has been recognized to offset the deferred tax assets as realization of such assets is uncertain.

	December 31,	
	2005	2004
Deferred tax assets:		
Net operating loss carryforwards	$ 12,685,617	$ 7,268,542
Research and development credits	3,889,479	3,889,479
Capitalized research and development expenses	189,773	236,593
Intangible assets	14,625,512	13,797,211
Inventory reserves	7,187,240	7,682,888
Other, net	1,587,391	1,150,848
Total deferred tax assets	40,165,012	34,025,561
Valuation allowance for deferred tax assets	(39,985,857)	(33,846,406)
Net deferred tax assets	179,155	179,155
Deferred tax liabilities:		
Acquisitions	(179,155)	(179,155)
Net deferred tax assets	$	$

8. Retirement Plan

In 1996, the Company established a 401(k) plan covering substantially all domestic employees. The Company pays all administrative fees of the plan. The plan contains provisions allowing for the Board of Directors to declare a discretionary match. In 2003, the Board of Directors authorized a matching contribution equal to 50% of the first 6% deferred by the employee to be awarded annually unless rescinded by a future decision by the Board of Directors. Accordingly, $229,729 and $350,822 were accrued at December 31, 2005 and 2004, respectively which were subsequently paid in January of the following fiscal year. Plan administration costs totaled $22,296, $22,752 and $20,978 for the years ended December 31, 2005, 2004 and 2003, respectively.

9. Significant Customers, Suppliers and Foreign Operations

Most of the Company s operations and long-lived assets are based in the United States. DPI AG, located near Basel, Switzerland, had long-lived assets totaling $1,657,450 and $2,839,038 (net of amortization) at

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

December 31, 2005 and 2004, respectively. DPI GmbH, located in Heidelberg, Germany, had long-lived assets totaling $1,456,706 (net of amortization) at December 31, 2005. Net loss for consolidated DPI AG totaled $3,687,428 for the year ended December 31, 2005. Net income for DPI AG totaled $1,063,557 and 94,988 for the years ended December 31, 2004 and 2003, respectively.

The following table presents the geographic breakdown of our revenue, from continuing operations, for our last three fiscal years.

	Years Ended December 31,		
	2005	2004	2003
United States	84%	82%	80%
Foreign Countries	16%	18%	20%

The following table presents the geographic breakdown of our long-lived assets, from continuing operations, for our last two fiscal years.

	As of December 31,	
	2005	2004
United States	63%	79%
Switzerland (DPI AG)	32%	21%
Germany (DPI GmbH)	5%	0%

Major customers are defined as those responsible for 10% or more of revenues and have historically included collaborative partners, pharmaceutical and biopharmaceutical companies. The following table illustrates our major customers for the last three fiscal years from continuing operations:

	Years Ended December 31,		
	2005	2004	2003
Pfizer	54%	62%	69%
National Institutes of Health (NIH)	14%	3%	0%
Others	32%	35%	31%

10. Related Party Transactions

In June 2002, the Company hired Taylor J. Crouch and in July 2002 he was appointed its President and Chief Operating Officer. In connection with Mr. Crouch s employment offer, the Company agreed to assist him in his relocation from Massachusetts to California. On July 29, 2002, the Company loaned Mr. Crouch $300,000 against his full recourse non-interest bearing promissory note. On January 18, 2005, the Company entered into a separation agreement with Taylor Crouch whereby Mr. Crouch s employment with the Company ended effective January 18, 2005 (Separation Agreement). Pursuant to the terms of the Separation Agreement, Mr. Crouch received a lump sum payment of $378,538 on January 28, 2005. Additionally, the balance owed totaling $300,000 by Mr. Crouch pursuant to the promissory note made by Mr. Crouch to the Company, was reduced by the amount equivalent to the amount that Mr. Crouch could have earned from participation in the Company s incentive compensation plan for fiscal year 2004, of approximately $106,000, plus an amount equivalent to the sum of the fair market value, on January 18, 2005, of 21,250 shares of the Company Stock under a stock grant as if such stock grant had vested as to an additional 25% plus an amount equivalent to the fair market value, as of January 18, 2005, of 8,750 vested shares of the Company s Common Stock, less any applicable withholding taxes. The remaining balance was paid in full by Mr. Crouch.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

On November 14, 2005, the Company announced that Riccardo Pigliucci had resigned as the Company s Chief Executive Officer and as the Chairman of the Company s Board of Directors, effective as of November 14, 2005. In connection with Mr. Pigliucci s resignation, on November 14, 2005, the Company and Mr. Pigliucci entered into a separation agreement. Pursuant to the separation agreement and in satisfaction of the Company s obligations under its employment agreement with Mr. Pigliucci, Mr. Pigliucci received a payment of $475,000, which equals Mr. Pigliucci s 2005 annual base salary, along with a bonus of $75,000 for Mr. Pigliucci s service to the Company during 2005. The Company also agreed to pay the monthly premiums for continued health insurance coverage under COBRA for Mr. Pigliucci for a period of twelve months from the effective date of his resignation, and the Company paid Mr. Pigliucci s legal expenses in connection with the separation agreement totaling $10,000 in 2005. In addition, the Company agreed to partially accelerate the vesting of one of his restricted stock grants, such that the grant was deemed vested as to 56,250 shares at the time of his resignation. Mr. Pigliucci is also entitled to receive an additional lump sum payment of $475,000 in the event that the Company is acquired pursuant to a change of control transaction on or before June 30, 2006.

11. Revenues by Product Category

The Company operates in one industry segment: the development and marketing of services to make the drug discovery process more efficient, less expensive and more likely to generate a drug target. Such services include libraries of drug-like compounds, drug discovery services, compound management services, computational tools to generate compound libraries, and testing and screening services to optimize potential drugs. Additionally, the Company licenses proprietary gene profiling systems. The Company s services are complementary, and share the same customers and marketing strategies. In addition, in making operating and strategic decisions, the Company s management evaluates revenues based on the worldwide revenues of each major type of service, and profitability on an enterprise-wide basis. Revenue by service category is as follows:

	Years Ended December 31,		
	2005	2004	2003
Chemistry services	$ 27,502,598	$ 34,720,549	$ 37,350,781
Screening services	7,049,796	9,326,265	7,049,248
Other licenses and services	284,583	220,843	809,222
Total revenues	$ 34,836,977	$ 44,267,657	$ 45,209,251

12. Acquisition of Tangible Assets

On April 22, 2005, the Company, through its subsidiary Discovery Partners International AG (parent to Discovery Partners International GmbH), acquired substantially all of the assets (primarily drug discovery equipment) and assumed certain liabilities of Biofrontera Discovery GmbH, a subsidiary of Biofrontera AG, located in Heidelberg, Germany. Discovery Partners International GmbH provides natural products-based drug discovery capabilities, which will enhance our current drug discovery offerings in lead optimization and candidate selection. Biofrontera Discovery GmbH was a development stage company with no customer contracts or revenues and was not considered a business as defined by EITF Issue No. 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business.

Total acquisition cost was as follows:	
Cash paid for assets	$ 1,369,266
Acquisition-related expenses	108,221

Total purchase price	$ 1,477,487

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

Allocated to assets and liabilities as follows:	
Fair value of tangible assets acquired	$ 1,824,321
Fair value of liabilities assumed	(346,834)
	$ 1,477,487

13. Quarterly Financial Data (Unaudited)

The financial data below has been recast to reflect the results of operations and financial positions of our instrumentation product lines as a discontinued operation. The amounts included in the results for discontinued operations consist of the revenues, cost of sales and operating expenses associated with the operations of the instrumentation product lines excluding any allocations for facilities and other corporate support. The following financial information reflects all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results of the interim periods. Summarized quarterly data for fiscal 2005 and 2004 are as follows (in thousands, except per share data):

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in dollars, except where noted)

	2005 Quarter Ended						
	Previously reported Mar 31	Restated Mar 31	Previously Reported Jun 30	Restated Jun 30	Previously Reported Sep 30	Restated Sep 30	Dec 31
Revenues	$ 7,068	$ 6,734	$ 11,362	$ 11,004	$ 11,080	$ 9,746	$ 7,354
Cost of revenues	5,413	5,179	7,662	7,321	6,496	6,012	6,597
Gross margin	$ 1,655	$ 1,555	$ 3,700	$ 3,683	$ 4,584	$ 3,734	$ 757
Loss from continuing operations	$ (5,093)	$ (4,506)	$ (1,817)	$ (1,337)	$ (938)	$ (1,214)	$ (8,990)
Net loss from continuing operations	$ (4,548)	$ (3,961)	$ (1,368)	$ (888)	$ (341)	$ (617)	$ (8,255)
Gain (loss) from discontinued operations (1)	$	$ (587)	$	$ (480)	$	$ 276	$ 347
Net loss	$ (4,548)	$ (4,548)	$ (1,368)	$ (1,368)	$ (341)	$ (341)	$ (7,907)
Net loss per share, basic and diluted (2)	$ (0.18)	$ (0.18)	$ (0.05)	$ (0.05)	$ (0.01)	$ (0.01)	$ (0.30)

	2004 Quarter Ended							
	Previously reported Mar 31	Restated Mar 31	Previously Reported Jun 30	Restated Jun 30	Previously Reported Sep 30	Restated Sep 30	Previously Reported Dec 31	Restated Dec 31
Revenues	$ 11,808	$ 9,520	$ 12,999	$ 11,530	$ 12,575	$ 10,886	$ 14,182	$ 12,331
Cost of revenues	6,551	5,294	7,807	6,895	6,820	5,770	8,261	7,186
Gross margin	$ 5,257	$ 4,226	$ 5,192	$ 4,635	$ 5,755	$ 5,116	$ 5,921	$ 5,145
Income from continuing operations	$ 632	$ 192	$ 561	$ 631	$ 401	$ 447	$ 1,121	$ 928
Net income from continuing operations	$ 1,046	$ 606	$ 740	$ 810	$ 750	$ 796	$ 1,367	$ 1,173
Gain (loss) from discontinued operations (1)	$	$ 440	$	$ (70)	$	$ (46)	$	$ 194
Net income	$ 1,046	$ 1,046	$ 740	$ 740	$ 750	$ 750	$ 1,367	$ 1,367
Net income per share, basic and diluted (2)	$ 0.04	$ 0.04	$ 0.03	$ 0.03	$ 0.03	$ 0.03	$ 0.05	$ 0.05

(1) The amounts reflect the results of the discontinued operations associated with the instrumentation product line.

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

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,116,747	$ 24,231,257
Short-term investments	55,011,455	59,254,873
Accounts receivable, net	2,595,588	5,673,509
Inventories, net	700,090	578,842
Prepaid expenses	1,544,465	1,734,030
Other current assets	978,194	961,715
Total current assets	85,946,539	92,434,226
Restricted cash	1,061,282	1,060,753
Property and equipment, net	4,953,203	7,950,765
Patent and license rights, net	684,062	717,707
Other assets, net	126,254	116,230
Total assets	$ 92,771,340	$ 102,279,681
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,717,488	$ 2,093,095
Restructuring accrual	697,022	927,890
Accrued compensation	795,638	1,298,425
Deferred revenue	1,421,804	2,357,915
Total current liabilities	5,631,952	6,677,325
Deferred rent	367,125	420,067
Other long-term liabilities	497,020	108,000
Total liabilities	6,496,097	7,205,392
Stockholders equity:		
Preferred stock, $.001 par value, 1,000,000 shares authorized, no shares issued and outstanding at March 31, 2006 and December 31, 2005		
Common stock, $.001 par value, 100,000,000 shares authorized, 26,453,981 and 26,441,902 issued and outstanding at March 31, 2006 and December 31, 2005, respectively	26,454	26,442
Common stock issuable		1,596,500
Treasury stock, at cost, 306,933 shares at March 31, 2006 and December 31, 2005, respectively	(1,037,190)	(1,037,190)
Additional paid-in capital	210,118,840	209,237,267
Deferred compensation		(919,217)
Accumulated other comprehensive income	99,778	63,779
Accumulated deficit	(122,932,639)	(113,893,292)
Total stockholders equity	86,275,243	95,074,289
Total liabilities and stockholders equity	$ 92,771,340	$ 102,279,681

See accompanying notes

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2006	2005
Revenues:		
Services	$ 4,338,795	$ 6,733,726
Cost of revenues:		
Services		5,178,782
	5,011,684	
Gross margin	(672,889)	1,554,944
Operating expenses:		
Research and development	980,400	561,050
Selling, general and administrative	3,606,983	4,370,500
Impairment of long-lived assets	3,225,282	1,000,000
Restructuring		129,672
	1,572,976	
Total operating expenses		6,061,222
	9,385,641	
Loss from continuing operations	(10,058,530)	(4,506,278)
Interest income	855,241	464,706
Interest expense	(1,186)	
Foreign currency transaction gains, net	30,150	33,399
Other income (loss), net		48,587
	(21,179)	
Loss from continuing operations before provision for income taxes	(9,195,504)	(3,959,586)
Provision for income taxes		1,557
	8,813	
Net loss from continuing operations	(9,204,317)	(3,961,143)
Discontinued operations:		
Gain on sale from discontinued operations	164,970	
Loss from discontinued operations		(587,143)
Net loss		)
	$ (9,039,347)	$ (4,548,286

Basic:

Continuing operations	$ (0.35)	$ (0.16)
Discontinued operations	0.00	(0.02)
Net loss per share	$ (0.35)	$ (0.18)
Weighted average shares outstanding:		
Basic and diluted	26,112,186	25,842,519

See accompanying notes

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2006	2005
Operating activities		
Net loss	$ (9,039,347)	$ (4,548,286)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	1,049,344	1,313,056
Stock based compensation	179,873	284,400
Impairment of long-lived assets	3,225,282	1,000,000
Restructuring expense	1,572,976	129,672
Gain on sale of discontinued operations	(164,970)	
Loss on disposal of fixed assets	1,735	1,208
Realized (gain) loss on investments	(522)	77,633
Change in operating assets and liabilities:		
Accounts receivable	3,099,201	7,077,519
Inventories	(119,795)	(819,621)
Other current assets	272,225	526,131
Accounts payable and accrued expenses	(281,317)	(2,208,069)
Restructuring accrual	(1,388,602)	(93,805)
Deferred revenue	(949,055)	2,165,631
Deferred rent	(53,106)	1,302
Net cash provided by (used in) operating activities	(2,596,078)	4,906,771
Net cash provided by operating activities from discontinued operations		1,115,377
Investing activities		
Purchases of property and equipment	(873,628)	(486,266)
Proceeds from sale of discontinued operations	73,700	
Other assets		(576,991)
Purchase of patents, license rights and prepaid royalties		(2,274)
Purchases of short term investments	(6,465,724)	(5,995,801)
Proceeds from sales and maturity of short term investments	10,726,548	23,439,519
Net cash provided by investing activities	3,460,896	16,378,187
Net cash used in investing activities from discontinued operations		(36,969)
Financing activities		
Net proceeds from issuance of common stock	24,431	153,291
Net cash provided by financing activities	24,431	153,291
Effect of exchange rate changes	(3,759)	(3,192)
Net increase in cash and cash equivalents	885,490	22,513,465
Cash and cash equivalents at beginning of period	24,231,257	13,148,242
Cash and cash equivalents at end of period	$ 25,116,747	$ 35,661,707
Supplemental disclosure of cash flow information		
Interest paid	$ 1,186	$
Income taxes paid	$ 10,386	$ 2,000

Supplemental schedule of non cash investing and financing activities		
Unrealized gain (loss) on investments	$ (3,091)	$ 67,581
Common stock received in payment of notes receivable	$	$ 36,750
Purchases of property and equipment also included in accounts payable at period end	$ (375,000)	$
Repurchase/forfeiture of restricted stock	$	$ 452,000

See accompanying notes

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

MARCH 31, 2006

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. The condensed consolidated balance sheet as of March 31, 2006, condensed consolidated statements of operations for the three months ended March 31, 2006 and 2005, and the condensed consolidated statements of cash flows for the three months ended March 31, 2006 and 2005 are unaudited, but include all adjustments (consisting of normal recurring adjustments and adjustments related to impairment charges and restructuring costs as described in Note 7 and Note 9), which Discovery Partners International, Inc. (the Company) considers necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2006 shown herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. Information included in Note 11 herein should be considered when evaluating the Company s financial results. For more complete financial information, these financial statements, and notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005 included in this joint proxy statement/prospectus.

The condensed consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries: Discovery Partners International AG (DPI AG), which wholly owns Discovery Partners International GmbH (DPI GmbH); ChemRx Advanced Technologies, Inc.; Xenometrix, Inc.; Discovery Partners International L.L.C. (DPI LLC); Structural Proteomics, Inc. (substantially inactive); Systems Integration Drug Discovery Company, Inc. (substantially inactive) and Irori Europe, Ltd. (substantially inactive). All intercompany accounts and transactions have been eliminated.

The consolidated financial statements have been recast to reflect the results of operations, financial positions and cash flows of our former instrumentation product lines as discontinued operations. The amounts included in the results for discontinued operations consist of revenues, cost of sales and operating expenses associated with the former operations of the instrumentation product lines excluding any allocations for facilities and other corporate support. All footnotes included herein exclude the amounts related to the assets and liabilities sold as part of the instrumentation product lines.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, such as inventory, property and equipment, patent and license rights, and restructuring accruals, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts related to stock based compensation reported in prior periods have been reclassified to conform to current year presentation requirements.

2. Net Loss Per Share

Basic and diluted net loss per share is presented in conformity with Statement of Financial Accounting Standard No. 128, *Earnings per Share* (FAS 128). In accordance with FAS 128, basic net loss per share has been computed by dividing net loss by the weighted average number of shares of common stock outstanding during

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

the period, less shares subject to repurchase. In loss periods, common stock equivalents are excluded from the computation of diluted net loss per share as their effect would be anti-dilutive. The total number of shares issuable upon exercise of stock options and rights to acquire restricted stock excluded from the calculation of diluted earnings per share since they are anti-dilutive were 2,692,680 and 3,506,466 for the three months ended March 31, 2006 and 2005, respectively.

3. Change in Accounting Method for Share-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards No. 123 (FAS 123R), *Share-Based Payment*, which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. On April 14, 2005, the U.S. Securities and Exchange Commission adopted a new rule amending the effective dates for FAS 123R. In accordance with the new rule, the Company adopted the accounting provisions of FAS 123R beginning in the first quarter of fiscal 2006.

Under FAS 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee s requisite service period. The Company adopted the provisions of FAS 123R on January 1, 2006, the first day of the Company s fiscal year 2006, using a modified prospective application, which provides for certain changes to the method for valuing share-based compensation. Under the modified prospective application, prior periods are not revised for comparative purposes. The valuation provisions of FAS 123R apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Estimated compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under FASB Statement No. 123, *Accounting for Stock-Based Compensation* (FAS 123).

Upon the adoption of FAS 123R, the Company has elected to continue to use the Black-Scholes-Merton valuation model in estimating the fair value of equity awards. The Company s option grants are simplistic in nature and generally vest under service provisions. The Company does not allow for the exercise of options prior to vesting (after January 1, 2003), they are not transferable nor do they allow for hedging. There were no options granted during the three months ended March 31, 2006.

On November 10, 2005, the FASB issued FASB Staff Position (FAS 123R-3), *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to FAS 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123R. We are in the process of determining whether to adopt the alternative transition method provided in FAS 123R-3 for calculating the tax effects of share-based compensation pursuant to FAS 123R.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

Total estimated share-based compensation expense, related to all of our share-based awards, recognized under FAS 123R for the quarter ended March 31, 2006 was comprised of the following:

	Three Months Ended March 31, 2006
Cost of sales	$ 7,611
Selling, general and administrative	172,262
Share-based compensation expense before taxes	179,873
Related income tax benefits	
Share-based compensation expense	$ 179,873
Net share-based compensation expense per basic common share	$ (0.01)

Share-based compensation expense recognized under FAS 123R for the quarter ended March 31, 2006 included $36,616 from stock options and $143,257 related to restricted stock awards. The Company maintains a net operating loss carryforward as of March 31, 2006, therefore, no excess tax benefits for the tax deductions related to share-based awards were recognized in the condensed consolidated statement of operations. Additionally, no incremental tax benefits were recognized from stock options exercised in the quarter ended March 31, 2006, which would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities. Share-based compensation expense, related to stock options, was not recognized during the quarter ended March 31, 2005. As of March 31, 2006, $916,149 of total unrecognized compensation costs related to non-vested awards is expected to be recognized on a straight-line basis over a modified requisite service period ending August 1, 2006, as determined in April 2006 based on strategic events further described below.

On March 30, 2006, the Board of Directors of the Company approved various retention agreements that, among other things, provide for the acceleration of vesting of 100% of unvested restricted stock in the event of a change in control, or if a change of control has not occurred by such date, December 31, 2006. This resulted in a modification to the original terms of the vesting provisions in the restricted stock agreements, however, no change in the number of shares awarded. In accordance with FAS 123R, we reassessed any incremental valuation change in the modified award and concluded there was none (the fair value of the award on March 30, 2006 is less than the fair value at date of original grant). The Company also assessed the change in the vesting provisions and determined while the original service based vesting provisions of the awards were probable to be achieved, the added performance based vesting provisions are more likely to occur in advance of the service provisions based on the announcement of the Company s entering into the Agreement and Plan of Merger and Reorganization dated April 11, 2006 (the Merger Agreement) by and among the Company, Darwin Corp. and Infinity Pharmaceuticals, Inc. and the transaction related thereto (the Merger). In connection with the Merger, the Company is seeking to dispose of all of its current operating assets on or before the closing of the Merger. The Company anticipates the Merger will close on or about August 1, 2006, subject to stockholder approval. Management believes the Merger of the Company to be probable of occurring which would result in the acceleration of vesting of the outstanding equity based awards subject to vesting provisions. As a result, the unrecognized compensation cost at April 11, 2006 will be recognized prospectively over the revised requisite service period ending August 1, 2006 for all outstanding equity awards. There is no cumulative effect adjustment as the modification would not change the grant date fair values or the quantity of awards to be recognized.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

Pro Forma Information under FAS 123 for Periods Prior to Fiscal 2006.

Through fiscal 2005, the Company accounted for share-based awards to employees using the intrinsic value method in accordance with APB 25 and related interpretations and provided the required pro forma disclosures of FAS 123. Under the intrinsic value method, no share-based compensation expense had been recognized in the Company s consolidated statement of operations for share-based awards to employees, other than compensation related to restricted stock awards, because the exercise price of the Company s stock options granted to employees equaled the fair market value of the underlying stock at the date of grant.

The following table summarizes the pro forma effect on the Company s net loss and per share data if the Company had applied the fair value recognition provisions of FAS 123 to share-based employee compensation for the three months ended March 31, 2005. In the pro forma information required under FAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures using an estimated forfeiture rate based on historical trends.

	Three Months Ended March 31, 2005
Net loss, as reported	$ (4,548,286)
Deduct: Total share-based employee compensation expense determined under fair value based method for stock options and shares under the employee stock purchase plan	(1,449,134)
Pro forma net loss	$ (5,997,420)
Net loss per share	
Basic and diluted as reported	$ (0.18)
Basic and diluted pro forma	$ (0.23)

4. Employee Benefit Plans

Stock Options

In November 1995, the Company adopted the 1995 Stock Option/Stock Issuance Plan, under which 2,350,000 shares of common stock were reserved for issuance of stock and stock options granted by the Company. In July 2000, the Company adopted the 2000 Stock Incentive Plan (the Plan) as the successor plan to the 1995 Stock Option/Stock Issuance Plan. Under the Plan 3,300,000 shares of common stock were reserved, including shares rolled over from its 1995 Plan. The Plan provides for the grant of incentive and non-statutory options. The exercise price of options must equal at least the fair value on the date of grant. The options generally vest over a four-year period. Options granted prior to January 1, 2003 are exercisable immediately, subject to the Company s right of repurchase. Options granted after January 1, 2003 are exercisable as the options vest. All options expire no later than ten years after the date of grant.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

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

	Three Months Ended March 31, 2006	
	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	2,767,075	$ 5.32
Granted		
Exercised	(1,000)	1.50
Forfeited	(669,840)	5.09
Outstanding at end of period	2,096,235	$ 5.40
Exercisable	1,998,632	$ 5.56

Following is a further breakdown of the options outstanding as of March 31, 2006:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$ 0.20 2.50	56,000	2.9	$ 1.80	56,000	$ 1.80
$ 2.51 5.00	932,388	6.4	$ 3.50	787,827	$ 3.53
$ 5.01 12.00	1,095,172	6.0	$ 6.47	1,072,130	$ 6.48
$12.01 24.00	82,675	4.5	$ 19.15	82,675	$ 19.15
	2,166,235			1,998,632	

Exercise prices for options outstanding as of March 31, 2006 ranged from $0.20 to $24.00 per share. The weighted-average remaining contractual life of those options is approximately 6.1 years. The weighted-average fair value of the options granted during the three months ended March 31, 2005 was $4.43 per share. There were no options granted in the first quarter of fiscal 2006. The intrinsic value of the options granted, outstanding and exercised during the three months ended March 31, 2006 are immaterial.

Employee Stock Purchase Plan

In June 2000, the Board of Directors and stockholders adopted the Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan permits eligible employees to purchase common stock at a discount, but only through payroll deductions, during defined offering periods. The price at which stock is purchased under the Purchase Plan is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. In addition, the Purchase Plan provides for annual increases of shares available for issuance under the

Purchase Plan beginning with fiscal 2001. Employee participation in the Purchase Plan commenced August 1, 2002. Pursuant to the Purchase Plan, the participating employees purchased 11,079 shares of the Company s common stock during the three months ended March 31, 2006.

Restricted Stock Awards

The Company awarded 142,500 shares of restricted stock and rights to acquire 700,000 shares of restricted stock in August 2003, July 2004 and April 2005, collectively, pursuant to the Company s 2000 Stock Incentive

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

Plan to certain of the Company s key employees. The restricted stock and rights to acquire restricted stock, awarded in 2003, vest in annual installments over a four-year period. The restricted stock and rights to acquire restricted stock awarded in 2004 and 2005, will vest at the end of five years from the grant date except that vesting can be accelerated if certain performance conditions are met. On March 30, 2006, restricted stock awards for a total of 45,000 shares were granted to certain of the Company s key employees pursuant to the Company s 2000 Stock Incentive Plan. The stock awards will vest in annual installments over a four-year period. The fair value of these awards totaled $109,350, the value of the Company s stock on the date of grant. Share-based compensation related to these awards will be recognized over the requisite service period on a straight-line basis.

The Company recorded stock-based compensation expense, for continuing operations, relating to restricted stock awards of $143,257 and $284,400 for the three months ended March 31, 2006 and 2005, respectively.

Stockholder Rights Agreement

On February 13, 2003, the Company s Board of Directors adopted a Rights Agreement (the Agreement). The Agreement provides for a dividend distribution of one preferred share purchase right for each outstanding share of the Company s common stock held of record at the close of business on February 24, 2003. The rights are not currently exercisable. Under certain conditions involving an acquisition or proposed acquisition by any person or group holding 15 percent or more of the Company s outstanding common stock, the rights permit the holders to purchase from the Company one unit consisting of one-thousandth of a share of the Company s Series A junior participating preferred stock at a price of $19.00 per unit, subject to adjustment. Under certain conditions, the rights may be redeemed by the Company s Board of Directors in whole, but not in part, at a price of $0.01 per right.

On April 11, 2006, the Board of Directors of the Company approved an amendment to the Agreement dated as of February 13, 2003. The amendment provides that the provisions of the Agreement shall not apply to the execution, delivery or performance of the Merger Agreement, the voting agreements in connection therewith or any definitive agreement entered into in connection therewith, or the consummation of the transactions contemplated thereby. The rights will continue to trade with the Company s common stock, unless and until they are separated upon the occurrence of certain future events.

Common Shares Reserved For Future Issuance

At March 31, 2006 common shares reserved for future issuance consist of the following:

Stock and stock options	3,943,605
Employee stock purchase plan	2,316,828
	6,260,433

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

5. Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income,* requires the Company to report, in addition to net income or loss, comprehensive income or loss and its components. A summary follows:

	Three Months Ended	
	March 31, 2006	**March 31, 2005**
Comprehensive loss:		
Foreign currency translation adjustment	$ 39,090	$ (306,147)
Unrealized loss on investments	(3,091)	(67,581)
Net loss	(9,039,347)	(4,548,286)
Comprehensive loss	$ (9,003,348)	$ (4,922,014)

6. Inventory

Inventories are recorded at the lower of weighted average cost or market. Inventories consist of the following:

	March 31, 2006	**December 31, 2005**
Raw materials	$ 208,804	$ 457,752
Work-in-process	623,435	400,546
Finished goods	17,359,676	17,359,676
	18,191,915	18,217,974
Less reserves	(17,491,825)	(17,639,132)
	$ 700,090	$ 578,842

7. Property and Equipment

Property and equipment consists of the following:

	March 31, 2006	**December 31, 2005**
Furniture and equipment	$ 23,326,515	$ 23,710,779
Software	1,887,217	1,902,692
Leasehold improvements	5,730,097	5,719,965
	30,943,829	31,333,436

Less accumulated depreciation and amortization	(25,990,626)	(23,382,671)
	$ 4,953,203	$ 7,950,765

Property and equipment are stated at cost and depreciated over the estimated useful lives of the assets (three to seven years) or the term of the related lease, whichever is shorter, using the straight-line method. Maintenance and repairs are charged to operations as incurred. Depreciation and amortization expense of property and equipment totaled $1,062,220 and $881,086 for the three months ended March 31, 2006 and 2005, respectively. Any costs related to satisfying contractual obligations upon the retirement or abandonment of assets is measured at fair value at the time of purchase of the asset and recorded as a long-term liability and an additional cost of the asset. Such amounts are recognized in line with depreciation expense.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

During the fourth quarter of 2005, the Company announced the restructuring of its chemistry operations in South San Francisco in connection with the non-renewal of its chemistry collaboration with Pfizer (representing 54% of its revenues in 2005). This event required the reevaluation of the recoverability of the gross carrying value of the long-lived assets used in this facility. The Company identified property and equipment that would cease to be used beyond the first quarter of fiscal 2006 (the period when the restructuring would be complete). The change to the estimate of the useful lives of these assets resulted in $202,934 of accelerated depreciation charges recognized in the fourth quarter of fiscal 2005 and $222,200 for the three months ended March 31, 2006.

In connection with the financial statement close process, the Company determined that an impairment charge was required, and the Company recorded a non-cash impairment charge of $3.2 million, representing long-lived assets, consisting primarily of property, plant and equipment, of certain operating units. The inherent risk in maintaining ongoing operations with our employee and customer base and the reduced probability of entering into drug discovery collaborations while concurrently pursuing various strategic transactions (including the Company s proposed merger with Infinity Pharmaceuticals, Inc.) required the evaluation of impairment of the Company s long-lived assets. The Company considered all available evidence and developed estimates of the future cash generating capacity and the future expenditures associated with the various operating asset groups. The results indicated that more than one operating asset group are expected to generate negative cash flows and would not recover their carrying value. Therefore, the fair value of these long-lived assets was deemed to be zero. The Company believes there are currently one or more viable alternatives that would not lead to a loss on the recoverability of the remaining long-lived assets at March 31, 2006.

8. Intangible Assets

Intangible assets consist of the following:

	March 31, 2006			December 31, 2005		
	Gross Carrying Value	Accumulated Amortization	Net	Gross Carrying Value	Accumulated Amortization	Net
Patents	$ 1,864,293	$ (1,180,231)	$ 684,062	$ 1,864,293	$ (1,146,586)	$ 717,707
License rights	6,667	(6,667)		6,667	(6,667)	
Total intangible assets	$ 1,870,960	$ (1,186,898)	$ 684,062	$ 1,870,960	$ (1,153,253)	$ 717,707

Amortization expense related to amortizable intangible assets was $33,645 and $376,288 for the three months ended March 31, 2006 and 2005, respectively. During 2005 the Company sold patents in connection with the sale of its instrumentation product lines that resulted in a reduction of the gross carrying value of patents of $1.0 million.

During 2005, the Company recorded $4.7 million in impairment charges on intangible long-lived assets. Approximately $3.7 million of the impairment charges related to the prepaid royalty to Abbott Laboratories related to the µARCS screening technology. In connection with the restructuring of the chemistry operations the Company decided to discontinue the commercialization of the µARCS screening technology. All available evidence was considered and determined that no further benefit would be realized by use of this asset in current revenue generating or operating activities nor would any future cash flows be generated by use of this asset. In addition, $1.0 million of impairment charges, recognized in the first quarter of fiscal 2005, related to patent rights to a proprietary gene profiling system that is licensed and enables the Company to offer toxicology research

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

products and services. The loss of a customer required the reevaluation of the recoverability of the gross carrying value of the asset. The Company considered all available evidence and developed estimates based on historical rates of attrition of the customer base, future cash generating capacity and future expenditures necessary to maintain the asset. An expected present value technique, in which a series of cash flow scenarios that reflect the range of possible outcomes were discounted to estimate the fair value of the asset.

The estimated amortization expense of intangible assets for the remaining nine-month period in fiscal 2006 and for each of the five succeeding years ending December 31 is as shown in the following table. Actual amortization expense to be reported in future periods could differ from these estimates as a result of acquisitions, divestitures, asset impairments and other factors.

2006	$ 100,935
2007	134,580
2008	134,580
2009	134,580
2010	134,580
2011	44,807
	$ 684,062

9. Restructuring Accrual

In November 2005, the Company announced the conclusion of discussions with Pfizer around a new collaboration for services in the design and development of compounds exclusively for Pfizer. With the absence of a new contract with Pfizer, the Company initiated the process of reducing its chemistry operational capacity in a restructuring of its South San Francisco facility. Under the restructuring plan, 50 employees were involuntarily terminated, including scientific, operational and administrative staff. Restructuring charges totaled approximately $1.6 million for the three months ended March 31, 2006 and a total of $2.5 million since initiation of this restructuring plan. The Company required all employees to render service for a minimum of 60 days to receive termination benefits. As a result, the fair value of the obligation was determined on the date of communication to the employee and is recognized over the service period. In determining costs to consolidate excess facilities, the Company estimates the fair value of the obligation at the cease-use date based on the remaining lease rentals, reduced by estimated future sublease rentals that could be reasonably obtained for the property, even if the Company is unsuccessful in entering into a sublease. Liabilities related to the consolidation of excess facilities are recorded when the premises have been vacated. Moving, relocation and other costs related to consolidation of facilities are expensed as incurred and are included in operating expenses. The Company expects to utilize lease accruals related to this event by December 2008.

In April 2003, the Company announced that it would consolidate its domestic chemistry facilities into two locations: in South San Francisco for primary screening library design and synthesis programs and in San Diego for lead optimization and medicinal chemistry projects. Restructuring charges, related to this consolidation plan, totaled $1,985,354, of which $129,672 was charged during the three months ended March 31, 2005. All final payments were made under this restructuring plan in fiscal 2005.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

Restructuring charges were comprised of the following:

	Three Months Ended March 31,	
	2006	2005
Severance and Retention Bonuses for Involuntary Employee Terminations	$ 534,321	$
Costs to Exit Certain Contractual and Lease Obligations	1,038,655	129,672
Total Restructuring Expense	$ 1,572,976	$ 129,672

The following table summarizes the activity and balances of the restructuring reserve:

	Severance and Retention Bonuses for Involuntary Employee Terminations	Costs to Exit Certain Contractual and Lease Obligations	Total
Balance at December 31, 2004	$	$ 293,929	$ 293,929
Reserve Established	927,890	112,368	1,040,258
Utilization of reserve:			
Payments		(406,297)	(406,297)
Balance at December 31, 2005	927,890		927,890
Reserve Established	534,321	1,038,655	1,572,976
Utilization of reserve:			
Payments	(1,410,796)		(1,410,796)
Balance at March 31, 2006	$ 51,415	$ 1,038,655	$ 1,090,070

The restructuring accrual is reflected on the condensed consolidated balance sheet at March 31, 2006 as a current restructuring accrual of $697,022 and within other long term liabilities totaling $393,048. The Company expects to incur additional restructuring charges associated with severance obligations as continued services are performed in the second quarter of 2006 of approximately $84,000. Amounts recorded in the first quarter of 2006 related to lease obligations are based on estimates of potential sublease income that may be reasonably obtained and are subject to change for actual sublease income as it occurs.

10. Revenues by Product Category

The Company operates in one industry segment: the development and marketing of services to make the drug discovery process more efficient, less expensive and more likely to generate a drug target. Such services include libraries of drug-like compounds, drug discovery services, compound management services, computational tools to generate compound libraries, and testing and screening services to optimize potential drugs. Additionally, the Company licenses proprietary gene profiling systems. The Company s services are complementary, and share the same

customers and marketing strategies. In addition, in making operating and strategic decisions, the Company s management evaluates revenues based on the worldwide revenues of each type of service, and profitability on an enterprise-wide basis. Revenue by service category is as follows:

	Three Months Ended	
	March 31, 2006	**March 31, 2005**
Chemistry services	$ 2,085,591	$ 5,151,339
Screening services	2,148,204	1,510,304
Other licenses and services	105,000	72,083
Total revenues	$ 4,338,795	$ 6,733,726

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

A total of 21% and 19% for the three months ended March 31, 2006 and 2005, respectively of revenue came from the National Institutes of Health (NIH).

11. Discontinued Operations

On October 7, 2005, the Company entered into an Asset Purchase Agreement with IRORI Discovery, Inc., now known as Nexus Biosystems (Nexus), pursuant to which the Company agreed to sell certain assets and liabilities to Nexus, including the IRORI® chemical synthesis products, the Crystal Farm® automated protein crystallization products, and the Universal Store compound storage systems products for a purchase price of $1,901,580, inclusive of a purchase price adjustment. Nexus is a California company whose Chief Executive Officer, John Lillig, was previously the Chief Technology Officer, Vice President and General Manager, Discovery Systems for the Company. The sale of net assets pursuant to the Asset Purchase Agreement was completed on October 12, 2005. The sale price for the assets was effectively based on the total book value of the net assets and the cash cost of operations for the assets sold through the closing date. As of March 31, 2006, the Company had received $1,810,310 in proceeds from Nexus for payment of the net assets. The remaining amount due of $91,270 is included in other current assets within the balance sheet at March 31, 2006 and was received in April 2006. The Company recognized a gain on sale of the net assets of $164,970 for the three months ended March 31, 2006 and an aggregate gain on sale of $558,869.

The Company s condensed consolidated financial statements and related notes contained herein have been recast to reflect the financial position, results of operations and cash flows of the instrumentation product lines as a discontinued operation. The Company did not account for its instrumentation product lines as a separate legal entity. Therefore, the following selected financial data for the Company s discontinued operations is presented for informational purposes only and does not necessarily reflect what the net sales or earnings would have been had the businesses operated as a stand-alone entity. The financial information for the Company s discontinued operations excludes allocations of certain of the Company s assets, liabilities and expenses to the discontinued operations, such as facility charges. These amounts have been excluded from discontinued operations on the basis that these assets, liabilities and expenses were not transferred in the sale of these product lines and are considered by management to reflect most fairly or reasonably the incremental results of operations that were sold.

The following tables set forth, for the periods indicated, selected financial data of the Company s discontinued operations:

Selected Financial Data for Discontinued Operations

	Three Months Ended March 31, 2005 (In thousands)
Revenues	$ 334
Cost of revenues	158
Gross margin	176
Research and development	564
Selling, general and administrative	199
Total operating expenses	763

Loss from discontinued operations	$ (587)

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

12. Significant Events

On March 30, 2006 the Compensation Committee of our Board of Directors approved a severance and retention bonus plan. The purpose of the plan is to align the Company s severance policy with other similarly situated companies in the market and to provide an incentive for the Company s key employees, including certain key executive officers to remain with the Company throughout the process of considering and implementing strategic initiatives, which may include the sale of our assets and merger or acquisition transactions.

Under the plan, each employee will be entitled to receive severance benefits consisting of a lump sum cash payment equal to a certain number of months of the employee s base salary, together with COBRA coverage and outplacement services, if the employee is terminated without cause. If an employee is a party to an existing change of control agreement with the Company, then the terms of the change in control agreement will apply to a termination in connection with a change of control. Under the plan, certain key employees, including certain key executive officers will be entitled to receive a retention bonus consisting of a cash amount based on the employee s employment level (up to $25,000) with specific incremental percentages of the aggregate amount earned upon achievement of applicable milestones so long as the employee remains employed with the Company (or its successor in a change in control). If an employee remains employed with the Company (or its successor in a change in control) through December 31, 2006, the Company will pay to such employee the total cash amount of the retention bonus upon December 31, 2006. If the employee s employment with the Company is terminated without cause by the Company (or its successor in a change in control) on or prior to December 31, 2006, the Company will pay to such employee the total cash amount of the retention bonus upon the date of such termination. If the employee s employment with the Company is terminated for cause by the Company (or its successor in interest in a change in control) on or prior to December 31, 2006, such employee will not be entitled to any of the retention bonus. If the employee s employment with the Company ends on or before December 31, 2006 for any reason other than termination without cause or termination for cause by the Company (or its successor in a change in control), upon the date of such termination, the Company will pay to such employee only that portion of the total cash amount that has been earned for milestones achieved prior to the date of such termination.

If all eligible employees were awarded payments under the plan and under existing change of control agreements in connection with a change of control followed by termination of such employee, total awards would aggregate approximately $3.9 million, with approximately $3.6 million in cash payments and 463,250 shares of the Company s common stock from the acceleration of vesting. If all eligible employees were awarded payments under the plan not in connection with a change in control, total awards would aggregate approximately $3.1 million, with approximately $2.8 million in cash payments and 463,250 shares of the Company s common stock from the acceleration of vesting.

On April 11, 2006, the Company entered into an Agreement and Plan of Merger and Reorganization (the Merger Agreement) with Infinity Pharmaceuticals, Inc. (Infinity), a privately owned biopharmaceutical company, and Darwin Corp., a new wholly owned subsidiary of the Company. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Infinity will merge with and into Darwin Corp., with Infinity as the surviving corporation, becoming a wholly owned subsidiary of the Company. As a result of the Merger, each outstanding share of Infinity capital stock will be converted into the right to receive shares of the Company s common stock. Under the terms of the Merger Agreement, the Company will issue, and Infinity securityholders will be entitled to receive, in a tax-free exchange, shares of the Company s common stock such that Infinity securityholders will own approximately 69.1% of the combined

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

MARCH 31, 2006

company on a pro forma basis and the Company s stockholders will own approximately 30.9%. The Merger Agreement provides that the conversion ratios for Infinity s capital stock are subject to upward and downward adjustment based on the Company s net cash balance at the closing of the Merger. If the Company s net cash balance at the closing of the Merger is below $70 million, the Merger Agreement provides for adjusting the conversion ratios to increase the number of shares of the Company s common stock issued to former Infinity securityholders. As a result, Infinity s securityholders may receive additional shares of the Company s common stock as merger consideration, and consequently the Company s stockholders may be further diluted as a result of the Merger. These percentages are calculated based on other assumptions as well, and changes in these assumptions could also cause Infinity s securityholders to receive additional shares of the Company s common stock as Merger consideration. If the Company s net cash balance at the closing of the Merger is below $60 million, Infinity may elect to not consummate the Merger. In such event, neither party would owe the other a termination fee. The Merger is subject to customary closing conditions, including approval by the Company s stockholders of the issuance of the Company s common stock in the Merger. The Company anticipates the Merger will be completed in the third quarter of 2006. The Merger Agreement contains certain termination rights for both the Company and Infinity, and further provides that, upon termination of the Merger Agreement under specified circumstances, either party may be required to pay the other party a termination fee of $6.0 million.

On April 19, 2006, the Compensation Committee of the Board of Directors of the Company approved a severance and retention bonus package for our Acting Chief Executive Officer, Michael C. Venuti, Ph.D. The purpose of the package is to align Dr. Venuti s severance and retention benefits with those of certain of other key executive officers and to provide an incentive for Dr. Venuti to remain with the Company throughout the process of considering and implementing various strategic initiatives. Certain provisions of Dr. Venuti s retention package could be triggered by the consummation of the transactions described in the Merger Agreement.

Under the retention package, Dr. Venuti will be entitled to receive severance benefits consisting of a lump sum cash payment equal to 6 months of his base salary of $351,500 in the event of a liquidation of the Company, together with 6 months COBRA coverage and 3 months of outplacement services, if Dr. Venuti is terminated by the Company without cause. The terms of Dr. Venuti s change in control agreement will apply to a termination in connection with a change of control. In addition, Dr. Venuti will be entitled to receive a retention bonus consisting of a cash amount of up to $25,000 with specific incremental percentages of the aggregate amount earned upon achievement of applicable milestones so long as Dr. Venuti remains employed with the Company (or its successor in a change in control). If Dr. Venuti remains employed with the Company (or its successor in a change in control) through December 31, 2006, the Company will pay to Dr. Venuti the total cash amount of the retention bonus upon December 31, 2006. If Dr. Venuti s employment with the Company is terminated without cause by the Company (or its successor in a change in control) on or prior to December 31, 2006, the Company will pay to Dr. Venuti the total cash amount of the retention bonus upon the date of such termination. If Dr. Venuti s employment with the Company is terminated for cause by the Company (or its successor in interest in a change in control) on or prior to December 31, 2006, Dr. Venuti will not be entitled to any of the retention bonus. If Dr. Venuti s employment with the Company ends on or before December 31, 2006 for any reason other than termination without cause or termination for cause by the Company (or its successor in a change in control), upon the date of such termination, the Company will pay to Dr. Venuti only that portion of the total cash amount that has been earned for milestones achieved prior to the date of such termination.

Dr. Venuti shall have the vesting of any existing restricted stock grants held by him accelerated so that such grants shall be fully vested upon a change in control of the Company. In the event of a liquidation of the Company, the vesting of half of any existing restricted stock grants held by Dr. Venuti will be accelerated so that such grants shall be fully vested, resulting in fifty percent (50%) of Dr. Venuti s restricted stock grants being fully vested at such time. Restricted share awards outstanding for Dr. Venuti totaled 200,000 at March 31, 2006.

Table of Contents

INDEX TO INFINITY FINANCIAL STATEMENTS

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Infinity Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of Infinity Pharmaceuticals, Inc. as of December 31, 2004 and 2005, and the related statements of operations, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 of the Public Company Accounting Oversight Board (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. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Infinity Pharmaceuticals, Inc. at December 31, 2004 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 31, 2006, except for Note 16, as to which the date is April 11, 2006

Table of Contents

Infinity Pharmaceuticals, Inc.

Balance Sheets

	December 31		March 31, 2006
	2004	2005	(Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 24,633,879	$ 9,442,756	$ 22,107,823
Available-for-sale securities	19,914,221	1,503,172	1,754,165
Accounts receivable	2,500,000		
Unbilled accounts receivable			406,250
Notes receivable from employees	60,165	96,007	105,047
Prepaid expenses and other current assets	1,606,418	1,493,508	2,152,009
Total current assets	48,714,683	12,535,443	26,525,294
Property and equipment, net	11,316,908	9,899,657	9,077,123
Notes receivable from employees	73,021	117,023	166,761
Restricted cash	1,461,075	1,501,576	1,516,796
Deferred financing costs	155,386	102,160	83,317
Other assets	244,942	295,252	281,267
Total assets	$ 61,966,015	$ 24,451,111	$ 37,650,558
Liabilities and stockholders equity			
Current liabilities:			
Accounts payable	$ 844,095	$ 659,285	$ 267,658
Accrued expenses	3,477,926	6,355,454	6,727,564
Deferred revenue	2,500,000	1,028,250	4,778,250
Current portion of long-term debt and capital leases	5,266,578	3,717,796	3,546,330
Total current liabilities	12,088,599	11,760,785	15,319,802
Deferred revenue			10,937,500
Other liabilities		475,000	475,000
Long-term debt and capital leases, less current portion	4,046,605	2,041,348	6,069,888
Total liabilities	16,135,204	14,277,133	32,802,190
Stockholders equity:			
Series A Convertible Preferred Stock, $.0001 par value; 9,000,000 shares authorized, 8,134,999 shares issued and outstanding (liquidation preference: $12,202,498)	814	814	814
Series B Convertible Preferred Stock, $.0001 par value; 24,866,667 shares authorized, 19,473,336 shares issued and outstanding (liquidation preference: $73,025,010)	1,947	1,947	1,947
Series C Convertible Preferred Stock, $.0001 par value; 11,111,112 shares authorized, 11,111,112 shares issued and outstanding (liquidation preference: $50,000,004)	1,111	1,111	1,111
Series D Convertible Preferred Stock, $.0001 par value; 1,000,000 shares authorized, 1,000,000 shares issued and outstanding (liquidation preference:			100

$5,000,000)			
Common stock, $.0001 par value; 80,022,221 shares authorized, 11,423,540, 12,335,002 and 12,443,752 shares issued and outstanding in 2004 and 2005, respectively	1,144	1,234	1,245
Additional paid-in capital	136,442,783	137,074,243	142,582,959
Treasury stock, at cost			(2,813)
Accumulated deficit	(90,487,905)	(126,857,133)	(137,736,738)
Deferred stock compensation	(81,446)	(46,197)	
Accumulated other comprehensive loss	(47,637)	(2,041)	(257)
Total stockholders equity	45,830,811	10,173,978	4,848,368
Total liabilities and stockholders equity	$ 61,966,015	$ 24,451,111	$ 37,650,558

See accompanying notes.

Table of Contents

Infinity Pharmaceuticals, Inc.

Statements of Operations

	Years Ended December 31			For the Three Months Ended March 31 (Unaudited)	
	2003	2004	2005	2005	2006
Collaborative research and development revenue	$ 152,100	$	$ 521,750	$	$ 718,750
Operating expenses:					
Research and development	24,404,982	28,396,188	31,459,596	7,032,227	9,678,019
General and administrative	7,776,652	5,289,931	5,530,046	1,399,848	1,972,700
Restructuring expenses	1,296,306				
Total operating expenses	33,477,940	33,686,119	36,989,642	8,432,075	11,650,719
Loss from operations	(33,325,840)	(33,686,119)	(36,467,892)	(8,432,075)	(10,931,969)
Interest expense	(882,475)	(1,004,590)	(784,290)	(225,700)	(141,880)
Interest and investment income	357,971	602,859	882,954	258,508	194,244
Net loss	$ (33,850,344)	$ (34,087,850)	$ (36,369,228)	$ (8,399,267)	$ (10,879,605)

See accompanying notes.

Table of Contents

Infinity Pharmaceuticals, Inc.

Statements of Stockholders Equity

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid-in	Treasury	Accumulated	Deferred	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Compensation	Income (Loss)	Stockholder Equity
lance at ecember 31, 2002	8,134,999	$ 814	11,803,340	$ 1,180		$	9,530,375	$ 953	$ 56,579,425	$	$ (22,549,711)	$ (154,738)	$	$ 33,877,92
suance of Series B onvertible Preferred ock, net of suance costs 344,175)			7,669,996	767					28,417,542					28,418,30
suance of Series B arrants in nnection with the uipment line									99,396					99,39
suance of Series C onvertible Preferred ock, net of suance costs 10,865)					5,555,555	555			24,988,580					24,989,13
utomatic 1-for-10 nversion of Series Convertible eferred Stock to mmon stock due to vestors failure to rticipate in the al drawdown			(133,334)	(13)			13,334	1	12					
suance of Series B onvertible Preferred ock pursuant to odification of rangement			133,334	13			(13,334)	(1)	494,923					494,93
suance of restricted ock and exercise of ock options							1,636,572	163	301,125			(147,984)		153,30
estricted stock ued in prior years at vested in the ar									180,638					180,63
epurchase and tirement of mmon stock							(742,580)	(74)	(121,148)	(19,660)		13,321		(127,56
ock compensation pense modification an award									36,974					36,97
mortization of ock compensation pense												102,715		102,71
ompensation pense on variable ock awards									85,429					85,42
omprehensive loss: nrealized loss on arketable securities													(2,938)	(2,93

et loss										(33,850,344)				(33,850,34
omprehensive loss														(33,853,28
lance at ecember 31, 2003	8,134,999	$ 814	19,473,336	$ 1,947	5,555,555	$ 555	10,424,367	$ 1,042	$ 111,062,896	$ (19,660)	$ (56,400,055)	$ (186,686)	$ (2,938)	$ 54,457,91

Table of Contents

Infinity Pharmaceuticals, Inc.

Statements of Stockholders Equity (Continued)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid-in	Treasury	Accumulated	Deferred	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Compensation	Income (Loss)	Stockholde Equity
ance at cember 31, 2003	8,134,999	$ 814	19,473,336	$ 1,947	5,555,555	$ 555	10,424,367	$ 1,042	$ 111,062,896	$ (19,660)	$ (56,400,055)	$ (186,686)	$ (2,938)	$ 54,457,9
uance of Series B rrants in nection with the ipment line									77,807					77,8
uance of Series C nvertible Preferred ck, net of uance costs 5,928)					5,555,557	556			24,983,522					24,984,0
uance of restricted ck and exercise of ck options							1,463,678	148	96,123					96,2
tricted stock ued in prior years t vested in the r									162,164					162,1
purchase and rement common stock							(464,505)	(46)	(54,285)	19,660				(34,6
ck compensation ense modification n award									7,460			4,628		12,0
ortization of ck compensation ense									(20,164)			100,612		80,4
mpensation ense on variable ck awards									127,260					127,2
mprehensive loss:														
realized loss on rketable securities													(44,699)	(44,6
loss											(34,087,850)			(34,087,8
mprehensive loss														(34,132,5
ance at cember 31, 2004	8,134,999	$ 814	19,473,336	$ 1,947	11,111,112	$ 1,111	11,423,540	$ 1,144	$ 136,442,783	$	$ (90,487,905)	$ (81,446)	$ (47,637)	$ 45,830,8

Table of Contents

Infinity Pharmaceuticals, Inc.

Statements of Stockholders Equity (Continued)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock		Additional Paid-in	Treasury	Accumulated	Deferred	Accumulated Other Comprehensive	Total Stockholders
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Compensation	Income (Loss)	Equity
Balance at December 31, 2004	8,134,999	$ 814	19,473,336	$ 1,947	11,111,112	$ 1,111	11,423,540	$ 1,144	$ 136,442,783	$	$ (90,487,905)	$ (81,446)	$ (47,637)	$ 45,830,811
Issuance of Series B warrants in connection with the equipment line									38,755					38,755
Issuance costs related to Series C Convertible Preferred Stock									(13,546)					(13,546)
Issuance of restricted stock and exercise of stock options							1,028,246	102	342,291					342,393
Restricted stock issued in prior years that vested in the year									171,533					171,533
Repurchase and retirement of common stock							(116,784)	(12)	(44,366)					(44,378)
Stock compensation expense modification of an award									1,046					1,046
Amortization of stock compensation expense												35,249		35,249
Compensation expense on variable stock awards									135,747					135,747
Comprehensive loss:														
Unrealized gain on marketable securities													45,596	45,596
Net loss											(36,369,228)			(36,369,228)
Comprehensive loss														(36,323,632)
Balance at December 31, 2005	8,134,999	$ 814	19,473,336	$ 1,947	11,111,112	$ 1,111	12,335,002	$ 1,234	$ 137,074,243	$	$ (126,857,133)	$ (46,197)	$ (2,041)	$ 10,173,978

See accompanying notes.

Table of Contents

Infinity Pharmaceuticals, Inc.

Statements of Stockholders Equity (Continued)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Series D Convertible Preferred Stock		Common Stock		Additional Paid-in	Treasury	Accumulated	Deferred	Accumulated Other Comprehensive	To
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Compensation	Income (Loss)	Stockh Equ
at per 31,	8,134,999	$ 814	19,473,336	$ 1,947	11,111,112	$ 1,111	$	$	12,335,002	$ 1,234	$ 137,074,243	$	$ (126,857,133)	$ (46,197)	$ (2,041)	$ 10,1
e of D ible d Stock							1,000,000	100			4,999,900					5,0
e of d stock rcise of otions									108,750	11	33,785					
ed sued ted in											38,742					
hase of n stock												(2,813)				
ased sation											482,486					4
l of l sation											(46,197)			46,197		
hensive																
zed ble es															1,784	
													(10,879,605)			(10,8
hensive																(10,8
at 31,																
ted)	8,134,999	$ 814	19,473,336	$ 1,947	11,111,112	$ 1,111	1,000,000	$ 100	12,443,752	$ 1,245	$ 142,582,959	$ (2,813)	$ (137,736,738)	$	$ (257)	$ 4,8

Table of Contents

Infinity Pharmaceuticals, Inc.

Statements of Cash Flows

	Years Ended December 31			For the Three Months Ended March 31 (Unaudited)	
	2003	2004	2005	2005	2006
Operating activities					
Net loss	$ (33,850,344)	$ (34,087,850)	$ (36,369,228)	$ (8,399,267)	$ (10,879,605)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation	2,898,661	3,738,486	3,746,238	985,903	867,230
Noncash stock-based compensation	724,315	235,853	172,042	43,451	482,486
Loan forgiveness	113,696	44,087	89,139	17,625	36,025
Loan reserve	140,405				
Loss (gain) on sale of property and equipment	16,230	13,403	(1,821)	3,631	
Amortization of deferred financing costs	101,781	127,007	122,921	30,302	26,575
Interest income on restricted cash	(23,100)	(20,835)	(40,501)	(7,258)	(15,220)
Interest income on employee loans	(17,565)	(8,983)	(7,418)	(1,410)	(1,936)
Changes in operating assets and liabilities:					
Accounts receivable and unbilled accounts receivable		(2,500,000)	2,500,000	2,500,000	(406,250)
Prepaid expenses and other assets	(433,630)	(306,636)	31,660	(459,284)	(652,251)
Accounts payable	(708,579)	363,054	(184,810)	(544,174)	(391,627)
Accrued expenses and other liabilities	206,746	430,781	2,574,060	698,247	410,853
Deferred revenue		2,500,000	(521,750)		14,687,500
Net cash provided by (used in) operating activities	(30,831,384)	(29,471,633)	(27,889,468)	(5,132,234)	4,163,780
Investing activities					
Purchases of property and equipment	(6,277,938)	(3,461,171)	(2,348,250)	(1,282,046)	(44,696)
Proceeds from sale of property and equipment	40,000	83,615	21,084	6,000	
Purchases of available-for-sale securities	(34,025,402)	(15,979,456)	(16,909,362)	(11,220,210)	(1,749,207)
Maturities of available-for-sale securities	5,100,000	24,943,000	35,366,000	7,416,000	1,500,000
Net cash provided by (used in) investing activities	$ (35,163,340)	$ 5,585,988	$ 16,129,472	$ (5,080,256)	$ (293,903)

Table of Contents

Infinity Pharmaceuticals, Inc.

Statements of Cash Flows (Continued)

	Years Ended December 31			For the Three Months Ended March 31 (Unaudited)	
	2003	2004	2005	2005	2006
Financing activities					
Proceeds from sale of Series B Convertible Preferred Stock, net of issuance costs	$ 28,418,322	$	$	$	$
Proceeds from sale of Series C Convertible Preferred Stock, net of issuance costs	24,989,135	24,984,078	(13,546)	(13,546)	
Proceeds from sale of Series D Convertible Preferred Stock, net of issuance costs					5,000,000
Proceeds from issuances of common stock	174,159	96,271	342,401	4,711	33,796
Repurchase of common stock	(71,305)	(34,671)	(44,378)	(11,966)	(2,813)
Restricted cash used for letter of credit	(465,000)				
Release of restricted cash	851,684	204,530			
Proceeds from debt					5,000,000
Proceeds from equipment loan	6,567,943	3,892,972	1,959,622	438,947	
Payments on equipment loan	(2,743,282)	(4,454,246)	(5,431,465)	(1,318,123)	(1,107,974)
Capital lease financing		306,050	43,371		
Capital lease payments		(39,111)	(125,567)	(28,443)	(34,952)
Repayment of employee loans	34,233	65,108	20,435		2,133
New employee loans	(104,000)	(95,811)	(182,000)	(94,000)	(95,000)
Net cash provided by (used in) financing activities	57,651,889	24,925,170	(3,431,127)	(1,022,420)	8,795,190
Net increase (decrease) in cash and cash equivalents	(8,342,835)	1,039,525	(15,191,123)	(11,234,910)	12,665,067
Cash and cash equivalents at beginning of period	31,937,189	23,594,354	24,633,879	24,633,879	9,442,756
Cash and cash equivalents at end of period	$ 23,594,354	$ 24,633,879	$ 9,442,756	$ 13,398,969	$ 22,107,823
Supplemental cash flow disclosure					
Interest paid	$ 806,362	$ 896,517	$ 692,673	$ 198,458	$ 123,038

See accompanying notes.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements

December 31, 2005

1. Nature of Business and Organization

Infinity Pharmaceuticals, Inc. (the Company) was incorporated in the State of Delaware on February 7, 2001. The Company is developing targeted therapies for the treatment of cancer and related conditions discovered by the Company through the use of its innovative small molecule chemistry technologies.

The Company has generated an accumulated deficit as of March 31, 2006 of approximately $138 million since inception, and will require substantial additional capital for research and product development. The future success of the Company is dependent on its ability to obtain additional working capital to develop and market its products and ultimately upon its ability to attain future profitable operations. There can be no assurance that the Company will be able to obtain necessary financing to successfully develop and market its products or attain successful future operations. Further, the Company is subject to risks associated with emerging biotechnology companies. Primary among these risks is competition from other entities involved with drug discovery and the success of the Company s efforts to develop and market future products. The Company believes its cash and cash equivalents and available-for-sale securities totaling $23.9 million at March 31, 2006, the financial resources from the collaboration agreement entered into on February 24, 2006 (See Note 16) and the debt executed on March 31, 2006 (See Note 16) provide sufficient resources to fund operations for a period of at least one year from the balance sheet date at December 31, 2005. In addition, as further described in Note 16, in April 2006 the Company executed a merger agreement that, if consummated, will provide significant additional financial resources to the Company.

2. Significant Accounting Policies

Use of Estimates

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

Unaudited Interim Financial Information

The balance sheet as of March 31, 2006, statements of operations for the three months ended March 31, 2005 and 2006, statement of stockholders equity for the three months ended March 31, 2006 and the statements of cash flows for the three months ended March 31, 2005 and 2006 are unaudited, but include all adjustments (consisting of normal recurring adjustments), which the Company considers necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

Cash and Cash Equivalents and Available-for-Sale Securities

Cash equivalents and available-for-sale marketable securities primarily consist of money market funds, United States government agency obligations and corporate bonds. The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents, which comprise money market funds, are stated at cost, which approximates fair value. The fair value of these securities is based on quoted market prices.

Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. Marketable securities at December 31, 2004 and 2005 are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

and losses reported in a separate component of other comprehensive income (loss) within stockholders equity. The cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest and investment income. There were no realized gains and losses on available-for-sale securities during December 31, 2004 and 2005. The cost of securities sold is based on the specific identification method. Interest income and dividends on securities classified as available-for-sale are included in interest and investment income.

The Company had $19,914,221 and $1,503,172 in available-for-sale securities at December 31, 2004 and 2005, respectively. Interest and dividend income amounted to $257,668, $508,556, and $683,932 for the years ended December 31, 2003, 2004 and 2005, respectively.

Concentrations of Credit Risk

Statement of Financial Accounting Standard (SFAS) No. 105, *Disclosure of Information About Financial Instruments With Off-Balance-Sheet Risk and Financial Instruments With Concentration of Credit Risk*, requires disclosure of any significant off-balance sheet risk or credit risk concentration.

The Company has no significant off-balance sheet risk.

The financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents, available-for-sale securities, and accounts receivable. The majority of the Company s cash and cash equivalents and available-for-sale securities are maintained with well-known, established financial institutions. The Company does not believe it is exposed to any significant credit risk on these funds.

A receivable from one strategic alliance partner represented 100% of the receivable balance at December 31, 2004.

Segment Information

SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, establishes standards for the way that public business enterprises report information about operating segments in their financial statements. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers.

The Company makes operating decisions based upon performance of the Company as a whole and utilizes the financial statements for decision making. The Company operates in one business segment, which focuses on drug discovery and development.

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. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in current operations. Amortization of leasehold improvements is included in depreciation expense. Repairs and maintenance charges that do not increase the useful life of the assets are charged to operations as incurred. Property and equipment are depreciated on a straight-line basis over the following periods:

Laboratory equipment	5 years
Computer equipment and software	3 years
Leasehold improvements	Shorter of life of lease or useful life of asset
Furniture and fixtures	7 years

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

Impairment of Long-Lived Assets

Consistent with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of*, when impairment indicators exist, the Company evaluates its long-lived assets for potential impairment. Potential impairment is assessed when there is evidence that events or changes in circumstances have occurred that indicate that the carrying amount of an asset may not be recovered.

Recoverability of these assets is assessed based on undiscounted expected future cash flows from the assets, considering a number of factors, including past operating results, budgets and economic projections, market trends, and product development cycles. An impairment in the carrying value of each asset is assessed when the undiscounted expected future cash flows derived from the asset are less than its carrying value. The Company noted no indicators of impairment during any period presented in these financial statements.

Revenue Recognition

Revenues to date have been generated by research collaboration agreements and, accordingly, the Company recognizes revenue in accordance with the Securities and Exchange Commission s (SEC) Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, as amended by SAB No. 104, *Revenue Recognition* and Emerging Issues Task Force (EITF) No. 00-21, *Revenue Arrangements With Multiple Deliverables*.

The Company s revenues are generated primarily through collaborative research, development and commercialization agreements. The terms of the agreements may include payment to the Company of non-refundable up-front license fees, funding of research and development efforts, milestone payments and/or royalties on product sales.

Agreements containing multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of fair value of the undelivered obligation(s). The consideration received is allocated among the separate units based on their respective fair values or the residual method, and the applicable revenue recognition criteria are applied to each of the separate units.

The Company recognizes revenues from non-refundable, up-front license fees on a straight-line basis over the contracted or estimated period of performance, which is typically the research or development term. Research and development funding is recognized as earned over the period of effort.

Milestones are recognized as revenue when the performance obligations, as defined in the contract, are achieved and payment is reasonably assured. Performance obligations typically consist of significant milestones in the development life cycle of the related technology, such as initiation of clinical trials, filing for approval with regulatory agencies and approvals by regulatory agencies.

Milestones that are not considered substantive and/or are not at-risk are accounted for as additional license payments and recognized on a straight-line basis over the remaining period of performance.

Royalty revenue is recognized based upon actual and estimated net sales of licensed products in licensed territories as provided by the licensee and is recognized in the period the sales occur. No royalty revenues have been recognized to date.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

Research and Development Expense

The Company accounts for research and development costs in accordance with SFAS No. 2*, Accounting for Research and Development Costs,* which requires that expenditures be expensed to operations as incurred. Research and development expenses comprise costs incurred in performing research and development activities, including salaries and benefits, facilities costs, allocated overhead costs, clinical trial costs, and contract services.

Income Taxes

Pursuant to SFAS No. 109*, Accounting for Income Taxes*, the liability method is used to account for income taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and income tax basis of assets and liabilities, as well as net operating loss carryforwards, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. Deferred tax assets are reduced by a valuation allowance to reflect the uncertainty associated with their ultimate realization.

Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income*, establishes rules for the reporting and the display of comprehensive income (loss) and its components. Components of the Company s comprehensive loss include net loss and unrealized gains and losses on available-for-sale securities.

Stock-Based Compensation

At December 31, 2003, 2004, and 2005, the Company had one stock-based employee compensation plan, which is described more fully in Note 12. Through December 31, 2005, the Company has accounted for this plan under SFAS No. 123, *Accounting for Stock-Based Compensation*, electing to use the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations as provided by SFAS No. 123 and enhanced disclosures as required by SFAS No. 148, *Stock-Based Compensation Transition and Disclosure*. Stock-based employee compensation cost of $140,151, $85,504, and $122,160 is reflected in net loss for the years ended December 31, 2003, 2004, and 2005, respectively, for options granted under those plans that were subject to variable accounting.

The Company has applied the recognition provisions of SFAS No. 123 and EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Connection With Selling Goods or Services*, for all stock option grants to nonemployees. Stock-based non-employee compensation cost of $89,229, $150,349 and $49,882 is reflected in net loss for the years ended December 31, 2003, 2004 and 2005, for awards issued under the Company s stock incentive plans.

The following table illustrates the effect on net loss as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Years Ended December 31			For the Three Months Ended March 31, 2005
	2003	2004	2005	(Unaudited)
Net loss, as reported	$ (33,850,344)	$ (34,087,850)	$ (36,369,228)	$ (8,399,267)
Add total employee stock-based compensation expense included in net loss	140,151	85,504	122,160	27,361
Deduct total employee stock-based compensation expense determined under fair value-based method for all awards	(247,319)	(400,556)	(553,221)	(95,742)

Pro forma net loss	$ (33,957,512)	$ (34,402,902)	$ (36,800,289)	$ (8,467,648)

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

The fair value of the options was estimated at the date of grant using the Black-Scholes valuation model using the following weighted-average assumptions:

	December 31,			March 31, 2005
	2003	2004	2005	(Unaudited)
Risk-free interest rate	3.0%	4.25%	4.5%	4.5%
Dividend yield				
Expected volatility	95%	70%	70%	70%
Expected life	10 years	9 years	9 years	9 years

The Black-Scholes valuation model was developed for use in estimating the fair value of equity awards, which have no vesting restrictions and are fully transferable. Option valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

The Company determined the expected volatility by using an average expected volatility from comparable public companies. For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options vesting period on a straight-line basis.

The Company has never declared cash dividends on any of its capital stock and does not expect to do so in the foreseeable future.

In December 2004, the Financial Accounting Standards Board (FASB) revised SFAS No. 123 with SFAS No. 123(R), *Share-Based Payment*, which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period.

Under SFAS No. 123(R), share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee s requisite service period. The Company has no awards with market or performance conditions. The Company adopted the provisions of SFAS No. 123(R) on January 1, 2006, using a modified prospective application, which provides for certain changes to the method for valuing share-based compensation. Under the modified prospective application, prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123(R) apply to new awards, unvested awards that are outstanding on the effective date and awards subsequently modified or cancelled. Estimated compensation expense for unvested awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost previously calculated for pro forma disclosure purposes under FASB Statement No. 123.

On March 31, 2006, the Company forgave the outstanding nonrecourse loans (See Note 16) resulting in a modification of the awards accounted for under SFAS No. 123(R). The modification resulted in compensation expense of $510,000, of which $347,000 was recognized immediately as part of the awards were vested, and the remaining expense of $163,000 will be recognized over the remaining vesting term.

Total stock-based compensation expense, related to all equity awards, recognized under SFAS No. 123(R) for the quarter ended March 31, 2006, comprised the following (unaudited):

	Three Months Ended March 31, 2006

Research and development	$	239,182
General and administrative		243,304
Stock-based compensation expense	$	482,486

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

Stock-based compensation expense recognized under SFAS No. 123(R) for the quarter ended March 31, 2006 included $80,785 from stock options and $401,701 related to restricted stock awards associated with the forgiveness of nonrecourse loans of which approximately $347,000 resulted from the modification of fully vested awards. As of March 31, 2006, $1,151,219 of total unrecognized compensation costs, which includes $163,000 of unrecognized compensation expense associated with the forgiveness of the nonrecourse loans, is expected to be recognized on a straight-line basis over approximately four years.

The fair value of the options under SFAS 123(R) at March 31, 2006 was estimated using the Black Scholes valuation model using the following assumptions:

	Stock Options March 31, 2006 (Unaudited)
Risk-free interest rate	4.8%
Dividend yield	
Expected volatility	65.1%
Expected life	5.06

SFAS No. 123(R) requires the application of an estimated forfeiture rate to current period expense to recognize compensation expense only for those awards expected to vest. The Company estimates forfeitures based upon historical data, adjusted for known trends, and will adjust its estimate of forfeitures if actual forfeitures differ, or are expected to differ from such estimates. Subsequent changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock-based compensation expense in future periods. The Company used a forfeiture rate of 21.6% for the quarter ended March 31, 2006.

The Company uses historical employee exercise and option expiration data to estimate the expected term assumption for the Black-Scholes grant date valuation. The Company believes that this historical data is currently the best estimate of the expected term of the new option, and that generally our employees exhibit similar exercise behavior.

Upon the adoption of SFAS No. 123(R), the Company has elected to continue to use the Black-Scholes valuation model in estimating the fair value of equity awards. There were 1,157,727 options granted during the three months ended March 31, 2006.

Determination of the fair value of the Company s common stock

The Company s common stock has never been publicly traded. Since inception, the fair value of the Company s common stock for accounting purposes was determined by the board of directors with input from management.

Because the Company is not profitable and does not have significant revenue, it believes that a key factor used to determine changes in its fair value is the stage of, and changes in, its clinical pipeline. In the biotechnology and pharmaceutical industries, the progression of a drug candidate from preclinical development into clinical trials and the progression from one phase of clinical trials to the next may increase the enterprise s fair value. In addition to this factor, the board determined the fair market value of the Company s common stock based on other objective and subjective factors, including:

- the board s knowledge and experience in valuing early-stage life sciences companies;

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

comparative values of public companies discounted for the risk and limited liquidity provided for in the shares subject to options that the Company was issuing;

pricing of private sales of the Company preferred stock;

prior valuations of stock grants;

the effect of events that have occurred between the times of such board determinations; and

economic trends in the biotechnology and pharmaceutical industries, specifically, and also economic trends generally.

As of and since December 31, 2005, in addition to the foregoing factors, the board considered contemporaneous estimations of the fair value of the Company s common stock using the Probability-Weighted Expected Return Method, as of December 31, 2005 and again as of March 10, 2006. The board used each valuation as another relevant factor in determining the fair value of the Company s common stock (the March 2006 valuation was performed in order to estimate, on a contemporaneous basis, the increase in the Company s value created by the collaboration with Novartis entered into in late February 2006). The valuation analysis and the resulting estimate of fair value of the Company s enterprise value was based on the market valuation method, specifically the guideline company approach. The cost approach was not utilized in the analysis because companies within the pharmaceutical industry are not asset-intensive and are highly focused on intangible research and development results. The income approach was not utilized because the Company is in the clinical trial stage and is only generating negative cash flows. The enterprise value was allocated to the different classes of the Company s equity instruments using the Probability-Weighted Expected Return method.

The Company also used the results of the valuation of the fair value of its common stock to verify the values that it had established prior to December 31, 2005 in connection with the issuance of equity awards. The Company determined that the enterprise value and the underlying estimated fair value of its common stock assigned during 2005 were reasonable in relation to that per the valuation as of December 31, 2005. Further, the Company similarly reassessed the estimated fair values assigned prior to 2005 and also found them to be reasonable in light of the December 31, 2005 valuation.

The Company also reassessed the enterprise value and the fair value of its underlying equity securities as of December 31, 2005 and the quarter ended March 31, 2006 in relation to the implied enterprise value of the Company inherent in its planned business combination with Discovery Partners. The Company found that such implied value corroborated the valuation results and consequently, the Company s estimate of the fair value of its common stock at December 31, 2005 and March 10, 2006 appeared reasonable based on an implied enterprise value of the Company of approximately $162 million inherent in the merger with Discovery Partners.

During the fifteen-month period ended March 31, 2006, the Company granted stock options and restricted stock as follows:

	Options		Restricted stock			
Grants made during the quarter ended:	Number granted	Weighted average exercise price	Number granted	Weighted average exercise price	Weighted average fair value per share	Intrinsic value
March 31, 2005	270,997	$ 0.44	71,250	$ 0.45	$ 0.45	$ 2,710

June 30, 2005	2,407,267	$	0.45	726,964	$	0.45	$ 0.45
September 30, 2005	60,000	$	0.45	61,500	$	0.45	$ 0.45
December 31, 2005	80,614	$	0.45	42,766	$	0.45	$ 0.45
March 31, 2006 (unaudited)	1,157,727	$	0.77		$	0.45	$ 0.77
	3,976,605	$	0.55	902,480	$	0.45	$ 0.53

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

March 31, 2006

3. Cash and Cash Equivalents and Available-for-Sale Securities

A summary of cash and cash equivalents and available-for-sale marketable securities held by the Company as of December 31, 2004 and 2005 is as follows:

	December 31, 2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash and money market funds	$ 24,633,879	$	$	$ 24,633,879
Total cash and cash equivalents	24,633,879			24,633,879
Available-for-sale marketable securities:				
Corporate bonds:				
Due within 1 year	18,969,723		(47,802)	18,921,921
	18,969,723		(47,802)	18,921,921
Government agency bonds:				
Due within 1 year	992,135	165		992,300
Total available-for-sale marketable securities	19,961,858	165	(47,802)	19,914,221
Total cash and cash equivalents, and available-for-sale marketable securities	$ 44,595,737	$ 165	$ (47,802)	$ 44,548,100

	December 31, 2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents:				
Cash and money market funds	$ 9,442,756	$	$	$ 9,442,756
Total cash and cash equivalents	9,442,756			9,442,756
Available-for-sale marketable securities:				
Corporate bonds:				
Due within 1 year	1,505,213		(2,041)	1,503,172
Total available-for-sale marketable securities	1,505,213		(2,041)	1,503,172
Total cash and cash equivalents and available-for-sale marketable securities	$ 10,947,969	$	$ (2,041)	$ 10,945,928

4. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	December 31	
	2004	2005
Prepaid software maintenance	$ 259,624	$ 477,927
Prepaid rent	445,799	463,525
Other	900,995	552,056
Total prepaid expenses and other assets	$ 1,606,418	$ 1,493,508

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

5. Property and Equipment

Property and equipment consist of the following:

	December 31	
	2004	**2005**
Laboratory equipment	$ 10,349,760	$ 12,252,345
Computer hardware and purchased software	4,278,116	4,500,720
Office equipment and furniture and fixtures	592,168	585,024
Leasehold improvements	3,347,797	3,399,054
Construction-in-progress	186,809	7,324
	18,754,650	20,744,467
Less accumulated depreciation	(7,437,742)	(10,844,810)
	$ 11,316,908	$ 9,899,657

During 2003, the Company disposed of certain laboratory equipment, which had a historical cost of $84,011 and accumulated depreciation of $27,781 for proceeds of $40,000, resulting in a loss on the sale of $16,230.

During 2004, the Company disposed of certain laboratory and computer equipment, which had a cost of $326,861 and accumulated deprecation of $229,843 for proceeds of $83,615, resulting in a loss on the sale of $13,403.

In 2004, the Company leased certain computer equipment under capital lease arrangements, totaling $306,050; related accumulated amortization at December 31, 2004 and 2005 was $51,008 and $122,420, respectively. Substantially, all of such leases are for two years with annual interest at rates of 8.2%. The lease equipment secures all leases.

During 2005, the Company disposed of certain laboratory and computer equipment, which had a cost of $35,432 and accumulated deprecation of $16,169 for proceeds of $21,084, resulting in a gain on the sale of $1,821.

In 2005, the Company leased additional computer equipment under capital lease arrangements, totaling $43,371; related accumulated amortization at December 31, 2005 was $8,674. Substantially, all of such leases are for two years with annual interest at rates of 8.2%. The lease equipment secures all leases.

6. Restricted Cash

At December 31, 2004 and 2005, the Company held approximately $1.5 million in restricted cash. The balance is held on deposit with a bank to collateralize a standby letter of credit in the name of the facility landlord in accordance with the facility lease agreement (See Note 8).

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

7. Accrued Expenses

Accrued expenses consisted of the following:

	December 31	
	2004	2005
Accrued rent	$ 1,623,923	$ 1,692,974
Accrued payment to strategic alliance partner		475,000
Accrued drug manufacturing costs		884,007
Accrued toxicology studies		601,773
Accrued compensation and benefits	472,701	542,233
Accrued software license fees	420,600	769,949
Unvested restricted stock	308,334	325,433
Other	652,368	1,064,085
Total accrued expenses	$ 3,477,926	$ 6,355,454

8. Commitments and Contingencies

Facility Lease

The Company leases its office and laboratory space under a noncancelable facility lease agreement entered into on July 2, 2002, expiring in January 2013. The Company has two consecutive rights to extend the term of the facility lease for five years under each extension. These extensions can be exercised by the Company on the same terms and conditions under the original lease by giving the landlord notice nine months before the term of the lease expires.

Future minimum payments, excluding operating costs and taxes, under the facility lease, are approximately as follows:

	Facility Lease
Years Ending December 31:	
2006	$ 4,191,467
2007	4,317,211
2008	4,446,728
2009	4,580,130
2010	4,717,534
Thereafter	9,438,130
Total minimum lease payments	$ 31,691,200

Rent expense of approximately $4,820,697, $4,342,383, and $4,321,507, before considering sublease income, was incurred during 2003, 2004, and 2005, respectively. During the years ended December 2003, 2004, and 2005, the Company subleased a portion of its facility space for total sublease income of $185,962, $385,167, and $498,240, respectively. This sublease income has been recorded as an offset to rental expense in the statement of operations. Future minimum sublease income under noncancelable leases is as follows:

	Facility Sublease Income
Years Ending December 31:	
2006	$ 537,903
2007	503,872
Total minimum lease payments	$ 1,041,775

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

As part of the facility lease, the Company issued a warrant to the landlord to purchase up to 119,000 shares of Series B Convertible Preferred Stock (Note 12).

Equipment Loans and Capital Leases

In December 2001, the Company secured an equipment loan agreement with two banks allowing for borrowings of up to an aggregate amount of $5 million to finance the purchase of certain equipment. Interest is charged at the U.S. Treasury note yield plus 6.5%. Amounts borrowed under this agreement are collateralized by the equipment financed through the respective loans. There are no borrowings available under the equipment loan agreement at December 31, 2005. The outstanding loan balance at December 31, 2005 was $245,628. As part of the agreement in 2001, the Company issued warrants to purchase shares of Series A Convertible Preferred Stock (See Note 12).

In September 2002, the Company secured an equipment loan agreement with a finance company allowing for borrowings of up to an aggregate of $5 million to finance the purchase of certain equipment. The line was increased by $500,000 during 2003 under the same terms. Interest is charged between 9.91% and 10.26% depending on whether the note is for laboratory or other equipment as stated in each borrowing agreement. Amounts borrowed under this agreement are collateralized by the equipment financed through the respective loans. There are no borrowings available under the equipment loan agreement at December 31, 2005. The outstanding loan balance at December 31, 2005 was $1,260,077. As part of this agreement, the Company issued warrants to purchase shares of Series B Convertible Preferred Stock (See Note 12).

In December 2002, the Company secured an equipment financing agreement with a finance company allowing for financings of up to an aggregate of $6 million to finance the acquisition of certain equipment. Interest is charged between 8% and 10% and may fluctuate depending on whether the note is for laboratory or other equipment and when the funds are drawn down by the Company. Amounts borrowed under this agreement are collateralized by the equipment financed through the respective loans. March 2004, the equipment line was increased to $9 million. In January 2005, the equipment line was increased to $12 million. As part of this agreement, the Company issued warrants to purchase shares of Series B Convertible Preferred Stock (See Note 12). On August 11, 2004, the Company executed a Master Lease Agreement with the above finance company allowing for leases to be created for equipment financing under the total equipment line of $12 million. Borrowings still available to be drawn under the equipment loan and Master Lease Agreement at December 31, 2005 aggregated $2,982,101. The outstanding loan balance at December 31, 2005 was $4,253,439.

Capital leases obligations and equipment loan maturities are as follows:

	Capital Leases	Equipment Loans
Years Ended December 31:		
2006	$ 154,007	$ 3,573,599
2007	41,597	1,626,596
2008		374,205
Total	195,604	5,574,400
Less amount representing interest	(10,860)	
Amounts excluding interest	184,744	5,574,400
Less current portions	(144,197)	(3,573,599)
Capital lease obligations and equipment debt long term portions	$ 40,547	$ 2,000,801

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

9. Collaboration Agreements

In December 2004, Infinity entered into a technology access agreement with Johnson & Johnson Pharmaceutical Research & Development, a division of Janssen Pharmaceutica N.V., referred to as Johnson & Johnson (J&J). Pursuant to the agreement, Infinity granted to J&J a non-exclusive worldwide license to use certain Infinity small molecules in its own drug discovery efforts. Under the terms of the agreement, J&J paid Infinity an upfront license fee of $2.5 million. The license fee was billed and is included in accounts receivable and deferred revenue as of December 31, 2004. The license fee was paid to the Company in 2005 and is being recognized as the compounds are delivered to and accepted by J&J. As part of the J&J agreement, Johnson & Johnson Development Corporation, an affiliate of J&J, agreed to purchase 2,222,224 shares of Series C Preferred Stock at its fair value of $4.50 per share (See Note 12).

The Company earned $0 and $521,750 in revenue related to this Agreement during the years ended December 31, 2004 and 2005, respectively. In 2005, the Company and J&J amended this Agreement changing certain compound specifications and decreasing the number of compounds to be delivered under the amended agreement. As a result, the Company will refund to J&J the amount of the license fee related to the compounds that will not be delivered. The Company has recorded $950,000 for this refund in accrued expenses at December 31, 2005. The remaining $1 million is recorded in deferred revenue and will be recognized upon delivery of the compounds to J&J in 2006.

In November 2004, Infinity entered into an agreement with Novartis International Pharmaceuticals, Ltd. (Novartis) to jointly design a collection of novel small molecules to be synthesized by Infinity using its diversity oriented synthesis chemical technology platform. Novartis may use the resulting compound collection in its independent drug discovery efforts. Infinity has certain rights to use the resulting compound collection in its own drug discovery efforts. Novartis will pay Infinity up to $10.5 million for the successful delivery of compounds. The fee is being recognized as the compounds are delivered and accepted by Novartis. As of December 31, 2004 and 2005, the Company had not earned any revenue related to this Agreement as no compounds had shipped to Novartis and, therefore, no revenue had been recognized. As part of the Novartis Compound Agreement, Novartis Pharma AG an affiliate of Novartis agreed to purchase 3,333,333 shares of Series C Preferred Stock at its fair value of $4.50 per share (See Note 12).

In December 2003, Infinity entered into a technology access agreement with Amgen Inc. (Amgen). Pursuant to and in accordance with the terms of the agreement, Infinity granted to Amgen a non-exclusive worldwide license to use a proprietary collection of small molecules in its internal drug discovery activities. Amgen also agreed to make milestone and other success payments upon the achievement of specified research, development and commercialization objectives with respect to certain compounds, and to pay royalties on sales of such compounds. As of December 31, 2004 and 2005, the Company had not earned any revenue related to this collaboration agreement as no milestones have been reached. As part of this agreement, Amgen agreed to purchase 5,555,555 shares of Series C Preferred Stock at its fair value of $4.50 per share (See Note 12).

10. Restructuring

During 2003, the Company announced a cost rebalancing plan to decrease its ongoing cash expenses in certain areas of its business. Under the plan, the Company terminated 23 employees, primarily employees of the Company s general and administrative group. During the year ended December 31, 2003, in accordance with SFAS No. 146, *Accounting for Costs Associated With Exit or Disposal Activities*, the Company recorded restructuring expenses of $1,296,306 related to this reduction in force. The charge recorded primarily represented severance costs, loan forgiveness, and fees for outplacement services, of which $1,154,445 was paid in 2003. In 2004, the remaining $141,861 accrued at December 31, 2003 was paid.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

11. Income Taxes

The significant components of the Company s deferred tax assets and liabilities are as follows:

	December 31	
	2004	**2005**
Deferred tax assets:		
Net operating loss carryforwards	$ 35,179,335	$ 49,834,626
Tax credits	3,714,789	4,973,431
Prepaids and accrued expenses	910,532	1,198,667
Amortization	128,955	173,653
Other	1,098,733	622,207
Valuation allowance	(40,069,193)	(56,010,337)
	963,151	792,247
Deferred tax liabilities:		
Depreciation	(963,151)	(792,247)
Net deferred tax assets	$	$

The Company has established a valuation allowance of $40,069,193 and $56,010,337 as of December 31, 2004 and 2005, respectively. The Company has recorded a valuation allowance against its deferred tax assets because management believes that it is more likely than not that these assets will not be realized. The valuation allowance increased by $15,941,144 in 2005 primarily as a result of net operating losses and tax credits.

At December 31, 2005, the Company has federal and state net operating loss carryforwards for income tax purposes of approximately $123,752,000 to offset future taxable income. The Company also has federal and state tax credits to offset future tax liability of approximately $3,095,000 and $2,846,000 respectively. Both the net operating losses and tax credits begin to expire in 2021 and 2006 for federal and state purposes, respectively. The net operating loss carryforwards and tax credits may be limited in the event of certain changes in ownership interest of significant stockholders under Internal Revenue Code Sections 382 and 383.

12. Stockholders Equity

Effective December 21, 2004, the Company amended and restated its certificate of incorporation to, among other things, increase the Company s authorized capital stock from 106,088,888 to 125,000,000, of which 80,022,221 shall be common stock and 44,977,779 shall be preferred stock, par value $0.0001 per share.

Convertible Preferred Stock

During 2001, the Company sold 8,134,999 shares of Series A Convertible Preferred Stock (Series A), $.0001 par value, at a price of $1.50 per share. Proceeds to the Company were $12,125,449 (net of issuance costs of $77,050).

During 2002, the Company sold 11,803,340 shares of Series B Convertible Preferred Stock (Series B), $.0001 par value, at a price of $3.75 per share. Proceeds to the Company were $43,013,643 (net of issuance cost payments of $1,248,882).

During August 2003, the Company sold an additional 7,669,996 shares of Series B Convertible Preferred Stock (Series B), $.0001 par value, at a price of $3.75 per share, per the initial agreement. Proceeds to the

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

Company were $28,418,309 (net of issuance costs of $344,175). One of the original Series B investors did not participate as contractually required in the final drawdown. As a result, in accordance with the Series B Agreement, the non-participating investor s original Series B investment of 133,334 Series B shares was automatically converted into 13,334 shares of common stock. In December 2003, the Company issued to this investor 133,334 shares of Series B at par value $.0001, in return for 13,334 shares of common stock and the modification of a lease agreement. The Company recorded a charge of $494,922, which represented the net fair value of the Series B shares issued.

On December 19, 2003, the Company sold to Amgen (See Note 9) 5,555,555 shares of Series C Convertible Preferred Stock (Series C), $.0001 par value, at a price of $4.50 per share. Proceeds to the Company were $24,989,135 (net of issuance cost payments of $10,865).

On November 16, 2004, the Company sold to Novartis (See Note 9) 3,333,333 shares of Series C Convertible Preferred Stock (Series C), $.0001 par value, at a price of $4.50 per share. Proceeds to the Company were $14,984,070, (net of issuance cost payments of $15,928).

On December 22, 2004, the Company sold to J&J (See Note 9) 2,222,224 shares of Series C Convertible Preferred Stock (Series C), $.0001 par value, at a price of $4.50 per share. Proceeds to the Company were $9,986,462 (net of issuance cost payments of $13,546).

In each instance where the Company has issued convertible securities above, the conversion feature was evaluated with regard to EITF 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios* and EITF 00-27, *Application of issue EITF 98-5 to Certain Convertible Instruments*. Management determined that the conversion features, which provide for conversion on a one-for-one basis, in each instance did not contain a beneficial conversion given that the conversion feature at the commitment date was out-of-the-money because the preferred stock fair value was greater than that of the common stock into which it was convertible. Management performed a similar assessment with regard to the warrants to purchase convertible preferred stock (discussed below) and concluded that a beneficial conversion feature also did not exist with regard to any of the warrants issued.

Authorized and outstanding convertible preferred stock are as follows at December 31, 2005:

	Shares	
	Authorized	Issued and Outstanding
Series		
A	9,000,000	8,134,999
B	24,866,667	19,473,336
C	11,111,112	11,111,112
	44,977,779	38,719,447

The Company has reserved 57,777,779 shares of common stock for issuance upon conversion of Series A, B, and C Convertible Preferred Stock, exercise of stock awards under the 2001 Company s Stock Incentive Plan and exercise of warrants.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

The holders of the Convertible Preferred Stock (Series A, B, and C) (collectively, the Preferred Stock) have the following rights:

Dividends

The holders of Series A and Series B are entitled to receive dividends prior and in preference to the holders of common stock and/or Series C at the rate of 6% of the per share purchase price, per annum, payable when, as and if declared by the Board of Directors (the Board). Such dividends are not cumulative.

The holders of Series C are entitled to receive dividends after declaration and payment of all preferential dividends to the holders of Series A and B, but prior and in preference to the holders of common stock, at the rate of 6% of the per share purchase price, per annum, payable when, as and if declared by the Board. Such dividends are not cumulative.

To date, no dividends have been declared or paid.

Conversion

At the stockholder s option, each share of Series A, Series B, and Series C is convertible into such number of shares of common stock as determined by the conversion rate. The conversion rate is subject to adjustment in the event of certain dilutive issuances, such as stock splits, stock dividends, combinations, and recapitalizations. At December 31, 2005, each share of Series A, Series B, and Series C is convertible into one share of common stock.

Each share of Series A, Series B, and Series C is automatically convertible into shares of common stock upon the earlier to occur of (1) the Company s sale of its common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended, yielding net proceeds to the Company of at least $35 million at an offering price of at least $6.00 per share (subject to adjustment in the event of certain dilutive issuances) or (2) the written election of the holders of at least two-thirds of the then-outstanding shares of both Series A, Series B, and Series C.

Voting

The holders of Series A, Series B, and Series C are entitled to a number of votes equal to the number of shares of common stock into which Series A, Series B, and Series C are then convertible.

Liquidation

In the event of any liquidation, dissolution, or winding-up of the Company, either voluntary or involuntary, the holders of Series B and Series C shall receive, in preference to the holders of Series A, or common stock, an amount equal to $3.75 per share (subject to adjustment in the event of certain dilutive issuances), plus any declared but unpaid dividends. Series A stockholders shall receive, in preference to the holders of common stock and Series C (as described below), an amount equal to $1.50 per share (subject to adjustment in the event of certain dilutive issuances), plus any declared but unpaid dividends. Series C stockholders shall receive, in preference to the holders of common stock, an amount equal to $.75 per share (subject to adjustment in the event of certain dilutive issuances), plus any declared but unpaid dividends. Upon completion of the distribution to the Series C holders, the remaining assets of the Company available for distribution shall be distributed to the holders of common stock on a pro rata basis.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

Warrants

In connection with executing the equipment loan agreement in December 2001 (See Note 8), the Company issued warrants to the lenders to purchase 133,333 shares of Series A Convertible Preferred Stock at $1.50 per share, which represented the fair value of a share of Series A at that time. The fair value of the warrants of $164,000 was estimated using the Black-Scholes valuation model assuming no expected dividends, a volatility of 75%, contractual life of ten years, and a risk-free interest rate of 5.5%. This amount has been reported as long-term deferred financing costs and is being amortized as interest expense over the life of the loans. None of these warrants have been exercised and all are still outstanding as of December 31, 2005.

In July 2002, the Company issued a warrant to purchase up to 119,000 shares of Series B Convertible Preferred Stock at a price of $3.75, which represented the fair value of a share of Series B at that time, in conjunction with the facility lease mentioned in Note 8 above. The fair value of $309,400 for the warrants was estimated using the Black-Scholes valuation model assuming no expected dividends, a volatility of 75%, a contractual life of ten years, and a risk-free interest rate of 5%. The amount was recorded in other noncurrent assets and is being amortized ratably over the lease period as rent expense. None of these warrants have been exercised and all are still outstanding as of December 31, 2005.

In connection with executing the Series B equity financing agreement in 2002 and 2003, the Company issued warrants to an unrelated company which assisted the Company in finding investors for the Series B financing. The warrants issued equaled 5% of the shares of equity securities issued to the introduced investors in connection with the financing at $3.75 per share, which represented the fair value of a share of Series B. The total warrants issued in 2003 and 2002 were 180,000 and 180,000, respectively. The fair value of the warrants issued in 2003 and 2002 were $587,340 and $538,200, respectively. The values were estimated using the Black-Scholes valuation model, and assumed a weighted-average risk-free rate of 3.89% and 3.05%, an expected warrant life equal to the term of the warrants (ten years), a stock volatility of 95% and 86%, and no dividends. The value of these warrants has been accounted for as issuance costs and as a reduction of the net proceeds of the Series B issuance. As of December 31, 2005, 360,000 warrants are outstanding and none have been exercised.

In connection with the September 2002 equipment loan agreement (See Note 8), the Company issued warrants to the lender to purchase shares of Series B Convertible Preferred Stock at $3.75 per share, which represented the fair value of a share of Series B, equal to 1.8% of the actual loan as it is drawn down. As of December 31, 2004 and 2005, there were 26,447 warrants issued and outstanding. The fair value of the warrants of $50,414 was estimated using the Black-Scholes valuation model, and has assumed a weighted-average risk-free rate of between 3.05% and 4.20%, an expected option life equal to the term of the warrants (ten years), a stock volatility of 95%, and no dividends. The fair value amount has been reported as long-term deferred financing costs and is being amortized as interest expense over the life of the loans. None of these warrants have been exercised and all are still outstanding as of December 31, 2005.

In connection with the equipment financing agreement entered into in December 2002 (See Note 8), the Company issued warrants to the lender to purchase shares of Series B Convertible Preferred Stock at its fair value of $3.75 per share equal to 2% of the actual loan or lease as it is drawn down. As of December 31, 2004 and 2005, there were 37,516 and 48,217 warrants issued and outstanding, respectively. The fair value of the warrants issued in 2004 and 2005 were $77,807 and $38,757, respectively. The fair values were estimated using the Black-Scholes valuation model assuming no expected dividends, a volatility of 70%, contractual life of ten years, and a risk-free interest rate of between 3.81% and 4.75% during 2004 and 2005. This amount has been reported as long-term deferred financing costs and is being amortized as interest expense over the life of the loans. None of these warrants have been exercised and all are still outstanding at December 31, 2005.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

The following table reflects warrants outstanding and exercisable:

	Warrants Outstanding			Warrants Exercisable	
Type of Warrant	Range of Exercise Prices	Number Outstanding at December 31 2005	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of December 31 2005	Weighted-Average Exercise Price
Series A	$ 1.50	133,333	6.2	$ 1.50	133,333	$ 1.50
Series B	$ 3.75	553,664	7.0	3.75	553,664	3.75
Total		686,997	6.84	$ 3.31	686,997	$ 3.31

Common Stock

In May 2001, the Company began issuing its common stock and sold 1,125,000 shares of common stock to certain founders and consultants at $.0001 per share, its par value. The shares issued to the founders and consultants are subject to restriction agreements that limit transferability and allow the Company to repurchase unvested shares at their original purchase price. The repurchase provisions on these shares generally lapse as follows: 25% at the end of the first year of service beginning May 14 and 15, 2001, with the remaining 75% lapsing ratably on a monthly basis over the following three-year period. At December 31, 2004 and 2005, 153,021 and 16,667 shares, respectively, of common stock issued are subject to repurchase.

Stock Incentive Plan

The Company sponsors the 2001 Stock Incentive Plan (the Plan), which provides for the granting of stock awards. Stock options may be granted under the Plan either as options intended to qualify as incentive stock options (ISOs) under the Internal Revenue Code or as nonqualified stock options (NQs). Also, the Company may grant rights to acquire restricted stock and other stock awards based upon the common stock having such terms and conditions as the Board may determine. Under the Plan, stock awards may be granted to employees, including officers and directors who are employees, and to consultants of the Company. The incentive stock options may be granted at a price not less than fair value of the common stock on the date of grant. The Board determines the vesting schedule of the awards, which is typically 25% at the end of the first year of service with the remaining 75% lapsing ratably on a monthly basis over the following three-year period. The repurchase provisions on annual grants to existing employees generally lapse on a monthly basis over a four-year period. The maximum contractual term of stock options is ten years. At December 31, 2005, 12,800,000 shares of common stock had been authorized for issuance under the Plan and the Company had a total of 621,492 shares of common stock available for grant under the Plan.

The options granted under the Plan contain provisions allowing for early exercise. All options granted contain this provision, and the common stock issued upon exercise of these options contain certain restrictions that allow the Company to repurchase unvested shares at their original purchase price. The repurchase provisions on the initial shares granted as part of an employee s initial employment generally lapse as follows: 25% at the end of the first year of service with the remaining 75% lapsing ratably on a monthly basis over the following three-year period. The repurchase provisions on annual grants to existing employees generally lapse on a monthly basis over a four-year period. In 2005, the Company granted 860,923 shares as part of an annual grant to existing employees where the repurchase provision generally lapses on a monthly basis over six-year period. At December 31, 2005, 422,553 shares of common stock issued pursuant to the early exercise of options are subject to repurchase.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

A summary of the Company s stock option activity for the years ended December 31, 2003, 2004, and 2005 is as follows:

	Options Outstanding					
	2003		2004		2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	341,250	$ 0.35	1,601,121	$ 0.38	2,079,779	$ 0.38
Granted	1,510,364	0.38	1,588,757	0.38	2,818,878	0.45
Exercised	(20,677)	0.38	(915,366)	0.38	(83,272)	0.40
Cancelled	(229,816)	0.34	(194,733)	0.38	(379,385)	0.39
Outstanding at end of year	1,601,121	$ 0.38	2,079,779	$ 0.38	4,436,000	$ 0.42
Weighted-average fair value per share of options granted during the year		$ 0.29		$ 0.27		$ 0.32

The following table summarizes information about stock options outstanding at December 31, 2005, which were issued at exercise prices of $0.38 and $0.45. In addition, as noted above, the options contain an early exercise provision. The number of exercisable options shown in the table represents the percentage vested pursuant to the vesting terms noted above:

	Options Outstanding			Options Exercisable and Vested	
Range of Exercise Prices	Number Outstanding at December 31 2005	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of December 31 2005	Percent of Options Vested as of December 31 2005
$0.38	1,759,858	7.97	$ 0.38	1,759,858	59%
$0.45	2,676,142	9.36	$ 0.45	2,676,142	25%
Total	4,436,000	8.81	$ 0.42	4,436,000	

A summary of the Company s stock option activity for the quarter ended March 31, 2006

	Options Outstanding March 31, 2006	
	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2006	4,436,000	$ 0.42

Granted	1,157,727	$	0.77
Exercised	(108,750)	$	0.38
Forfeited	(118,251)	$	0.40
Outstanding at March 31, 2006	5,366,726	$	0.50
Weighted-average fair value per share of options granted during the quarter		$	0.45

The intrinsic value of options exercised during the three months ended March 31, 2006 is approximately $16,963. As of March 31, 2006, the total remaining unrecognized compensation cost related to nonvested stock options is approximately $1,151,219, including estimated forfeitures, which will be amortized on a straight line basis over the weighted-average remaining requisite service period of approximately 3 years.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

The following table summarizes information about stock options outstanding at March 31, 2006, which were issued at exercise prices of $0.38, $0.45 and $0.77. In addition, as noted above, the options contain an early exercise provision. The number of exercisable options shown in the table represents the percentage vested pursuant to the vesting terms noted above:

	Options Outstanding			Options Exercisable and Vested		
Range of Exercise Prices	Number Outstanding at March 31, 2006	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of March 31, 2006	Percent of Options Vested as of March 31, 2006	Aggregate Intrinsic Value as of March 31, 2006
$0.38	1,576,240	7.75	$ 0.38	1,576,240	65%	$ 396,513
$0.45	2,632,759	9.11	$ 0.45	2,632,759	32%	266,604
$0.77	1,157,727	10.00	$ 0.77	1,157,727	5%	
Total	5,366,726	8.90	$ 0.50	5,366,726		$ 663,117

The Company began issuing restricted stock under the 2001 Stock Incentive Plan in 2001. The Company has the right and option to repurchase at the original exercise price some or all of the unvested shares within 90 days of the time the participant ceases to be employed by the Company for any reason or no reason, with or without cause. The Company also has the right of first refusal if the participant proposes to transfer any shares that are no longer subject to the purchase option. The restrictions (except for the right of first refusal) typically lapse over four years with 25% lapsing at the end of the first year of service and the remaining 75% lapsing ratably on a monthly basis over the following three years. During 2003, 2004 and 2005, 1,618,395, 548,312 and 902,480 restricted shares, respectively, were issued under the plan. At December 31, 2005, 1,304,098 shares of restricted common stock are subject to repurchase with a weighted-average exercise price of $0.39. The Company records the unvested restricted stock in accrued expenses for the amount paid over par and amortizes the amount into additional paid in capital as they vest.

A summary of the status of nonvested shares of restricted stock as of March 31, 2006, and changes during the three months then ended is presented below:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2006	1,726,651	$ 0.37
Granted		
Vested	(229,152)	0.35
Repurchased	(6,250)	
Forfeited		
Nonvested at March 31, 2006	1,491,249*	$ 0.37

* Includes 726,416 unvested restricted shares related to the nonrecourse loans forgiven on March 31, 2006.

During 2004, the Company repurchased from several employees who ceased employment, 200,084 unvested restricted shares at the original exercise price amounting to $34,671. During 2005, the Company repurchased from several employees who ceased employment, 116,784 unvested restricted shares at the original exercise price amounting to $44,378.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

Under the Plan, in 2001 the Company sold 750,000 shares of common stock at $.0001, its par value, to an officer of the Company, which, to the extent unvested, are subject to repurchase by the Company, at its option, at the original issuance price. As a result of the shares being issued at a price below its fair value of $0.15 per share, the arrangement is compensatory. Accordingly, the Company has recorded total deferred compensation associated with these shares of $168,802, of which $28,125, $28,125, and $28,125 was recognized as compensation expense as the repurchase option lapses for the years ended December 31, 2003, 2004, and 2005, respectively. Deferred compensation of $46,197 remains at December 31, 2005 to be amortized in future periods.

In 2003, 2004, and 2005, the Company issued 282,000, 359,428, and 253,581 stock options and restricted stock awards to nonemployees at a weighted-average exercise price of $0.40 per share. In 2004 and 2005, the Company cancelled 20,000 and 250,000 of the stock options issued and re-issued 87,500 options, which are included in the total 2005 stock options granted to non-employees. In 2003 and 2005, the Company repurchased 60,000 and 45,833 unvested restricted shares from consultants whose services were terminated. At December 31, 2004 and 2005, 452,500 and 355,081 stock options remain unexercised, respectively. The Company has applied the recognition provisions of SFAS No. 123 and EITF No. 96-18 related to these grants. In computing the fair value of these options, the Company used the Black-Scholes valuation model and has assumed a weighted-average risk-free rate of 6%, 3%, and 3%, an expected option life equal to the term of the options (generally 10 years), a stock volatility of 95%, 70%, and 70%, and no dividends for the years ended December 31, 2003, 2004, and 2005, respectively. Based on the structure of certain consulting arrangements, approximately 300,000 stock awards are fixed due to significant disincentives of nonperformance and 310,000 are variable. Certain consultants who do not perform services as defined in their consulting agreements are required to remit a significant monetary penalty to the Company based on their service period to the Company. In addition, their options are required to be forfeited. In connection with these agreements, the Company recognized $89,229, $150,349, and $49,882 of compensation expense during 2003, 2004, and 2005, respectively, in accordance with Financial Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Awards Plans*.

Notes Receivable From Stock Purchase Agreements

In 2002, the Company loaned four employees $202,500 and one consultant $45,000. The loans were provided to effect the purchase of 1,650,000 shares of the Company s restricted common stock pursuant to the Plan, at an exercise price of $0.15 per share, which represented the fair value of the stock at that time. The loans were considered nonrecourse and nonsubstantative and therefore the Company did not record the loans on the balance sheet and consequently continued to account for these awards as stock options for expense purposes. The unvested portion of the shares is subject to repurchase by the Company, at its option, at the original issuance price. The repurchase restriction lapses as follows: 20 to 25% at the end of the first year of service with the remaining 75 to 80% lapsing ratably on a monthly basis over the following four-to five-year period, as applicable. Interest on the loans accrue at various rates from 4.5% to 5.0%. On certain notes, the principal and accrued interest will be forgiven ratably or repaid over approximately 48 months provided that the employees remain employed at the Company. In the event of termination, the unforgiven principal plus accrued interest is due. For the years ended December 31, 2003, 2004, and 2005, $6,156, $6,156 and $6,156 had been forgiven. Options for which the loans were issued to purchase stock are subject to variable accounting. The Company recorded $72,277, $43,667, and $50,197 of variable stock compensation expense during 2003, 2004, and 2005, respectively, related to these shares. During 2003, two of the four employees who entered into notes receivable from stock purchase agreements with the Company ceased to be employed by the Company during the year. These loans plus accrued interest were repaid by the individuals in accordance with the original terms for all vested shares. These payments were accounted for as option exercises.

In 2003, the Company loaned two employees a total of $341,985 to affect the purchase of 900,000 shares of restricted common stock of the Company pursuant to the Plan at an exercise price of $0.38 per share, which

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

represented the fair value of the stock at that time. The loans are nonrecourse and nonsubstantative and therefore the Company did not record the loans on the balance sheet and consequently continued to account for these awards as stock options for expense purposes. The unvested portions of the shares are subject to repurchase by the Company, at its option, at the original issuance price. The repurchase restriction lapses as follows: 25% at the end of the first year of service with the remaining 75% lapsing ratably on a monthly basis over the following three-year period. Interest on the loans accrues at 3.65%. The principal of the note and accrued interest will become due upon an event that results in the underlying shares becoming publicly traded or if the person leaves the Company. The Company does have the ability to forgive the loans based on Board approval provided that the employee remains employed at the Company. In the event of termination, the unforgiven principal plus accrued interest is due. The stock purchases are subject to variable accounting until they vest. The Company recorded $0, $3,308, and $17,460, in variable stock compensation expense during 2003, 2004, and 2005, respectively. During 2004, 150,000 of these shares were repurchased as the employee ceased employment before any shares vested. The employee paid $1,253 of accrued interest, which represented the entire amount due under the loan.

In 2004, the Company loaned an officer of the Company a total of $341,910 to affect the exercise of 900,000 stock options of the Company pursuant to the Plan at an exercise price of $0.38 per share, which represented the fair value of the stock at that time. The loan is nonrecourse and nonsubstantative and therefore the Company did not record the loan on the balance sheet and consequently continued to account for those awards as stock options for expense purposes. The unvested shares are subject to repurchase by the Company, at its option or upon certain events, at the original issuance price. The repurchase restriction lapses ratably on a monthly basis over a four-year period. Interest on the loan accrues at 3.11%, the principal of the note and accrued interest will be repaid or forgiven depending upon certain future events, provided that the employee remains employed at the Company. In the event of termination, the unforgiven principal plus accrued interest is due. The stock purchases are subject to variable accounting. The Company recorded $3,893 and $20,546, in variable stock compensation expense during December 2004 and 2005, respectively. The loan is secured by the common stock purchased.

In 2005, the Company loaned two employees of the Company a total of $85,378 to affect the exercise of 189,772 stock options of the Company pursuant to the Plan at an exercise price of $0.45 per share, which represented the fair value of the stock at that time. The loans are nonrecourse and nonsubstantative and therefore the Company did not record the loans on the balance sheet and consequently continued to account for those awards as stock options for expense purposes. These unvested shares are subject to repurchase by the Company, at its option or upon certain events, at the original issuance price. The repurchase restriction lapses ratably on a monthly basis over a four-year period. Interest on the loan accrues at 4.20%. The principal on the note and accrued interest will be repaid or forgiven depending upon certain future events, provided that the employee remains employed at the Company. In the event of termination, the unforgiven principal plus accrued interest is due. The stock purchases are subject to variable accounting. The Company recorded $1,002, in variable stock compensation expense during 2005. The loan is secured by the common stock purchased.

On March 31, 2006 all outstanding notes receivable from stock purchase agreements were forgiven. See Note 16.

13. Notes Receivable from Employees

During 2002, the Company established a First Time Homebuyer Assistance Program whereby an employee can apply for a forgivable loan for $10,000 or $16,000 towards the purchase of their first home depending on when they were hired. The loans are forgiven over a period of three to four years. In the event of termination, the unforgiven principal of the note, plus interest accrued at a rate of between 3.06% and 4.6% per year, will be due

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

and payable within 30 days. As of December 31, 2004 and 2005, the Company had $128,513 and $213,030 outstanding under these loans, respectively. For each year ended December 31, 2003, 2004, and 2005, $44,748, $51,519, and $85,186 had been forgiven, respectively.

In 2002, the Company loaned three employees an aggregate of $442,500. Interest on the loans accrues at various rates from 4.49% to 4.52%. The principal and accrued interest will be forgiven ratably over approximately 48 to 60 months provided that the employees remain employed at the Company. In the event of termination, the unforgiven principal plus accrued interest is due. During 2003, two of the three employees who entered into employee loans with the Company ceased to be employed by the Company during the year. For each year ended December 31, 2003, 2004, and 2005, $135,965, $4,787, and $4,673 had been forgiven, respectively.

In 2003, the Company loaned one employee $72,000. The principal of the note and accrued interest will be repaid or forgiven depending upon certain future events, provided that the employee remains employed at the Company. During 2003, $13,937 had been forgiven. During 2003, the employee left the Company and paid the outstanding balance of $59,563 in connection with the loan.

14. Related-Party Transactions

The Company pays consulting fees of approximately $25,000 to $75,000 per year per individual to five of its board members and one of its scientific founders to be members of its scientific advisory board. Total consulting fees paid in 2003, 2004, and 2005 were approximately $308,693, $259,632, and $220,824, respectively. At the end of December 2004 and 2005, the Company had accrued $0 and $62,496, respectively, to be paid in future periods for services rendered by these consultants. These individuals also receive stock grants for their roles on the scientific advisory board, which are discussed in Note 12.

During 2004 and 2005, the Company contracted with a company owned by a relative of one of the Company s senior management to perform research and development related contract services. Amounts paid under this arrangement totaled $71,308 and $202,090 for the years ended December 31, 2004 and 2005, respectively. At the end of December 2004 and 2005, the Company had accrued $0 and $328,000, respectively, to be paid in future periods for services rendered.

15. Defined Contribution Benefit Plan

In 2002, the Company implemented a 401(k) retirement plan (the 401(k) Plan) in which substantially all of its full-time employees are eligible to participate. Participants may contribute a percentage of their annual compensation to the Plan, subject to statutory limitations. The Company does not contribute to this Plan.

16. Subsequent Events

On January 26, 2006, the Board increased the stock option pool from 12,800,000 to 14,300,000.

In February 2006, Infinity entered into a collaboration agreement with Novartis Institutes for BioMedical Research, Inc., (Novartis), to discover, develop and commercialize drugs for the treatment of a broad range of cancer indications targeting Bcl protein family members. Under the terms of the agreement, Infinity has granted to Novartis an exclusive, worldwide license to research, develop and commercialize pharmaceutical products that are based upon Infinity s proprietary Bcl inhibitors. Novartis paid Infinity $15.0 million in upfront license fees and has committed research funding of approximately $10.0 million during the initial two-year research term. The research term may be extended for up to two additional one-year terms at the discretion of Novartis, and Novartis will agree to fund additional research during any extension period in an amount to be agreed upon.

Table of Contents

Infinity Pharmaceuticals, Inc.

Notes to Financial Statements (Continued)

December 31, 2005

Assuming that the strategic alliance continues for its full term and specified research, development and commercialization milestones are achieved for multiple products for multiple indications, total payments to Infinity could exceed $400 million. In addition, Novartis has agreed to pay Infinity royalties upon successful commercialization of any products developed under the alliance. In connection with the collaboration agreement, Novartis Pharma AG, an affiliate of Novartis, purchased 1.0 million shares of Infinity s series D preferred stock at its fair value of $5.00 per share for aggregate proceeds of $5.0 million.

Pursuant to the collaboration, Infinity and Novartis are conducting joint research to identify molecules for clinical development. Novartis will have responsibility for clinical development and commercialization of any products based upon compounds discovered under the joint research program. However, Infinity may request to participate in clinical development and if such request is agreed upon by Novartis then Novartis will fund agreed-upon development costs incurred by Infinity. Infinity also has a non-exclusive right to detail Bcl inhibitor products in the United States, with Infinity s detailing costs to be reimbursed by Novartis. For the three months ended March 31, 2006 the Company recognized $718,750 in revenue related to the amortization of the non- refundable license fee over the four year contract term and one month of reimbursable research and development services the Company performed for Novartis per the agreement.

Effective February 23, 2006, the Company amended and restated its certificate of incorporation to, among other things, increase the Company s authorized capital stock from 125,000,000 to 127,000,000, of which 81,022,221 shall be common stock and 45,977,779 shall be preferred stock, par value $0.0001 per share.

On March 31, 2006, the Company secured a loan agreement with a finance company allowing for borrowings of up to an aggregate of $7.5 million to be used in funding operations, of which $5 million was borrowed on March 31, 2006. Interest will be charged at approximately 11.26% depending on when the funds are drawn down. Amounts borrowed under this agreement are collateralized by all assets, which are not already used as security and a negative pledge on intellectual property. As part of this agreement, the Company will issue warrants to purchase shares of Series B Convertible Preferred shares.

On April 11, 2006, the Company announced the signing of a definitive merger agreement whereby a wholly owned subsidiary of Discovery Partners International, Inc. (DPII) will merge with Infinity with Infinity surviving the merger as a wholly owned subsidiary of DPII.

After completion of the merger, DPII will operate under the name Infinity Pharmaceuticals, Inc. Subject to the DPII net cash balance at closing, as calculated pursuant to the merger agreement, being greater than or equal to $70 million and less than or equal to $75 million, Infinity securityholders will be entitled to receive shares of DPII common stock equal in the aggregate to approximately 69% of the combined entity, with existing DPII stockholders holding or being entitled to receive the remaining 31% of DPII common stock, subject to upward or downward adjustments based on the net cash balance of DPII, as calculated pursuant to the merger agreement. The Company expects to account for this transaction as a reverse merger, with Infinity being the accounting acquiror.

In anticipation of the transactions contemplated by the merger and the merger agreement, on March 28, 2006, the Infinity Board authorized Infinity to forgive the outstanding indebtedness of $845,992 for certain employees of the company, which were used by the employees to exercise a certain amount of their stock grants, as outlined in Note 12.

Table of Contents

Annex A

AGREEMENT AND PLAN OF MERGER AND REORGANIZATION

among:

DISCOVERY PARTNERS INTERNATIONAL, INC.,

a Delaware corporation;

DARWIN CORP.,

a Delaware corporation; and

INFINITY PHARMACEUTICALS, INC.,

a Delaware corporation

Dated as of April 11, 2006

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

AGREEMENT AND PLAN OF MERGER AND REORGANIZATION

THIS AGREEMENT AND PLAN OF MERGER AND REORGANIZATION (this ***Agreement***) is made and entered into as of April 11, 2006, by and among **DISCOVERY PARTNERS INTERNATIONAL, INC.**, a Delaware corporation (***DPI***); **DARWIN CORP.**, a Delaware corporation and wholly owned subsidiary of DPI (***Merger Sub***); and **INFINITY PHARMACEUTICALS, INC.**, a Delaware corporation (***Merger Partner***). Certain capitalized terms used in this Agreement are defined in **Exhibit A**.

RECITALS

A. DPI and Merger Partner intend to enter into a business combination transaction pursuant to which Merger Sub will merge with and into Merger Partner (the ***Merger***) in accordance with and subject to the terms of this Agreement and the DGCL.

B. DPI and Merger Partner intend that the Merger qualify as a tax-free reorganization within the meaning of Section 368 of the Code.

C. The board of directors of DPI (i) has determined that the Merger is fair to, and in the best interests of, DPI and its stockholders, (ii) has approved this Agreement, the Merger, the issuance of shares of DPI Common Stock to the stockholders of Merger Partner pursuant to the terms of this Agreement, and the other actions contemplated by this Agreement and (iii) has determined to recommend that the stockholders of DPI vote to approve the issuance of shares of DPI Common Stock to the stockholders of Merger Partner pursuant to the terms of this Agreement and such other actions as contemplated by this Agreement.

D. The board of directors of Merger Partner (i) has determined that the Merger is advisable and fair to, and in the best interests of, Merger Partner and its stockholders, (ii) has approved this Agreement, the Merger and the other Contemplated Transactions and has deemed this Agreement advisable and (iii) has approved and determined to recommend the adoption of this Agreement to the stockholders of the Merger Partner.

E. In order to induce DPI to enter into this Agreement and to cause the Merger to be consummated, DPI and the stockholders of Merger Partner listed on *Schedule 1* hereto are executing voting agreements and irrevocable proxies in favor of DPI concurrently with the execution and delivery of this Agreement in the form substantially attached hereto as **Exhibit B** (the ***Merger Partner Stockholder Voting Agreements***).

F. In order to induce Merger Partner to enter into this Agreement and to cause the Merger to be consummated, Merger Partner and the stockholders of DPI listed on *Schedule 2* hereto are executing voting agreements and irrevocable proxies in favor of Merger Partner concurrently with the execution and delivery of this Agreement in the form substantially attached hereto as **Exhibit C** (the ***DPI Stockholder Voting Agreements***).

AGREEMENT

The Parties to this Agreement, intending to be legally bound, agree as follows:

1. DESCRIPTION OF TRANSACTION

1.1 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time (as defined in Section 1.3), Merger Sub shall be merged with and into Merger Partner, the separate existence of Merger Sub shall cease, and Merger Partner shall continue as the surviving corporation in the Merger (the ***Surviving Corporation***).

Table of Contents

1.2 Effects of the Merger. The Merger shall have the effects set forth in this Agreement and in the applicable provisions of the DGCL. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the property, rights, privileges, powers and franchises of Merger Partner and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of Merger Partner and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

1.3 Closing; Effective Time. Unless this Agreement is earlier terminated pursuant to the provisions of Section 9.1 of this Agreement, and subject to the satisfaction or waiver of the conditions set forth in Sections 6, 7 and 8 of this Agreement, the consummation of the Merger (the ***Closing***) shall take place at the offices of Cooley Godward LLP, 4401 Eastgate Mall, San Diego, California 92121-1909, as promptly as practicable (but in no event later than the fifth Business Day) following the satisfaction or waiver of the last to be satisfied or waived of the conditions set forth in Sections 6, 7 and 8 (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of each of such conditions) or at such other time, date and place as Merger Partner and DPI may mutually agree in writing. The date on which the Closing actually takes place is referred to as the ***Closing Date***. At the Closing, the Parties hereto shall cause the Merger to be consummated by executing and filing with the Secretary of State of the State of Delaware a Certificate of Merger with respect to the Merger, satisfying the applicable requirements of the DGCL and in a form reasonably acceptable to DPI and Merger Partner. The Merger shall become effective at the time of the filing of such Certificate of Merger with the Secretary of State of the State of Delaware or at such later time as may be agreed upon by DPI and Merger Partner and specified in such Certificate of Merger (the time as of which the Merger becomes effective being referred to as the ***Effective Time***).

1.4 Certificate of Incorporation and Bylaws. At the Effective Time:

(a) the Certificate of Incorporation of Merger Partner shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended as provided by the DGCL and such Certificate of Incorporation; and

(b) DPI shall cause the Bylaws of the Surviving Corporation to be amended to read in their entirety in a manner to be agreed upon by DPI and Merger Partner and such bylaws, as so amended, shall be the Bylaws of the Surviving Corporation, until thereafter amended as provided by the DGCL and such Bylaws.

1.5 Recapitalization of DPI Common Stock

(a) Immediately prior to the Effective Time, and subject to receipt of the requisite stockholder approval at the DPI Stockholders Meeting, DPI shall cause to be filed a Certificate of Amendment to its Certificate of Incorporation (the ***DPI Certificate of Amendment***), whereby without any further action on the part of DPI, Merger Partner or any stockholder of DPI:

(i) each share of DPI Common Stock issued and outstanding immediately prior to the filing of the DPI Certificate of Amendment shall be converted into and become a fractional number of fully paid and nonassessable shares of DPI Common Stock to be determined by DPI and Merger Partner (the ***Reverse Stock Split***); and

(ii) any shares of DPI Common Stock held as treasury stock or held or owned by DPI immediately prior to the filing of the DPI Certificate of Amendment shall each be converted into and become an identical fractional number of shares of DPI Common Stock as determined by the board of directors of DPI in connection with Section 1.5(a)(i) above.

(b) No fractional shares of DPI Common Stock shall be issued in connection with the Reverse Stock Split, and no certificates or scrip for any such fractional shares shall be issued. Any holder of DPI Common Stock who would otherwise be entitled to receive a fraction of a share of DPI Common Stock (after aggregating all fractional shares of DPI Common Stock issuable to such holder) shall, in lieu of such fraction of a share and upon surrender of such holder s certificate representing such fractional shares of DPI Common Stock, be paid in cash the dollar amount (provided to the nearest whole cent), without interest,

Table of Contents

determined by multiplying such fraction by the closing price of a share of DPI Common Stock on the NASDAQ National Market on the date immediately preceding the effective date of the Reverse Stock Split.

(c) The exchange ratios set forth in *Schedule I* hereto shall be appropriately adjusted at the Effective Time to account for the effect of the Reverse Stock Split without enlarging or diluting the relative rights and ownership of the stockholders of Merger Partner and DPI resulting from such exchange ratios.

1.6 Conversion of Merger Partner Shares.

(a) At the Effective Time, by virtue of the Merger and without any further action on the part of DPI, Merger Partner or any stockholder of Merger Partner:

(i) any shares of Merger Partner Common Stock held as treasury stock or held or owned by Merger Partner immediately prior to the Effective Time shall be canceled and shall cease to exist, and no consideration shall be delivered in exchange therefor;

(ii) subject to Section 1.6(c), each share of Merger Partner Common Stock outstanding immediately prior to the Effective Time (excluding shares to be canceled pursuant to Section 1.6(a)(i) and excluding Dissenting Shares) shall be converted solely into the right to receive a number of shares of DPI Common Stock equal to the applicable Merger Partner Common Stock exchange ratio. If the Net Cash at Closing, as determined pursuant to Section 1.7, is greater than or equal to $70,000,000 and less than or equal to $75,000,000, the Merger Partner Common Stock exchange ratio shall be 0.95118. If the Net Cash at Closing is less than $70,000,000 or more than $75,000,000, the Merger Partner Common Stock exchange ratio shall be determined in accordance with *Schedule I* hereto; and

(iii) subject to Section 1.6(c), each share of Merger Partner Series A Preferred Stock, Merger Partner Series B Preferred Stock, Merger Partner Series C Preferred Stock and Merger Partner Series D Preferred Stock outstanding immediately prior to the Effective Time (excluding shares to be canceled pursuant to Section 1.6(a)(i) and excluding Dissenting Shares) shall be converted solely into the right to receive a number of shares of DPI Common Stock equal to (i) in the event the Net Cash at Closing is greater than or equal to $70,000,000 and less than or equal to $75,000,000, as calculated pursuant to Section 1.7, the exchange ratio for (A) the Merger Partner Series A Preferred Stock shall be 0.84509, (B) the Merger Partner Series B Preferred Stock held by the Group 1 Series B Stockholders shall be 1.07472, (C) the Merger Partner Series B Preferred Stock held by the Group 2 Series B Preferred Stockholders shall be 1.20900, (D) the Merger Partner Series C Preferred Stock shall be 1.12126, and (D) the Merger Partner Series D Preferred Stock shall be 1.14607 and (ii) in the event the Net Cash at Closing is less than $70,000,000 or more than $75,000,000, as calculated pursuant to Section 1.7, the exchange ratios for each series of Merger Partner Preferred Stock shall be determined in accordance with *Schedule I*.

(b) If any shares of Merger Partner Common Stock or Merger Partner Preferred Stock outstanding immediately prior to the Effective Time are unvested or are subject to a repurchase option or the risk of forfeiture or under any applicable restricted stock purchase agreement or other agreement with Merger Partner, then the shares of DPI Common Stock issued in exchange for such shares of Merger Partner Common Stock or Merger Partner Preferred Stock will to the same extent be unvested and subject to the same repurchase option or risk of forfeiture, and the certificates representing such shares of DPI Common Stock shall accordingly be marked with appropriate legends. Merger Partner shall take all action that may be necessary to ensure that, from and after the Effective Time, the Surviving Corporation is entitled to exercise any such repurchase option or other right set forth in any such restricted stock purchase agreement or other agreement.

(c) No fractional shares of DPI Common Stock shall be issued in connection with the Merger, and no certificates or scrip for any such fractional shares shall be issued. Any holder of Merger Partner Common Stock or Merger Partner Preferred Stock who would otherwise be entitled to receive a fraction of a share of DPI Common Stock (after aggregating all fractional shares of DPI Common Stock issuable to such holder) shall, in lieu of such fraction of a share and upon surrender of such holder s Merger Partner Stock

Table of Contents

Certificate(s) (as defined in Section 1.7), be paid in cash the dollar amount (rounded to the nearest whole cent), without interest, determined by multiplying such fraction by the closing price of a share of DPI Common Stock on the NASDAQ National Market on the date the Merger becomes effective.

(d) All Merger Partner Options outstanding immediately prior to the Effective Time under the Merger Partner Stock Option Plans and all Merger Partner Warrants outstanding immediately prior to the Effective Time shall be exchanged for options to purchase DPI Common Stock or warrants to purchase DPI Common Stock, as applicable, in accordance with Section 5.5.

(e) Each share of Common Stock, $0.0001 par value per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and exchanged for one validly issued, fully paid and nonassessable share of Common Stock, $0.0001 par value per share, of the Surviving Corporation. Each stock certificate of Merger Sub evidencing ownership of any such shares shall, as of the Effective Time, evidence ownership of such shares of Common Stock of the Surviving Corporation.

1.7 Calculation of Net Cash.

(a) DPI and Merger Partner shall agree upon an anticipated date for Closing (the ***First Anticipated Closing Date***) at least ten Business Days prior to the DPI Stockholders Meeting. At least five Business Days prior to the First Anticipated Closing Date, but not more than ten Business Days prior to such date, DPI shall deliver to Merger Partner a schedule (a ***Net Cash Schedule***) setting forth, in reasonable detail, DPI s estimate of Net Cash (the ***Net Cash Estimation***) as of the First Anticipated Closing Date. DPI shall make the work papers and back-up materials used in preparing the applicable Net Cash Schedule available to Merger Partner and its accountants, counsel and other advisors at reasonable times and upon reasonable notice.

(b) Within ten Business Days after DPI delivers the applicable Net Cash Schedule (a ***Lapse Date***), Merger Partner shall have the right to dispute any part of such Net Cash Schedule by delivering a written notice to that effect to DPI (a ***Dispute Notice***). Any Dispute Notice shall identify in reasonable detail the nature of any proposed revisions to the applicable Net Cash Estimation.

(c) If on or prior to any Lapse Date, (i) Merger Partner notifies DPI that it has no objections to the applicable Net Cash Estimation or (ii) Merger Partner fails to deliver a Dispute Notice as provided above, then the Net Cash Estimation as set forth in the Net Cash Schedule shall be deemed, on the date of such notification (in the case of (i) above) or on the applicable Lapse Date (in the case of (ii) above) (the applicable date being referred to herein as the ***Non-Dispute Net Cash Determination Date***), to have been finally determined for purposes of this Agreement and to represent the Net Cash at Closing for purposes of Sections 1.6(a) and 8.6 and *Schedule I* hereto, so long as Closing occurs within five Business Days after the applicable Non-Dispute Net Cash Determination Date.

(d) If Merger Partner delivers a Dispute Notice on or prior to the applicable Lapse Date, then Representatives of DPI and Merger Partner shall promptly meet and attempt in good faith to resolve the disputed item(s) and negotiate an agreed-upon determination of Net Cash as of a particular date to be agreed to by DPI and Merger Partner, which Net Cash amount shall be deemed, on the date of agreement between DPI and Merger Partner as to such amount (a ***Dispute Net Cash Determination Date***), as the final determination for purposes of this Agreement of Net Cash at Closing for purposes of Sections 1.6(a) and 8.6 and *Schedule I* hereto, so long as Closing occurs within five Business Days after the applicable Dispute Net Cash Determination Date.

(e) If Representatives of DPI and Merger Partner pursuant to clause (d) above are unable to negotiate an agreed-upon determination of Net Cash as of a particular date to be agreed to by DPI and Merger Partner, or if Closing does not occur within five Business Days after an applicable Non-Dispute Net Cash Determination Date or an applicable Dispute Net Cash Determination Date, then DPI and Merger Partner shall agree upon an additional anticipated date for Closing (a ***Subsequent Anticipated Closing Date***) and thereafter follow the procedures set forth in Sections 1.7(a) through 1.7(d) above as many times as necessary (and replacing the First Anticipated Closing Date with the Subsequent Anticipated Closing Date in each

Table of Contents

instance) until Net Cash at Closing for purposes of Sections 1.6(a) and 8.6 and *Schedule I* hereto is or is deemed to have been finally determined for purposes of this Agreement pursuant to this Section 1.7.

1.8 Closing of Merger Partner s Transfer Books. At the Effective Time: (a) all shares of Merger Partner Common Stock and Merger Partner Preferred Stock outstanding immediately prior to the Effective Time shall automatically be canceled and shall cease to exist, and all holders of certificates representing shares of Merger Partner Common Stock or Merger Partner Preferred Stock that were outstanding immediately prior to the Effective Time shall cease to have any rights as stockholders of Merger Partner except as otherwise provided herein; and (b) the stock transfer books of Merger Partner shall be closed with respect to all shares of Merger Partner Common Stock and Merger Partner Preferred Stock outstanding immediately prior to the Effective Time. No further transfer of any such shares of Merger Partner Common Stock or Merger Partner Preferred Stock shall be made on such stock transfer books after the Effective Time. If, after the Effective Time, a valid certificate previously representing any shares of Merger Partner Common Stock outstanding immediately prior to the Effective Time (a ***Merger Partner Stock Certificate***) is presented to the Exchange Agent (as defined in Section 1.9) or to the Surviving Corporation, such Merger Partner Stock Certificate shall be canceled and shall be exchanged as provided in Section 1.9.

1.9 Surrender of Certificates.

(a) On or prior to the Closing Date, DPI and Merger Partner shall agree upon and select a reputable bank, transfer agent or trust company to act as exchange agent in the Merger (the ***Exchange Agent***). At the Effective Time, DPI shall deposit with the Exchange Agent: (i) certificates representing the shares of DPI Common Stock issuable pursuant to Section 1.6; and (ii) cash sufficient to make payments in lieu of fractional shares in accordance with Section 1.6(c). The shares of DPI Common Stock and cash amounts so deposited with the Exchange Agent, together with any dividends or distributions received by the Exchange Agent with respect to such shares, are referred to collectively as the ***Exchange Fund***.

(b) Promptly after the Effective Time, but in no event more than 5 Business Days after the Effective Time, the Parties shall cause the Exchange Agent to mail to the Persons who were record holders of Merger Partner Stock Certificates immediately prior to the Effective Time: (i) a letter of transmittal in customary form and containing such provisions as DPI may reasonably specify (including a provision confirming that delivery of Merger Partner Stock Certificates shall be effected, and risk of loss and title to Merger Partner Stock Certificates shall pass, only upon delivery of such Merger Partner Stock Certificates to the Exchange Agent); and (ii) instructions for use in effecting the surrender of Merger Partner Stock Certificates in exchange for certificates representing DPI Common Stock. Upon surrender of a Merger Partner Stock Certificate to the Exchange Agent for exchange, together with a duly executed letter of transmittal and such other documents as may be reasonably required by the Exchange Agent or DPI: (A) the holder of such Merger Partner Stock Certificate shall be entitled to receive in exchange therefor a certificate representing the number of whole shares of DPI Common Stock that such holder has the right to receive pursuant to the provisions of Section 1.6 (and cash in lieu of any fractional share of DPI Common Stock); and (B) the Merger Partner Stock Certificate so surrendered shall be canceled. In the event of a transfer of ownership of Merger Partner Common Stock or Merger Partner Preferred Stock which is not registered in the transfer records of Merger Partner, a certificate representing the proper number of shares of DPI Common Stock plus cash in lieu of fractional shares pursuant to Section 1.6(c) may be issued or paid to a person other than the person in whose name the applicable Merger Partner Stock Certificate so surrendered is registered, if such Merger Partner Stock Certificate is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and by evidence that any applicable stock transfer taxes have been paid, along with an applicable affidavit with respect to such Merger Partner Stock Certificate and such bond indemnifying DPI against any claims suffered by DPI related to such Merger Partner Stock Certificate or any DPI Common Stock issued in exchange therefor as DPI may reasonably request. Until surrendered as contemplated by this Section 1.9(b), each Merger Partner Stock Certificate shall be deemed, from and after the Effective Time, to represent only the right to receive shares of DPI Common Stock (and cash in lieu of any fractional share of DPI Common Stock) as contemplated by Section 1.6. If any Merger Partner Stock

Table of Contents

Certificate shall have been lost, stolen or destroyed, DPI may, in its discretion and as a condition precedent to the delivery of any shares of DPI Common Stock with respect to the shares of Merger Partner Common Stock previously represented by such Merger Partner Stock Certificate, require the owner of such lost, stolen or destroyed Merger Partner Stock Certificate to provide an applicable affidavit with respect to such Merger Partner Stock Certificate and post a bond indemnifying DPI against any claim suffered by DPI related to the lost, stolen or destroyed Merger Partner Stock Certificate or any DPI Common Stock issued in exchange therefor as DPI may reasonably request.

(c) No dividends or other distributions declared or made with respect to DPI Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Merger Partner Stock Certificate with respect to the shares of DPI Common Stock that such holder has the right to receive pursuant to the Merger until such holder surrenders such Merger Partner Stock Certificate in accordance with this Section 1.9 (at which time such holder shall be entitled, subject to the effect of applicable abandoned property, escheat or similar laws, to receive all such dividends and distributions, without interest).

(d) Any portion of the Exchange Fund that remains undistributed to holders of Merger Partner Stock Certificates as of the date 180 days after the Closing Date shall be delivered or made available to DPI upon demand, and any holders of Merger Partner Stock Certificates who have not theretofore surrendered their Merger Partner Stock Certificates in accordance with this Section 1.9 shall thereafter look only to DPI for satisfaction of their claims for DPI Common Stock, cash in lieu of fractional shares of DPI Common Stock and any dividends or distributions with respect to shares of DPI Common Stock.

(e) Each of the Exchange Agent and DPI shall be entitled to deduct and withhold from any consideration deliverable pursuant to this Agreement to any holder of any Merger Partner Stock Certificate such amounts as DPI determines in good faith are required to be deducted or withheld from such consideration under the Code or any provision of state, local or foreign tax law or under any other applicable Legal Requirement. To the extent such amounts are so deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

(f) No party to this Agreement shall be liable to any holder of any Merger Partner Stock Certificate or to any other Person with respect to any shares of DPI Common Stock (or dividends or distributions with respect thereto), or for any cash amounts, delivered to any public official pursuant to any applicable abandoned property law, escheat law or similar Legal Requirement.

1.10 Appraisal Rights.

(a) Notwithstanding any provision of this Agreement to the contrary, shares of Merger Partner Common Stock and Merger Partner Preferred Stock that are outstanding immediately prior to the Effective Time and which are held by stockholders who have exercised and perfected appraisal rights for such shares of Merger Partner Common Stock or Merger Partner Preferred Stock in accordance with the DGCL (collectively, the ***Dissenting Shares***) shall not be converted into or represent the right to receive the per share amount of the merger consideration described in Section 1.6 attributable to such Dissenting Shares. Such stockholders shall be entitled to receive payment of the appraised value of such shares of Merger Partner Common Stock or Merger Partner Preferred Stock held by them in accordance with the DGCL, unless and until such stockholders fail to perfect or effectively withdraw or otherwise lose their appraisal rights under the DGCL. All Dissenting Shares held by stockholders who shall have failed to perfect or who effectively shall have withdrawn or lost their right to appraisal of such shares of Merger Partner Common Stock or Merger Partner Preferred Stock under the DGCL shall thereupon be deemed to be converted into and to have become exchangeable for, as of the Effective Time, the right to receive the per share amount of the merger consideration attributable to such Dissenting Shares upon their surrender in the manner provided in Section 1.9.

Table of Contents

(b) Merger Partner shall give DPI prompt written notice of any demands by dissenting stockholders received by the Merger Partner, withdrawals of such demands and any other instruments served on Merger Partner and any material correspondence received by Merger Partner in connection with such demands.

1.11 Further Action. If, at any time after the Effective Time, any further action is determined by the Surviving Corporation to be necessary or desirable to carry out the purposes of this Agreement or to vest the Surviving Corporation with full right, title and possession of and to all rights and property of Merger Partner, then the officers and directors of the Surviving Corporation shall be fully authorized, and shall use their commercially reasonable efforts (in the name of Merger Partner and otherwise) to take such action.

1.12 Tax Consequences. For federal income tax purposes, the Merger is intended to constitute a reorganization within the meaning of Section 368(a) of the Code. The Parties to this Agreement adopt this Agreement as a plan of reorganization within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the United States Treasury Regulations.

2. Representations And Warranties Of Merger Partner

Merger Partner represents and warrants to DPI as follows, except as set forth in the written disclosure schedule delivered or made available by Merger Partner to DPI (the ***Merger Partner Disclosure Schedule***). The Merger Partner Disclosure Schedule shall be arranged in sections and subsections corresponding to the numbered and lettered sections and subsections contained in this Section 2. The disclosure in any section or subsection of the Merger Partner Disclosure Schedule shall qualify other sections and subsections in this Section 2 only to the extent it is readily apparent that the disclosure contained in such section or subsection of the Merger Partner Disclosure Schedule contains enough information regarding the subject matter of the other representations in this Section 2 as to clearly qualify or otherwise clearly apply to such other representations and warranties.

2.1 Due Organization; No Subsidiaries; Etc.

(a) Merger Partner is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all necessary power and authority: (i) to conduct its business in the manner in which its business is currently being conducted; (ii) to own and use its assets in the manner in which its assets are currently owned and used; and (iii) to perform its obligations under all Merger Partner Contracts.

(b) Merger Partner has not conducted any business under or otherwise used, for any purpose or in any jurisdiction, any fictitious name, assumed name, trade name or other name, other than the name Infinity Pharmaceuticals, Inc.

(c) Merger Partner is not and has not been required to be qualified, authorized, registered or licensed to do business as a foreign corporation in any jurisdiction other than the jurisdictions identified in Part 2.1(c) of the Merger Partner Disclosure Schedule, except where the failure to be so qualified, authorized, registered or licensed, individually or in the aggregate, has not had, and would not reasonably be expected to have, a Merger Partner Material Adverse Effect. Merger Partner is in good standing as a foreign corporation in each of the jurisdictions identified in Part 2.1(c) of the Merger Partner Disclosure Schedule.

(d) Part 2.1(d) of the Merger Partner Disclosure Schedule accurately sets forth (i) the names of the members of the board of directors of Merger Partner (ii) the names of the members of each committee of the board of directors of Merger Partner and (iii) the names and titles of Merger Partner s officers.

(e) Merger Partner has no Subsidiaries. Merger Partner does not own any controlling interest in any Entity, and Merger Partner has never owned, beneficially or otherwise, any shares or other securities of, or any direct or indirect equity or other financial interest in, any Entity. Merger Partner has not agreed and is not obligated to make any future investment in or capital contribution to any Entity. Neither Merger Partner nor any of its stockholders has ever approved, or commenced any proceeding or made any election contemplating, the dissolution or liquidation of Merger Partner s business or affairs.

Table of Contents

2.2 Certificate of Incorporation and Bylaws; Records. Merger Partner has delivered or made available to DPI accurate and complete copies of: (a) the certificate of incorporation (as amended and restated, the ***Merger Partner Certificate of Incorporation***) and bylaws, including all amendments thereto of Merger Partner; (b) the stock records of Merger Partner; and (c) the minutes and other records of the meetings and other proceedings (including any actions taken by written consent or otherwise without a meeting) of the stockholders of Merger Partner, the board of directors of Merger Partner and all committees of the board of directors of Merger Partner (the items described in (a) and (b) above, collectively, the ***Merger Partner Constituent Documents***). There have been no formal meetings or actions taken by written consent or otherwise without a meeting of the stockholders of Merger Partner, the board of directors of Merger Partner or any committee of the board of directors of Merger Partner that are not fully reflected in the minutes and other records delivered or made available to DPI pursuant to clause (c) above. There has not been any violation in any material respect of the Merger Partner Constituent Documents, and Merger Partner has not taken any action that is inconsistent in any material respect with the Merger Partner Constituent Documents. The books of account, stock records, minute books and other records of Merger Partner are accurate, up to date and complete in all material respects, and have been maintained in accordance with prudent business practices. Merger Partner has in place, and has at all times had in place, an adequate and appropriate system of internal controls customarily maintained by comparable Entities.

2.3 Capitalization, Etc.

(a) The authorized capital stock of Merger Partner consists of 81,022,221 shares of Merger Partner Common Stock and 45,977,779 shares of Merger Partner Preferred Stock. As of the date of this Agreement 12,508,902 shares of Merger Partner Common Stock and 39,719,447 shares of Merger Partner Preferred Stock are issued and outstanding. All of the outstanding shares of Merger Partner Common Stock and Merger Partner Preferred Stock have been duly authorized and validly issued, and are fully paid and non assessable. All outstanding shares of Merger Partner Common Stock and Merger Partner Preferred Stock have been issued and granted in compliance with (i) all applicable federal and state securities laws and other applicable Legal Requirements, and (ii) all requirements set forth in Merger Partner Constituent Documents and applicable Contracts. Part 2.3(a) of the Merger Partner Disclosure Schedule provides an accurate and complete description of the terms of each repurchase option which is held by Merger Partner and to which any shares of capital stock of Merger Partner is subject and identifies the Contract underlying such right. Merger Partner has no authorized shares other than as set forth in this Section 2.3(a) and there are no issued and outstanding shares of Merger Partner s capital stock other than the shares of Merger Partner Common Stock and Merger Partner Preferred Stock as set forth in this Section 2.3(a)

(b) There is no: (i) outstanding subscription, option, call, warrant or right (whether or not currently exercisable) to acquire any shares of capital stock or other securities of Merger Partner; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares of capital stock or other securities of Merger Partner; (iii) Contract under which Merger Partner is or may become obligated to sell or otherwise issue any shares of its capital stock or any other securities of Merger Partner; or (iv) condition or circumstance that would give rise to or provide a basis for the assertion of a claim by any Person to the effect that such Person is entitled to acquire or receive any shares of capital stock or other securities of Merger Partner. Merger Partner has not issued any debt securities which grant the holder thereof any right to vote on, or veto, any actions by Merger Partner.

(c) Except for repurchases of securities made pursuant to their terms, Merger Partner has never repurchased, redeemed or otherwise reacquired any shares of capital stock or other securities of Merger Partner.

2.4 Financial Statements.

(a) Merger Partner has delivered or made available to DPI the following financial statements and notes (collectively, the ***Merger Partner Financial Statements***):

(i) the audited balance sheets of Merger Partner as of December 31, 2003 and 2004 (the December 31, 2004 balance sheet being referred to herein as the ***Merger Partner Audited Balance***

Table of Contents

Sheet) and the related audited statements of operations, statements of stockholders equity and statements of cash flows of Merger Partner for the two years ended December 31, 2004, together with the notes thereto and the unqualified reports and opinions of Ernst & Young LLP relating thereto;

(ii) the unaudited balance sheet of Merger Partner as of December 31, 2005 (the ***Merger Partner Balance Sheet***) and the related unaudited statement of operations, statement of stockholders equity and statement of cash flows of Merger Partner for the year then ended; and

(iii) the unaudited balance sheet of Merger Partner as of February 28, 2006 (the ***Merger Partner Unaudited Interim Balance Sheet***) and the related unaudited statement of operations, income statement, statement of stockholders equity and statement of cash flows of the Company for the two months then ended.

(b) The Merger Partner Financial Statements are accurate and complete in all material respects and present fairly the financial position of Merger Partner as of the respective dates thereof and the results of operations and consolidated cash flows of Merger Partner for the periods covered thereby. Except as may be indicated in the notes to the Merger Partner Financial Statements, the Merger Partner Financial Statements have been prepared in accordance with generally accepted accounting principles (***GAAP***) applied on a consistent basis throughout the periods covered (except that the financial statements referred to in Section 2.4(a)(ii) and (iii) do not contain footnotes and are subject to normal and recurring year-end audit adjustments, which will not, individually or in the aggregate, be material in magnitude).

2.5 Absence of Changes. Since the date of the Merger Partner Balance Sheet:

(a) there has not been any Merger Partner Material Adverse Effect, and no event has occurred that will, or would reasonably be expected to, cause a Merger Partner Material Adverse Effect;

(b) there has not been any material loss, damage or destruction to, or any material interruption in the use of, any of the assets of Merger Partner (whether or not covered by insurance);

(c) Merger Partner has not declared, accrued, set aside or paid any dividend or made any other distribution in respect of any shares of its capital stock, and has not repurchased, redeemed or otherwise reacquired any shares of its capital stock or other securities;

(d) Merger Partner has not sold, issued, granted or authorized the issuance of (i) any capital stock or other securities of Merger Partner; (ii) any option, call or right to acquire any capital stock or any other security of Merger Partner; (iii) any instrument convertible into or exchangeable for any capital stock or other security of Merger Partner; or (iv) reserved for issuance any additional grants or shares under any Merger Partner Stock Option Plans;

(e) Merger Partner has not amended or waived any of its rights under, or permitted the acceleration of vesting under, any Merger Partner Stock Option Plans, any Merger Partner Option or agreement evidencing or relating to any outstanding stock option or warrant, any restricted stock purchase agreement, or any other Contract evidencing or relating to any equity award;

(f) there has been no amendment to the certificate of incorporation or bylaws of Merger Partner and Merger Partner has not effected or been a party to any Acquisition Transaction, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction;

(g) Merger Partner has not formed any Subsidiary of Merger Partner or acquired any equity interest or other interest in any other Entity;

(h) Merger Partner has not made any capital expenditure which, when added to all other capital expenditures made on behalf of Merger Partner since the date of the Merger Partner Balance Sheet, exceeds $100,000;

(i) Merger Partner has not (i) entered into or permitted any of the assets owned or used by it to become bound by any Contract that contemplates or involves (A) the payment or delivery of cash or other

Table of Contents

consideration in an amount or having a value in excess of $100,000 in the aggregate, or (B) the purchase or sale of any product, or performance of services by or to Merger Partner having a value in excess of $100,000 in the aggregate, or (ii) waived any right or remedy under any Contract other than in the Ordinary Course of Business, or amended or prematurely terminated any Contract;

(j) Merger Partner has not (i) acquired, leased or licensed any right or other asset from any other Person, (ii) sold or otherwise disposed of, or leased or licensed, any right or other asset to any other Person, or (iii) waived or relinquished any right, except for immaterial rights or immaterial assets acquired, leased, licensed or disposed of in the Ordinary Course of Business;

(k) Merger Partner has not written off as uncollectible, or established any extraordinary reserve with respect to, any account receivable or other indebtedness;

(l) Merger Partner has not made any pledge of any of its assets or otherwise permitted any of its assets to become subject to any Encumbrance, except for pledges of immaterial assets made in the Ordinary Course of Business;

(m) Merger Partner has not (i) lent money to any Person (other than pursuant to routine travel advances made to employees in the Ordinary Course of Business) or (ii) incurred or guaranteed any indebtedness for borrowed money in the aggregate in excess of $100,000 or (iii) issued or sold any debt securities or options, warrants, calls or similar rights to acquire any debt securities of Merger Partner;

(n) Merger Partner has not (i) established or adopted any employee benefit plan, (ii) paid any bonus or made any profit sharing, incentive compensation or similar payment to, or increased the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of its directors, officers or employees with an annual salary in excess of $100,000, or (iii) hired any new employee having an annual salary in excess of $100,000;

(o) Merger Partner has not changed any of its personnel policies or other business policies, or any of its methods of accounting or accounting practices in any respect;

(p) Merger Partner has not made any material Tax election;

(q) Merger Partner has not threatened, commenced or settled any Legal Proceeding;

(r) Merger Partner has not entered into any transaction or taken any other action outside the Ordinary Course of Business, other than entering into this Agreement and the Contemplated Transactions;

(s) Merger Partner has not paid, discharged or satisfied any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) other than the payment, discharge or satisfaction of non-material amounts in the Ordinary Course of Business or as required by any Merger Partner Contract or Legal Requirement; and

(t) Merger Partner has not agreed to take, or committed to take, any of the actions referred to in clauses (c) through (s) above.

2.6 Title to Assets. Merger Partner owns, and has good, valid and marketable title to, all assets (tangible and intangible) purported to be owned by it. All of such assets are owned by Merger Partner free and clear of any Encumbrances, except for (y) any lien for current Taxes not yet due and payable, and (z) minor liens that have arisen in the Ordinary Course of Business and that do not (individually or in the aggregate) materially detract from the value of the assets subject thereto or materially impair the operations of Merger Partner. Merger Partner owns or otherwise has, and after the Closing DPI and the Surviving Corporation will have, all assets needed to conduct their respective businesses as currently conducted and planned to be conducted.

2.7 Bank Accounts; Receivables.

(a) Part 2.7(a) of Merger Partner Disclosure Schedule provides accurate information with respect to each account maintained by or for the benefit of Merger Partner at any bank or other financial institution,

Table of Contents

including the name of the bank or financial institution, the account number, the balance as of the date hereof and the names of all individuals authorized to draw on or make withdrawals from such accounts.

(b) Part 2.7(b) of Merger Partner Disclosure Schedule provides an accurate and complete in all material respects breakdown and aging of all accounts receivable, notes receivable and other receivables of Merger Partner as of March 1, 2006. All existing accounts receivable of Merger Partner (including those accounts receivable reflected on the Merger Partner Balance Sheet that have not yet been collected and those accounts receivable that have arisen since the date of the Merger Partner Balance Sheet and have not yet been collected) (i) represent valid obligations of customers of Merger Partner arising from bona fide transactions entered into in the Ordinary Course of Business, and (ii) are current and are expected to be collected in full when due, without any counterclaim or set off, net of applicable reserves for bad debts on the Merger Partner Unaudited Interim Balance Sheet.

2.8 Equipment; Leasehold.

(a) All items of equipment and other tangible assets owned by or leased to Merger Partner (i) are adequate for the uses to which they are being put and (ii) are adequate for the conduct of Merger Partner s business in the manner in which such business is currently being conducted and as it is proposed to be conducted.

(b) Merger Partner does not own any real property or any interest in real property, except for the leasehold interest created under the real property leases identified in Part 2.8(b) of the Merger Partner Disclosure Schedule. All premises leased or subleased by Merger Partner are supplied with utilities and other services necessary for the operation of their respective businesses.

2.9 Intellectual Property.

(a) Part 2.9(a) of the Merger Partner Disclosure Schedule accurately identifies and describes each proprietary product or service that has been developed or has been commercially sold by Merger Partner within the last five (5) years and any product or service that is currently under development or that is currently commercially sold by Merger Partner.

(b) Part 2.9(b) of the Merger Partner Disclosure Schedule accurately identifies (i) each item of Merger Partner Registered IP in which Merger Partner has or purports to have an ownership interest of any nature (whether exclusively, jointly with another Person, or otherwise); (ii) the jurisdiction in which such item of Merger Partner Registered IP has been registered or filed and the applicable registration or serial number; (iii) any other Person that, to the Knowledge of Merger Partner, may have an ownership interest in such item of Merger Partner Registered IP and the nature of such ownership interest; and (iv) each product or service identified in Part 2.9(a) of the Merger Partner Disclosure Schedule that embodies, utilizes, or is based upon or derived from (or, with respect to products and services under development, that is expected to embody, utilize, or be based upon or derived from) such item of Merger Partner Registered IP. Merger Partner has delivered or made available to DPI complete and accurate copies of all applications, correspondence, and other material documents related to each such item of Merger Partner Registered IP.

(c) Part 2.9(c) of the Merger Partner Disclosure Schedule accurately identifies (i) all Merger Partner IP Rights licensed to Merger Partner (other than any non-customized software that (A) is so licensed solely in executable or object code form pursuant to a non-exclusive, internal use software license and (B) is not incorporated into, or used directly in the development, manufacturing, or distribution of, any of Merger Partner s products or services); (ii) the corresponding Merger Partner Contracts pursuant to which such Merger Partner IP Rights are licensed to Merger Partner; and (iii) whether the license or licenses granted to Merger Partner are exclusive or non-exclusive.

(d) Part 2.9(d) of the Merger Partner Disclosure Schedule accurately identifies each Merger Partner Contract pursuant to which any Person has been granted any license under, or otherwise has received or acquired any right (whether or not currently exercisable) or interest in, any Merger Partner IP Rights. Merger Partner is not bound by, and no Merger Partner IP Rights are subject to, any Contract containing any

Table of Contents

covenant or other provision that in any way limits or restricts the ability of Merger Partner to use, exploit, assert, or enforce any Merger Partner IP Rights anywhere in the world.

(e) Merger Partner has delivered or made available to DPI a complete and accurate copy of each standard form of Merger Partner IP Rights Agreement used by Merger Partner, including each standard form of (i) license agreement; (ii) employee agreement containing intellectual property assignment or license of Merger Partner IP Rights or any confidentiality provision; (iii) consulting or independent contractor agreement containing intellectual property assignment or license of Merger Partner IP Rights or any confidentiality provision; and (iv) confidentiality or nondisclosure agreement. Part 2.9(e) of the Merger Partner Disclosure Schedule accurately identifies each Merger Partner IP Rights Agreement that deviates in any material respect from the corresponding standard form agreement delivered or made available to DPI.

(f) Merger Partner exclusively owns all right, title, and interest to and in Merger Partner IP Rights (other than Merger Partner IP Rights exclusively licensed to Merger Partner, as identified in Part 2.9(c) of the Merger Partner Disclosure Schedule) free and clear of any Encumbrances (other than non-exclusive licenses granted pursuant to the Merger Partner Contracts listed in Part 2.9(d) of the Merger Partner Disclosure Schedule). Without limiting the generality of the foregoing:

(i) To the Knowledge of Merger Partner, all documents and instruments necessary to register or apply for or renew registration of Merger Partner Registered IP have been validly executed, delivered, and filed in a timely manner with the appropriate Governmental Body.

(ii) Each Person who is or was an employee or contractor of Merger Partner and who is or was involved in the creation or development of any Merger Partner IP Rights has signed a valid, enforceable agreement containing an assignment of Intellectual Property to Merger Partner and confidentiality provisions protecting trade secrets and confidential information of Merger Partner. No current or former stockholder, officer, director, or employee of Merger Partner has any claim, right (whether or not currently exercisable), or interest to or in any Merger Partner IP Rights. No employee of Merger Partner is (a) bound by or otherwise subject to any Contract restricting him or her from performing his or her duties for Merger Partner or (b) in breach of any Contract with any former employer or other Person concerning Merger Partner IP Rights or confidentiality provisions protecting trade secrets and confidential information in Merger Partner IP Rights.

(iii) No funding, facilities, or personnel of any Governmental Body were used, directly or indirectly, to develop or create, in whole or in part, any Merger Partner IP Rights in which Merger Partner has an ownership interest.

(iv) Merger Partner has taken all reasonable steps to maintain the confidentiality of and otherwise protect and enforce their rights in all proprietary information that Merger Partner holds, or purports to hold, as a trade secret.

(v) Merger Partner has not assigned or otherwise transferred ownership of, or agreed to assign or otherwise transfer ownership of, any Merger Partner IP Rights to any other Person.

(vi) Merger Partner is not now nor has it ever been a member or promoter of, or a contributor to, any industry standards body or similar organization that could require or obligate Merger Partner to grant or offer to any other Person any license or right to any Merger Partner IP Rights.

(vii) The Merger Partner IP Rights constitute all Intellectual Property necessary for Merger Partner to conduct its business as currently conducted and planned to be conducted.

(g) To Merger Partner s Knowledge, all Merger Partner Registered IP is valid and enforceable. Without limiting the generality of the foregoing:

(i) Each U.S. patent application and U.S. patent in which Merger Partner has or purports to have an ownership interest was filed within one year of the first printed publication, public use, or offer for sale of each invention described in the U.S. patent application or U.S. patent. Each foreign patent application and foreign patent in which Merger Partner has or purports to have an ownership interest

Table of Contents

was filed or claims priority to a patent application filed prior to each invention described in the foreign patent application or foreign patent being first made available to the public.

(ii) No trademark (whether registered or unregistered) or trade name owned, used, or applied for by Merger Partner conflicts or interferes with any trademark (whether registered or unregistered) or trade name owned, used, or applied for by any other Person. None of the goodwill associated with or inherent in any trademark (whether registered or unregistered) in which Merger Partner has or purports to have an ownership interest has been impaired.

(iii) Each item of Merger Partner IP Rights that is Merger Partner Registered IP is and at all times has been filed and maintained in compliance with all applicable Legal Requirements and all filings, payments, and other actions required to be made or taken to maintain such item of Merger Partner Registered IP in full force and effect have been made by the applicable deadline. Part 2.9(g)(iii) of the Merger Partner Disclosure Schedule accurately identifies and describes each action, filing, and payment that must, to Merger Partner s Knowledge, be taken or made on or before the date that is 90 days after the Closing Date in order to maintain such item of Merger Partner Registered IP in full force and effect.

(iv) No interference, opposition, reissue, reexamination, or other proceeding is pending or, to Merger Partner s Knowledge, threatened, in which the scope, validity, or enforceability of any Merger Partner IP Rights is being, has been, or could reasonably be expected to be contested or challenged. To Merger Partner s Knowledge, there is no basis for a claim that any Merger Partner IP Rights are invalid or, excluding pending patent applications, unenforceable.

(h) To Merger Partner s Knowledge, no Person has infringed, misappropriated, or otherwise violated, and no Person is currently infringing, misappropriating, or otherwise violating, any Merger Partner IP Rights. Part 2.9(h) of the Merger Partner Disclosure Schedule accurately identifies, and Merger Partner has delivered or made available to DPI a complete and accurate copy of, each letter or other written or electronic communication or correspondence that has been sent or otherwise delivered in the last five (5) years by or to Merger Partner or any director or officer or, to the Knowledge of Merger Partner, employee of Merger Partner regarding any actual, alleged, or suspected infringement or misappropriation of any Merger Partner IP Rights, and provides a brief description of the current status of the matter referred to in such letter, communication, or correspondence.

(i) Neither the execution, delivery, or performance of this Agreement (or any of the agreements contemplated by this Agreement) nor the consummation of any of the Contemplated Transactions will, with or without notice or lapse of time, result in, or give any other Person the right or option to cause or declare, (a) a loss of, or Encumbrance on, any Merger Partner IP Rights; (b) a breach by Merger Partner of any license agreement listed or required to be listed in Part 2.9(c) of the Merger Partner Disclosure Schedule; (c) the release, disclosure, or delivery of any Merger Partner IP Rights by or to any escrow agent or other Person; or (d) the grant, assignment, or transfer to any other Person of any license or other right or interest under, to, or in any of Merger Partner IP Rights.

(j) Merger Partner has disclosed in correspondence to DPI the third-party patents and patent applications found during all freedom to operate searches that were conducted by Merger Partner. Except as disclosed therein, to Merger Partner s Knowledge, Merger Partner has never infringed (directly, contributorily, by inducement, or otherwise), misappropriated, or otherwise violated any Intellectual Property rights of any other Person. Without limiting the generality of the foregoing:

(i) No product or service that has been developed or that is being commercially sold by Merger Partner, nor the performance of making, using, selling or offering for sale or importation of any such product or service, has, to the Knowledge of Merger Partner, infringed, misappropriated, or otherwise violated the Intellectual Property rights of any other Person.

(ii) No infringement, misappropriation, or similar claim or Legal Proceeding is pending or, to the Merger Partner s Knowledge, threatened against Merger Partner or against any other Person who may

Table of Contents

be entitled to be indemnified, defended, held harmless, or reimbursed by Merger Partner with respect to such claim or Legal Proceeding. Merger Partner has never received any notice or other communication (in writing or otherwise) alleging any actual, alleged, or suspected infringement, misappropriation, or violation of any Intellectual Property rights of another Person.

(iii) Merger Partner is not bound by any Contract to indemnify, defend, hold harmless, or reimburse any other Person with respect to any Intellectual Property infringement, misappropriation, or similar claim. Merger Partner has never assumed, or agreed to discharge or otherwise take responsibility for, any existing or potential liability of another Person for infringement, misappropriation, or violation of any Intellectual Property right.

(k) No claim or Legal Proceeding involving any Merger Partner IP Rights is pending or, to Merger Partner s Knowledge, has been threatened, except for any such claim or Legal Proceeding that, if adversely determined, would not adversely affect (i) the use or exploitation of Merger Partner IP Rights by Merger Partner, or (ii) the manufacturing, distribution, or sale of any product or service being developed by Merger Partner, or that is being commercially sold by Merger Partner.

2.10 Contracts.

(a) Part 2.10(a) of the Merger Partner Disclosure Schedule identifies each Merger Partner Contract, including:

(i) each Merger Partner Contract relating to the employment of, or the performance of employment-related services by, any Person, including any employee, consultant or independent contractor;

(ii) each Merger Partner Contract relating to the acquisition, transfer, use, development, sharing or license of any technology or any Intellectual Property or Merger Partner IP Rights;

(iii) each Merger Partner Contract imposing any restriction on Merger Partner s right or ability (A) to compete with any other Person, (B) to acquire any product or other asset or any services from any other Person, to sell any product or other asset to, or perform any services for, any other Person or to transact business or deal in any other manner with any other Person, or (C) develop or distribute any technology;

(iv) each Merger Partner Contract creating or involving any agency relationship, distribution arrangement or franchise relationship;

(v) each Merger Partner Contract relating to the creation of any Encumbrance with respect to any asset of Merger Partner;

(vi) each Merger Partner Contract involving or incorporating any guaranty, any pledge, any performance or completion bond, any indemnity or any surety arrangement;

(vii) each Merger Partner Contract creating or relating to any collaboration or joint venture or any sharing of technology, revenues, profits, losses, costs or liabilities, including Merger Partner Contracts involving investments by Merger Partner in, or loans by Merger Partner to, any other Entity;

(viii) each Merger Partner Contract relating to the purchase or sale of any product or other asset by or to, or the performance of any services by or for, or otherwise involving as a counterparty, any Related Party of Merger Partner;

(ix) each Merger Partner Contract relating to indebtedness for borrowed money;

(x) each Merger Partner Contract related to the acquisition or disposition of material assets of Merger Partner or any other Person;

(xi) any other material Merger Partner Contract that has a term of more than 60 days and that may not be terminated by Merger Partner (without penalty) within 60 days after the delivery of a termination notice by Merger Partner;

Table of Contents

(xii) any other Merger Partner Contract that contemplates or involves (A) the payment or delivery of cash or other consideration in an amount or having a value in excess of $100,000 in the aggregate, or (B) the purchase or sale of any product, or performance of services by or to Merger Partner having a value in excess of $100,000 in the aggregate;

(xiii) each Merger Partner Contract constituting a commitment of any Person to purchase products (including products in development) of Merger Partner; and

(xiv) each Merger Partner Contract with any Person, including without limitation any financial advisor, broker, finder, investment banker or other Person, providing advisory services to Merger Partner in connection with the Contemplated Transactions.

(b) Merger Partner has delivered or made available to DPI accurate and complete (except for applicable redactions thereto) copies of all material written Merger Partner Contracts, including all amendments thereto. There are no Merger Partner Contracts that are not in written form. Each Merger Partner Contract is valid and in full force and effect, is enforceable by Merger Partner in accordance with its terms, and after the Effective Time will continue to be legal, valid, binding and enforceable on identical terms. The consummation of the Contemplated Transactions shall not (either alone or upon the occurrence of additional acts or events) result in any payment or payments becoming due from Merger Partner, the Surviving Corporation or DPI or any DPI Subsidiary to any Person under any Merger Partner Contract or give any Person the right to terminate or alter the provisions of any Merger Partner Contract.

(c) Merger Partner has not materially violated or breached, or committed any material default under, any Merger Partner Contract, and, to the Knowledge of Merger Partner, no other Person has violated or breached, or committed any default under, any Merger Partner Contract.

(d) No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or would reasonably be expected to, (i) result in a material violation or breach of any of the provisions of any Merger Partner Contract, (ii) give any Person the right to declare a default or exercise any remedy under any Merger Partner Contract, (iii) give any Person the right to accelerate the maturity or performance of any Merger Partner Contract, or (iv) give any Person the right to cancel, terminate or modify any Merger Partner Contract.

(e) Merger Partner has not received any written notice or other communication regarding any actual or possible violation or breach of, or default under, any Merger Partner Contract.

(f) Merger Partner has not waived any rights under any Merger Partner Contract.

(g) No Person is renegotiating, or has a right pursuant to the terms of any Merger Partner Contract to renegotiate, any amount paid or payable to Merger Partner under any Merger Partner Contract or any other material term or provision of any Merger Partner Contract.

(h) The Merger Partner Contracts collectively constitute all of the Contracts necessary to enable Merger Partner to conduct its business in the manner in which its business is currently being conducted and as its business is proposed to be conducted.

(i) Part 2.10(i) of the Merger Partner Disclosure Schedule identifies and provides a brief description of each proposed Contract as to which any bid, offer, award, written proposal, term sheet or similar document has been submitted or received by Merger Partner (other than term sheets provided by Merger Partner or to Merger Partner by any party related to the subject matter of this transaction).

(j) Part 2.10(j) of the Merger Partner Disclosure Schedule provides an accurate and complete list of all Consents required under any Merger Partner Contract to consummate the Merger and the other Contemplated Transactions.

2.11 Liabilities; Fees, Costs and Expenses.

(a) Merger Partner does not have any accrued, contingent or other liabilities of any nature, either matured or unmatured (whether or not required to be reflected in financial statements in accordance with

Table of Contents

GAAP, and whether due or to become due), except for: (i) liabilities identified as such in the liabilities column of the Merger Partner Balance Sheet; (ii) accounts payable or accrued salaries that have been incurred by Merger Partner in the Ordinary Course of Business; (iii) liabilities under Merger Partner Contracts listed in Part 2.11(a) of the Merger Partner Disclosure Schedule, to the extent the nature and magnitude of such liabilities can be specifically ascertained by reference to the text of such Merger Partner Contracts; (iv) liabilities that have arisen since the date of the Merger Partner Balance Sheet in the Ordinary Course of Business and (v) contractual and other liabilities incurred in the Ordinary Course of Business which are not required by GAAP to be reflected on a balance sheet.

(b) The total amount of all fees, costs and expenses (including any attorney s, accountant s, financial advisor s or finder s fees) incurred by or for the benefit of Merger Partner in connection with (i) any due diligence conducted by Merger Partner with respect to the Merger, (ii) the negotiation, preparation and review of this Agreement (including the Merger Partner Disclosure Schedule) and all agreements contemplated by this Agreement and opinions delivered or to be delivered in connection with the Contemplated Transactions, (iii) the preparation and submission of any filing or notice required to be made or given in connection with any of the Contemplated Transactions, (iv) the obtaining of any Consent required to be obtained in connection with any Contemplated Transactions hereby, and (v) otherwise in connection with the Merger and the Contemplated Transactions, will, in the good faith estimate of the Merger Partner reasonably exercised, aggregate approximately $1,900,000.

2.12 Compliance with Legal Requirements. Merger Partner is, and has at all times been, in compliance in all material respects with all applicable Legal Requirements. Merger Partner has not received, since January 1, 2003, any written notice or other communication from any Governmental Body or any other Person regarding (a) any actual, alleged, possible or potential violation of, or failure to comply with, any Legal Requirement, or (b) any actual, alleged, possible or potential obligation on the part of Merger Partner to undertake, or to bear all or any portion of the cost of, any cleanup or any remedial, corrective or response action of any nature. Merger Partner has delivered or made available to DPI an accurate and complete copy of each report, study, survey or other document to which Merger Partner has access that addresses or otherwise relates to the compliance of Merger Partner with, or the applicability to Merger Partner of, any Legal Requirement. To the Knowledge of Merger Partner, no Governmental Body has proposed or is considering any Legal Requirement that, if adopted or otherwise put into effect, (a) will, or would reasonably be expected to, cause a Merger Partner Material Adverse Effect, (b) may have an adverse effect on Merger Partner s ability to comply with or perform any covenant or obligation under this Agreement or any of the Related Agreements, or (c) may have the effect of preventing, delaying, making illegal or otherwise interfering with the Merger or any of the Contemplated Transactions.

2.13 Governmental Authorizations. Part 2.13 of the Merger Partner Disclosure Schedule identifies each Governmental Authorization held by Merger Partner, and Merger Partner has delivered or made available to DPI accurate and complete copies of all Governmental Authorizations identified in Part 2.13 of the Merger Partner Disclosure Schedule. The Governmental Authorizations identified in Part 2.13 of the Merger Partner Disclosure Schedule are valid and in full force and effect, and collectively constitute all Governmental Authorizations necessary to enable Merger Partner to conduct its business in the manner in which its business is currently being conducted and is proposed to be conducted. Merger Partner is in compliance in all material respects with the terms and requirements of the respective Governmental Authorizations identified in Part 2.13 of the Merger Partner Disclosure Schedule. Merger Partner has not since January 1, 2003 received any notice or other communication from any Governmental Body regarding (a) any actual or possible violation of or failure to comply with any term or requirement of any Governmental Authorization, or (b) any actual or possible revocation, withdrawal, suspension, cancellation, termination or modification of any Governmental Authorization.

2.14 Tax Matters.

(a) All Tax Returns required to be filed by or on behalf of Merger Partner with any Governmental Body with respect to any taxable period ending on or before the Closing Date (the ***Merger Partner***

Table of Contents

Returns) (i) have been or will be filed on or before the applicable due date (including any extensions of such due date), and (ii) have been, or will be when filed, accurately and completely prepared in all material respects. All Taxes due on or before the Closing Date have been or will be paid on or before the Closing Date. Merger Partner has delivered or made available to DPI accurate and complete copies of all Merger Partner Returns filed which have been requested by DPI. Merger Partner shall establish in its books and records, in the Ordinary Course of Business, reserves adequate for the payment of all unpaid Taxes by Merger Partner for the period from January 1, 2006 through the Closing Date.

(b) Merger Partner Financial Statements fully accrue all liabilities for unpaid Taxes with respect to all periods through the dates thereof in accordance with GAAP.

(c) No Merger Partner Return has ever been examined or audited by any Governmental Body and no examination or audit of any Merger Partner Return is currently in progress or, to the Knowledge of Merger Partner, threatened or contemplated. Merger Partner has delivered or made available to DPI accurate and complete copies of all audit reports, private letter rulings, revenue agent reports, information document requests, notices of proposed deficiencies, deficiency notices, protests, petitions, closing agreements, settlement agreements, pending ruling requests and any similar documents submitted by, received by, or agreed to by or on behalf of Merger Partner relating to Merger Partner Returns. No extension or waiver of the limitation period applicable to any of Merger Partner Returns has been granted (by Merger Partner, or any other Person), and no such extension or waiver has been requested from Merger Partner. All Taxes that Merger Partner was required by law to withhold or collect have been duly withheld or collected and, to the extent required, have been properly paid to the appropriate Governmental Body. Merger Partner has not executed or filed any power of attorney with any taxing authority.

(d) Merger Partner (i) has never been a member of an affiliated group (within the meaning of Section 1504(a) of the Code) filing a consolidated federal income Tax Return (other than a group the common parent of which was Merger Partner), (ii) does not have any liability for the Taxes of any person under Section 1.1502-6 of the Treasury Regulations (or any similar provision of state, local or foreign law), as a transferee or successor, or otherwise, and (iii) has never been a party to any joint venture, collaboration, partnership or other agreement that could be treated as a partnership for Tax purposes. Merger Partner is not nor has it ever been, a party to or bound by any tax indemnity agreement, tax-sharing agreement, tax allocation agreement or similar Contract. Merger Partner has not been either a distributing corporation or a controlled corporation in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code (y) in the two years prior to the date of this Agreement or (z) which could otherwise constitute part of a plan or series of related transactions (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

(e) No claim or Legal Proceeding is pending or has been threatened against or with respect to Merger Partner in respect of any Tax. There are no unsatisfied liabilities for Taxes with respect to any notice of deficiency or similar document received by Merger Partner with respect to any Tax (other than liabilities for Taxes asserted under any such notice of deficiency or similar document which are being contested in good faith by Merger Partner and with respect to which adequate reserves for payment have been established). There are no liens for Taxes upon any of the assets of Merger Partner except liens for current Taxes not yet due and payable. Merger Partner has not entered into or become bound by any agreement or consent pursuant to Section 341(f) of the Code. Merger Partner has not been, and Merger Partner will not be, required to include any adjustment in taxable income for any tax period (or portion thereof) pursuant to Section 481 or 263A of the Code or any comparable provision under state or foreign Tax laws as a result of transactions or events occurring, or accounting methods employed, prior to the Closing Date.

(f) None of the assets of Merger Partner (i) is property that is required to be treated as being owned by any other Person pursuant to the provisions of former Section 168(f)(8) of the Internal Revenue Code of 1954, (ii) is tax-exempt use property within the meaning of Section 168(h) of the Code, (iii) directly or indirectly secures any debt the interest on which is tax exempt under Section 103(a) of the Code, or (iv) is subject to a lease under Section 7701(h) of the Code or under any predecessor section.

Table of Contents

(g) Merger Partner has never participated in an international boycott as defined in Section 999 of the Code.

(h) Merger Partner will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any period (or any portion thereof) ending after the Closing Date as a result of any (i) closing agreement as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign Tax law) executed on or prior to the Closing Date, (ii) installment sale or other open transaction disposition made on or prior to the Closing Date, or (iii) prepaid amount received on or prior to the Closing Date.

(i) Merger Partner has not engaged in any listed transaction for purposes of Treasury Regulation sections 1.6011-4(b)(2) or 301.6111-2(b)(2) or any analogous provision of state or local law.

2.15 Employee and Labor Matters; Benefit Plans.

(a) Part 2.15(a) of the Merger Partner Disclosure Schedule accurately sets forth, with respect to each employee of Merger Partner (including any employee of Merger Partner who is on a leave of absence) with an annual base salary in excess of $100,000.

(i) the name of such employee and the date as of which such employee was originally hired by Merger Partner;

(ii) such employee s title;

(iii) the aggregate dollar amount of the wages, salary, and bonuses received by such employee from Merger Partner with respect to services performed in 2005;

(iv) such employee s annualized compensation as of the date of this Agreement;

(v) any Governmental Authorization that is held by such employee and that relates to or is useful in connection with Merger Partner s business;

(vi) such employee s citizenship status (whether such employee is a U.S. citizen or otherwise) and, with respect to non U.S. citizens, identifies the visa or other similar permit under which such employee is working for Merger Partner and the dates of issuance and expiration of such visa or other permit; and

(vii) such employee s primary office location.

(b) Part 2.15(b) of the Merger Partner Disclosure Schedule accurately identifies each former employee of Merger Partner who is receiving or is scheduled to receive (or whose spouse or other dependent is receiving or is scheduled to receive) any benefits (from Merger Partner) relating to such former employee s employment with Merger Partner; and Part 2.15(b) of the Merger Partner Disclosure Schedule accurately describes such benefits.

(c) The employment of Merger Partner s employees is terminable by Merger Partner at will. Merger Partner has delivered or made available to DPI accurate and complete copies of all employee manuals and handbooks, disclosure materials, policy statements and other materials governing the terms and conditions of employment of the employees of Merger Partner.

(d) To the Knowledge of Merger Partner:

(i) no Key Employee of Merger Partner intends to terminate his employment with Merger Partner;

(ii) no Key Employee of Merger Partner has received an offer that remains outstanding to join a business that may be competitive with Merger Partner s business; and

(iii) no employee of Merger Partner is a party to or is bound by any confidentiality agreement, noncompetition agreement or other Contract (with any Person) that may have an adverse effect on: (A) the performance by such employee of any of his duties or responsibilities as an employee of Merger Partner; or (B) Merger Partner s business or operations.

A-18.

Table of Contents

(e) Merger Partner is not a party to or bound by, and Merger Partner has never been a party to or bound by any union contract, collective bargaining agreement or similar Contract.

(f) Merger Partner is not engaged, and Merger Partner has never been engaged, in any unfair labor practice of any nature. There has never been any slowdown, work stoppage, labor dispute or union organizing activity, or any similar activity or dispute, affecting Merger Partner. To the Merger Partner s Knowledge, no event has occurred, and no condition or circumstance exists, that might directly or indirectly give rise to the commencement of any such slowdown, work stoppage, labor dispute or union organizing activity or any similar activity or dispute. There are no actions, suits, claims, labor disputes or grievances pending or, to the Knowledge of Merger Partner, threatened or reasonably anticipated relating to any labor, safety or discrimination matters involving any employee of Merger Partner, including, without limitation, charges of unfair labor practices or discrimination complaints. Merger Partner has good labor relations, and no reason to believe that the consummation of the Merger or any of the other Contemplated Transactions will have a material adverse effect on Merger Partner labor relations.

(g) Since January 1, 2003, there have not been any independent contractors who have provided services to Merger Partner for a period of six consecutive months or longer. Merger Partner has never had any temporary or leased employees.

(h) Part 2.15(h) of the Merger Partner Disclosure Schedule identifies each Merger Partner Plan sponsored, maintained, contributed to or required to be contributed to by Merger Partner for the benefit of any employee of Merger Partner. Except to the extent required to comply with Legal Requirements, Merger Partner does not intend nor has it committed to establish or enter into any new Merger Partner Plan (as defined in paragraph (s) below), or to modify any Merger Partner Plan.

(i) Merger Partner has delivered or made available to DPI: (i) correct and complete copies of all documents setting forth the terms of each Merger Partner Plan, including all amendments thereto and all related trust documents; (ii) the three most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required under ERISA or the Code in connection with each Merger Partner Plan; (iii) if the Merger Partner Plan is subject to the minimum funding standards of Section 302 of ERISA, the most recent annual and periodic accounting of Merger Partner Plan assets; (iv) the most recent summary plan description together with the summaries of material modifications thereto, if any, required under ERISA with respect to each Merger Partner Plan; (v) all material written Contracts relating to each Merger Partner Plan, including administrative service agreements and group insurance contracts; (vi) all written materials provided to any employee of Merger Partner relating to any Merger Partner Plan and any proposed Merger Partner Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events that would result in any liability to Merger Partner; (vii) all correspondence to or from any Governmental Body relating to any Plan; (viii) the form of all COBRA forms and related notices; (ix) all insurance policies in the possession of Merger Partner pertaining to fiduciary liability insurance covering the fiduciaries for each Merger Partner Plan; (x) all discrimination tests required under the Code for each Merger Partner Plan intended to be qualified under Section 401(a) of the Code for the three most recent plan years; and (xi) the most recent Internal Revenue Service determination or opinion letter issued with respect to each Merger Partner Plan intended to be qualified under Section 401(a) of the Code.

(j) Merger Partner has performed all material obligations required to be performed by it under each Merger Partner Plan and is not in default under or violation of, and Merger Partner has no Knowledge of any default under or violation by any other party of, the terms of any Merger Partner Plan. Each Merger Partner Plan has been established and maintained substantially in accordance with its terms and in substantial compliance with all applicable Legal Requirements, including ERISA and the Code. Any Merger Partner Plan intended to be qualified under Section 401(a) of the Code has obtained a favorable determination letter (or opinion letter, if applicable) as to its qualified status under the Code or has remaining a period of time under applicable Treasury regulations or Internal Revenue Service pronouncements in which to apply for such a letter and make any amendments necessary to obtain a favorable determination as to the qualified status of that Merger Partner Plan. No prohibited transaction,

Table of Contents

within the meaning of Section 4975 of the Code or Sections 406 and 407 of ERISA, and not otherwise exempt under Section 408 of ERISA, has occurred with respect to any Merger Partner Plan subject to ERISA or Section 4975 of the Code. There are no claims or Legal Proceedings pending, or, to the Knowledge of Merger Partner, threatened or reasonably anticipated (other than routine claims for benefits), against any Merger Partner Plan or against the assets of any Merger Partner Plan. Each Merger Partner Plan (other than any Merger Partner Plan to be terminated prior to the Closing in accordance with this Agreement) can be amended, terminated or otherwise discontinued after the Closing in accordance with its terms, without liability to DPI, any DPI Subsidiary, Merger Partner or the Surviving Corporation (other than ordinary administration expenses). There are no audits, inquiries or Legal Proceedings pending or, to the Knowledge of Merger Partner, threatened by any Governmental Body with respect to any Merger Partner Plan. Merger Partner has never incurred any penalty or tax with respect to any Merger Partner Plan under Section 502(i) of ERISA or Sections 4975 through 4980 of the Code. Merger Partner has made all contributions and other payments required by and due under the terms of each Merger Partner Plan.

(k) Merger Partner has never maintained, established, sponsored, participated in, or contributed to any: (i) employee benefit pension plan (as defined in Section 3(2) of ERISA) (***Pension Plan***) subject to Title IV of ERISA; or (ii) multiemployer plan within the meaning of Section (3)(37) of ERISA. Merger Partner has never maintained, established, sponsored, participated in or contributed to, any Pension Plan in which stock of Merger Partner is or was held as a plan asset. Merger Partner has never maintained a Pension Plan or multiemployer plan, or the equivalent thereof, in a foreign jurisdiction (a ***Merger Partner Foreign Plan***).

(l) No Merger Partner Plan provides (except at no cost to Merger Partner), or reflects or represents any liability of Merger Partner to provide, retiree life insurance, retiree health benefits or other retiree employee welfare benefits to any Person for any reason, except as may be required by COBRA or other applicable Legal Requirements. Other than commitments made that involve no future costs to Merger Partner, Merger Partner has never represented, promised or contracted (whether in oral or written form) to any employee of Merger Partner (either individually or to employees of Merger Partner as a group) or any other Person that such employee(s) or other Person would be provided with retiree life insurance, retiree health benefits or other retiree employee welfare benefits, except to the extent required by applicable Legal Requirements.

(m) Neither the execution of this Agreement nor the consummation of the Contemplated Transactions will (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Merger Partner Plan, Merger Partner Contract, trust or loan that will or may result (either alone or in connection with any other circumstance or event) in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employees of Merger Partner.

(n) Merger Partner: (i) is, and at all times has been, in substantial compliance with all applicable Legal Requirements respecting employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to their employees, including the health care continuation requirements of COBRA, the requirements of FMLA, the requirements of HIPAA and any similar provisions of state law; (ii) have withheld and reported all amounts required by applicable Legal Requirements or by Contract to be withheld and reported with respect to wages, salaries and other payments to their employees; (iii) is not liable for any arrears of wages or any taxes or any penalty for failure to comply with the Legal Requirements applicable to the foregoing; and (iv) is not liable for any payment to any trust or other fund governed by or maintained by or on behalf of any Governmental Body with respect to unemployment compensation benefits, social security or other benefits or obligations for their employees (other than routine payments to be made in the normal course of business and consistent with past practice). There are no pending or, to the Knowledge of Merger Partner, threatened or reasonably anticipated claims or Legal Proceedings against Merger Partner under any worker s compensation policy or long-term disability policy.

(o) Merger Partner is not required to be, and, to the Knowledge of Merger Partner, has not ever been required to be, treated as a single employer with any other Person under Section 4001(b)(1) of ERISA or

Table of Contents

Section 414(b), (c), (m) or (o) of the Code. Merger Partner has never been a member of an affiliated service group within the meaning of Section 414(m) of the Code. To the Knowledge of Merger Partner, it has never made a complete or partial withdrawal from a multiemployer plan, as such term is defined in Section 3(37) of ERISA, resulting in withdrawal liability, as such term is defined in Section 4201 of ERISA (without regard to subsequent reduction or waiver of such liability under either Section 4207 or 4208 of ERISA).

(p) To the Knowledge of Merger Partner, no officer or employee of Merger Partner is subject to any injunction, writ, judgment, decree, or order of any court or other Governmental Body that would interfere with such employee s efforts to promote the interests of Merger Partner, or that would interfere with the business of Merger Partner. Neither the execution nor the delivery of this Agreement, nor the carrying on of the business of Merger Partner as presently conducted nor any activity of any employees of Merger Partner in connection with the carrying on of the business of Merger Partner as presently conducted will, to the Knowledge of Merger Partner, conflict with, result in a breach of the terms, conditions or provisions of, or constitute a default under, any Contract under which any employee of Merger Partner may be bound.

(q) There is no agreement, plan, arrangement or other Contract covering any employee or independent contractor or former employee or independent contractor of Merger Partner that, considered individually or considered collectively with any other such Contracts and/or other events, will, or could reasonably be expected to, give rise directly or indirectly to the payment of any amount that would not be deductible pursuant to Section 280G or Section 162 of the Code. Merger Partner is not a party to any Contract, nor does Merger Partner have any obligation (current or contingent), to compensate any individual for excise taxes paid pursuant to Section 4999 of the Code.

(r) No holder of shares of Merger Partner Common Stock holds shares of Merger Partner Common Stock that are non-transferable and subject to a substantial risk of forfeiture within the meaning of Section 83 of the Code with respect to which a valid election under Section 83(b) of the Code has not been made and were not acquired on the exercise of an incentive stock option as defined in Section 422 of the Code.

(s) Any Merger Partner employee plan, which includes any and all salary, bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance pay, termination pay, hospitalization, medical, life or other insurance, supplemental unemployment benefits, profit-sharing, pension or retirement plan, program or agreement (collectively, the ***Merger Partner Plans***) sponsored, maintained, contributed to or required to be contributed to by Merger Partner for the benefit of any employee of Merger Partner and which is a nonqualified deferred compensation plan (as defined in Section 409A(d)(1) of the Code) has been operated since January 1, 2005 in good faith compliance with Section 409A of the Code and the proposed regulations and other guidance issued with respect thereto as to avoid any additional Tax pursuant to Section 409A(a)(1)(B)(i)(II) of the Code.

2.16 Environmental Matters. Merger Partner is in compliance in all material respects with all applicable Environmental Laws, which compliance includes the possession by Merger Partner of all permits and other Governmental Authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof. Merger Partner has not received since January 1, 2003 any written notice or other communication (in writing or otherwise), whether from a Governmental Body, citizens group, employee or otherwise, that alleges that Merger Partner is not in compliance with any Environmental Law, and, to the Knowledge of Merger Partner, there are no circumstances that may prevent or interfere with Merger Partner s compliance with any Environmental Law in the future. To the Knowledge of Merger Partner: (i) no current or prior owner of any property leased or controlled by Merger Partner has received since January 1, 2003 any written notice or other communication relating to property owned or leased at any time by Merger Partner, whether from a Governmental Body, citizens group, employee or otherwise, that alleges that such current or prior owner or Merger Partner is not in compliance with or violated any Environmental Law relating to such property and (ii) it has no material liability under any Environmental Law. All Governmental Authorizations currently held by Merger Partner pursuant to Environmental Laws are identified in Part 2.16 of the Merger Partner Disclosure Schedule.

Table of Contents

2.17 Insurance. Merger Partner maintains insurance policies with reputable insurance carriers against all risks of a character as usually insured against, and in such coverage amounts as are usually maintained, by similarly situated companies in the same or similar businesses. Each such insurance policy is in full force and effect. Since January 1, 2003, Merger Partner has not received any written notice or other communication regarding any actual or possible (a) cancellation or invalidation of any insurance policy, (b) refusal of any coverage or rejection of any claim under any insurance policy, or (c) material adjustment in the amount of the premiums payable with respect to any insurance policy.

2.18 Related Party Transactions. (a) No Merger Partner Related Party has, and no Merger Partner Related Party has at any time since Merger Partner s inception had, any direct or indirect interest in any material asset used in or otherwise relating to the business of Merger Partner; (b) no Merger Partner Related Party is, or has been, indebted to Merger Partner; (c) since Merger Partner s inception, no Merger Partner Related Party has entered into, or has had any direct or indirect financial interest in, any Merger Partner Contract, transaction or business dealing involving Merger Partner; (d) no Merger Partner Related Party is competing, or has at any time competed, directly or indirectly, with Merger Partner; and (e) no Merger Partner Related Party has any claim or right against Merger Partner (other than rights under capital stock of Merger Partner and rights to receive compensation for services performed as an employee of Merger Partner).

2.19 Legal Proceedings; Orders.

(a) There is no pending Legal Proceeding, and to the Knowledge of Merger Partner, no Person has threatened to commence any Legal Proceeding: (i) that involves Merger Partner or any of the assets owned, used or controlled by Merger Partner or any Person whose liability Merger Partner has or may have retained or assumed, either contractually or by operation of law claiming damages in an amount in excess of $100,000; or (ii) that challenges, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, the Merger or any of the other Contemplated Transactions. To the Knowledge of Merger Partner, no event has occurred, and no claim, dispute or other condition or circumstance exists, that will, or that would reasonable be expected to, give rise to or serve as a basis for the commencement of any such Legal Proceeding.

(b) There is no order, writ, injunction, judgment or decree to which Merger Partner or any of the assets owned or used by Merger Partner, is subject. To the Knowledge of the Merger Partner, none of its Related Parties is subject to any order, writ, injunction, judgment or decree that relates to Merger Partner s business or to any assets owned or used by Merger Partner.

2.20 Authority; Binding Nature of Agreement. Merger Partner has the absolute and unrestricted right, power and authority to enter into and to perform its obligations under this Agreement and the Related Agreements to which it is a party; and the execution, delivery and performance by Merger Partner of this Agreement and the Related Agreements to which it is a party have been duly authorized by all necessary action on the part of Merger Partner and the board of directors of Merger Partner, subject only to obtaining the Required Merger Partner Stockholder Vote and the filing and recordation of the Certificate of Merger pursuant to the DGCL. This Agreement and each of the Related Agreements to which Merger Partner is a party has been duly executed and delivered by Merger Partner, and assuming due authorization, execution and delivery by the other Parties thereto, constitutes the legal, valid and binding obligation of Merger Partner, enforceable against Merger Partner in accordance with its terms, subject to (a) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

2.21 Non-Contravention; Consents. Subject to compliance with the applicable requirements of the HSR Act, obtaining the Required Merger Partner Stockholder Vote for the applicable Contemplated Transactions, and the filing of a Certificate of Merger as required by DGCL, neither (a) the execution, delivery or performance of this Agreement or any of the Related Agreements, nor (b) the consummation of the Merger or any of the other Contemplated Transactions, will directly or indirectly (with or without notice or lapse of time):

(a) contravene, conflict with or result in a violation of any of the provisions of Merger Partner Constituent Documents;

Table of Contents

(b) contravene, conflict with or result in a violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any order, writ, injunction, judgment or decree to which Merger Partner, or any of the assets owned or used by Merger Partner, is subject;

(c) contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify, any Governmental Authorization that is held by Merger Partner or that otherwise relates to Merger Partner s business or to any of the assets owned or used by Merger Partner;

(d) result in a material conflict, violation or breach of, or result in a material default under, any provision of any Merger Partner Contract, or give any Person the right to (i) declare a default or exercise any remedy under any such Merger Partner Contract, (ii) accelerate the maturity or performance of any such Merger Partner Contract, or (iii) cancel, terminate or modify any such Merger Partner Contract; or

(e) result in the imposition or creation of any Encumbrance upon or with respect to any asset owned or used by Merger Partner (except for minor liens that will not, in any case or in the aggregate, materially detract from the value of the assets subject thereto or materially impair the operations of Merger Partner).

Except for those filings, notices or Consents disclosed in Part 2.21 of the Merger Partner Disclosure Schedule, no filing with, notice to or Consent from any Person is required in connection with (y) the execution, delivery or performance of this Agreement or any of the Related Agreements, or (z) the consummation of the Merger or any of the other Contemplated Transactions.

2.22 Vote Required. The affirmative vote of (i) the holders of a majority of the shares of Merger Partner Common Stock and Merger Partner Preferred Stock outstanding on the record date for the Merger Partner Stockholders Meeting and entitled to vote thereon, voting as a single class and (ii) in accordance with Section 2(c) of Article IV of the Merger Partner Certificate of Incorporation, the holders of a majority of the shares of Merger Partner Preferred Stock outstanding on the record date for the Merger Partner Stockholders Meeting and entitled to vote thereon, voting as a single class (the ***Required Merger Partner Stockholder Vote***) are the only votes of the holders of any class or series of Merger Partner capital stock necessary to adopt this Agreement.

2.23 Regulatory Compliance. All Merger Partner Products that are subject to the jurisdiction of any Governmental Body are being manufactured, labeled, stored, tested, developed, distributed, and marketed in compliance in all material respects with all applicable Legal Requirements.

2.24 Merger Partner Action. The board of directors of Merger Partner (at a meeting duly called and held in accordance with Merger Partner Constituent Documents) has (a) unanimously determined that the Merger is advisable and in the best interests of Merger Partner and its stockholders and (b) unanimously recommended adoption of this Agreement, by the stockholders of the Merger Partner and directed that this Agreement, be submitted to the stockholders of the Merger Partner for adoption.

2.25 Anti-Takeover Law. The board of directors of Merger Partner has taken all action necessary or required to render inapplicable to the Merger, this Agreement or any agreement contemplated hereby and the Contemplated Transactions (a) any takeover provision in the Merger Partner Constituent Documents, (b) any takeover provision in any Merger Partner Contract, and (c) any takeover provision in any applicable state law.

2.26 No Financial Advisor. No broker, finder or investment banker is entitled to any brokerage fee, finder s fee, opinion fee, success fee, transaction fee or other fee or commission in connection with the Merger or any of the other Contemplated Transactions based upon arrangements made by or on behalf of Merger Partner.

Table of Contents

2.27 Certain Payments. Neither Merger Partner nor to Merger Partner s Knowledge any officer, employee, agent or other Person associated with or acting for or on behalf of Merger Partner, has at any time, directly or indirectly:

(a) used any corporate funds (i) to make any unlawful political contribution or gift or for any other unlawful purpose relating to any political activity, (ii) to make any unlawful payment to any governmental official or employee, or (iii) to establish or maintain any unlawful or unrecorded fund or account of any nature;

(b) made any false or fictitious entry, or failed to make any entry that should have been made, in any of the books of account or other records of Merger Partner;

(c) made any payoff, influence payment, bribe, rebate, kickback or unlawful payment to any Person;

(d) performed any favor or given any gift which was not deductible for federal income tax purposes;

(e) made any payment (whether or not lawful) to any Person, or provided (whether lawfully or unlawfully) any favor or anything of value (whether in the form of property or services, or in any other form) to any Person, for the purpose of obtaining or paying for (i) favorable treatment in securing business, or (ii) any other special concession; or

(f) agreed or committed to take any of the actions described in clauses (a) through (e) above.

2.28 Disclosure. The information supplied by Merger Partner for inclusion in the Joint Proxy Statement/Prospectus (including any Merger Partner Financial Statements) will not, as of the date of the Joint Proxy Statement/Prospectus or as of the date such information is prepared or presented, (i) contain any statement that is inaccurate or misleading with respect to any material facts, or (ii) omit to state any material fact necessary in order to make such information, in the light of the circumstances under which such information will be provided, not false or misleading.

3. Representations And Warranties Of Dpi And Merger Sub

DPI and Merger Sub represent and warrant to Merger Partner as follows, except as set forth in the written disclosure schedule delivered or made available by DPI to Merger Partner (the ***DPI Disclosure Schedule***). The DPI Disclosure Schedule shall be arranged in sections and subsections corresponding to the numbered and lettered sections and subsections contained in this Section 3. The disclosure in any section or subsection of the DPI Disclosure Schedule shall qualify other sections and subsections in this Section 3 only to the extent it is readily apparent that the disclosure contained in such section or subsection of the DPI Disclosure Schedule contains enough information regarding the subject matter of the other representations in this Section 3 as to clearly qualify or otherwise clearly apply to such other representations and warranties; *provided, however*, that the disclosure in Part 3.10(a)(ii) of the DPI Disclosure Schedule shall only qualify Sections 3.9(b), 3.9(d)(v) and 3.10(a)(ii).

3.1 Due Organization; Subsidiaries; Etc.

(a) DPI and Merger Sub are corporations duly organized, validly existing and in good standing under the laws of the State of Delaware, with the corporate power and authority to carry on their business as now being conducted and as currently proposed to be conducted.

(b) DPI has not conducted any business under or otherwise used, for any purpose or in any jurisdiction, any fictitious name, assumed name, trade name or other name, other than the name Discovery Partners International, Inc.

(c) DPI and Merger Sub are not and have not been required to be qualified, authorized, registered or licensed to do business as a foreign corporation in any jurisdiction other than the jurisdictions identified in Part 3.1(c) of the DPI Disclosure Schedule, except where the failure to be so qualified, authorized, registered or licensed has not had, and would not be reasonably expected to have, a DPI Material Adverse

Table of Contents

Effect. DPI and Merger Sub and each of their respective Subsidiaries are each in good standing as a foreign corporation in each of the jurisdictions identified in Part 3.1(c) of the DPI Disclosure Schedule.

(d) Part 3.1(d) of the DPI Disclosure Schedule accurately sets forth (i) the names of the members of the board of directors of DPI, (ii) the names of the members of each committee of the board of directors of DPI and (iii) the names and titles of DPI s officers.

(e) DPI has no Subsidiaries (other than Merger Sub) except for the Entities identified in Part 3.1(e) of the DPI Disclosure Schedule. Neither DPI nor any DPI Subsidiary has agreed or is obligated to make any future investment in or capital contribution to any Entity. Except as identified in Part 3.1(e) of the DPI Disclosure Schedule, neither DPI nor any DPI Subsidiary has guaranteed or is responsible or liable for any obligation of any of the Entities in which it owns or has owned any equity or other financial interest.

3.2 Certificate of Incorporation and Bylaws; Records. DPI and Merger Sub have delivered or made available to Merger Partner copies of: (a) DPI s certificate of incorporation and bylaws, including all amendments thereto, and the certificate of incorporation and bylaws of Merger Sub; (b) the stock records of DPI and Merger Sub; and (c) the minute and other records of the meetings and other proceedings (including any actions taken by written consent or otherwise without a meeting) of the stockholders of DPI and Merger Sub (the ***DPI Constituent Documents***). There have been no formal meetings or other proceedings of the stockholders of DPI or Merger Sub, the board of directors of DPI or Merger Sub or any committee of the board of directors of DPI or Merger Sub that are not fully reflected in the minutes and other records delivered or made available to Merger Partner pursuant to clause (c) above. There has not been any violation in any material respect of the DPI Constituent Documents, and DPI has not taken any action that is inconsistent in any material respect with the DPI Constituent Documents. The books of account, stock records, minute books and other records of DPI are accurate, up to date and complete in all material respects, and have been maintained in accordance with prudent business practices.

3.3 Capitalization, Etc.

(a) The authorized capital stock of DPI consists of: 100,000,000 shares of DPI Common Stock and 1,000,000 shares of Preferred Stock, par value $.001 per share. As of April 7, 2006, 26,436,931 shares of DPI Common Stock have been issued and are outstanding, and no shares of DPI Preferred Stock have been issued and are outstanding. All outstanding shares of DPI Common Stock have been duly authorized and validly issued, and are fully paid and non assessable. DPI has no authorized shares other than as set forth in this Section 3.3(a) and there are no issued and outstanding shares of DPI s capital stock other than the shares of DPI Common Stock as set forth in this Section 3.3(a).

(b) As of April 7, 2006, DPI has reserved 6,297,374 shares of DPI Common Stock for issuance under its DPI 2000 Stock Incentive Plan, of which options to purchase 2,103,961 shares of DPI Common Stock are outstanding as of April 7, 2006. As of April 7, 2006, DPI has reserved 2,498,032 shares of DPI Common Stock for issuance under its DPI 2000 Employee Stock Purchase Plan, of which 181,202 shares of DPI Common Stock are outstanding as of April 7, 2006. As of April 7, 2006, 424,500 shares of DPI Common Stock are reserved for future issuance pursuant to grants of restricted stock of DPI. Except as set forth in this Agreement and the Contemplated Transactions, there is no: (i) outstanding subscription, option, call, warrant or right (whether or not currently exercisable) to acquire any shares of the capital stock or other securities of DPI; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares of capital stock or other securities of DPI; (iii) Contract under which DPI is or may become obligated to sell or otherwise issue any shares of its capital stock or any other securities of DPI; or (iv) condition or circumstance that would give rise to or provide a basis for the assertion of a claim by any Person to the effect that such Person is entitled to acquire or receive any shares of capital stock or other securities of DPI. DPI has not issued any debt securities which grant the holder thereof any right to vote on, or veto, any action of DPI.

(c) All outstanding shares of DPI Common Stock, and all outstanding DPI Options, have been issued and granted in compliance with (i) all applicable securities laws and other applicable Legal Requirements, and (ii) all requirements set forth in DPI Constituent Documents and applicable Contracts.

Table of Contents

3.4 SEC Filings; Financial Statements.

(a) DPI has made all filings with the SEC required under the applicable requirements of the Securities Act and the Exchange Act. DPI has delivered or made available to Merger Partner accurate and complete copies (excluding copies of exhibits) of each report, schedule, registration statement and definitive proxy statement filed by DPI with the SEC on or after January 1, 2003 and prior to the date of this Agreement (the ***DPI SEC Documents***). DPI has resolved with the staff of the SEC any comments it may have received since January 1, 2005 and prior to the date of this Agreement in comment letters to DPI from the staff of the SEC or, to the extent such comments are unresolved, has disclosed such unresolved comments in the DPI SEC Documents. All DPI SEC Documents (x) were filed on a timely basis, (y) at the time filed (or, if amended or superseded by a later filing prior to the date of this Agreement, than on the date of such later filing), were prepared in compliance in all material respects with the applicable requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such DPI SEC Documents, and (z) did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

(b) The consolidated financial statements contained in the DPI SEC Documents (including, in each case, any related notes thereto): (i) complied as to form in all material respects with the published rules and regulations of the SEC applicable thereto; (ii) were prepared in accordance with GAAP applied on a consistent basis throughout the periods covered, except as may be indicated in the notes to such consolidated financial statements and except that the unaudited interim consolidated financial statements contained in the DPI SEC Documents do not contain footnotes as permitted by Form 10-Q of the Exchange Act; and (iii) fairly present the consolidated financial position of DPI as of the respective dates thereof and the consolidated results of operations and cash flows of DPI for the periods covered thereby, except that the unaudited interim consolidated financial statements contained in the DPI SEC Documents were or are subject to normal year-end audit adjustments.

(c) The aggregate amount of cash, cash equivalents and short-term investments as reflected on the balance sheet of DPI as of March 31, 2006 shall be at least equal to $80,599,449.

(d) Ernst & Young LLP, DPI s auditors are, and have been at all times during their engagement by DPI (i) independent with respect to DPI within the meaning of Regulation S-X and (ii) in compliance with subsections (g) through (l) of Section 10A of the Exchange Act (to the extent applicable) and the related rules of the SEC and the public company accounting oversight board, in each case as such subsections and rules apply to Ernst & Young LLP s engagement with DPI.

3.5 Absence of Changes. Since December 31, 2005:

(a) there has not been any DPI Material Adverse Effect, and no event has occurred that will, or would reasonably be expected to, cause a DPI Material Adverse Effect;

(b) there has not been any material loss, damage or destruction to, or any material interruption in the use of, any of the assets of DPI or any DPI Subsidiary (whether or not covered by insurance);

(c) DPI has not declared, accrued, set aside or paid any dividend or made any other distribution in respect of any shares of its capital stock, and has not repurchased, redeemed or otherwise reacquired any shares of its capital stock or other securities;

(d) DPI has not sold, issued, granted or authorized the issuance of (i) any capital stock or other securities of DPI; (ii) any option, call or right to acquire any capital stock or any other security of DPI; (iii) any instrument convertible into or exchangeable for any capital stock or other security of DPI; or (iv) reserved for issuance any additional grants or shares under the DPI 2000 Stock Incentive Plan or the DPI 2000 Employee Stock Purchase Plan;

(e) DPI has not amended or waived any of its rights under, or permitted the acceleration of vesting under, the DPI 2000 Stock Incentive Plan, the DPI 2000 Employee Stock Purchase Plan, any DPI Option or

Table of Contents

agreement evidencing or relating to any outstanding stock option or warrant, any restricted stock purchase agreement, or any other Contract evidencing or relating to any equity award;

(f) there has been no amendment to the certificate of incorporation or bylaws of DPI or any DPI Subsidiary and DPI has not effected or been a party to any Acquisition Transaction, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction;

(g) DPI has not formed any DPI Subsidiary or acquired any equity interest or other interest in any other Entity;

(h) neither DPI nor any DPI Subsidiary has made any capital expenditure which, when added to all other capital expenditures made on behalf of DPI or any DPI Subsidiary since December 31, 2005 (the ***DPI Balance Sheet Date***), exceeds $100,000;

(i) neither DPI nor any DPI Subsidiary has (i) entered into or permitted any of the assets owned or used by it to become bound by any Contract that contemplates or involves (A) the payment or delivery of cash or other consideration in an amount or having a value in excess of $100,000 in the aggregate, or (B) the purchase or sale of any product, or performance of services by or to DPI or any DPI Subsidiary having a value in excess of $100,000 in the aggregate, or (ii) waived any right or remedy under any Contract other than in the Ordinary Course of Business, or amended or prematurely terminated any Contract;

(j) neither DPI nor any DPI Subsidiary has (i) acquired, leased or licensed any right or other asset from any other Person, (ii) sold or otherwise disposed of, or leased or licensed, any right or other asset to any other Person, or (iii) waived or relinquished any right, except for immaterial rights or immaterial assets acquired, leased, licensed or disposed of in the Ordinary Course of Business;

(k) neither DPI nor any DPI Subsidiary has written off as uncollectible, or established any extraordinary reserve with respect to, any account receivable or other indebtedness;

(l) neither DPI nor any DPI Subsidiary has made any pledge of any of its assets or otherwise permitted any of its assets to become subject to any Encumbrance, except for pledges of immaterial assets made in the Ordinary Course of Business;

(m) neither DPI nor any DPI Subsidiary has (i) lent money to any Person (other than pursuant to routine travel advances made to employees in the Ordinary Course of Business), or (ii) incurred or guaranteed any indebtedness for borrowed money in the aggregate in excess of $100,000 or (iii) issued or sold any debt securities or options, warrants, calls or similar rights to acquire any debt securities of DPI or any DPI Subsidiary;

(n) neither DPI nor any DPI Subsidiary has (i) established or adopted any employee benefit plan, (ii) paid any bonus or made any profit sharing, incentive compensation or similar payment to, or increased the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of its directors, officers or employees with an annual salary in excess of $100,000, or (iii) hired any new employee having an aggregate salary in excess of $100,000;

(o) neither DPI nor any DPI Subsidiary has changed any of its personnel policies or other business policies, or any of its methods of accounting or accounting practices in any respect;

(p) DPI has not made any material Tax election;

(q) neither DPI nor any DPI Subsidiary has threatened, commenced or settled any Legal Proceeding;

(r) neither DPI nor any DPI Subsidiary has entered into any transaction or taken any other action outside the Ordinary Course of Business, other than entering into this Agreement and the Contemplated Transactions;

(s) neither DPI nor any DPI Subsidiary has paid, discharged or satisfied any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) other than the payment, discharge or satisfaction of non-material amounts in the Ordinary Course of Business or as required by any DPI or DPI Subsidiary Contract or Legal Requirement; and

Table of Contents

(t) neither DPI nor any DPI Subsidiary has agreed to take, or committed to take, any of the actions referred to in clauses (c) through (s) above.

3.6 Liabilities; Fees, Costs and Expenses.

(a) Neither DPI nor any DPI Subsidiary has any accrued, contingent or other liabilities of any nature, either matured or unmatured (whether or not required to be reflected in financial statements in accordance with GAAP, and whether due or to become due), except for: (i) liabilities identified in DPI s balance sheet included in its Form 10-K for the year ended December 31, 2005 (the ***DPI Balance Sheet***) or any subsequent interim or full-year balance sheet filed by DPI with the SEC subsequent to December 31, 2005, or otherwise described in DPI s Form 10-K for the year ended December 31, 2005; (ii) liabilities that have been incurred since December 31, 2005 (or the date of any subsequent interim or full-year balance sheet filed by DPI with the SEC subsequent to December 31, 2005) in the Ordinary Course of Business; (iii) liabilities which have arisen since the date of the DPI Balance Sheet in the Ordinary Course of Business and (iv) contractual and other liabilities incurred in the Ordinary Course of Business which are not required by GAAP to be reflected on a balance sheet.

(b) The total amount of all fees, costs and expenses (including any attorney s, accountant s, financial advisor s or finder s fees) incurred by or for the benefit of DPI or any DPI Subsidiary in connection with (i) any due diligence conducted by DPI with respect to the Merger, (ii) the negotiation, preparation and review of this Agreement (including the DPI Disclosure Schedule) and all agreements contemplated by this Agreement and opinions delivered or to be delivered in connection with the Contemplated Transactions, (iii) the preparation and submission of any filing or notice required to be made or given in connection with any of the Contemplated Transactions, (iv) the obtaining of any Consent required to be obtained in connection with any Contemplated Transactions hereby, and (v) otherwise in connection with the Merger and the Contemplated Transactions, will, in the good faith estimate of DPI reasonably exercised, aggregate approximately $5,117,000.

3.7 Compliance with Legal Requirements. DPI and each DPI Subsidiary are, and since January 1, 2003 have been, in compliance in all material respects with all applicable Legal Requirements. DPI has not received, since January 1, 2003, any written notice or other communication from any Governmental Body or any other person regarding (a) any actual, alleged, possible or potential violation of, or failure to comply with, any Legal Requirement, or (b) any actual, alleged, possible or potential obligation on the part of DPI or the applicable DPI Subsidiary to undertake, or to bear all, or any portion of the cost of, any cleanup or any remedial, corrective or responsive action of any nature. DPI has delivered or made available to Merger Partner an accurate and complete copy of each report, study, survey or other document to which DPI or any DPI Subsidiary has access that addresses or otherwise relates to the compliance of DPI and any DPI Subsidiary with, or the applicability to DPI or any DPI Subsidiary of, any Legal Requirement. To the Knowledge of DPI, no Governmental Body has proposed or is considering any Legal Requirement that, if adopted or otherwise put into effect, (a) will, or would reasonably be expected to, cause a DPI Material Adverse Change, (b) may have an adverse effect on Merger Partner s ability to comply with or perform any covenant or obligation under this Agreement or the Related Agreements, or (c) may have the effect of preventing, delaying, making illegal or otherwise interfering with the Merger or any of the Contemplated Transactions.

3.8 Equipment; Leasehold.

(a) All items of equipment and other tangible assets owned by or leased to DPI or any DPI Subsidiary (i) are adequate for the uses to which they are being put and (ii) are adequate for the conduct of DPI s business in the manner in which such business is currently being conducted and as it is proposed to be conducted.

(b) Neither DPI nor any DPI Subsidiary owns any real property or any interest in real property, except for the leasehold interest created under the real property leases identified in Part 3.8(b) of the DPI Disclosure Schedule. All premises leased or subleased by DPI or any DPI Subsidiary are supplied with utilities and other services necessary for the operation of their respective businesses.

Table of Contents

3.9 Intellectual Property.

(a) Part 3.9(a) of the DPI Disclosure Schedule accurately identifies (i) each item of DPI Registered IP; and (ii) the jurisdiction in which such item of Merger Partner Registered IP has been registered or filed and the applicable registration or serial number. DPI has delivered or made available to Merger Partner complete and accurate copies of all applications, correspondence, and other material documents related to each such item of DPI Registered IP.

(b) Part 3.9(b) of the DPI Disclosure Schedule accurately identifies (i) each DPI contract pursuant to which any Person has been granted any license under, or otherwise has received or acquired any right (whether or not currently exercisable) or interest in, any DPI IP Rights; and (ii) each DPI contract involving DPI IP Rights licensed to DPI or any DPI Subsidiary (other than any non-customized software that is so licensed solely in executable or object code form pursuant to a non-exclusive, internal use software license). DPI and DPI Subsidiaries are not bound by, and no DPI IP Rights are subject to, any Contract containing any covenant or other provision that in any way limits or restricts the ability of DPI or any DPI Subsidiary to use, exploit, assert, or enforce any DPI IP Rights anywhere in the world.

(c) DPI has delivered or made available to Merger Partner a complete and accurate copy of each standard form of DPI IP Rights Agreement used by DPI or any DPI Subsidiary, including each standard form of (i) license agreement; (ii) employee agreement containing intellectual property assignment or license of DPI IP Rights or any confidentiality provision; (iii) consulting or independent contractor agreement containing intellectual property assignment or license of DPI IP Rights or any confidentiality provision; and (iv) confidentiality or nondisclosure agreement, and no DPI IP Rights Agreement deviates in any material respect from the corresponding standard form agreement delivered or made available to Merger Partner.

(d) DPI and DPI s Subsidiaries exclusively own all right, title, and interest to and in DPI IP Rights (other than DPI IP Rights exclusively licensed to DPI or DPI s Subsidiaries free and clear of any Encumbrances (other than non-exclusive licenses of DPI IP Rights). Without limiting the generality of the foregoing:

(i) To the Knowledge of DPI, all documents and instruments necessary to register or apply for new registration of DPI and each DPI Subsidiary in DPI Registered IP have been validly executed, delivered, and filed in a timely manner with the appropriate Governmental Body.

(ii) Each Person who is or was an employee or contractor of DPI or any DPI Subsidiary and who is or was involved in the creation or development of any DPI IP Rights has signed a valid, enforceable agreement containing and assignment of Intellectual Property to DPI or a DPI Subsidiary and confidentiality provisions protecting trade secrets and confidential information of DPI IP Rights. No current or former stockholder, officer, director, or employee of DPI or any DPI Subsidiary has any claim, right (whether or not currently exercisable), or interest to or in any DPI IP Rights. No employee of DPI or any DPI Subsidiary is (a) bound by or otherwise subject to any Contract restricting him or her from performing his or her duties for DPI or any DPI Subsidiary or (b) in breach of any Contract with any former employer or other Person concerning DPI IP rights or confidentiality provisions protecting trade secrets and confidential information in DPI IP Rights.

(iii) No funding, facilities, or personnel of any Governmental Body were used, directly or indirectly, to develop or create, in whole or in part, any DPI IP Rights in which DPI has an ownership interest.

(iv) DPI and each DPI Subsidiary have taken all reasonable steps to maintain the confidentiality of and otherwise protect and enforce their rights in all proprietary information that DPI or the applicable DPI Subsidiary holds, or purports to hold, as a trade secret.

(v) DPI and DPI Subsidiaries have not assigned or otherwise transferred ownership of, or agreed to assign or otherwise transfer ownership of, any DPI IP Rights to any other Person.

Table of Contents

(vi) Neither DPI nor any DPI Subsidiary is now or ever was a member or promoter of, or a contributor to, any industry standards body or similar organization that could require or obligate DPI or the applicable DPI Subsidiary to grant or offer to any other Person any license or right to any DPI IP Rights.

(vii) The DPI IP Rights constitute all Intellectual Property necessary for DPI to conduct its business as currently conducted and planned to be conducted.

(e) To DPI s Knowledge, all DPI Registered IP is valid and enforceable. Without limiting the generality of the foregoing:

(i) Each U.S. patent application and U.S. patent in which DPI or any DPI Subsidiary has or purports to have an ownership interest was filed within one year of the first printed publication, public use, or offer for sale of each invention described in the U.S. patent application or U.S. patent. Each foreign patent application and foreign patent in which DPI or any DPI Subsidiary has or purports to have an ownership interest was filed or claims priority to a patent application filed prior to each invention described in the foreign patent application or foreign patent being first made available to the public.

(ii) No trademark (whether registered or unregistered) or trade name owned, used, or applied for by DPI or any DPI conflicts or interferes with any trademark (whether registered or unregistered) or trade name owned, used, or applied for by any other Person. None of the goodwill associated with or inherent in any trademark (whether registered or unregistered) in which DPI or any DPI Subsidiary has or purports to have an ownership interest has been impaired.

(iii) Each item of DPI IP Rights that is DPI Registered IP is and at all times has been filed and maintained in compliance with all applicable Legal Requirements and all filings, payments, and other actions required to be made or taken to maintain such item of DPI Registered IP in full force and effect have been made by the applicable deadline. Part 3.9(e)(iii) of the DPI Disclosure Schedule accurately identifies and describes each action, filing, and payment that must, to DPI s Knowledge, be taken or made on or before the date that is 90 days after the Closing Date in order to maintain such item of DPI Registered IP in full force and effect.

(iv) No interference, opposition, reissue, reexamination, or other proceeding is pending or, to DPI s Knowledge, threatened, in which the scope, validity, or enforceability of any DPI IP Rights is being, has been or could reasonably be expected to be contested or challenged. To DPI s Knowledge, there is no basis for a claim that any DPI IP Rights are invalid or, excluding pending patent applications, unenforceable.

(f) To DPI s Knowledge, no Person has infringed, misappropriated, other otherwise violated, and no Person is currently infringing, misappropriating, or otherwise violating, any DPI IP Rights. DPI has delivered or made available to Merger Partner a complete and accurate copy of, each letter or other written or electronic communication or correspondence that has been sent or otherwise delivered in the last five (5) years by or to DPI or any DPI Subsidiary or any Representative of DPI or any DPI Subsidiary regarding any actual, alleged, or suspected infringement or misappropriation of any DPI IP Rights, and provides a brief description of the current status of the matter referred to in such letter, communication, or correspondence.

(g) Neither the execution, delivery, or performance of this Agreement (or any of the agreements contemplated by this Agreement) nor the consummation of any of the Contemplated Transactions will, with or without notice or lapse of time, result in, or give any other Person the right or option to cause or declare, (i) a loss of, or Encumbrance on, any DPI IP Rights; (ii) a breach by DPI or any DPI Subsidiary of any DPI IP Rights Agreement; (iii) the release, disclosure, or delivery of any DPI IP Rights by or to any escrow agent or other Person; or (iv) the grant, assignment, or transfer to any other Person of any license or other right or interest under, to, or in any of DPI IP Rights.

Table of Contents

(h) To DPI s Knowledge, neither DPI nor any DPI Subsidiaries has ever infringed (directly, contributorily, by inducement, or otherwise), misappropriated, or otherwise violated any Intellectual Property rights of any other Person. Without limiting the generality of the foregoing:

(i) No product or service that has been developed or that is being commercially sold by DPI or any DPI Subsidiary nor the performance of making, using, selling or offering for importation of any such product or service has, to the Knowledge of DPI, infringed, misappropriated, or otherwise violated the Intellectual Property rights of any other Person.

(ii) No infringement, misappropriation, or similar claim or Legal Proceeding is pending or, to DPI s Knowledge, threatened against DPI or any DPI Subsidiary or against any other Person who may be entitled to be indemnified, defended, held harmless, or reimbursed by DPI or any DPI Subsidiary with respect to such claim or Legal Proceeding. DPI and DPI s Subsidiaries have never received any notice or other communication (in writing or otherwise) alleging any actual, alleged, or suspected infringement, misappropriation, or violation of any Intellectual Property rights of another Person.

(iii) Neither DPI nor any DPI Subsidiary is bound by any Contract to indemnify, defend, hold harmless, or reimburse any other Person with respect to any Intellectual Property infringement, misappropriation, or similar claim. DPI and DPI s Subsidiaries have never assumed, or agreed to discharge or otherwise take responsibility for, any existing or potential liability of another Person for infringement, misappropriate, or violation of any Intellectual Property right.

(i) No claim or Legal Proceeding involving any DPI IP Rights is pending or, to DPI s Knowledge, has been threatened, except for any such claim or Legal Proceeding that, if adversely determined, would not adversely affect (i) the use or exploitation of DPI IP Rights by DPI or any DPI Subsidiary, or (ii) the manufacturing, distribution, or sale of any product or service being developed by DPI or any DPI Subsidiary, or that is being commercially sold by DPI or any DPI Subsidiary.

3.10 Contracts.

(a) Part 3.10(a) of the DPI Disclosure Schedule identifies each DPI Contract, including:

(i) each DPI Contract relating to the employment of, or the performance of employment-related services by, any Person, including any employee, consultant or independent contractor;

(ii) each DPI Contract relating to the acquisition, transfer, use, development, sharing or license of any technology or any Intellectual Property or DPI IP Rights;

(iii) each DPI Contract imposing any restriction on DPI s or any DPI Subsidiary s right or ability (A) to compete with any other Person, (B) to acquire any product or other asset or any services from any other Person, to sell any product or other asset to, or perform any services for, any other Person or to transact business or deal in any other manner with any other Person, or (C) develop or distribute any technology;

(iv) each DPI Contract creating or involving any agency relationship, distribution arrangement or franchise relationship;

(v) each DPI Contract relating to the creation of any Encumbrance with respect to any asset of DPI or any DPI Subsidiary;

(vi) each DPI Contract involving or incorporating any guaranty, any pledge, any performance or completion bond, any indemnity or any surety arrangement;

(vii) each DPI Contract creating or relating to any collaboration or joint venture or any sharing of technology, revenues, profits, losses, costs or liabilities, including DPI Contracts involving investments by DPI in, or loans by DPI to, any other Entity;

(viii) each DPI contract relating to the purchase or sale of any product or other asset by or to, or the performance of any services by or for, or otherwise involving as a counterparty, any DPI Related Party;

Table of Contents

(ix) each DPI Contract relating to indebtedness for borrowed money;

(x) each DPI Contract related to the acquisition or disposition of material assets of DPI or any DPI Subsidiary or any other Person;

(xi) any other material DPI Contract that has a term of more than 60 days and that may not be terminated by DPI or any DPI Subsidiary (without penalty) within 60 days after the delivery of a termination notice by DPI or the applicable DPI Subsidiary.

(xii) any other DPI Contract pursuant to which DPI or a DPI Subsidiary is actively performing as of the date hereof that contemplates or involves (A) the payment or delivery of cash or other consideration in an amount or having a value in excess of $100,000 in the aggregate, or (B) the purchase or sale of any product, or performance of services by or to DPI or any DPI Subsidiary having a value in excess of $100,000 in the aggregate;

(xiii) each DPI Contract constituting a commitment of any Person to purchase products (including products in development) of DPI or any DPI Subsidiary; and

(xiv) each DPI Contract with any Person, including without limitation any financial advisor, broker, finder, investment banker or other Person, providing advisory services to DPI or any DPI Subsidiary in connection with the Contemplated Transactions.

(b) DPI has delivered or made available to Merger Partner accurate and complete (except for applicable redactions thereto) copies of all material written DPI Contracts, including all amendments thereto. There are no DPI Contracts that are not in written form. Each DPI Contract is valid and in full force and effect, is enforceable by DPI or the applicable DPI Subsidiary in accordance with its terms, and after the Effective Time will continue to be legal, valid, binding and enforceable on identical terms. The consummation of the Contemplated Transactions hereby shall not (either alone or upon the occurrence of additional acts or events) result in any payment or payments becoming due from DPI or any DPI Subsidiary, the Surviving Corporation or Merger Partner to any Person under any DPI Contract or give any Person the right to terminate or alter the provisions of any DPI Contract.

(c) Neither DPI nor any DPI Subsidiary has materially violated or breached, or committed any material default under, any DPI Contract, and, to the Knowledge of DPI, no other Person has violated or breached, or committed any default under, any DPI Contract.

(d) No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or would reasonably be expected to, (i) result in a material violation or breach of any of the provisions of any DPI Contract, (ii) given any Person the right to declare a default or exercise any remedy under any DPI Contract, (iii) give any Person the right to accelerate the maturity or performance of any DPI Contract, or (iv) give any Person the right to cancel, terminate or modify any DPI Contract.

(e) Neither DPI nor any DPI Subsidiary has received any written notice or other communication regarding any actual or possible violation or breach of, or default under, any DPI Contract.

(f) Neither DPI nor any DPI Subsidiary has waived any rights under any DPI Contract.

(g) No Person is renegotiating, or has a right pursuant to the terms of any DPI Contract to renegotiate, any amount paid or payable to DPI or any DPI Subsidiary under any DPI Contract or any other material term or provision of any DPI Contract.

(h) Part 3.10(h) of the DPI Disclosure Schedule identifies and provides a brief description of each proposed Contract as to which any bid, offer, award, written proposal, term sheet or similar document has been submitted or received by DPI (other than term sheets provided by DPI or to DPI by any third party related to the subject matter of this transaction and other than the disclosures set forth on Part 4.2 of the DPI Disclosure Schedule).

(i) Part 3.10(i) of the DPI Disclosure Schedule provides an accurate and complete list of all Consents required under any DPI Contract to consummate the Merger and the other Contemplated Transactions.

Table of Contents

3.11 Tax Matters.

(a) All Tax Returns required to be filed by or on behalf of DPI or any DPI Subsidiary with any Governmental Body with respect to any taxable period ending on or before the Closing Date (the ***DPI Returns***) (i) have been or will be filed on or before the applicable due date (including any extensions of such due date), and (ii) have been, or will be when filed, accurately and completely prepared in all material respects. All Taxes due on or before the Closing Date have been or will be paid on or before the Closing Date. DPI has delivered or made available to Merger Partner accurate and complete copies of all DPI Returns filed which Merger Partner has requested. DPI shall establish in its books and records, in the Ordinary Course of Business, reserves adequate for the payment of all unpaid Taxes by DPI or any DPI Subsidiary for the period from January 1, 2006 through the Closing Date.

(b) The audited consolidated balance sheets of DPI as of December 31, 2003, 2004 and 2005 and the unaudited balance sheet of DPI as of February 28, 2006 fully accrue all liabilities for unpaid Taxes with respect to all periods through the dates thereof in accordance with GAAP.

(c) No DPI Return has ever been examined or audited by any Governmental Body and no examination or audit of any DPI Return is currently in progress or, to the Knowledge of DPI, threatened or contemplated. DPI has delivered or made available to Merger Partner accurate and complete copies of all audit reports, private letter rulings, revenue agent reports, information document requests, notices of proposed deficiencies, deficiency notices, protests, petitions, closing agreements, settlement agreements, pending ruling requests and any similar documents submitted by, received by, or agreed to by or on behalf of DPI or any DPI Subsidiary relating to DPI Returns. No extension or waiver of the limitation period applicable to any of the DPI Returns has been granted (by DPI, any DPI Subsidiary or any other Person), and no such extension or waiver has been requested from DPI or any DPI Subsidiary. All Taxes that DPI was required by law to withhold or collect have been duly withheld or collected and, to the extent required, have been properly paid to the appropriate Governmental Body. Neither DPI nor any DPI Subsidiary has executed or filed any power of attorney with any taxing authority.

(d) No claim or Legal Proceeding is pending or, to the Knowledge of DPI, has been threatened against or with respect to DPI or any DPI Subsidiary in respect of any Tax. There are no unsatisfied liabilities for Taxes with respect to any notice of deficiency or similar document received by DPI or any DPI Subsidiary with respect to any Tax (other than liabilities for Taxes asserted under any such notice of deficiency or similar document which are being contested in good faith by DPI or the applicable DPI Subsidiary and with respect to which adequate reserves for payment have been established). There are no liens for Taxes upon any of the assets of DPI or any DPI Subsidiary except liens for current Taxes not yet due and payable. Neither DPI nor any DPI Subsidiary has entered into or become bound by any agreement or consent pursuant to Section 341(f) of the Code. DPI has not been, and DPI will not be, required to include any adjustment in taxable income for any tax period (or portion thereof) pursuant to Section 481 or 263A of the Code or any comparable provision under state or foreign Tax laws as a result of transactions or events occurring, or accounting methods employed, prior to the Closing Date.

(e) Neither DPI nor any DPI Subsidiary has (i) ever been a member of an affiliated group (within the meaning of Section 1504(a) of the Code) filing (or which it has been required to file) a consolidated federal income Tax Return (other than a group of which only DPI and DPI Subsidiaries were members), (ii) any liability for the Taxes of any person under Section 1.1502-6 of the Treasury Regulations (or any similar provision of state, local or foreign law), as a transferee or successor, or otherwise, and (iii) ever been a party to any joint venture, collaboration, partnership or other agreement that could be treated as a partnership for Tax purposes. Neither DPI nor any DPI Subsidiary is or has ever been, a party to or bound by any Tax indemnity agreement, Tax-sharing agreement, Tax allocation agreement or similar Contract. Neither DPI nor any DPI Subsidiary has been either a distributing corporation or a controlled corporation in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code (y) in the two years prior to the date of this Agreement or (z) which could otherwise constitute part of a plan or series of related transactions (within the meaning of Section 355(e) of the Code) in conjunction with the Merger.

Table of Contents

(f) None of the assets of DPI or any DPI Subsidiary (i) is property that is required to be treated as being owned by any other Person pursuant to the provisions of former Section 168(f)(8) of the Internal Revenue Code of 1954, (ii) is tax-exempt use property within the meaning of Section 168(h) of the Code, (iii) directly or indirectly secures any debt the interest on which is tax exempt under Section 103(a) of the Code, or (iv) is subject to a lease under Section 7701(h) of the Code or under any predecessor section.

(g) Neither DPI nor any DPI Subsidiary has ever participated in an international boycott as defined in Section 999 of the Code.

(h) No DPI Subsidiary is or has been a passive foreign investment company within the meaning of Sections 1291-1297 of the Code.

(i) Neither DPI nor any DPI Subsidiary has incurred (or been allocated) an overall foreign loss as defined in Section 904(f)(2) of the Code which has not been previously recaptured in full as provided in Sections 904(f)(1) and/or 904(f)(3) of the Code.

(j) Neither DPI nor any DPI Subsidiary is a party to a gain recognition agreement under Section 367 of the Code.

(k) Neither DPI nor any DPI Subsidiary will be required to include any item of income in, or exclude any item of deduction from, taxable income for any period (or any portion thereof) ending after the Closing Date as a result of any (i) deferred intercompany gain or any excess loss account described in Treasury Regulations under Section 1502 of the Code (or any corresponding provision of state, local or foreign Tax law), (ii) closing agreement as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign Tax law) executed on or prior to the Closing Date, (iii) installment sale or other open transaction disposition made on or prior to the Closing Date, or (iv) prepaid amount received on or prior to the Closing Date.

(l) Neither DPI nor any DPI Subsidiary is or ever has been a party to a transaction or agreement that is in conflict with the Tax rules on transfer pricing in any relevant jurisdiction.

(m) Section 3.11(m) of the DPI Disclosure Schedule sets forth a complete and accurate list of any DPI Subsidiaries for which a check-the-box election under Section 7701 has been made.

(n) Neither DPI nor any DPI Subsidiary has engaged in any listed transaction for purposes of Treasury Regulation sections 1.6011-4(b)(2) or 301.6111-2(b)(2) or any analogous provision of state or local law.

3.12 Employee and Labor Matters; Benefit Plans.

(a) Part 3.12(a) of the DPI Disclosure Schedule accurately sets forth, with respect to each employee of DPI or any DPI Subsidiary (including any employee of DPI or any DPI Subsidiary who is on a leave of absence) with an annual base salary in excess of $100,000:

(i) the name of such employee and the date as of which such employee was originally hired by DPI or any DPI Subsidiary;

(ii) such employee s title;

(iii) the aggregate dollar amount of the wages, salary, and bonuses received by such employee from DPI or any DPI Subsidiary with respect to services performed in 2005;

(iv) such employee s annualized compensation as of the date of this Agreement;

(v) any Governmental Authorization that is held by such employee and that relates to or is useful in connection with DPI s business or any DPI Subsidiary s business;

(vi) such employee s citizenship status (whether such employee is a U.S. citizen or otherwise) and, with respect to non-U.S. citizens, identifies the visa or other similar permit under which such employee is working for DPI or any DPI Subsidiary and the dates of issuance and expiration of such visa or other permits; and

(vii) such employee s primary office location.

A-34.

Table of Contents

(b) Part 3.12(b) of the DPI Disclosure Schedule accurately identifies each former employee of DPI or any DPI Subsidiary who is receiving or is scheduled to receive (or whose spouse or other dependent is receiving or is scheduled to receive) any benefits (from DPI or any DPI Subsidiary) relating to such former employee s employment with DPI or any DPI Subsidiary; and Part 3.12(b) of the DPI Disclosure Schedule accurately describes such benefits.

(c) The employment of DPI s and each DPI Subsidiary s employees is terminable by DPI or the applicable DPI Subsidiary at will. DPI has delivered or made available to Merger Partner accurate and complete copies of all employee manuals and handbooks, disclosure materials, policy statements and other materials governing the terms and conditions of the employment of the employees of DPI or any DPI Subsidiary.

(d) To the Knowledge of DPI:

(i) no Key Employee of DPI or any DPI Subsidiary intends to terminate his employment with DPI or the applicable DPI Subsidiary;

(ii) no Key Employee of DPI or any DPI Subsidiary has received an offer that remains outstanding to join a business that may be competitive with DPI s or any DPI Subsidiary s business; and

(iii) no employee of DPI or any DPI Subsidiary is a party to or is bound by any confidentiality agreement, noncompetition agreement or other Contract (with any Person) that may have an adverse effect on: (A) the performance by such employee of any of his duties or responsibilities as an employee of DPI or the applicable DPI Subsidiary; or (B) DPI s or any DPI Subsidiary s business or operations.

(e) Neither DPI nor any DPI Subsidiary is a party to or bound by, and neither DPI nor any DPI Subsidiary has ever been a party to or bound by any union contract, collective bargaining agreement or similar Contract.

(f) Neither DPI nor any DPI Subsidiary is engaged, and neither DPI nor any DPI Subsidiary has ever been engaged, in any unfair labor practice of any nature. There has never been any slowdown, work stoppage, labor dispute or union organizing activity, or any similar activity or dispute, affecting DPI or any DPI Subsidiary. To DPI s Knowledge, no event has occurred, and no condition or circumstance exists, that might directly or indirectly give rise to the commencement of any such slowdown, work stoppage, labor dispute or union organizing activity or any similar activity or dispute. There are no actions, suits, claims, labor disputes or grievances pending or, to the Knowledge of DPI, threatened or reasonably anticipated relating to any labor, safety or discrimination matters involving any employee of DPI or any DPI Subsidiary, including, without limitation, charges of unfair labor practices or discrimination complaints. DPI and each DPI subsidiary has good labor relations, and no reason to believe that the consummation of the Merger or any of the other Contemplated Transactions will have a material adverse effect on DPI or any DPI Subsidiary s labor relations.

(g) Since January 1, 2003, there have not been any, independent contractors who have provided services to DPI or any DPI Subsidiary for a period of six consecutive months or longer. Neither DPI nor any DPI Subsidiary has ever had any temporary or leased employees.

(h) Part 3.12(h) of the DPI Disclosure Schedule identifies each DPI Plan sponsored, maintained, contributed to or required to be contributed to by DPI or any DPI Subsidiary for the benefit of any employee of DPI or any DPI Subsidiary. Except to the extent required to comply with Legal Requirements, neither DPI nor any DPI Subsidiary intends or has committed to establish or enter into any new DPI Plan, or to modify any DPI Plan.

(i) DPI has delivered or made available to Merger Partner: (i) correct and complete copies of all documents setting forth the terms of each DPI Plan, including all amendments thereto and all related trust documents; (ii) the three most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required under ERISA or the Code in connection with each DPI Plan; (iii) if the DPI Plan is subject to the minimum funding standards of Section 302 of ERISA, the most recent annual and periodic accounting of DPI Plan assets; (iv) the most recent summary plan description together

Table of Contents

with the summaries of material modifications thereto, if any, required under ERISA with respect to each DPI Plan; (v) all material written Contracts relating to each DPI Plan, including administrative service agreements and group insurance contracts; (vi) all written materials provided to any employee of DPI or any DPI Subsidiary relating to any DPI Plan and any proposed DPI Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events that would result in any liability to DPI or any DPI Subsidiary; (vii) all correspondence to or from any Governmental Body relating to any DPI Plan; (viii) the form of all COBRA forms and related notices; (ix) all insurance policies in the possession of DPI or any DPI Subsidiary pertaining to fiduciary liability insurance covering the fiduciaries for each DPI Plan; (x) all discrimination tests required under the Code for each DPI Plan intended to be qualified under Section 401(a) of the Code for the three most recent plan years; and (xi) the most recent Internal Revenue Service determination or opinion letter issued with respect to each DPI Plan intended to be qualified under Section 401(a) of the Code.

(j) DPI and each DPI Subsidiary has performed all material obligations required to be performed by it under each DPI Plan and is not in default under or violation of, and DPI has no Knowledge of any default under or violation by any other party of, the terms of any DPI Plan. Each DPI Plan has been established and maintained substantially in accordance with its terms and in substantial compliance with all applicable Legal Requirements, including ERISA and the Code. Any DPI Plan intended to be qualified under Section 401(a) of the Code has obtained a favorable determination letter (or opinion letter, if applicable) as to its qualified status under the Code or has remaining a period of time under applicable Treasury regulations or Internal Revenue Service pronouncements in which to apply for such a letter and make any amendments necessary to obtain a favorable determination as to the qualified status of that DPI Plan. No prohibited transaction, within the meaning of Section 4975 of the Code or Sections 406 and 407 of ERISA, and not otherwise exempt under Section 408 of ERISA, has occurred with respect to any DPI Plan subject to ERISA or Section 4975 of the Code. There are no claims or Legal Proceedings pending, or, to the Knowledge of DPI, threatened or reasonably anticipated (other than routine claims for benefits), against any DPI Plan or against the assets of any DPI Plan. Each DPI Plan (other than any DPI Plan to be terminated prior to the Closing in accordance with this Agreement) can be amended, terminated or otherwise discontinued after the Closing in accordance with its terms, without liability to Merger Partner, DPI, any DPI Subsidiary or the Surviving Corporation (other than ordinary administration expenses). There are no audits, inquiries or Legal Proceedings pending or, to the Knowledge of DPI, threatened by any Governmental Body with respect to any DPI Plan. Neither DPI nor any DPI Subsidiary has ever incurred any penalty or tax with respect to any DPI Plan under Section 502(i) of ERISA or Sections 4975 through 4980 of the Code. DPI and each DPI Subsidiary have made all contributions and other payments required by and due under the terms of each DPI Plan.

(k) Neither DPI nor any DPI Subsidiary has ever maintained, established, sponsored, participated in, or contributed to any: (i) Pension Plan subject to Title IV of ERISA; or (ii) multiemployer plan within the meaning of Section (3)(37) of ERISA. Neither DPI nor any DPI Subsidiary has ever maintained, established, sponsored, participated in or contributed to, any Pension Plan in which stock of DPI or any DPI Subsidiary is or was held as a plan asset. The fair market value of the assets of each funded Pension Plan or multiemployer plan, or the equivalent thereof, maintained by DPI or any DPI Subsidiary in a foreign jurisdiction (a ***DPI Foreign Plan***) the liability of each insurer for any DPI Foreign Plan funded through insurance, or the book reserve established for any DPI Foreign Plan, together with any accrued contributions, is sufficient to procure or provide in full for the accrued benefit obligations, with respect to all current and former participants in such DPI Foreign Plan according to the actuarial assumptions and valuations most recently used to determine employer contributions to and obligations under such DPI Foreign Plan, and none of the Contemplated Transactions shall cause any such assets or insurance obligations to be less than such benefit obligations.

(l) No DPI Plan provides (except at no cost to DPI or any DPI Subsidiary) or reflects or represents any liability of DPI or any DPI Subsidiary to provide, retiree life insurance, retiree health benefits or other retiree employee welfare benefits to any Person for any reason, except as may be required by COBRA or

Table of Contents

other applicable Legal Requirements. Other than commitments made that involve no future costs to DPI or any DPI Subsidiary, neither DPI nor any DPI Subsidiary has ever represented, promised or contracted (whether in oral or written form) to any employee of DPI or any DPI Subsidiary (either individually or to employees of DPI or any DPI Subsidiary as a group) or any other Person that such employee(s) or other Person would be provided with retiree life insurance, retiree health benefits or other retiree employee welfare benefits, except to the extent required by applicable Legal Requirements.

(m) Neither the execution of this Agreement nor the consummation of the Contemplated Transactions hereby will (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any DPI Plan, DPI Contract, trust or loan that will or may result (either alone or in connection with any other circumstance or event) in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employees of DPI or any DPI Subsidiary.

(n) DPI and DPI Subsidiaries: (i) are, and at all times have been, in substantial compliance with all applicable Legal Requirements respecting employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to their employees, including the health care continuation requirements of COBRA, the requirements of FMLA, the requirements of HIPAA and any similar provisions of state law; (ii) have withheld and reported all amounts required by applicable Legal Requirements or by Contract to be withheld and reported with respect to wages, salaries and other payments to their employees; (iii) are not liable for any arrears of wages or any taxes or any penalty for failure to comply with the Legal Requirements applicable to the foregoing; and (iv) are not liable for any payment to any trust or other fund governed by or maintained by or on behalf of any Governmental Body with respect to unemployment compensation benefits, social security or other benefits or obligations for their employees (other than routine payments to be made in the normal course of business and consistent with past practice). There are no pending or, to the Knowledge of DPI, threatened or reasonably anticipated claims or Legal Proceedings against DPI or any DPI Subsidiary under any worker s compensation policy or long-term disability policy.

(o) Neither DPI nor any DPI Subsidiary is required to be, and, to the Knowledge of DPI, has not ever been required to be, treated as a single employer with any other Person under Section 4001(b)(1) of ERISA or Section 414(b), (c), (m) or (o) of the Code. Neither DPI nor any DPI Subsidiary has ever been a member of an affiliated service group within the meaning of Section 414(m) of the Code. To the Knowledge of DPI, neither DPI nor any DPI Subsidiary has ever made a complete or partial withdrawal from a multiemployer plan, as such term is defined in Section 3(37) of ERISA, resulting in withdrawal liability, as such term is defined in Section 4201 of ERISA (without regard to subsequent reduction or waiver of such liability under either Section 4207 or 4208 of ERISA).

(p) To the Knowledge of DPI, no officer or employee of DPI or any DPI Subsidiary is subject to any injunction, writ, judgment, decree, or order of any court or other Governmental Body that would interfere with such employee s efforts to promote the interests of DPI or any DPI Subsidiary, or that would interfere with the business of DPI or any DPI Subsidiary. Neither the execution nor the delivery of this Agreement, nor the carrying on of the business of DPI or any DPI Subsidiary as presently conducted nor any activity of any employees of DPI or any DPI Subsidiary in connection with the carrying on of the business of DPI or any DPI Subsidiary as presently conducted will, to the Knowledge of DPI, conflict with, result in a breach of the terms, conditions or provisions of, or constitute a default under, any Contract under which any employee of DPI or any DPI Subsidiary may be bound.

(q) There is no agreement, plan, arrangement or other Contract covering any employee or independent contractor or former employee or independent contractor of DPI or any DPI Subsidiary that, considered individually or considered collectively with any other such Contracts and/or other events, will, or could reasonably be expected to, give rise directly or indirectly to the payment of any amount that would not be deductible pursuant to Section 280G or Section 162 of the Code. Neither DPI nor any DPI Subsidiary is a party to any Contract, nor does DPI or any DPI Subsidiary have any obligation (current or contingent), to compensate any individual for excise taxes paid pursuant to Section 4999 of the Code.

Table of Contents

(r) No holder of shares of DPI Common Stock holds shares of DPI Common Stock that are non-transferable and subject to a substantial risk of forfeiture within the meaning of Section 83 of the Code with respect to which a valid election under Section 83(b) of the Code has not been made and were not acquired on the exercise of an incentive stock option as defined in Section 422 of the Code.

(s) Any DPI employee plan, which includes any and all salary, bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance pay, termination pay, hospitalization, medical, life or other insurance, supplemental unemployment benefits, profit-sharing, pension or retirement plan, program or agreement (collectively, the ***DPI Plans***, and each individually a ***DPI Plan***) sponsored, maintained, contributed to or required to be contributed to by DPI or any DPI Subsidiary for the benefit of any employee of DPI or any DPI Subsidiary and which is a nonqualified deferred compensation plan (as defined in Section 409A(d)(1) of the Code) has been operated since January 1, 2005 in good faith compliance with Section 409A of the Code and the proposed regulations and other guidance issued with respect thereto so as to avoid any additional Tax pursuant to Section 490A(a)(1)(B)(i)(II) of the Code.

3.13 Environmental Matters. DPI and each DPI Subsidiary is in compliance in all material respects with all applicable Environmental Laws, which compliance includes the possession by DPI and each DPI Subsidiary of all permits and other Governmental Authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof. Neither DPI nor any DPI Subsidiary has received since January 1, 2003 any written notice or other communication (in writing or otherwise), whether from a Governmental Body, citizens group, employee or otherwise, that alleges that DPI or any DPI Subsidiary is not in compliance with any Environmental Law, and, to the Knowledge of DPI, there are no circumstances that may prevent or interfere with DPI s or any DPI Subsidiary s compliance with any Environmental Law in the future. To the Knowledge of DPI: (i) no current or prior owner of any property leased or controlled by DPI or any DPI Subsidiary has received since January 1, 2003 any written notice or other communication relating to property owned or leased at any time by DPI, whether from a Governmental Body, citizens group, employee or otherwise, that alleges that such current or prior owner or DPI or any DPI Subsidiary is not in compliance with or violated any Environmental law relating to such property and (ii) neither DPI nor any DPI Subsidiary has any material liability under any Environmental Laws. All Governmental Authorizations currently held by DPI or any DPI Subsidiary pursuant to Environmental Laws are identified in Part 3.13 of the DPI Disclosure Schedule.

3.14 Bank Accounts; Receivables.

(a) Part 3.14(a) of the DPI Disclosure Schedule provides accurate information with respect to each account maintained by or for the benefit of DPI or any DPI Subsidiary at any bank or other financial institution, including the name of the bank or financial institution, the account number, the balance as of the date hereof and the names of all individuals authorized to draw on or make withdrawals from such accounts.

(b) All existing accounts receivable of DPI or any DPI Subsidiary (including those accounts receivable reflected on the DPI Balance Sheet that have not yet been collected and those accounts receivable that have arisen since the date of the DPI Balance Sheet and have not yet been collected) (i) represent valid obligations of customers of DPI or any DPI Subsidiary arising from bona fide transactions entered into in the Ordinary Course of Business, and (ii) are current and are expected to be collected in full when due, without any counterclaim or set off, net of applicable reserves for bad debts on the unaudited interim consolidated balance sheet for DPI as of February 28, 2006 delivered or made available to Merger Partner prior to the date of this Agreement.

3.15 Legal Proceedings; Orders.

(a) Except as described in the DPI SEC Documents, there is no pending Legal Proceeding, and to the Knowledge of DPI, no Person has threatened to commence any Legal Proceeding: (i) that involves DPI or any DPI Subsidiary or any assets owned or used by DPI or any DPI Subsidiary or any Person whose liability DPI or any DPI Subsidiary has or may have retained or assumed, either contractually or by operation of law claiming damages in an amount in excess of $100,000; or (ii) that challenges, or that may have the effect of

Table of Contents

preventing, delaying, making illegal or otherwise interfering with the Merger or any of the Contemplated Transactions. To the Knowledge of DPI, no event has occurred, and no claim, dispute or other condition or circumstance exists, that will, or that would reasonable be expected to, give rise to or serve as a basis for the commencement of any such Legal Proceeding.

(b) There is no order, writ, injunction, judgment or decree to which DPI or any DPI Subsidiary, or any of the assets owned or used by DPI or any DPI Subsidiary, is subject. To the Knowledge of DPI, no officer or other employee of DPI or any DPI Subsidiary is subject to any order, writ, injunction, judgment or decree that relates to DPI s or any DPI Subsidiary s business or to any assets owned or used by DPI or any DPI Subsidiary.

3.16 Non-Contravention; Consents. Subject to compliance with the applicable requirements of the HSR Act, obtaining the Required DPI Stockholder Vote for the applicable Contemplated Transactions, approval of the Bylaws Amendment by the Bylaws Amendment Vote, adoption of this Agreement by DPI as the sole stockholder of Merger Sub, the filing of the DPI Certificate of Amendment, and the filing of the Certificate of Merger as required by the DGCL, neither (a) the execution, delivery or performance of this Agreement or any of the Related Agreements, nor (b) the consummation of the Merger or any of the other Contemplated Transactions, will (with or without notice or lapse of time):

(a) contravene, conflict with or result in a violation of any of the provisions of DPI s certificate of incorporation or bylaws;

(b) contravene, conflict with or result in a violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any order, writ, injunction, judgment or decree to which DPI or any DPI Subsidiary, or any of the assets owned or used by DPI or any DPI Subsidiary, is subject;

(c) contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify, any Governmental Authorization that is held by DPI or any DPI Subsidiary or that otherwise relates to DPI s or any DPI Subsidiary s business or to any of the assets owned or used by DPI or any DPI Subsidiary;

(d) result in a material conflict, violation or breach of, or result in a material default under, any provision of any material DPI Contract, or give any Person the right to (i) declare a default or exercise any remedy under any such DPI Contract, (ii) accelerate the maturity or performance of any such DPI Contract, or (iii) cancel, terminate or modify any such DPI Contract; or

(e) result in the imposition or creation of any Encumbrance upon or with respect to any asset owned or used by DPI or any DPI Subsidiary (except for minor liens that will not, in any case or in the aggregate, materially detract from the value of the assets subject thereto or materially impair the operations of DPI or any DPI Subsidiary).

Except for those filings, notices or Consents disclosed in Part 3.16 of the DPI Disclosure Schedule, DPI and the DPI Subsidiaries are not and will not be required to make any filing with or give any notice to, or to obtain any Consent from, any Person in connection with (y) the execution, delivery or performance of this Agreement or any of the Related Agreements, or (z) the consummation of the Merger or any of the other Contemplated Transactions.

3.17 Vote Required. The affirmative vote of (i) the holders of a majority of the DPI Common Stock having voting power present in person or represented by proxy at the DPI Stockholders Meeting is the only vote of the holders of any class or series of DPI capital stock necessary to approve the issuance of DPI Common Stock in connection with the Merger and (ii) the holders of a majority of the DPI Common Stock having voting power outstanding on the record date for the DPI Stockholders Meeting is the only vote necessary to approve the DPI Certificate of Amendment ((i) and (ii) together, the ***Required DPI Stockholder Vote***). The affirmative vote of the holders of 66⅔% of the DPI Common Stock having voting power outstanding on the record date for the DPI

Table of Contents

Stockholders Meeting (the ***Bylaws Amendment Vote***) is the only vote necessary to approve the amendment to the bylaws of DPI to increase the total number of directors that shall constitute the whole board of directors of DPI to twelve (12) directors (the ***Bylaws Amendment***).

3.18 No Financial Advisor. Except for Molecular Securities Inc., no broker, finder or investment banker is entitled to any brokerage fee, finder s fee, opinion fee, success fee, transaction fee or other fee or commission in connection with the Merger or any of the other Contemplated Transactions based upon arrangements made by or on behalf of DPI or Merger Sub.

3.19 Authority; Binding Nature of Agreement. DPI and Merger Sub have the absolute and unrestricted right, power and authority to enter into and perform their obligations under this Agreement; and the execution, delivery and performance by DPI and Merger Sub of this Agreement (including the contemplated issuance of DPI Common Stock pursuant to the Merger in accordance with this Agreement, the effectuation of the DPI Certificate of Amendment and the approval of the Bylaws Amendment) have been duly authorized by all necessary action on the part of DPI and Merger Sub and their respective boards of directors, subject only to the adoption of this Agreement by DPI as the sole stockholder of Merger Sub, obtaining the Required DPI Stockholder Vote for the applicable Contemplated Transactions, the filing of the DPI Certificate of Amendment, the approval of the Bylaws Amendment by the Bylaws Amendment Vote and the filing and recordation of the Certificate of Merger pursuant to the DGCL. This Agreement has been duly executed and delivered by DPI and Merger Sub, and, assuming due authorization, execution and delivery by the other Parties hereto, constitutes the legal, valid and binding obligation of DPI and Merger Sub, enforceable against them in accordance with its terms, subject to (a) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

3.20 Anti-Takeover Law. The board of directors of DPI has taken all action necessary and required to render inapplicable to the Merger, this Agreement or any agreement contemplated hereby and the Contemplated Transactions any anti-takeover provision in DPI s certificate of incorporation or bylaws, any takeover provision in any DPI Contract, and any takeover provision in any applicable state law.

3.21 Valid Issuance. The DPI Common Stock to be issued pursuant to the Merger will, when issued in accordance with the provisions of this Agreement, be validly issued, fully paid and nonassessable.

3.22 Controls and Procedures, Certifications and Other Matters Relating to the Sarbanes-Oxley Act.

(a) DPI and each DPI Subsidiary maintains internal control over financial reporting which provide assurance that (i) records are maintained in reasonable detail and accurately and fairly reflect the transactions and dispositions of DPI s and each DPI Subsidiary s assets, (ii) transactions are executed with management s authorization, and (iii) transactions are recorded as necessary to permit preparation of the consolidated financial statements of DPI and to maintain accountability for DPI s consolidated assets.

(b) DPI maintains disclosure controls and procedures required by Rules 13a-15 or 15d-15 under the Exchange Act, and such controls and procedures are effective to ensure that all material information concerning DPI and DPI Subsidiaries is made known on a timely basis to the individuals responsible for the preparation of DPI s filings with the SEC and other public disclosure documents.

(c) Neither DPI nor any of its officers has received notice from any Governmental Entity questioning or challenging the accuracy, completeness or manner of filing or submission of any filing with the SEC, including without limitation any certifications required by Section 906 of the Sarbanes-Oxley Act.

(d) DPI has not, since July 30, 2002, extended or maintained credit, arranged for the extension of credit, modified or renewed an extension of credit, in the form of a personal loan or otherwise, to or for any director or executive officer of DPI.

3.23 Company Rights Agreement. DPI has amended the Rights Agreement, dated as of February 13, 2003, between DPI and American Stock Transfer & Trust Co., Inc. (the ***Rights Agreement***), and taken all other action necessary or appropriate so that the execution and delivery of this Agreement by the Parties hereto, and

Table of Contents

the consummation by DPI of the Merger and the Contemplated Transactions, do not and will not cause Merger Partner or any of its Affiliates to be within the definition of Acquiring Person under the Rights Agreement.

3.24 Section 203 of the DGCL. The board of directors of DPI has taken all actions necessary so that the restrictions contained in Section 203 of the DGCL applicable to a business combination (as defined in Section 203) shall not apply to the execution, delivery or performance of this Agreement or the consummation of the Merger or any other Contemplated Transaction.

4. Certain Covenants Of The Parties

4.1 Access and Investigation. Subject to the terms of the Confidentiality Agreement which the Parties agree will continue in full force following the date of this Agreement, during the period commencing on the date of this Agreement and ending at the earlier of the termination of this Agreement pursuant to its terms or the Effective Time (the ***Pre-Closing Period***), upon reasonable notice DPI and Merger Partner shall, and shall cause such Party s Representatives to: (a) provide the other Party and such other Party s Representatives with reasonable access during normal business hours to such Party s Representatives, personnel and assets and to all existing books, records, Tax Returns, work papers and other documents and information relating to such Party and its Subsidiaries; (b) provide the other Party and such other Party s Representatives with such copies of the existing books, records, Tax Returns, work papers, product data, and other documents and information relating to such Party and its Subsidiaries, and with such additional financial, operating and other data and information regarding such Party and its Subsidiaries as the other Party may reasonably request; and (c) permit the other Party s officers and other employees to meet, upon reasonable notice and during normal business hours, with the officers and managers of such Party responsible for such Party s financial statements and the internal controls of such Party to discuss such matters as the other Party may deem necessary or appropriate in order to enable the other Party to satisfy its obligations under the Sarbanes-Oxley Act and the rules and regulations relating thereto. Without limiting the generality of any of the foregoing, during the Pre-Closing Period, each of DPI and Merger Partner shall promptly provide the other Party with copies of:

(i) the unaudited monthly consolidated balance sheets of such Party as of the end of each calendar month and the related unaudited monthly consolidated statements of operations, statements of stockholders equity and statements of cash flows for such calendar month, which shall be delivered within twenty (20) days after the end of such calendar month;

(ii) all material operating and financial reports prepared by such Party for its senior management, including sales forecasts, marketing plans, development plans, discount reports, write off reports, hiring reports and capital expenditure reports prepared for its senior management;

(iii) any written materials or communications sent by or on behalf of a Party to its stockholders;

(iv) any notice, document or other communication sent by or on behalf of a Party to any party to any material DPI Contract or material Merger Partner Contract, as applicable, or sent to a Party by any party to any material DPI Contract or material Merger Partner Contract, as applicable (other than any communication that relates solely to routine commercial transactions between such Party and the other party to any such material DPI Contract or material Merger Partner Contract, as applicable, and that is of the type sent in the Ordinary Course of Business);

(v) any notice, report or other document filed with or otherwise furnished, submitted or sent to any Governmental Body on behalf of a Party in connection with the Merger or any of the Contemplated Transactions;

(vi) any non-privileged notice, document or other communication sent by or on behalf of, or sent to, a Party relating to any pending or threatened Legal Proceeding involving or affecting such Party; and

(vii) any material notice, report or other document received by a Party from any Governmental Body.

Table of Contents

Notwithstanding the foregoing, any Party may restrict the foregoing access to the extent that any Legal Requirement applicable to such Party requires such Party or its Subsidiaries to restrict or prohibit access to any such properties or information.

4.2 Operation of DPI s Business.

(a) Except as set forth on Part 4.2 of the DPI Disclosure Schedule, during the Pre-Closing Period each of DPI and its Subsidiaries shall conduct its business and operations (i) in the Ordinary Course of Business and (ii) in compliance with all applicable Legal Requirements and the requirements of all Contracts that constitute material Contracts. In addition, during the Pre-Closing Period, DPI shall promptly notify Merger Partner of: (A) any notice or other communication from any Person alleging that the Consent of such Person is or may be required in connection with any of the Contemplated Transactions; and (B) any Legal Proceeding against, relating to, involving or otherwise affecting DPI or DPI s Subsidiaries that is commenced, or, to the Knowledge of DPI, threatened against, DPI or DPI s Subsidiaries.

(b) Except as set forth in Part 4.2 of the DPI Disclosure Schedule, and subject to any Legal Requirement applicable to DPI or any of its Subsidiaries, during the Pre-Closing Period, neither DPI nor any of its Subsidiaries shall, without the prior written consent of Merger Partner (which shall not be unreasonably withheld, conditioned or delayed), take any action set forth in Section 3.5(c)-(t).

(c) Notwithstanding any other provisions of this Agreement, including without limitation, the provisions in Sections 4.2(a), 4.2(b), 4.4, 4.5, 8 and 9, the Parties expressly agree and acknowledge that DPI and DPI s Subsidiaries are permitted to undertake and continue any discussions described on Part 4.2 of the DPI Disclosure Schedule and any transactions undertaken, continued or consummated in connection with those discussions will not be deemed to be a breach or default by DPI or any DPI Subsidiary of an provision of this Agreement or otherwise trigger any rights, remedies or options for Merger Partner hereunder. DPI agrees to promptly notify Merger Partner of any material developments with respect to any matters described on Part 4.2 of the DPI Disclosure Schedule.

4.3 Operation of Merger Partner s Business.

(a) Except as set forth on Part 4.3 of the Merger Partner Disclosure Schedule, during the Pre-Closing Period: (i) Merger Partner shall conduct their respective business and operations: (A) in the Ordinary Course of Business; and (B) in compliance with all applicable Legal Requirements and the requirements of all Contracts that constitute material Contracts; (ii) Merger Partner shall preserve intact its current business organization, keep available the services of its current officers and other employees and maintains its relations and goodwill with all suppliers, customers, landlords, creditors, licensors, licensees, employees and other Persons having business relationships with Merger Partner; and (iii) Merger Partner shall promptly notify DPI of: (A) any notice or other communication from any Person alleging that the Consent of such Person is or may be required in connection with any of the Contemplated Transactions; and (B) any Legal Proceeding against, relating to, involving or otherwise affecting Merger Partner that is commenced, or, to the Knowledge of Merger Partner, threatened against, Merger Partner.

(b) Except as set forth in Part 4.3 of the Merger Partner Disclosure Schedule, and subject to any Legal Requirement applicable to Merger Partner and its Subsidiaries, during the Pre-Closing Period, Merger Partner agrees that it shall not, without the prior written consent of DPI (which shall not be unreasonably withheld, conditioned or delayed) take any action set forth in Section 2.5(c)-(t).

4.4 Disclosure Schedule Updates. During the Pre-Closing Period, Merger Partner on the one hand, and DPI on the other, shall promptly notify the other Party in writing, by delivery of an updated Merger Partner Disclosure Schedule or DPI Disclosure Schedule, as the case may be, of: (i) the discovery by such Party of any event, condition, fact or circumstance that occurred or existed on or prior to the date of this Agreement and that caused or constitutes a material inaccuracy in any representation or warranty made by such Party in this Agreement; (ii) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that would cause or constitute a material inaccuracy in any representation or warranty made by

Table of Contents

such Party in this Agreement if: (A) such representation or warranty had been made as of the time of the occurrence, existence or discovery of such event, condition, fact or circumstance; or (B) such event, condition, fact or circumstance had occurred, arisen or existed on or prior to the date of this Agreement; (iii) any material breach of any covenant or obligation of such Party; and (iv) any event, condition, fact or circumstance that could reasonably be expected to make the timely satisfaction of any of the conditions set forth in Sections 6, 7 or 8 impossible or materially less likely. Without limiting the generality of the foregoing, Merger Partner on the one hand, and DPI on the other, shall promptly advise the other Party in writing of any Legal Proceeding or claim threatened, commenced or asserted against or with respect to, or otherwise affecting, such Party or (to the Knowledge of such Party) any director, officer or Key Employee of such Party. No notification given pursuant to this Section 4.4 shall change, limit or otherwise affect any of the representations, warranties, covenants or obligations of the notifying Party contained in this Agreement or its Disclosure Schedule for purposes of Section 7.1 or 7.2, in the case of Merger Partner, or Section 8.1 or 8.2 in the case of DPI.

4.5 No Solicitation.

(a) Each Party agrees that neither it nor any of its Subsidiaries shall, nor shall it nor any of its Subsidiaries authorize or permit any of the officers, directors, investment bankers, attorneys or accountants retained by it or any of its Subsidiaries to, and that it shall use commercially reasonable efforts to cause its and its Subsidiaries non-officer employees and other agents not to (and shall not authorize any of them to) directly or indirectly: (i) solicit, initiate, encourage, induce or knowingly facilitate the communication, making, submission or announcement of any Acquisition Proposal or Acquisition Inquiry or take any action that could reasonably be expected to lead to an Acquisition Proposal or Acquisition Inquiry; (ii) furnish any information regarding such Party to any Person in connection with or in response to an Acquisition Proposal or Acquisition Inquiry; (iii) engage in discussions or negotiations with any Person with respect to any Acquisition Proposal or Acquisition Inquiry; (iv) approve, endorse or recommend any Acquisition Proposal; or (v) execute or enter into any letter of intent or similar document or any Contract contemplating or otherwise relating to any Acquisition Transaction; *provided, however*, that, notwithstanding anything contained in this Section 4.5(a), prior to obtaining the Required DPI Stockholder Vote or the Required Merger Partner Stockholder Vote, as applicable, each Party may furnish information regarding such Party to, and enter into discussions or negotiations with, any Person in response to a Superior Offer or a bona fide, unsolicited written Acquisition Proposal made or received after the date of this Agreement that is reasonably likely to result in a Superior Offer that is submitted to such Party by such Person (and not withdrawn) if: (A) neither such Party nor any Representative of such Party shall have breached this Section 4.5; (B) the board of directors of such Party concludes in good faith based on the advice of outside legal counsel, that the failure to take such action is reasonably likely to result in a breach of the fiduciary duties of the board of directors of such Party under applicable Legal Requirements; (C) at least three (3) Business Days prior to furnishing any such information to, or entering into discussions with, such Person, such Party gives the other Party written notice of the identity of such Person and of such Party s intention to furnish information to, or enter into discussions with, such Person; (D) such Party receives from such Person an executed confidentiality agreement containing provisions (including nondisclosure provisions, use restrictions, non-solicitation provisions, no hire provisions and standstill provisions) at least as favorable to such Party as those contained in the Confidentiality Agreement; and (E) at least three (3) Business Days prior to furnishing any such nonpublic information to such Person, such Party furnishes such information to the other Party (to the extent such nonpublic information has not been previously furnished by such Party to the other Party). Without limiting the generality of the foregoing, each Party acknowledges and agrees that, in the event any Representative of such Party (whether or not such Representative is purporting to act on behalf of such Party) takes any action that, if taken by such Party, would constitute a breach of this Section 4.5 by such Party, the taking of such action by such Representative shall be deemed to constitute a breach of this Section 4.5 by such Party for purposes of this Agreement.

(b) If any Party or any Representative of such Party receives an Acquisition Proposal or Acquisition Inquiry at any time during the Pre-Closing Period, then such Party shall promptly (and in no event later than 24 hours after such Party becomes aware of such Acquisition Proposal or Acquisition Inquiry) advise the

Table of Contents

other Party orally and in writing of such Acquisition Proposal or Acquisition Inquiry (including the identity of the Person making or submitting such Acquisition Proposal or Acquisition Inquiry, and the terms thereof). Such Party shall keep the other Party fully informed with respect to the status and terms of any such Acquisition Proposal or Acquisition Inquiry and any modification or proposed modification thereto.

(c) Each Party shall immediately cease and cause to be terminated any existing discussions with any Person that relate to any Acquisition Proposal or Acquisition Inquiry as of the date of this Agreement.

(d) Each Party shall not release or permit the release of any Person from, or waive or permit the waiver of any provision of or right under, any confidentiality, non-solicitation, no hire, standstill or similar agreement (whether entered into prior to or after the date of this Agreement) to which such Party is a party or under which such Party has any rights, and shall enforce or cause to be enforced each such agreement to the extent requested by the other Party. Each Party shall promptly request each Person that has executed a confidentiality or similar agreement in connection with its consideration of a possible Acquisition Transaction or equity investment to return to such Party all confidential information heretofore furnished to such Person by or on behalf of such Party.

5. Additional Agreements of the Parties

5.1 Registration Statement; Joint Proxy Statement/Prospectus.

(a) As promptly as practicable after the date of this Agreement, the Parties shall prepare and cause to be filed with the SEC the Joint Proxy Statement/Prospectus and DPI shall prepare and cause to be filed with the SEC the Form S-4 Registration Statement, which shall also include registration for resale of shares by any Affiliates of Merger Partner, in which the Joint Proxy Statement/Prospectus will be included as a prospectus. Each of the Parties shall use commercially reasonable efforts to cause the Form S-4 Registration Statement and the Joint Proxy Statement/Prospectus to comply with the applicable rules and regulations promulgated by the SEC, to respond promptly to any comments of the SEC or its staff and to have the Form S-4 Registration Statement declared effective under the Securities Act as promptly as practicable after it is filed with the SEC. Prior to the Form S-4 Registration Statement being declared effective under the Securities Act by the SEC (a) DPI and Merger Sub shall execute and deliver to Cooley Godward LLP and to Wilmer Cutler Pickering Hale and Dorr LLP tax representation letters in a form reasonably acceptable to such counsel; and (b) Merger Partner shall execute and deliver to Wilmer Cutler Pickering Hale and Dorr LLP and to Cooley Godward LLP tax representation letters in a form reasonably acceptable to such counsel. Following the delivery of the tax representation letters pursuant to the preceding sentence, (x) DPI shall use its commercially reasonable efforts to cause Cooley Godward LLP to deliver to it a tax opinion satisfying the requirements of Item 601 of Regulation S-K under the Securities Act; and (y) Merger Partner shall use its commercially reasonable efforts to cause Wilmer Cutler Pickering Hale and Dorr LLP to deliver to it a tax opinion satisfying the requirements of Item 601 of Regulation S-K under the Securities Act. In rendering such opinions, each of such counsel shall be entitled to rely on the tax representation letters referred to in this Section 5.1(a). Each of the Parties shall use commercially reasonable efforts to cause the Joint Proxy Statement/Prospectus to be mailed to the stockholders of Merger Partner and the stockholders of DPI as promptly as practicable after the Form S-4 Registration Statement is declared effective under the Securities Act. Each Party shall promptly furnish to the other Party all information concerning such Party and such Party s Subsidiaries and such Party s stockholders that may be required or reasonably requested in connection with any action contemplated by this Section 5.1. If any event relating to Merger Partner occurs, or if Merger Partner becomes aware of any information, that should be disclosed in an amendment or supplement to the Form S-4 Registration Statement or the Joint Proxy Statement/Prospectus, then Merger Partner shall promptly inform DPI thereof and shall cooperate with DPI in filing such amendment or supplement with the SEC and, if appropriate, in mailing such amendment or supplement to the stockholders of Merger Partner.

(b) Prior to the Effective Time, DPI shall use commercially reasonable efforts to obtain all regulatory approvals needed to ensure that the DPI Common Stock to be issued pursuant to the Merger will (to the extent required) be registered or qualified or exempt from registration or qualification under the securities

Table of Contents

law of every jurisdiction of the United States in which any registered holder of Merger Partner Common Stock or Merger Partner Preferred Stock has an address of record on the record date for determining the stockholders entitled to notice of and to vote at the Merger Partner Stockholders Meeting; *provided, however*, that DPI shall not be required: (i) to qualify to do business as a foreign corporation in any jurisdiction in which it is not now qualified; or (ii) to file a general consent to service of process in any jurisdiction; or (iii) otherwise become subject to taxation in any jurisdiction.

5.2 Merger Partner Stockholders Meeting.

(a) Merger Partner shall take all action necessary under all applicable Legal Requirements to call, give notice of and hold a meeting of the holders of Merger Partner Common Stock and Merger Partner Preferred Stock to vote on the adoption of this Agreement (the ***Merger Partner Stockholders Meeting***). The Merger Partner Stockholders Meeting shall be held as promptly as practicable after the Form S-4 Registration Statement is declared effective under the Securities Act. Merger Partner shall ensure that all proxies solicited in connection with the Merger Partner Stockholders Meeting are solicited in compliance with all applicable Legal Requirements.

(b) Merger Partner agrees that, subject to Section 5.2(c): (i) the board of directors of Merger Partner shall recommend that the holders of Merger Partner Common Stock and Merger Partner Preferred Stock vote to adopt this Agreement and such other matters contemplated by this Agreement, and shall use commercially reasonable efforts to solicit such approval, (ii) the Joint Proxy Statement/Prospectus shall include a statement to the effect that the board of directors of Merger Partner recommends that the holders of Merger Partner Common Stock and Merger Partner Preferred Stock vote to adopt this Agreement and such other matters contemplated by this Agreement at the Merger Partner Stockholders Meeting (the recommendation of the board of directors of Merger Partner that the stockholders of Merger Partner vote to adopt this Agreement and such other matters contemplated by this Agreement being referred to as the ***Merger Partner Board Recommendation***); and (iii) the Merger Partner Board Recommendation shall not be withdrawn or modified in a manner adverse to DPI, and no resolution by the board of directors of Merger Partner or any committee thereof to withdraw or modify the Merger Partner Board Recommendation in a manner adverse to DPI shall be adopted or proposed.

(c) Notwithstanding anything to the contrary contained in Section 5.2(b), at any time prior to the adoption of this Agreement by the Required Merger Partner Stockholder Vote, the board of directors of Merger Partner may withhold, amend, withdraw or modify the Merger Partner Board Recommendation in a manner adverse to DPI if the board of directors of Merger Partner determines in good faith, based on such matters as it deems relevant following consultation with its outside legal counsel, that the failure to withhold, amend, withdraw or modify such recommendation is reasonably likely to result in a breach of its fiduciary duties under applicable Legal Requirements, provided, that DPI must receive three (3) Business Days prior written notice from Merger Partner confirming that Merger Partner s board of directors has determined to change its recommendation.

(d) Merger Partner s obligation to call, give notice of and hold the Merger Partner Stockholders Meeting in accordance with Section 5.2(a) shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission of any Superior Offer or other Acquisition Proposal, or by any withdrawal or modification of the Merger Partner Board Recommendation.

5.3 DPI Stockholders Meeting.

(a) DPI shall take all action necessary under applicable Legal Requirements to call, give notice of and hold a meeting of the holders of DPI Common Stock to vote on the issuance of DPI Common Stock pursuant to the Merger, the Bylaws Amendment and the DPI Certificate of Amendment (such meeting, the ***DPI Stockholders Meeting***). The DPI Stockholders Meeting shall be held as promptly as practicable after the Form S-4 Registration Statement is declared effective under the Securities Act. DPI shall ensure that all proxies solicited in connection with the DPI Stockholders Meeting are solicited in compliance with all applicable Legal Requirements.

Table of Contents

(b) DPI agrees that, subject to Section 5.3(c): (i) the board of directors of DPI shall recommend that the holders of DPI Common Stock vote to approve (A) the DPI Certificate of Amendment, (B) the issuance of DPI Common Stock pursuant to the Merger and such other matters contemplated by this Agreement, and shall use commercially reasonable efforts to solicit such approval, and (C) the Bylaws Amendment, (ii) the Joint Proxy Statement/Prospectus shall include a statement to the effect that the board of directors of DPI recommends that the stockholders of DPI vote to approve the DPI Certificate of Amendment, the issuance of DPI Common Stock pursuant to the Merger and such other matters contemplated by this Agreement and the Bylaws Amendment (the recommendation of the board of directors of DPI that the stockholders of DPI vote to approve (A) the DPI Certificate of Amendment, (B) the issuance of DPI Common Stock pursuant to the Merger and (C) the Bylaws Amendment and such other matters contemplated by this Agreement being referred to as the ***DPI Board Recommendation***); and (iii) the DPI Board Recommendation shall not be withdrawn or modified in a manner adverse to Merger Partner, and no resolution by the board of directors of DPI or any committee thereof to withdraw or modify the DPI Board Recommendation in a manner adverse to Merger Partner shall be adopted or proposed.

(c) Notwithstanding anything to the contrary contained in Section 5.3(b), at any time prior to the adoption of this Agreement by the Required DPI Stockholder Vote, the board of directors of DPI may withhold, amend, withdraw or modify the DPI Board Recommendation in a manner adverse to Merger Partner if the board of directors of DPI determines in good faith, based on such matters as it deems relevant following consultation with its outside legal counsel, that the failure to withhold, amend, withdraw or modify such recommendation is reasonably likely to result in a breach of its fiduciary duties under applicable Legal Requirements, provided, that Merger Partner must receive three (3) Business Days prior written notice from DPI confirming that DPI s board of directors has determined to change its recommendation.

(d) DPI s obligation to call, give notice of and hold the DPI Stockholders Meeting in accordance with Section 5.3(a) shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission of any Superior Offer or other Acquisition Proposal, or by any withdrawal or modification of the DPI Board Recommendation.

5.4 Regulatory Approvals. Each Party shall use commercially reasonable efforts to file or otherwise submit, as soon as practicable after the date of this Agreement, all applications, notices, reports and other documents reasonably required to be filed by such Party with or otherwise submitted by such Party to any Governmental Body with respect to the Merger and the other Contemplated Transactions, and to submit promptly any additional information requested by any such Governmental Body. Without limiting the generality of the foregoing, the Parties shall, promptly after the date of this Agreement, prepare and file, if any, (a) the notification and report any forms required to be filed under the HSR Act and (b) any notification or other document required to be filed in connection with the Merger under any applicable foreign Legal Requirement relating to antitrust or competition matters. Merger Partner and DPI shall as promptly as practicable respond in compliance with: (i) any inquiries or requests received from the Federal Trade Commission or the Department of Justice for additional information or documentation; and (ii) any inquiries or requests received from any state attorney general, foreign antitrust or competition authority or other Governmental Body in connection with antitrust or competition matters.

5.5 Merger Partner Stock Options; Merger Partner Warrants.

(a) Subject to Section 5.5(d), at the Effective Time, each Merger Partner Option that is outstanding and unexercised immediately prior to the Effective Time, whether or not vested, shall be converted into and become an option to purchase DPI Common Stock, and DPI shall assume each such Merger Partner Option in accordance with the terms (as in effect as of the date of this Agreement) of the stock option plan, if any, under which such Merger Partner Option was issued and the terms of the stock option agreement by which such Merger Partner Option is evidenced. All rights with respect to Merger Partner Common Stock under Merger Partner Options assumed by DPI shall thereupon be converted into rights with respect to DPI Common Stock. Accordingly, from and after the Effective Time: (i) each Merger Partner Option assumed

Table of Contents

by DPI may be exercised solely for shares of DPI Common Stock; (ii) the number of shares of DPI Common Stock subject to each Merger Partner Option assumed by DPI shall be determined by multiplying (A) the number of shares of Merger Partner Common Stock that were subject to such Merger Partner Option immediately prior to the Effective Time by (B) the Merger Partner Common Stock exchange ratio, as determined pursuant to Section 1.6(a), and rounding the resulting number down to the nearest whole number of shares of DPI Common Stock; (iii) the per share exercise price for the DPI Common Stock issuable upon exercise of each Merger Partner Option assumed by DPI shall be determined by dividing the effective per share exercise price of Merger Partner Common Stock subject to such Merger Partner Option, as in effect immediately prior to the Effective Time, by the Merger Partner Common Stock exchange ratio, as determined pursuant to Section 1.6(a), and rounding the resulting exercise price up to the nearest whole cent; and (iv) any restriction on the exercise of any Merger Partner Option assumed by DPI shall continue in full force and effect and the term, exercisability, vesting schedule and other provisions of such Merger Partner Options shall otherwise remain unchanged including, with respect to Merger Partner Options that were intended to qualify as incentive stock options under Section 422 of the Code, such provisions shall remain unchanged as are necessary to ensure that such Merger Partner Options continue to qualify as incentive stock options under Section 422 of the Code; *provided, however*, that: (A) each Merger Partner Option assumed by DPI in accordance with this Section 5.5(a) shall, in accordance with its terms, be subject to further adjustment as appropriate to reflect any stock split, division or subdivision of shares, stock dividend, reverse stock split, consolidation of shares, reclassification, recapitalization or other similar transaction with respect to DPI Common Stock subsequent to the Effective Time; and (B) the board of directors of DPI or a committee thereof shall succeed to the authority and responsibility of the board of directors of Merger Partner or any committee thereof with respect to each Merger Partner Option assumed by DPI.

(b) Subject to Section 5.5(d), at the Effective Time, each Merger Partner Warrant that is outstanding and unexercised immediately prior to the Effective Time, shall become converted into and become a warrant to purchase DPI Common Stock and DPI shall assume each such Merger Partner Warrant in accordance with its terms. All rights with respect to Merger Partner Common Stock or Merger Partner Preferred Stock under Merger Partner Warrants assumed by DPI shall thereupon be converted into rights with respect to DPI Common Stock. Accordingly, from and after the Effective Time: (i) each Merger Partner Warrant assumed by DPI may be exercised solely for shares of DPI Common Stock; (ii) the number of shares of DPI Common Stock subject to each Merger Partner Warrant assumed by DPI shall be determined by multiplying (A) the number of shares of Merger Partner Common Stock or Merger Partner Preferred Stock, as the case may be, that were subject to such Merger Partner Warrant immediately prior to the Effective Time by (B) the relevant exchange ratio, as determined pursuant to Section 1.6(a), and rounding the resulting number down to the nearest whole number of shares of DPI Common Stock; (iii) the per share exercise price for the DPI Common Stock issuable upon exercise of each Merger Partner Warrant assumed by DPI shall be determined by dividing the effective per share exercise price of Merger Partner Common Stock or Merger Partner Preferred Stock, as the case may be, that were subject to such Merger Partner Warrant, as in effect immediately prior to the Effective Time, by the relevant exchange ratio, as determined pursuant to Section 1.6(a), and rounding the resulting exercise price up to the nearest whole cent; and (iv) any restriction on any Merger Partner Warrant assumed by DPI shall continue in full force and effect and the term and other provisions of such Merger Partner Warrant shall otherwise remain unchanged.

(c) DPI shall file with the SEC, no later than 30 days after the Effective Time, a registration statement on Form S-8, if available for use by DPI, relating to the shares of DPI Common Stock issuable with respect to Merger Partner Options assumed by DPI in accordance with Section 5.5(a).

(d) Prior to the Effective Time, DPI and Merger Partner shall take all actions that may be necessary (under the Merger Partner Stock Option Plan and otherwise) to effectuate the provisions of this Section 5.5 and to ensure that, from and after the Effective Time, holders of Merger Partner Options have no rights with respect thereto other than those specifically provided in this Section 5.5.

Table of Contents

5.6 DPI Options. For the avoidance of doubt, at the Effective Time, each DPI Option that is outstanding and unexercised immediately prior to the Effective Time, whether or not vested, shall be assumed by DPI in accordance with the terms (as in effect as of the date of this Agreement) of the DPI 2000 Stock Incentive Plan, or the DPI 2000 Employee Stock Purchase Plan, as applicable, under which such DPI Option was issued and the terms of the stock option agreement by which such DPI Option is evidenced.

5.7 Indemnification of Officers and Directors.

(a) From the Effective Time through the sixth anniversary of the date on which the Effective Time occurs, each of DPI and the Surviving Corporation shall, jointly and severally, indemnify and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, a director or officer of DPI or Merger Partner (the ***D&O Indemnified Parties***), against all claims, losses, liabilities, damages, judgments, fines and reasonable fees, costs and expenses, including attorneys fees and disbursements (collectively, ***Costs***), incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to the fact that the D&O Indemnified Party is or was a director or officer of DPI or Merger Partner, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent permitted under the DGCL for directors or officers of Delaware corporations. Each D&O Indemnified Party will be entitled to advancement of expenses incurred in the defense of any such claim, action, suit, proceeding or investigation from each of DPI and the Surviving Corporation, jointly and severally, upon receipt by DPI or the Surviving Corporation from the D&O Indemnified Party of a request therefor; provided that any person to whom expenses are advanced provides an undertaking, to the extent then required by the DGCL, to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

(b) The certificate of incorporation and bylaws of each of DPI and the Surviving Corporation shall contain, and DPI shall cause the certificate of incorporation and bylaws of the Surviving Corporation to so contain, provisions no less favorable with respect to indemnification, advancement of expenses and exculpation of present and former directors and officers of each of DPI and Merger Partner than are presently set forth in the certificate of incorporation and bylaws of DPI and Merger Partner, as applicable, which provisions shall not be amended, modified or repealed for a period of six years time from the Effective Time in a manner that would adversely affect the rights thereunder of individuals who, at or prior to the Effective Time, were officers or directors of DPI or Merger Partner.

(c) DPI shall purchase an insurance policy, with an effective date as of the Closing, which maintains in effect for six years from the Closing the current directors and officers liability insurance policies maintained by Merger Partner (provided that DPI may substitute therefor policies of at least the same coverage containing terms and conditions that are not materially less favorable) with respect to matters occurring prior to the Closing; provided, however, that in no event shall DPI be required to expend pursuant to this Section 5.7(c) more than an amount equal to 200% of current annual premiums paid by Merger Partner for such insurance.

(d) DPI shall purchase an insurance policy, with an effective date as of the Closing, which maintains in effect for six years from the Closing the current directors and officers liability insurance policies maintained by DPI (provided that DPI may substitute therefor policies of at least the same coverage containing terms and conditions that are not materially less favorable) with respect to matters occurring prior to the Closing; provided, however, that in no event shall DPI be required to expend pursuant to this Section 5.7(d) more than an amount equal to 200% of current annual premiums paid by DPI for such insurance.

(e) DPI shall purchase directors and officers liability insurance policies, with an effective date as of the Closing, on commercially available terms and conditions and with coverage limits customary for U.S. public companies similarly situated to DPI.

(f) DPI shall pay all expenses, including reasonable attorneys fees, that may be incurred by the persons referred to in this Section 5.7 in connection with their enforcement of their rights provided in this Section 5.7.

Table of Contents

(g) The provisions of this Section 5.7 are intended to be in addition to the rights otherwise available to the current and former officers and directors of DPI and Merger Partner by law, charter, statute, by-law or agreement, and shall operate for the benefit of, and shall be enforceable by, each of the D&O Indemnified Parties, their heirs and their representatives.

(h) In the event DPI or the Surviving Corporation or any of their respective successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfers all or substantially all of its properties and assets to any person, then, and in each such case, proper provision shall be made so that the successors and assigns of DPI or the Surviving Corporation, as the case may be, shall succeed to the obligations set forth in this Section 5.7

(i) DPI shall cause the Surviving Corporation to perform all of the obligations of the Surviving Corporation under this Section 5.7.

5.8 Additional Agreements.

(a) Subject to Section 5.8(b), the Parties shall use commercially reasonable efforts to cause to be taken all actions necessary to consummate the Merger and make effective the other Contemplated Transactions. Without limiting the generality of the foregoing, but subject to Section 5.8(b), each Party to this Agreement: (i) shall make all filings and other submissions (if any) and give all notices (if any) required to be made and given by such Party in connection with the Merger and the other Contemplated Transactions; (ii) shall use commercially reasonable efforts to obtain each Consent (if any) reasonably required to be obtained (pursuant to any applicable Legal Requirement or Contract, or otherwise) by such Party in connection with the Merger or any of the other Contemplated Transactions or for such Contract to remain in full force and effect, (iii) shall use commercially reasonable efforts to lift any injunction prohibiting, or any other legal bar to, the Merger or any of the other Contemplated Transactions and (iv) shall use commercially reasonable efforts to satisfy the conditions precedent to the consummation of this Agreement (including, in the case of DPI, Section 8.6). Each Party shall provide to the other Party a copy of each proposed filing with or other submission to any Governmental Body relating to any of the Contemplated Transactions, and shall give the other Party a reasonable time prior to making such filing or other submission in which to review and comment on such proposed filing or other submission. Each Party shall promptly deliver to the other Party a copy of each such filing or other submission made, each notice given and each Consent obtained by such Party during the Pre-Closing Period.

(b) Notwithstanding anything to the contrary contained in this Agreement, no Party shall have any obligation under this Agreement: (i) to dispose of or transfer or cause any of its Subsidiaries to dispose of or transfer any assets; (ii) to discontinue or cause any of its Subsidiaries to discontinue offering any product or service; (iii) to license or otherwise make available, or cause any of its Subsidiaries to license or otherwise make available to any Person any Intellectual Property; (iv) to hold separate or cause any of its Subsidiaries to hold separate any assets or operations (either before or after the Closing Date); (v) to make or cause any of its Subsidiaries to make any commitment (to any Governmental Body or otherwise) regarding its future operations; or (vi) to contest any Legal Proceeding or any order, writ, injunction or decree relating to the Merger or any of the other Contemplated Transactions if such Party determines in good faith that contesting such Legal Proceeding or order, writ, injunction or decree might not be advisable.

5.9 Disclosure. Without limiting any of either Party s obligations under the Confidentiality Agreement, each Party shall not, and shall not permit any of its Subsidiaries or any Representative of such Party to, issue any press release or make any disclosure (to any customers or employees of such Party, to the public or otherwise) regarding the Merger or any of the other Contemplated Transactions unless: (a) the other Party shall have approved such press release or disclosure in writing; or (b) such Party shall have determined in good faith, upon the advice of outside legal counsel, that such disclosure is required by applicable Legal Requirements and, to the extent practicable, before such press release or disclosure is issued or made, such Party advises the other Party of, and consults with the other Party regarding, the text of such press release or disclosure.

Table of Contents

5.10 Listing. DPI shall use commercially reasonable efforts to maintain its existing listing on the NASDAQ National Market and to cause the shares of DPI Common Stock to be issued in the Merger to be approved for listing (subject to notice of issuance) on the NASDAQ National Stock Market, Inc. at or prior to the Effective Time.

5.11 Directors and Officers.

(a) Prior to the Effective Time, and subject to the receipt of any required stockholder vote, DPI shall take all action necessary (i) to (A) cause the number of members of the board of directors of DPI to be fixed at twelve (12) and the persons identified on Schedule 5.11(a)(i), concurrently with the Effective Time, to constitute the board of directors of DPI as directors of that class set forth opposite their respective names on Schedule 5.11(a)(i)(A), which action will be effective concurrently with the Effective Time, or (B) if the Bylaws Amendment Vote related to the Bylaws Amendment is not obtained, to cause the number of members of the board of directors of DPI to be fixed at a maximum of ten (10) and the persons identified on Schedule 5.11(a)(i)(B) to, concurrently with the Effective Time, constitute the board of directors of DPI as directors of that class set forth opposite their respective names on Schedule 5.11(a)(i), which action will be effective concurrently with the Effective Time, (ii) to obtain the resignations of the directors identified on Schedule 5.11(a)(ii), which resignation will be effective concurrently with the effectiveness of the elections referred to in clause (i)(and for the avoidance of doubt, at the Effective Time, each DPI Option that is outstanding and unexercised immediately prior to the Effective Time, whether or not vested, shall be assumed by DPI in accordance with the terms (as in effect as of the date of this Agreement) of the DPI 2000 Stock Incentive Plan, or the DPI 2000 Employee Stock Purchase Plan, as applicable, under which such DPI Option was issued and the terms of the stock option agreement by which such DPI Option is evidenced, and will result in the full acceleration of the DPI Options granted to such directors under Article 5 of the DPI 2000 Stock Incentive Plan, immediately followed by the resignation of such directors under Article 5.I.F. of the DPI 2000 Stock Incentive Plan), and (iii) to cause the bylaws of DPI in regard to setting the number of directors and the nomination and election of directors to be amended as agreed by DPI and Merger Partner, which action will be effective concurrently with the Effective Time. If any person so designated to be a director shall prior to the Effective Time be unable or unwilling to hold office beginning concurrently with the Effective Time, a majority of the directors of DPI (if such person is an Affiliate of DPI) or a majority of the directors of Merger Partner (if such person is an Affiliate of Merger Partner) shall designate another to be appointed or nominated for election as a director in his or her place.

(b) At the Effective Time, DPI and the Surviving Corporation shall take all action necessary (i) to cause the number of members of the Surviving Corporation s board of directors to be fixed at one and the person identified on Schedule 5.11(b)(i) to be elected to the Surviving Corporation s board of directors, which action will be effective concurrently with the Effective Time, (ii) effective concurrently with such appointment, to obtain the resignations, or to cause the removal without cause, of the directors identified on Schedule 5.11(b)(ii), and (iii) to cause the bylaws of the Surviving Corporation in regard to setting the number of directors and the nomination and election of directors to be amended as agreed by DPI and Merger Partner, which action will be effective concurrently with the Effective Time. If any person so designated to be a director shall prior to the Effective Time be unable or willing to hold office beginning concurrently with the Effective Time, Merger Partner (if such person is an Affiliate of Merger Partner) shall designate another person to be appointed as a director to his or her place.

(c) The board of directors of DPI effective as of the Effective Time, shall appoint the following Persons as officers of DPI: Steven Holtzman (DPI s Chairman and CEO), Julian Adams (DPI s President and Chief Scientific Officer), Adelene Perkins (DPI s Executive Vice President and Chief Business Officer), Jeffrey Tong (DPI s Vice President Corporate and Product Development) and David Grayzel (DPI s Vice President Clinical Development and Medical Affairs).

(d) Prior to the Effective Time, any and all loans or other extensions of credit in any form made by Merger Partner to any director or executive officer of Merger Partner shall be repaid or retired in a manner reasonably satisfactory to DPI.

Table of Contents

5.12 Resale Registration Statement. Prior to the Effective Time, DPI shall file with the SEC, and use its commercially reasonable efforts to have declared effective as soon as practicable, a resale shelf registration statement on Form S-3 (which may be part of the Form S-4 Registration Statement) (or if DPI is not eligible to use Form S-3, any other form that DPI is eligible to use) (a ***Shelf Registration Statement***) pursuant to Rule 415 promulgated under the Securities Act covering the resale by former affiliates of Merger Partner (including any former affiliates of Merger Partner who may following the Effective Time be current affiliates of DPI) of shares of DPI Common Stock issued pursuant to this Agreement as merger consideration (the ***Registrable Merger Shares***). In its discretion, DPI will be permitted to register any other shares for resale by other eligible selling stockholders using the Shelf Registration Statement. DPI shall use commercially reasonable efforts to keep the Shelf Registration Statement continuously effective and usable for the resale of the Registrable Merger Shares covered thereby for a period commencing on the date on which the SEC declares such Shelf Registration Statement effective and ending on the earlier of (x) the date upon which all of the Registrable Merger Shares first become eligible for resale pursuant to Rule 145 under the Securities Act without restriction or (y) the first date upon which all of the Registrable Merger Shares covered by such Shelf Registration Statement have been sold pursuant to such Shelf Registration Statement.

5.13 Lock-up Agreement. Advent Management III Limited Partnership, Advent Private Equity Fund III A , Advent Private Equity Fund III B , Advent Private Equity Fund III C , Advent Private Equity Fund III D , Advent Private Equity Fund III Affiliates, Advent Private Equity Fund III GmbH Co. KG, Prospect Venture Partners II, L.P., Prospect Venture Partners, L.P., Venrock Associates, Venrock Associates III, L.P. Venrock Entrepreneurs Fund III, L.P., HBM BioVentures (Cayman) Ltd, Vulcan Ventures, Inc., Eric Lander, Stuart Schreiber, James B. Tananbaum and Dana Schonfeld Tananbaum Family Trust, Steven Holtzman, Julian Adams, Adelene Perkins, Jeffrey Tong and David Grayzel shall each enter into, a Lock-up Agreement in the form attached hereto as **Exhibit D** (the ***Lock-up Agreement***), pursuant to which such parties shall agree not to sell, assign or otherwise transfer the shares of DPI Common Stock they receive pursuant to the terms of this Agreement from the Closing Date until 180 days after the Closing Date; *provided, however*, the restrictions on the sale, assignment or transfer of such shares of DPI Common Stock shall lapse as to 1/26th of such shares on the 7th day after the Closing Date and as to an additional 1/26th of such shares each week thereafter, until the 180th day after the Closing Date, at which time the restrictions shall lapse as to all such shares.

5.14 Tax Matters.

(a) DPI, Merger Sub and Merger Partner each agree to use their respective commercially reasonable efforts to cause the Merger to qualify, and will not take any actions which to their Knowledge could reasonably be expected to prevent the Merger from qualifying, as a reorganization under Section 368(a) of the Code.

(b) This Agreement is intended to constitute, and the Parties hereto hereby adopt this Agreement as, a plan or reorganization within the meaning Treasury Regulation Sections 1.368-2(g) and 1.368-3(a). DPI, Merger Sub and Merger Partner shall report the Merger as a reorganization within the meaning of Section 368(a) of the Code, unless otherwise required pursuant to a determination within the meaning of Section 1313(a) of the Code.

(c) On or prior to the Closing, Merger Partner shall deliver to DPI a notice that the Merger Partner Common Stock and Merger Partners Preferred Stock is not U.S. real property interests in accordance with Treasury Regulations under Sections 897 and 1445 of the Code, together with evidence reasonably satisfactory to DPI that Merger Partner delivered or made available notice to the Internal Revenue Service in accordance with the provisions of Section 1.897-2(h)(2) of the Treasury Regulations. If DPI does not receive the notice described above on or before the Closing Date, DPI shall be permitted to withhold from the payments to be made pursuant to this Agreement any required withholding tax under Section 1445 of the Code.

(d) DPI, Merger Sub and Merger Partner each agree to use their respective commercially reasonable efforts to obtain the opinions referred to in Sections 7.4(d) and 8.4(c), respectively, including by executing letters of representation as described in Section 5.1(a).

Table of Contents

5.15 Legends. DPI shall be entitled to place appropriate legends on the certificates evidencing any shares of DPI Common Stock to be received in the Merger by equityholders of Merger Partner who may be considered affiliates of DPI for purposes of Rule 145 under the Securities Act reflecting the restrictions set forth in Rule 145 and to issue appropriate stop transfer instructions to the transfer agent for DPI Common Stock.

6. Conditions Precedent To Obligations Of Each Party

The obligations of each Party to effect the Merger and otherwise consummate the transactions to be consummated at the Closing are subject to the satisfaction or, to the extent permitted by applicable law, the written waiver by each of the Parties, at or prior to the Closing, of each of the following conditions:

6.1 Effectiveness of Registration Statement. The Form S-4 Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and shall not be subject to any stop order or proceeding (or threatened proceeding by the SEC) seeking a stop order with respect to the Form S-4 Registration Statement.

6.2 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Merger shall have been issued by any court of competent jurisdiction or other Governmental Body and remain in effect, and there shall not be any Legal Requirement which has the effect of making the consummation of the Merger illegal.

6.3 Stockholder Approval. This Agreement shall have been duly adopted by the Required Merger Partner Stockholder Vote, and the DPI Certificate of Amendment and the issuance of shares of DPI Common Stock to the stockholders of Merger Partner pursuant to the terms of this Agreement and such other Contemplated Transactions shall have been duly approved by the Required DPI Stockholder Vote.

6.4 Governmental Authorization. Any Governmental Authorization or other Consent required to be obtained by any of the Parties under any applicable antitrust or competition law or regulation or other Legal Requirement shall have been obtained and shall remain in full force and effect.

6.5 Listing. The existing shares of DPI Common Stock shall have been continually listed on the NASDAQ National Market as of and from the date of this Agreement through the Closing Date, and DPI shall have caused the shares of DPI Common Stock being issued in the Merger to be approved for listing (subject to notice of issuance) on the NASDAQ National Stock Market, Inc.

6.6 Regulatory Matters. Any waiting period applicable to the consummation of the Merger under the HSR Act or any material applicable foreign antitrust requirements reasonably determined to apply to the Merger shall have expired or been terminated, and there shall not be in effect any voluntary agreement between DPI, Merger Sub or Merger Partner and the Federal Trade Commission, the Department of Justice or any foreign Governmental Body pursuant to which such Party has agreed not to consummate the Merger for any period of time; provided, that neither Merger Partner, on the one hand, nor DPI on the other hand, shall enter into any such voluntary agreement without the written consent of the other Party.

7. Additional Conditions Precedent to Obligations of DPI and Merger Sub

The obligations of DPI and Merger Sub to effect the Merger and otherwise consummate the transactions to be consummated at the Closing are subject to the satisfaction or the written waiver by DPI, at or prior to the Closing, of each of the following conditions:

7.1 Accuracy of Representations. The representations and warranties of Merger Partner contained in this Agreement shall have been true and correct as of the date of this Agreement and shall be true and correct on and as of the Closing Date with the same force and effect as if made on the Closing Date except (A) in each case, or in the aggregate, where the failure to be true and correct would not reasonably be expected to have a Merger

Table of Contents

Partner Material Adverse Effect, or (B) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct, subject to the qualifications as set forth in the preceding clause (A), as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties, (i) all Merger Partner Material Adverse Effect qualifications and other qualifications based on the word material contained in such representations and warranties shall be disregarded and (ii) any update of or modification to the Merger Partner Disclosure Schedule made or purported to have been made after the date of this Agreement shall be disregarded).

7.2 Performance of Covenants. Each of the covenants and obligations in this Agreement that Merger Partner is required to comply with or to perform at or prior to the Closing shall have been complied with and performed by Merger Partner in all material respects.

7.3 Consents. All of the Consents set forth on Part 2.21 of the Merger Partner Disclosure Schedule shall have been obtained and shall be in full force and effect.

7.4 Agreements and Other Documents. DPI shall have received the following agreements and other documents, each of which shall be in full force and effect:

(a) Lock-up Agreements in the form of **Exhibit D**, executed by each of Advent Management III Limited Partnership, Advent Private Equity Fund III A , Advent Private Equity Fund III B , Advent Private Equity Fund III C , Advent Private Equity Fund III D , Advent Private Equity Fun III Affiliates, Advent Private Equity Fund III GmbH Co. KG, Prospect Venture Partners II, L.P., Prospect Venture Partners, L.P., Venrock Associates, Venrock Associates III, L.P., Venrock Entrepreneurs Fund III, L.P., HBM BioVentures (Cayman) Ltd, Vulcan Ventures, Inc., Eric Lander, Stuart Schreiber, James B. Tananbaum and Dana Schonfeld Tananbaum Family Trust, Steven Holtzman, Julian Adams, Adelene Perkins, Jeffrey Tong and David Grayzel;

(b) a certificate executed by the chief executive officer and chief financial officer of Merger Partner confirming that the conditions set forth in Sections 7.1, 7.2 and 7.3 have been duly satisfied;

(c) certificates of good standing (or equivalent documentation) of Merger Partner in its jurisdiction of organization and the various foreign jurisdictions in which it is qualified, certified charter documents, certificates as to the incumbency of officers and the adoption of resolutions of the board of directors of Merger Partner authorizing the execution of this Agreement and the consummation of the Contemplated Transactions to be performed by Merger Partner; and

(d) DPI shall have received a written opinion from Cooley Godward LLP, counsel to DPI, to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code; provided that if Cooley Godward LLP does not render such opinion, this condition shall nonetheless be deemed satisfied if Wilmer Cutler Pickering Hale and Dorr LLP renders such opinion to DPI (it being agreed that DPI and Merger Partner shall each provide reasonable cooperation, including making reasonable and customary representations, to Wilmer Cutler Pickering Hale and Dorr LLP or Cooley Godward LLP, as the case may be, to enable them to render such opinion and that counsel shall be entitled to rely on such representations and such assumptions as they deem appropriate in rendering such opinion).

8. Additional Conditions Precedent to Obligation of Merger Partner

The obligations of Merger Partner to effect the Merger and otherwise consummate the transactions to be consummated at the Closing are subject to the satisfaction or the written waiver by Merger Partner, at or prior to the Closing, of each of the following conditions:

8.1 Accuracy of Representations. The representations and warranties of DPI and Merger Sub contained in this Agreement shall have been true and correct as of the date of this Agreement and shall be true and correct on and as of the Closing Date with the same force and effect as if made on the Closing Date except (A) in each case,

Table of Contents

or in the aggregate, where the failure to be true and correct would not reasonably be expected to have a DPI Material Adverse Effect, or (B) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct, subject to the qualifications as set forth in the preceding clause (A), as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties, (i) all DPI Material Adverse Effect qualifications and other qualifications based on the word material contained in such representations and warranties shall be disregarded and (ii) any update of or modification to the DPI Disclosure Schedule made or purported to have been made after the date of this Agreement shall be disregarded).

8.2 Performance of Covenants. All of the covenants and obligations in this Agreement that DPI or Merger Sub is required to comply with or to perform at or prior to the Closing shall have been complied with and performed in all material respects.

8.3 Consents. All the Consents set forth on Part 8.3 of the DPI Disclosure Schedule shall have been obtained and shall be in full force and effect.

8.4 Documents. Merger Partner shall have received the following documents:

(a) a certificate executed by the chief executive officer and chief financial officer of DPI confirming that the conditions set forth in Sections 8.1, 8.2 and 8.3 have been duly satisfied; and

(b) certificates of good standing of each of DPI and Merger Sub in its jurisdiction of organization and the various foreign jurisdictions in which it is qualified, certified charter documents, certificates as to the incumbency of officers and the adoption of resolutions of its board of directors authorizing the execution of this Agreement and the consummation of the Contemplated Transactions to be performed by DPI and Merger Sub hereunder.

(c) Merger Partner shall have received the opinion of Wilmer Cutler Pickering Hale and Dorr LLP, counsel to Merger Partner, to the effect that the Merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code; provided that if Wilmer Cutler Pickering Hale and Dorr LLP does not render such opinion, this condition shall nonetheless be deemed satisfied if Cooley Godward LLP renders such opinion to Merger Partner (it being agreed that DPI and Merger Partner shall each provide reasonable cooperation, including making reasonable and customary representations, to Cooley Godward LLP or Wilmer Cutler Pickering Hale and Dorr LLP, as the case may be, to enable them to render such opinion and that counsel shall be entitled to rely on such representations and such assumptions as they deem appropriate in rendering such opinion).

8.5 Certificate of Amendment. The DPI Certificate of Amendment shall have become effective under the DGCL.

8.6 Net Cash at Closing. DPI shall have Net Cash at Closing, determined in accordance with Section 1.7, of at least $60,000,000.

9. TERMINATION

9.1 Termination. This Agreement may be terminated prior to the Effective Time (whether (except as set forth below) before or after adoption of this Agreement by Merger Partner s stockholders and whether (except as set forth below) before or after approval of the DPI Certificate of Amendment or the issuance of DPI Common Stock pursuant to the Merger by DPI s stockholders):

(a) by mutual written consent duly authorized by the Boards of Directors of DPI and Merger Partner;

(b) by either DPI or Merger Partner if the Merger shall not have been consummated by October 11, 2006; *provided, however*; that the right to terminate this Agreement under this Section 9.1(b) shall not be available to any Party whose action or failure to act has been a principal cause of the failure of the Merger to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

Table of Contents

(c) by either DPI or Merger Partner if a court of competent jurisdiction or other Governmental Body shall have issued a final and nonappealable order, decree or ruling, or shall have taken any other action, having the effect of permanently restraining, enjoining or otherwise prohibiting the Merger;

(d) by either DPI or Merger Partner if (i) the Merger Partner Stockholders Meeting (including any adjournments and postponements thereof) shall have been held and completed and the stockholders of Merger Partner shall have taken a final vote to adopt this Agreement, and (ii) this Agreement shall not have been adopted at the Merger Partner Stockholders Meeting (and shall not have been adopted at any adjournment or postponement thereof) by the Required Merger Partner Stockholder Vote; *provided, however*, that the right to terminate this Agreement under this Section 9.1(d) shall not be available to Merger Partner where the failure to obtain the Required Merger Partner Stockholder Vote shall have been caused by the action or failure to act of Merger Partner and such action or failure to act constitutes a material breach by Merger Partner of this Agreement.

(e) by either DPI or Merger Partner if (i) the DPI Stockholders Meeting (including any adjournments and postponements thereof) shall have been held and completed and the stockholders of DPI shall have taken a final vote to approve (A) the DPI Certificate of Amendment, (B) the issuance of shares of DPI Common Stock in the Merger and (C) the Bylaws Amendment, and (ii) either (x) the DPI Certificate of Amendment or (y) the issuance of DPI Common Stock pursuant to the Merger shall not have been approved at the DPI Stockholders Meeting by the Required DPI Stockholder Vote; *provided, however*, that the right to terminate this Agreement under this Section 9.1(e) shall not be available to DPI where the failure to obtain the Required DPI Stockholder Vote shall have been caused by the action or failure to act of DPI and such action or failure to act constitutes a material breach by DPI of this Agreement.

(f) by Merger Partner (at any time prior to the approval of the DPI Certificate of Amendment and the issuance of DPI Common Stock pursuant to the Merger by the Required DPI Stockholder Vote) if a DPI Triggering Event shall have occurred;

(g) by DPI (at any time prior to the adoption of this Agreement by the Required Merger Partner Stockholder Vote) if a Merger Partner Triggering Event shall have occurred;

(h) by Merger Partner, upon a breach of any representation, warranty, covenant or agreement on the part of DPI or Merger Sub set forth in this Agreement, or if any representation or warranty of DPI or Merger Sub shall have become inaccurate, in either case such that the conditions set forth in Section 8.1 or Section 8.2 would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become inaccurate, provided that if such inaccuracy in DPI s or Merger Sub s representations and warranties or breach by DPI or Merger Sub is curable by DPI or Merger Sub, then this Agreement shall not terminate pursuant to this Section 9.1(h) as a result of such particular breach or inaccuracy until the earlier of (i) the expiration of a thirty (30) day period commencing upon delivery of written notice from Merger Partner to DPI or Merger Sub of such breach or inaccuracy and (ii) DPI or Merger Sub (as applicable) ceasing to exercise commercially reasonable efforts to cure such breach (it being understood that this Agreement shall not terminate pursuant to this paragraph 9.1(h) as a result of such particular breach or inaccuracy if such breach by DPI or Merger Sub is cured prior to such termination becoming effective); and

(i) by DPI, upon a breach of any representation, warranty, covenant or agreement on the part of Merger Partner set forth in this Agreement, or if any representation or warranty of Merger Partner shall have become inaccurate, in either case such that the conditions set forth in Section 7.1 or Section 7.2 would not be satisfied as of the time of such breach or as of the time such representation or warranty shall have become inaccurate, provided that if such inaccuracy in Merger Partner s representations and warranties or breach by Merger Partner is curable by Merger Partner, then this Agreement shall not terminate pursuant to this Section 9.1(i) as a result of such particular breach or inaccuracy until the earlier of (i) the expiration of a thirty (30) day period commencing upon delivery of written notice from DPI to Merger Partner of such breach or inaccuracy and (ii) Merger Partner ceasing to exercise commercially reasonable efforts to cure

Table of Contents

such breach (it being understood that this Agreement shall not terminate pursuant to this paragraph 9.1(i) as a result of such particular breach or inaccuracy if such breach by Merger Partner is cured prior to such termination becoming effective).

9.2 Effect of Termination. In the event of the termination of this Agreement as provided in Section 9.1, this Agreement shall be of no further force or effect; *provided, however*, that (i) this Section 9.2, Section 9.3, and Section 10 shall survive the termination of this Agreement and shall remain in full force and effect, and (ii) the termination of this Agreement shall not relieve any Party from any liability for any material breach of any representation, warranty, covenant, obligation or other provision contained in this Agreement.

9.3 Expenses; Termination Fees.

(a) Except as set forth in this Section 9.3, all fees and expenses incurred in connection with this Agreement and the Contemplated Transactions shall be paid by the Party incurring such expenses, whether or not the Merger is consummated; *provided, however*, that DPI and Merger Partner shall share equally all fees and expenses, other than attorneys and accountants fees and expenses, incurred in relation to the printing, mailing and filing with the SEC of the Form S-4 Registration Statement (including any financial statements and exhibits) and the Joint Proxy Statement/Prospectus (including any preliminary materials related thereto) and any amendments or supplements thereto.

(b) (i) If this Agreement is terminated (A) by DPI or Merger Partner pursuant to Section 9.1(e) and (y) at any time before the DPI Stockholders Meeting an Acquisition Proposal with respect to DPI shall have been publicly announced, disclosed or otherwise communicated to the board of directors or stockholders of DPI and (z) within 12 months after the termination of this Agreement, DPI enters into any agreement for an Acquisition Transaction or consummates an Acquisition Transaction or (B) by Merger Partner pursuant to Section 9.1(f), in either case, without duplication, DPI shall pay to Merger Partner, within five Business Days after the earlier of entering into such agreement or such consummation, in the case of (A), or termination, in the case of (B), a nonrefundable fee in an amount equal to $6,000,000.

(ii) If this Agreement is terminated (A) by DPI or Merger Partner pursuant to Section 9.1(d) and (y) at any time before the Merger Partner Stockholders Meeting an Acquisition Proposal with respect to Merger Partner shall have been publicly announced, disclosed or otherwise communicated to the board of directors of Merger Partner or stockholders of Merger Partner and (z) within 12 months after the termination of this Agreement, Merger Partner enters into any agreement for an Acquisition Transaction or consummates an Acquisition Transaction or (B) by DPI pursuant to Section 9.1(g), in either case, without duplication, Merger Partner shall pay to DPI, within five Business Days after the earlier of entering into such agreement or such consummation, in the case of (A), or termination, in the case of (B), a nonrefundable fee in an amount equal to $6,000,000.

(c) If either Party fails to pay when due any amount payable by such Party under Section 9.3(b), then (i) such Party shall reimburse the other Party for reasonable costs and expenses (including reasonable fees and disbursements of counsel) incurred in connection with the collection of such overdue amount and the enforcement by the other Party of its rights under this Section 9.3, and (ii) such Party shall pay to the other Party interest on such overdue amount (for the period commencing as of the date such overdue amount was originally required to be paid and ending on the date such overdue amount is actually paid to the other Party in full) at a rate per annum equal to the prime rate (as announced by Bank of America or any successor thereto) in effect on the date such overdue amount was originally required to be paid.

10. Miscellaneous Provisions

10.1 Non-Survival of Representations and Warranties. The representations, warranties and covenants of Merger Partner, Merger Sub and DPI contained in this Agreement or any certificate or instrument delivered pursuant to this Agreement shall terminate at the Effective Time.

10.2 Amendment. This Agreement may be amended with the approval of the respective boards of directors of Merger Partner and DPI at any time (whether before or after the adoption of this Agreement by the

Table of Contents

stockholders of Merger Partner or before or after the approval of the DPI Certificate of Amendment or the issuance of shares of DPI Common Stock to the stockholders of Merger Partner pursuant to the terms of this Agreement by the stockholders of DPI); *provided, however*, that after any such adoption of this Agreement by the stockholders of Merger Partner, no amendment shall be made which by law requires further approval of the stockholders of Merger Partner without the further approval of such stockholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of Merger Partner and DPI.

10.3 Waiver.

(a) No failure on the part of any Party to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any Party in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy.

(b) No Party shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such Party; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

10.4 Entire Agreement; Counterparts; Exchanges by Facsimile. This Agreement, the correspondence referred to in Section 2.9(j) and the other agreements referred to in this Agreement constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among or between any of the Parties with respect to the subject matter hereof and thereof; *provided, however*, that the Confidentiality Agreement shall not be superseded and shall remain in full force and effect in accordance with its terms. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument. The exchange of a fully executed Agreement (in counterparts or otherwise) by all Parties by facsimile shall be sufficient to bind the Parties to the terms and conditions of this Agreement.

10.5 Applicable Law; Jurisdiction. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws. Each of the Parties to this Agreement (a) consents to submit itself to the personal jurisdiction of the Court of Chancery of the State of Delaware in any action or proceeding arising out of or relating to this Agreement or any of the Contemplated Transactions, (b) agrees that all claims in respect of such action or proceeding may be heard and determined in any such court, (c) agrees that it shall not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (d) agrees not to bring any action or proceeding (including counter-claims) arising out of or relating to this Agreement or any of the Contemplated Transactions in any other court. Each of the Parties hereto waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety or other security that might be required of any other Party with respect thereto. Any Party hereto may make service on another Party by sending or delivering a copy of the process to the Party to be served at the address and in the manner provided for the giving of notices in Section 10.8. Nothing in this Section 10.5, however, shall affect the right of any Party to serve legal process in any other manner permitted by law.

10.6 Attorneys Fees. In any action at law or suit in equity to enforce this Agreement or the rights of any of the Parties under this Agreement, the prevailing Party in such action or suit shall be entitled to receive a reasonable sum for its attorneys fees and all other reasonable costs and expenses incurred in such action or suit.

10.7 Assignability; No Third Party Beneficiaries. This Agreement shall be binding upon, and shall be enforceable by and inure solely to the benefit of, the Parties hereto and their respective successors and assigns; *provided, however*, that neither this Agreement nor any of a Party s rights or obligations hereunder may be

Table of Contents

assigned or delegated by such Party without the prior written consent of the other Party, and any attempted assignment or delegation of this Agreement or any of such rights or obligations by such Party without the other Party s prior written consent shall be void and of no effect. Nothing in this Agreement, express or implied, is intended to or shall confer upon any Person (other than: (a) the Parties hereto; (b) rights pursuant to Section 1, and (c) the D&O Indemnified Parties to the extent of their respective rights pursuant to Section 5.7) any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

10.8 Notices. Any notice or other communication required or permitted to be delivered to any Party under this Agreement shall be in writing and shall be deemed properly delivered, given and received when delivered by hand, by registered mail, by courier or express delivery service or by facsimile to the address or facsimile telephone number set forth beneath the name of such Party below (or to such other address or facsimile telephone number as such Party shall have specified in a written notice given to the other Parties hereto):

if to DPI or Merger Sub:

Discovery Partners International, Inc.

9640 Towne Centre Drive

San Diego, CA 92121

Telephone: (858) 455-8600

Fax: (858) 546-3081

Attention: Michael Venuti

with a copy to:

Cooley Godward LLP

4401 Eastgate Mall

San Diego, CA 92121-1909

Telephone: (858) 550-6045

Fax: (858) 550-6420

Attention: Matthew T. Browne, Esq.

if to Merger Partner:

Infinity Pharmaceuticals, Inc.

780 Memorial Drive

Cambridge, MA 02139

Telephone: (617) 453-1000

Fax: (617) 453-1001

Attention: Steven H. Holtzman

with a copy to:

WilmerHale

60 State Street

Boston, MA 02109

Telephone: (617) 526-6000

Fax: (617) 526-5000

Attention: John A. Burgess, Esq.

Michael J. LaCascia, Esq.

10.9 Cooperation. Each Party agrees to cooperate fully with the other Party and to execute and deliver such further documents, certificates, agreements and instruments and to take such other actions as may be reasonably requested by the other Party to evidence or reflect the Contemplated Transactions and to carry out the intent and purposes of this Agreement.

10.10 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions of

Table of Contents

this Agreement or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If a final judgment of a court of competent jurisdiction declares that any term or provision of this Agreement is invalid or unenforceable, the Parties hereto agree that the court making such determination shall have the power to limit such term or provision, to delete specific words or phrases or to replace such term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be valid and enforceable as so modified. In the event such court does not exercise the power granted to it in the prior sentence, the Parties hereto agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term or provision.

10.11 Other Remedies; Specific Performance. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a Party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such Party, and the exercise by a Party of any one remedy will not preclude the exercise of any other remedy. The Parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to seek an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of the United States or any state having jurisdiction, this being the addition to any other remedy to which they are entitled at law or in equity.

10.12 Construction.

(a) For purposes of this Agreement, whenever the context requires: the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; the feminine gender shall include the masculine and neuter genders; and the neuter gender shall include masculine and feminine genders.

(b) The Parties hereto agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting Party shall not be applied in the construction or interpretation of this Agreement.

(c) As used in this Agreement, the words include and including, and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words without limitation.

(d) Except as otherwise indicated, all references in this Agreement to Sections, Exhibits and Schedules are intended to refer to Sections of this Agreement and Exhibits and Schedules to this Agreement.

(e) The bold-faced headings contained in this Agreement are for convenience of reference only, shall not be deemed to be a part of this Agreement and shall not be referred to in connection with the construction or interpretation of this Agreement.

[Remainder of page intentionally left blank]

Table of Contents

In Witness Whereof, the Parties have caused this Agreement to be executed as of the date first above written.

Discovery Partners International, Inc.

By: /s/ Michael C. Venuti
Name: **Michael C. Venuti**

Title: **Acting Chief Executive Officer**

Darwin Corp.

By: /s/ Michael C. Venuti
Name: **Michael C. Venuti**

Title: **Chief Executive Officer**

Infinity Pharmaceuticals, Inc.

By: /s/ Steven H. Holtzman
Name: **Steven H. Holtzman**
Title:
Chief Executive Officer

Signature Page to Agreement and Plan of Merger and Reorganization

Table of Contents

EXHIBIT A

DEFINITIONS

CERTAIN DEFINITIONS

For purposes of the Agreement (including this **Exhibit A**):

Acquisition Inquiry. ***Acquisition Inquiry*** shall mean, with respect to a Party, an inquiry, indication of interest or request for information (other than an inquiry, indication of interest or request for information made or submitted by Merger Partner, on the one hand or DPI, on the other hand, to the other Party) that could reasonably be expected to lead to an Acquisition Proposal with such Party; *provided however*, that any inquiry, indication of interest or request for information related to the matters described on Part 4.2 of the DPI Disclosure Schedule and any transactions undertaken, continued or consummated in connection with those matters will be deemed not to be an Acquisition Inquiry .

Acquisition Proposal. ***Acquisition Proposal*** shall mean, with respect to a Party, any offer or proposal (other than an offer or proposal made or submitted by Merger Partner, on the one hand or DPI, on the other hand to the other Party) contemplating or otherwise relating to any Acquisition Transaction with such Party; *provided however*, that any offer or proposal related to the matters described on Part 4.2 of the DPI Disclosure Schedule and any transactions undertaken, continued or consummated in connection with those matters will be deemed not to be an Acquisition Proposal .

Acquisition Transaction. ***Acquisition Transaction*** shall mean any transaction or series of transactions involving:

(a) any merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, acquisition of securities, reorganization, recapitalization, tender offer, exchange offer or other similar transaction: (i) in which a Party is a constituent corporation; (ii) in which a Person or group (as defined in the Exchange Act and the rules promulgated thereunder) of Persons directly or indirectly acquires beneficial or record ownership of securities representing more than 15% of the outstanding securities of any class of voting securities of a Party or any of its Subsidiaries; or (iii) in which a Party or any of its Subsidiaries issues securities representing more than 15% of the outstanding securities of any class of voting securities of such Party or any of its Subsidiaries;

(b) any sale, lease, exchange, transfer, license, acquisition or disposition of any business or businesses or assets that constitute or account for: (i) 15% or more of the consolidated net revenues of a Party and its Subsidiaries, taken as a whole, consolidated net income of a Party and its Subsidiaries, taken as a whole, or consolidated book value of the assets of a Party and its Subsidiaries, taken as a whole; or (ii) 15% or more of the fair market value of the assets of a Party and its Subsidiaries, taken as a whole; or

(c) any liquidation or dissolution of a Party (other than DPI);

provided, however, that any transaction or series of transactions involving circumstances set forth in clauses (a)-(c) of this definition which relate to the matters described on Part 4.2 of the DPI Disclosure Schedule and any transactions undertaken, continued or consummated in connection with those matters will be deemed not to be an Acquisition Transaction .

Affiliate. ***Affiliate*** shall mean any Person under common control with such Party within the meaning of Sections 414(b), (c), (m) and (o) of the Code, and the regulations issued thereunder.

Agreement. ***Agreement*** shall mean the Agreement and Plan of Merger and Reorganization to which this **Exhibit A** is attached, as it may be amended from time to time.

Business Day. ***Business Day*** shall mean any day other than a day on which banks in the State of California are authorized or obligated to be closed.

Table of Contents

COBRA. ***COBRA*** shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

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

Confidentiality Agreement. ***Confidentiality Agreement*** shall mean the Confidentiality Agreement dated January 19, 2006, between Merger Partner and DPI.

Consent. ***Consent*** shall mean any approval, consent, ratification, permission, waiver or authorization (including any Governmental Authorization).

Contemplated Transactions. ***Contemplated Transactions*** shall mean the Merger and the other transactions and actions contemplated by the Agreement.

Contract. ***Contract*** shall, with respect to any Person, mean any written, oral or other agreement, contract, subcontract, lease (whether real or personal property), mortgage, understanding, arrangement, instrument, note, option, warranty, purchase order, license, sublicense, insurance policy, benefit plan or legally binding commitment or undertaking of any nature to which such Person is a party or by which such Person or any of its assets are bound or affected under applicable law.

DGCL. ***DGCL*** shall mean the General Corporation Law of the State of Delaware.

DPI Common Stock. ***DPI Common Stock*** shall mean the Common Stock, $0.001 par value per share, of DPI.

DPI Preferred Stock. ***DPI Preferred Stock*** shall mean the Preferred Stock, $0.001 par value per share, of DPI.

DPI Contract. ***DPI Contract*** shall mean any Contract: (a) to which DPI or any of its Subsidiaries is a party; (b) by which DPI or any DPI IP Rights or any other asset of DPI is or may become bound or under which DPI has, or may become subject to, any obligation; or (c) under which DPI or any of its Subsidiaries has or may acquire any right or interest.

DPI IP Rights. ***DPI IP Rights*** shall mean all Intellectual Property owned, licensed, or controlled by DPI and its Subsidiaries that is necessary or used in DPI s business as presently conducted.

DPI IP Rights Agreement. ***DPI IP Rights Agreement*** shall mean any instrument or agreement governing any DPI IP Rights.

DPI Options. ***DPI Options*** shall mean options to purchase shares of DPI Common Stock issued by DPI.

DPI Material Adverse Effect. ***DPI Material Adverse Effect*** shall mean any effect, change, event, circumstance or development (each such item, an ***Effect***) that, considered together with all other Effects that had occurred prior to the date of determination of the occurrence of the DPI Material Adverse Effect, is or would reasonably be expected to be or to become materially adverse to, or has or would reasonably be expected to have or result in a material adverse effect on: (a) the business, financial condition, capitalization, assets (including Intellectual Property), operations or financial performance or prospects of DPI and its Subsidiaries taken as a whole; or (b) the ability of DPI to consummate the Merger or any of the other Contemplated Transactions or to perform any of its covenants or obligations under the Agreement; provided, however, that none of the following shall be deemed in themselves, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there has been or will be a DPI Material Adverse Effect: (i) any change in the business, financial condition, capitalization, assets, operations or financial performance or prospects of DPI and the DPI Subsidiaries taken as a whole caused by, related to or resulting from, directly or

Table of Contents

indirectly, the Contemplated Transactions or the announcement thereof or any transactions undertaken, continued or consummated in connection with the matters described on Part 4.2 of the DPI Disclosure Schedule, (ii) any failure by DPI to meet internal projections or forecasts for any period, (iii) any adverse change, effect or occurrence attributable to the United States economy as a whole or the industries in which DPI competes, (iv) any act or threat of terrorism or war anywhere in the world, any armed hostilities or terrorist activities anywhere in the world, any threat or escalation of armed hostilities or terrorist activities anywhere in the world or any governmental or other response or reaction to any of the foregoing, (v) any change in accounting requirements or principles or any change in applicable laws, rules or regulations or the interpretation thereof, (vi) any Effect resulting from the announcement or pendency of the Merger, and (vii) any change in the stock price or trading volume of DPI independent of any other event that would be deemed to have a DPI Material Adverse Effect.

DPI Registered IP. ***DPI Registered IP*** shall mean all DPI IP Rights that are registered, filed or issued under the authority of, with or by any Governmental Body, including all patents, registered copyrights and registered trademarks and all applications for any of the foregoing.

DPI Related Party. ***DPI Related Party*** shall mean any affiliate, as defined in Rule 12b-2 under the Securities Act.

DPI Triggering Event. A ***DPI Triggering Event*** shall be deemed to have occurred if: (i) the board of directors of DPI shall have failed to recommend that the stockholders of DPI vote to approve the DPI Certificate of Amendment, or the issuance of DPI Common Stock pursuant to the Merger, or the Bylaws Amendment, or shall for any reason have withdrawn or shall have modified in a manner adverse to Merger Partner the DPI Board Recommendation; (ii) DPI shall have failed to include in the Joint Proxy Statement/Prospectus the DPI Board Recommendation; (iii) DPI shall have failed to hold the DPI Stockholders Meeting within 45 days after the Form S-4 Registration Statement is declared effective under the Securities Act (other than to the extent that the Form S-4 Registration Statement is subject to any stop order or proceeding (or threatened proceeding by the SEC) seeking a stop order with respect to the Form S-4 Registration Statement, in which case such 45-day period shall be tolled for so long as such stop order remains in effect or proceeding or threatened proceeding remains pending); (iv) the board of directors of DPI shall have approved, endorsed or recommended any Acquisition Proposal; (v) DPI shall have entered into any letter of intent or similar document or any Contract relating to any Acquisition Proposal (other than a confidentiality agreement permitted pursuant to Section 4.5); or (vi) DPI or any director, officer or agent of DPI shall have willfully and intentionally breached the provisions set forth in Section 4.5 of the Agreement.

Encumbrance. ***Encumbrance*** shall mean any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, claim, infringement, interference, option, right of first refusal, preemptive right, community property interest or restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, any restriction on the receipt of any income derived from any asset, any restriction on the use of any asset and any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset) other than (a) mechanic s, materialmen s and similar liens, (b) liens arising under worker s compensation, unemployment insurance and similar legislation, and (c) liens on goods in transit incurred pursuant to documentary letters of credit, in each case arising in the Ordinary Course of Business.

Entity. ***Entity*** shall mean any corporation (including any non-profit corporation), partnership (including any general partnership, limited partnership or limited liability partnership), joint venture, estate, trust, company (including any company limited by shares, limited liability company or joint stock company), firm, society or other enterprise, association, organization or entity.

Environmental Law. ***Environmental Law*** means any federal, state, local or foreign Legal Requirement relating to pollution or protection of human health or the environment (including ambient air, surface water,

Table of Contents

ground water, land surface or subsurface strata), including any law or regulation relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Materials of Environmental Concern.

ERISA. ***ERISA*** shall mean the Employee Retirement Income Security Act of 1974, as amended.

Exchange Act. ***Exchange Act*** shall mean the Securities Exchange Act of 1934, as amended.

FMLA. ***FMLA*** shall mean the Family Medical Leave Act of 1993, as amended.

Form S-4 Registration Statement. ***Form S-4 Registration Statement*** shall mean the registration statement on Form S-4 to be filed with the SEC by DPI in connection with issuance of DPI Common Stock pursuant to the Merger, as said registration statement may be amended prior to the time it is declared effective by the SEC.

Governmental Authorization. ***Governmental Authorization*** shall mean any: (a) permit, license, certificate, franchise, permission, variance, exceptions, orders, clearance, registration, qualification or authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement; or (b) right under any Contract with any Governmental Body.

Governmental Body. ***Governmental Body*** shall mean any: (a) nation, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) federal, state, local, municipal, foreign or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, ministry, fund, foundation, center, organization, unit, body or Entity and any court or other tribunal, and for the avoidance of doubt, any Taxing authority); or (d) self-regulatory organization (including the NASDAQ National Market).

Group 1 Series B Preferred Holders. ***Group 1 Series B Preferred Holders*** shall mean the stockholders set forth on *Schedule II*.

Group 2 Series B Preferred Holders. ***Group 2 Series B Preferred Holders*** shall mean the stockholders set forth on *Schedule III*.

HIPAA. ***HIPAA*** shall mean the Health Insurance Portability and Accountability Act of 1996, as amended.

HSR Act. ***HSR Act*** shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Intellectual Property. ***Intellectual Property*** shall mean United States, foreign and international patents, patent applications, including provisional applications, statutory invention registrations, invention disclosures, inventions, trademarks, service marks, trade names, domain names, URLs, trade dress, logos and other source identifiers, including registrations and applications for registration thereof, copyrights, including registrations and applications for registration thereof, software, formulae, customer lists, trade secrets, know-how, methods, processes, protocols, specifications, techniques, and other forms of technology (whether or not embodied in any tangible form and including all tangible embodiments of the foregoing, such as laboratory notebooks, samples, studies and summaries) confidential information and other proprietary rights and intellectual property, whether patentable or not.

IRS. ***IRS*** shall mean the United States Internal Revenue Service.

Joint Proxy Statement/Prospectus. ***Joint Proxy Statement/Prospectus*** shall mean the joint proxy statement/prospectus to be sent to the stockholders of Merger Partner in connection with the Merger Partner Stockholders Meeting and to the stockholders of DPI in connection with the DPI Stockholders Meeting.

Table of Contents

Key Employee. ***Key Employee*** shall mean an executive officer of Merger Partner or DPI, as applicable, or any employee that reports directly to the board of directors or chief executive officer of Merger Partner or DPI, as applicable.

Knowledge. ***Knowledge*** means, with respect to an individual, that such individual is actually aware of the relevant fact or such individual would reasonably be expected to know such fact in the ordinary course of the performance of the individual s employee or professional responsibility. Any Person that is an Entity shall have Knowledge if any officer or director of such Person as of the date such knowledge is imputed has Knowledge of such fact or other matter.

Legal Proceeding. ***Legal Proceeding*** shall mean any action, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, investigative or appellate proceeding), hearing, inquiry, audit, examination or investigation commenced, brought, conducted or heard by or before, or otherwise involving, any court or other Governmental Body or any arbitrator or arbitration panel.

Legal Requirement. ***Legal Requirement*** shall mean any federal, state, foreign, material local or municipal or other law, statute, constitution, principle of common law, resolution, ordinance, code, edict, decree, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Body (or under the authority of the NASDAQ National Market or the National Association of Securities Dealers).

Materials of Environmental Concern. ***Materials of Environmental Concern*** include chemicals, pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products and any other substance that is now or hereafter regulated by any Environmental Law or that is otherwise a danger to health, reproduction or the environment.

Merger Partner Common Stock. ***Merger Partner Common Stock*** shall mean the Common Stock, $0.0001 par value per share, of Merger Partner.

Merger Partner Contract. ***Merger Partner Contract*** shall mean any Contract: (a) to which Merger Partner is a Party; (b) by which any of Merger Partner s or any Merger Partner IP Rights or any other asset of Merger Partner is or may become bound or under which Merger Partner has, or may become subject to, any obligation; or (c) under which Merger Partner has or may acquire any right or interest.

Merger Partner IP Rights. ***Merger Partner IP Rights*** shall mean all Intellectual Property owned, licensed, or controlled by Merger Partner that is necessary or used in Merger Partner s business as presently conducted.

Merger Partner IP Rights Agreement. ***Merger Partner IP Rights Agreement*** shall mean any Contract governing, related or pertaining to any Merger Partner IP Rights.

Merger Partner Material Adverse Effect. ***Merger Partner Material Adverse Effect*** shall mean any Effect that, considered together with all other Effects that had occurred prior to the date of determination of the occurrence of the Merger Partner Material Adverse Effect, is or would reasonably be expected to be or to become materially adverse to, or has or would reasonably be expected to have or result in a material adverse effect on: (a) the business, financial condition, capitalization, assets (including Intellectual Property), operations or financial performance or prospects of Merger Partner; or (b) the ability of Merger Partner to consummate the Merger or any of the other Contemplated Transactions or to perform any of its covenants or obligations under the Agreement; provided, however, that none of the following shall be deemed in themselves, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there has been or will be a Merger Partner Material Adverse Effect: (i) any change in the business, financial condition, capitalization, assets, operations or financial performance or prospects of Merger Partner caused by, related to or

Table of Contents

resulting from, directly or indirectly, the Contemplated Transactions or the announcement thereof, (ii) any failure by Merger Partner to meet internal projections or forecasts for any period, (iii) any adverse change, effect or occurrence attributable to the United States economy as a whole or the industries in which Merger Partner competes, (iv) any act or threat of terrorism or war anywhere in the world, any armed hostilities or terrorist activities anywhere in the world, any threat or escalation or armed hostilities or terrorist activities anywhere in the world or any governmental or other response or reaction to any of the foregoing, (v) any change in accounting requirements or principles or any change in applicable laws, rules or regulations or the interpretation thereof, or (vi) any Effect resulting from the announcement or pendency of the Merger.

Merger Partner Options. ***Merger Partner Options*** shall mean options to purchase shares of Merger Partner Common Stock issued by Merger Partner.

Merger Partner Preferred Stock. ***Merger Partner Preferred Stock*** shall mean Merger Partner Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock.

Merger Partner Products. ***Merger Partner Products*** shall mean all products being manufactured, distributed or developed by or on behalf of Merger Partner.

Merger Partner Related Party. ***Merger Partner Related Party*** shall mean (i) each of the stockholders of Merger Partner listed on *Schedule 1* hereto; (ii) each individual who is, or who has at any time been, an officer or director of Merger Partner; (iii) each member of the immediate family of each of the individuals referred to in clause (i) and (ii) above; and (iv) any trust or other Entity (other than Merger Partner) in which any one of the Persons referred to in clauses (i), (ii) or (iii) above holds (or in which more than one of such Persons collectively hold), beneficially or otherwise, a material voting, proprietary, equity or other financial interest.

Merger Partner Registered IP. ***Merger Partner Registered IP*** shall mean all Merger Partner IP Rights that are registered, filed or issued under the authority of, with or by any Governmental Body, including all patents, registered copyrights and registered trademarks and all applications for any of the foregoing.

Merger Partner Series A Preferred Stock. ***Merger Partner Series A Preferred Stock*** shall mean shares of Merger Partner s Series A Preferred Stock, par value $0.0001 per share.

Merger Partner Series B Preferred Stock. ***Merger Partner Series B Preferred Stock*** shall mean shares of Merger Partner s Series B Preferred Stock, par value $0.0001 per share.

Merger Partner Series C Preferred Stock. ***Merger Partner Series C Preferred Stock*** shall mean shares of Merger Partner s Series C Preferred Stock, par value $0.0001 per share.

Merger Partner Series D Preferred Stock. ***Merger Partner Series D Preferred Stock*** shall mean shares of Merger Partner s Series D Preferred Stock, par value $0.0001 per share.

Merger Partner Stock Option Plans. ***Merger Partner Stock Option Plans*** shall mean the 2001 Stock Incentive Plan of Merger Partner and the 2003 California Only Stock Incentive Pam of Merger Partner.

Merger Partner Triggering Event. A ***Merger Partner Triggering Event*** shall be deemed to have occurred if: (i) the board of directors of Merger Partner shall have failed to recommend that the stockholders of Merger Partner vote to adopt this Agreement, or shall for any reason have withdrawn or shall have modified in a manner adverse to DPI the Merger Partner Board Recommendation; (ii) Merger Partner shall have failed to include in the Joint Proxy Statement/Prospectus the Merger Partner Board Recommendation; (iii) Merger Partner shall have failed to hold the Merger Partner Stockholders Meeting within 45 days after the Form S-4 Registration Statement is declared effective under the Securities Act (other than to the extent that the Form S-4 Registration Statement is subject to any stop order or proceeding (or threatened proceeding by the SEC) seeking a stop order with respect to the Form S-4 Registration Statement, in which case such 45-day period shall be tolled

Table of Contents

for so long as such stop order remains in effect or proceeding or threatened proceeding remains pending); (iv) the board of directors of Merger Partner shall have approved, endorsed or recommended any Acquisition Proposal; (v) Merger Partner shall have entered into any letter of intent or similar document or any Contract relating to any Acquisition Proposal (other than a confidentiality agreement permitted pursuant to Section 4.5); or (vi) Merger Partner or any director, officer or agent of Merger Partner shall have willfully and intentionally breached the provisions set forth in Section 4.5 of the Agreement.

Merger Partner Warrants. ***Merger Partner Warrants*** shall mean warrants to purchase Merger Partner Series A Preferred Stock and warrants to purchase Merger Partner Series B Preferred Stock.

Net Cash. ***Net Cash*** shall mean, as of any particular date (actual or future), without repetition (a) the sum of (i) DPI s cash and cash equivalents, short-term investments, accounts receivable, net and restricted cash, in each case as of such date and determined in a manner substantially consistent with the manner in which such items were determined for DPI s then most recent consolidated balance sheets filed with the SEC (***DPI s Most Recent SEC Balance Sheet***) and (ii) the off balance sheet receivable due to DPI under the DPI Contract with the National Institute of Health that is subject to audit pursuant to applicable Legal Requirements minus (b) the sum of DPI s accounts payable and accrued expenses, in each case as of such date and determined in a manner substantially consistent with the manner in which such items were determined for DPI s Most Recent SEC Balance Sheet minus (c) the amount of contractual obligations as of such date determined in a manner substantially consistent with the manner in which the Contractual Obligations table included in the Management s Discussion and Analysis of Financial Condition section of DPI s most recent Form 10-K for the year ended December 31, 2005 filed with the SEC was determined minus (d) the remaining cash cost of restructuring accruals as of such date determined in a manner substantially consistent with the manner in which such item was determined for DPI s Most Recent SEC Balance Sheet minus (e) the cash cost of any change of control payments, severance payments or payments under Section 280G of the Code that become due to any employee of DPI solely as a result of the Merger and the Contemplated Transactions minus (f) the cash cost of any accrued and unpaid retention payments due to any DPI employee as of such date minus (g) the cash cost of any and all billed and unpaid Taxes (including estimates from any estimated tax costs arising out of any specific tax review that may be underway at the Effective Time) for which DPI is liable in respect of any period ending on or before such date minus (h) the remaining cash cost, if any, as of such date of any liabilities or expenses to DPI associated with the matters referred to in Schedule 3.13 of the DPI Disclosure Schedule minus (i) any remaining fees and expenses as of such date for which DPI is liable pursuant to this Agreement incurred by DPI in connection with this Agreement and the Contemplated Transactions minus (j) in the event DPI has not sold, divested, disposed of, liquidated or wound down all or substantially all of its Basel business unit as of such date, the liquidation costs with respect to such business determined as of such date (it being agreed that the current estimate of such costs is $2,000,000), minus (k) in the event DPI has not sold, divested, disposed of, liquidated or wound down all or substantially all of its Heidelberg business unit as of such date, the liquidation costs with respect to such business determined as of such date (it being agreed that the current estimate of such costs is $1,400,000), minus (l) in the event DPI has not sold, divested, disposed of, liquidated or wound down all or substantially all of its San Diego chemistry business unit as of such date, the liquidation costs with respect to such business determined as of such date (it being agreed that the current estimate of such costs is $950,000), minus (m) in the event DPI has not sold, divested, disposed of, liquidated or wound down all or substantially all of its San Diego corporate business unit as of such date, the liquidation costs with respect to such business determined as of such date (it being agreed that the current estimate of such costs is $570,000), minus (n) in the event DPI has not sold, divested, disposed of, liquidated or wound down all or substantially all of its South San Francisco compound management business unit as of such date, the liquidation costs with respect to such business determined as of such date (it being agreed that the current estimate of such costs is $450,000), it being further agreed and understood that in the case of subclauses (j) (n) no costs or expenses shall be deducted to the extent already deducted pursuant to another clause of this definition, plus (o) any amounts paid by DPI on or prior to such date in satisfaction of its obligations under Section 5.7(c), (d) or (e) (and the Parties acknowledge and agree that any amounts payable by DPI as of such date pursuant to such obligations shall not result in a reduction to Net Cash in connection with any determination of Net Cash pursuant to the above).

Table of Contents

Ordinary Course of Business. ***Ordinary Course of Business*** shall mean, in the case of each of Merger Partner, DPI and the DPI Subsidiaries, such reasonable and prudent actions taken in the ordinary course of its normal operations and consistent with its past practices.

Party. ***Party*** or ***Parties*** shall mean Merger Partner, Merger Sub and DPI.

Person. ***Person*** shall mean any individual, Entity or Governmental Body.

Related Agreements. ***Related Agreements*** shall mean the Merger Partner Stockholder Voting Agreements, the DPI Stockholder Voting Agreements, the Certificate of Merger, the Joint Proxy Statement/Prospectus and any other documents or agreements executed in connection with this Agreement or the Contemplated Transactions.

Representatives. ***Representatives*** shall mean directors, officers, other employees, agents, attorneys, accountants, advisors and representatives.

Sarbanes-Oxley Act. ***Sarbanes-Oxley Act*** shall mean the Sarbanes-Oxley Act of 2002, as it may be amended from time to time.

SEC. ***SEC*** shall mean the United States Securities and Exchange Commission.

Securities Act. ***Securities Act*** shall mean the Securities Act of 1933, as amended.

Subsidiary. An entity shall be deemed to be a ***Subsidiary*** of another Person if such Person directly or indirectly owns or purports to own, beneficially or of record, (a) an amount of voting securities of other interests in such entity that is sufficient to enable such Person to elect at least a majority of the members of such entity s board of directors or other governing body, or (b) at least 50% of the outstanding equity, voting, beneficial or financial interests in such Entity.

Superior Offer. ***Superior Offer*** shall mean an unsolicited bona fide written offer by a third party to enter into (i) a merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, acquisition of securities, reorganization, recapitalization, tender offer, exchange offer or other similar transaction as a result of which either (A) the Party s stockholders prior to such transaction in the aggregate cease to own at least 50% of the voting securities of the entity surviving or resulting from such transaction (or the ultimate parent entity thereof) or (B) in which a Person or group (as defined in the Exchange Act and the rules promulgated thereunder) directly or indirectly acquires beneficial or record ownership of securities representing 50% or more of the Party s capital stock or (ii) a sale, lease, exchange transfer, license, acquisition or disposition of any business or other disposition of at least 50% of the assets of the Party or its Subsidiaries, taken as a whole, in a single transaction or a series of related transactions that: (a) was not obtained or made as a direct or indirect result of a breach of (or in violation of) the Agreement; and (b) is on terms and conditions that the board of directors of DPI or Merger Partner, as applicable, determines, in its good faith judgment, after obtaining and taking into account such matters that its board of directors deems relevant following consultation with its outside legal counsel and financial advisor: (x) is more favorable, from a financial point of view, to DPI s stockholders or Merger Partner s stockholders, as applicable, than the terms of the Merger; and (y) is reasonably capable of being consummated; *provided, however*, that any such offer shall not be deemed to be a Superior Offer if (I) any financing required to consummate the transaction contemplated by such offer is not committed unless the board of directors of DPI or Merger Partner, as applicable, determines in good faith, that any required financing is reasonably capable of being obtained by such third party, or (II) the consummation of such transaction is contingent on any such financing being obtained.

Tax. ***Tax*** shall mean any federal, state, local, foreign or other taxes, levies, charges and fees or other similar assessments or liabilities in the nature of a tax, including, without limitation, any income tax, franchise

Table of Contents

tax, capital gains tax, gross receipts tax, value-added tax, surtax, estimated tax, unemployment tax, national health insurance tax, excise tax, ad valorem tax, transfer tax, stamp tax, sales tax, use tax, property tax, business tax, withholding tax, payroll tax, customs duty, alternative or add-on minimum or other tax of any kind whatsoever, and including any fine, penalty, assessment, addition to tax or interest, whether disputed or not.

Tax Return. ***Tax Return*** shall mean any return (including any information return), report, statement, declaration, estimate, schedule, notice, notification, form, election, certificate or other document or information, and any amendment or supplement to any of the foregoing, filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Legal Requirement relating to any Tax.

Table of Contents

Additional Definitions

Each of the following definitions is set forth in the section of the Agreement indicated below:

Definition	Section
Agreement	Preamble
Bylaws Amendment	3.17
Bylaws Amendment Vote	3.17
Closing	1.3
Closing Date	1.3
Conversion Factor	1.6(a)
D&O Indemnified Parties	5.7(a)
Dispute Net Cash Determination Date	1.7(d)
Dispute Notice	1.7(b)
Dissenting Shares	1.9
DPI Board Recommendation	5.3(b)
DPI Balance Sheet	3.6(a)
DPI Balance Sheet Date	3.5(h)
DPI Certificate of Amendment	1.5(a)
DPI Constituent Documents	3.2
DPI Disclosure Schedule	3
DPI Foreign Plan	3.12(k)
DPI Plan	3.12(s)
DPI	Preamble
DPI Returns	3.11(a)
DPI SEC Documents	3.4(a)
DPI Stockholder Voting Agreements	Recitals
DPI Stockholders Meeting	5.3(a)
Effective Time	1.3
Exchange Agent	1.8(a)
Exchange Fund	1.8(a)
First Anticipated Closing Date	1.7(a)
GAAP	2.4
Lapse Date	1.7(b)
Merger Partner Audited Balance Sheet	2.4(a)(i)
Merger Partner Balance Sheet	2.4(a)(ii)
Merger Partner Board Recommendation	5.2(b)
Merger Partner Certificate	1.6
Merger Partner Certificate of Incorporation	2.2
Merger Partner Constituent Documents	2.2
Merger Partner Disclosure Schedule	2
Merger Partner Financial Statements	2.4(a)
Merger Partner Foreign Plan	2.15(k)
Merger Partner Plan	2.15(s)
Merger Partner	Recitals
Merger Partner Returns	2.14(a)
Merger Partner Stockholder Voting Agreements	Recitals
Merger Partner Stockholders Meeting	5.2(a)
Merger Partner Unaudited Interim Balance Sheet	2.4(a)(ii)
Merger	Recitals
Merger Sub	Preamble
Net Cash Schedule	1.7(a)

Table of Contents

Definition	Section
Net Cash Estimation	1.7(a)
Non-Dispute Net Cash Determination Date	1.7(c)
Pension Plan	2.15(k)
Pre-Closing Period	4.1
Registrable Merger Shares	5.12
Required DPI Stockholder Vote	3.17
Required Merger Partner Stockholder Vote	2.22
Reverse Stock Split	1.5(a)(i)
Rights Agreement	3.23
Shelf Registration Statement	5.12
Subsequent Anticipated Closing Date	1.7(e)
Surviving Corporation	1.1

Table of Contents

SCHEDULE 1

CERTAIN MERGER PARTNER STOCKHOLDERS

Julian Adams

Advent Private Equity Fund III A

Advent Private Equity Fund III B

Advent Private Equity Fund III C

Advent Private Equity Fund III D

HBM BioVentures (Cayman) Ltd.

Steven H. Holtzman

Holtzman-Stewart 1996 Irrevocable Trust

Richard D. Klausner

Eric Lander

Stelios Papadopoulos

Adelene Perkins

Prospect Venture Partners II, L.P.

Prospect Venture Partners, L.P.

Stuart Schreiber

Venrock Associates

Venrock Entrepreneurs Fund III, L.P.

Vulcan Ventures Inc.

Table of Contents

SCHEDULE 2

CERTAIN DPI STOCKHOLDERS

Harry F. Hixson, Jr., Ph.D.

Michael C. Venuti, Ph.D.

Alan J. Lewis, Ph.D.

Herm Rosenman

Sir Colin T. Dollery, FmedSci.

Craig Kussman

Richard Neale

Table of Contents

SCHEDULE 5.11(a)(i)

DIRECTORS OF DPI

(A) In the event that the Bylaws Amendment is approved by the Bylaws Amendment Vote, the directors of DPI shall be as follows:

CLASS I: Herm Rosenman, Eric Lander, Frank Moss and James Tananbaum

CLASS II: Ron Daniel, Arnold Levine, Patrick Lee and Michael Venuti

CLASS III: Anthony Evnin, Harry Hixson, Steven Holtzman and Vicki Sato

(B) In the event that the Bylaws Amendment is not approved by the Bylaws Amendment Vote, the directors of DPI shall be as follows:

CLASS I: Arnold Levine, Herm Rosenman and James Tananbaum

CLASS II: Ron Daniel, Patrick Lee and Michael Venuti

CLASS III: Anthony Evnin, Harry Hixson, Steven Holtzman and Vicki Sato

Table of Contents

SCHEDULE 5.11(a)(ii)

DIRECTORS TO RESIGN FROM BOARD OF DIRECTORS OF DPI

Sir Colin T. Dollery, FmedSci.

Alan J. Lewis, Ph.D.

Table of Contents

SCHEDULE 5.11(b)(i)

DIRECTOR OF SURVIVING CORPORATION

Steven H. Holtzman

Table of Contents

SCHEDULE 5.11(b)(ii)

DIRECTORS TO RESIGN FROM BOARD OF DIRECTORS OF SURVIVING CORPORATION

All directors other than Steven H. Holtzman.

Table of Contents

Schedule I

Conversions for Merger Partner Common Stock, Merger Partner Preferred Stock, Merger Partner Options and Merger Partner Warrants

Schedule I

Net Cash ($M) as Determined in Accordance with Section 1.7 (1)	Conversion Ratios					
	Series A Preferred Holders	Group 1 Series B Preferred Holders	Group 2 Series B Preferred Holders	Series C Preferred Holders	Series D Preferred Holders	Common Holders
40	1.53172	1.94794	2.19131	2.03228	2.07724	1.72401
41	1.49436	1.90043	2.13786	1.98271	2.02658	1.68196
42	1.45878	1.85518	2.08696	1.93550	1.97833	1.64191
43	1.42485	1.81204	2.03843	1.89049	1.93232	1.60373
44	1.39247	1.77085	1.99210	1.84752	1.88840	1.56728
45	1.36153	1.73150	1.94783	1.80647	1.84644	1.53245
46	1.33193	1.69386	1.90548	1.76720	1.80630	1.49914
47	1.30359	1.65782	1.86494	1.72960	1.76787	1.46724
48	1.27643	1.62328	1.82609	1.69356	1.73104	1.43667
49	1.25038	1.59015	1.78882	1.65900	1.69571	1.40735
50	1.22537	1.55835	1.75305	1.62582	1.66179	1.37921
51	1.20135	1.52779	1.71867	1.59394	1.62921	1.35216
52	1.17824	1.49841	1.68562	1.56329	1.59788	1.32616
53	1.15601	1.47014	1.65382	1.53379	1.56773	1.30114
54	1.13461	1.44292	1.62319	1.50539	1.53870	1.27704
55	1.11398	1.41668	1.59368	1.47802	1.51072	1.25383
56	1.09408	1.39138	1.56522	1.45163	1.48375	1.23144
57	1.07489	1.36697	1.53776	1.42616	1.45771	1.20983
58	1.05636	1.34341	1.51125	1.40157	1.43258	1.18897
59	1.03845	1.32064	1.48563	1.37781	1.40830	1.16882
60	1.02115	1.29863	1.46087	1.35485	1.38483	1.14934
61	1.00441	1.27734	1.43692	1.33264	1.36213	1.13050
62	0.98821	1.25673	1.41375	1.31115	1.34016	1.11226
63	0.97252	1.23679	1.39131	1.29033	1.31888	1.09461
64	0.95732	1.21746	1.36957	1.27017	1.29828	1.07751
65	0.94260	1.19873	1.34850	1.25063	1.27830	1.06093
66	0.92831	1.18057	1.32806	1.23168	1.25894	1.04485
67	0.91446	1.16295	1.30824	1.21330	1.24015	1.02926
68	0.90101	1.14585	1.28900	1.19546	1.22191	1.01412
69	0.88795	1.12924	1.27032	1.17813	1.20420	0.99943
70	**0.84509**	**1.07472**	**1.20900**	**1.12126**	**1.14607**	**0.95118**
71	**0.84509**	**1.07473**	**1.20899**	**1.12126**	**1.14607**	**0.95118**
72	**0.84509**	**1.07472**	**1.20900**	**1.12126**	**1.14607**	**0.95118**
73	**0.84509**	**1.07472**	**1.20900**	**1.12126**	**1.14607**	**0.95118**
74	**0.84509**	**1.07472**	**1.20900**	**1.12126**	**1.14607**	**0.95118**
75	**0.84509**	**1.07472**	**1.20900**	**1.12126**	**1.14607**	**0.95118**
76	0.80617	1.02523	1.15332	1.06962	1.09329	0.90737

77	0.79570	1.01192	1.13834	1.05573	1.07909	0.89559
78	0.78550	0.99894	1.12375	1.04219	1.06525	0.88411
79	0.77555	0.98630	1.10952	1.02900	1.05177	0.87292
80	0.76586	0.97397	1.09565	1.01614	1.03862	0.86200
81	0.75640	0.96194	1.08213	1.00359	1.02580	0.85136

Table of Contents

Net Cash ($M) as Determined in Accordance with Section 1.7 (1)	Conversion Ratios					
	Series A Preferred Holders	Group 1 Series B Preferred Holders	Group 2 Series B Preferred Holders	Series C Preferred Holders	Series D Preferred Holders	Common Holders
82	0.74718	0.95021	1.06893	0.99135	1.01329	0.84098
83	0.73818	0.93877	1.05605	0.97941	1.00108	0.83085
84	0.72939	0.92759	1.04348	0.96775	0.98916	0.82096
85	0.72081	0.91668	1.03120	0.95637	0.97753	0.81130
86	0.71243	0.90602	1.01921	0.94524	0.96616	0.80186
87	0.70424	0.89560	1.00750	0.93438	0.95505	0.79265
88	0.69624	0.88543	0.99605	0.92376	0.94420	0.78364
89	0.68841	0.87548	0.98486	0.91338	0.93359	0.77484
90	0.68076	0.86575	0.97391	0.90323	0.92322	0.76623
91	0.67328	0.85624	0.96321	0.89331	0.91307	0.75781
92	0.66596	0.84693	0.95274	0.88360	0.90315	0.74957
93	0.65880	0.83782	0.94250	0.87410	0.89344	0.74151
94	0.65179	0.82891	0.93247	0.86480	0.88393	0.73362
95	0.64493	0.82018	0.92266	0.85570	0.87463	0.72590
96	0.63822	0.81164	0.91304	0.84678	0.86552	0.71834
97	0.63164	0.80327	0.90363	0.83805	0.85660	0.71093
98	0.62519	0.79508	0.89441	0.82950	0.84785	0.70368
99	0.61888	0.78705	0.88538	0.82112	0.83929	0.69657
100	0.61269	0.77918	0.87652	0.81291	0.83090	0.68960

(1) For purposes of this Schedule I, Net Cash will be rounded to the nearest $ million

Table of Contents

SCHEDULE II

GROUP 1 SERIES B PREFERRED HOLDERS

Prospect Venture Partners

Prospect Venture Partners II, L.P.

Venrock Associates

Venrock Associates III, L.P.

Venrock Entrepreneurs Fund III, L.P.

Table of Contents

SCHEDULE III

GROUP 2 SERIES B PREFERRED HOLDERS

Advent Private Equity Fund III A

Advent Private Equity Fund III B

Advent Private Equity Fund III C

Advent Private Equity Fund III D

Advent Private Equity Fund III A

Advent Private Equity Fund III GmbH Co. KG

Advent Private Equity Fund III Affiliates

Advent Management III Limited Partnership

Boston University

Alexandria Equities, LLC

G&H Partners

HBM Bioventures (Cayman) Ltd.

H&D Investments 2001

Lotus Biosciences Investment Holdings Limited

Novartis Bioventures Ltd.

POSCO BioVentures I, L.P.

Tallwood I, L.P.

Vulcan Ventures Inc.

Wellcome Trust Limited, as Trustee of the Wellcome Trust

Steven H. Holtzman

Franklin Moss

Stelios Papdopoulos

Kimberly Rummelsburg

Table of Contents

EXHIBITS

Exhibit A Defined Terms

Exhibit B Merger Partner Stockholder Voting Agreements

Exhibit C DPI Stockholders Voting Agreements

Exhibit D Form of Lock-up Agreement

Table of Contents

Exhibit B

VOTING AGREEMENT

THIS VOTING AGREEMENT (this ***Agreement***) is entered into as of April , 2006, by and between **DISCOVERY PARTNERS INTERNATIONAL, INC.**, a Delaware corporation (***DPI***), and the Principal Stockholders of **INFINITY PHARMACEUTICALS, INC.**, a Delaware corporation (the ***Company***) whose signatures appear on the signature pages to this Agreement (each a ***Principal Stockholder***). Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Merger Agreement (as defined herein).

RECITALS

A. Each Principal Stockholder is a holder of record and the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the ***Exchange Act***)) of certain shares of preferred and/or common stock of the Company.

B. DPI, the Company and Darwin Corp., a Delaware corporation and a wholly owned subsidiary of DPI have entered into an Agreement and Plan of Merger and Reorganization dated as of April , 2006 (the ***Merger Agreement***), providing for the merger of Merger Sub with and into the Company, with the Company being the surviving corporation and continuing as a wholly owned subsidiary of DPI (the ***Merger***).

C. In the Merger, the outstanding shares of common stock and preferred stock of the Company are to be converted into the right to receive shares of common stock of DPI as specified in the Merger Agreement.

D. In order to induce DPI to enter into the Merger Agreement, each Principal Stockholder is entering into this Agreement.

AGREEMENT

The parties to this Agreement, intending to be legally bound, agree as follows:

1. CERTAIN DEFINITIONS

For purposes of this Agreement:

(a) The terms ***Acquisition Proposal*** and ***Acquisition Transaction*** shall have the respective meanings assigned to those terms in the Merger Agreement.

(b) ***Company Common Stock*** shall mean the common stock, par value $0.0001 per share, of the Company.

(c) ***Company Preferred Stock*** shall mean the Series A, Series B, Series C and Series D preferred stock, per value $0.0001 per share, of the Company.

(d) Principal Stockholder shall be deemed to ***Own*** or to have acquired ***Ownership*** of a security if Principal Stockholder: (i) is the record owner of such security; or (ii) is the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of such security.

(e) ***DPI Common Stock*** shall mean the common stock, par value $0.001 per share, of DPI.

(f) ***Person*** shall mean any (i) individual, (ii) corporation, limited liability company, partnership or other entity, or (iii) governmental authority.

(g) ***Subject Securities*** shall mean: (i) all securities of the Company (including all shares of Company Common Stock and Company Preferred Stock and all options, warrants and other rights to acquire shares of Company Common Stock and Company Preferred Stock) Owned by each Principal Stockholder as of the date of this Agreement; and (ii) all additional securities of the Company (including all additional shares of Company Common Stock and Company Preferred Stock and all additional options, warrants and other rights to acquire shares of Company Common Stock and Company Preferred Stock) of which each Principal Stockholder acquires Ownership during the period from the date of this Agreement through the Voting Covenant Expiration Date.

Table of Contents

(h) A Person shall be deemed to have a effected a ***Transfer*** of a security if such Person directly or indirectly: (i) sells, pledges, encumbers, grants an option with respect to, transfers or disposes of such security or any interest in such security to any Person other than DPI; (ii) enters into an agreement or commitment contemplating the possible sale of, pledge of, encumbrance of, grant of an option with respect to, transfer of or disposition of such security or any interest therein to any Person other than DPI; or (iii) reduces such Person s beneficial ownership of, interest in, control over or risk relating to such security.

(i) ***Voting Covenant Expiration Date*** shall mean the earlier of the date upon which the Merger Agreement is terminated, or the date upon which the Merger is consummated.

2. Transfer of Subject Securities and Voting Rights

2.1 Restriction on Transfer of Subject Securities. Subject to Section 2.3, during the period from the date of this Agreement through the Voting Covenant Expiration Date, each Principal Stockholder shall not, directly or indirectly, cause or permit any Transfer of any of the Subject Securities to be effected.

2.2 Restriction on Transfer of Voting Rights. During the period from the date of this Agreement through the Voting Covenant Expiration Date, each Principal Stockholder shall ensure that: (a) none of the Subject Securities is deposited into a voting trust; and (b) no proxy is granted, and no voting agreement or similar agreement is entered into, with respect to any of the Subject Securities.

2.3 Permitted Transfers. Section 2.1 shall not prohibit a transfer of Company Common Stock or Company Preferred Stock by any Principal Stockholder (i) to any member of his or her immediate family, or to a trust for the benefit of Principal Stockholder or any member of his or her immediate family, (ii) upon the death of Principal Stockholder, or (iii) if Principal Stockholder is a partnership or limited liability company, to one or more partners or members of Principal Stockholder or to an affiliated corporation under common control with Principal Stockholder; *provided, however,* that a transfer referred to in this sentence shall be permitted only if, as a precondition to such transfer, the transferee agrees in a writing, reasonably satisfactory in form and substance to DPI, to be bound by the terms of this Agreement.

3. Voting of Shares

3.1 Voting Covenant Prior to Termination of Merger Agreement. Each Principal Stockholder hereby agrees that, prior to the earlier to occur of the termination of the Merger Agreement or the consummation of the Merger, at any meeting of the Principal Stockholders of the Company, however called, and in any written action by consent of Principal Stockholders of the Company, unless otherwise directed in writing by DPI, each Principal Stockholder shall cause the Subject Securities to be voted, as applicable:

(a) in favor of the Merger, the execution and delivery by the Company of the Merger Agreement and the adoption of the Merger Agreement and the terms thereof, in favor of each of the other actions contemplated by the Merger Agreement and in favor of any action in furtherance of any of the foregoing;

(b) against any action or agreement that would result in a breach of any representation, warranty, covenant or obligation of the Company in the Merger Agreement; and

(c) against the following actions (other than the Merger and the Contemplated Transactions): (A) any extraordinary corporate transaction, such as a merger, consolidation or other business combination involving the Company or any subsidiary of the Company; (B) any sale, lease or transfer of a material amount of assets of the Company or any subsidiary of the Company; (C) any reorganization, recapitalization, dissolution or liquidation of the Company or any subsidiary of the Company; (D) any change in a majority of the board of directors of the Company; (E) any amendment to the Company s certificate of incorporation or bylaws; (F) any material change in the capitalization of the Company or the Company s corporate structure; and (G) any other action which is intended, or could reasonably be expected, to impede, interfere with, delay, postpone, discourage or adversely affect the Merger or any of the other transactions contemplated by the Merger Agreement or this Agreement.

Table of Contents

Prior to the earlier to occur of the termination of the Merger Agreement or the consummation of the Merger, no Principal Stockholder shall enter into any agreement or understanding with any Person to vote or give instructions in any manner inconsistent with clause (a), (b), or (c) of the preceding sentence.

3.2 Proxy; Further Assurances.

(a) Contemporaneously with the execution of this Agreement: (i) each Principal Stockholder shall deliver to DPI a proxy in the form attached to this Agreement as **Exhibit A**, which shall be irrevocable to the fullest extent permitted by law (at all times prior to the Voting Covenant Expiration Date) with respect to the shares referred to therein (the ***Proxy***); and (ii) each Principal Stockholder shall cause to be delivered to DPI an additional proxy (in the form attached hereto as **Exhibit A**) executed on behalf of the record owner of any outstanding shares of Company Common Stock or Company Preferred Stock that are owned beneficially (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934), but not of record, by such Principal Stockholder.

(b) Each Principal Stockholder shall, at his, her or its own expense, perform such further acts and execute such further proxies and other documents and instruments as may reasonably be required to vest in DPI the power to carry out and give effect to the provisions of this Agreement.

4. Waiver of Appraisal Rights

Each Principal Stockholder hereby irrevocably and unconditionally waives, and agrees to cause to be waived and to prevent the exercise of, any rights of appraisal, any dissenters rights and any similar rights relating to the Merger or any related transaction that such Principal Stockholder or any other Person may have by virtue of any outstanding shares of Company Common Stock or Company Preferred Stock Owned by such Principal Stockholder.

5. No Solicitation

Each Principal Stockholder agrees that, during the period from the date of this Agreement through the Voting Covenant Expiration Date, no Principal Stockholder shall, directly or indirectly, and each Principal Stockholder shall ensure that none of his, her or its Representatives (as defined in the Merger Agreement) will, directly or indirectly: (i) solicit, initiate, encourage, induce or facilitate the making, submission or announcement of any Acquisition Proposal or take any action that could reasonably be expected to lead to an Acquisition Proposal; (ii) furnish any information regarding the Company or any subsidiary of the Company to any Person in connection with or in response to an Acquisition Proposal or an inquiry or indication of interest that could lead to an Acquisition Proposal; (iii) engage in discussions or negotiations with any Person with respect to any Acquisition Proposal; (iv) approve, endorse or recommend any Acquisition Proposal; or (v) enter into any letter of intent or similar document or any agreement or understanding contemplating or otherwise relating to any Acquisition Transaction. Each Principal Stockholder shall immediately cease and discontinue, and each Principal Stockholder shall ensure that his, her or its Representatives immediately cease and discontinue, any existing discussions with any Person that relate to any Acquisition Proposal.

6. Representations and Warranties of Principal Stockholder

Each Principal Stockholder hereby represents and warrants to DPI as follows:

6.1 Authorization, Etc. Such Principal Stockholder has the absolute and unrestricted right, power, authority and capacity to execute and deliver this Agreement and the Proxy and to perform his, her or its obligations hereunder and thereunder. This Agreement and the Proxy have been duly executed and delivered by such Principal Stockholder and constitute legal, valid and binding obligations of such Principal Stockholder, enforceable against such Principal Stockholder in accordance with their terms, subject to (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies. Such Principal Stockholder, if not an individual, is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was organized or formed.

Table of Contents

6.2 No Conflicts or Consents.

(a) The execution and delivery of this Agreement and the Proxy by such Principal Stockholder does not, and the performance of this Agreement and the Proxy by such Principal Stockholder will not: (i) conflict with or violate any law, rule, regulation, order, decree or judgment applicable to such Principal Stockholder or by which he, she or it or any of his, her or its properties is or may be bound or affected; or (ii) result in or constitute (with or without notice or lapse of time) any breach of or default under, or give to any other Person (with or without notice or lapse of time) any right of termination, amendment, acceleration or cancellation of, or result (with or without notice or lapse of time) in the creation of any encumbrance or restriction on any of the Subject Securities pursuant to, any contract to which such Principal Stockholder is a party or by which such Principal Stockholder or any of his, her or its affiliates or properties is or may be bound or affected.

(b) The execution and delivery of this Agreement and the Proxy by such Principal Stockholder does not, and the performance of this Agreement and the Proxy by such Principal Stockholder will not, require any consent or approval of any Person.

6.3 Title to Securities. As of the date of this Agreement: (a) such Principal Stockholder holds of record (free and clear of any encumbrances or restrictions) the number of outstanding shares of Company Common Stock and/or Company Preferred Stock set forth beneath such Principal Stockholder s signature on the signature page hereof; (b) such Principal Stockholder holds (free and clear of any encumbrances or restrictions) the options, warrants and other rights to acquire shares of Company Common Stock set forth beneath such Principal Stockholder s signature on the signature page hereof; and (c) such Principal Stockholder does not directly or indirectly Own any shares of capital stock or other securities of the Company, or any option, warrant or other right to acquire (by purchase, conversion or otherwise) any shares of capital stock or other securities of the Company, other than the shares and options, warrants and other rights set forth beneath such Principal Stockholder s signature on the signature page hereof.

6.4 Accuracy of Representations. The representations and warranties contained in this Agreement are accurate in all respects as of the date of this Agreement, will be accurate in all respects at all times through the Voting Covenant Expiration Date and will be accurate in all respects as of the date of the consummation of the Merger as if made on that date.

7. Additional Covenants of Principal Stockholder

7.1 Further Assurances. From time to time and without additional consideration, each Principal Stockholder shall (at such Principal Stockholder s sole expense) execute and deliver, or cause to be executed and delivered, such additional transfers, assignments, endorsements, proxies, consents and other instruments, and shall (at such Principal Stockholder s sole expense) take such further actions, as DPI may reasonably request for the purpose of carrying out and furthering the intent of this Agreement.

8. Miscellaneous

8.1 Survival of Representations, Warranties and Agreements. All representations, warranties, covenants and agreements made by each Principal Stockholder in this Agreement shall survive (i) the consummation of the Merger, (ii) any termination of the Merger Agreement, and (iii) the Voting Covenant Expiration Date.

8.2 Expenses. All costs and expenses incurred in connection with the transactions contemplated by this Agreement shall be paid by the party incurring such costs and expenses.

8.3 Notices. Any notice or other communication required or permitted to be delivered to any party under this Agreement shall be in writing and shall be deemed properly

Table of Contents

delivered, given and received when delivered (by hand, by registered mail, by courier or express delivery service or by facsimile) to the address or facsimile telephone number set forth beneath the name of such party below (or to such other address or facsimile telephone number as such party shall have specified in a written notice given to the other party):

if to Principal Stockholder:

at the address set forth on the signature page hereof; and

if to DPI:

Discovery Partners International, Inc.

9640 Towne Centre Drive

San Diego, CA 92121

Attention: Chief Executive Officer

Facsimile: (858) 455-8088

with a copy to:

Cooley Godward LLP

401 Eastgate Mall

San Diego, CA 92121
Attention: Matthew T. Browne, Esq.

Facsimile: (858) 550-6420

8.4 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the parties hereto agree that the court making such determination shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified. In the event such court does not exercise the power granted to it in the prior sentence, the parties hereto agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

8.5 Entire Agreement. This Agreement, the Proxy, the Merger Agreement and any Lock-up Agreement between each Principal Stockholder and DPI collectively set forth the entire understanding of DPI and such Principal Stockholder relating to the subject matter hereof and thereof and supersede all other prior agreements and understandings between DPI and such Principal Stockholder relating to the subject matter hereof and thereof.

8.6 Assignment; Binding Effect. Except as provided herein, neither this Agreement nor any of the interests or obligations hereunder may be assigned or delegated by any Principal Stockholder, and any attempted or purported assignment or delegation of any of such interests or obligations shall be void. Subject to the preceding sentence, this Agreement shall be binding upon each Principal Stockholder and his or her heirs, estate, executors and personal representatives and his, her or its successors and assigns, and shall inure to the benefit of DPI and its successors and assigns. Without limiting any of the restrictions set forth in Section 2 or elsewhere in this Agreement, this Agreement shall be binding upon any Person to whom any Subject Securities are transferred. Nothing in this Agreement is intended to confer on any Person (other than DPI and its successors and assigns) any rights or remedies of any nature.

8.7 Fiduciary Duties. Each Principal Stockholder is signing this Agreement in such Principal Stockholder s capacity as an owner of his, her or its respective Subject Securities, and nothing herein shall prohibit, prevent or preclude such Principal Stockholder from taking or not taking any action in his or her capacity as an officer or director of the Company, to the extent permitted by the Merger Agreement.

Table of Contents

8.8 Specific Performance. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement or the Proxy were not performed in accordance with its specific terms or were otherwise breached. Each Principal Stockholder agrees that, in the event of any breach or threatened breach by any Principal Stockholder of any covenant or obligation contained in this Agreement or in the Proxy, DPI shall be entitled (in addition to any other remedy that may be available to it, including monetary damages) to seek and obtain (a) a decree or order of specific performance to enforce the observance and performance of such covenant or obligation, and (b) an injunction restraining such breach or threatened breach. Each Principal Stockholder further agrees that neither DPI nor any other Person shall be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this Section 8.8, and each Principal Stockholder irrevocably waives any right he, she or it may have to require the obtaining, furnishing or posting of any such bond or similar instrument.

8.9 Non-Exclusivity. The rights and remedies of DPI under this Agreement are not exclusive of or limited by any other rights or remedies which it may have, whether at law, in equity, by contract or otherwise, all of which shall be cumulative (and not alternative). Without limiting the generality of the foregoing, the rights and remedies of DPI under this Agreement, and the obligations and liabilities of each Principal Stockholder under this Agreement, are in addition to their respective rights, remedies, obligations and liabilities under common law requirements and under all applicable statutes, rules and regulations. Nothing in this Agreement shall limit any Principal Stockholder s obligations, or the rights or remedies of DPI, under any other agreement between DPI and such Principal Stockholder; and nothing in any such other agreement shall limit any Principal Stockholder s obligations, or any of the rights or remedies of DPI, under this Agreement.

8.10 Governing Law; Venue.

(a) This Agreement and the Proxy shall be construed in accordance with, and governed in all respects by, the laws of the State of Delaware (without giving effect to principles of conflicts of laws).

(b) Any legal action or other legal proceeding relating to this Agreement or the Proxy or the enforcement of any provision of this Agreement or the Proxy may be brought or otherwise commenced in any state or federal court located in the State of Delaware. Each Principal Stockholder:

(i) expressly and irrevocably consents and submits to the jurisdiction of each state and federal court located in the State of Delaware in connection with any such legal proceeding;

(ii) agrees that service of any process, summons, notice or document by U.S. mail addressed to him or it at the address set forth on the signature page hereof shall constitute effective service of such process, summons, notice or document for purposes of any such legal proceeding;

(iii) agrees that each state and federal court located in the State of Delaware shall be deemed to be a convenient forum; and

(iv) agrees not to assert (by way of motion, as a defense or otherwise), in any such legal proceeding commenced in any state or federal court located in the State of Delaware, any claim that such Principal Stockholder is not subject personally to the jurisdiction of such court, that such legal proceeding has been brought in an inconvenient forum, that the venue of such proceeding is improper or that this Agreement or the subject matter of this Agreement may not be enforced in or by such court.

Nothing contained in this Section 8.10 shall be deemed to limit or otherwise affect the right of DPI to commence any legal proceeding or otherwise proceed against any Principal Stockholder in any other forum or jurisdiction.

(**c**) EACH PRINCIPAL STOCKHOLDER IRREVOCABLY WAIVES THE RIGHT TO A JURY TRIAL IN CONNECTION WITH ANY LEGAL PROCEEDING RELATING TO THIS AGREEMENT OR THE PROXY OR THE ENFORCEMENT OF ANY PROVISION OF THIS AGREEMENT OR THE PROXY.

Table of Contents

8.11 Counterparts. This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

8.12 Captions. The captions contained in this Agreement are for convenience of reference only, shall not be deemed to be a part of this Agreement and shall not be referred to in connection with the construction or interpretation of this Agreement.

8.13 Attorneys Fees. If any legal action or other legal proceeding relating to this Agreement or the enforcement of any provision of this Agreement is brought against any Principal Stockholder, the prevailing party shall be entitled to recover reasonable attorneys fees, costs and disbursements (in addition to any other relief to which the prevailing party may be entitled).

8.14 Waiver. No failure on the part of DPI to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of DPI in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy. DPI shall not be deemed to have waived any claim available to DPI arising out of this Agreement, or any power, right, privilege or remedy of DPI under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of DPI; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

8.15 Construction.

(a) For purposes of this Agreement, whenever the context requires: the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; the feminine gender shall include the masculine and neuter genders; and the neuter gender shall include masculine and feminine genders.

(b) The parties agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

(c) As used in this Agreement, the words include and including, and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words without limitation.

(d) Except as otherwise indicated, all references in this Agreement to Sections and Exhibits are intended to refer to Sections of this Agreement and Exhibits to this Agreement.

Table of Contents

In Witness Whereof, DPI and each Principal Stockholder have caused this Agreement to be executed as of the date first written above.

Discovery Partners International, Inc.
By: _____
Name: _____
Title: _____

Principal Stockholder
By: _____
Name: _____
Title: _____

Address:
Attn: _____
Fax: (___) _____

Number of Outstanding shares of

Company Common Stock

Held by Stockholder:

Number of Outstanding shares of

Company Preferred Stock Held by

Stockholder:

Number of shares of Company Common Stock

Subject to Options and warrants held by

Stockholder:

Table of Contents

EXHIBIT A

FORM OF IRREVOCABLE PROXY

The undersigned Principal Stockholder (the ***Principal Stockholder***) of **INFINITY PHARMACEUTICALS, INC.,** a Delaware corporation (the ***Company***), hereby irrevocably (to the fullest extent permitted by law) appoints and constitutes **MICHAEL VENUTI, HARRY HIXSON** and **DISCOVERY PARTNERS INTERNATIONAL, INC.,** a Delaware corporation (***DPI***), and each of them, the attorneys and proxies of the Principal Stockholder with full power of substitution and resubstitution, to the full extent of the Principal Stockholder s rights with respect to (i) the outstanding shares of capital stock of the Company owned of record by the Principal Stockholder as of the date of this proxy, which shares are specified on the final page of this proxy, and (ii) any and all other shares of capital stock of the Company which the Principal Stockholder may acquire on or after the date hereof. (The shares of the capital stock of the Company referred to in clauses (i) and (ii) of the immediately preceding sentence are collectively referred to as the ***Shares***.) Upon the execution hereof, all prior proxies given by the Principal Stockholder with respect to any of the Shares are hereby revoked, and the Principal Stockholder agrees that no subsequent proxies will be given with respect to any of the Shares.

This proxy is irrevocable, is coupled with an interest and is granted in connection with the Voting Agreement, dated as of the date hereof, among DPI, the Principal Stockholder and the other stockholders of the Company appearing as signatories thereto (the ***Voting Agreement***), and is granted in consideration of DPI entering into the Agreement and Plan of Merger and Reorganization, dated as of the date hereof, among DPI, the Company and Darwin Corp., a Delaware corporation and a wholly owned subsidiary of DPI (the ***Merger Agreement***). This proxy will terminate on the Voting Covenant Expiration Date (as defined in the Voting Agreement).

The attorneys and proxies named above will be empowered, and may exercise this proxy, to vote the Shares at any time until the earlier to occur of the valid termination of the Merger Agreement or the Effective Time (as defined in the Merger Agreement) of the merger contemplated thereby (the ***Merger***) at any meeting of the Principal Stockholders of the Company, however called, and in connection with any written action by consent of Principal Stockholders of the Company, as applicable:

(i) in favor of the Merger, the execution and delivery by the Company of the Merger Agreement and the adoption of the Merger Agreement and the terms thereof, in favor of each of the other actions contemplated by the Merger Agreement and in favor of any action in furtherance of any of the foregoing;

(ii) against any action or agreement that would result in a breach of any representation, warranty, covenant or obligation of the Company in the Merger Agreement; and

(iii) against the following actions (other than the Merger and the other transactions contemplated by the Merger Agreement): (A) any extraordinary corporate transaction, such as a merger, consolidation or other business combination involving the Company or any subsidiary of the Company; (B) any sale, lease or transfer of a material amount of assets of the Company or any subsidiary of the Company; (C) any reorganization, recapitalization, dissolution or liquidation of the Company or any subsidiary of the Company; (D) any change in a majority of the board of directors of the Company; (E) any amendment to the Company s certificate of incorporation or bylaws; (F) any material change in the capitalization of the Company or the Company s corporate structure; and (G) any other action which is intended, or could reasonably be expected to impede, interfere with, delay, postpone, discourage or adversely affect the Merger or any of the other transactions contemplated by the Merger Agreement.

The Principal Stockholder may vote the Shares on all other matters not referred to in this proxy, and the attorneys and proxies named above may not exercise this proxy with respect to such other matters.

Table of Contents

This proxy shall be binding upon the heirs, estate, executors, personal representatives, successors and assigns of the Principal Stockholder (including any transferee of any of the Shares).

Any term or provision of this proxy that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the Principal Stockholder agrees that the court making such determination shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this proxy shall be enforceable as so modified. In the event such court does not exercise the power granted to it in the prior sentence, the Principal Stockholder agrees to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

Dated: April , 2006

PRINCIPAL STOCKHOLDER

By:

Name:

Title:

NUMBER OF OUTSTANDING SHARES OF

COMPANY COMMON STOCK

HELD BY STOCKHOLDER:

NUMBER OF OUTSTANDING SHARES OF

COMPANY PREFERRED STOCK

HELD BY STOCKHOLDER:

NUMBER OF SHARES OF COMPANY COMMON STOCK

SUBJECT TO OPTIONS AND WARRANTS HELD BY

STOCKHOLDER:

Table of Contents

Exhibit C

VOTING AGREEMENT

This Voting Agreement (this ***Agreement***) is entered into as of April , 2006, by and between **Infinity Pharmaceuticals, Inc.**, a Delaware corporation (***Infinity***), and the Stockholders of **Discovery Partners International, Inc.**, a Delaware corporation (the ***Company***) whose signatures appear on the signature pages to this Agreement (each a ***Stockholder***). Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Merger Agreement (as defined herein).

Recitals

A. Each Stockholder is a holder of record and the beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the ***Exchange Act***)) of certain shares of common stock of the Company.

B. Infinity, the Company and Darwin Corp., a Delaware corporation and a wholly owned subsidiary of the Company have entered into an Agreement and Plan of Merger and Reorganization dated as of April , 2006 (the ***Merger Agreement***), providing for the merger of Merger Sub with and into Infinity, with Infinity being the surviving corporation and continuing as a wholly owned subsidiary of the Company (the ***Merger***).

C. In the Merger, the outstanding shares of common stock and preferred stock of Infinity are to be converted into the right to receive shares of common stock of the Company as specified in the Merger Agreement.

D. In order to induce Infinity to enter into the Merger Agreement, each Stockholder is entering into this Agreement.

Agreement

The parties to this Agreement, intending to be legally bound, agree as follows:

1. Certain Definitions

For purposes of this Agreement:

(a) The terms ***Acquisition Proposal*** and ***Acquisition Transaction*** shall have the respective meanings assigned to those terms in the Merger Agreement.

(b) ***Company Common Stock*** shall mean the common stock, par value $0.001 per share, of the Company.

(c) Stockholder shall be deemed to ***Own*** or to have acquired ***Ownership*** of a security if Stockholder: (i) is the record owner of such security; or (ii) is the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of such security.

(d) ***Person*** shall mean any (i) individual, (ii) corporation, limited liability company, partnership or other entity, or (iii) governmental authority.

(e) ***Subject Securities*** shall mean: (i) all securities of the Company (including all shares of Company Common Stock and all options, warrants and other rights to acquire shares of Company Common Stock) Owned by each Stockholder as of the date of this Agreement; and (ii) all additional securities of the Company (including all additional shares of Company Common Stock and all additional options, warrants and other rights to acquire shares of Company Common Stock) of which each Stockholder acquires Ownership during the period from the date of this Agreement through the Voting Covenant Expiration Date.

(f) A Person shall be deemed to have a effected a ***Transfer*** of a security if such Person directly or indirectly: (i) sells, pledges, encumbers, grants an option with respect to, transfers or disposes of such security or any interest in such security to any Person other than Infinity; (ii) enters into an agreement or commitment contemplating the possible sale of, pledge of, encumbrance of, grant of an option with respect to, transfer of or disposition of such security or any interest therein to any Person other than Infinity; or (iii) reduces such Person s beneficial ownership of, interest in, control over or risk relating to such security.

1.

Table of Contents

(g) ***Voting Covenant Expiration Date*** shall mean the earlier of the date upon which the Merger Agreement is terminated, or the date upon which the Merger is consummated.

2. Transfer of Subject Securities and Voting Rights

2.1 Restriction on Transfer of Subject Securities. Subject to Section 2.3, during the period from the date of this Agreement through the Voting Covenant Expiration Date, each Stockholder shall not, directly or indirectly, cause or permit any Transfer of any of the Subject Securities to be effected.

2.2 Restriction on Transfer of Voting Rights. During the period from the date of this Agreement through the Voting Covenant Expiration Date, each Stockholder shall ensure that: (a) none of the Subject Securities is deposited into a voting trust; and (b) no proxy is granted, and no voting agreement or similar agreement is entered into, with respect to any of the Subject Securities.

2.3 Permitted Transfers. Section 2.1 shall not prohibit a transfer of Company Common Stock by any Stockholder (i) to any member of his or her immediate family, or to a trust for the benefit of Stockholder or any member of his or her immediate family, (ii) upon the death of Stockholder, or (iii) if Stockholder is a partnership or limited liability company, to one or more partners or members of Stockholder or to an affiliated corporation under common control with Stockholder; *provided, however,* that a transfer referred to in this sentence shall be permitted only if, as a precondition to such transfer, the transferee agrees in a writing, reasonably satisfactory in form and substance to Infinity, to be bound by the terms of this Agreement.

3. Voting of Shares

3.1 Voting Covenant Prior to Termination of Merger Agreement. Each Stockholder hereby agrees that, prior to the earlier to occur of the termination of the Merger Agreement or the consummation of the Merger, at any meeting of the Stockholders of the Company, however called, and in any written action by consent of Stockholders of the Company, unless otherwise directed in writing by Infinity, each Stockholder shall cause the Subject Securities to be voted, as applicable:

(a) in favor of the issuance of the Company s Common Stock to the stockholders of Infinity pursuant to the terms of the Merger Agreement and the DPI Certificate of Amendment as contemplated by the Merger Agreement and in favor of any action in furtherance of any of the foregoing;

(b) against any action or agreement that would result in a breach of any representation, warranty, covenant or obligation of the Company in the Merger Agreement; and

(c) except to the extent any such transaction is permitted by the Merger Agreement, against the following actions (other than the Merger and the Contemplated Transactions): (A) any extraordinary corporate transaction, such as a merger, consolidation or other business combination involving the Company or any subsidiary of the Company; (B) any sale, lease or transfer of a material amount of assets of the Company or any subsidiary of the Company; (C) any reorganization, recapitalization, dissolution or liquidation of the Company or any subsidiary of the Company; (D) any change in a majority of the board of directors of the Company; (E) any amendment to the Company s certificate of incorporation or bylaws; (F) any material change in the capitalization of the Company or the Company s corporate structure; and (G) any other action which is intended, or could reasonably be expected, to impede, interfere with, delay, postpone, discourage or adversely affect the Merger or any of the other transactions contemplated by the Merger Agreement or this Agreement.

Prior to the earlier to occur of the termination of the Merger Agreement or the consummation of the Merger, no Stockholder shall enter into any agreement or understanding with any Person to vote or give instructions in any manner inconsistent with clause (a) , (b) , or (c) of the preceding sentence.

Table of Contents

3.2 Proxy; Further Assurances.

(a) Contemporaneously with the execution of this Agreement: (i) each Stockholder shall deliver to Infinity a proxy in the form attached to this Agreement as **Exhibit A**, which shall be irrevocable to the fullest extent permitted by law (at all times prior to the Voting Covenant Expiration Date) with respect to the shares referred to therein (the ***Proxy***); and (ii) each Stockholder shall cause to be delivered to Infinity an additional proxy (in the form attached hereto as **Exhibit A**) executed on behalf of the record owner of any outstanding shares of Company Common Stock that are owned beneficially (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934), but not of record, by such Stockholder.

(b) Each Stockholder shall, at his, her or its own expense, perform such further acts and execute such further proxies and other documents and instruments as may reasonably be required to vest in Infinity the power to carry out and give effect to the provisions of this Agreement.

4. Waiver of Appraisal Rights

Each Stockholder hereby irrevocably and unconditionally waives, and agrees to cause to be waived and to prevent the exercise of, any rights of appraisal, any dissenters rights and any similar rights relating to the Merger or any related transaction that such Stockholder or any other Person may have by virtue of any outstanding shares of Company Common Stock by such Stockholder.

5. No Solicitation

Each Stockholder agrees that, during the period from the date of this Agreement through the Voting Covenant Expiration Date, no Stockholder shall, directly or indirectly, and each Stockholder shall ensure that none of his, her or its Representatives (as defined in the Merger Agreement) will, directly or indirectly: (i) solicit, initiate, encourage, induce or facilitate the making, submission or announcement of any Acquisition Proposal or take any action that could reasonably be expected to lead to an Acquisition Proposal; (ii) furnish any information regarding the Company or any subsidiary of the Company to any Person in connection with or in response to an Acquisition Proposal or an inquiry or indication of interest that could lead to an Acquisition Proposal; (iii) engage in discussions or negotiations with any Person with respect to any Acquisition Proposal; (iv) approve, endorse or recommend any Acquisition Proposal; or (v) enter into any letter of intent or similar document or any agreement or understanding contemplating or otherwise relating to any Acquisition Transaction. Each Stockholder shall immediately cease and discontinue, and each Stockholder shall ensure that his, her or its Representatives immediately cease and discontinue, any existing discussions with any Person that relate to any Acquisition Proposal.

6. Representations and Warranties of Stockholder

Each Stockholder hereby represents and warrants to Infinity as follows:

6.1 Authorization, Etc. Such Stockholder has the absolute and unrestricted right, power, authority and capacity to execute and deliver this Agreement and the Proxy and to perform his, her or its obligations hereunder and thereunder. This Agreement and the Proxy have been duly executed and delivered by such Stockholder and constitute legal, valid and binding obligations of such Stockholder, enforceable against such Stockholder in accordance with their terms, subject to (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies. Such Stockholder, if not an individual, is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was organized or formed.

6.2 No Conflicts or Consents.

(a) The execution and delivery of this Agreement and the Proxy by such Stockholder does not, and the performance of this Agreement and the Proxy by such Stockholder will not: (i) conflict with or violate any

Table of Contents

law, rule, regulation, order, decree or judgment applicable to such Stockholder or by which he, she or it or any of his, her or its properties is or may be bound or affected; or (ii) result in or constitute (with or without notice or lapse of time) any breach of or default under, or give to any other Person (with or without notice or lapse of time) any right of termination, amendment, acceleration or cancellation of, or result (with or without notice or lapse of time) in the creation of any encumbrance or restriction on any of the Subject Securities pursuant to, any contract to which such Stockholder is a party or by which such Stockholder or any of his, her or its affiliates or properties is or may be bound or affected.

(b) The execution and delivery of this Agreement and the Proxy by such Stockholder does not, and the performance of this Agreement and the Proxy by such Stockholder will not, require any consent or approval of any Person.

6.3 Title to Securities. As of the date of this Agreement: (a) such Stockholder holds of record (free and clear of any encumbrances or restrictions) the number of outstanding shares of Company Common Stock set forth beneath such Stockholder s signature on the signature page hereof; (b) such Stockholder holds (free and clear of any encumbrances or restrictions) the options, warrants and other rights to acquire shares of Company Common Stock set forth beneath such Stockholder s signature on the signature page hereof; and (c) such Stockholder does not directly or indirectly Own any shares of capital stock or other securities of the Company, or any option, warrant or other right to acquire (by purchase, conversion or otherwise) any shares of capital stock or other securities of the Company, other than the shares and options, warrants and other rights set forth beneath such Stockholder s signature on the signature page hereof.

6.4 Accuracy of Representations. The representations and warranties contained in this Agreement are accurate in all respects as of the date of this Agreement, will be accurate in all respects at all times through the Voting Covenant Expiration Date and will be accurate in all respects as of the date of the consummation of the Merger as if made on that date.

7. Additional Covenants of Stockholder

7.1 Further Assurances. From time to time and without additional consideration, each Stockholder shall (at such Stockholder s sole expense) execute and deliver, or cause to be executed and delivered, such additional transfers, assignments, endorsements, proxies, consents and other instruments, and shall (at such Stockholder s sole expense) take such further actions, as Infinity may reasonably request for the purpose of carrying out and furthering the intent of this Agreement.

8. Miscellaneous

8.1 Survival of Representations, Warranties and Agreements. All representations, warranties, covenants and agreements made by each Stockholder in this Agreement shall survive (i) the consummation of the Merger, (ii) any termination of the Merger Agreement, and (iii) the Voting Covenant Expiration Date.

8.2 Expenses. All costs and expenses incurred in connection with the transactions contemplated by this Agreement shall be paid by the party incurring such costs and expenses.

Table of Contents

8.3 Notices. Any notice or other communication required or permitted to be delivered to any party under this Agreement shall be in writing and shall be deemed properly delivered, given and received when delivered (by hand, by registered mail, by courier or express delivery service or by facsimile) to the address or facsimile telephone number set forth beneath the name of such party below (or to such other address or facsimile telephone number as such party shall have specified in a written notice given to the other party):

if to Stockholder:

at the address set forth on the signature page hereof; and

if to Infinity:

Infinity Pharmaceuticals, Inc.

780 Memorial Drive

Cambridge, MA 02139

Attention: Chief Executive Officer

Facsimile:

with a copy to:

WilmerHale LLP

60 State Street

Boston, MA 02109

Attention: John A. Burgess, Esq.

Facsimile: (617) 454-1001

8.4 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the parties hereto agree that the court making such determination shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified. In the event such court does not exercise the power granted to it in the prior sentence, the parties hereto agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

8.5 Entire Agreement. This Agreement, the Proxy and the Merger Agreement collectively set forth the entire understanding of Infinity and such Stockholder relating to the subject matter hereof and thereof and supersede all other prior agreements and understandings between Infinity and such Stockholder relating to the subject matter hereof and thereof.

8.6 Assignment; Binding Effect. Except as provided herein, neither this Agreement nor any of the interests or obligations hereunder may be assigned or delegated by any Stockholder, and any attempted or purported assignment or delegation of any of such interests or obligations shall be void. Subject to the preceding sentence, this Agreement shall be binding upon each Stockholder and his or her heirs, estate, executors and personal representatives and his, her or its successors and assigns, and shall inure to the benefit of Infinity and its successors and assigns. Without limiting any of the restrictions set forth in Section 2 or elsewhere in this Agreement, this Agreement shall be binding upon any Person to whom any Subject Securities are transferred. Nothing in this Agreement is intended to confer on any Person (other than Infinity and its successors and assigns) any rights or remedies of any nature.

8.7 Fiduciary Duties. Each Stockholder is signing this Agreement in such Stockholder s capacity as an owner of his, her or its respective Subject Securities, and nothing herein shall prohibit, prevent or preclude such Stockholder from taking or not taking any action in his or her capacity as an officer or director of the Company, to the extent permitted by the Merger Agreement.

Table of Contents

8.8 Specific Performance. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement or the Proxy were not performed in accordance with its specific terms or were otherwise breached. Each Stockholder agrees that, in the event of any breach or threatened breach by any Stockholder of any covenant or obligation contained in this Agreement or in the Proxy, Infinity shall be entitled (in addition to any other remedy that may be available to it, including monetary damages) to seek and obtain (a) a decree or order of specific performance to enforce the observance and performance of such covenant or obligation, and (b) an injunction restraining such breach or threatened breach. Each Stockholder further agrees that neither Infinity nor any other Person shall be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this Section 8.8, and each Stockholder irrevocably waives any right he, she or it may have to require the obtaining, furnishing or posting of any such bond or similar instrument.

8.9 Non-Exclusivity. The rights and remedies of Infinity under this Agreement are not exclusive of or limited by any other rights or remedies which it may have, whether at law, in equity, by contract or otherwise, all of which shall be cumulative (and not alternative). Without limiting the generality of the foregoing, the rights and remedies of Infinity under this Agreement, and the obligations and liabilities of each Stockholder under this Agreement, are in addition to their respective rights, remedies, obligations and liabilities under common law requirements and under all applicable statutes, rules and regulations. Nothing in this Agreement shall limit any Stockholder s obligations, or the rights or remedies of Infinity, under any other agreement between Infinity and such Stockholder; and nothing in any such other agreement shall limit any Stockholder s obligations, or any of the rights or remedies of Infinity, under this Agreement.

8.10 Governing Law; Venue.

(a) This Agreement and the Proxy shall be construed in accordance with, and governed in all respects by, the laws of the State of Delaware (without giving effect to principles of conflicts of laws).

(b) Any legal action or other legal proceeding relating to this Agreement or the Proxy or the enforcement of any provision of this Agreement or the Proxy may be brought or otherwise commenced in any state or federal court located in the State of Delaware. Each Stockholder:

(i) expressly and irrevocably consents and submits to the jurisdiction of each state and federal court located in the State of Delaware in connection with any such legal proceeding;

(ii) agrees that service of any process, summons, notice or document by U.S. mail addressed to him or it at the address set forth on the signature page hereof shall constitute effective service of such process, summons, notice or document for purposes of any such legal proceeding;

(iii) agrees that each state and federal court located in the State of Delaware shall be deemed to be a convenient forum; and

(iv) agrees not to assert (by way of motion, as a defense or otherwise), in any such legal proceeding commenced in any state or federal court located in the State of Delaware, any claim that such Stockholder is not subject personally to the jurisdiction of such court, that such legal proceeding has been brought in an inconvenient forum, that the venue of such proceeding is improper or that this Agreement or the subject matter of this Agreement may not be enforced in or by such court.

Nothing contained in this Section 8.10 shall be deemed to limit or otherwise affect the right of Infinity to commence any legal proceeding or otherwise proceed against any Stockholder in any other forum or jurisdiction.

(c) EACH STOCKHOLDER IRREVOCABLY WAIVES THE RIGHT TO A JURY TRIAL IN CONNECTION WITH ANY LEGAL PROCEEDING RELATING TO THIS AGREEMENT OR THE PROXY OR THE ENFORCEMENT OF ANY PROVISION OF THIS AGREEMENT OR THE PROXY.

8.11 Counterparts. This Agreement may be executed in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

Table of Contents

8.12 Captions. The captions contained in this Agreement are for convenience of reference only, shall not be deemed to be a part of this Agreement and shall not be referred to in connection with the construction or interpretation of this Agreement.

8.13 Attorneys Fees. If any legal action or other legal proceeding relating to this Agreement or the enforcement of any provision of this Agreement is brought against any Stockholder, the prevailing party shall be entitled to recover reasonable attorneys fees, costs and disbursements (in addition to any other relief to which the prevailing party may be entitled).

8.14 Waiver. No failure on the part of Infinity to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of Infinity in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy. Infinity shall not be deemed to have waived any claim available to Infinity arising out of this Agreement, or any power, right, privilege or remedy of Infinity under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of Infinity; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

8.15 Construction.

(a) For purposes of this Agreement, whenever the context requires: the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; the feminine gender shall include the masculine and neuter genders; and the neuter gender shall include masculine and feminine genders.

(b) The parties agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

(c) As used in this Agreement, the words include and including, and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words without limitation.

(d) Except as otherwise indicated, all references in this Agreement to Sections and Exhibits are intended to refer to Sections of this Agreement and Exhibits to this Agreement.

Table of Contents

In Witness Whereof, Infinity and each Stockholder have caused this Agreement to be executed as of the date first written above.

Infinity Pharmaceuticals, Inc.
By: _____
Name: _____
Title: _____

Stockholder
By: _____
Name: _____
Title: _____
Address:
Attn:
Fax: (___) _____

Number of Outstanding shares of

Company Common Stock

Held by Stockholder:

Number of shares of Company Common Stock

Subject to Options Held by

Stockholder:

Number of shares of Company Common Stock

Subject to Restricted Stock Grants held by

Stockholder:

Table of Contents

EXHIBIT A

FORM OF IRREVOCABLE PROXY

The undersigned Stockholder (the ***Stockholder***) of **DISCOVERY PARTNERS INTERNATIONAL, INC.,** a Delaware corporation (the ***Company***), hereby irrevocably (to the fullest extent permitted by law) appoints and constitutes **STEVEN HOLTZMAN** and **INFINITY PHARMACEUTICALS, Inc.,** a Delaware corporation (***Infinity***), and each of them, the attorneys and proxies of the Stockholder with full power of substitution and resubstitution, to the full extent of the Stockholder s rights with respect to (i) the outstanding shares of capital stock of the Company owned of record by the Stockholder as of the date of this proxy, which shares are specified on the final page of this proxy, and (ii) any and all other shares of capital stock of the Company which the Stockholder may acquire on or after the date hereof. (The shares of the capital stock of the Company referred to in clauses (i) and (ii) of the immediately preceding sentence are collectively referred to as the ***Shares***.) Upon the execution hereof, all prior proxies given by the Stockholder with respect to any of the Shares are hereby revoked, and the Stockholder agrees that no subsequent proxies will be given with respect to any of the Shares.

This proxy is irrevocable, is coupled with an interest and is granted in connection with the Voting Agreement, dated as of the date hereof, among Infinity, the Stockholder and the other stockholders of the Company appearing as signatories thereto (the ***Voting Agreement***), and is granted in consideration of Infinity entering into the Agreement and Plan of Merger and Reorganization, dated as of the date hereof, among Infinity, the Company and Darwin Corp., a Delaware corporation and a wholly owned subsidiary of the Company (the ***Merger Agreement***). This proxy will terminate on the Voting Covenant Expiration Date (as defined in the Voting Agreement).

The attorneys and proxies named above will be empowered, and may exercise this proxy, to vote the Shares at any time until the earlier to occur of the valid termination of the Merger Agreement or the Effective Time (as defined in the Merger Agreement) of the merger contemplated thereby (the ***Merger***) at any meeting of the Stockholders of the Company, however called, and in connection with any written action by consent of Stockholders of the Company, as applicable:

(i) in favor of the issuance of the Company s Common Stock to the stockholders of Infinity pursuant to the terms of the Merger Agreement and the DPI Certificate of Amendment as contemplated by the Merger Agreement and in favor of any action in furtherance of any of the foregoing;

(ii) against any action or agreement that would result in a breach of any representation, warranty, covenant or obligation of the Company in the Merger Agreement; and

(iii) except to the extent any such transaction is permitted by the Merger Agreement, against the following actions (other than the Merger and the other transactions contemplated by the Merger Agreement): (A) any extraordinary corporate transaction, such as a merger, consolidation or other business combination involving the Company or any subsidiary of the Company; (B) any sale, lease or transfer of a material amount of assets of the Company or any subsidiary of the Company; (C) any reorganization, recapitalization, dissolution or liquidation of the Company or any subsidiary of the Company; (D) any change in a majority of the board of directors of the Company; (E) any amendment to the Company s certificate of incorporation or bylaws; (F) any material change in the capitalization of the Company or the Company s corporate structure; and (G) any other action which is intended, or could reasonably be expected to impede, interfere with, delay, postpone, discourage or adversely affect the Merger or any of the other transactions contemplated by the Merger Agreement.

The Stockholder may vote the Shares on all other matters not referred to in this proxy, and the attorneys and proxies named above may not exercise this proxy with respect to such other matters.

This proxy shall be binding upon the heirs, estate, executors, personal representatives, successors and assigns of the Stockholder (including any transferee of any of the Shares).

1.

Table of Contents

Any term or provision of this proxy that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the Stockholder agrees that the court making such determination shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this proxy shall be enforceable as so modified. In the event such court does not exercise the power granted to it in the prior sentence, the Stockholder agrees to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

Dated: April , 2006

STOCKHOLDER
By: _____
Name: _____
Title: _____

NUMBER OF OUTSTANDING SHARES OF

COMPANY COMMON STOCK

HELD BY STOCKHOLDER:

NUMBER OF SHARES OF COMPANY COMMON STOCK

SUBJECT TO OPTIONS HELD BY

STOCKHOLDER:

NUMBER OF SHARES OF COMPANY COMMON STOCK

SUBJECT TO RESTRICTED STOCK GRANTS HELD BY

STOCKHOLDER:

Table of Contents

Exhibit D

LOCK-UP AGREEMENT

THIS LOCK-UP AGREEMENT dated as of April , 2006 (this ***Agreement***) is entered into by and between the undersigned stockholder (***Stockholder***) and **DISCOVERY PARTNERS INTERNATIONAL, INC.**, a Delaware corporation (***DPI***). Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Merger Agreement (as defined herein).

RECITALS

WHEREAS, Stockholder is a stockholder, officer and/or director of Infinity Pharmaceuticals, Inc., a Delaware corporation (the ***Company***);

WHEREAS, DPI, the Company and Darwin Corp., a Delaware corporation and a wholly owned subsidiary of DPI have entered into an Agreement and Plan of Merger and Reorganization dated as of April , 2006 (the ***Merger Agreement***), providing for the merger of Merger Sub with and into the Company, with the Company being the surviving corporation (the ***Merger***).

WHEREAS, the Merger Agreement contemplates that, among other things, upon consummation of the Merger, (i) holders of shares of the preferred and common stock of the Company will receive shares of common stock of DPI (***DPI Common Stock***) in exchange for their shares of preferred and/or common stock of the Company, (ii) holders of options and warrants to acquire shares of common stock of the Company will become exercisable for shares of DPI Common Stock and (iii) the Company will become a wholly owned subsidiary of DPI.

WHEREAS, it is contemplated that Stockholder will receive shares of DPI Common Stock in exchange for their shares of preferred and/or common stock of the Company and may also receive DPI Common Stock upon the exchange, exercise or conversion of options or warrants or any other securities convertible into or exchangeable or exercisable for common stock of the Company which will become exercisable for shares of DPI Common Stock upon the consummation of the Merger (collectively, the ***Merger Shares***); and

WHEREAS, Stockholder agrees that certain of the Merger Shares received by Stockholder in connection with the Merger will be subject to certain restrictions on Disposition (as defined herein) as more fully set forth herein.

AGREEMENT

NOW, THEREFORE, as an inducement to and in consideration of DPI s agreement to enter into the Merger Agreement and proceed with the Merger, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Stockholder hereby agrees as follows:

1. Lock Up Period. For a period beginning on the Closing Date and ending 180 days after the Closing Date, Stockholder will not, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, make any short sale or otherwise dispose of or transfer any Merger Shares, whether now owned or hereafter acquired by Stockholder or with respect to which Stockholder has or hereafter acquires the power of disposition or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Merger Shares, whether any such swap or transaction is to be settled by delivery of DPI Common Stock or other securities, in cash or otherwise (each of the above actions referred to herein as a ***Disposition***); provided, however, the restrictions set forth in clauses (i) and (ii) of this sentence shall lapse as to 1/26th of the Merger Shares on the 7th day after the Closing Date and as to an additional 1/26th of the Merger Shares each week thereafter, until the 180th day after the Closing Date, at which time the

Table of Contents

restrictions hereunder shall have lapsed as to all Merger Shares. The foregoing restriction is expressly intended to preclude Stockholder from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any of Stockholder s Merger Shares even if such securities would be disposed of by someone other than Stockholder. Such prohibited hedging or other transaction would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of Stockholder s Merger Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Merger Shares.

2. Permitted Dispositions. Notwithstanding the restrictions on Dispositions contained in Section 1, Stockholder may (a) exercise options and warrants exercisable for Merger Shares owned by Stockholder as of the date of the Merger Agreement, it being understood and acknowledged that the Merger Shares acquired by Stockholder in connection with any such exercise shall be subject to this Agreement; or (b) effect a Disposition (i) pursuant to a bona fide gift or gifts, or (ii) by will or intestacy or to a trust, the beneficiaries of which are Stockholder or, if Stockholder is an individual, members of Stockholder s family, or (iii) as a distribution to limited partners, members or shareholders of Stockholder or affiliates of Stockholder, provided that in each case of clauses (i) through (iii) , such gift, transfer or distribution shall be conditioned upon the donee s, transferee s or distributee s execution and delivery to DPI of a Lock-Up Agreement containing terms and conditions substantially identical to the terms and conditions contained herein.

3. Legends.

(a) In addition to any legends to reflect applicable transfer restrictions under federal or state securities laws, each stock certificate representing Merger Shares which Stockholder receives or is entitled to receive shall be stamped or otherwise imprinted with the following legend:

THE SECURITIES REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS OF A LOCK-UP AGREEMENT DATED APRIL , 2006 BETWEEN THE HOLDER HEREOF AND THE ISSUER AND MAY ONLY BE SOLD OR TRANSFERRED IN ACCORDANCE WITH THE TERMS THEREOF.

(b) DPI shall be obligated to reissue certificates at the request of Stockholder without the foregoing legend as and to the extent the restrictions on Disposition lapse in accordance with Section 1.

(c) Stockholder hereby agrees and consents to the entry of stop transfer instructions with DPI s transfer agent against the transfer of the Merger Shares in compliance with this Agreement.

4. Miscellaneous.

(a) Specific Performance. Stockholder agrees that in the event of any breach or threatened breach by Stockholder of any covenant, obligation or other provision contained in this Agreement, DPI shall be entitled (in addition to any other remedy that may be available to DPI) to: (a) a decree or order of specific performance or mandamus to enforce the observance and performance of such covenant, obligation or other provision; and (b) an injunction restraining such breach or threatened breach. Stockholder further agrees that neither DPI nor any other person or entity shall be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this Section 4, and Stockholder irrevocably waives any right he, she or it may have to require the obtaining, furnishing or posting of any such bond or similar instrument.

(b) Other Agreements. Nothing in this Agreement shall limit any of the rights or remedies of DPI under the Merger Agreement, or any of the rights or remedies of DPI or any of the obligations of Stockholder under any agreement between Stockholder and DPI or any certificate or instrument executed by Stockholder in favor of DPI; and nothing in the Merger Agreement or in any other agreement, certificate or instrument shall limit any of the rights or remedies of DPI or any of the obligations of Stockholder under this Agreement.

Table of Contents

(c) Notices. Any notice or other communication required or permitted to be delivered to Stockholder or DPI under this Agreement shall be in writing and shall be deemed properly delivered, given and received when delivered (i) for DPI, to the address or facsimile telephone number set forth below, and (ii) for Stockholder, to the address or facsimile telephone number set forth beneath the Stockholder s signature to this Agreement (or to such other address or facsimile telephone number as such party shall have specified in a written notice given to the other party):

if to DPI:

Discovery Partners International, Inc.

9640 Towne Centre Drive

San Diego, CA 92121

Attention: Chief Executive Officer

Facsimile: (858) 455-8088

(d) Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the parties hereto agree that the court making such determination shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified. In the event such court does not exercise the power granted to it in the prior sentence, the parties hereto agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term.

(e) Applicable Law; Jurisdiction. THIS AGREEMENT IS MADE UNDER, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF DELAWARE APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED SOLELY THEREIN, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW. In any action between or among any of the parties, whether arising out of this Agreement or otherwise, (a) each of the parties irrevocably and unconditionally consents and submits to the exclusive jurisdiction and venue of the state and federal courts located in the County of San Diego, State of California; (b) if any such action is commended in a state court, then, subject to applicable law, no party shall object to the removal of such action to any federal court located in the Southern District of California; (c) each of the parties irrevocably waives the right to trial by jury; and (d) each of the parties irrevocably consents to service of process by first class certified mail, return receipt requested, postage prepared, to the address at which such party is to receive notice in accordance with this Agreement.

(f) Waiver; Termination. No failure on the part of DPI to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of DPI in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy. DPI shall not be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of DPI; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given. If the Merger Agreement is terminated, this Agreement shall thereupon terminate.

(g) Captions. The captions contained in this Agreement are for convenience of reference only, shall not be deemed to be a part of this Agreement and shall not be referred to in connection with the construction or interpretation of this Agreement.

Table of Contents

(h) Further Assurances. Stockholder shall execute and/or cause to be delivered to DPI such instruments and other documents and shall take such other actions as DPI may reasonably request to effectuate the intent and purposes of this Agreement.

(i) Entire Agreement. This Agreement, the Merger Agreement and any Voting Agreement (and any Proxy) between Stockholder and DPI collectively set forth the entire understanding of DPI and Stockholder relating to the subject matter hereof and thereof and supersede all other prior agreements and understandings between DPI and Stockholder relating to the subject matter hereof and thereof.

(j) Non-Exclusivity. The rights and remedies of DPI hereunder are not exclusive of or limited by any other rights or remedies which DPI may have, whether at law, in equity, by contract or otherwise, all of which shall be cumulative (and not alternative).

(k) Amendments. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of DPI and Stockholder.

(l) Assignment. This Agreement and all obligations of Stockholder hereunder are personal to Stockholder and may not be transferred or delegated by Stockholder at any time. DPI may freely assign any or all of its rights under this Agreement, in whole or in part, to any other person or entity without obtaining the consent or approval of Stockholder.

(m) Binding Nature. Subject to Section 4(l), this Agreement will inure to the benefit of DPI and its successors and assigns and will be binding upon Stockholder and Stockholder s representatives, executors, administrators, estate, heirs, successors and assigns.

(n) Survival. Each of the representations, warranties, covenants and obligations contained in this Agreement shall survive the consummation of the Merger.

(o) Counterparts. This Agreement may be executed in separate counterparts, each of which shall be deemed an original and both of which shall constitute one and the same instrument.

(p) Fiduciary Duties. Each Stockholder is signing this Agreement in such Stockholder s capacity as an owner of his, her or its respective Merger Shares, and nothing herein shall prohibit, prevent or preclude such Stockholder from taking or not taking any action in his or her capacity as an officer or director of the Company, to the extent permitted by the Merger Agreement.

Table of Contents

In Witness Whereof, the parties hereto have executed and delivered this Agreement as of the date first set forth above.

Discovery Partners International, Inc.

By:
Name:
Title:

Stockholder

By:
Name:
Title:

Address:

Attn:_____
_____
Fax: (___) _____
_____

5.

Table of Contents

Annex B

Opinion of Molecular Securities

April 11, 2006

Strictly Confidential

Board of Directors

Discovery Partners International, Inc.

9640 Towne Center Drive

San Diego, CA 92121

Members of the Board:

We understand that Discovery Partners International, Inc. (Discovery Partners or the Company), Darwin Corp., a wholly owned subsidiary of Discovery Partners (Merger Sub), and Infinity Pharmaceuticals, Inc. (Infinity), propose to enter into an Agreement and Plan of Merger and Reorganization, dated April 11, 2006 (the Merger Agreement), which provides, among other things, for the merger (Merger) of Merger Sub with and into Infinity. Pursuant to the Merger, the separate existence of Merger Sub will cease, Infinity will become a wholly owned subsidiary of Discovery Partners, and (a) each outstanding share of common stock, par value $0.0001 per share (Infinity Common Stock), of Infinity outstanding immediately prior to the effective time of the Merger will be converted into the right to receive 0.95118 shares of common stock, par value $0.001 per share (the Discovery Partners Common Stock), of Discovery Partners, (b) each outstanding share of Series A Preferred Stock, par value $0.0001 per share (Series A Preferred Stock), of Infinity outstanding immediately prior to the effective time of the merger will be converted into the right to receive 0.84509 shares of Discovery Partners Common Stock, (c) each outstanding share of Series B Preferred Stock, par value $0.0001 per share (Series B Preferred Stock), of Infinity, held by (i) the Group 1 Series B Preferred Holders, and (ii) the Group 2 Series B Preferred Holders, outstanding immediately prior to the effective time of the merger will be converted into the right to receive 1.07472 and 1.20900, respectively, shares of Discovery Partners Common Stock, (d) each outstanding share of Series C Preferred Stock, par value $0.0001 per share (Series C Preferred Stock), of Infinity outstanding immediately prior to the effective time of the merger will be converted into the right to receive 1.12126 shares of Discovery Partners Common Stock and (e) each outstanding share of Series D Preferred Stock, par value $0.0001 per share (Series D Preferred Stock), of Infinity outstanding immediately prior to the effective time of the merger will be converted into the right to receive 1.14607 shares of Discovery Partners Common Stock, in each case other than shares held in treasury or held by Infinity, or as to which dissenters rights have been perfected, and subject to certain adjustments if the Net Cash (as defined in the Merger Agreement) at the effective time of the Merger is less than $70,000,000 or greater than $75,000,000 (the Consideration). The terms and conditions of the Merger are more fully set forth in the Merger Agreement.

As a customary part of our investment banking business, we engage in the valuation of businesses and their securities in connection with mergers and acquisitions. We have acted as financial advisor to Discovery Partners in connection with the Merger pursuant to the terms of our Engagement Letter with the Company, dated November 18, 2005 (Engagement Letter), for which we received an initial fee on signing the Engagement Letter and will receive additional fees on the execution of the Merger Agreement and in the event the Merger closes. In connection with our engagement, you have requested our opinion as to whether the Consideration to be paid by the Company pursuant to the Merger Agreement is fair from a financial point of view to Discovery Partners.

In connection with our opinion, we have (among other things): (a) reviewed certain publicly available financial statements and other information of Discovery Partners; (b) reviewed certain internal financial statements, financial forecasts and other information concerning Infinity and Discovery Partners, prepared by the

Table of Contents

managements of Infinity and Discovery Partners, respectively, and concerning the pro forma combined company (including expected benefits of the Merger, together with the associated expected costs), prepared by the managements of both Infinity and Discovery Partners; (c) discussed the past, current and forecasted financial position and results of operations and cash flows of Infinity and Discovery Partners, with senior executives of Infinity and Discovery Partners, respectively, and the current and forecasted financial position and results of operations and cash flows (including expected benefits of the Merger, together with the associated expected costs) of the pro forma combined company, with senior executives of both Infinity and Discovery Partners; (d) reviewed the reported prices and trading activity for Discovery Partners Common Stock, and the pricing of privately negotiated sales of Infinity Common Stock, Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock (collectively, Infinity Stock) issued to certain financial and strategic investors, as provided by the management of Infinity; (e) compared the financial performance of Infinity and Discovery Partners and the prices and trading activity of Discovery Partners Common Stock and the prices of the Infinity Stock with that of certain other comparable publicly-traded companies and their securities, including the initial public offerings of common stock of certain other comparable companies; (f) reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions; (g) participated in discussions and negotiations among representatives of Infinity and Discovery Partners and their legal advisors; (h) participated in discussions with Discovery Partners, and certain members of its Board of Directors, management, consultants, accountants and legal advisors in connection with their evaluation of the science, technology, products in development and other assets of Infinity, and reviewed certain reports prepared by L.E.K. Consulting LLC, Easton Associates, LLC, Ernst & Young LLP and Cooley Godward LLP, and presented by such consultants and legal advisors to the Discovery Partners board of directors in connection with the Merger, including their evaluation of Infinity s lead product candidate IPI-504, Infinity s second product candidate IPI-609, and certain Bcl-2 inhibitors which are the subject of a collaboration agreement involving Infinity and Novartis; (i) reviewed certain analyses prepared by management of Discovery Partners, and participated in discussions with managements of Infinity and Discovery Partners, regarding a potential liquidation of Discovery Partners; (j) reviewed the Merger Agreement and certain related documents; and (k) reviewed such other information, conducted such other discussions with management of Infinity and Discovery Partners (respectively), performed such other analyses, and considered such other factors as we have deemed appropriate.

For the purposes of our opinion, we have assumed and relied upon without independent verification the accuracy and completeness of all the financial and other information reviewed by, or discussed with, us and, with respect to the internal financial forecasts, we have assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of Infinity, Discovery Partners and the pro forma combined company, respectively, including management s respective estimates and judgments in relation to the Discovery Partners liquidation scenarios, and Infinity s science, technology, products in development and other assets, including those estimates and judgments of Discovery Partners consultants, accountants and legal advisors. We have also relied without independent verification on the assessment by management of Discovery Partners regarding the potential liquidation analyses, scenarios and processes for Discovery Partners. We have not made any independent valuation or appraisal of the assets or liabilities of Infinity or Discovery Partners, nor have we been furnished with any such appraisals.

We have also assumed, for the purposes of our opinion, that the Merger will be consummated in accordance with the terms set forth in the Merger Agreement, including, among other things, that the Merger will be treated as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986 (as amended) and that, in connection with the receipt of all the necessary regulatory approvals for the proposed Merger, no restrictions will be imposed or delays will result that would have a material adverse affect on the contemplated benefits expected to be derived in the proposed Merger. We have also assumed that the Company will have Net Cash of at least $60,000,000 at the effective time of the Merger.

Our opinion is necessarily based on the information made available to us, and the financial, economic, market and other conditions as they exist and can reasonably be evaluated, on the date hereof. In arriving at our

Table of Contents

opinion, we also took into account that, in connection with our engagement, we approached third parties to solicit indications of interest in a possible acquisition or other business combination involving the Company and held preliminary discussions with certain of these parties prior to the date hereof. Our opinion, however, does not address the relative merits of the Merger as compared to other business strategies or transactions that may be available to the Company, nor does it address the underlying business decision of the Company to engage in the Merger. Furthermore, our opinion does not in any manner address the prices at which the Discovery Partners Common Stock will trade following the announcement, nor the prices at which the pro forma combined company will trade following the consummation, of the Merger. We express no opinion regarding (a) the liquidation value of the Company, (b) the financial viability of the Company if the Merger does not close, or (c) the financial viability of the Company following the Merger including: (i) the potential for, likelihood, or timing of, any commercialization of any product, (ii) the nature and extent of the Company s financing needs, or (iii) the ability of the Company to satisfy any such financing needs, following the Merger.

It is understood that our opinion is for the information of the Board of Directors of Discovery Partners and may not be used for any other purpose without our prior written consent, except that a copy of this letter may be included in its entirety in any filing made by Discovery Partners in respect of the Merger with the Securities and Exchange Commission, and that we express no opinion or recommendation as to how the stockholders of Discovery Partners should vote at the stockholders meeting to be held in connection with the Merger. We have not undertaken to update, reaffirm or revise this opinion, and we do not have any obligation to update, revise or reaffirm this opinion.

Based on and subject to the foregoing, we are of the opinion on the date hereof that the Consideration to be paid by the Company pursuant to the Merger Agreement is fair from a financial point of view to Discovery Partners.

Very truly yours,

Molecular Securities Inc.

By: /s/ Chris Dopp
Chris Dopp

Vice President

Table of Contents

Annex C

GENERAL CORPORATION LAW OF THE STATE OF DELAWARE

§ 262 APPRAISAL RIGHTS.

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder s shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word stockholder means a holder of record of stock in a stock corporation and also a member of record of a nonstock corporation; the words stock and share mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and the words depository receipt mean a receipt or other instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title), § 252, § 254, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of § 251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 257, 258, 263 and 264 of this title to accept for such stock anything except:

b. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

c. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders;

d. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph; or

e. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

Table of Contents

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of such stockholder s shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder s shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder s shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228 or § 253 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder s shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder s shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder s shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

Table of Contents

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw such stockholder s demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder s written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder s certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation

Table of Contents

of the certificates representing such stock. The Court s decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney s fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder s demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

Table of Contents

Annex D

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

OF

DISCOVERY PARTNERS INTERNATIONAL, INC.

Pursuant to Section 242 of the General Corporation Law of the State of Delaware, Discovery Partners International, Inc., a corporation organized and existing under the laws of the State of Delaware (the Corporation), does hereby certify as follows:

The name of the Corporation is Discovery Partners International, Inc. and the Corporation s original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on May 11, 2000. The Board of Directors of the Corporation has duly adopted a resolution pursuant to Section 242 of the General Corporation Law of the State of Delaware setting forth a proposed amendment to the Certificate of Incorporation of the Corporation and declaring said amendment to be advisable. The requisite stockholders of the Corporation have duly approved said proposed amendment in accordance with Section 242 of the General Corporation Law of the State of Delaware. The amendment amends the Certificate of Incorporation of the Corporation as follows:

1. Section (A) of Article IV is hereby amended by adding a second and third paragraph which read as follows:

Effective upon the filing of this Certificate of Amendment of Certificate of Incorporation with the Secretary of State of the State of Delaware (the Effective Time), the shares of Common Stock issued and outstanding immediately prior to the Effective Time and the shares of Common Stock issued and held in the treasury of the Corporation immediately prior to the Effective Time are reclassified into a smaller number of shares such that each two to six shares of issued Common Stock immediately prior to the Effective Time is reclassified into one share of Common Stock, the exact ratio within the two-to-six range to be determined by the board of directors of the Corporation prior to the Effective Time and publicly announced by the Corporation. Notwithstanding the immediately preceding sentence, no fractional shares shall be issued and, in lieu thereof, upon surrender after the Effective Time of a certificate which formerly represented shares of Common Stock that were issued and outstanding immediately prior to the Effective Time, any person who would otherwise be entitled to a fractional share of Common Stock as a result of the reclassification, following the Effective Time, shall be entitled to receive a cash payment equal to the fraction to which such holder would otherwise be entitled multiplied by the closing price of a share of Common Stock on the NASDAQ Global Market immediately following the Effective Time.

Each stock certificate that, immediately prior to the Effective Time, represented shares of Common Stock that were issued and outstanding immediately prior to the Effective Time shall, from and after the Effective Time, automatically and without the necessity of presenting the same for exchange, represent that number of whole shares of Common Stock after the Effective Time into which the shares of Common Stock formerly represented by such certificate shall have been reclassified (as well as the right to receive cash in lieu of fractional shares of Common Stock after the Effective Time), provided, however, that each person of record holding a certificate that represented shares of Common Stock that were issued and outstanding immediately prior to the Effective Time shall receive, upon surrender of such certificate, a new certificate evidencing and representing the number of whole shares of Common Stock after the Effective Time into which the shares of Common Stock formerly represented by such certificate shall have been reclassified.

Table of Contents

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its Chief Executive Officer this [ ] day of [ ], 2006.

DISCOVERY PARTNERS INTERNATIONAL, INC.

By:
Name:
Title:

Table of Contents

Annex E

AMENDMENT TO BYLAWS

OF

DISCOVERY PARTNERS INTERNATIONAL, INC.

The Bylaws of Discovery Partners International, Inc. (the Bylaws) are hereby amended as follows:

The fourth sentence of Article III, Section 1 of the Bylaws shall be deleted in its entirety and replaced with the following:

The number of Directors which shall constitute the whole Board shall not be less than six (6) nor more than twelve (12) Directors, and the exact number shall be fixed by resolution of sixty-six and two-thirds percent (66-2/3%) of the Directors then in office or by sixty-six and two-thirds percent (66-2/3%) of the stockholders at the annual meeting of stockholders or any special meeting of stockholders, with the number initially fixed at twelve (12).

Except as aforesaid, the Bylaws shall remain in full force and effect.

Table of Contents

Annex F

Form of Proxy for Discovery Partners Special Meeting

SPECIAL MEETING OF STOCKHOLDERS OF

DISCOVERY PARTNERS INTERNATIONAL, INC.

, 2006

Please date, sign and mail your proxy card in the envelope provided as soon as possible.

↓ Please detach along perforated line and mail in the envelope provided. ↓

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSALS 1 THROUGH 6.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.
PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

The Discovery Partners board of directors recommends a vote FOR Discovery Partners Proposal Nos. 1 through 6. This Proxy, when properly executed and returned, will be voted as specified above. **Unless a contrary direction is indicated, this Proxy will be voted FOR Proposal Nos. 1 through 6, as more specifically described in the joint proxy statement/prospectus. If specific instructions are indicated, this Proxy will be voted in accordance therewith. Each of the matters to be acted upon set forth above in Proposal Nos. 1 through 6 have been proposed by Discovery Partners.**

	FOR	AGAINST	ABSTAIN
1. To approve the issuance of Discovery Partners common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated as of April 11, 2006, by and among Discovery Partners International, Inc., Darwin Corp., a wholly owned subsidiary of Discovery Partners, and Infinity Pharmaceuticals, Inc., a Delaware corporation, a copy of which is attached as *Annex A* to the accompanying joint proxy statement/ prospectus.	¨	¨	¨
2. To approve an amendment to Discovery Partners certificate of incorporation effecting a reverse stock split of the issued shares of Discovery Partners common stock at a ratio within the range of 2:1 to 6:1, as described in the accompanying joint proxy statement/prospectus.	¨	¨	¨
3. To approve an amendment to Discovery Partners certificate of incorporation to change the name of Discovery Partners International, Inc. to Infinity Pharmaceuticals, Inc.	¨	¨	¨
4. To approve an amendment to Discovery Partners bylaws to increase the maximum number of directors that may constitute the entire board of directors of Discovery Partners from 10 directors to 12 directors, as described in the accompanying joint proxy statement/prospectus.	¨	¨	¨
5. To approve an amendment to the Discovery Partners 2000 Stock Incentive Plan increasing the number of shares authorized for issuance thereunder and amending the provisions thereof regarding the number of shares by which the share reserve automatically increases each year, the maximum number of shares one person may receive per calendar year under the plan and the purchase price, if any, to be paid by a recipient for common stock under the plan, as described in the accompanying joint proxy statement/prospectus.	¨	¨	¨
6. To approve an adjournment of Discovery Partners special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Discovery Partners Proposal Nos. 1 and 2.	¨	¨	¨

To change the address on your account, please check the box at right and indicate your new address in the address space above. ¨

Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder	Date:	Signature of Stockholder	Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Table of Contents

DISCOVERY PARTNERS INTERNATIONAL, INC.

PROXY

Special Meeting of Stockholders

[ ], 2006

This Proxy is Solicited on Behalf of the Board of Directors of

Discovery Partners International, Inc.

The undersigned revokes all previous proxies, acknowledges receipt of the Notice of the Special Meeting of Stockholders to be held [ ], 2006 and the joint proxy statement/prospectus dated [ ], 2006, and appoints Harry Hixson, Jr. and Michael Venuti, and each of them, the proxies of the undersigned, with full power of substitution, to vote all shares of Common Stock of Discovery Partners International, Inc. (Discovery Partners) which the undersigned is entitled to vote, either on his or her own behalf or on behalf of any entity or entities, at the Special Meeting of Stockholders of Discovery Partners to be held at [ ] on [ ], 2006 at [ ] a.m., local time (the Special Meeting), and at any adjournment or postponement thereof, with the same force and effect as the undersigned might or could do if personally present thereat. The shares represented by this Proxy shall be voted in the manner set forth herein.

(Continued and to be signed on the reverse side.)

Table of Contents

SPECIAL MEETING OF STOCKHOLDERS OF

DISCOVERY PARTNERS INTERNATIONAL, INC.

, 2006

PROXY VOTING INSTRUCTIONS

MAIL - Date, sign and mail your proxy card in the envelope provided as soon as possible.

- OR -

TELEPHONE - Call toll-free **1-800-PROXIES** (1-800-776-9437) from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

- OR -

INTERNET - Access **www.voteproxy.com** and follow the on-screen instructions. Have your proxy card available when you access the web page.

COMPANY NUMBER

ACCOUNT NUMBER

You may enter your voting instructions at 1-800-PROXIES or www.voteproxy.com up until 11:59 PM Eastern Time the day before the cut-off or meeting date.

↓ Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet. ↓

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSALS 1 THROUGH 6.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.
PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

The Discovery Partners board of directors recommends a vote FOR Discovery Partners Proposal Nos. 1 through 6. This Proxy, when properly executed and returned, will be voted as specified above. **Unless a contrary direction is indicated, this Proxy will be voted FOR Proposal Nos. 1 through 6, as more specifically described in the joint proxy statement/prospectus. If specific instructions are indicated, this Proxy will be voted in accordance therewith. Each of the matters to be acted upon set forth above in Proposal Nos. 1 through 6 have been proposed by Discovery Partners.**

	FOR	AGAINST	ABSTAIN
1. To approve the issuance of Discovery Partners common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated as of April 11, 2006, by and among Discovery Partners International, Inc., Darwin Corp., a wholly owned subsidiary of Discovery Partners, and Infinity Pharmaceuticals, Inc., a Delaware corporation, a copy of which is attached as *Annex A* to the accompanying joint proxy statement/ prospectus.	..	..	..
2. To approve an amendment to Discovery Partners certificate of incorporation effecting a reverse stock split of the issued shares of Discovery Partners common stock at a ratio within the range of 2:1 to 6:1, as described in the accompanying joint proxy statement/prospectus.	..	..	..
3. To approve an amendment to Discovery Partners certificate of incorporation to change the name of Discovery Partners International, Inc. to Infinity Pharmaceuticals, Inc.	..	..	..
4. To approve an amendment to Discovery Partners bylaws to increase the maximum number of directors that may constitute the entire board of directors of Discovery Partners from 10 directors to 12 directors, as described in the accompanying joint proxy statement/prospectus.	..	..	..

	5. To approve an amendment to the Discovery Partners 2000 Stock Incentive Plan increasing the number of shares authorized for issuance thereunder and amending the provisions thereof regarding the number of shares by which the share reserve automatically increases each year, the maximum number of shares one person may receive per calendar year under the plan and the purchase price, if any, to be paid by a recipient for common stock under the plan, as described in the accompanying joint proxy statement/prospectus.	¨	¨	¨
	6. To approve an adjournment of Discovery Partners special meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of Discovery Partners Proposal Nos. 1 and 2.	¨	¨	¨

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. ••

Signature of Stockholder	Date:	Signature of Stockholder	Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Table of Contents

Annex G

PROXY

INFINITY PHARMACEUTICALS, INC.

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

FOR THE SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON [ ], 2006, at [ ] a.m., LOCAL TIME

By signing on the reverse side, the undersigned hereby appoints Steven H. Holtzman and Julian Adams, and each of them acting individually, as proxies for the undersigned, with full power of substitution, to represent and vote as designated hereon all shares of common stock and preferred stock of Infinity Pharmaceuticals, Inc. (the Company or Infinity) which the undersigned would be entitled to vote if personally present at the Special Meeting of Stockholders of the Company to be held at [ ], on [ ], 2006, at [ ] a.m., local time, and at any adjournment or postponement thereof, with respect to the matters set forth on the reverse side hereof.

You can revoke your proxy at any time before it is voted at the Special Meeting. You can do this in three ways. First, you can send a written, dated notice to the Secretary of Infinity at 780 Memorial Drive, Cambridge, MA 02139, stating that you would like to revoke your proxy. Second, you can complete, date and submit a new proxy card with a later date. Third, you can attend the Special Meeting and vote in person.

If the undersigned holds any of the shares of common stock or preferred stock in a fiduciary, custodial or joint capacity or capacities, this proxy is signed by the undersigned in every such capacity as well as individually.

The undersigned acknowledges receipt from the Company prior to the execution of this proxy of a Notice of Special Meeting of Stockholders and a joint proxy statement/prospectus dated [ ], 2006.

PLEASE ACT PROMPTLY

WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, DATE AND SIGN THIS PROXY IN THE SPACE PROVIDED AND RETURN IT IN THE ENVELOPE PROVIDED AS SOON AS POSSIBLE. NO POSTAGE NEED BE AFFIXED IF THE PROXY IS MAILED IN THE UNITED STATES. THIS ACTION WILL NOT LIMIT YOUR RIGHT TO VOTE IN PERSON AT THE SPECIAL MEETING.

IF YOUR ADDRESS HAS CHANGED, PLEASE
CORRECT THE ADDRESS IN THE SPACE PROVIDED
BELOW AND RETURN THIS PORTION IN THE
ENVELOPE PROVIDED.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

G-1

Table of Contents

INFINITY PHARMACEUTICALS, INC.

780 Memorial Drive

Cambridge, MA 02139

YOUR VOTE IS IMPORTANT. PLEASE VOTE IMMEDIATELY.

Please detach along perforated line and mail in the envelope provided.

Please mark votes as in this example. x

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH PROPOSAL.

	FOR	AGAINST	ABSTAIN
1. To adopt the Agreement and Plan of Merger and Reorganization, dated as of April 11, 2006, by and among Discovery Partners International, Inc., Darwin Corp., a wholly owned subsidiary of Discovery Partners International, Inc., and Infinity (the Merger Agreement), a copy of which is attached as *Annex A* to the accompanying joint proxy statement/prospectus.	..	..	..
2. To adjourn the Special Meeting, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the adoption of the Merger Agreement.	..	..	..

WHEN PROPERLY EXECUTED, SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AT THE SPECIAL MEETING AS SPECIFIED HEREIN. **IF NO SPECIFICATION IS MADE, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR EACH OF THE PROPOSALS LISTED ABOVE, AND, IN THE DISCRETION OF ANY OF THE PERSONS APPOINTED AS PROXIES, AS TO ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE SPECIAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF.**

Mark box at right if you plan to attend the Special Meeting. ..

Mark box at right if an address change has been noted on the reverse side of this card. ..

NOTE: Please sign this proxy exactly as name appears hereon. When shares are held as joint-tenants, both should sign. When signing as attorney, administrator, trustee, guardian, or other fiduciary, please give full title as such. When signing on behalf of a corporation, please sign in the full corporate name by an authorized officer. When signing on behalf of a partnership, please sign in the full partnership name by an authorized person.

Signature of Stockholder
Date:

Signature of Stockholder
Date:

Table of Contents

Annex H

DISCOVERY PARTNERS INTERNATIONAL, INC.

2000 STOCK INCENTIVE PLAN

ARTICLE ONE

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

This 2000 Stock Incentive Plan is intended to promote the interests of Discovery Partners International, Inc., a Delaware corporation, by providing eligible persons in the Corporation s service with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in such service.

Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

II. STRUCTURE OF THE PLAN

A. The Plan shall be divided into five separate equity incentives programs:

the Discretionary Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock,

the Salary Investment Option Grant Program under which eligible employees may elect to have a portion of their base salary invested each year in special option grants,

the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered the Corporation (or any Parent or Subsidiary),

the Automatic Option Grant Program under which eligible non-employee Board members shall automatically receive option grants at designated intervals over their period of continued Board service, and

the Director Fee Option Grant Program under which non-employee Board members may elect to have all or any portion of their annual retainer fee otherwise payable in cash applied to a special stock option grant.

B. The provisions of Articles One and Seven shall apply to all equity programs under the Plan and shall govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. The Primary Committee shall have sole and exclusive authority to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders. Administration of the Discretionary Option Grant and Stock Issuance Programs with respect to all other persons eligible to participate in those programs may, at the Board s discretion, be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer those programs with respect to all such persons. However, any discretionary option grants or stock issuances for members of the Primary Committee must be authorized by a disinterested majority of the Board.

B. Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

Table of Contents

C. Each Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Discretionary Option Grant and Stock Issuance Programs and to make such determinations under, and issue such interpretations of, the provisions of those programs and any outstanding options or stock issuances thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties who have an interest in the Discretionary Option Grant and Stock Issuance Programs under its jurisdiction or any stock option or stock issuance thereunder.

D. The Primary Committee shall have the sole and exclusive authority to determine which Section 16 Insiders and other highly compensated Employees shall be eligible for participation in the Salary Investment Option Grant Program for one or more calendar years. However, all option grants under the Salary Investment Option Grant Program shall be made in accordance with the express terms of that program, and the Primary Committee shall not exercise any discretionary functions with respect to the option grants made under that program.

E. Service on the Primary Committee or the Secondary Committee shall constitute service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any option grants or stock issuances under the Plan.

F. Administration of the Automatic Option Grant and Director Fee Option Grant Programs shall be self-executing in accordance with the terms of those programs, and no Plan Administrator shall exercise any discretionary functions with respect to any option grants or stock issuances made under those programs.

IV. ELIGIBILITY

A. The persons eligible to participate in the Discretionary Option Grant and Stock Issuance Programs are as follows:

(i) Employees,

(ii) non-employee members of the Board or the board of directors of any Parent or Subsidiary, and

(iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. Only Employees who are Section 16 Insiders or other highly compensated individuals shall be eligible to participate in the Salary Investment Option Grant Program.

C. Each Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full authority to determine, (i) with respect to the option grants under the Discretionary Option Grant Program, which eligible persons are to receive such grants, the time or times when those grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an Incentive Option or a Non-Statutory Option, the time or times when each option is to become exercisable, the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding and (ii) with respect to stock issuances under the Stock Issuance Program, which eligible persons are to receive such issuances, the time or times when the issuances are to be made, the number of shares to be issued to each Participant, the vesting schedule (if any) applicable to the issued shares and the consideration for such shares.

D. The Plan Administrator shall have the absolute discretion either to grant options in accordance with the Discretionary Option Grant Program or to effect stock issuances in accordance with the Stock Issuance Program.

Table of Contents

E. The individuals who shall be eligible to participate in the Automatic Option Grant Program shall be limited to (i) those individuals who first become non-employee Board members on or after the Underwriting Date, whether through appointment by the Board or election by the Corporation s stockholders, and (ii) those individuals who continue to serve as non-employee Board members at one or more Annual Stockholders Meetings held after the Underwriting Date. A non-employee Board member who has previously been in the employ of the Corporation (or any Parent or Subsidiary) shall not be eligible to receive an option grant under the Automatic Option Grant Program at the time he or she first becomes a non-employee Board member, but shall be eligible to receive periodic option grants under the Automatic Option Grant Program while he or she continues to serve as a non-employee Board member.

F. All non-employee Board members shall be eligible to participate in the Director Fee Option Grant Program.

V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. The number of shares of Common Stock initially reserved for issuance over the term of the Plan shall not exceed three million three hundred thousand (3,300,000) shares. Such reserve shall consist of (i) the number of shares estimated to remain available for issuance, as of the Plan Effective Date, under the Predecessor Plan as last approved by the Corporation s stockholders, including the shares subject to outstanding options under the Predecessor Plan, (ii) plus an additional increase of approximately one million three hundred thousand (1,300,000) shares to be approved by the Corporation s stockholders prior to the Underwriting Date.

B. The number of shares of Common Stock available for issuance under the Plan shall automatically increase on the first trading day of January each calendar year during the term of the Plan, beginning with calendar year 2001, by an amount equal to two percent (2%) of the total number of shares of Common Stock outstanding on the last trading day in December of the immediately preceding calendar year, but in no event shall any such annual increase exceed two million (2,000,000) shares.

C. No one person participating in the Plan may receive stock options, separately exercisable stock appreciation rights and direct stock issuances for more than five hundred thousand (500,000) shares of Common Stock in the aggregate per calendar year.

D. Shares of Common Stock subject to outstanding options (including options transferred to this Plan from the Predecessor Plan) shall be available for subsequent issuance under the Plan to the extent (i) those options expire or terminate for any reason prior to exercise in full or (ii) the options are cancelled in accordance with the cancellation-regrant provisions of Article Two. Unvested shares issued under the Plan and subsequently cancelled or repurchased by the Corporation, at the original issue price paid per share, pursuant to the Corporation s repurchase rights under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants or direct stock issuances under the Plan. However, should the exercise price of an option under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the exercise of an option or the vesting of a stock issuance under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised or which vest under the stock issuance, and not by the net number of shares of Common Stock issued to the holder of such option or stock issuance. Shares of Common Stock underlying one or more stock appreciation rights exercised under Section IV of Article Two, Section III of Article Three, Section II of Article Five or Section III of Article Six of the Plan shall NOT be available for subsequent issuance under the Plan.

Table of Contents

E. If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation s receipt of consideration, appropriate adjustments shall be made by the Plan Administrator to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities for which any one person may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances under the Plan per calendar year, (iii) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing non-employee Board members, (iv) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Plan, (v) the number and/or class of securities and exercise price per share in effect under each outstanding option transferred to this Plan from the Predecessor Plan and (vi) the maximum number and/or class of securities by which the share reserve is to increase automatically each calendar year pursuant to the provisions of Section V.B of this Article One. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

ARTICLE TWO

DISCRETIONARY OPTION GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

A. EXERCISE PRICE.

1. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section I of Article Seven and the documents evidencing the option, be payable in one or more of the forms specified below:

(i) cash or check made payable to the Corporation,

(ii) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation s earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(iii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

Table of Contents

B. EXERCISE AND TERM OF OPTIONS. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

C. EFFECT OF TERMINATION OF SERVICE.

1. The following provisions shall govern the exercise of any options held by the Optionee at the time of cessation of Service or death:

(i) Any option outstanding at the time of the Optionee s cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no such option shall be exercisable after the expiration of the option term.

(ii) Any option held by the Optionee at the time of death and exercisable in whole or in part at that time may be subsequently exercised by the personal representative of the Optionee s estate or by the person or persons to whom the option is transferred pursuant to the Optionee s will or the laws of inheritance or by the Optionee s designated beneficiary or beneficiaries of that option.

(iii) Should the Optionee s Service be terminated for Misconduct or should the Optionee otherwise engage in Misconduct while holding one or more outstanding options under this Article Two, then all those options shall terminate immediately and cease to be outstanding.

(iv) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee s cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee s cessation of Service, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

2. The Plan Administrator shall have complete discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following the Optionee s cessation of Service from the limited exercise period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of Common Stock for which such option is exercisable at the time of the Optionee s cessation of Service but also with respect to one or more additional installments in which the Optionee would have vested had the Optionee continued in Service.

D. STOCKHOLDER RIGHTS. The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

E. REPURCHASE RIGHTS. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

Table of Contents

F. LIMITED TRANSFERABILITY OF OPTIONS. During the lifetime of the Optionee, Incentive Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or the laws of inheritance following the Optionee s death. Non-Statutory Options shall be subject to the same restriction, except that a Non-Statutory Option may be assigned in whole or in part during the Optionee s lifetime to one or more members of the Optionee s family or to a trust established exclusively for one or more such family members or to Optionee s former spouse, to the extent such assignment is in connection with the Optionee s estate plan or pursuant to a domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate. Notwithstanding the foregoing, the Optionee may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options under this Article Two, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee s death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee s death.

II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Seven shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options when issued under the Plan shall not be subject to the terms of this Section II.

A. ELIGIBILITY. Incentive Options may only be granted to Employees.

B. DOLLAR LIMITATION. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars ($100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

C. 10% STOCKHOLDER. If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

III. CORPORATE TRANSACTION/CHANGE IN CONTROL

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

Table of Contents

B. All outstanding repurchase rights under the Discretionary Option Grant Program shall automatically terminate, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent: (i) those repurchase rights are to be assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

C. Immediately following the consummation of the Corporate Transaction, all outstanding options under the Discretionary Option Grant Program shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments to reflect such Corporate Transaction shall also be made to (i) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same, (ii) the maximum number and/or class of securities available for issuance over the remaining term of the Plan and (iii) the maximum number and/or class of securities for which any one person may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances under the Plan per calendar year and (iv) the maximum number and/or class of securities by which the share reserve is to increase automatically each calendar year. To the extent the actual holders of the Corporation s outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Corporate Transaction, the successor corporation may, in connection with the assumption of the outstanding options under the Discretionary Option Grant Program, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Corporate Transaction.

E. The Plan Administrator shall have the discretionary authority to structure one or more outstanding options under the Discretionary Option Grant Program so that those options shall, immediately prior to the effective date of such Corporate Transaction, become exercisable for all the shares of Common Stock at the time subject to those options and may be exercised for any or all of those shares as fully vested shares of Common Stock, whether or not those options are to be assumed in the Corporate Transaction. In addition, the Plan Administrator shall have the discretionary authority to structure one or more of the Corporation s repurchase rights under the Discretionary Option Grant Program so that those rights shall not be assignable in connection with such Corporate Transaction and shall accordingly terminate upon the consummation of such Corporate Transaction, and the shares subject to those terminated rights shall thereupon vest in full.

F. The Plan Administrator shall have full power and authority to structure one or more outstanding options under the Discretionary Option Grant Program so that those options shall become exercisable for all the shares of Common Stock at the time subject to those options in the event the Optionee s Service is subsequently terminated by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Corporate Transaction in which those options are assumed and do not otherwise accelerate. In addition, the Plan Administrator may structure one or more of the Corporation s repurchase rights so that those rights shall immediately terminate with respect to any shares held by the Optionee at the time of his or her Involuntary Termination, and the shares subject to those terminated repurchase rights shall accordingly vest in full at that time.

G. The Plan Administrator shall have the discretionary authority to structure one or more outstanding options under the Discretionary Option Grant Program so that those options shall, immediately prior to the effective date of a Change in Control, become exercisable for all the shares of Common Stock at the time subject to those options and may be exercised for any or all of those shares as fully vested shares of Common Stock. In addition, the Plan Administrator shall have the discretionary authority to structure one or more of the

Table of Contents

Corporation s repurchase rights under the Discretionary Option Grant Program so that those rights shall terminate automatically upon the consummation of such Change in Control, and the shares subject to those terminated rights shall thereupon vest in full. Alternatively, the Plan Administrator may condition the automatic acceleration of one or more outstanding options under the Discretionary Option Grant Program and the termination of one or more of the Corporation s outstanding repurchase rights under such program upon the subsequent termination of the Optionee s Service by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of such Change in Control.

H. The portion of any Incentive Option accelerated in connection with a Corporate Transaction or Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar ($100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Nonstatutory Option under the Federal tax laws.

I. The outstanding options shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

IV. CANCELLATION AND REGRANT OF OPTIONS

The Plan Administrator shall have the authority to effect, at any time and from time to time, with the consent of the affected option holders, the cancellation of any or all outstanding options under the Discretionary Option Grant Program (including outstanding options incorporated from the Predecessor Plan) and to grant in substitution new options covering the same or a different number of shares of Common Stock but with an exercise price per share based on the Fair Market Value per share of Common Stock on the new grant date.

V. STOCK APPRECIATION RIGHTS

A. The Plan Administrator shall have full power and authority to grant to selected Optionees tandem stock appreciation rights and/or limited stock appreciation rights.

B. The following terms shall govern the grant and exercise of tandem stock appreciation rights:

(i) One or more Optionees may be granted the right, exercisable upon such terms as the Plan Administrator may establish, to elect between the exercise of the underlying option for shares of Common Stock and the surrender of that option in exchange for a distribution from the Corporation in an amount equal to the excess of (a) the Fair Market Value (on the option surrender date) of the number of shares in which the Optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (b) the aggregate exercise price payable for such shares.

(ii) No such option surrender shall be effective unless it is approved by the Plan Administrator, either at the time of the actual option surrender or at any earlier time. If the surrender is so approved, then the distribution to which the Optionee shall be entitled may be made in shares of Common Stock valued at Fair Market Value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

(iii) If the surrender of an option is not approved by the Plan Administrator, then the Optionee shall retain whatever rights the Optionee had under the surrendered option (or surrendered portion thereof) on the option surrender date and may exercise such rights at any time prior to the later of (a) five (5) business days after the receipt of the rejection notice or (b) the last day on which the option is otherwise exercisable in accordance with the terms of the documents evidencing such option, but in no event may such rights be exercised more than ten (10) years after the option grant date.

Table of Contents

C. The following terms shall govern the grant and exercise of limited stock appreciation rights:

(i) One or more Section 16 Insiders may be granted limited stock appreciation rights with respect to their outstanding options.

(ii) Upon the occurrence of a Hostile Take-Over, each individual holding one or more options with such a limited stock appreciation right shall have the unconditional right (exercisable for a thirty (30)-day period following such Hostile Take-Over) to surrender each such option to the Corporation. In return for the surrendered option, the Optionee shall receive a cash distribution from the Corporation in an amount equal to the excess of (A) the Take-Over Price of the shares of Common Stock at the time subject to such option (whether or not the option is otherwise at that time vested and exercisable for those shares) over (B) the aggregate exercise price payable for those shares. Such cash distribution shall be paid within five (5) days following the option surrender date.

(iii) At the time such limited stock appreciation right is granted, the Plan Administrator shall pre-approve any subsequent exercise of that right in accordance with the terms of this Paragraph C. Accordingly, no further approval of the Plan Administrator or the Board shall be required at the time of the actual option surrender and cash distribution.

ARTICLE THREE

SALARY INVESTMENT OPTION GRANT PROGRAM

I. OPTION GRANTS

The Primary Committee shall have the sole and exclusive authority to determine the calendar year or years (if any) for which the Salary Investment Option Grant Program is to be in effect and to select the Section 16 Insiders and other highly compensated Employees eligible to participate in the Salary Investment Option Grant Program for such calendar year or years. Each selected individual who elects to participate in the Salary Investment Option Grant Program must, prior to the start of each calendar year of participation, file with the Plan Administrator (or its designate) an irrevocable authorization directing the Corporation to reduce his or her base salary for that calendar year by an amount not less than Ten Thousand Dollars ($10,000.00) nor more than Fifty Thousand Dollars ($50,000.00). Each individual who files such a timely authorization shall automatically be granted an option under the Salary Investment Option Grant Program on the first trading day in January of the calendar year for which the salary reduction is to be in effect.

II. OPTION TERMS

Each option shall be a Non-Statutory Option evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below.

A. EXERCISE PRICE.

1. The exercise price per share shall be thirty-three and one-third percent (33-1/3%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

Table of Contents

B. NUMBER OF OPTION SHARES. The number of shares of Common Stock subject to the option shall be determined pursuant to the following formula (rounded down to the nearest whole number):

X = A divided by (B x 66-2/3%), where

X is the number of option shares,

A is the dollar amount by which the Optionee s base salary is to be reduced for the calendar year pursuant to his or her election under the Salary Investment Option Grant Program, and

B is the Fair Market Value per share of Common Stock on the option grant date.

C. EXERCISE AND TERM OF OPTIONS. The option shall become exercisable in a series of twelve (12) successive equal monthly installments upon the Optionee s completion of each calendar month of Service in the calendar year for which the salary reduction is in effect. Each option shall have a maximum term of ten (10) years measured from the option grant date.

D. EFFECT OF TERMINATION OF SERVICE. Should the Optionee cease Service for any reason while holding one or more options under this Article Three, then each such option shall remain exercisable, for any or all of the shares for which the option is exercisable at the time of such cessation of Service, until the earlier of (i) the expiration of the ten (10)-year option term or (ii) the expiration of the three (3)-year period measured from the date of such cessation of Service. Should the Optionee die while holding one or more options under this Article Three, then each such option may be exercised, for any or all of the shares for which the option is exercisable at the time of the Optionee s cessation of Service (less any shares subsequently purchased by Optionee prior to death), by the personal representative of the Optionee s estate or by the person or persons to whom the option is transferred pursuant to the Optionee s will or the laws of inheritance or by the designated beneficiary or beneficiaries of the option. Such right of exercise shall lapse, and the option shall terminate, upon the earlier of (i) the expiration of the ten (10)-year option term or (ii) the three (3)-year period measured from the date of the Optionee s cessation of Service. However, the option shall, immediately upon the Optionee s cessation of Service for any reason, terminate and cease to remain outstanding with respect to any and all shares of Common Stock for which the option is not otherwise at that time exercisable.

III. CORPORATE TRANSACTION/CHANGE IN CONTROL/HOSTILE TAKE-OVER

A. In the event of any Corporate Transaction while the Optionee remains in Service, each outstanding option held by such Optionee under this Salary Investment Option Grant Program shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become exercisable for all the shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of Common Stock. Each such outstanding option shall terminate immediately following the Corporate Transaction, except to the extent assumed by the successor corporation (or parent thereof) in such Corporate Transaction. Any option so assumed shall remain exercisable for the fully vested shares until the earlier of (i) the expiration of the ten (10)-year option term or (ii) the expiration of the three (3)-year period measured from the date of the Optionee s cessation of Service.

B. In the event of a Change in Control while the Optionee remains in Service, each outstanding option held by such Optionee under this Salary Investment Option Grant Program shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Change in Control, become exercisable for all the shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of Common Stock. The option shall remain so exercisable until the earliest to occur of (i) the expiration of the ten (10)-year option term, (ii) the expiration of the three (3)-year period measured from the date of the Optionee s cessation of Service, (iii) the termination of the option in connection with a Corporate Transaction or (iv) the surrender of the option in connection with a Hostile Take-Over.

Table of Contents

C. Upon the occurrence of a Hostile Take-Over while the Optionee remains in Service, such Optionee shall have a thirty (30)-day period in which to surrender to the Corporation each outstanding option held by him or her under the Salary Investment Option Grant Program. The Optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the shares of Common Stock at the time subject to the surrendered option (whether or not the option is otherwise at the time exercisable for those shares) over (ii) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following the surrender of the option to the Corporation. The Primary Committee shall, at the time the option with such limited stock appreciation right is granted under the Salary Investment Option Grant Program, pre-approve any subsequent exercise of that right in accordance with the terms of this Paragraph C. Accordingly, no further approval of the Primary Committee or the Board shall be required at the time of the actual option surrender and cash distribution.

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same. To the extent the actual holders of the Corporation s outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Corporate Transaction, the successor corporation may, in connection with the assumption of the outstanding options under the Salary Investment Option Grant Program, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Corporate Transaction.

E. The grant of options under the Salary Investment Option Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

IV. REMAINING TERMS

The remaining terms of each option granted under the Salary Investment Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

ARTICLE FOUR

STOCK ISSUANCE PROGRAM

I. STOCK ISSUANCE TERMS

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each such stock issuance shall be evidenced by a Stock Issuance Agreement which complies with the terms specified below. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to share right awards which entitle the recipients to receive those shares upon the attainment of designated performance goals.

A. PURCHASE PRICE.

1. The purchase price per share shall be fixed by the Plan Administrator, but shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the issuance date.

Table of Contents

2. Subject to the provisions of Section I of Article Seven, shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(i) cash or check made payable to the Corporation, or

(ii) past services rendered to the Corporation (or any Parent or Subsidiary).

B. VESTING PROVISIONS.

1. Shares of Common Stock issued under the Stock Issuance Program may, in the discretion of the Plan Administrator, 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. The elements of the vesting schedule applicable to any unvested shares of Common Stock issued under the Stock Issuance Program shall be determined by the Plan Administrator and incorporated into the Stock Issuance Agreement. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to share right awards which entitle the recipients to receive those shares upon the attainment of designated performance goals.

2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant s unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation s receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant s unvested shares of Common Stock and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

3. The Participant shall have full stockholder rights with respect to any shares of Common Stock issued to the Participant under the Stock Issuance Program, whether or not the Participant s interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

4. Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant s purchase-money indebtedness), the Corporation shall repay to the Participant the cash consideration paid for the surrendered shares and shall cancel the unpaid principal balance of any outstanding purchase-money note of the Participant attributable to the surrendered shares.

5. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock which would otherwise occur upon the cessation of the Participant s Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the Participant s interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant s cessation of Service or the attainment or non-attainment of the applicable performance objectives.

6. Outstanding share right awards under the Stock Issuance Program shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those awards, if the performance goals established for such awards are not attained. The Plan Administrator, however, shall have the discretionary authority to issue shares of Common Stock under one or more outstanding share right awards as to which the designated performance goals have not been attained.

Table of Contents

II. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. All of the Corporation s outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent (i) those repurchase rights are to be assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed in the Stock Issuance Agreement.

B. The Plan Administrator shall have the discretionary authority to structure one or more of the Corporation s repurchase rights under the Stock Issuance Program so that those rights shall automatically terminate in whole or in part, and the shares of Common Stock subject to those terminated rights shall immediately vest, in the event the Participant s Service should subsequently terminate by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Corporate Transaction in which those repurchase rights are assigned to the successor corporation (or parent thereof).

C. The Plan Administrator shall also have the discretionary authority to structure one or more of the Corporation s repurchase rights under the Stock Issuance Program so that those rights shall automatically terminate in whole or in part, and the shares of Common Stock subject to those terminated rights shall immediately vest, either upon the occurrence of a Change in Control or upon the subsequent termination of the Participant s Service by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of that Change in Control.

III. SHARE ESCROW/LEGENDS

Unvested shares may, in the Plan Administrator s discretion, be held in escrow by the Corporation until the Participant s interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

ARTICLE FIVE

AUTOMATIC OPTION GRANT PROGRAM

I. OPTION TERMS

A. GRANT DATES. Option grants shall be made on the dates specified below:

1. Each individual who is first elected or appointed as a non-employee Board member at any time on or after the Underwriting Date shall automatically be granted, on the date of such initial election or appointment, a Non-Statutory Option to purchase twenty-five thousand (25,000) shares of Common Stock, provided that individual has not previously been in the employ of the Corporation or any Parent or Subsidiary.

2. On the date of each Annual Stockholders Meeting held after the Underwriting Date, each individual who is to continue to serve as a non-employee Board member, whether or not that individual is standing for re-election to the Board at that particular Annual Meeting, shall automatically be granted a Non-Statutory Option to purchase ten thousand (10,000) shares of Common Stock, provided such individual has served as a non-employee Board member for at least six (6) months. There shall be no limit on the number of such 10,000-share option grants any one non-employee Board member may receive over his or her period of Board service, and non-employee Board members who have previously been in the employ of the Corporation (or any Parent or Subsidiary) or who have otherwise received one or more stock option grants from the Corporation prior to the Underwriting Date shall be eligible to receive one or more such annual option grants over their period of continued Board service.

Table of Contents

B. EXERCISE PRICE.

1. The exercise price per share shall be equal to one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

C. OPTION TERM. Each option shall have a term of ten (10) years measured from the option grant date.

D. EXERCISE AND VESTING OF OPTIONS. Each option shall be immediately exercisable for any or all of the option shares. However, any unvested shares purchased under the option shall be subject to repurchase by the Corporation, at the exercise price paid per share, upon the Optionee s cessation of Board service prior to vesting in those shares. The shares subject to each initial 25,000-share grant shall vest, and the Corporation s repurchase right shall lapse, in a series of four (4) successive equal annual installments upon the Optionee s completion of each year of service as a Board member over the four (4)-year period measured from the option grant date. The shares subject to each annual 10,000-share option grant shall vest in one installment upon the Optionee s completion of the one (1)-year period of service measured from the grant date.

E. LIMITED TRANSFERABILITY OF OPTIONS. Each option under this Article Five may be assigned in whole or in part during the Optionee s lifetime to one or more members of the Optionee s family or to a trust established exclusively for one or more such family members or to Optionee s former spouse, to the extent such assignment is in connection with the Optionee s estate plan or pursuant to a domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate. The Optionee may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options under this Article Five, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee s death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee s death.

F. TERMINATION OF BOARD SERVICE. The following provisions shall govern the exercise of any options held by the Optionee at the time the Optionee ceases to serve as a Board member:

(i) The Optionee (or, in the event of Optionee s death, the personal representative of the Optionee s estate or the person or persons to whom the option is transferred pursuant to the Optionee s will or the laws of inheritance or the designated beneficiary or beneficiaries of such option) shall have a twelve (12)-month period following the date of such cessation of Board service in which to exercise each such option.

(ii) During the twelve (12)-month exercise period, the option may not be exercised in the aggregate for more than the number of vested shares of Common Stock for which the option is exercisable at the time of the Optionee s cessation of Board service.

(iii) Should the Optionee cease to serve as a Board member by reason of death or Permanent Disability, then all shares at the time subject to the option shall immediately vest so that such option may, during the twelve (12)-month exercise period following such cessation of Board service, be exercised for any or all of those shares as fully vested shares of Common Stock.

(iv) In no event shall the option remain exercisable after the expiration of the option term. Upon the expiration of the twelve (12)-month exercise period or (if earlier) upon the expiration of the option term, the

Table of Contents

option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee s cessation of Board service for any reason other than death or Permanent Disability, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

II. CORPORATE TRANSACTION/ CHANGE IN CONTROL/ HOSTILE TAKE-OVER

A. In the event of a Corporate Transaction while the Optionee remains a Board member, the shares of Common Stock at the time subject to each outstanding option held by such Optionee under this Automatic Option Grant Program but not otherwise vested shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become exercisable for all the option shares as fully vested shares of Common Stock and may be exercised for any or all of those vested shares. Immediately following the consummation of the Corporate Transaction, each automatic option grant shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

B. In the event of a Change in Control while the Optionee remains a Board member, the shares of Common Stock at the time subject to each outstanding option held by such Optionee under this Automatic Option Grant Program but not otherwise vested shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Change in Control, become exercisable for all the option shares as fully vested shares of Common Stock and may be exercised for any or all of those vested shares. Each such option shall remain exercisable for such fully vested option shares until the expiration or sooner termination of the option term or the surrender of the option in connection with a Hostile Take-Over.

C. All outstanding repurchase rights under this under this Automatic Option Grant Program shall automatically terminate, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction or Change in Control.

D. Upon the occurrence of a Hostile Take-Over while the Optionee remains a Board member, such Optionee shall have a thirty (30)-day period in which to surrender to the Corporation each of his or her outstanding options under this Automatic Option Grant Program. The Optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the shares of Common Stock at the time subject to each surrendered option (whether or not the Optionee is otherwise at the time vested in those shares) over (ii) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following the surrender of the option to the Corporation. No approval or consent of the Board or any Plan Administrator shall be required at the time of the actual option surrender and cash distribution.

E. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same. To the extent the actual holders of the Corporation s outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Corporate Transaction, the successor corporation may, in connection with the assumption of the outstanding options under the Automatic Option Grant Program, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Corporate Transaction.

F. The grant of options under the Automatic Option Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

Table of Contents

III. REMAINING TERMS

The remaining terms of each option granted under the Automatic Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

ARTICLE SIX

DIRECTOR FEE OPTION GRANT PROGRAM

I. OPTION GRANTS

The Primary Committee shall have the sole and exclusive authority to determine the calendar year or years for which the Director Fee Option Grant Program is to be in effect. For each such calendar year the program is in effect, each non-employee Board member may irrevocably elect to apply all or any portion of the annual retainer fee otherwise payable in cash for his or her service on the Board for that year to the acquisition of a special option grant under this Director Fee Option Grant Program. Such election must be filed with the Corporation s Chief Financial Officer prior to the first day of the calendar year for which the annual retainer fee which is the subject of that election is otherwise payable. Each non-employee Board member who files such a timely election shall automatically be granted an option under this Director Fee Option Grant Program on the first trading day in January in the calendar year for which the retainer fee election is in effect.

II. OPTION TERMS

Each option shall be a Non-Statutory Option governed by the terms and conditions specified below.

A. EXERCISE PRICE.

1. The exercise price per share shall be thirty-three and one-third percent (33-1/3%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. NUMBER OF OPTION SHARES. The number of shares of Common Stock subject to the option shall be determined pursuant to the following formula (rounded down to the nearest whole number):

X = A divided by (B x 66-2/3%), where

X is the number of option shares,

A is the portion of the annual retainer fee subject to the non-employee Board member s election under this Director Fee Option Grant Program, and

B is the Fair Market Value per share of Common Stock on the option grant date.

C. EXERCISE AND TERM OF OPTIONS. The option shall become exercisable in a series of twelve (12) equal monthly installments upon the Optionee s completion of each calendar month of Board service during the calendar year for which the retainer fee election is in effect. Each option shall have a maximum term of ten (10) years measured from the option grant date.

Table of Contents

D. LIMITED TRANSFERABILITY OF OPTIONS. Each option under this Article Six may be assigned in whole or in part during the Optionee s lifetime to one or more members of the Optionee s family or to a trust established exclusively for one or more such family members or to Optionee s former spouse, to the extent such assignment is in connection with Optionee s estate plan or pursuant to a domestic relations order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate. The Optionee may also designate one or more persons as the beneficiary or beneficiaries of his or her outstanding options under this Article Six, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee s death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee s death.

E. TERMINATION OF BOARD SERVICE. Should the Optionee cease Board service for any reason (other than death or Permanent Disability) while holding one or more options under this Director Fee Option Grant Program, then each such option shall remain exercisable, for any or all of the shares for which the option is exercisable at the time of such cessation of Board service, until the earlier of (i) the expiration of the ten (10)-year option term or (ii) the expiration of the three (3)-year period measured from the date of such cessation of Board service. However, each option held by the Optionee under this Director Fee Option Grant Program at the time of his or her cessation of Board service shall immediately terminate and cease to remain outstanding with respect to any and all shares of Common Stock for which the option is not otherwise at that time exercisable.

F. DEATH OR PERMANENT DISABILITY. Should the Optionee s service as a Board member cease by reason of death or Permanent Disability, then each option held by such Optionee under this Director Fee Option Grant Program shall immediately become exercisable for all the shares of Common Stock at the time subject to that option, and the option may be exercised for any or all of those shares as fully vested shares until the earlier of (i) the expiration of the ten (10)-year option term or (ii) the expiration of the three (3)-year period measured from the date of such cessation of Board service. To the extent such option is held by the Optionee at the time of his or death, that option may be exercised by the personal representative of the Optionee s estate or by the person or persons to whom the option is transferred pursuant to the Optionee s will or the laws of inheritance or by the designated beneficiary or beneficiaries of such option.

Should the Optionee die after cessation of Board service but while holding one or more options under this Director Fee Option Grant Program, then each such option may be exercised, for any or all of the shares for which the option is exercisable at the time of the Optionee s cessation of Board service (less any shares subsequently purchased by Optionee prior to death), by the personal representative of the Optionee s estate or by the person or persons to whom the option is transferred pursuant to the Optionee s will or the laws of inheritance or by the designated beneficiary or beneficiaries of such option. Such right of exercise shall lapse, and the option shall terminate, upon the earlier of (i) the expiration of the ten (10)-year option term or (ii) the three (3)-year period measured from the date of the Optionee s cessation of Board service.

III. CORPORATE TRANSACTION/CHANGE IN CONTROL/HOSTILE TAKE-OVER

A. In the event of any Corporate Transaction while the Optionee remains a Board member, each outstanding option held by such Optionee under this Director Fee Option Grant Program shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become exercisable for all the shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of Common Stock. Each such outstanding option shall terminate immediately following the Corporate Transaction, except to the extent assumed by the successor corporation (or parent thereof) in such Corporate Transaction. Any option so assumed and shall remain exercisable for

Table of Contents

the fully vested shares until the earliest to occur of (i) the expiration of the ten (10)-year option term, (ii) the expiration of the three (3)-year period measured from the date of the Optionee s cessation of Board service or (iii) the surrender of the option in connection with a Hostile Take-Over.

B. In the event of a Change in Control while the Optionee remains a Board member, each outstanding option held by such Optionee under this Director Fee Option Grant Program shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Change in Control, become exercisable for all the shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully vested shares of Common Stock. The option shall remain so exercisable until the earliest to occur of (i) the expiration of the ten (10)-year option term, (ii) the expiration of the three (3)-year period measured from the date of the Optionee s cessation of Board service, (iii) the termination of the option in connection with a Corporate Transaction or (iv) the surrender of the option in connection with a Hostile Take-Over.

C. Upon the occurrence of a Hostile Take-Over while the Optionee remains a Board member, such Optionee shall have a thirty (30)-day period in which to surrender to the Corporation each outstanding option held by him or her under the Director Fee Option Grant Program. The Optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the shares of Common Stock at the time subject to each surrendered option (whether or not the option is otherwise at the time exercisable for those shares) over (ii) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following the surrender of the option to the Corporation. No approval or consent of the Board or any Plan Administrator shall be required at the time of the actual option surrender and cash distribution.

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same. To the extent the actual holders of the Corporation s outstanding Common Stock receive cash consideration for their Common Stock in consummation of the Corporate Transaction, the successor corporation may, in connection with the assumption of the outstanding options under the Director Fee Option Grant Program, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Corporate Transaction.

E. The grant of options under the Director Fee Option Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

IV. REMAINING TERMS

The remaining terms of each option granted under this Director Fee Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

ARTICLE SEVEN

MISCELLANEOUS

I. FINANCING

The Plan Administrator may permit any Optionee or Participant to pay the option exercise price under the Discretionary Option Grant Program or the purchase price of shares issued under the Stock Issuance Program by delivering a full-recourse, interest-bearing promissory note payable in one or more installments. The terms of any

Table of Contents

such promissory note (including the interest rate and the terms of repayment) shall be established by the Plan Administrator in its sole discretion. In no event may the maximum credit available to the Optionee or Participant exceed the sum of (i) the aggregate option exercise price or purchase price payable for the purchased shares (less the par value of such shares) plus (ii) any Federal, state and local income and employment tax liability incurred by the Optionee or the Participant in connection with the option exercise or share purchase.

II. TAX WITHHOLDING

A. The Corporation s obligation to deliver shares of Common Stock upon the exercise of options or the issuance or vesting of such shares under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion, provide any or all holders of Non-Statutory Options or unvested shares of Common Stock under the Plan (other than the options granted or the shares issued under the Automatic Option Grant or Director Fee Option Grant Program) with the right to use shares of Common Stock in satisfaction of all or part of the Withholding Taxes to which such holders may become subject in connection with the exercise of their options or the vesting of their shares. Such right may be provided to any such holder in either or both of the following formats:

Stock Withholding: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Non-Statutory Option or the vesting of such shares, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Withholding Taxes (not to exceed one hundred percent (100%)) designated by the holder.

Stock Delivery: The election to deliver to the Corporation, at the time the Non-Statutory Option is exercised or the shares vest, one or more shares of Common Stock previously acquired by such holder (other than in connection with the option exercise or share vesting triggering the Withholding Taxes) with an aggregate Fair Market Value equal to the percentage of the Withholding Taxes (not to exceed one hundred percent (100%)) designated by the holder.

III. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Plan shall become effective immediately on the Plan Effective Date. However, the Salary Investment Option Grant Program and the Director Fee Option Grant Program shall not be implemented until such time as the Primary Committee may deem appropriate. Options may be granted under the Discretionary Option Grant at any time on or after the Plan Effective Date, and the initial option grants under the Automatic Option Grant Program shall also be made on the Plan Effective Date to any non-employee Board members eligible for such grants at that time. However, no options granted under the Plan may be exercised, and no shares shall be issued under the Plan, until the Plan is approved by the Corporation s stockholders. If such stockholder approval is not obtained within twelve (12) months after the Plan Effective Date, then all options previously granted under this Plan shall terminate and cease to be outstanding, and no further options shall be granted and no shares shall be issued under the Plan.

B. The Plan shall serve as the successor to the Predecessor Plan, and no further option grants or direct stock issuances shall be made under the Predecessor Plan after the Plan Effective Date. All options outstanding under the Predecessor Plan on the Plan Effective Date shall be transferred to the Plan at that time and shall be treated as outstanding options under the Plan. However, each outstanding option so transferred shall continue to be governed solely by the terms of the documents evidencing such option, and no provision of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such transferred options with respect to their acquisition of shares of Common Stock.

Table of Contents

C. One or more provisions of the Plan, including (without limitation) the option/vesting acceleration provisions of Article Two relating to Corporate Transactions and Changes in Control, may, in the Plan Administrator s discretion, be extended to one or more options incorporated from the Predecessor Plan which do not otherwise contain such provisions.

D. The Plan shall terminate upon the earliest to occur of (i) June 15, 2010, (ii) the date on which all shares available for issuance under the Plan shall have been issued as fully vested shares or (iii) the termination of all outstanding options in connection with a Corporate Transaction. Should the Plan terminate on June 15, 2010, then all option grants and unvested stock issuances outstanding at that time shall continue to have force and effect in accordance with the provisions of the documents evidencing such grants or issuances.

IV. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to stock options or unvested stock issuances at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification. In addition, certain amendments may require stockholder approval pursuant to applicable laws or regulations.

B. Options to purchase shares of Common Stock may be granted under the Discretionary Option Grant and Salary Investment Option Grant Programs and shares of Common Stock may be issued under the Stock Issuance Program that are in each instance in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained stockholder approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such stockholder approval is not obtained within twelve (12) months after the date the first such excess issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding and (ii) the Corporation shall promptly refund to the Optionees and the Participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

V. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

VI. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any stock option under the Plan and the issuance of any shares of Common Stock (i) upon the exercise of any granted option or (ii) under the Stock Issuance Program shall be subject to the Corporation s procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the stock options granted under it and the shares of Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then listed for trading.

Table of Contents

VII. NO EMPLOYMENT/SERVICE RIGHTS

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

APPENDIX

The following definitions shall be in effect under the Plan:

A. AUTOMATIC OPTION GRANT PROGRAM shall mean the automatic option grant program in effect under Article Five of the Plan.

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

C. CHANGE IN CONTROL shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

(i) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation s outstanding securities pursuant to a tender or exchange offer made directly to the Corporation s stockholders, or

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

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

E. COMMON STOCK shall mean the Corporation s common stock.

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

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

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

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

H. DIRECTOR FEE OPTION GRANT PROGRAM shall mean the special stock option grant in effect for non-employee Board members under Article Six of the Plan.

Table of Contents

I. DISCRETIONARY OPTION GRANT PROGRAM shall mean the discretionary option grant program in effect under Article Two of the Plan.

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

K. EXERCISE DATE shall mean the date on which the Corporation shall have received written notice of the option exercise.

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

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

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

(iii) For purposes of any option grants made on the Underwriting Date, the Fair Market Value shall be deemed to be equal to the price per share at which the Common Stock is to be sold in the initial public offering pursuant to the Underwriting Agreement.

M. HOSTILE TAKE-OVER shall mean the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation s outstanding securities pursuant to a tender or exchange offer made directly to the Corporation s stockholders which the Board does not recommend such stockholders to accept.

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

O. INVOLUNTARY TERMINATION shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual s involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

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

Table of Contents

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

Q. 1934 ACT shall mean the Securities Exchange Act of 1934, as amended.

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

S. OPTIONEE shall mean any person to whom an option is granted under the Discretionary Option Grant, Salary Investment Option Grant, Automatic Option Grant or Director Fee Option Grant Program.

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

U. PARTICIPANT shall mean any person who is issued shares of Common Stock under the Stock Issuance Program.

V. PERMANENT DISABILITY OR PERMANENTLY DISABLED shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for purposes of the Automatic Option Grant and Director Fee Option Grant Programs, Permanent Disability or Permanently Disabled shall mean the inability of the non-employee Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

W. PLAN shall mean the Corporation s 2000 Stock Incentive Plan, as set forth in this document.

X. PLAN ADMINISTRATOR shall mean the particular entity, whether the Primary Committee, the Board or the Secondary Committee, which is authorized to administer the Discretionary Option Grant and Stock Issuance Programs with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction.

Y. PLAN EFFECTIVE DATE shall mean the date the Plan shall become effective and shall be coincident with the Underwriting Date.

Z. PREDECESSOR PLAN shall mean the Corporation s 1995 Stock Option/Stock Issuance Plan in effect immediately prior to the Plan Effective Date hereunder.

AA. PRIMARY COMMITTEE shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders and to administer the Salary Investment Option Grant Program solely with respect to the selection of the eligible individuals who may participate in such program.

BB. SALARY INVESTMENT OPTION GRANT PROGRAM shall mean the salary investment option grant program in effect under Article Three of the Plan.

Table of Contents

CC. SECONDARY COMMITTEE shall mean a committee of one or more Board members appointed by the Board to administer the Discretionary Option Grant and Stock Issuance Programs with respect to eligible persons other than Section 16 Insiders.

DD. SECTION 16 INSIDER shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

EE. SERVICE shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant or stock issuance.

FF. STOCK EXCHANGE shall mean either the American Stock Exchange or the New York Stock Exchange.

GG. STOCK ISSUANCE AGREEMENT shall mean the agreement entered into by the Corporation and the Participant at the time of issuance of shares of Common Stock under the Stock Issuance Program.

HH. STOCK ISSUANCE PROGRAM shall mean the stock issuance program in effect under Article Four of the Plan.

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

JJ. TAKE-OVER PRICE shall mean the greater of (i) the Fair Market Value per share of Common Stock on the date the option is surrendered to the Corporation in connection with a Hostile Take-Over or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting such Hostile Take-Over. However, if the surrendered option is an Incentive Option, the Take-Over Price shall not exceed the clause (i) price per share.

KK. 10% STOCKHOLDER shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

LL. UNDERWRITING AGREEMENT shall mean the agreement between the Corporation and the underwriter or underwriters managing the initial public offering of the Common Stock.

MM. UNDERWRITING DATE shall mean the date on which the Underwriting Agreement is executed and priced in connection with an initial public offering of the Common Stock.

NN. WITHHOLDING TAXES shall mean the Federal, state and local income and employment withholding taxes to which the holder of Non-Statutory Options or unvested shares of Common Stock may become subject in connection with the exercise of those options or the vesting of those shares.

Table of Contents

AMENDMENT NO. 1 TO

DISCOVERY PARTNERS INTERNATIONAL, INC.

2000 STOCK INCENTIVE PLAN

The Discovery Partners International, Inc. 2000 Stock Incentive Plan (the Plan) be and hereby is amended as follows:

1. Article Five, Section I.A. is hereby deleted in its entirety and a new Article Five, Section I.A. is inserted in lieu thereof which reads as follows:

Notwithstanding anything to the contrary contained herein:

(1) Each non-employee director who serves on the Board immediately after the closing of the merger (the Merger) of Darwin Corp. with and into Infinity Pharmaceuticals, Inc. pursuant to the Agreement and Plan of Merger and Reorganization, dated as of April 11, 2006, by and among the Corporation, Darwin Corp. and Infinity Pharmaceuticals, Inc. (as defined below) shall receive a Non-Statutory Option to purchase 75,000 shares of Common Stock (the Initial Option). Shares of Common Stock subject to the Initial Option will become exercisable as to 25,000 of the shares underlying such Initial Option on the first anniversary of the date of grant and the remainder will be exercisable in quarterly installments of 6,250 shares beginning at the end of the first quarter thereafter, provided that the holder of the Initial Option continues to serve as a director.

(2) Each non-employee director serving as a director on the third anniversary of (a) the closing of the Merger, in case of directors serving on the Board immediately after the closing of the Merger, or (b) his or her election to the Board, in the case of directors elected after the closing of the Merger, shall, on the date of the first Annual Stockholders Meeting following such third anniversary and on the date of each Annual Stockholders Meeting thereafter, receive a Non-Statutory Option to purchase 15,000 shares of Common Stock (an Annual Option). Shares of Common Stock subject to the Annual Option will be exercisable in equal quarterly installments of 3,750 shares beginning at the end of the first quarter after the date of grant, provided that the holder of the Annual Option continues to serve as a director.

(3) The non-employee director who serves as the lead outside director of the Board shall receive an additional Non-Statutory Option to purchase 25,000 shares of Common Stock upon the date of commencement of service in such position and upon each anniversary thereafter. Shares of Common Stock subject to each such option will be exercisable in equal quarterly installments of 6,250 shares beginning at the end of the first quarter after the date of grant, provided that the holder of such option continues to serve as the lead outside director.

(4) The non-employee director who serves as the lead research and development director of the Board and the non-employee director who serves as the chair of the audit committee of the Board shall each receive an additional Non-Statutory Option to purchase 10,000 shares of Common Stock upon the date of commencement of service in such position and each anniversary thereafter. Shares of Common Stock subject to such options will be exercisable in equal quarterly installments of 2,500 shares beginning at the end of the first quarter after the date of grant, provided that the holder of the option continues to serve as the lead research and development director or the chair of the audit committee, as applicable.

(5) The non-employee director who serves as the chair of the compensation committee of the Board and the non-employee director who serves as the chair of the nominating and corporate governance committee of the Board shall each receive an additional Non-Statutory Option to purchase 5,000 shares upon the commencement of service in such position and each anniversary thereafter. Shares of Common Stock subject to such options will be exercisable in equal quarterly installments of 1,250 shares beginning at the end of the first quarter after the date of grant, provided that the holder of the option continues to serve as the chair of the compensation committee or the chair of the nominating and corporate governance committee, as applicable.

Table of Contents

2. Article Five, Section I.D. is hereby deleted in its entirety and a new Article Five, Section I.D. is inserted in lieu thereof which reads as follows:

I.D. [Intentionally omitted.]

Table of Contents

AMENDMENT NO. 2 TO

DISCOVERY PARTNERS INTERNATIONAL, INC.

2000 STOCK INCENTIVE PLAN

The Discovery Partners International, Inc. 2000 Stock Incentive Plan (the Plan) be and hereby is amended as follows:

1. Effective immediately following the Effective Time (as defined in the Agreement and Plan of Merger and Reorganization by and among the Corporation, Darwin Corp. and Infinity Pharmaceuticals, Inc. dated as of April 11, 2006 (the Merger Agreement)), Article One, Section V.E. is hereby deleted in its entirety and a new Article One, Section V.E. is inserted in lieu thereof which reads as follows:

E. If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation s receipt of consideration, appropriate adjustments shall be made by the Plan Administrator to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities for which any one person may be granted stock options, separately exercisable stock appreciation rights and direct stock issuances under the Plan per calendar year, (iii) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing non-employee Board members, (iv) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Plan, (v) the number and/or class of securities and exercise price per share in effect under each outstanding option transferred to this Plan from the Predecessor Plan, (vi) the maximum number and/or class of securities by which the share reserve is to increase automatically each calendar year pursuant to the provisions of Section V.B. of this Article One and (vii) the maximum number of shares with respect to which awards other than options and stock appreciation rights may be granted under this Plan. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

2. Effective immediately following the Effective Time, a new Section V.F. is inserted in Article One, which reads as follows:

The maximum number of shares with respect to which awards other than options and stock appreciation rights may be granted under this Plan shall be 4,850,000.

3. Effective immediately following the Effective Time, Article Two, Section IV of the Plan is hereby deleted in its entirety and a new Article Two, Section IV is inserted in lieu thereof which reads as follows:

IV. LIMITATION ON REPRICING

Unless such action is approved by the Corporation s stockholders: (i) no outstanding option granted under this Plan may be amended to provide an exercise price per share that is lower than the then-current exercise price per share of such outstanding option (other than adjustments pursuant to Article One, Section V.E.) and (2) the Board may not cancel any outstanding option (whether or not granted under this Plan) and grant in substitution therefor new awards under this Plan covering the same or a different number of shares of Common Stock and having an exercise price per share lower than the then-current exercise price per share of the cancelled option.

Table of Contents

AMENDMENT NO. 3 TO

DISCOVERY PARTNERS INTERNATIONAL, INC.

2000 STOCK INCENTIVE PLAN

The Discovery Partners International, Inc. 2000 Stock Incentive Plan (the Plan) be and hereby is amended as follows:

1. Effective immediately following the Effective Time (as defined in the Merger Agreement (as defined below)), Article One, Section V.A. of the Plan is hereby deleted in its entirety and a new Article One, Section V.A. is inserted in lieu thereof which reads as follows:

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. Subject to adjustments as provided for herein, the number of shares of Common Stock reserved for issuance under the Plan shall be equal to the sum of:

(a) the number of shares of the Corporation s Common Stock issuable upon exercise of any options with an exercise price equal to or greater than $3.00 per share (prior to giving effect to the Reverse Stock Split (as defined in the Merger Agreement)) issued and outstanding under, and the number of shares of the Corporation s Common Stock issued and outstanding and subject to a right of repurchase in favor of the Corporation pursuant to the Plan as of immediately prior to the closing of the merger (the Merger) of Darwin Corp. with and into Infinity Pharmaceuticals, Inc. (Infinity) pursuant to the Merger Agreement (as defined below); plus

(b) the number of shares of the Corporation s Common Stock issuable to holders of options to purchase common stock of Infinity assumed by the Corporation, and the number of shares of the Corporation s Common Stock issued to holders of common stock of Infinity issued pursuant to Infinity s stock incentive plans and subject to a right of repurchase of Infinity as of immediately prior to the closing of the Merger, pursuant to the Merger Agreement; plus

(c) the number of shares of the Corporation s Common Stock available for future grant under the Plan as of immediately prior to the closing of the Merger; plus

(d) the number of shares equal to seven percent (7%) of the Corporation s issued and outstanding Common Stock, as determined immediately following the Effective Time, calculated on a fully-diluted basis at such time, after giving effect to the increase in shares reserved for issuance under the Plan pursuant to this Amendment No. 2 to the Plan.

Notwithstanding the foregoing, in no event shall the number of shares reserved for issuance under the Plan exceed 9,700,000 shares, subject to adjustment as provided for herein.

For purposes of clause (d), the Corporation s fully-diluted issued and outstanding Common Stock shall be equal to the sum of:

(i) the Corporation s issued and outstanding Common Stock; plus

(ii) all shares of the Corporation s Common Stock issuable upon exercise, exchange or conversion of any outstanding option, warrant or other right that is exercisable, exchangeable or convertible into the Corporation s Common Stock, including, without limitation, any options with an exercise price equal to or greater than $3.00 per share (prior to giving effect to the Reverse Stock Split) or other awards issued and outstanding under the Plan, and shares of Common Stock subject to future issuance pursuant to outstanding grants of deferred issuance restricted stock of the Corporation; plus

(iii) the increase in shares reserved for issuance under the Plan pursuant to this Amendment No. 2 to the Plan; plus

(iv) the issuance of all of the shares of Common Stock of the Corporation issuable pursuant to the terms of that certain Agreement and Plan of Merger and Reorganization by and among the Corporation,

Table of Contents

Darwin Corp. and Infinity dated as of April 11, 2006 (the Merger Agreement), including, without limitation, shares of Common Stock issuable to holders of options to purchase common stock and warrants to purchase preferred stock of Infinity Pharmaceuticals, Inc. assumed by the Corporation pursuant to the Merger Agreement.

2. Effective immediately prior to the effective time of the Reverse Stock Split, Article One, Section V.B. of the Plan is hereby deleted in its entirety and a new Article One, Section V.B. is inserted in lieu thereof which reads as follows:

The number of shares of Common Stock available for issuance under the Plan shall automatically increase on the first trading day of January each calendar year during the term of the Plan, beginning with calendar year 2001, by an amount equal to four percent (4%) of the total number of shares of Common Stock outstanding on the last trading day in December of the immediately preceding calendar year, but in no event shall any such annual increase exceed two million (2,000,000) shares. Notwithstanding anything to the contrary contained herein, including without limitation, the provisions of Article One, Section V.E., the maximum number by which the share reserve is to increase automatically each calendar year set forth in this Article One, Section V.B. shall not be adjusted to give effect to the Reverse Stock Split (as defined in the Merger Agreement).

3. Effective immediately prior to the effective time of the Reverse Stock Split, Article One, Section V.C. of the Plan is hereby deleted in its entirety and a new Article One, Section V.C. is inserted in lieu thereof which reads as follows:

No one person participating in the Plan may receive stock options, separately exercisable stock appreciation rights and direct stock issuances for more than five hundred thousand (500,000) shares of Common Stock in the aggregate per calendar year. Notwithstanding anything to the contrary contained herein, including without limitation, the provisions of Article One, Section V.E., the per calendar year limit set forth in this Article One, Section V.C. shall not be adjusted to give effect to the Reverse Stock Split (as defined in the Merger Agreement).

4. Effective immediately following the Effective Time (as defined in the Merger Agreement), Article Four, Section I.A.1. of the Plan is hereby deleted in its entirety and a new Article Four, Section I.A.1. is inserted in lieu thereof which reads as follows:

The purchase per share, if any, shall be determined by the Plan Administrator.

Table of Contents

PART II

INFORMATION NOT REQUIRED IN PROXY STATEMENT/PROSPECTUS

Item 20. ***Indemnification of Directors and Officers***

Section 145 of the General Corporation Law of Delaware empowers a corporation to indemnify any person 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 the fact that he or she is or was a director, officer, employee or agent of the corporation or another enterprise if serving such enterprise at the request of the corporation. Depending on the character of the proceeding, a corporation may indemnify against expenses (including attorney s fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if the person indemnified acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. In the case of an action by or in the right of the corporation, no indemnification may be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine that despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses that the court shall deem proper. Section 145 further provides that to the extent a director or officer of a corporation has been successful in the defense of any action, suit or proceeding referred to above, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorney s fees) actually and reasonably incurred by him or her in connection therewith.

Discovery Partner s certificate of incorporation and bylaws provide that Discovery Partners shall, to the fullest extent authorized by the General Corporation Law of Delaware, indemnify its directors and executive officers; provided, however, that Discovery Partners may limit the extent of such indemnification by individual contracts with its directors and executive officers; and, provided, further, that Discovery Partners shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person or any proceeding by such person against Discovery Partners or its directors, officers, employees or other agents unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the board of directors, and (iii) such indemnification is provided by Discovery Partners, in its sole discretion, pursuant to its powers under the General Corporation Law of Delaware.

Pursuant to the terms of the merger agreement with Infinity, for six years from the closing of the merger, Discovery Partners and Infinity, as the surviving corporation in the merger, must advance expenses to and indemnify each former director and officer of Discovery Partners against costs and damages incurred as a result of such director or officer serving as a director or officer of Discovery Partners to the fullest extent permitted under the DGCL. Discovery Partners must also purchase an insurance policy, for six years from the closing of the merger, which maintains the current directors and officers liability insurance policies maintained by Discovery Partners prior to the closing of the merger.

Discovery Partners has entered into agreements to indemnify its directors and executive officers. These agreements, among other things, provide for indemnification of Discovery Partners directors and executive officers for expenses specified in the agreements, including attorneys fees, judgments, fines and settlement amounts incurred by such directors or executive officers in any action or proceeding arising out of that person s services as a director or executive officer of Discovery Partners, any subsidiary of Discovery Partners or any other entity to which the person provides services at Discovery Partners request.

Discovery Partners bylaws also permit Discovery Partners to maintain insurance to protect itself and any director, officer, employee or agent against any liability with respect to which Discovery Partners would have the power to indemnify such persons under the General Corporation Law of Delaware. Discovery Partners maintains an insurance policy insuring its directors and officers against certain liabilities.

Table of Contents

Item 21. ***Exhibits and Financial Statement Schedules***

(a) Exhibit Index

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of April 11, 2006, among Discovery Partners International, Inc., Darwin Corp. and Infinity Pharmaceuticals, Inc. (included as *Annex A* to the joint proxy statement/prospectus forming a part of this Registration Statement).
2.2	Form of Voting Agreement between Discovery Partners International, Inc. and certain stockholders of Infinity Pharmaceuticals, Inc. (included in *Annex A* to the joint proxy statement/prospectus forming a part of this Registration Statement).
2.3	Form of Voting Agreement between Infinity Pharmaceuticals, Inc. and certain stockholders of Discovery Partners International, Inc. (included in *Annex A* to the joint proxy statement/prospectus forming a part of this Registration Statement).
2.4	Form of Lock-Up Agreement between Discovery Partners International, Inc. and certain stockholders of Infinity Pharmaceuticals, Inc. (included in *Annex A* to the joint proxy statement/prospectus forming a part of this Registration Statement).
3.1	Certificate of Incorporation of Discovery Partners, incorporated by reference to Exhibit 3.2 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.
3.2	Bylaws of Discovery Partners, incorporated by reference to Exhibit 3.4 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.
4.1	Rights Agreement between Discovery Partners and American Stock Transfer & Trust Company, which includes the form of Certificate of Designation for the Series A junior participating preferred stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Stock as Exhibit C, dated as of February 13, 2003, incorporated by reference to Exhibit 4.2 to Discovery Partners Report on Form 8-K filed with the SEC on February 24, 2003.
4.2	First Amendment to the Rights Agreement between Discovery Partners International, Inc. and American Stock Transfer & Trust Company dated April 11, 2006, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 12, 2006.
5.1	Opinion of Cooley Godward LLP regarding the legality of the securities.
8.1**	Form of Opinion of Cooley Godward LLP regarding tax matters.
8.2**	Form of Opinion of Wilmer Cutler Pickering Hale and Dorr LLP regarding tax matters.
10.1	Second Amended and Restated Investors Rights Agreement among Discovery Partners and the investors listed on Schedule A thereto, dated April 28, 2000, as amended, incorporated by reference to Exhibit 10.2 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on July 26, 2000.
10.2	Patent License Agreement between Discovery Partners and Abbott Labs, Incorporated, dated January 2, 2001, incorporated by reference to Exhibit 10.22 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.3	Leasehold Contract between Swiss Accident Insurance Agency (formerly Basler Kantonalbank) and Discovery Technologies, Ltd., dated June 18, 1997, incorporated by reference to Exhibit 10.47 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.

Table of Contents

Exhibit Number	Description
10.4*	Key Employment Agreement between Discovery Partners and Riccardo Pigliucci, dated April 17, 1998, incorporated by reference to Exhibit 10.51 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on May 9, 2000.
10.5*	2000 Stock Incentive Plan (included as *Annex H* to the joint proxy statement/prospectus forming a part of this Registration Statement).
10.6*	2000 Stock Incentive Plan, Form of Notice of Grant, incorporated by reference to Exhibit 10.44 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.7*	2000 Stock Incentive Plan, Form of Stock Option Agreement, incorporated by reference to Exhibit 10.45 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.8*	2000 Stock Incentive Plan, Form of Stock Issuance Agreement, incorporated by reference to Exhibit 10.46 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.9*	2000 Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.60 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on July 21, 2000.
10.10*	2000 Employee Stock Purchase Plan, Form of Stock Purchase Agreement, incorporated by reference to Exhibit 10.48 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.11*	Form of Indemnification Agreement between Discovery Partners and each of its directors and officers, incorporated by reference to Exhibit 10.61 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.
10.12	Leasehold Contract between Swiss Accident Insurance Agency (formerly Basler Kantonalbank) and Discovery Partners Technologies, Ltd., dated January 31, 2000, incorporated by reference to Exhibit 10.63 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.
10.13*	Offer letter between Discovery Partners and Craig Kussman, dated October 29, 2001, incorporated by reference to Exhibit 10.55 to Discovery Partners Form 10-K filed with the SEC on March 29, 2002.
10.14	Protocol Development and Compound Production Agreement between Discovery Partners and Pfizer Inc., dated December 19, 2001, incorporated by reference to Exhibit 10.56 to Discovery Partners Form 10-K filed with the SEC on March 29, 2002.
10.15*	Offer letter between Discovery Partners and Taylor J. Crouch, dated June 18, 2002, incorporated by reference to Exhibit 10.57 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 9, 2002.
10.16*	Promissory Note issued by Taylor J. Crouch, dated July 29, 2002, incorporated by reference to Exhibit 10.58 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 9, 2002.
10.17	Amendment No. 1 to the 2001 Agreement between Discovery Partners and Pfizer Inc. effective May 15, 2002, incorporated by reference to Exhibit 10.59 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on November 14, 2002.
10.18	Amendment No. 2 to the 2001 Agreement between Discovery Partners and Pfizer Inc. amended August 13, 2002, incorporated by reference to Exhibit 10.60 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on November 14, 2002.
10.19*	Offer letter between Discovery Partners and Douglas A. Livingston, dated November 13, 2002, incorporated by reference to Exhibit 10.61 to Discovery Partners Form 10-K filed with the SEC on March 21, 2003.
10.20	Amendment No. 3 to the 2001 Agreement between Discovery Partners and Pfizer Inc. amended December 12, 2002, incorporated by reference to Exhibit 10.62 to Discovery Partners Form 10-K filed with the SEC on March 21, 2003.

Table of Contents

Exhibit Number	Description
10.21*	Amendment No. 1 to Notice of Grant of Stock Option between Discovery Partners and Craig Kussman, dated January 24, 2003, incorporated by reference to Exhibit 10.63 to Discovery Partners Form 10-K filed with the SEC on March 21, 2003.
10.22*	Employment Agreement between Discovery Technologies Ltd (since renamed Discovery Partners International AG) and Urs Regenass dated January 20, 2001, incorporated by reference to Exhibit 10.70 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on April 30, 2003.
10.23*	Change in Control Agreement between Discovery Partners and Riccardo Pigliucci, dated August 8, 2003, incorporated by reference to Exhibit 10.71 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.24*	Change in Control Agreement between Discovery Partners and Craig Kussman, dated August 8, 2003, incorporated by reference to Exhibit 10.72 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.25*	Change in Control Agreement between Discovery Partners and Taylor Crouch, dated August 8, 2003, incorporated by reference to Exhibit 10.73 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.26*	Change in Control Agreement between Discovery Partners and John Lillig, dated August 8, 2003, incorporated by reference to Exhibit 10.74 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.27*	Change in Control Agreement between Discovery Partners and Urs Regenass, dated August 8, 2003, incorporated by reference to Exhibit 10.75 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.28*	Change in Control Agreement between Discovery Partners and Richard Neale, dated August 8, 2003, incorporated by reference to Exhibit 10.76 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.29*	Change in Control Agreement between Discovery Partners and Douglas Livingston, dated August 8, 2003, incorporated by reference to Exhibit 10.77 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.30	Worldwide Distribution and Strategic Alliance Agreement between Discovery Partners and Bruker AXS Inc., dated July 24, 2003, incorporated by reference to Exhibit 10.78 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on November 14, 2003.
10.31	Industrial Lease between ChemRx Advanced Technologies, Inc. and Shelton International Holdings, Inc., incorporated by reference to Exhibit 10.79 to Discovery Partners Form 10-K filed with the SEC on March 10, 2004.
10.32	Chemistry Products and Services Agreement between Discovery Partners and Pfizer Inc., dated February 13, 2004, incorporated by reference to Exhibit 10.80 to Discovery Partners Form 10-K filed with the SEC on March 10, 2004.
10.33	Agreement between Discovery Partners and National Institutes of Mental Health, dated August 20, 2004, incorporated by reference to Exhibit 10.81 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on November 9, 2004.
10.34*	Separation Agreement between Discovery Partners and Taylor Crouch, dated January 18, 2005, incorporated by reference to Exhibit 10.82 to Discovery Partners Annual Report of Form 10-K filed with the SEC on March 10, 2005.
10.35*	Employment Agreement between Discovery Partners International, Inc. and Michael C. Venuti, Ph.D., dated March 31, 2005, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 6, 2005.

Table of Contents

Exhibit Number	Description
10.36*	Form of Stock Issuance Grant Notice, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 6, 2005.
10.37*	Second Form of Stock Issuance Agreement, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 6, 2005.
10.38*	Change in Control Agreement between Discovery Partners and Michael C. Venuti, Ph.D., dated March 31, 2005, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 6, 2005.
10.39*	Separation Agreement between Discovery Partners and Riccardo Pigliucci, dated November 11, 2005, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on November 14, 2005.
10.40	Asset Purchase Agreement between Discovery Partners and Irori Discovery, Inc., dated October 7, 2005, incorporated by reference to Exhibit 10.40 to Discovery Partners Annual Report of Form 10-K filed with the SEC on March 16, 2006.
10.41*	Key employee severance and retention bonus plan, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 5, 2006.
10.42*	Michael C. Venuti, Ph.D. severance and retention bonus plan, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 25, 2006.
10.43*	Form of Retention Bonus Agreement.
10.44	License Agreement, dated as of April 7, 2003, between Infinity Pharmaceuticals, Inc., and Discovery Partners International, Inc. (assigned by Discovery Partners International, Inc. to Nexus Biosystems, Inc. (formerly known as Irori Discovery, Inc)).
10.45	License Agreement, dated as of July 7, 2006, by and between Infinity Pharmaceuticals, Inc. and Amgen Inc.
10.46	Collaboration and Option Agreement, dated as of November 16, 2004, by and between Infinity Pharmaceuticals, Inc. and Novartis International Pharmaceutical Ltd.
10.47	Collaboration and License Agreement, dated as of December 22, 2004, by and between Infinity Pharmaceuticals, Inc. and Johnson & Johnson Pharmaceutical Research & Development, a division of Janssen Pharmaceutica N.V., as amended by Amendment No. 1 effective as of March 2, 2006.
10.48	Collaboration Agreement, dated as of February 24, 2006, by and between Infinity Pharmaceuticals, Inc. and Novartis Institutes for BioMedical Research, Inc.
10.49	Stock and Asset Purchase Agreement, dated June 12, 2006, and amended as of July 5, 2006, by and between Galapagos NV, Biofocus Inc. and Discovery Partners, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on July 11, 2006.
14.1	Code of Business Conduct, incorporated by reference to Exhibit 14 to Discovery Partners Annual Report on Form 10-K filed with the SEC on March 10, 2005.
21.1	Subsidiaries of the Registrant, incorporated by reference to Exhibit 21.1 to Discovery Partners Annual Report on Form 10-K filed with the SEC on March 16, 2006.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm to Discovery Partners International, Inc.
23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm to Infinity Pharmaceuticals, Inc.
23.3	Consent of Cooley Godward LLP (included in Exhibit 5.1 hereto).
23.4**	Consent of Cooley Godward LLP (included in Exhibit 8.1 hereto).
23.5**	Consent of Wilmer Cutler Pickering Hale and Dorr LLP (included in Exhibit 8.2 hereto).
24.1**	Power of Attorney (included on the signature page of this Registration Statement).
99.1	Form of Proxy Card for the Discovery Partners Special Meeting (included as *Annex F* to the joint proxy statement/prospectus forming a part of this Registration Statement).

Table of Contents

Exhibit Number	Description
99.2	Form of Proxy Card for the Infinity Special Meeting (included as *Annex G* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.3	Opinion of Molecular Securities Inc., financial advisor to Discovery Partners (included as *Annex B* to the proxy statement/prospectus forming a part of this Registration Statement).
99.4	Consent of Molecular Securities Inc., financial advisor to Discovery Partners (included in *Annex B* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.5	Proposed Amendment to the Certificate of Incorporation of Discovery Partners (included as *Annex D* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.6	Proposed Amendment to Bylaws of Discovery Partners (included as *Annex E* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.7*	Proposed Amendment to the 2000 Stock Incentive Plan of Discovery Partners (included in *Annex H* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.8	Consent of D. Ronald Daniel to be named as a director.
99.9	Consent of Anthony Evnin to be named as a director.
99.10	Consent of Steven Holtzman to be named as a director.
99.11	Consent of Eric Lander to be named as a director.
99.12	Consent of Patrick Lee to be named as a director.
99.13	Consent of Arnold Levine to be named as a director.
99.14	Consent of Franklin Moss to be named as a director.
99.15	Consent of Vicki Sato to be named as a director.
99.16	Consent of James Tananbaum to be named as a director.

* Indicates management contract or compensatory plan.
** Previously filed.
Confidential treatment requested as to certain portions, which portions have been filed separately with the Securities and Exchange Commission.

Item 22. ***Undertakings***

(a) The undersigned registrant hereby undertakes as follows:

(1) That prior to any public reoffering of the securities registered hereunder through use of a proxy statement/prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering proxy statement/prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) That every proxy statement/prospectus (i) that is filed pursuant to paragraph (a)(1) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act of 1933 and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To respond to requests for information that is incorporated by reference into the proxy statement/ prospectus pursuant to Item 4 of this Form, within one business day of receipt of such request, and to send

Table of Contents

the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(4) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant has duly caused this Amendment No. 1 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the city of San Diego, state of California, on July 11, 2006.

DISCOVERY PARTNERS INTERNATIONAL, INC.

By: /s/ MICHAEL C. VENUTI
Michael C. Venuti

Acting Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to Registration Statement has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MICHAEL C. VENUTI **Michael C. Venuti**	Acting Chief Executive Officer and Director (Principal Executive Officer)	July 11, 2006
/s/ CRAIG KUSSMAN* **Craig Kussman**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	July 11, 2006
/s/ HARRY F. HIXSON, JR.* **Harry F. Hixson, Jr.**	Chairman and Director	July 11, 2006
/s/ ALAN LEWIS* **Alan Lewis**	Director	July 11, 2006
/s/ COLIN T. DOLLERY* **Colin T. Dollery**	Director	July 11, 2006
/s/ HERM ROSENMAN* **Herm Rosenman**	Director	July 11, 2006

*By: /s/ MICHAEL C. VENUTI
Michael C. Venuti

Attorney-in-Fact

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of April 11, 2006, among Discovery Partners International, Inc., Darwin Corp. and Infinity Pharmaceuticals, Inc. (included as *Annex A* to the joint proxy statement/prospectus forming a part of this Registration Statement).
2.2	Form of Voting Agreement between Discovery Partners International, Inc. and certain stockholders of Infinity Pharmaceuticals, Inc. (included in *Annex A* to the joint proxy statement/prospectus forming a part of this Registration Statement).
2.3	Form of Voting Agreement between Infinity Pharmaceuticals, Inc. and certain stockholders of Discovery Partners International, Inc. (included in *Annex A* to the joint proxy statement/prospectus forming a part of this Registration Statement).
2.4	Form of Lock-Up Agreement between Discovery Partners International, Inc. and certain stockholders of Infinity Pharmaceuticals, Inc. (included in *Annex A* to the joint proxy statement/prospectus forming a part of this Registration Statement).
3.1	Certificate of Incorporation of Discovery Partners, incorporated by reference to Exhibit 3.2 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.
3.2	Bylaws of Discovery Partners, incorporated by reference to Exhibit 3.4 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.
4.1	Rights Agreement between Discovery Partners and American Stock Transfer & Trust Company, which includes the form of Certificate of Designation for the Series A junior participating preferred stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Series A Preferred Stock as Exhibit C, dated as of February 13, 2003, incorporated by reference to Exhibit 4.2 to Discovery Partners Report on Form 8-K filed with the SEC on February 24, 2003.
4.2	First Amendment to the Rights Agreement between Discovery Partners International, Inc. and American Stock Transfer & Trust Company dated April 11, 2006, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 12, 2006.
5.1	Opinion of Cooley Godward LLP regarding the legality of the securities.
8.1**	Form of Opinion of Cooley Godward LLP regarding tax matters.
8.2**	Form of Opinion of Wilmer Cutler Pickering Hale and Dorr LLP regarding tax matters.
10.1	Second Amended and Restated Investors Rights Agreement among Discovery Partners and the investors listed on Schedule A thereto, dated April 28, 2000, as amended, incorporated by reference to Exhibit 10.2 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on July 26, 2000.
10.2	Patent License Agreement between Discovery Partners and Abbott Labs, Incorporated, dated January 2, 2001, incorporated by reference to Exhibit 10.22 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.3	Leasehold Contract between Swiss Accident Insurance Agency (formerly Basler Kantonalbank) and Discovery Technologies, Ltd., dated June 18, 1997, incorporated by reference to Exhibit 10.47 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.

Table of Contents

Exhibit Number	Description
10.4*	Key Employment Agreement between Discovery Partners and Riccardo Pigliucci, dated April 17, 1998, incorporated by reference to Exhibit 10.51 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on May 9, 2000.
10.5*	2000 Stock Incentive Plan (included as *Annex H* to the joint proxy statement/prospectus forming a part of this Registration Statement).
10.6*	2000 Stock Incentive Plan, Form of Notice of Grant, incorporated by reference to Exhibit 10.44 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.7*	2000 Stock Incentive Plan, Form of Stock Option Agreement, incorporated by reference to Exhibit 10.45 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.8*	2000 Stock Incentive Plan, Form of Stock Issuance Agreement, incorporated by reference to Exhibit 10.46 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.9*	2000 Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.60 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on July 21, 2000.
10.10*	2000 Employee Stock Purchase Plan, Form of Stock Purchase Agreement, incorporated by reference to Exhibit 10.48 to Discovery Partners Form 10-K filed with the SEC on March 27, 2001.
10.11*	Form of Indemnification Agreement between Discovery Partners and each of its directors and officers, incorporated by reference to Exhibit 10.61 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.
10.12	Leasehold Contract between Swiss Accident Insurance Agency (formerly Basler Kantonalbank) and Discovery Partners Technologies, Ltd., dated January 31, 2000, incorporated by reference to Exhibit 10.63 to Discovery Partners Registration Statement No. 333-36638 on Form S-1 filed with the SEC on June 23, 2000.
10.13*	Offer letter between Discovery Partners and Craig Kussman, dated October 29, 2001, incorporated by reference to Exhibit 10.55 to Discovery Partners Form 10-K filed with the SEC on March 29, 2002.
10.14	Protocol Development and Compound Production Agreement between Discovery Partners and Pfizer Inc., dated December 19, 2001, incorporated by reference to Exhibit 10.56 to Discovery Partners Form 10-K filed with the SEC on March 29, 2002.
10.15*	Offer letter between Discovery Partners and Taylor J. Crouch, dated June 18, 2002, incorporated by reference to Exhibit 10.57 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 9, 2002.
10.16*	Promissory Note issued by Taylor J. Crouch, dated July 29, 2002, incorporated by reference to Exhibit 10.58 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 9, 2002.
10.17	Amendment No. 1 to the 2001 Agreement between Discovery Partners and Pfizer Inc. effective May 15, 2002, incorporated by reference to Exhibit 10.59 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on November 14, 2002.
10.18	Amendment No. 2 to the 2001 Agreement between Discovery Partners and Pfizer Inc. amended August 13, 2002, incorporated by reference to Exhibit 10.60 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on November 14, 2002.
10.19*	Offer letter between Discovery Partners and Douglas A. Livingston, dated November 13, 2002, incorporated by reference to Exhibit 10.61 to Discovery Partners Form 10-K filed with the SEC on March 21, 2003.
10.20	Amendment No. 3 to the 2001 Agreement between Discovery Partners and Pfizer Inc. amended December 12, 2002, incorporated by reference to Exhibit 10.62 to Discovery Partners Form 10-K filed with the SEC on March 21, 2003.

Table of Contents

Exhibit Number	Description
10.21*	Amendment No. 1 to Notice of Grant of Stock Option between Discovery Partners and Craig Kussman, dated January 24, 2003, incorporated by reference to Exhibit 10.63 to Discovery Partners Form 10-K filed with the SEC on March 21, 2003.
10.22*	Employment Agreement between Discovery Technologies Ltd (since renamed Discovery Partners International AG) and Urs Regenass dated January 20, 2001, incorporated by reference to Exhibit 10.70 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on April 30, 2003.
10.23*	Change in Control Agreement between Discovery Partners and Riccardo Pigliucci, dated August 8, 2003, incorporated by reference to Exhibit 10.71 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.24*	Change in Control Agreement between Discovery Partners and Craig Kussman, dated August 8, 2003, incorporated by reference to Exhibit 10.72 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.25*	Change in Control Agreement between Discovery Partners and Taylor Crouch, dated August 8, 2003, incorporated by reference to Exhibit 10.73 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.26*	Change in Control Agreement between Discovery Partners and John Lillig, dated August 8, 2003, incorporated by reference to Exhibit 10.74 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.27*	Change in Control Agreement between Discovery Partners and Urs Regenass, dated August 8, 2003, incorporated by reference to Exhibit 10.75 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.28*	Change in Control Agreement between Discovery Partners and Richard Neale, dated August 8, 2003, incorporated by reference to Exhibit 10.76 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.29*	Change in Control Agreement between Discovery Partners and Douglas Livingston, dated August 8, 2003, incorporated by reference to Exhibit 10.77 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on August 13, 2003.
10.30	Worldwide Distribution and Strategic Alliance Agreement between Discovery Partners and Bruker AXS Inc., dated July 24, 2003, incorporated by reference to Exhibit 10.78 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on November 14, 2003.
10.31	Industrial Lease between ChemRx Advanced Technologies, Inc. and Shelton International Holdings, Inc., incorporated by reference to Exhibit 10.79 to Discovery Partners Form 10-K filed with the SEC on March 10, 2004.
10.32	Chemistry Products and Services Agreement between Discovery Partners and Pfizer Inc., dated February 13, 2004, incorporated by reference to Exhibit 10.80 to Discovery Partners Form 10-K filed with the SEC on March 10, 2004.
10.33	Agreement between Discovery Partners and National Institutes of Mental Health, dated August 20, 2004, incorporated by reference to Exhibit 10.81 to Discovery Partners Quarterly Report on Form 10-Q filed with the SEC on November 9, 2004.
10.34*	Separation Agreement between Discovery Partners and Taylor Crouch, dated January 18, 2005, incorporated by reference to Exhibit 10.82 to Discovery Partners Annual Report of Form 10-K filed with the SEC on March 10, 2005.
10.35*	Employment Agreement between Discovery Partners International, Inc. and Michael C. Venuti, Ph.D., dated March 31, 2005, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 6, 2005.

Table of Contents

Exhibit Number	Description
10.36*	Form of Stock Issuance Grant Notice, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 6, 2005.
10.37*	Second Form of Stock Issuance Agreement, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 6, 2005.
10.38*	Change in Control Agreement between Discovery Partners and Michael C. Venuti, Ph.D., dated March 31, 2005, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 6, 2005.
10.39*	Separation Agreement between Discovery Partners and Riccardo Pigliucci, dated November 11, 2005, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on November 14, 2005.
10.40	Asset Purchase Agreement between Discovery Partners and Irori Discovery, Inc., dated October 7, 2005, incorporated by reference to Exhibit 10.40 to Discovery Partners Annual Report of Form 10-K filed with the SEC on March 16, 2006.
10.41*	Key employee severance and retention bonus plan, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 5, 2006.
10.42*	Michael C. Venuti, Ph.D. severance and retention bonus plan, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on April 25, 2006.
10.43*	Form of Retention Bonus Agreement.
10.44	License Agreement, dated as of April 7, 2003, between Infinity Pharmaceuticals, Inc., and Discovery Partners International, Inc. (assigned by Discovery Partners International, Inc. to Nexus Biosystems, Inc. (formerly known as Irori Discovery, Inc)).
10.45	License Agreement, dated as of July 7, 2006, by and between Infinity Pharmaceuticals, Inc. and Amgen Inc.
10.46	Collaboration and Option Agreement, dated as of November 16, 2004, by and between Infinity Pharmaceuticals, Inc. and Novartis International Pharmaceutical Ltd.
10.47	Collaboration and License Agreement, dated as of December 22, 2004, by and between Infinity Pharmaceuticals, Inc. and Johnson & Johnson Pharmaceutical Research & Development, a division of Janssen Pharmaceutica N.V., as amended by Amendment No. 1 effective as of March 2, 2006.
10.48	Collaboration Agreement, dated as of February 24, 2006, by and between Infinity Pharmaceuticals, Inc. and Novartis Institutes for BioMedical Research, Inc.
10.49	Stock and Asset Purchase Agreement, dated June 12, 2006, and amended as of July 5, 2006, by and between Galapagos NV, Biofocus Inc. and Discovery Partners, incorporated by reference to Discovery Partners Report on Form 8-K filed with the SEC on July 11, 2006.
14.1	Code of Business Conduct, incorporated by reference to Exhibit 14 to Discovery Partners Annual Report on Form 10-K filed with the SEC on March 10, 2005.
21.1	Subsidiaries of the Registrant, incorporated by reference to Exhibit 21.1 to Discovery Partners Annual Report on Form 10-K filed with the SEC on March 16, 2006.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm to Discovery Partners International, Inc.
23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm to Infinity Pharmaceuticals, Inc.
23.3	Consent of Cooley Godward LLP (included in Exhibit 5.1 hereto).
23.4**	Consent of Cooley Godward LLP (included in Exhibit 8.1 hereto).
23.5**	Consent of Wilmer Cutler Pickering Hale and Dorr LLP (included in Exhibit 8.2 hereto).
24.1**	Power of Attorney (included on the signature page of this Registration Statement).
99.1	Form of Proxy Card for the Discovery Partners Special Meeting (included as *Annex F* to the joint proxy statement/prospectus forming a part of this Registration Statement).

Table of Contents

Exhibit Number	Description
99.2	Form of Proxy Card for the Infinity Special Meeting (included as *Annex G* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.3	Opinion of Molecular Securities Inc., financial advisor to Discovery Partners (included as *Annex B* to the proxy statement/prospectus forming a part of this Registration Statement).
99.4	Consent of Molecular Securities Inc., financial advisor to Discovery Partners (included in *Annex B* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.5	Proposed Amendment to the Certificate of Incorporation of Discovery Partners (included as *Annex D* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.6	Proposed Amendment to Bylaws of Discovery Partners (included as *Annex E* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.7*	Proposed Amendment to the 2000 Stock Incentive Plan of Discovery Partners (included in *Annex H* to the joint proxy statement/prospectus forming a part of this Registration Statement).
99.8	Consent of D. Ronald Daniel to be named as a director.
99.9	Consent of Anthony Evnin to be named as a director.
99.10	Consent of Steven Holtzman to be named as a director.
99.11	Consent of Eric Lander to be named as a director.
99.12	Consent of Patrick Lee to be named as a director.
99.13	Consent of Arnold Levine to be named as a director.
99.14	Consent of Franklin Moss to be named as a director.
99.15	Consent of Vicki Sato to be named as a director.
99.16	Consent of James Tananbaum to be named as a director.

* Indicates management contract or compensatory plan.
** Previously filed.
Confidential treatment requested as to certain portions, which portions have been filed separately with the Securities and Exchange Commission.