NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND ACQUISITION

TranXenoGen, Inc. (the "Company") was incorporated on October 2, 1995, under the laws of Massachusetts, as Midas Biologicals, Inc. ("Midas") and upon Midas' acquisition of Gestation, Inc. on August 8, 1998, Midas simultaneously changed its name to TranXenoGen, Inc., a corporation organized under the laws of the state of Delaware (see Note 7). The Company began operations on April 16, 1996 and is in the development stage, devoting substantially all of its efforts toward product research and development, obtaining capital and entering into collaboration agreements.

2. OPERATIONS

The Company has a three-pronged business strategy to pursue the development of a practical, effective manufacturing platform to address the production requirements for high-volume, protein-based therapeutics as well as to develop novel therapeutic products. The three-pronged business strategy encompasses the following:

- production of generic biologicals;
- production of high-volume novel therapeutics such as monoclonal antibodies for strategic partners; and
- development and manufacture of novel therapeutic protein based products.

The Company is currently targeting its efforts primarily on achieving the production of protein-based drugs in the egg whites of transgenic chickens. The Company is developing transgenic processes to manufacture therapeutic protein-based drugs, including insulin, human serum albumin and antibodies for strategic partners.

The Company is subject to risks common to emerging companies in the life sciences industry. Among those risks are the successful development of commercially usable products, development by its competitors of technological innovations, dependence on key personnel, dependence on collaborative arrangements, protection of proprietary technology, compliance with government regulations and approval requirements, including those of the U.S. Food and Drug Administration, uncertainty of market acceptance of products, product liability and the ability to obtain adequate financing necessary to fund product development and operations.

On July 4, 2000, the Company completed an initial public offering on the Alternative Investment Market ("AIM") of the London Stock Exchange (see Note 7). The Company's sole operations are in the United States.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Management's Plan

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, at December 31, 2003, the Company had an unrestricted cash balance of $2.2 million and liabilities of $4.1 million. The Company's cash expenses currently exceed its cash receipts, and management expects this trend to continue for the foreseeable future. These factors give rise to substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to continue its development activities, obtain government approvals, including that of the U.S. Food and Drug Administration, market and/or manufacture its products, generate sales, meet its obligations, raise additional capital financing and, ultimately, attain profitable operations. Management is actively pursuing financing alternatives and potential collaborative agreements and government-sponsored grants so that the Company can meet its obligations and sustain operations. The financial statements do not include any adjustments that might be necessary should the Company be unable to succeed in these efforts.

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America 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 amounts of revenues and expenses recognized during the respective reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents represent cash held in the bank and government security money market funds. Cash equivalents are carried at cost, which approximates their fair market value.

Foreign Currency Translation

The Company maintains a U.K. cash account denominated in British pounds sterling, which is reported at the rate of exchange prevailing at the balance sheet date, and any translation gain or loss is included in the results of operations.

Fair Value of Financial Instruments

The carrying amounts in the balance sheets for cash and cash equivalents, accounts payable and accrued expenses approximate their fair value because of their short-term nature. The fair value of the Company's long-term debt is estimated to approximate the carrying amount reported in the balance sheets based on current interest rates because it is variable-rate debt.

Property and Equipment

Property and equipment is stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Property and equipment is depreciated on the straight-line basis over the estimated useful lives of the assets as follows: building and improvements, 5 to 20 years; and furniture and equipment, 3 to 20 years.

Intangible Assets

Intangible assets represent intellectual property including patents and licenses to use certain third-party patents. Intangible assets are being amortized on the straight-line basis over their estimated useful lives of three years. Internal patent costs are expensed as incurred and are included in research and development costs.

Impairment of Long-Lived Assets

The Company continually evaluates whether events or circumstances have occurred that indicate that the estimated remaining useful lives of long-lived assets and certain identifiable intangibles may warrant revision or that the carrying value of these assets may be impaired. To compute whether assets have been impaired, the estimated undiscounted future cash flows for the estimated remaining useful life of the respective asset is compared to the carrying value. To the extent that the undiscounted future cash flows are less than the carrying value, a new fair value of the asset is required to be determined. If such fair value is less than the current carrying value, the asset is written down to its estimated fair value. There were no impairments of the Company's assets during the periods presented.

Deferred Lease Income

In July 2003, the Company amended the agreement for a ground lease for a cell tower on the Company's premises. Pursuant to the terms of the amended agreement, the lessee made an up-front payment of $197,600 to the Company for a term of 40 years. The up-front payment was recorded as deferred lease income and is being amortized on a straight-line basis over the term of the lease. The lease revenue to be recognized in 2004 is included within other current liabilities in the balance sheet at December 31, 2003 with the remainder classified as long-term. The Company expects to realize approximately $5,000 per year as other income.

Revenue Recognition and Contract Accounting

Contract revenue consists of nonrefundable research and development funding under collaborative agreements with corporate partners, typically involving milestone payments, consulting fees and research and development cost reimbursement, and various U.S. government grants. Research and development funding generally compensates the Company for development and testing related to the collaborating research program. Revenue is recognized for non-refundable license fees, milestones, and collaborative research and development using the lesser of non-refundable cash received or the results achieved using percentage-of-completion accounting. Under percentage-of-completion accounting, revenue is recognized over the development period based on the percentage of costs or labor incurred in relation to the total costs or labor estimated to be incurred to complete the contract. Revisions in cost estimates and expected contractual payments as contracts progress have the effect of increasing or decreasing profits in the current period. Contract amounts which are not due until the customer accepts or verifies the research results are not recognized as revenue until payment is received or the customer's acceptance or verification of the results is evidenced, whichever occurs earlier. Payments received in advance of being earned are recorded as deferred revenue.

For cost-reimbursable contracts, revenue is recognized as costs are incurred and includes applicable fees earned through the date services are provided. Contract costs include direct and indirect costs. Profits expected to be realized on contracts are based on the total contract sales value and the Company's estimates of costs at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts. All adjustments to revenue and gross profit recorded from such reviews are recorded on a cumulative basis in the period in which the revisions are made. When management believes the cost of completing a contract will result in a loss, the full amount of the anticipated contract loss is recognized in the period in which it first becomes determinable.

Research and Development Costs

Research and development ("R&D") costs are expensed as incurred.

Stock-Based Compensation

The Company has elected to continue to use the intrinsic-value-based method to account for stock option grants to employees and members of the Board of Directors under the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and provides related disclosures, based on the fair-value method, in the notes to the financial statements as permitted by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." Under APB Opinion No. 25, no compensation expense is recognized for stock options granted at fair market value with fixed terms. See Note 7 with respect to stock options issued prior to the Company's initial public offering.

Had the Company elected to recognize the compensation cost based on the fair value of the options granted at grant date, as prescribed by SFAS No. 123, net loss and net loss per share would have been increased to the pro forma amounts indicated in the table below:

	2003	*2002*	*2001*
Net loss – as reported	$(4,350,680)	$(4,420,069)	$(4,012,548)
Effect of stock options	(231,934)	(263,339)	(42,782)
Net loss – pro forma	(4,582,614)	(4,683,408)	(4,055,330)
Basic and diluted net loss per share – as reported	$(0.14)	$(0.14)	$(0.13)
Basic and diluted net loss per share – pro forma	$(0.14)	$(0.15)	$(0.13)

The weighted-average fair value of options granted in 2003, 2002 and 2001 was $0.20, $0.53 and $1.13, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2003	2002	2001
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	717.43%	844.64%	41.34%
Risk-free interest rate	2.77%	4.38%	4.63%
Expected life of the option	5 years	5 years	5 years

Stock or other equity-based compensation for non-employees is accounted for under the fair-value method as required by SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Under this method, the resulting compensation is measured at the fair value of the equity instrument on the date of vesting and recognized as a charge to operations over the service period, which is usually the vesting period.

Deferred compensation included in changes in stockholders' equity relates to compensatory options granted to employees and directors under the Company's stock option plan prior to the Company's initial public offering and is being amortized over the vesting period, typically four years.

Segment Information

The Company currently operates as a single business segment conducting research for the development of the Company's products.

Comprehensive Income (Loss)

SFAS No. 130, "Reporting Comprehensive Income," requires companies to report comprehensive income as a measure of overall performance. Comprehensive income includes certain changes in equity that are excluded from reported net loss. For all periods presented, comprehensive loss is the same as reported net loss.

Net Loss Per Share

Net loss per share is computed in accordance with SFAS No. 128, "Earnings Per Share." SFAS No. 128 requires companies to report both basic loss per share, which is based on the weighted-average number of common shares outstanding, and diluted loss per share, which is based on the weighted-average number of common shares outstanding and the weighted-average number of dilutive potential common shares outstanding during the period. As a result of the losses incurred by the Company for fiscal 2003, 2002 and 2001, all potential common shares from stock options, which were 4,578,700, 4,337,600 and 4,750,000 at December 31, 2003, 2002 and 2001, respectively, were antidilutive and were excluded from the diluted net loss per-share calculations.

Income Taxes

The Company provides for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates for the year in which the differences are expected to reverse. A valuation allowance is provided to reduce deferred tax assets to the amount that is more likely than not to be realized.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of ARB No. 51 ("FIN 46"), which was amended by FIN 46R issued in December 2003. This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation of variable interest entities ("VIEs"). This Interpretation applies immediately to VIEs created after January 31, 2003. It also applies in the first fiscal year or

interim period ending after March 15, 2004 to VIEs created before February 1, 2003 in which an enterprise holds a variable interest. FIN 46 requires disclosure of VIEs in financial statements issued after January 31, 2003 if it is reasonably possible that as of the transition date: (1) the company will be the primary beneficiary of an existing VIE that will require consolidation or, (2) the company will hold a significant variable interest in, or have significant involvement with, an existing VIE. The Company does not have any investments or arrangements which would be considered variable interests and believes that the adoption of FIN 46 will not have any effect on the Company's financial statements or results of operations.

4. PROPERTY AND EQUIPMENT

Property and equipment is stated at cost and at December 31 consists of the following:

	2003	*2002*
Land	$ 672,000	$ 672,000
Building and improvements	7,149,022	7,140,389
Furniture and equipment	949,664	934,910
	8,770,686	8,747,299
Less accumulated depreciation	(1,224,997)	(682,179)
Property and equipment – net	$7,545,689	$8,065,120

Depreciation expense was $542,818, $517,298, $101,066 and $1,231,629 in 2003, 2002 and 2001 and for the period from inception (April 16, 1996) to December 31, 2003, respectively.

5. PATENTS AND LICENSING AGREEMENTS AND RELATED-PARTY TRANSACTION

Costs associated with internally developed patents are expensed as incurred and included in research and development costs in the accompanying statements of operations.

On November 24, 1998, the Company entered into an exclusive, worldwide, royalty-bearing license agreement with Brandeis University to license the rights to certain intellectual property patents involving cloning. The initial cost to license the patents, approximately $102,000, and the subsequent payments of approximately $77,500 have been recorded as intangible assets in the accompanying balance sheets. The patents were stated at cost and amortized over three years, the estimated useful life of the asset, and were fully amortized as of December 31, 2002. The Company is also required to pay between 1% and 3.5% of the total net sales of any commercially available products that use the licensed technology. The Company is also required to pay 10% of any license fees and milestone payments from any affiliates, sublicensee, or corporate or research partner. Minimum annual royalty payment and licensing fees due to Brandeis under the agreement are $25,000 and are expensed annually until such date as the contract is terminated by either party. The agreement may be terminated by the Company upon 90 days' notice.

On February 25, 2000, the Company entered into an exclusive, worldwide, royalty-bearing license agreement with GeneMedix plc, a U.K. public corporation, to license the rights to a proprietary technology for an insulin precursor gene and a process to purify, cleanse and convert said gene to human-identical insulin. In consideration of the rights granted to the Company, the Company will pay license fees and royalties based on net sales of licensed products on a country-by-country basis. Based on the agreement, the Company will pay base royalties of 10% of net sales of licensed products, as defined. The Company will also pay a royalty of 25% on all sublicensed products, as defined. Percentage rates can be adjusted to account for third-party royalties and competing products, as defined. The Company also has to pay one-time license fees to GeneMedix plc

based upon successful approval by the appropriate regulatory authorities for sales of products in certain countries. The fees for sales in the United States, Europe and Asia are $2.0 million, $2.0 million and $1.0 million, respectively. The Company also has to pay one-time fees to GeneMedix plc, upon the successful completion of certain production milestones ranging, from $50,000 to $750,000. The agreement is in effect until the statutory expiration of the patents; however, the Company has the right to terminate the agreement for any reason. Dr. Kim Tan, a Non-Executive Director of the Company, also serves as the Chairman and Non-Executive Director of GeneMedix plc. No payments have been made to date under the GeneMedix plc agreement.

On February 6, 2001, the Company entered into an exclusive, worldwide, royalty-bearing license agreement with Antitumor Research Products to license the rights to a novel anti-cancer product, human anti-neoplastic urinary protein. The initial cost to license the patent, approximately $50,000, and the subsequent payment of approximately $8,600, have been recorded as an intangible asset in the accompanying balance sheets. The patent license is stated at cost and is being amortized using the straight-line method over its remaining useful life, which has been estimated at three years. The Company is required to pay, on a country-by-country basis, a royalty of 2.5% of the total net sales of licensed products that use the technology. The Company is also required to pay 10% of all sublicensed revenues, as defined. Percentage rates can be adjusted to account for third-party royalties and competing products, as defined. The Company has to pay one-time license fees to Antitumor Research Products of $1 million based upon successful approval by the appropriate regulatory authorities for sales of products in each of the United States, Europe and Asia and the successful launch of the licensed product in such territory.

The Company also has to pay one-time fees to Antitumor Research Products, upon the successful completion of certain production milestones, ranging from $10,000 to $500,000 and 10,000 shares of the Company's common stock. The agreement is in effect until the earlier of the statutory expiration of the patent right on a country-by-country basis or February 6, 2011, whereupon the license rights and patent become fully paid and royalty-free. During 2003, the Company completed a milestone related to successful completion of animal model studies. As a result, the Company paid $50,000 and issued 10,000 shares of the Company's common stock, at a fair market value of $1,900 on the date of issuance, to Antitumor Research Products. The cost related to these payments was included in 2003 R&D expense.

Total amortization expense on patents and licensing agreements was $19,559, $45,281, $89,753 and $236,416 in 2003, 2002 and 2001 and from inception (April 16, 1996) to December 31, 2003, respectively.

6. LONG-TERM DEBT

On June 6, 2001, the Company entered into a $3.9 million construction/mortgage loan agreement, the proceeds of which were used to finance the build-out of its new facility. The loan converted to a mortgage loan in the first quarter of 2002, and monthly payments of principal and interest began in March 2002. The mortgage loan bears interest at 1% above the prime rate (as published in the *Wall Street Journal*; 4.0% at December 31, 2003), requires equal monthly payments based on a 20-year amortization schedule, and is due in full on January 31, 2007. At December 31, 2003, $3,684,703 is outstanding.

The loan is secured by the Company's Shrewsbury, Massachusetts, facility. The Company is also required to keep on deposit with the lender an amount equal to one year of estimated debt service until such time as it achieves the Annual Debt Service Coverage Ratio. The Annual Debt Service Coverage Ratio was not achieved for the year ended December 31, 2003. Accordingly, the deposit of $363,785 is reflected as non-current restricted cash on the balance sheet.

The aggregate maturities of long-term debt for each of the years subsequent to December 31, 2003, based on the amount outstanding and assuming a 5.0% interest rate (the rate at December 31, 2003), are approximately as follows: 2004, $136,420; 2005, $143,179; 2006, $150,505; and 2007, $3,254,599.

7. STOCKHOLDERS' EQUITY

Authorized Shares

As of December 31, 2003, the Company has authorized for issuance 101,000,000 shares of capital stock as follows: 100,000,000 shares of common stock with a par value of $0.001 per share and 1,000,000 shares of undesignated preferred stock with a par value of $0.01 per share.

Common Stock

In August 1998, the Company issued 9,890,000 shares of common stock (6,550,000 restricted shares and 3,340,000 unrestricted shares) at a fair value of $277,420 in exchange for all the outstanding shares of common stock of Gestation. The shares of Gestation were restricted pursuant to a Restriction Agreement, dated August 1998, between Gestation and its stockholders. The Restriction Agreement provided that all restrictions would lapse if the stockholders remained employed by the Company at the end of three years from the date of issuance. If the employees left the Company, the Company had the option to repurchase the restricted shares for $0.0001 per share.

In December 1999, the Company repurchased 6,982,800 shares (4,792,800 restricted shares and 2,190,000 unrestricted shares) of the 9,890,000 shares issued to the stockholders of Gestation for $0.028 per share, or $195,518. In March 2000, the Company repurchased an additional 1,407,200 shares of the outstanding shares issued to the stockholders of Gestation for $0.0001 per share, or $141. The repurchased shares are accounted for as Treasury shares in the accompanying balance sheets.

In July 2000, the Company completed an initial public offering of 6,250,000 shares of common stock at a per share price of $3.00. The Company received proceeds of approximately $17.2 million, net of issuance costs of approximately $1.5 million.

The Company issued 150,000 and 460,000 shares of common stock in 2002 and 2001, respectively, in connection with the exercise of employee stock options (see Note 10).

At the Company's 2003 Annual General Meeting, the stockholders approved the amendment and restatement of the Company's charter to, among other things, increase the number of authorized shares of common stock from 50 million to 100 million shares.

In November 2003, the Company issued 10,000 shares to Antitumor Research Products upon achievement of a milestone on its anti-neoplastic urinary protein project (see Note 5).

Preferred Stock

In December 1998, the Company authorized the issuance of 400,000 shares of Class B Convertible Preferred Stock. The shares were issued in four 100,000-share increments in December 1998, March 1999, June 1999 and September 1999. The purchasers of the Class B Convertible Preferred Stock also received an option to purchase up to 150,000 shares of Class C Convertible Preferred Stock for a per-share price of $3.00, the stock's estimated fair market value, and the option was exercised in December 2000. The option to purchase Class C Convertible Preferred Stock was valued using the Black-Scholes option-pricing model, generating a fair value of $0.68 per share, or $102,000, in the aggregate. For financial reporting purposes, the proceeds received for the Class B Convertible Preferred Stock and the options were allocated based on their relative fair values.

In June 1999, the Company authorized the issuance of 80,000 additional shares of Class B Convertible Preferred Stock and issued 60,000 shares in June 1999 and 20,000 shares in September 1999 for a per-share price of $2.50.

In December 1999, the Company authorized the issuance of an additional 160,000 shares of Class B Convertible Preferred Stock for $2.50 per share. The shares were issued as follows: 60,000 shares in December 1999 and 100,000 shares in January 2000.

In March 2000, the Company authorized the increase in the number of Class C Convertible Preferred shares to 175,000 and authorized the issuance of 250,000 shares of Class D Convertible Preferred Stock. The Class C Convertible Preferred shares were issued as follows: 25,000 shares in March 2000 and 150,000 shares in December 2000 for a per-share price of $3.00. In March 2000, the Company issued 250,000 shares of Class D Convertible Preferred Stock for a per-share price of $4.00.

In connection with the Company's initial public offering in July 2000, all outstanding shares of the Company's Class A, B, C and D Convertible Preferred Stock were converted into common stock, after adjustment for the Company's 10-for-1 stock split on June 23, 2000, in accordance with the terms of the respective convertible preferred stock.

Effective upon the Company's initial public offering, TranXenoGen's Amended and Restated Certificate of Incorporation was amended to (i) eliminate all classes of convertible preferred stock, except for Class C Convertible Preferred shares, and (ii) to authorize one million shares of preferred stock to have such terms as may be designated by the Board of Directors from time to time.

The 150,000 shares of Class C Convertible Preferred Stock were issued in December 2000 and, under its terms, were then automatically converted into 1,500,000 shares of common stock. The shares of Class C Convertible Preferred Stock were, by their terms, not available for reissuance.

At the Company's 2003 Annual General Meeting, the stockholders approved the amendment and restatement of the Company's charter to, among other things, eliminate provisions providing for the Class C Convertible Preferred Stock and to decrease the number of authorized preferred shares from 1,150,000 to 1,000,000, with such preferred shares to have such terms as may be designated by the Board of Directors from time to time.

8. OPERATING LEASE

The Company leased office and laboratory space on the campus of the University of Massachusetts Medical School during 2000 and 2001. The lease terminated on December 31, 2001. Rent expense was $107,363 and $340,806 in 2001 and from inception (April 16, 1996) to December 31, 2003, respectively.

9. INCOME TAXES

The Company is taxable as a corporation, and therefore its income is subject to tax at the federal and state levels.

The Company's net deferred tax assets as of December 31 are as follows:

	2003	*2002*
Net operating loss carryforward	$3,925,000	$3,191,000
Temporary differences and tax credits – net	2,758,000	1,875,000
Deferred tax asset	6,683,000	5,066,000
Valuation allowance for deferred tax asset	(6,683,000)	(5,066,000)
Net deferred tax asset	$ –	$ –

The Company has provided a valuation allowance against these deferred tax assets as it could not be determined that it was more likely than not that these deferred tax assets would be realized. The deferred tax asset balance and the related valuation reserve were $3,407,000 at December 31, 2001. At December 31, 2003, the Company has a net operating loss carryforward ("NOL") for federal tax purposes of approximately $9,813,000, which expires starting in 2016 and ending in 2023. The NOL began expiring in 2001 for state purposes. The NOL may be limited under the Internal Revenue Code if certain changes of ownership of the Company occur. The temporary differences at December 31, 2003, tax-effected, primarily are composed of approximately $1,998,000 of capitalized research and development cost and approximately $541,000 of tax credits, which are available to offset future federal and state income taxes, subject to limitations for alternative minimum tax.

A reconciliation of the federal statutory rate to the Company's effective tax rate is as follows:

	2003	*2002*	*2001*
Income tax benefit at statutory rate	(34)%	(34)%	(34)%
State tax benefit	(6)	(6)	(6)
Increase in valuation allowance	40	40	41
Nondeductible goodwill amortization			1
Other			(2)
	–%	–%	–%

10. STOCK PLANS

2000 Employee Stock Purchase Plan

On June 16, 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the "ESPP") under which 500,000 shares of common stock have been reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at 85% of the market value at certain plan-defined dates. The ESPP terminates on June 16, 2010. No shares have been issued under the ESPP.

1998 Equity Incentive Plan

In December 1998, the Company adopted the 1998 Equity Incentive Plan (the "Plan"). Under the Plan, 7,000,000 shares of common stock have been reserved for issuance. The Company may grant stock options, stock appreciation rights and restricted stock to employees, directors and consultants of the Company, as well as to employees and consultants of its subsidiaries, who are capable of contributing significantly to the success of the Company. Issuances under the Plan generally expire ten years from issue date. The exercise price of all incentive stock options and nonstatutory stock options granted under the Plan must be at least equal to 100% of the fair market value of the Company's common stock on the date of grant, provided that a nonstatutory stock option granted to a new employee or consultant within 90 days of the date of employment may have a lower exercise price as long as it is not less than 100% of the fair market value on the date of employment. The Board of Directors determines all option grants, prices and vesting. All options generally vest over four years; however, the yearly proportions are at the discretion of the Board of Directors.

A summary of the Company's stock option activity and related information for the years ended December 31, 2003, 2002 and 2001 is as follows:

	Options Available for Grant	*Options Outstanding*	*Weighted Average Exercise Price*
Balance – January 1, 2001	1,630,000	5,320,000	$0.08
Granted	(745,500)	745,500	2.63
Exercised		(460,000)	0.04
Cancelled	855,000	(855,000)	0.08
Balance – December 31, 2001	1,739,500	4,750,500	0.48
Granted	(39,200)	39,200	0.53
Exercised		(150,000)	0.04
Cancelled	302,100	(302,100)	0.05
Balance – December 31, 2002	2,002,400	4,337,600	0.53
Granted	(251,500)	251,500	0.20
Exercised			
Cancelled	10,400	(10,400)	5.22
Balance – December 31, 2003	1,761,300	4,578,700	$0.50

The following table summarizes additional information for options outstanding and exercisable at December 31, 2003:

	Options Outstanding			*Options Exercisable*	
Exercise Price	*Number*	*Weighted-Average Remaining Contractual Life in Years*	*Weighted-Average Exercise Price*	*Number*	*Weighted-Average Exercise Price*
$0.04 – 0.21	3,811,000	6.5	$0.05	2,610,694	$ 0.04
1.49 – 1.65	4,200	8.5	1.51	1,050	1.51
2.10 – 2.54	721,000	7.8	2.53	360,250	2.53
5.13	20,000	7.7	5.13	10,000	5.13
6.72 – 6.89	22,500	7.1	6.76	15,625	6.75
$0.04 – 6.89	4,578,700	6.7	0.50	2,997,619	$ 0.39
Exercisable at December 31, 2002				1,875,410	$ 0.34
Exercisable at December 31, 2001				831,250	$ 0.09

During the year ended December 31, 2000, the Company recorded noncash, deferred compensation of $2,806,000. This amount represents the aggregate difference between the deemed fair value of the Company's common stock and the exercise price of stock options granted to employees and directors prior to the Company's initial public offering. The deferred compensation is being recognized as an expense over the vesting period of the stock options, typically four years. The Company recorded non-cash compensation expense of $414,250 (of which $200,000 relates to selling, general and administrative expense and $214,250 relates to research and development expense), $503,875 (of which $186,667 relates to selling, general and administrative expense and $317,208 relates to research and development expense), $649,089 and $2,053,264 in 2003, 2002, 2001 and from inception (April 16, 1996) to December 31, 2003, respectively. Unamortized deferred compensation is charged to additional paid-in capital in the event employment of the respective employee or director is terminated. Deferred compensation of $0, $382,500 and $272,000 was reclassified to additional paid-in capital related to employee terminations in 2003, 2002 and 2001, respectively.

11. EMPLOYEE BENEFIT PLAN

Employee 401(k) Plan

On May 1, 2000, the Company adopted the TranXenoGen, Inc. 401(k) Plan (the "401(k) Plan") to provide retirement benefits for its employees. The 401(k) Plan provides tax-deferred salary deductions for substantially all employees as allowed under Section 401(k) of the Internal Revenue Code.

Employees may contribute from 1% to 15% of their annual compensation to the 401(k) Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company is required to match 50% of the employees' first 6% of contributions and may make additional profit-sharing contributions to the 401(k) Plan to the extent authorized by the Board of Directors. All matching contributions vest immediately. The Company's matching contributions to the 401(k) Plan were $24,532, $23,006, $17,788 and $72,026 in 2003, 2002, 2001 and from inception (April 16, 1996) to December 31, 2003, respectively. No profit-sharing contributions have been made under the 401(k) Plan.