

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 000-30111

LEXICON GENETICS INCORPORATED  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

76-0474169  
(I.R.S. EMPLOYER  
IDENTIFICATION NUMBER)

4000 RESEARCH FOREST DRIVE  
THE WOODLANDS, TEXAS 77381  
(ADDRESS OF PRINCIPAL EXECUTIVE  
OFFICES AND ZIP CODE)

(281) 364-0100  
(REGISTRANT'S TELEPHONE NUMBER,  
INCLUDING AREA CODE)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports) and (2) has been subject to such  
filing requirements for the past 90 days.

Yes      X      No  
-----      -----

As of November 9, 2001, 51,917,049 shares of the registrant's common  
stock, par value \$0.001 per share, were outstanding.

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FACTORS AFFECTING FORWARD LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Risk Factors," that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are not under any duty to update any of the forward-looking statements after the date of this quarterly report on Form 10-Q to conform these statements to actual results, unless required by law.

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## LEXICON GENETICS INCORPORATED

## CONSOLIDATED BALANCE SHEETS

	AS OF SEPTEMBER 30, 2001 ----- (UNAUDITED)	AS OF DECEMBER 31, 2000 -----
ASSETS -----		
Current assets:		
Cash and cash equivalents.....	\$ 23,066,925	\$ 37,811,039
Marketable securities.....	153,360,767	164,869,291
Accounts receivable, net of allowance for doubtful accounts of \$135,863 and \$100,000, respectively.....	7,996,613	2,814,707
Prepaid expenses and other current assets.....	5,862,415	536,480
	-----	-----
Total current assets.....	190,286,720	206,031,517
Property and equipment, net of accumulated depreciation of \$8,959,647 and \$5,708,366, respectively.....	22,725,595	14,477,235
Goodwill.....	25,780,581	--
Other intangible assets, net of amortization of \$260,000 and \$0, respectively.....	5,740,000	--
Other assets.....	5,147,211	184,200
	-----	-----
Total assets.....	\$ 249,680,107	\$ 220,692,952
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY -----		
Current liabilities:		
Accounts payable.....	\$ 4,126,426	\$ 2,522,722
Accrued liabilities.....	3,605,791	3,023,725
Current portion of deferred revenue.....	10,714,959	4,671,818
Current portion of long-term debt.....	363,985	1,012,246
Current portion of capital lease obligations.....	103,910	--
	-----	-----
Total current liabilities.....	18,915,071	11,230,511
Deferred revenue, net of current portion.....	3,750,000	--
Long-term debt, net of current portion.....	--	1,833,982
Capital lease obligations, net of current portion.....	58,907	--
	-----	-----
Total liabilities.....	22,723,978	13,064,493
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.001 par value; 120,000,000 shares authorized, 51,915,268 and 48,271,735 shares issued and outstanding.....	51,915	48,272
Additional paid-in capital.....	330,910,604	296,119,625
Deferred stock compensation.....	(24,937,305)	(33,636,725)
Accumulated deficit.....	(79,069,085)	(54,902,713)
	-----	-----
Total stockholders' equity.....	226,956,129	207,628,459
	-----	-----
Total liabilities and stockholders' equity.....	\$ 249,680,107	\$ 220,692,952
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

LEXICON GENETICS INCORPORATED  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Revenues:				
Subscription and license fees.....	\$ 8,638,072	\$ 435,419	\$ 11,667,892	\$ 2,493,471
Collaborative research.....	3,684,821	5,117,862	7,408,147	8,751,919
Compound libraries.....	1,166,522	--	1,166,522	--
Other revenue.....	3,354	60,879	63,603	290,299
	-----	-----	-----	-----
Total revenues.....	13,492,769	5,614,160	20,306,164	11,535,689
Operating expenses:				
Research and development, including stock-based compensation of \$1,338,090, \$1,394,971, \$4,147,698 and \$9,555,862, respectively.....	15,008,510	6,916,083	35,564,017	22,774,725
General and administrative, including stock-based compensation of \$1,308,277, \$1,654,328, \$3,960,660 and \$8,636,050, respectively.....	6,438,995	3,588,612	15,755,967	13,397,400
	-----	-----	-----	-----
Total operating expenses.....	21,447,505	10,504,695	51,319,984	36,172,125
	-----	-----	-----	-----
Loss from operations.....	(7,954,736)	(4,890,535)	(31,013,820)	(24,636,436)
Interest income.....	1,820,147	3,450,352	7,142,957	6,500,510
Interest expense.....	(85,477)	(99,697)	(295,509)	(338,757)
	-----	-----	-----	-----
Net loss .....	(6,220,066)	(1,539,880)	(24,166,372)	(18,474,683)
Accretion on redeemable convertible preferred stock.....	--	--	--	(133,854)
	-----	-----	-----	-----
Net loss attributable to common stockholders.....	\$ (6,220,066)	\$ (1,539,880)	\$ (24,166,372)	\$ (18,608,537)
	=====	=====	=====	=====
Net loss per common share, basic and diluted.....	\$ (0.12)	\$ (0.03)	\$ (0.49)	\$ (0.47)
Shares used in computing net loss per common share, basic and diluted.....	51,499,610	47,780,441	49,626,214	39,433,920

The accompanying notes are an integral part of these consolidated  
financial statements.

LEXICON GENETICS INCORPORATED  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Cash flows from operating activities:		
Net loss.....	\$ (24,166,372)	\$ (18,474,683)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation.....	3,409,086	1,854,447
Amortization of other intangible assets.....	260,000	--
Amortization of deferred stock compensation.....	8,108,358	18,191,912
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable.....	(4,861,695)	1,028,000
(Increase) decrease in prepaid expenses and other current assets..	(2,936,793)	26,856
(Increase) decrease in other assets.....	(4,860,764)	(394,127)
Increase (decrease) in accounts payable and accrued liabilities...	465,432	1,136,119
Increase (decrease) in deferred revenue.....	9,771,238	(4,703,235)
Net cash provided by (used in) operating activities.....	(14,811,510)	(1,334,711)
Cash flows from investing activities:		
Purchases of property and equipment.....	(7,679,299)	(4,165,548)
Purchases of marketable securities.....	(141,024,332)	(305,533,921)
Maturities of marketable securities.....	152,532,856	130,283,887
Payment of transaction costs, net of cash acquired of \$422,957.....	(734,605)	--
Net cash provided by (used in) investing activities.....	3,094,620	(179,415,582)
Cash flows from financing activities:		
Principal payments on capital lease obligations.....	(3,310)	(133,398)
Proceeds from issuance of common stock.....	520,242	204,023,639
Repayment of debt borrowings.....	(3,544,156)	(1,223,882)
Net cash provided by (used in) financing activities.....	(3,027,224)	202,666,359
Net increase (decrease) in cash and cash equivalents.....	(14,744,114)	21,916,066
Cash and cash equivalents at beginning of period.....	37,811,039	2,025,585
Cash and cash equivalents at end of period.....	\$ 23,066,925	\$ 23,941,651
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 290,563	\$ 338,757
Supplemental disclosure of non-cash financing activities:		
Conversion of redeemable convertible preferred stock into common stock	\$ --	\$ 30,184,090
Conversion of related party note payable into common stock.....	\$ --	\$ 337,500
Issuance of equity securities in connection with acquisition.....	\$ 34,865,442	\$ --

The accompanying notes are an integral part of these consolidated financial statements.

LEXICON GENETICS INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Lexicon Genetics Incorporated (Lexicon or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

For further information, refer to the financial statements and footnotes thereto included in Lexicon's annual report on Form 10-K for the year ended December 31, 2000, as filed with the SEC.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." These statements, which Lexicon adopted in the third quarter of 2001, generally require that all business combinations initiated after June 30, 2001 be accounted for using the purchase method. Additionally, any resulting goodwill will not be amortized, rather it will be subject to at least an annual impairment test. Acquired intangible assets must be separately recognized and amortized over their useful lives.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This new standard on asset impairment supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and will be effective for the fiscal year beginning January 1, 2002. The Company believes that the adoption of this standard will not have a material impact on its financial statements.

2. NET LOSS PER SHARE

Net loss per share is computed using the weighted average number of shares of common stock outstanding during the applicable period. Shares associated with stock options and warrants are not included because they are antidilutive. There are no differences between basic and diluted net loss per share for all periods presented.

3. DEFERRED STOCK COMPENSATION

Deferred stock compensation represents the difference between the exercise price of stock options and the fair value of Lexicon's common stock at the date of grant. Deferred stock compensation is amortized over the vesting periods of the individual stock options for which it was recorded, generally four years. For the nine months ended September 30, 2001 and 2000, Lexicon amortized \$8.1 million and \$18.2 million, respectively, of deferred stock compensation. If vesting continues in accordance with the

outstanding individual stock options, Lexicon expects to record amortization expense for deferred stock compensation as follows: \$2.7 million during the last three months of 2001, \$10.7 million during 2002, \$10.6 million during 2003 and \$947,000 during 2004. The amount of stock based compensation expense to be recorded in future periods may decrease if unvested options for which deferred stock compensation expense has been recorded are subsequently canceled or forfeited or may increase if additional options are granted to individuals other than employees or directors.

#### 4. INITIAL PUBLIC OFFERING AND CONVERSION OF PREFERRED STOCK

In April 2000, Lexicon completed an initial public offering of 10,000,000 newly-issued shares of its common stock at a price of \$22.00 per share. Lexicon received \$203.2 million in cash, net of underwriting discounts, commissions and other offering costs.

Simultaneously with the closing of the initial public offering, the 4,244,664 shares of Redeemable Convertible Series A Preferred Stock then outstanding were automatically converted into 12,733,992 shares of common stock.

#### 5. RESTRICTED CASH AND INVESTMENTS

The Company is required to maintain restricted cash or investments to the extent of borrowings made under the synthetic lease agreement under which it leases its office and laboratory facilities in The Woodlands, Texas. As of September 30, 2001, borrowings were \$26.3 million as compared to \$13.4 million as of December 31, 2000.

#### 6. FINANCING AND DEBT OBLIGATIONS

In June 1999, the Company entered into a \$5.0 million financing agreement for the purchase of property and equipment. As of September 30, 2001, the Company had drawn down a total of approximately \$4.2 million under this arrangement. As of September 30, 2001, \$364,000 was outstanding under this arrangement. This facility accrues interest at a rate of 12.2% and principal and interest is due in monthly installments through 2003. The Company intends to retire this debt obligation by December 31, 2001; therefore, the total obligation has been classified as current debt. A 3% prepayment premium is required upon early extinguishment of the debt and is being accrued as interest expense using the effective interest rate method until the debt is retired.

#### 7. COELACANTH ACQUISITION

On July 12, 2001, the Company completed the acquisition of Coelacanth Corporation (Coelacanth) in a merger, under an Agreement and Plan of Merger entered into on June 13, 2001. Coelacanth uses proprietary chemistry technologies to create compound libraries for drug discovery screening and innovative compound sets that shorten lead discovery and lead optimization time for drug development. Coelacanth forms the core of Lexicon Pharmaceuticals, a new division of the Company, responsible for small molecule compound discovery. The results of Lexicon Pharmaceuticals are included in the Company's results of operations for the period from July 12 to September 30, 2001.

Under the terms of the merger agreement, the Company issued an aggregate of 2,918,991 shares of common stock in exchange for 100% of Coelacanth's outstanding capital stock. An aggregate of 10% of the shares of common stock issued in the merger have been placed in escrow for one year to satisfy claims, if any, that the Company may have for breaches of Coelacanth's representations, warranties and covenants in the merger agreement. The Company also assumed Coelacanth's outstanding options and warrants in the merger, resulting in the issuance of options and warrants to purchase 122,650 and 25,169

shares, respectively, of its common stock. The Company has allocated a portion of the intrinsic value of the options that remained unvested as of July 12, 2001 to deferred compensation and expects to recognize the expense as the options vest. The Company recorded goodwill and other intangible assets of approximately \$25.8 million and \$6.0 million, respectively, in connection with the acquisition of Coelacanth.

The Coelacanth acquisition was accounted for as a purchase. The cost to acquire Coelacanth has been allocated to the assets acquired and liabilities assumed according to their respective fair values on July 12, 2001, with the excess purchase price being allocated to goodwill. The fair value of common stock issued in connection with the acquisition of Coelacanth was determined in accordance with EITF Issue No. 99-12. The Company used the Black-Scholes option pricing model to value the securities issued in exchange for Coelacanth's outstanding options and warrants. The allocation of the purchase price is based on a formal valuation analysis which was completed by an independent appraisal firm.

The purchase price for the acquisition consisted of the following:

Value of common stock issued.....	\$ 33,731,860
Assumption of Coelacanth's options and warrants.....	1,133,582
Transaction costs.....	1,157,562
	-----
Total purchase price.....	\$ 36,023,004
	=====

The purchase price for the acquisition was allocated as follows:

Fair value of net assets purchased.....	\$ 4,242,423
Goodwill.....	25,780,581
Other intangible assets.....	6,000,000
	-----
Total purchase price.....	\$ 36,023,004
	=====

Goodwill, which represents the excess of the purchase price over the fair value of the underlying net identifiable assets, is not subject to amortization. The Company expects to perform an annual impairment assessment of the value assigned to goodwill. Other intangible assets represent Coelacanth's technology platform, which consists of its proprietary ClickChem(TM) reactions, novel building blocks and compound sets, automated production systems, high throughput ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) capabilities and its know-how and trade secrets. The Company expects to amortize the value assigned to other intangible assets on a straight-line basis over an estimated life of five years.

The following unaudited pro forma results of operations of the Company for the three and nine months ended September 30, 2001 and 2000, respectively, assumes the acquisition of Coelacanth occurred on January 1, 2001 and 2000, respectively, and assumes the purchase price has been allocated to the assets purchased and the liabilities assumed based on fair values at the date of acquisition. Pro forma net loss includes amortization of other intangible assets; however, it does not include any amortization of goodwill.

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	-----	-----
Total revenue.....	\$13,547,535	\$ 6,412,088
Total operating expenses.....	21,628,214	12,918,639
Net loss attributable to common stockholders..	(6,357,049)	(3,152,354)
Net loss per share.....	\$ (0.12)	\$ (0.06)

NINE MONTHS ENDED SEPTEMBER 30,

	2001	2000
Total revenue.....	\$ 20,760,749	\$ 15,467,186
Total operating expenses.....	56,987,553	43,627,522
Net loss attributable to common stockholders.	(29,413,141)	(22,128,483)
Net loss per share.....	\$ (0.57)	\$ (0.52)

The foregoing unaudited pro forma results of operations are presented for illustrative purposes only and are not necessarily indicative of the operating results that would have occurred if the transaction had been consummated at the dates indicated. Furthermore, such unaudited pro forma results of operations are not necessarily indicative of future operating results of the combined companies, due to changes in operating activities following the merger, and should not be construed as representative of the operating results of the combined companies for any future dates or periods.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

OVERVIEW

We are defining the functions of genes for drug discovery using mice whose DNA has been altered to disrupt, or "knock out," the function of the altered gene. Our proprietary gene trapping and gene targeting technologies enable us to rapidly generate these knockout mice by altering the DNA of genes in a special variety of mouse cells, called embryonic stem (ES) cells, which can be cloned and used to generate mice with the altered gene. We employ an integrated platform of advanced medical technologies to systematically analyze the functions and pharmaceutical relevance of the genes we have knocked out. We capture the information resulting from this analysis for our use, and use by our collaborators, to discover pharmaceutical products based on genomics - the study of genes and their function.

With our acquisition of Coelacanth Corporation on July 12, 2001, we added capabilities in the development of chemical compounds for small molecule drug discovery. We are using these capabilities in internal drug discovery programs and in drug discovery collaborations. We also sell certain compounds from our chemical libraries to third parties for their internal use.

We derive substantially all of our revenues from subscriptions to our databases, drug discovery alliances, functional genomics collaborations for the development and, in some cases, analysis of the physiological effects of genes altered in knockout mice, technology licenses and compound sales. To date, we have generated a substantial portion of our revenues from a limited number of sources.

Since our inception, we have incurred significant losses and, as of September 30, 2001, we had an accumulated deficit of \$79.1 million. Our losses have resulted principally from costs incurred in research and development, general and administrative costs associated with our operations, and non-cash stock-based compensation expense associated with stock options granted to employees and consultants prior to our April 2000 initial public offering. Research and development expenses consist primarily of salaries and related personnel costs, material costs, legal expenses resulting from intellectual property prosecution and other expenses related to our drug discovery and LexVision programs, the expansion of our OmniBank library, the development and analysis of knockout mice and our other functional genomics research efforts, and the development of chemical libraries. We expense our research and development costs as they are incurred. General and administrative expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, professional fees and other corporate expenses, including business development and general legal activities as well as expenses related to our patent infringement litigation against Deltagen, Inc. In connection with the expansion of our drug discovery and LexVision programs, our OmniBank database and library and our functional genomics research efforts, we expect to incur increasing research and development and general and administrative costs. As a result, we will need to generate significantly higher revenues to achieve profitability.

Deferred stock-based compensation represents the difference between the exercise price of stock options granted and the fair value of our common stock at the applicable date of grant. Stock-based compensation is amortized over the vesting period of the individual stock options for which it was recorded, generally four years. Assuming continued vesting of all outstanding stock options in accordance with their terms, we expect to record amortization expense for deferred stock-based compensation as follows: \$2.7 million during the last three months of 2001, \$10.7 million during 2002, \$10.6 million during 2003 and \$947,000 during 2004. The amount of stock-based compensation expense to be recorded in future periods may decrease if unvested options for which deferred stock compensation expense has

been recorded are subsequently canceled or forfeited or may increase if additional options are granted to non-employee consultants or advisors.

Our quarterly operating results will depend upon many factors, including our success in establishing new database subscription and research contracts with collaborators, expirations of such contracts, the success rate of our discovery efforts leading to milestones and royalties, the timing and willingness of collaborators to commercialize products which may result in royalties, and general and industry-specific economic conditions which may affect research and development expenditures. As a consequence, our quarterly operating results have fluctuated in the past and are likely to do so in the future.

#### RECENT DEVELOPMENTS

On July 12, 2001, we completed the acquisition of Coelacanth Corporation in a merger, under an Agreement and Plan of Merger entered into on June 13, 2001. Coelacanth, which uses proprietary chemistry technologies to rapidly discover new chemical entities for drug development, forms the core for our new Lexicon Pharmaceuticals division, based in Princeton, New Jersey. In Lexicon Pharmaceuticals, we are combining our drug target discoveries with Coelacanth's high performance chemistry technologies to discover potential new drugs.

Under the terms of the merger agreement, the Company issued an aggregate of 2,918,991 shares of common stock in exchange for all of Coelacanth's outstanding capital stock. An aggregate of 10% of the shares of common stock issued in the merger have been placed in escrow for one year to satisfy claims, if any, that the Company may have for breaches of Coelacanth's representations, warranties and covenants in the merger agreement. The Company assumed Coelacanth's outstanding options and warrants in the merger.

#### RESULTS OF OPERATIONS

Three Months Ended September 30, 2001 and 2000

Revenues. Total revenues increased 140% to \$13.5 million in the three months ended September 30, 2001 from \$5.6 million in the corresponding period in 2000. Of the \$7.9 million increase, \$8.2 million was derived from increased database subscription and technology license fees and \$1.2 million was derived from revenues from compound library sales. These increases were partially offset by a \$1.4 million decrease in revenues from collaborative research and a \$58,000 decrease in other revenue.

We had several new sources of revenues in the three months ended September 30, 2001. During the quarter:

- o we began to recognize revenues under our drug discovery alliance and LexVision agreements with Incyte Genomics, Inc.;
- o we entered into, and recognized revenue for technology license fees under, sublicense agreements with GlaxoSmithKline plc, Merck & Co., Inc. and Pfizer Inc; and
- o we began to recognize revenues under agreements with pharmaceutical and biotechnology companies for access to chemical libraries and optimization services, as a result of our acquisition of Coelacanth in July 2001.

Our revenues for the three months ended September 30, 2000 included \$4.1 million of collaborative research revenues recognized in connection with the conclusion of our 1997 agreement with the Merck Genome Research Institute. Our quarterly operating results have fluctuated in the past and are likely to do so in the future, and we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance.

**Research and Development Expenses.** Research and development expenses, including stock-based compensation expense, increased 117% to \$15.0 million in the three months ended September 30, 2001 from \$6.9 million in the corresponding period in 2000. Research and development expenses for the three months ended September 30, 2001 and 2000 included \$1.3 million and \$1.4 million, respectively, of stock-based compensation primarily relating to option grants made prior to our April 2000 initial public offering. The increase of \$8.1 million in research and development expenses exclusive of stock-based compensation was primarily attributable to increased personnel costs to support the expansion of our drug discovery and LexVision programs, our OmniBank database and library, and our development and analysis of knockout mice and other functional genomics research efforts, as well as increased costs resulting from our acquisition of Coelacanth.

**General and Administrative Expenses.** General and administrative expenses, including stock-based compensation expense, increased 79% to \$6.4 million in the three months ended September 30, 2001 from \$3.6 million in the corresponding period in 2000. General and administrative expenses for the three months ended September 30, 2001 and 2000 included \$1.3 million and \$1.7 million, respectively, of stock-based compensation primarily relating to option grants made prior to our April 2000 initial public offering. The increase of \$3.2 million in general and administrative expenses exclusive of stock-based compensation was due primarily to additional personnel costs for business development and finance and administration and expenses associated with our patent infringement litigation against Deltagen, Inc., as well as increased costs resulting from our acquisition of Coelacanth.

**Interest Income and Interest Expense.** Interest income decreased to \$1.8 million in the three months ended September 30, 2001 from \$3.5 million in the corresponding period in 2000. The decrease resulted from lower interest rates and decreased average cash and investment balances during the 2001 period. Interest expense was \$85,000 and \$100,000 in the three months ended September 30, 2001 and 2000, respectively.

**Net Loss and Net Loss Per Common Share.** Net loss attributable to common stockholders increased to \$6.2 million in the three months ended September 30, 2001 from \$1.5 million in the corresponding period in 2000. Net loss per common share increased to \$0.12 in the three months ended September 30, 2001 from \$0.03 in the corresponding period of 2000. A portion of the net loss for the three months ended September 30, 2001 and all of the net loss for the corresponding period in 2000 were attributable to stock-based compensation expense. Excluding stock-based compensation expense, we would have had a net loss of \$3.6 million and net loss per common share of \$0.07 in the three months ended September 30, 2001, as compared to net income of \$1.5 million and net income per common share of \$0.03 in the corresponding period in 2000.

Nine Months Ended September 30, 2001 and 2000

**Revenues.** Total revenues increased 76% to \$20.3 million in the nine months ended September 30, 2001 from \$11.5 million in the corresponding period in 2000. Of the \$8.8 million increase, \$9.2 million was derived from increased database subscription and technology license fees and \$1.2 million was derived from revenues from compound library sales. These increases were partially offset by a \$1.3 million decrease in revenues from collaborative research and a \$227,000 decrease in other revenue.

Research and Development Expenses. Research and development expenses, including stock-based compensation expense, increased 56% to \$35.6 million in the nine months ended September 30, 2001 from \$22.8 million in the corresponding period in 2000. Research and development expenses for the nine months ended September 30, 2001 and 2000 included \$4.1 million and \$9.6 million, respectively, of stock-based compensation primarily relating to option grants made prior to our April 2000 initial public offering. The increase of \$18.2 million in research and development expenses exclusive of stock-based compensation was primarily attributable to increased personnel costs to support the expansion of our drug discovery and LexVision programs, our OmniBank database and library, and our development and analysis of knockout mice and other functional genomics research efforts, as well as increased costs resulting from our acquisition of Coelacanth.

General and Administrative Expenses. General and administrative expenses, including stock-based compensation expense, increased 18% to \$15.8 million in the nine months ended September 30, 2001 from \$13.4 million in the corresponding period in 2000. General and administrative expenses for the nine months ended September 30, 2001 and 2000 included \$4.0 million and \$8.6 million, respectively, of stock-based compensation primarily relating to option grants made prior to our April 2000 initial public offering. The increase of \$7.0 million in general and administrative expenses exclusive of stock-based compensation was due primarily to additional personnel costs for business development and finance and administration and expenses associated with our patent infringement litigation against Deltagen, Inc., as well as increased costs resulting from our acquisition of Coelacanth.

Interest Income and Interest Expense. Interest income increased to \$7.1 million in the nine months ended September 30, 2001 from \$6.5 million in the corresponding period in 2000. The increase resulted from increased average cash and investment balances during the 2001 period as a result of our initial public offering in April 2000. Interest expense was \$296,000 and \$339,000 in the nine months ended September 30, 2001 and 2000, respectively.

Net Loss and Net Loss Per Common Share. Net loss attributable to common stockholders increased to \$24.2 million in the nine months ended September 30, 2001 from \$18.6 million in the corresponding period in 2000. Net loss per common share increased to \$0.49 in the nine months ended September 30, 2001 from \$0.47 in the corresponding period of 2000. A portion of the net loss for the nine months ended September 30, 2001 and most of the net loss for the corresponding period in 2000 were attributable to stock-based compensation expense. Excluding stock-based compensation expense, and assuming the conversion of the redeemable convertible preferred stock into common stock occurred on the date of original issuance (May 1998), we would have had a net loss of \$16.1 million and \$283,000 in the nine months ended September 30, 2001 and 2000, respectively, and net loss per common share of \$0.32 and \$0.01 in the nine months ended September 30, 2001 and 2000, respectively.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." These statements, which Lexicon adopted in the third quarter of 2001, generally require that all business combinations initiated after June 30, 2001, be accounted for using the purchase method. Additionally, any resulting goodwill will not be amortized, but rather will be subject to at least an annual impairment test. Acquired intangible assets will be separately recognized and amortized over their useful lives.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This new standard on asset impairment supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and will be

effective for the fiscal year beginning January 1, 2002. The Company believes that the adoption of this standard will not have a material impact on its financial statements.

#### LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations from inception primarily through sales of common and preferred stock, contract and milestone payments to us under our database subscription and collaboration agreements and equipment financing arrangements. From our inception through September 30, 2001, we had received net proceeds of \$241.9 million from issuances of common and preferred stock, including \$203.2 million of net proceeds from the initial public offering of our common stock in April 2000. In addition, from our inception through September 30, 2001, we received \$49.5 million in cash payments from database subscription and technology license fees, drug discovery alliances, functional genomics collaborations for the development and analysis of knockout mice, sales of reagents and compound libraries, and government grants, and have recognized revenues of \$43.0 million through September 30, 2001.

As of September 30, 2001, we had \$176.4 million in cash, cash equivalents and marketable securities, as compared to \$202.7 million as of December 31, 2000. We used \$14.8 million in operations in the nine months ended September 30, 2001. This consisted of the net loss for the nine months ended September 30, 2001 of \$24.2 million offset by non-cash charges of \$8.1 million related to stock-based compensation expense, \$260,000 related to amortization of other intangible assets and \$3.4 million related to depreciation expense, which in turn was offset by a \$2.4 million net increase in other working capital accounts and long-term deferred revenue. Investing activities provided \$3.1 million in the nine months ended September 30, 2001, principally as a result of maturities of marketable securities.

In June 1999, we entered into a \$5.0 million financing arrangement for the purchase of property and equipment which is secured by the equipment financed. We borrowed a total of approximately \$4.2 million under this arrangement, of which \$364,000 remained outstanding at September 30, 2001. This facility accrues interest at a rate of 12.2%, and principal and interest is due in monthly installments through 2003. The Company intends to retire this debt by December 31, 2001.

In October 2000, we entered into a synthetic lease agreement under which the lessor purchased our current laboratory and office space and animal facility and agreed to fund the construction of additional laboratory and office space and a second animal facility. Including the purchase price for our existing facilities, the synthetic lease provides for funding of up to \$50.0 million in property and improvements. The term of the agreement is six years, which includes the construction period and a lease period. Lease payments for the new facilities will begin upon completion of construction, which is expected in the fourth quarter of 2001. Lease payments are subject to fluctuation based on LIBOR rates. At the end of the lease term, the lease may be extended for one-year terms, up to seven additional terms, or we may purchase the properties for a price including the outstanding lease balance. If we elect not to renew the lease or purchase the properties, we must arrange for the sale of the properties to a third party. Under the sale option, we have guaranteed a percentage of the total original cost as the residual fair value of the properties. The Company is required to maintain restricted cash or investments to the extent of borrowings made under the synthetic lease agreement. As of September 30, 2001, borrowings were \$26.3 million as compared to \$13.4 million as of December 31, 2000.

Our capital requirements depend on numerous factors, including our ability to obtain database subscription, drug discovery alliance and collaboration agreements, the amount and timing of payments under such agreements, the level and timing of our research and development expenditures, market acceptance of our products, the resources we devote to developing and supporting our products and other factors. We expect to devote substantial capital resources to continue our research and development

efforts, to expand our support and product development activities, and for other general corporate activities. We believe that our current cash balances, together with revenues to be derived from subscriptions to our databases, drug discovery alliances and functional genomics collaborations will be sufficient to fund our operations for at least the next several years. During or after this period, if cash generated by operations is insufficient to satisfy our liquidity requirements, we may need to sell additional equity or debt securities or obtain additional credit arrangements. Additional financing may not be available on terms acceptable to us or at all. The sale of additional equity or convertible debt securities may result in additional dilution to our stockholders.

#### IMPACT OF INFLATION

The effect of inflation and changing prices on our operations was not significant during the periods presented.

#### DISCLOSURE ABOUT MARKET RISK

Our exposure to market risk is confined to our cash and cash equivalents which have maturities of less than three months. We maintain an investment portfolio which consists of U.S. government debt obligations and investment grade commercial paper that mature one to twelve months after September 30, 2001, which we believe are subject to limited credit risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we believe that changes in market rates would not have any negative impact on the realized value of our investment portfolio.

We have operated primarily in the United States and substantially all sales to date have been made in U.S. dollars. Accordingly, we have not had any material exposure to foreign currency rate fluctuations.

#### RISK FACTORS

Our business is subject to certain risks and uncertainties, including those referenced below:

##### Risks Related to Our Business

- o we have a history of net losses, and we expect to continue to incur net losses and may not achieve or maintain profitability
- o our quarterly operating results have been and likely will continue to fluctuate, and we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance
- o we are an early-stage company with an unproven business strategy
- o we face substantial competition in the discovery of the DNA sequences of genes and their functions and in our drug discovery and product development efforts
- o we rely heavily on collaborators to develop and commercialize pharmaceutical products based on genes that we identify as promising candidates for development as drug targets
- o any cancellation by or conflicts with our collaborators could harm our business

- o we have no experience in developing and commercializing pharmaceutical products on our own
- o we may engage in future acquisitions, which may be expensive and time consuming and from which we may not realize anticipated benefits
- o if we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to pursue collaborations or develop our own products
- o we may encounter difficulties in managing our growth, which could increase our losses
- o because our entire OmniBank mouse clone library is located at a single facility, the occurrence of a disaster could significantly disrupt our business
- o we may need additional capital in the future and, if it is not available, we may have to curtail or cease operations

#### Risks Related to Our Industry

- o our ability to patent our discoveries is uncertain because patent laws and their interpretation are highly uncertain and subject to change
- o our patent applications may not result in enforceable patent rights
- o if other companies and institutions obtain patents claiming the functional uses of genes and gene products based upon gene sequence information and predictions of gene function, we may be unable to obtain patents for our discoveries of biological function in knockout mice
- o we may become involved in patent litigation and other disputes regarding intellectual property rights, and can give no assurance that we will prevail in any such litigation or other dispute
- o issued patents may not fully protect our discoveries, and our competitors may be able to commercialize products similar to those covered by our issued patents
- o our rights to the use of technologies licensed by third parties are not within our control
- o we may be unable to protect our trade secrets
- o we may become subject to regulation under the Animal Welfare Act, which could subject us to additional costs and permit requirements
- o we and our collaborators are subject to extensive and uncertain government regulatory requirements, which could increase our operating costs or adversely affect our ability to obtain government approval of products based on genes that we identify in a timely manner or at all
- o security risks in electronic commerce or unfavorable internet regulation may deter future use of our products and services
- o we use hazardous chemicals and radioactive and biological materials in our business; any disputes relating to improper handling, storage or disposal of these materials could be time consuming and costly

- o we may be sued for product liability
- o public perception of ethical and social issues may limit or discourage the use of our technologies, which could reduce our revenues

For additional discussion of the risks and uncertainties that affect our business, see "Item 1. Business - Risk Factors" included in our annual report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Disclosure about Market Risk" under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for quantitative and qualitative disclosures about market risk.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 24, 2000, we filed a complaint against Deltagen, Inc. in U.S. District Court for the District of Delaware alleging that Deltagen was willfully infringing the claims of United States Patent No. 5,789,215, under which we hold an exclusive license from GenPharm International, Inc. This patent covers methods of engineering the animal genome, including methods for the production of knockout mice by homologous recombination, using isogenic DNA technology. In the complaint, we sought unspecified damages from Deltagen, as well as injunctive relief. Deltagen counterclaimed for a declaratory judgment that the patent was invalid and unenforceable and was not infringed by Deltagen. On November 14, 2000, Deltagen filed an amended counterclaim alleging antitrust claims against us and GenPharm, for which Deltagen sought unspecified damages.

On October 13, 2000, we filed a second complaint against Deltagen, Inc. in U.S. District Court for the Northern District of California alleging that Deltagen was willfully infringing the claims of United States Patents Nos. 5,464,764, 5,487,992, 5,627,059, and 5,631,153, under which also we hold exclusive licenses from GenPharm International. These patents cover methods and vectors for using positive-negative selection for producing gene targeted, or "knockout," cells and animals, including the production of knockout mice by homologous recombination. In the complaint, we sought unspecified damages from Deltagen, as well as injunctive relief. Deltagen counterclaimed for a declaratory judgment that the patents were invalid and unenforceable and were not infringed by Deltagen.

On September 19, 2001, we entered into a settlement of our patent infringement litigation against Deltagen. Under the terms of the settlement, Deltagen obtained a license under the patents covering our gene targeting technologies, Lexicon obtained access to Deltagen's DeltaBase(TM) database of mammalian genes and their in vivo functions, and all of the claims and counterclaims in our litigation against Deltagen were dismissed with prejudice. Our access to DeltaBase includes non-exclusive, perpetual licenses to the 250 drug targets currently represented in DeltaBase and the 1,000 additional drug targets that are to be added to DeltaBase over the next four years. We will have the opportunity to receive payments for Deltagen's fee-for-service generation of knockout mice, and Deltagen will have the opportunity to receive milestone and royalty payments for potential therapeutic and diagnostic products we may develop from drug targets in DeltaBase. Neither party will pay access or license fees. We believe the terms of the

settlement are favorable to us, and consider the settlement to be a successful resolution of our patent infringement litigation against Deltagen.

We are not presently a party to any material legal proceedings.

ITEM 5. OTHER INFORMATION

Certain of our corporate officers have adopted Rule 10b5-1 plans for the regular, monthly sale of a specified number of shares of common stock underlying stock options, subject to minimum sales prices that vary by individual. The purpose of the plans is to permit such individuals to exercise a portion of their options over time, in advance of the expiration dates of such options, which range from 2005 to 2011. The plans collectively cover the sale of up to 29,500 shares per month. The actual number of shares to be sold in any month under such plans will depend on the market price of the common stock during such month. Collectively, the maximum number of shares to be sold in any month under such plans represents less than 0.5% of the total number of shares subject to options held by such individuals as of October 31, 2001.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO. -----	DESCRIPTION -----
10.1	-- Employment Agreement with Alan Main, Ph.D.
10.2	-- Employment Agreement with Hartmuth Kolb, Ph.D.
10.3	-- Employment Agreement with David Boulton.

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LEXICON GENETICS INCORPORATED

Date: November 14, 2001

By: /s/ ARTHUR T. SANDS

-----  
Arthur T. Sands, M.D., Ph.D.  
President and Chief  
Executive Officer

Date: November 14, 2001

By: /s/ JULIA P. GREGORY

-----  
Julia P. Gregory  
Executive Vice President and  
Chief Financial Officer

INDEX TO EXHIBITS

EXHIBIT NO. -----	DESCRIPTION -----
10.1	-- Employment Agreement with Alan Main, Ph.D.
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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of July 12, 2001 (this "AGREEMENT"), by and between Lexicon Genetics Incorporated, a Delaware corporation (hereafter "COMPANY"), and Alan Main, Ph.D. (hereafter "EXECUTIVE"), an individual and resident of Mercer County, New Jersey.

W I T N E S S E T H:

WHEREAS, subject to the completion of the merger (the "MERGER") contemplated by the Agreement and Plan of Merger, dated June 13, 2001, among the Company, Angler Acquisition Corp., and Coelacanth Corporation (after the Merger, the "SUBSIDIARY"), the Company wishes to secure the services of the Executive subject to the terms and conditions hereafter set forth; and

WHEREAS, the Executive is willing to enter into this Agreement, which shall become effective upon the effective time of the Merger (the "EFFECTIVE DATE"), upon the terms and conditions hereafter set forth;

NOW, THEREFORE, in consideration of the mutual promises and agreements set forth herein, the parties hereto agree as follows:

1. EMPLOYMENT. During the Employment Period (as defined in Section 4 hereof), the Company or the Subsidiary shall employ Executive, and Executive shall serve, as Senior Vice President of the Company and the Subsidiary with responsibility for overall management of Lexicon Pharmaceuticals, a division of the Company which shall include the Subsidiary. Executive's principal place of employment shall be at the Subsidiary's principal facilities in East Windsor, New Jersey, or at such other location for the Subsidiary's principal facilities during the Employment Period. If the Subsidiary is Executive's employer, the Subsidiary hereby irrevocably guarantees all of the Company's obligations under this Agreement.

2. DUTIES AND RESPONSIBILITIES OF EXECUTIVE.

(a) During the Employment Period, Executive shall devote his services full time to the business of the Company and its Affiliates (as defined below), and perform the duties and responsibilities assigned to him by the Chief Executive Officer ("CEO") or Board of Directors (the "BOARD") of the Company to the best of his ability and with reasonable diligence. Executive agrees to cooperate fully with the Board, CEO and other executive officers of the Company, and not to engage in any activity which conflicts with or interferes with the performance of his duties hereunder. During the Employment Period, Executive shall devote his best efforts and skills to the business and interests of Company, do his utmost to further enhance and develop Company's best interests and welfare, and endeavor to improve his ability and knowledge of Company's business, in an effort to increase the value of his services for the mutual benefit of the parties hereto. During the Employment Period, it shall not be a violation of this Agreement for Executive to (1) serve on corporate,

civic, or charitable boards or committees (except for boards or committees of a Competing Business (as defined in Section 11)), (2) deliver lectures, fulfill teaching or speaking engagements, or (3) manage personal investments; provided that such activities do not materially interfere with performance of Executive's responsibilities under this Agreement.

For purposes of this Agreement, "AFFILIATE" means any entity which owns or controls, is owned or controlled by, or is under common ownership or control with, the Company, including, without limitation, the Subsidiary.

(b) Executive represents and covenants to Company that he is not subject or a party to any employment agreement, noncompetition covenant, nondisclosure agreement, or any similar agreement, covenant, understanding, or restriction that would prohibit Executive from executing this Agreement and fully performing his duties and responsibilities hereunder, or would in any manner, directly or indirectly, limit or affect the duties and responsibilities that may now or in the future be assigned to Executive hereunder.

### 3. COMPENSATION.

(a) During the Employment Period, the Company shall pay, or shall cause the Subsidiary to pay, to Executive an annual base salary of \$287,000 in consideration for his services under this Agreement, payable on a pro rata basis in not less than monthly installments, in conformity with the Company's customary payroll practices for executive salaries. Executive's base salary shall be subject to review at least annually, and such salary may be adjusted, depending upon the performance of the Company and Executive, upon the recommendation of the Compensation Committee of the Board (the "COMPENSATION COMMITTEE"). All salary, bonus and other compensation payments hereunder shall be subject to all applicable payroll and other taxes.

(b) As promptly as practicable after the end of each calendar year during the Employment Period, the Compensation Committee shall determine whether Executive is entitled to a bonus based on the attainment of performance goals during the calendar year then ended (the "BONUS YEAR"). For each Bonus Year during the Employment Period (including the Bonus Year commencing on the Effective Date and ending on December 31, 2001), the Compensation Committee shall establish certain performance goals for the Company and the Executive and a targeted annual bonus amount. The amount of the annual target bonus shall be within the sole discretion of the Compensation Committee, except that for the 2001 Bonus Year, the annual target bonus shall be 30% of Executive's 2001 base salary. The target bonus shall be paid to Executive within 60 days after the end of the applicable Bonus Year based on the extent to which the performance goals and objectives for the Bonus Year have been achieved. The full amount of the target bonus shall be paid if substantially all of the designated performance goals and objectives have been achieved for the Bonus Year; if not, the Compensation Committee, in its discretion exercised in good faith, may award a target bonus to Executive in an amount less than the full target bonus for that Bonus Year. The Compensation Committee may also award additional bonuses or other compensation to Executive at any time in its complete discretion.

(c) On each of the Effective Date and, subject to Executive's continued employment with the Company or the Subsidiary at such time, the first anniversary of the Effective Date, the Company shall pay, or shall cause the Subsidiary to pay, to Executive a retention bonus in the amount of \$125,000. In the event that Executive terminates his employment without Good Reason or the Company terminates Executive's employment with Cause within one year after the time a retention bonus payment is made (i.e., after the first and second anniversary of the Effective Date, respectively), Executive will (i) repay such retention bonus payment (net of FICA and other withholdings for which Executive will not be reimbursed) to the Company or the Subsidiary, as applicable, as follows: (A) 50% of such net amount within 30 days of the Company's request therefor and (B) 50% of such amount not later than June 30 of the following calendar year and (ii) forfeit the amount of any unpaid retention bonus.

(d) Options for an aggregate of 300,000 shares of the Company's common stock shall be granted on the Effective Date, with an exercise price equal to the fair market value (as defined in the Company's 2000 Equity Incentive Plan (the "EQUITY INCENTIVE PLAN")) of the Company's common stock on such date, subject to the terms of a stock option agreement between Executive and the Company and the letter from the Company to Coelacanth dated June 13, 2001.

4. TERM OF EMPLOYMENT. Executive's initial term of employment with the Company under this Agreement shall be for the period beginning on the Effective Date and ending at midnight (CST) on December 31, 2002, unless Notice of Termination pursuant to Section 7 is given by either the Company or Executive to the other party. The Company and Executive shall each have the right to give Notice of Termination at will, with or without cause, at any time, subject to the terms and conditions of this Agreement regarding the rights and duties of the parties upon termination of employment. The term of employment hereunder ending on December 31, 2002, shall be referred to herein as the "INITIAL TERM OF EMPLOYMENT." On December 31, 2002 and on December 31st of each succeeding year (each such date being referred to as a "RENEWAL DATE"), this Agreement shall automatically renew and extend for a period of one (1) additional year (a "RENEWAL TERM") unless written notice of non-renewal is delivered from one party to the other at least sixty (60) days prior to the relevant Renewal Date or, alternatively, the parties may mutually agree to voluntarily enter into a new employment agreement at any time. The period from the Effective Date through the date of Executive's termination of employment at any time for whatever reason shall be referred to herein as the "EMPLOYMENT PERIOD."

5. BENEFITS. Subject to the terms and conditions of this Agreement, during the Employment Period, Executive shall be entitled to the following:

(a) REIMBURSEMENT OF BUSINESS EXPENSES. The Company shall pay or reimburse, or shall cause the Subsidiary to pay and reimburse, Executive for all reasonable travel, entertainment and other expenses paid or incurred by Executive in performing his business obligations hereunder. Executive shall provide substantiating documentation for expense reimbursement requests as reasonably required by the Company.

(b) BENEFITS. Executive shall be entitled to and shall receive all other benefits and conditions of employment available generally to executives of the Company pursuant to Company or Subsidiary plans and programs, including, but not limited to, group health insurance benefits, dental benefits, life insurance benefits, disability benefits, and pension and retirement benefits. The Company shall not be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such employee benefit program or plan, so long as such actions are similarly applicable to covered executives generally.

Notwithstanding the previous paragraph, the Company shall provide, or shall cause the Subsidiary to provide, Executive with long-term disability ("LTD") insurance coverage, at no cost to Executive, that provides income replacement benefits to Executive, if he should incur a long-term disability covered under such policy, in an amount at least equal to 60% of his base salary at the time of such disability, which benefits shall begin after a waiting period that does not exceed six months. The income replacement benefits described in the previous sentence shall remain payable at least until Executive attains the age of 65, provided that he remains unable to perform the essential functions of his occupation during such period. To the extent that the Company's or the Subsidiary's LTD policy which covers employees generally does not provide sufficient coverage to Executive, as described in the previous sentence, Company agrees to purchase, or cause Subsidiary to purchase, a supplemental LTD policy for Executive from a reputable insurer and to pay the premiums on Executive's behalf during the Employment Period.

Notwithstanding the first paragraph of this Section 5(b), the Company shall pay, or cause the Subsidiary to pay, for term life insurance coverage on Executive's life, with the beneficiary(ies) thereof designated by Executive, with a death benefit in an amount not less than twice Executive's base salary (pursuant to Section 3(a)) as such base salary is set on each January 1 during the Employment Period. Upon request, Executive agrees to take any physical exams, and to provide such information, which are reasonably necessary or appropriate to secure or maintain such term life insurance coverage.

(c) PAID VACATION. Executive shall be entitled to a paid annual vacation of three (3) weeks. Vacation time may be accumulated and carried over by Executive into any subsequent year(s); provided, however, Executive shall not be permitted to accumulate more than six (6) weeks of accrued and unused vacation. In addition, the Executive shall be allowed up to five (5) days each year to attend professional continuing education meetings or seminars; provided that attendance at such meetings or seminars shall be planned for minimum interference with the Company's business.

6. RIGHTS AND PAYMENTS UPON TERMINATION. The Executive's right to compensation and benefits for periods after the date on which his employment with the Company and its Affiliates (as defined in Section 2) terminates for whatever reason (the "TERMINATION DATE") shall be determined in accordance with this Section 6.

(a) ACCRUED SALARY AND VACATION PAYMENTS. Executive shall be entitled to the following payments under this Section 6(a) regardless of the reason for termination, in addition to any payments or benefits to which the Executive is entitled under the terms of any employee benefit plan or the provisions of Section 6(b):

(1) his accrued but unpaid salary through his Termination Date; and

(2) his accrued but unpaid vacation pay for the period ending on his Termination Date in accordance with Section 5(c) above.

(b) SEVERANCE PAYMENTS.

(1) At any time prior to a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates his own employment hereunder for Good Reason (as defined below), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to six (6) consecutive months following the Termination Date. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments (using a 5% discount rate) in a single payment to Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive's estate within 60 days of his death. Such severance payments shall be subject to Sections 10 and 11 hereof.

Prior to a Change in Control, in the event that Executive's employment is terminated through notice of non-renewal as of the end of the Initial Term of Employment (pursuant to Section 4) or any one-year Renewal Term, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for each month following his Termination Date, not to exceed six months, that Executive is (A) not in violation of the confidential information, non-competition and other covenants of Sections 10 and 11 hereof and (B) not employed by another employer, as determined by the Company.

(2) At any time after a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates his own employment hereunder for Good Reason (as defined below in this Section 6(c)), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any

bonuses or extraordinary compensation except as provided below in this paragraph) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to twelve (12) consecutive months following the Termination Date, plus an additional single sum payment equal to one-half of Executive's target bonus (pursuant to Section 3(b)) for the Bonus Year in which the termination occurred, which bonus shall be payable within 30 days from the Termination Date. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments in a single payment (using a 5% discount rate) to Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive's estate within 60 days of his death.

After a Change in Control, in the event that the Company terminates Executive's employment through notice of nonrenewal as of the end of the Initial Term of Employment (pursuant to Section 4) or any one-year Renewal Term, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period of six (6) consecutive months following the Termination Date.

(3) Except as otherwise specifically provided in this Section 6(b), severance payments shall be in addition to, and shall not reduce or offset, any other payments that are due to Executive from the Company (or any other source) or under any other agreements, except that severance payments hereunder shall offset any severance benefits otherwise due to Executive under any severance pay plan or program maintained by the Company that covers its employees generally. The provisions of this Section 6(b) shall supersede any conflicting provisions of this Agreement but shall not be construed to curtail, offset or limit Executive's rights to any other payments, whether contingent upon a Change in Control (as defined below) or otherwise, under this Agreement or any other agreement, contract, plan or other source of payment.

(4) A "CHANGE IN CONTROL" of the Company shall be deemed to have occurred if any of the following shall have taken place: (A) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) other than Gordon Cain and his Affiliates (defined below), taken together, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, or any successor provisions thereto), directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company's then-outstanding voting securities; (B) the approval by the stockholders of the Company of a reorganization, merger, or consolidation, in each case with respect to which persons who were stockholders of the Company immediately prior to such reorganization, merger, or consolidation do not, immediately thereafter, own or control more than fifty percent (50%) of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Company's then outstanding securities in

substantially the same proportion as their ownership of the Company's outstanding voting securities prior to such reorganization, merger or consolidation; (C) a liquidation or dissolution of the Company or the sale of all or substantially all of the Company's assets; (D) in the event any person is elected by the stockholders of the Company to the Board who has not been nominated for election by a majority of the Board or any duly appointed committee thereof; or (E) following the election or removal of directors, a majority of the Board consists of individuals who were not members of the Board two (2) years before such election or removal, unless the election of each director who is not a director at the beginning of such two-year period has been approved in advance by directors representing at least a majority of the directors then in office who were directors at the beginning of the two-year period. The Board, in its discretion, may deem any other corporate event affecting the Company to be a "Change in Control" hereunder.

An "AFFILIATE" of Gordon Cain shall include (1) any person or entity directly or indirectly controlled by Gordon Cain, (2) any spouse, immediate family member or relative of Gordon Cain, (3) any trust in which Gordon Cain or any person described in clause (2) above has a beneficial interest, and (4) any trust established by Gordon Cain or any person described in clause (2) above, whether or not such person has a beneficial interest in such trust. For purposes of this definition of "Affiliate," the term "control" means the power to direct the management and policies of a person, directly or through one or more intermediaries, whether through the ownership of voting securities by contract, or otherwise.

(5) "DISABILITY" means a permanent and total disability which entitles Executive to disability income payments under the Company's long-term disability plan or policy as then in effect which covers Executive pursuant to Section 5(b). If Executive is not covered under the Company's long-term disability plan or policy at such time for whatever reason or under a supplemental LTD policy provided by the Company, then the term "Disability" hereunder shall mean a "permanent and total disability" as defined in Section 22(e)(3) of the Code and, in this case, the existence of any such Disability shall be certified by a physician acceptable to both the Company and Executive. In the event that the parties are not able to agree on the choice of a physician, each shall select a physician who, in turn, shall select a third physician to render such certification. All costs relating to the determination of whether Executive has incurred a Disability shall be paid by the Company.

(6) "CODE" means the Internal Revenue Code of 1986, as amended. References in this Agreement to any Section of the Code shall include any successor provisions of the Code or its successor.

(7) "CAUSE" means a termination of employment directly resulting from material misconduct consisting of (1) the Executive having engaged in intentional misconduct causing a material violation by the Company of any state or federal laws, (2) the Executive having engaged in a theft of corporate funds or corporate assets or in a material act of fraud upon the Company, (3) an act of personal dishonesty taken

by the Executive that was intended to result in personal enrichment of the Executive at the expense of the Company, (4) Executive's final conviction (or the entry of a plea of nolo contendere or equivalent plea) in a court of competent jurisdiction of a felony, or (5) a breach by the Executive during the Employment Period of the provisions of Sections 9, 10, and 11 hereof, if such breach results in a material injury to the Company. For purposes of this definition of "Cause", the term "Company" shall mean the Company or any of its Affiliates (as defined in Section 2).

(8) "GOOD REASON" means the occurrence of any of the following events without Executive's express written consent:

(A) (i) Before a Change in Control (as defined in Section 6(b)), a five percent (5%) or greater reduction in Executive's annual base salary or (ii), after a Change in Control, any reduction in Executive's annual base salary, unless such reduction is specifically agreed to in writing by Executive, provided that, in either event, Executive specifically terminates his employment for Good Reason hereunder within 120 days from the date that he has actual notice of such reduction; or

(B) Before or after a Change in Control, (i) any breach by the Company of any material provision of this Agreement or (ii) Executive's authority, duties or responsibilities for the Company or its successor are materially reduced, provided that Executive specifically terminates his employment for Good Reason hereunder within 120 days from the date that he has actual notice of such material breach or material reduction in authority, duties or responsibilities; or

(C) Only following a Change in Control, any of the following events will constitute Good Reason, provided that Executive specifically terminates his employment for Good Reason hereunder within 12 months following his receipt of actual notice of an event listed below:

(i) the failure by the Company or its successor to expressly assume and agree to continue and perform this Agreement in the same manner and to the same extent that the Company would be required to perform if such Change in Control had not occurred; or

(ii) the Company or its successor fails to continue in effect any pension, medical, health-and-accident, life insurance, or disability income plan or program in which Executive was participating at the time of the Change in Control (or plans providing Executive with substantially similar benefits), or the taking of any action by the Company or its successor that would adversely affect Executive's participation in or materially reduce his benefits under any such plan that was enjoyed by him immediately prior to the Change in Control,

unless the Company or its successor provides a replacement plan with substantially similar benefits.

Notwithstanding the preceding provisions of this Section 6(b)(8), if Executive desires to terminate his employment for Good Reason, he shall first give written notice of the facts and circumstances providing the basis for Good Reason to the Board or the Compensation Committee, and allow the Company thirty (30) days from the date of such notice to remedy, cure or rectify the situation giving rise to Good Reason to the reasonable satisfaction of Executive.

7. NOTICE OF TERMINATION. Any termination by the Company or Executive shall be communicated by Notice of Termination to the other party hereto. For purposes of this Agreement, the term "NOTICE OF Termination" means a written notice that, in the case of a termination by the Company or by Executive for Good Reason, indicates the specific termination provision of this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

8. NO MITIGATION REQUIRED. Executive shall not be required to mitigate the amount of any payment provided for under this Agreement by seeking other employment or in any other manner.

9. CONFLICTS OF INTEREST.

(a) In keeping with his fiduciary duties to Company, Executive hereby agrees that he shall not become involved in a conflict of interest, or upon discovery thereof, allow such a conflict to continue at any time during the Employment Period. Moreover, Executive agrees that he shall immediately disclose to the Board any facts which might involve a conflict of interest that has not been approved by the Board.

(b) Executive and Company recognize and acknowledge that it is not possible to provide an exhaustive list of actions or interests which may constitute a "conflict of interest." Moreover, Company and Executive recognize there are many borderline situations. In some instances, full disclosure of facts by the Executive to the Board may be all that is necessary to enable Company to protect its interests. In others, if no improper motivation appears to exist and Company's interests have not demonstrably suffered, prompt elimination of the outside interest may suffice. In other serious instances, it may be necessary for the Company to terminate Executive's employment for Cause (as defined in Section 6(b)). The Board reserves the right to take such action as, in its good faith judgment, will resolve the conflict of interest.

(c) Executive hereby agrees that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might adversely affect the Company or any of its Affiliates (as defined in Section 2), involves a possible conflict of interest. Circumstances in which a conflict of interest on the part of Executive would or might arise, and which must be reported immediately to the Board, include, but are not limited to, any of the following:

(1) Ownership by the Executive and his immediate family members of more than a two percent (2%) interest, on an aggregated basis, in any lender, supplier, contractor, customer or other entity with which Company or any of its Affiliates does business; or

(2) Misuse of information, property or facilities to which Executive has access in a manner which is demonstrably and materially injurious to the interests of Company or any of its Affiliates, including its business, reputation or goodwill.

#### 10. CONFIDENTIAL INFORMATION.

(a) NON-DISCLOSURE OBLIGATION OF EXECUTIVE. For purposes of this Section 10, all references to Company shall mean and include its Affiliates (as defined in Section 2). Executive hereby acknowledges, understands and agrees that all Confidential Information, as defined in Section 10(b), whether developed by Executive or others employed by or in any way associated with Executive or Company, is the exclusive and confidential property of Company and shall be regarded, treated and protected as such in accordance with this Agreement. Executive acknowledges that all such Confidential Information is in the nature of a trade secret. Failure to mark any writing confidential shall not affect the confidential nature of such writing or the information contained therein.

(b) DEFINITION OF CONFIDENTIAL INFORMATION. The term "CONFIDENTIAL INFORMATION" shall mean information, whether or not originated by Executive, which is used in Company's business and (1) is proprietary to, about or created by Company; (2) gives Company some competitive business advantage or the opportunity of obtaining such advantage, or the disclosure of which could be detrimental to the interests of Company; (3) is designated as Confidential Information by Company, known by the Executive to be considered confidential by Company, or from all the relevant circumstances considered confidential by Company, or from all the relevant circumstances should reasonably be assumed by Executive to be confidential and proprietary to Company; or (4) is not generally known by non-Company personnel. Such Confidential Information includes, but is not limited to, the following types of information and other information of a similar nature (whether or not reduced to writing or designated as confidential):

(1) Work product resulting from or related to the research, development or production of the programs of the Company including, without limitation, the Human Gene Trap(TM) database, OmniBank(R), homologous recombination, DNA sequencing, phenotypic analysis, drug target validation and drug discovery;

(2) Internal Company personnel and financial information, vendor names and other vendor information (including vendor characteristics, services and agreements), purchasing and internal cost information, internal service and operational manuals, and the manner and methods of conducting Company's business;

(3) Marketing, partnering and business and development plans, price and cost data, price and fee amounts, pricing and billing policies, quoting procedures, marketing techniques and methods of obtaining business, forecasts and forecast assumptions and volumes, and future plans and potential strategies of the Company which have been or are being discussed; and

(4) Business acquisition and other business opportunities.

(c) EXCLUSIONS FROM CONFIDENTIAL INFORMATION. The term "CONFIDENTIAL INFORMATION" shall not include (i) information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), (ii) the general skills and experience gained during Executive's work with the Company which Executive could reasonably have been expected to acquire in similar work with another company and (iii) any information excluded from Executive's Proprietary Information and Inventions Agreement dated October 29, 1999 with Coelacanth Corporation.

(d) COVENANTS OF EXECUTIVE. As a consequence of Executive's acquisition or anticipated acquisition of Confidential Information, Executive shall occupy a position of trust and confidence with respect to Company's affairs and business. In view of the foregoing and of the consideration to be provided to Executive, Executive agrees that it is reasonable and necessary that Executive make the following covenants:

(1) At any time during the Employment Period and within ten (10) years after the Employment Period, Executive shall not disclose Confidential Information to any person or entity, either inside or outside of Company, other than as necessary in carrying out duties on behalf of Company, without obtaining Company's prior written consent (unless such disclosure is compelled pursuant to law, court order or subpoena or other legal process, and at which time Executive gives notice of such proceedings to Company), and Executive will take all reasonable precautions to prevent inadvertent disclosure of such Confidential Information. This prohibition against Executive's disclosure of Confidential Information includes, but is not limited to, disclosing the fact that any similarity exists between the Confidential Information and information independently developed by another person or entity, and Executive understands that such similarity does not excuse Executive from abiding by his covenants or other obligations under this Agreement.

(2) Except as otherwise required by law or legal process, at any time during or after the Employment Period, Executive shall not use, copy or transfer Confidential Information other than as necessary in carrying out his duties on behalf of Company, without first obtaining Company's prior written consent, and will take all reasonable precautions to prevent inadvertent use, copying or transfer of such Confidential Information. This prohibition against Executive's use, copying, or transfer of Confidential Information includes, but is not limited to, selling, licensing or otherwise exploiting, directly or indirectly, any products or services (including databases, written documents and software in any form) which embody or are derived from Confidential Information, or exercising judgment in performing analyses based upon knowledge of Confidential Information.

(e) RETURN OF CONFIDENTIAL MATERIAL. Executive shall promptly turn over to the person designated by the Board or CEO all originals and copies of materials containing Confidential Information in the Executive's possession, custody, or control upon request or upon termination of Executive's employment with Company. Executive agrees to attend a termination interview with the person or persons designated by the Board or CEO in the Company's offices for a reasonable time period. The purposes of the termination interview shall be (1) to confirm turnover of all Confidential Information, (2) discuss any questions Executive may have about his continuing obligations under this Agreement, (3) answer questions related to his duties and on-going projects to allow a temporary or permanent successor to obtain a better understanding of the employment position, (4) confirm the number of any outstanding stock options, or other long-term incentive awards, and their vested percentages and other terms and conditions, and (5) any other topics relating to the business affairs of Company or its Affiliates as determined by the Company.

(f) INVENTIONS. Any and all inventions, products, discoveries, improvements, copyrightable or patentable works or products, trademarks, service marks, ideas, processes, formulae, methods, designs, techniques and trade secrets (collectively hereinafter referred to as "INVENTIONS") made, developed, conceived or resulting from work performed by Executive (alone or in conjunction with others, during regular hours of work or otherwise) while he is employed by Company and which may be directly or indirectly useful in, or related to, the business of Company (including, without limitation, research and development activities of Company), or which are made using any equipment, facilities, Confidential Information, materials, labor, money, time or other resources of Company, shall be promptly disclosed by Executive to the person or persons designated by the Board or CEO, shall be deemed Confidential Information for purposes of this Agreement, and shall be Company's exclusive property. Executive shall, upon Company's reasonable request during or after the Employment Period, execute any documents and perform all such acts and things which are necessary or advisable in the opinion of Company to cause issuance of patents to, or otherwise obtain recorded protection of right to intellectual property for, Company with respect to Inventions that are to be Company's exclusive property under this Section 10, or to transfer to and vest in Company full and exclusive right, title and interest in and to such Inventions; provided, however, that the expense of securing any such protection of right to Inventions shall be borne by Company. In addition, during or after the Employment Period, Executive shall, at Company's expense, reasonably assist the Company in any reasonable and proper manner in enforcing any Inventions which are to be or become Company's exclusive property hereunder against infringement by others. Executive shall keep confidential and will hold for Company's sole use and benefit any Invention that is to be Company's exclusive property under this Section 10 for which full recorded protection of right has not been or cannot be obtained. The Company shall reasonably compensate Executive for any assistance Executive provides pursuant to this Section 10 after the Employment Period.

(g) EXCLUSIONS FROM INVENTIONS. Anything that would otherwise constitute an Invention for purposes of this Agreement but that was first made, conceived, learned or reduced to practice by Executive, alone or jointly with others, (i) prior to Executive's employment with Coelacanth Corporation, including without limitation any inventions or improvements set forth on Exhibit A hereto, or (ii) following the Employment Period are

excluded from the term "Inventions" as defined for purposes of this Agreement, and the Company agrees that it has no right, title or interest therein or claim with respect thereto.

(h) PROPERTY RIGHTS. In keeping with his fiduciary duties to Company, Executive hereby covenants and agrees that during his Employment Period, and for a period of three (3) months following his Termination Date, Executive shall promptly disclose in writing to Company any and all Inventions, which are conceived, developed, made or acquired by Executive, either individually or jointly with others, and which relate to, or are useful in, the business, products or services of Company including, without limitation, research and development activities of the Company, or which are made using any equipment, facilities, Confidential Information, material, labor, money, time or other resources of the Company. In consideration for his employment hereunder, Executive hereby specifically sells, assigns and transfers to Company all of his worldwide right, title and interest in and to all such Inventions.

If during the Employment Period, Executive creates any original work of authorship or other property fixed in any tangible medium of expression which (1) is the subject matter of copyright (including computer programs) and (2) directly relates to Company's present or planned business, products, or services, whether such property is created solely by Executive or jointly with others, such property shall be deemed a work for hire, with the copyright automatically vesting in Company. To the extent that any such writing or other property is determined not to be a work for hire for whatever reason, Executive hereby consents and agrees to the unconditional waiver of "moral rights" in such writing or other property, and to assign to Company all of his right, title and interest, including copyright, in such writing or other property.

Executive hereby agrees to (1) assist Company or its nominee at all times in the protection of any property that is subject to this Section 10, (2) not to disclose any such property to others without the written consent of Company or its nominee, except as required by his employment hereunder, and (3) at the request of Company, to execute such assignments, certificates or other interests as Company or its nominee may from time to time deem desirable to evidence, establish, maintain, perfect, protect or enforce its rights, title or interests in or to any such property. Following the Employment Period, however, the Executive shall be required to provide only such assistance to the Company only if (i) such assistance does not unreasonably interfere with Executive's then-current employment and (ii) Executive shall be reasonably compensated for his time.

(i) EMPLOYEE PROPRIETARY INFORMATION AGREEMENT. The provisions of this Section 10 shall not supersede the Employee Proprietary Information Agreement (the "PROPRIETARY AGREEMENT") between Employee and the Company (or any other agreement of similar intent) which shall remain in full force and effect and, moreover, this Agreement, the Proprietary Agreement and any such other similar agreement between the parties shall be construed and applied as being mutually consistent to the full extent possible.

(j) REMEDIES. In the event of a breach or threatened breach of any of the provisions of this Section 10, Company shall be entitled to an injunction ordering the return of all such Confidential Information and Inventions, and restraining Executive from using

or disclosing, for his benefit or the benefit of others, in whole or in part, any Confidential Information or Inventions. Executive further agrees that any breach or threatened breach of any of the provisions of this Section 10 would cause irreparable injury to Company, for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting Company from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

11. AGREEMENT NOT TO COMPETE. All references in this Section 11 to "COMPANY" shall mean and include its Affiliates (as defined in Section 2).

(a) PROHIBITED EXECUTIVE ACTIVITIES. Executive agrees that except in the ordinary course and scope of his employment hereunder during the Employment Period, Executive shall not, while employed by Company and for a period of six (6) months following his Termination Date, within the continental United States:

(1) Directly or indirectly engage or invest in, own, manage, operate, control or participate in the ownership, management, operation or control of, be employed by, associated or in any manner connected with, or render services or advice to, any Competing Business (as defined below); provided, however, Executive may invest in the securities of any enterprise with the power to vote up to two percent (2%) of the capital stock of such enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934;

(2) Directly or indirectly, either as principal, agent, independent contractor, consultant, director, officer, employee, employer, advisor (whether paid or unpaid), stockholder, partner or in any other individual or representative capacity whatsoever, either for his own benefit or for the benefit of any other person or entity, solicit, divert or take away, any customers, clients, or business acquisition or other business opportunities of Company; or

(3) Directly or indirectly, either as principal, agent, independent contractor, consultant, director, officer, employee, advisor (whether paid or unpaid), stockholder, partner or in any other individual or representative capacity whatsoever, either for his own benefit or for the benefit of any other person or entity, either (A) hire, attempt to hire, contact or solicit with respect to hiring any employee of Company (unless such employees' employment with the Company has been terminated prior to any such action), (B) induce or otherwise counsel, advise or encourage any employee of Company to leave the employment of Company, or (C) induce any distributor, representative or agent of Company to terminate or modify its relationship with Company.

"COMPETING BUSINESS" means any individual, business, firm, company, partnership, joint venture, organization, or other entity whose products or services compete in whole or in part, at any time during the Employment Period with the products or services (or planned products and services) of Company including,

without limitation, genomics research, development and products including, without limitation, the Human Gene Trap(TM) database, OmniBank(R), homologous recombination, DNA sequencing, phenotypic analysis and drug target validation.

(b) ESSENTIAL NATURE OF NON-COMPETE OBLIGATION. It is acknowledged, understood and agreed by and between the parties hereto that the covenants made by Executive in this Section 11 are essential elements of this Agreement and that, but for the agreement of the Executive to comply with such covenants, Company would not have entered into this Agreement.

(c) NECESSITY AND REASONABLENESS OF NON-COMPETE OBLIGATION. Executive hereby specifically acknowledges and agrees that:

(1) Company has expended and will continue to expend substantial time, money and effort in developing its business;

(2) Executive will, in the course of his employment, be personally entrusted with and exposed to Confidential Information (as defined in Section 10);

(3) Company, during the Employment Period and thereafter, will be engaged in its highly competitive business in which many firms, including Company, compete;

(4) Executive could, after having access to Company's financial records, contracts, and other Confidential Information and know-how and, after receiving training by and experience with the Company, become a competitor;

(5) Company will suffer great loss and irreparable harm if Executive terminates his employment and enters, directly or indirectly, into competition with Company;

(6) The temporal and other restrictions contained in this Section 11 are in all respects reasonable and necessary to protect the business goodwill, trade secrets, prospects and other reasonable business interests of Company;

(7) The enforcement of this Agreement in general, and of this Section 11 in particular, will not work an undue or unfair hardship on Executive or otherwise be oppressive to him; it being specifically acknowledged and agreed by Executive that he has activities and other business interests and opportunities which will provide him adequate means of support if the provisions of this Section 11 are enforced after the Termination Date; and

(8) the enforcement of this Agreement in general, and of this Section 11 in particular, will neither deprive the public of needed goods or services nor otherwise be injurious to the public.

(d) JUDICIAL MODIFICATION. Executive agrees that if an arbitrator (pursuant to Section 21) or a court of competent jurisdiction determines that the length of time or any other restriction, or portion thereof, set forth in this Section 11 is overly restrictive and unenforceable, the arbitrator or court shall reduce or modify such restrictions to those which it deems reasonable and enforceable under the circumstances, and as so reduced or modified, the parties hereto agree that the restrictions of this Section 11 shall remain in full force and effect. Executive further agrees that if an arbitrator or court of competent jurisdiction determines that any provision of this Section 11 is invalid or against public policy, the remaining provisions of this Section 11 and the remainder of this Agreement shall not be affected thereby, and shall remain in full force and effect.

12. REMEDIES. In the event of any pending, threatened or actual breach of any of the covenants or provisions of Section 9, 10, or 11, it is understood and agreed by Executive that the remedy at law for a breach of any of the covenants or provisions of these Sections may be inadequate and, therefore, Company shall be entitled to a restraining order or injunctive relief from any court of competent jurisdiction, in addition to any other remedies at law and in equity. In the event that Company seeks to obtain a restraining order or injunctive relief, Executive hereby agrees that Company shall not be required to post any bond in connection therewith. Should a court of competent jurisdiction or an arbitrator (pursuant to Section 21) declare any provision of Section 9, 10, or 11 to be unenforceable due to an unreasonable restriction of duration or geographical area, or for any other reason, such court or arbitrator is hereby granted the consent of each of the Executive and Company to reform such provision and/or to grant the Company any relief, at law or in equity, reasonably necessary to protect the reasonable business interests of Company or any of its affiliated entities. Executive hereby acknowledges and agrees that all of the covenants and other provisions of Sections 9, 10, and 11 are reasonable and necessary for the protection of the Company's reasonable business interests. Executive hereby agrees that if the Company prevails in any action, suit or proceeding with respect to any matter arising out of or in connection with Section 9, 10, or 11, Company shall be entitled to all equitable and legal remedies, including, but not limited to, injunctive relief and compensatory damages.

13. DEFENSE OF CLAIMS. Executive agrees that, during the Employment Period and for a period of two (2) years after his Termination Date, upon request from the Company, he will cooperate with the Company and its Affiliates in the defense of any claims or actions that may be made by or against the Company or any of its Affiliates that affect his prior areas of responsibility, except if Executive's reasonable interests are adverse to the Company or Affiliates in such claim or action. To the extent travel is required to comply with the requirements of this Section 13, the Company shall, to the extent possible, provide Executive with notice at least 10 days prior to the date on which such travel would be required. The Company agrees to promptly pay or reimburse Executive upon demand for all of his reasonable travel and other direct expenses incurred, or to be reasonably incurred, to comply with his obligations under this Section 13. Following the Employment Period, however, the Executive shall be required to provide only such assistance to the Company only if (i) such assistance does not unreasonably interfere with Executive's then-current employment and (ii) Executive shall be reasonably compensated for his time.

14. DETERMINATIONS BY THE COMPENSATION COMMITTEE.

(a) TERMINATION OF EMPLOYMENT. Prior to a Change in Control (as defined in Section 6(b)), any question as to whether and when there has been a termination of Executive's employment, the cause of such termination, and the Termination Date, shall be determined by the Compensation Committee in its discretion exercised in good faith, subject to Executive's right to contest such determination. In the event the parties cannot agree on a determination under this section, their dispute shall be resolved in accordance with the procedures set forth in Section 21.

(b) COMPENSATION. Prior to a Change in Control (as defined in Section 6(b)), any question regarding salary, bonus and other compensation payable to Executive pursuant to this Agreement shall be determined by the Compensation Committee in its discretion exercised in good faith, subject to Executive's right to contest such determination. In the event the parties cannot agree on a determination under this section, their dispute shall be resolved in accordance with the procedures set forth in Section 21.

15. WITHHOLDINGS: RIGHT OF OFFSET. Company may withhold and deduct from any benefits and payments made or to be made pursuant to this Agreement (a) all federal, state, local and other taxes as may be required pursuant to any law or governmental regulation or ruling, (b) all other employee deductions made with respect to Company's employees generally, and (c) any advances made to Executive and owed to Company.

16. NONALIENATION. The right to receive payments under this Agreement shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge or encumbrance by Executive, his dependents or beneficiaries, or to any other person who is or may become entitled to receive such payments hereunder. The right to receive payments hereunder shall not be subject to or liable for the debts, contracts, liabilities, engagements or torts of any person who is or may become entitled to receive such payments, nor may the same be subject to attachment or seizure by any creditor of such person under any circumstances, and any such attempted attachment or seizure shall be void and of no force and effect.

17. INCOMPETENT OR MINOR PAYEES. Should the Board determine that any person to whom any payment is payable under this Agreement has been determined to be legally incompetent or is a minor, any payment due hereunder may, notwithstanding any other provision of this Agreement to the contrary, be made in any one or more of the following ways: (a) directly to such minor or person; (b) to the legal guardian or other duly appointed personal representative of the person or estate of such minor or person; or (c) to such adult or adults as have, in the good faith knowledge of the Board, assumed custody and support of such minor or person; and any payment so made shall constitute full and complete discharge of any liability under this Agreement in respect to the amount paid.

18. SEVERABILITY. It is the desire of the parties hereto that this Agreement be enforced to the maximum extent permitted by law, and should any provision contained herein be held unenforceable by a court of competent jurisdiction or arbitrator (pursuant to Section 21), the parties hereby agree and consent that such provision shall be reformed to create a valid and enforceable

provision to the maximum extent permitted by law; provided, however, if such provision cannot be reformed, it shall be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement.

19. TITLE AND HEADINGS; CONSTRUCTION. Titles and headings to Sections hereof are for the purpose of reference only and shall in no way limit, define or otherwise affect the provisions hereof. Any and all Exhibits referred to in this Agreement are, by such reference, incorporated herein and made a part hereof for all purposes. The words "herein", "hereof", "hereunder" and other compounds of the word "here" shall refer to the entire Agreement and not to any particular provision hereof.

20. CHOICE OF LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW JERSEY, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW.

21. ARBITRATION.

(a) ARBITRABLE MATTERS. If any dispute or controversy arises between Executive and the Company relating to (1) this Agreement in any way or arising out of the parties' respective rights or obligations under this Agreement or (2) the employment of Executive or the termination of such employment, then either party may submit the dispute or controversy to arbitration under the then-current Commercial Arbitration Rules of the American Arbitration Association (AAA) (the "RULES"); provided, however, the Company shall retain its rights to seek a restraining order or injunctive relief pursuant to Section 12. Any arbitration hereunder shall be conducted before a single arbitrator unless the parties mutually agree that the arbitration shall be conducted before a panel of three arbitrators. The arbitrator shall be selected (from lists provided by the AAA) through mutual agreement of the parties, if possible. If the parties fail to reach agreement upon appointment of the arbitrator within twenty (20) days following receipt by one party of the other party's notice of desire to arbitrate, then within five (5) days following the end of such 20-day period, each party shall select one arbitrator who, in turn, shall within five (5) days select a third arbitrator who shall be the single arbitrator hereunder. The site for any arbitration hereunder shall be in Mercer County, New Jersey, unless otherwise mutually agreed by the parties, and the parties hereby waive any objection that the forum is inconvenient.

(b) SUBMISSION TO ARBITRATION. The party submitting any matter to arbitration shall do so in accordance with the Rules. Notice to the other party shall state the question or questions to be submitted for decision or award by arbitration. Notwithstanding any provision of this Section 21, Executive shall be entitled to seek specific performance of the Executive's right to be paid during the pendency of any dispute or controversy arising under this Agreement. In order to prevent irreparable harm, the arbitrator may grant temporary or permanent injunctive or other equitable relief for the protection of property rights.

(c) ARBITRATION PROCEDURES. The arbitrator shall set the date, time and place for each hearing, and shall give the parties advance written notice in accordance with the Rules. Any party may be represented by counsel or other authorized representative at any hearing.

The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1 et. seq. (or its successor). The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of New Jersey to the claims asserted to the extent that the arbitrator determines that federal law is not controlling.

(d) COMPLIANCE WITH AWARD.

(1) Any award of an arbitrator shall be final and binding upon the parties to such arbitration, and each party shall immediately make such changes in its conduct or provide such monetary payment or other relief as such award requires. The parties agree that the award of the arbitrator shall be final and binding and shall be subject only to the judicial review permitted by the Federal Arbitration Act.

(2) The parties hereto agree that the arbitration award may be entered with any court having jurisdiction and the award may then be enforced as between the parties, without further evidentiary proceedings, the same as if entered by the court at the conclusion of a judicial proceeding in which no appeal was taken. The Company and the Executive hereby agree that a judgment upon any award rendered by an arbitrator may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(e) COSTS AND EXPENSES. Each party shall pay any monetary amount required by the arbitrator's award, and the fees, costs and expenses for its own counsel, witnesses and exhibits, unless otherwise determined by the arbitrator in the award. The compensation and costs and expenses assessed by the arbitrator and the AAA shall be split evenly between the parties unless otherwise determined by the arbitrator in the award. If court proceedings to stay litigation or compel arbitration are necessary, the party who opposes such proceedings to stay litigation or compel arbitration, if such party is unsuccessful, shall pay all associated costs, expenses, and attorney's fees which are reasonably incurred by the other party as determined by the arbitrator.

22. BINDING EFFECT; THIRD PARTY BENEFICIARIES. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and to their respective heirs, executors, personal representatives, successors and permitted assigns hereunder, but otherwise this Agreement shall not be for the benefit of any third parties.

23. ENTIRE AGREEMENT AND AMENDMENT. This Agreement contains the entire agreement of the parties with respect to Executive's employment and the other matters covered herein; moreover, this Agreement supersedes all prior and contemporaneous agreements and understandings, oral or written, between the parties hereto concerning the subject matter hereof. This Agreement may be amended, waived or terminated only by a written instrument executed by both parties hereto.

24. SURVIVAL OF CERTAIN PROVISIONS. Wherever appropriate to the intention of the parties hereto, the respective rights and obligations of said parties, including, but not limited to, the rights

and obligations set forth in Sections 6 through 14 and 21 hereof, shall survive any termination or expiration of this Agreement.

25. WAIVER OF BREACH. No waiver by either party hereto of a breach of any provision of this Agreement by any other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party or any similar or dissimilar provision or condition at the same or any subsequent time. The failure of either party hereto to take any action by reason of any breach will not deprive such party of the right to take action at any time while such breach continues.

26. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the Company and its Affiliates (as defined in Section 2), and upon any successor to the Company following a Change in Control (as defined in Section 6(b)); provided, however, any such assignment by the Company shall not relieve the Company of its obligations hereunder unless such successor to the Company has fully and expressly assumed the obligations of the Company to the Executive under this Agreement. Any reference herein to "Company" shall mean the Company as first written above, as well as any successor or successors thereto.

This Agreement is personal to Executive, and Executive may not assign, delegate or otherwise transfer all or any of his rights, duties or obligations hereunder without the consent of the Board. Any attempt by the Executive to assign, delegate or otherwise transfer this Agreement, any portion hereof, or his rights, duties or obligations hereunder without the prior approval of the Board shall be deemed void and of no force and effect.

27. NOTICES. Notices provided for in this Agreement shall be in writing and shall be deemed to have been duly received (a) when delivered in person or sent by facsimile transmission, (b) on the first business day after it is sent by air express overnight courier service, or (c) on the third business day following deposit in the United States mail, registered or certified mail, return receipt requested, postage prepaid and addressed, to the following address, as applicable:

- (1) If to Company, addressed to:

Lexicon Genetics Incorporated  
4000 Research Forest Drive  
The Woodlands, Texas 77381  
Attention: Corporate Secretary

- (2) If to Executive, addressed to the address set forth below his name on the execution page hereof;

or to such other address as either party may have furnished to the other party in writing in accordance with this Section 27.

28. COUNTERPARTS. This Agreement may be executed in any number of 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. Each counterpart may consist of a copy hereof

containing multiple signature pages, each signed by one party, but together signed by both parties hereto.

29. EXECUTIVE ACKNOWLEDGMENT; NO STRICT CONSTRUCTION. The Executive represents to Company that he is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that he has read the Agreement and that he understands its terms and conditions. Executive also represents that he is free to enter into this Agreement including, without limitation, that he is not subject to any other contract of employment or covenant not to compete that would conflict in any way with his duties under this Agreement. Executive acknowledges that he has had the opportunity to consult with counsel of his choice, independent of Employer's counsel, regarding the terms and conditions of this Agreement and has done so to the extent that he, in his unfettered discretion, deemed to be appropriate.

30. SUPERSEDING AGREEMENT. This Employment Agreement shall supersede any prior employment agreement entered into between the Company and Executive, including Executive's agreement with Coelacanth Corporation, from and after the Effective Date.

31. DATE CERTAIN. This Agreement shall be of no further force and effect as of July 31, 2001 unless the Merger is completed on or before such date.

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and Company has caused this Agreement to be executed in its name and on its behalf, to be effective as of the Effective Date first above written.

EXECUTIVE:

Signature:

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Alan Main, Ph.D.

Date:

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Address for Notices:

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LEXICON GENETICS INCORPORATED

By:

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Arthur T. Sands, M.D., Ph.D.  
President and Chief Executive Officer

Date:

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of July 12, 2001 (this "AGREEMENT"), by and between Lexicon Genetics Incorporated, a Delaware corporation (hereafter "COMPANY"), and Hartmuth Kolb, Ph.D. (hereafter "EXECUTIVE"), an individual and resident of Mercer County, New Jersey.

W I T N E S S E T H:

WHEREAS, subject to the completion of the merger (the "MERGER") contemplated by the Agreement and Plan of Merger, dated June 13, 2001, among the Company, Angler Acquisition Corp., and Coelacanth Corporation (after the Merger, the "SUBSIDIARY"), the Company wishes to secure the services of the Executive subject to the terms and conditions hereafter set forth; and

WHEREAS, the Executive is willing to enter into this Agreement, which shall become effective upon the effective time of the Merger (the "EFFECTIVE DATE"), upon the terms and conditions hereafter set forth;

NOW, THEREFORE, in consideration of the mutual promises and agreements set forth herein, the parties hereto agree as follows:

1. EMPLOYMENT. During the Employment Period (as defined in Section 4 hereof), the Company or the Subsidiary shall employ Executive, and Executive shall serve, as Vice President of Chemistry of the Company and the Subsidiary with responsibility for overall management of chemistry related work, including but not limited to managing the chemistry related aspects of drug discovery. Executive's principal place of employment shall be at the Subsidiary's principal facilities in East Windsor, New Jersey, or at such other location for the Subsidiary's principal facilities during the Employment Period. If the Subsidiary is Executive's employer, the Subsidiary hereby irrevocably guarantees all of the Company's obligations under this Agreement.

2. DUTIES AND RESPONSIBILITIES OF EXECUTIVE.

(a) During the Employment Period, Executive shall devote his services full time to the business of the Company and its Affiliates (as defined below), and perform the duties and responsibilities assigned to him by the Chief Executive Officer ("CEO") or Board of Directors (the "BOARD") of the Company to the best of his ability and with reasonable diligence. Executive agrees to cooperate fully with the Board, CEO and other executive officers of the Company, and not to engage in any activity which conflicts with or interferes with the performance of his duties hereunder. During the Employment Period, Executive shall devote his best efforts and skills to the business and interests of Company, do his utmost to further enhance and develop Company's best interests and welfare, and endeavor to improve his ability and knowledge of Company's business, in an effort to increase the value of his services for the mutual benefit of the parties hereto. During the Employment Period, it shall not be a violation of this Agreement for Executive to (1) serve on corporate,

civic, or charitable boards or committees (except for boards or committees of a Competing Business (as defined in Section 11)), (2) deliver lectures, fulfill teaching or speaking engagements, or (3) manage personal investments; provided that such activities do not materially interfere with performance of Executive's responsibilities under this Agreement.

For purposes of this Agreement, "AFFILIATE" means any entity which owns or controls, is owned or controlled by, or is under common ownership or control with, the Company, including, without limitation, the Subsidiary.

(b) Executive represents and covenants to Company that he is not subject or a party to any employment agreement, noncompetition covenant, nondisclosure agreement, or any similar agreement, covenant, understanding, or restriction that would prohibit Executive from executing this Agreement and fully performing his duties and responsibilities hereunder, or would in any manner, directly or indirectly, limit or affect the duties and responsibilities that may now or in the future be assigned to Executive hereunder.

### 3. COMPENSATION.

(a) During the Employment Period, the Company shall pay, or shall cause the Subsidiary to pay, to Executive an annual base salary of \$180,000 in consideration for his services under this Agreement, payable on a pro rata basis in not less than monthly installments, in conformity with the Company's customary payroll practices for executive salaries. Executive's base salary shall be subject to review at least annually, and such salary may be adjusted, depending upon the performance of the Company and Executive, upon the recommendation of the Compensation Committee of the Board (the "COMPENSATION COMMITTEE"). All salary, bonus and other compensation payments hereunder shall be subject to all applicable payroll and other taxes.

(b) As promptly as practicable after the end of each calendar year during the Employment Period, the Compensation Committee shall determine whether Executive is entitled to a bonus based on the attainment of performance goals during the calendar year then ended (the "BONUS YEAR"). For each Bonus Year during the Employment Period (including the Bonus Year commencing on the Effective Date and ending on December 31, 2001), the Compensation Committee shall establish certain performance goals for the Company and the Executive and a targeted annual bonus amount. The amount of the annual target bonus shall be within the sole discretion of the Compensation Committee, except that for the 2001 Bonus Year, the annual target bonus shall be 25% of Executive's 2001 base salary. The target bonus shall be paid to Executive within 60 days after the end of the applicable Bonus Year based on the extent to which the performance goals and objectives for the Bonus Year have been achieved. The full amount of the target bonus shall be paid if substantially all of the designated performance goals and objectives have been achieved for the Bonus Year; if not, the Compensation Committee, in its discretion exercised in good faith, may award a target bonus to Executive in an amount less than the full target bonus for that Bonus Year. The Compensation Committee may also award additional bonuses or other compensation to Executive at any time in its complete discretion.

(c) On each of the Effective Date and, subject to Executive's continued employment with the Company or the Subsidiary at such time, the first anniversary of the Effective Date, the Company shall pay, or shall cause the Subsidiary to pay, to Executive a retention bonus in the amount of \$150,000. In the event that Executive terminates his employment without Good Reason or the Company terminates Executive's employment with Cause within one year after the time a retention bonus payment is made (i.e., after the first and second anniversary of the Effective Date, respectively), Executive will (i) repay such retention bonus payment (net of FICA and other withholdings for which Executive will not be reimbursed) to the Company or the Subsidiary, as applicable, as follows: (A) 50% of such net amount within 30 days of the Company's request therefor and (B) 50% of such amount not later than June 30 of the following calendar year and (ii) forfeit the amount of any unpaid retention bonus.

(d) Options for an aggregate of 170,000 shares of the Company's common stock shall be granted on the Effective Date, with an exercise price equal to the fair market value (as defined in the Company's 2000 Equity Incentive Plan (the "EQUITY INCENTIVE PLAN")) of the Company's common stock on such date, subject to the terms of a stock option agreement between Executive and the Company and the letter from the Company to Coelacanth dated June 13, 2001.

4. TERM OF EMPLOYMENT. Executive's initial term of employment with the Company under this Agreement shall be for the period beginning on the Effective Date and ending at midnight (CST) on December 31, 2002, unless Notice of Termination pursuant to Section 7 is given by either the Company or Executive to the other party. The Company and Executive shall each have the right to give Notice of Termination at will, with or without cause, at any time, subject to the terms and conditions of this Agreement regarding the rights and duties of the parties upon termination of employment. The term of employment hereunder ending on December 31, 2002, shall be referred to herein as the "INITIAL TERM OF EMPLOYMENT." On December 31, 2002 and on December 31st of each succeeding year (each such date being referred to as a "RENEWAL DATE"), this Agreement shall automatically renew and extend for a period of one (1) additional year (a "RENEWAL TERM") unless written notice of non-renewal is delivered from one party to the other at least sixty (60) days prior to the relevant Renewal Date or, alternatively, the parties may mutually agree to voluntarily enter into a new employment agreement at any time. The period from the Effective Date through the date of Executive's termination of employment at any time for whatever reason shall be referred to herein as the "EMPLOYMENT PERIOD."

5. BENEFITS. Subject to the terms and conditions of this Agreement, during the Employment Period, Executive shall be entitled to the following:

(a) REIMBURSEMENT OF BUSINESS EXPENSES. The Company shall pay or reimburse, or shall cause the Subsidiary to pay and reimburse, Executive for all reasonable travel, entertainment and other expenses paid or incurred by Executive in performing his business obligations hereunder. Executive shall provide substantiating documentation for expense reimbursement requests as reasonably required by the Company.

(b) BENEFITS. Executive shall be entitled to and shall receive all other benefits and conditions of employment available generally to executives of the Company pursuant to Company or Subsidiary plans and programs, including, but not limited to, group health insurance benefits, dental benefits, life insurance benefits, disability benefits, and pension and retirement benefits. The Company shall not be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such employee benefit program or plan, so long as such actions are similarly applicable to covered executives generally.

Notwithstanding the previous paragraph, the Company shall provide, or shall cause the Subsidiary to provide, Executive with long-term disability ("LTD") insurance coverage, at no cost to Executive, that provides income replacement benefits to Executive, if he should incur a long-term disability covered under such policy, in an amount at least equal to 60% of his base salary at the time of such disability, which benefits shall begin after a waiting period that does not exceed six months. The income replacement benefits described in the previous sentence shall remain payable at least until Executive attains the age of 65, provided that he remains unable to perform the essential functions of his occupation during such period. To the extent that the Company's or the Subsidiary's LTD policy which covers employees generally does not provide sufficient coverage to Executive, as described in the previous sentence, Company agrees to purchase, or cause Subsidiary to purchase, a supplemental LTD policy for Executive from a reputable insurer and to pay the premiums on Executive's behalf during the Employment Period.

Notwithstanding the first paragraph of this Section 5(b), the Company shall pay, or cause the Subsidiary to pay, for term life insurance coverage on Executive's life, with the beneficiary(ies) thereof designated by Executive, with a death benefit in an amount not less than twice Executive's base salary (pursuant to Section 3(a)) as such base salary is set on each January 1 during the Employment Period. Upon request, Executive agrees to take any physical exams, and to provide such information, which are reasonably necessary or appropriate to secure or maintain such term life insurance coverage.

(c) PAID VACATION. Executive shall be entitled to a paid annual vacation of three (3) weeks. Vacation time may be accumulated and carried over by Executive into any subsequent year(s); provided, however, Executive shall not be permitted to accumulate more than six (6) weeks of accrued and unused vacation. In addition, the Executive shall be allowed up to five (5) days each year to attend professional continuing education meetings or seminars; provided that attendance at such meetings or seminars shall be planned for minimum interference with the Company's business.

6. RIGHTS AND PAYMENTS UPON TERMINATION. The Executive's right to compensation and benefits for periods after the date on which his employment with the Company and its Affiliates (as defined in Section 2) terminates for whatever reason (the "TERMINATION DATE") shall be determined in accordance with this Section 6.

(a) ACCRUED SALARY AND VACATION PAYMENTS. Executive shall be entitled to the following payments under this Section 6(a) regardless of the reason for termination, in addition to any payments or benefits to which the Executive is entitled under the terms of any employee benefit plan or the provisions of Section 6(b):

(1) his accrued but unpaid salary through his Termination Date; and

(2) his accrued but unpaid vacation pay for the period ending on his Termination Date in accordance with Section 5(c) above.

(b) SEVERANCE PAYMENTS.

(1) At any time prior to a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates his own employment hereunder for Good Reason (as defined below), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to six (6) consecutive months following the Termination Date. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments (using a 5% discount rate) in a single payment to Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive's estate within 60 days of his death. Such severance payments shall be subject to Sections 10 and 11 hereof.

Prior to a Change in Control, in the event that Executive's employment is terminated through notice of non-renewal as of the end of the Initial Term of Employment (pursuant to Section 4) or any one-year Renewal Term, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for each month following his Termination Date, not to exceed six months, that Executive is (A) not in violation of the confidential information, non-competition and other covenants of Sections 10 and 11 hereof and (B) not employed by another employer, as determined by the Company.

(2) At any time after a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates his own employment hereunder for Good Reason (as defined below in this Section 6(c)), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any

bonuses or extraordinary compensation except as provided below in this paragraph) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to twelve (12) consecutive months following the Termination Date, plus an additional single sum payment equal to one-half of Executive's target bonus (pursuant to Section 3(b)) for the Bonus Year in which the termination occurred, which bonus shall be payable within 30 days from the Termination Date. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments in a single payment (using a 5% discount rate) to Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive's estate within 60 days of his death.

After a Change in Control, in the event that the Company terminates Executive's employment through notice of nonrenewal as of the end of the Initial Term of Employment (pursuant to Section 4) or any one-year Renewal Term, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period of six (6) consecutive months following the Termination Date.

(3) Except as otherwise specifically provided in this Section 6(b), severance payments shall be in addition to, and shall not reduce or offset, any other payments that are due to Executive from the Company (or any other source) or under any other agreements, except that severance payments hereunder shall offset any severance benefits otherwise due to Executive under any severance pay plan or program maintained by the Company that covers its employees generally. The provisions of this Section 6(b) shall supersede any conflicting provisions of this Agreement but shall not be construed to curtail, offset or limit Executive's rights to any other payments, whether contingent upon a Change in Control (as defined below) or otherwise, under this Agreement or any other agreement, contract, plan or other source of payment.

(4) A "CHANGE IN CONTROL" of the Company shall be deemed to have occurred if any of the following shall have taken place: (A) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) other than Gordon Cain and his Affiliates (defined below), taken together, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, or any successor provisions thereto), directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company's then-outstanding voting securities; (B) the approval by the stockholders of the Company of a reorganization, merger, or consolidation, in each case with respect to which persons who were stockholders of the Company immediately prior to such reorganization, merger, or consolidation do not, immediately thereafter, own or control more than fifty percent (50%) of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Company's then outstanding securities in

substantially the same proportion as their ownership of the Company's outstanding voting securities prior to such reorganization, merger or consolidation; (C) a liquidation or dissolution of the Company or the sale of all or substantially all of the Company's assets; (D) in the event any person is elected by the stockholders of the Company to the Board who has not been nominated for election by a majority of the Board or any duly appointed committee thereof; or (E) following the election or removal of directors, a majority of the Board consists of individuals who were not members of the Board two (2) years before such election or removal, unless the election of each director who is not a director at the beginning of such two-year period has been approved in advance by directors representing at least a majority of the directors then in office who were directors at the beginning of the two-year period. The Board, in its discretion, may deem any other corporate event affecting the Company to be a "Change in Control" hereunder.

An "AFFILIATE" of Gordon Cain shall include (1) any person or entity directly or indirectly controlled by Gordon Cain, (2) any spouse, immediate family member or relative of Gordon Cain, (3) any trust in which Gordon Cain or any person described in clause (2) above has a beneficial interest, and (4) any trust established by Gordon Cain or any person described in clause (2) above, whether or not such person has a beneficial interest in such trust. For purposes of this definition of "Affiliate," the term "control" means the power to direct the management and policies of a person, directly or through one or more intermediaries, whether through the ownership of voting securities by contract, or otherwise.

(5) "DISABILITY" means a permanent and total disability which entitles Executive to disability income payments under the Company's long-term disability plan or policy as then in effect which covers Executive pursuant to Section 5(b). If Executive is not covered under the Company's long-term disability plan or policy at such time for whatever reason or under a supplemental LTD policy provided by the Company, then the term "Disability" hereunder shall mean a "permanent and total disability" as defined in Section 22(e)(3) of the Code and, in this case, the existence of any such Disability shall be certified by a physician acceptable to both the Company and Executive. In the event that the parties are not able to agree on the choice of a physician, each shall select a physician who, in turn, shall select a third physician to render such certification. All costs relating to the determination of whether Executive has incurred a Disability shall be paid by the Company.

(6) "CODE" means the Internal Revenue Code of 1986, as amended. References in this Agreement to any Section of the Code shall include any successor provisions of the Code or its successor.

(7) "CAUSE" means a termination of employment directly resulting from material misconduct consisting of (1) the Executive having engaged in intentional misconduct causing a material violation by the Company of any state or federal laws, (2) the Executive having engaged in a theft of corporate funds or corporate assets or in a material act of fraud upon the Company, (3) an act of personal dishonesty taken

by the Executive that was intended to result in personal enrichment of the Executive at the expense of the Company, (4) Executive's final conviction (or the entry of a plea of nolo contendere or equivalent plea) in a court of competent jurisdiction of a felony, or (5) a breach by the Executive during the Employment Period of the provisions of Sections 9, 10, and 11 hereof, if such breach results in a material injury to the Company. For purposes of this definition of "Cause", the term "Company" shall mean the Company or any of its Affiliates (as defined in Section 2).

(8) "GOOD REASON" means the occurrence of any of the following events without Executive's express written consent:

(A) (i) Before a Change in Control (as defined in Section 6(b)), a five percent (5%) or greater reduction in Executive's annual base salary or (ii), after a Change in Control, any reduction in Executive's annual base salary, unless such reduction is specifically agreed to in writing by Executive, provided that, in either event, Executive specifically terminates his employment for Good Reason hereunder within 120 days from the date that he has actual notice of such reduction; or

(B) Before or after a Change in Control, (i) any breach by the Company of any material provision of this Agreement or (ii) Executive's authority, duties or responsibilities for the Company or its successor are materially reduced, provided that Executive specifically terminates his employment for Good Reason hereunder within 120 days from the date that he has actual notice of such material breach or material reduction in authority, duties or responsibilities; or

(C) Only following a Change in Control, any of the following events will constitute Good Reason, provided that Executive specifically terminates his employment for Good Reason hereunder within 12 months following his receipt of actual notice of an event listed below:

(i) the failure by the Company or its successor to expressly assume and agree to continue and perform this Agreement in the same manner and to the same extent that the Company would be required to perform if such Change in Control had not occurred; or

(ii) the Company or its successor fails to continue in effect any pension, medical, health-and-accident, life insurance, or disability income plan or program in which Executive was participating at the time of the Change in Control (or plans providing Executive with substantially similar benefits), or the taking of any action by the Company or its successor that would adversely affect Executive's participation in or materially reduce his benefits under any such plan that was enjoyed by him immediately prior to the Change in Control,

unless the Company or its successor provides a replacement plan with substantially similar benefits.

Notwithstanding the preceding provisions of this Section 6(b)(8), if Executive desires to terminate his employment for Good Reason, he shall first give written notice of the facts and circumstances providing the basis for Good Reason to the Board or the Compensation Committee, and allow the Company thirty (30) days from the date of such notice to remedy, cure or rectify the situation giving rise to Good Reason to the reasonable satisfaction of Executive.

7. NOTICE OF TERMINATION. Any termination by the Company or Executive shall be communicated by Notice of Termination to the other party hereto. For purposes of this Agreement, the term "NOTICE OF Termination" means a written notice that, in the case of a termination by the Company or by Executive for Good Reason, indicates the specific termination provision of this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

8. NO MITIGATION REQUIRED. Executive shall not be required to mitigate the amount of any payment provided for under this Agreement by seeking other employment or in any other manner.

9. CONFLICTS OF INTEREST.

(a) In keeping with his fiduciary duties to Company, Executive hereby agrees that he shall not become involved in a conflict of interest, or upon discovery thereof, allow such a conflict to continue at any time during the Employment Period. Moreover, Executive agrees that he shall immediately disclose to the Board any facts which might involve a conflict of interest that has not been approved by the Board.

(b) Executive and Company recognize and acknowledge that it is not possible to provide an exhaustive list of actions or interests which may constitute a "conflict of interest." Moreover, Company and Executive recognize there are many borderline situations. In some instances, full disclosure of facts by the Executive to the Board may be all that is necessary to enable Company to protect its interests. In others, if no improper motivation appears to exist and Company's interests have not demonstrably suffered, prompt elimination of the outside interest may suffice. In other serious instances, it may be necessary for the Company to terminate Executive's employment for Cause (as defined in Section 6(b)). The Board reserves the right to take such action as, in its good faith judgment, will resolve the conflict of interest.

(c) Executive hereby agrees that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might adversely affect the Company or any of its Affiliates (as defined in Section 2), involves a possible conflict of interest. Circumstances in which a conflict of interest on the part of Executive would or might arise, and which must be reported immediately to the Board, include, but are not limited to, any of the following:

(1) Ownership by the Executive and his immediate family members of more than a two percent (2%) interest, on an aggregated basis, in any lender, supplier, contractor, customer or other entity with which Company or any of its Affiliates does business; or

(2) Misuse of information, property or facilities to which Executive has access in a manner which is demonstrably and materially injurious to the interests of Company or any of its Affiliates, including its business, reputation or goodwill.

#### 10. CONFIDENTIAL INFORMATION.

(a) NON-DISCLOSURE OBLIGATION OF EXECUTIVE. For purposes of this Section 10, all references to Company shall mean and include its Affiliates (as defined in Section 2). Executive hereby acknowledges, understands and agrees that all Confidential Information, as defined in Section 10(b), whether developed by Executive or others employed by or in any way associated with Executive or Company, is the exclusive and confidential property of Company and shall be regarded, treated and protected as such in accordance with this Agreement. Executive acknowledges that all such Confidential Information is in the nature of a trade secret. Failure to mark any writing confidential shall not affect the confidential nature of such writing or the information contained therein.

(b) DEFINITION OF CONFIDENTIAL INFORMATION. The term "CONFIDENTIAL INFORMATION" shall mean information, whether or not originated by Executive, which is used in Company's business and (1) is proprietary to, about or created by Company; (2) gives Company some competitive business advantage or the opportunity of obtaining such advantage, or the disclosure of which could be detrimental to the interests of Company; (3) is designated as Confidential Information by Company, known by the Executive to be considered confidential by Company, or from all the relevant circumstances considered confidential by Company, or from all the relevant circumstances should reasonably be assumed by Executive to be confidential and proprietary to Company; or (4) is not generally known by non-Company personnel. Such Confidential Information includes, but is not limited to, the following types of information and other information of a similar nature (whether or not reduced to writing or designated as confidential):

(1) Work product resulting from or related to the research, development or production of the programs of the Company including, without limitation, the Human Gene Trap(TM) database, OmniBank(R), homologous recombination, DNA sequencing, phenotypic analysis, drug target validation and drug discovery;

(2) Internal Company personnel and financial information, vendor names and other vendor information (including vendor characteristics, services and agreements), purchasing and internal cost information, internal service and operational manuals, and the manner and methods of conducting Company's business;

(3) Marketing, partnering and business and development plans, price and cost data, price and fee amounts, pricing and billing policies, quoting procedures, marketing techniques and methods of obtaining business, forecasts and forecast assumptions and volumes, and future plans and potential strategies of the Company which have been or are being discussed; and

(4) Business acquisition and other business opportunities.

(c) EXCLUSIONS FROM CONFIDENTIAL INFORMATION. The term "CONFIDENTIAL INFORMATION" shall not include (i) information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), (ii) the general skills and experience gained during Executive's work with the Company which Executive could reasonably have been expected to acquire in similar work with another company and (iii) any information excluded from Executive's Proprietary Information and Inventions Agreement dated April 6, 1998 with Coelacanth Corporation.

(d) COVENANTS OF EXECUTIVE. As a consequence of Executive's acquisition or anticipated acquisition of Confidential Information, Executive shall occupy a position of trust and confidence with respect to Company's affairs and business. In view of the foregoing and of the consideration to be provided to Executive, Executive agrees that it is reasonable and necessary that Executive make the following covenants:

(1) At any time during the Employment Period and within ten (10) years after the Employment Period, Executive shall not disclose Confidential Information to any person or entity, either inside or outside of Company, other than as necessary in carrying out duties on behalf of Company, without obtaining Company's prior written consent (unless such disclosure is compelled pursuant to law, court order or subpoena or other legal process, and at which time Executive gives notice of such proceedings to Company), and Executive will take all reasonable precautions to prevent inadvertent disclosure of such Confidential Information. This prohibition against Executive's disclosure of Confidential Information includes, but is not limited to, disclosing the fact that any similarity exists between the Confidential Information and information independently developed by another person or entity, and Executive understands that such similarity does not excuse Executive from abiding by his covenants or other obligations under this Agreement.

(2) Except as otherwise required by law or legal process, at any time during or after the Employment Period, Executive shall not use, copy or transfer Confidential Information other than as necessary in carrying out his duties on behalf of Company, without first obtaining Company's prior written consent, and will take all reasonable precautions to prevent inadvertent use, copying or transfer of such Confidential Information. This prohibition against Executive's use, copying, or transfer of Confidential Information includes, but is not limited to, selling, licensing or otherwise exploiting, directly or indirectly, any products or services (including databases, written documents and software in any form) which embody or are derived from Confidential Information, or exercising judgment in performing analyses based upon knowledge of Confidential Information.

(e) RETURN OF CONFIDENTIAL MATERIAL. Executive shall promptly turn over to the person designated by the Board or CEO all originals and copies of materials containing Confidential Information in the Executive's possession, custody, or control upon request or upon termination of Executive's employment with Company. Executive agrees to attend a termination interview with the person or persons designated by the Board or CEO in the Company's offices for a reasonable time period. The purposes of the termination interview shall be (1) to confirm turnover of all Confidential Information, (2) discuss any questions Executive may have about his continuing obligations under this Agreement, (3) answer questions related to his duties and on-going projects to allow a temporary or permanent successor to obtain a better understanding of the employment position, (4) confirm the number of any outstanding stock options, or other long-term incentive awards, and their vested percentages and other terms and conditions, and (5) any other topics relating to the business affairs of Company or its Affiliates as determined by the Company.

(f) INVENTIONS. Any and all inventions, products, discoveries, improvements, copyrightable or patentable works or products, trademarks, service marks, ideas, processes, formulae, methods, designs, techniques and trade secrets (collectively hereinafter referred to as "INVENTIONS") made, developed, conceived or resulting from work performed by Executive (alone or in conjunction with others, during regular hours of work or otherwise) while he is employed by Company and which may be directly or indirectly useful in, or related to, the business of Company (including, without limitation, research and development activities of Company), or which are made using any equipment, facilities, Confidential Information, materials, labor, money, time or other resources of Company, shall be promptly disclosed by Executive to the person or persons designated by the Board or CEO, shall be deemed Confidential Information for purposes of this Agreement, and shall be Company's exclusive property. Executive shall, upon Company's reasonable request during or after the Employment Period, execute any documents and perform all such acts and things which are necessary or advisable in the opinion of Company to cause issuance of patents to, or otherwise obtain recorded protection of right to intellectual property for, Company with respect to Inventions that are to be Company's exclusive property under this Section 10, or to transfer to and vest in Company full and exclusive right, title and interest in and to such Inventions; provided, however, that the expense of securing any such protection of right to Inventions shall be borne by Company. In addition, during or after the Employment Period, Executive shall, at Company's expense, reasonably assist the Company in any reasonable and proper manner in enforcing any Inventions which are to be or become Company's exclusive property hereunder against infringement by others. Executive shall keep confidential and will hold for Company's sole use and benefit any Invention that is to be Company's exclusive property under this Section 10 for which full recorded protection of right has not been or cannot be obtained. The Company shall reasonably compensate Executive for any assistance Executive provides pursuant to this Section 10 after the Employment Period.

(g) EXCLUSIONS FROM INVENTIONS. Anything that would otherwise constitute an Invention for purposes of this Agreement but that was first made, conceived, learned or reduced to practice by Executive, alone or jointly with others, (i) prior to Executive's employment with Coelacanth Corporation, including without limitation any inventions or improvements set forth on Exhibit A hereto, or (ii) following the Employment Period are

excluded from the term "Inventions" as defined for purposes of this Agreement, and the Company agrees that it has no right, title or interest therein or claim with respect thereto.

(h) PROPERTY RIGHTS. In keeping with his fiduciary duties to Company, Executive hereby covenants and agrees that during his Employment Period, and for a period of three (3) months following his Termination Date, Executive shall promptly disclose in writing to Company any and all Inventions, which are conceived, developed, made or acquired by Executive, either individually or jointly with others, and which relate to, or are useful in, the business, products or services of Company including, without limitation, research and development activities of the Company, or which are made using any equipment, facilities, Confidential Information, material, labor, money, time or other resources of the Company. In consideration for his employment hereunder, Executive hereby specifically sells, assigns and transfers to Company all of his worldwide right, title and interest in and to all such Inventions.

If during the Employment Period, Executive creates any original work of authorship or other property fixed in any tangible medium of expression which (1) is the subject matter of copyright (including computer programs) and (2) directly relates to Company's present or planned business, products, or services, whether such property is created solely by Executive or jointly with others, such property shall be deemed a work for hire, with the copyright automatically vesting in Company. To the extent that any such writing or other property is determined not to be a work for hire for whatever reason, Executive hereby consents and agrees to the unconditional waiver of "moral rights" in such writing or other property, and to assign to Company all of his right, title and interest, including copyright, in such writing or other property.

Executive hereby agrees to (1) assist Company or its nominee at all times in the protection of any property that is subject to this Section 10, (2) not to disclose any such property to others without the written consent of Company or its nominee, except as required by his employment hereunder, and (3) at the request of Company, to execute such assignments, certificates or other interests as Company or its nominee may from time to time deem desirable to evidence, establish, maintain, perfect, protect or enforce its rights, title or interests in or to any such property. Following the Employment Period, however, the Executive shall be required to provide only such assistance to the Company only if (i) such assistance does not unreasonably interfere with Executive's then-current employment and (ii) Executive shall be reasonably compensated for his time.

(i) EMPLOYEE PROPRIETARY INFORMATION AGREEMENT. The provisions of this Section 10 shall not supersede the Employee Proprietary Information Agreement (the "PROPRIETARY AGREEMENT") between Employee and the Company (or any other agreement of similar intent) which shall remain in full force and effect and, moreover, this Agreement, the Proprietary Agreement and any such other similar agreement between the parties shall be construed and applied as being mutually consistent to the full extent possible.

(j) REMEDIES. In the event of a breach or threatened breach of any of the provisions of this Section 10, Company shall be entitled to an injunction ordering the return of all such Confidential Information and Inventions, and restraining Executive from using

or disclosing, for his benefit or the benefit of others, in whole or in part, any Confidential Information or Inventions. Executive further agrees that any breach or threatened breach of any of the provisions of this Section 10 would cause irreparable injury to Company, for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting Company from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

11. AGREEMENT NOT TO COMPETE. All references in this Section 11 to "COMPANY" shall mean and include its Affiliates (as defined in Section 2).

(a) PROHIBITED EXECUTIVE ACTIVITIES. Executive agrees that except in the ordinary course and scope of his employment hereunder during the Employment Period, Executive shall not, while employed by Company and for a period of six (6) months following his Termination Date, within the continental United States:

(1) Directly or indirectly engage or invest in, own, manage, operate, control or participate in the ownership, management, operation or control of, be employed by, associated or in any manner connected with, or render services or advice to, any Competing Business (as defined below); provided, however, Executive may invest in the securities of any enterprise with the power to vote up to two percent (2%) of the capital stock of such enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934;

(2) Directly or indirectly, either as principal, agent, independent contractor, consultant, director, officer, employee, employer, advisor (whether paid or unpaid), stockholder, partner or in any other individual or representative capacity whatsoever, either for his own benefit or for the benefit of any other person or entity, solicit, divert or take away, any customers, clients, or business acquisition or other business opportunities of Company; or

(3) Directly or indirectly, either as principal, agent, independent contractor, consultant, director, officer, employee, advisor (whether paid or unpaid), stockholder, partner or in any other individual or representative capacity whatsoever, either for his own benefit or for the benefit of any other person or entity, either (A) hire, attempt to hire, contact or solicit with respect to hiring any employee of Company (unless such employees' employment with the Company has been terminated prior to any such action), (B) induce or otherwise counsel, advise or encourage any employee of Company to leave the employment of Company, or (C) induce any distributor, representative or agent of Company to terminate or modify its relationship with Company.

"COMPETING BUSINESS" means any individual, business, firm, company, partnership, joint venture, organization, or other entity whose products or services compete in whole or in part, at any time during the Employment Period with the products or services (or planned products and services) of Company including,

without limitation, genomics research, development and products including, without limitation, the Human Gene Trap(TM) database, OmniBank(R), homologous recombination, DNA sequencing, phenotypic analysis and drug target validation.

(b) ESSENTIAL NATURE OF NON-COMPETE OBLIGATION. It is acknowledged, understood and agreed by and between the parties hereto that the covenants made by Executive in this Section 11 are essential elements of this Agreement and that, but for the agreement of the Executive to comply with such covenants, Company would not have entered into this Agreement.

(c) NECESSITY AND REASONABLENESS OF NON-COMPETE OBLIGATION. Executive hereby specifically acknowledges and agrees that:

(1) Company has expended and will continue to expend substantial time, money and effort in developing its business;

(2) Executive will, in the course of his employment, be personally entrusted with and exposed to Confidential Information (as defined in Section 10);

(3) Company, during the Employment Period and thereafter, will be engaged in its highly competitive business in which many firms, including Company, compete;

(4) Executive could, after having access to Company's financial records, contracts, and other Confidential Information and know-how and, after receiving training by and experience with the Company, become a competitor;

(5) Company will suffer great loss and irreparable harm if Executive terminates his employment and enters, directly or indirectly, into competition with Company;

(6) The temporal and other restrictions contained in this Section 11 are in all respects reasonable and necessary to protect the business goodwill, trade secrets, prospects and other reasonable business interests of Company;

(7) The enforcement of this Agreement in general, and of this Section 11 in particular, will not work an undue or unfair hardship on Executive or otherwise be oppressive to him; it being specifically acknowledged and agreed by Executive that he has activities and other business interests and opportunities which will provide him adequate means of support if the provisions of this Section 11 are enforced after the Termination Date; and

(8) the enforcement of this Agreement in general, and of this Section 11 in particular, will neither deprive the public of needed goods or services nor otherwise be injurious to the public.

(d) JUDICIAL MODIFICATION. Executive agrees that if an arbitrator (pursuant to Section 21) or a court of competent jurisdiction determines that the length of time or any other restriction, or portion thereof, set forth in this Section 11 is overly restrictive and unenforceable, the arbitrator or court shall reduce or modify such restrictions to those which it deems reasonable and enforceable under the circumstances, and as so reduced or modified, the parties hereto agree that the restrictions of this Section 11 shall remain in full force and effect. Executive further agrees that if an arbitrator or court of competent jurisdiction determines that any provision of this Section 11 is invalid or against public policy, the remaining provisions of this Section 11 and the remainder of this Agreement shall not be affected thereby, and shall remain in full force and effect.

12. REMEDIES. In the event of any pending, threatened or actual breach of any of the covenants or provisions of Section 9, 10, or 11, it is understood and agreed by Executive that the remedy at law for a breach of any of the covenants or provisions of these Sections may be inadequate and, therefore, Company shall be entitled to a restraining order or injunctive relief from any court of competent jurisdiction, in addition to any other remedies at law and in equity. In the event that Company seeks to obtain a restraining order or injunctive relief, Executive hereby agrees that Company shall not be required to post any bond in connection therewith. Should a court of competent jurisdiction or an arbitrator (pursuant to Section 21) declare any provision of Section 9, 10, or 11 to be unenforceable due to an unreasonable restriction of duration or geographical area, or for any other reason, such court or arbitrator is hereby granted the consent of each of the Executive and Company to reform such provision and/or to grant the Company any relief, at law or in equity, reasonably necessary to protect the reasonable business interests of Company or any of its affiliated entities. Executive hereby acknowledges and agrees that all of the covenants and other provisions of Sections 9, 10, and 11 are reasonable and necessary for the protection of the Company's reasonable business interests. Executive hereby agrees that if the Company prevails in any action, suit or proceeding with respect to any matter arising out of or in connection with Section 9, 10, or 11, Company shall be entitled to all equitable and legal remedies, including, but not limited to, injunctive relief and compensatory damages.

13. DEFENSE OF CLAIMS. Executive agrees that, during the Employment Period and for a period of two (2) years after his Termination Date, upon request from the Company, he will cooperate with the Company and its Affiliates in the defense of any claims or actions that may be made by or against the Company or any of its Affiliates that affect his prior areas of responsibility, except if Executive's reasonable interests are adverse to the Company or Affiliates in such claim or action. To the extent travel is required to comply with the requirements of this Section 13, the Company shall, to the extent possible, provide Executive with notice at least 10 days prior to the date on which such travel would be required. The Company agrees to promptly pay or reimburse Executive upon demand for all of his reasonable travel and other direct expenses incurred, or to be reasonably incurred, to comply with his obligations under this Section 13. Following the Employment Period, however, the Executive shall be required to provide only such assistance to the Company only if (i) such assistance does not unreasonably interfere with Executive's then-current employment and (ii) Executive shall be reasonably compensated for his time.

14. DETERMINATIONS BY THE COMPENSATION COMMITTEE.

(a) TERMINATION OF EMPLOYMENT. Prior to a Change in Control (as defined in Section 6(b)), any question as to whether and when there has been a termination of Executive's employment, the cause of such termination, and the Termination Date, shall be determined by the Compensation Committee in its discretion exercised in good faith, subject to Executive's right to contest such determination. In the event the parties cannot agree on a determination under this section, their dispute shall be resolved in accordance with the procedures set forth in Section 21.

(b) COMPENSATION. Prior to a Change in Control (as defined in Section 6(b)), any question regarding salary, bonus and other compensation payable to Executive pursuant to this Agreement shall be determined by the Compensation Committee in its discretion exercised in good faith, subject to Executive's right to contest such determination. In the event the parties cannot agree on a determination under this section, their dispute shall be resolved in accordance with the procedures set forth in Section 21.

15. WITHHOLDINGS: RIGHT OF OFFSET. Company may withhold and deduct from any benefits and payments made or to be made pursuant to this Agreement (a) all federal, state, local and other taxes as may be required pursuant to any law or governmental regulation or ruling, (b) all other employee deductions made with respect to Company's employees generally, and (c) any advances made to Executive and owed to Company.

16. NONALIENATION. The right to receive payments under this Agreement shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge or encumbrance by Executive, his dependents or beneficiaries, or to any other person who is or may become entitled to receive such payments hereunder. The right to receive payments hereunder shall not be subject to or liable for the debts, contracts, liabilities, engagements or torts of any person who is or may become entitled to receive such payments, nor may the same be subject to attachment or seizure by any creditor of such person under any circumstances, and any such attempted attachment or seizure shall be void and of no force and effect.

17. INCOMPETENT OR MINOR PAYEES. Should the Board determine that any person to whom any payment is payable under this Agreement has been determined to be legally incompetent or is a minor, any payment due hereunder may, notwithstanding any other provision of this Agreement to the contrary, be made in any one or more of the following ways: (a) directly to such minor or person; (b) to the legal guardian or other duly appointed personal representative of the person or estate of such minor or person; or (c) to such adult or adults as have, in the good faith knowledge of the Board, assumed custody and support of such minor or person; and any payment so made shall constitute full and complete discharge of any liability under this Agreement in respect to the amount paid.

18. SEVERABILITY. It is the desire of the parties hereto that this Agreement be enforced to the maximum extent permitted by law, and should any provision contained herein be held unenforceable by a court of competent jurisdiction or arbitrator (pursuant to Section 21), the parties hereby agree and consent that such provision shall be reformed to create a valid and enforceable

provision to the maximum extent permitted by law; provided, however, if such provision cannot be reformed, it shall be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement.

19. TITLE AND HEADINGS; CONSTRUCTION. Titles and headings to Sections hereof are for the purpose of reference only and shall in no way limit, define or otherwise affect the provisions hereof. Any and all Exhibits referred to in this Agreement are, by such reference, incorporated herein and made a part hereof for all purposes. The words "herein", "hereof", "hereunder" and other compounds of the word "here" shall refer to the entire Agreement and not to any particular provision hereof.

20. CHOICE OF LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW JERSEY, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW.

21. ARBITRATION.

(a) ARBITRABLE MATTERS. If any dispute or controversy arises between Executive and the Company relating to (1) this Agreement in any way or arising out of the parties' respective rights or obligations under this Agreement or (2) the employment of Executive or the termination of such employment, then either party may submit the dispute or controversy to arbitration under the then-current Commercial Arbitration Rules of the American Arbitration Association (AAA) (the "RULES"); provided, however, the Company shall retain its rights to seek a restraining order or injunctive relief pursuant to Section 12. Any arbitration hereunder shall be conducted before a single arbitrator unless the parties mutually agree that the arbitration shall be conducted before a panel of three arbitrators. The arbitrator shall be selected (from lists provided by the AAA) through mutual agreement of the parties, if possible. If the parties fail to reach agreement upon appointment of the arbitrator within twenty (20) days following receipt by one party of the other party's notice of desire to arbitrate, then within five (5) days following the end of such 20-day period, each party shall select one arbitrator who, in turn, shall within five (5) days select a third arbitrator who shall be the single arbitrator hereunder. The site for any arbitration hereunder shall be in Mercer County, New Jersey, unless otherwise mutually agreed by the parties, and the parties hereby waive any objection that the forum is inconvenient.

(b) SUBMISSION TO ARBITRATION. The party submitting any matter to arbitration shall do so in accordance with the Rules. Notice to the other party shall state the question or questions to be submitted for decision or award by arbitration. Notwithstanding any provision of this Section 21, Executive shall be entitled to seek specific performance of the Executive's right to be paid during the pendency of any dispute or controversy arising under this Agreement. In order to prevent irreparable harm, the arbitrator may grant temporary or permanent injunctive or other equitable relief for the protection of property rights.

(c) ARBITRATION PROCEDURES. The arbitrator shall set the date, time and place for each hearing, and shall give the parties advance written notice in accordance with the Rules. Any party may be represented by counsel or other authorized representative at any hearing.

The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1 et. seq. (or its successor). The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of New Jersey to the claims asserted to the extent that the arbitrator determines that federal law is not controlling.

(d) COMPLIANCE WITH AWARD.

(1) Any award of an arbitrator shall be final and binding upon the parties to such arbitration, and each party shall immediately make such changes in its conduct or provide such monetary payment or other relief as such award requires. The parties agree that the award of the arbitrator shall be final and binding and shall be subject only to the judicial review permitted by the Federal Arbitration Act.

(2) The parties hereto agree that the arbitration award may be entered with any court having jurisdiction and the award may then be enforced as between the parties, without further evidentiary proceedings, the same as if entered by the court at the conclusion of a judicial proceeding in which no appeal was taken. The Company and the Executive hereby agree that a judgment upon any award rendered by an arbitrator may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(e) COSTS AND EXPENSES. Each party shall pay any monetary amount required by the arbitrator's award, and the fees, costs and expenses for its own counsel, witnesses and exhibits, unless otherwise determined by the arbitrator in the award. The compensation and costs and expenses assessed by the arbitrator and the AAA shall be split evenly between the parties unless otherwise determined by the arbitrator in the award. If court proceedings to stay litigation or compel arbitration are necessary, the party who opposes such proceedings to stay litigation or compel arbitration, if such party is unsuccessful, shall pay all associated costs, expenses, and attorney's fees which are reasonably incurred by the other party as determined by the arbitrator.

22. BINDING EFFECT; THIRD PARTY BENEFICIARIES. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and to their respective heirs, executors, personal representatives, successors and permitted assigns hereunder, but otherwise this Agreement shall not be for the benefit of any third parties.

23. ENTIRE AGREEMENT AND AMENDMENT. This Agreement contains the entire agreement of the parties with respect to Executive's employment and the other matters covered herein; moreover, this Agreement supersedes all prior and contemporaneous agreements and understandings, oral or written, between the parties hereto concerning the subject matter hereof. This Agreement may be amended, waived or terminated only by a written instrument executed by both parties hereto.

24. SURVIVAL OF CERTAIN PROVISIONS. Wherever appropriate to the intention of the parties hereto, the respective rights

and obligations of said parties, including, but not limited to, the rights and obligations set forth in Sections 6 through 14 and 21 hereof, shall survive any termination or expiration of this Agreement.

25. WAIVER OF BREACH. No waiver by either party hereto of a breach of any provision of this Agreement by any other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party or any similar or dissimilar provision or condition at the same or any subsequent time. The failure of either party hereto to take any action by reason of any breach will not deprive such party of the right to take action at any time while such breach continues.

26. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the Company and its Affiliates (as defined in Section 2), and upon any successor to the Company following a Change in Control (as defined in Section 6(b)); provided, however, any such assignment by the Company shall not relieve the Company of its obligations hereunder unless such successor to the Company has fully and expressly assumed the obligations of the Company to the Executive under this Agreement. Any reference herein to "Company" shall mean the Company as first written above, as well as any successor or successors thereto.

This Agreement is personal to Executive, and Executive may not assign, delegate or otherwise transfer all or any of his rights, duties or obligations hereunder without the consent of the Board. Any attempt by the Executive to assign, delegate or otherwise transfer this Agreement, any portion hereof, or his rights, duties or obligations hereunder without the prior approval of the Board shall be deemed void and of no force and effect.

27. NOTICES. Notices provided for in this Agreement shall be in writing and shall be deemed to have been duly received (a) when delivered in person or sent by facsimile transmission, (b) on the first business day after it is sent by air express overnight courier service, or (c) on the third business day following deposit in the United States mail, registered or certified mail, return receipt requested, postage prepaid and addressed, to the following address, as applicable:

(1) If to Company, addressed to:

Lexicon Genetics Incorporated  
4000 Research Forest Drive  
The Woodlands, Texas 77381  
Attention: Corporate Secretary

(2) If to Executive, addressed to the address set forth below his name on the execution page hereof;

or to such other address as either party may have furnished to the other party in writing in accordance with this Section 27.

28. COUNTERPARTS. This Agreement may be executed in any number of 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. Each counterpart may consist of a copy hereof

containing multiple signature pages, each signed by one party, but together signed by both parties hereto.

29. EXECUTIVE ACKNOWLEDGMENT; NO STRICT CONSTRUCTION. The Executive represents to Company that he is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that he has read the Agreement and that he understands its terms and conditions. Executive also represents that he is free to enter into this Agreement including, without limitation, that he is not subject to any other contract of employment or covenant not to compete that would conflict in any way with his duties under this Agreement. Executive acknowledges that he has had the opportunity to consult with counsel of his choice, independent of Employer's counsel, regarding the terms and conditions of this Agreement and has done so to the extent that he, in his unfettered discretion, deemed to be appropriate.

30. SUPERSEDING AGREEMENT. This Employment Agreement shall supersede any prior employment agreement entered into between the Company and Executive, including Executive's agreement with Coelacanth Corporation, from and after the Effective Date.

31. DATE CERTAIN. This Agreement shall be of no further force and effect as of July 31, 2001 unless the Merger is completed on or before such date.

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and Company has caused this Agreement to be executed in its name and on its behalf, to be effective as of the Effective Date first above written.

EXECUTIVE:

Signature:

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Hartmuth Kolb, Ph.D.

Date:

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Address for Notices:

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LEXICON GENETICS INCORPORATED

By:

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Arthur T. Sands, M.D., Ph.D.  
President and Chief Executive Officer

Date:

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of July 12, 2001 (this "AGREEMENT"), by and between Lexicon Genetics Incorporated, a Delaware corporation (hereafter "COMPANY"), and David Boulton (hereafter "EXECUTIVE"), an individual and resident of Monmouth County, New Jersey.

W I T N E S S E T H:

WHEREAS, subject to the completion of the merger (the "MERGER") contemplated by the Agreement and Plan of Merger, dated June 13, 2001, among the Company, Angler Acquisition Corp., and Coelacanth Corporation (after the Merger, the "SUBSIDIARY"), the Company wishes to secure the services of the Executive subject to the terms and conditions hereafter set forth; and

WHEREAS, the Executive is willing to enter into this Agreement, which shall become effective upon the effective time of the Merger (the "EFFECTIVE DATE"), upon the terms and conditions hereafter set forth;

NOW, THEREFORE, in consideration of the mutual promises and agreements set forth herein, the parties hereto agree as follows:

1. EMPLOYMENT. During the Employment Period (as defined in Section 4 hereof), the Company or the Subsidiary shall employ Executive, and Executive shall serve, as Vice President of Technology Operations of the Company and the Subsidiary with responsibility for the overall management of technology related work at the Subsidiary including but not limited to lab robotics and automation, automated chemistry platforms, information systems, and facilities. Executive's principal place of employment shall be at the Subsidiary's principal facilities in East Windsor, New Jersey, or at such other location for the Subsidiary's principal facilities during the Employment Period. If the Subsidiary is Executive's employer, the Subsidiary hereby irrevocably guarantees all of the Company's obligations under this Agreement.

2. DUTIES AND RESPONSIBILITIES OF EXECUTIVE.

(a) During the Employment Period, Executive shall devote his services full time to the business of the Company and its Affiliates (as defined below), and perform the duties and responsibilities assigned to him by the Chief Executive Officer ("CEO") or Board of Directors (the "BOARD") of the Company to the best of his ability and with reasonable diligence. Executive agrees to cooperate fully with the Board, CEO and other executive officers of the Company, and not to engage in any activity which conflicts with or interferes with the performance of his duties hereunder. During the Employment

Period, Executive shall devote his best efforts and skills to the business and interests of Company, do his utmost to further enhance and develop Company's best interests and welfare, and endeavor to improve his ability and knowledge of Company's business, in an effort to increase the value of his services for the mutual benefit of the parties hereto. During the Employment Period, it shall not be a violation of this Agreement for Executive to (1) serve on corporate, civic, or charitable boards or committees (except for boards or committees of a Competing Business (as defined in Section 11)), (2) deliver lectures, fulfill teaching or speaking engagements, or (3) manage personal investments; provided that such activities do not materially interfere with performance of Executive's responsibilities under this Agreement.

For purposes of this Agreement, "AFFILIATE" means any entity which owns or controls, is owned or controlled by, or is under common ownership or control with, the Company, including, without limitation, the Subsidiary.

(b) Executive represents and covenants to Company that he is not subject or a party to any employment agreement, noncompetition covenant, nondisclosure agreement, or any similar agreement, covenant, understanding, or restriction that would prohibit Executive from executing this Agreement and fully performing his duties and responsibilities hereunder, or would in any manner, directly or indirectly, limit or affect the duties and responsibilities that may now or in the future be assigned to Executive hereunder.

### 3. COMPENSATION.

(a) During the Employment Period, the Company shall pay, or shall cause the Subsidiary to pay, to Executive an annual base salary of \$165,000 in consideration for his services under this Agreement, payable on a pro rata basis in not less than monthly installments, in conformity with the Company's customary payroll practices for executive salaries. Executive's base salary shall be subject to review at least annually, and such salary may be adjusted, depending upon the performance of the Company and Executive, upon the recommendation of the Compensation Committee of the Board (the "COMPENSATION COMMITTEE"). All salary, bonus and other compensation payments hereunder shall be subject to all applicable payroll and other taxes.

(b) As promptly as practicable after the end of each calendar year during the Employment Period, the Compensation Committee shall determine whether Executive is entitled to a bonus based on the attainment of performance goals during the calendar year then ended (the "BONUS YEAR"). For each Bonus Year during the Employment Period (including the Bonus Year commencing on the Effective Date and ending on December 31, 2001), the Compensation Committee shall establish certain performance goals for the Company and the Executive and a targeted annual bonus amount. The amount of the annual target bonus shall be within the sole discretion of the Compensation Committee, except that for the 2001 Bonus Year, the annual target bonus shall be 20% of Executive's 2001 base salary. The target bonus shall be paid to Executive within 60 days after the end of the applicable Bonus Year based on the extent to which the performance goals and objectives for the Bonus Year have been achieved. The full amount of the target bonus shall be paid if substantially all of the designated performance goals and objectives have been achieved for the Bonus Year; if not, the Compensation Committee, in its discretion exercised in good faith, may award a target bonus to Executive in an amount less than the full target bonus for that Bonus Year. The Compensation Committee may also award additional bonuses or other compensation to Executive at any time in its complete discretion.

(c) On each of the Effective Date and, subject to Executive's continued employment with the Company or the Subsidiary at such time, the first anniversary of the Effective Date, the Company shall pay, or shall cause the Subsidiary to pay, to Executive a retention bonus in the amount of \$75,000. In the event that Executive terminates his employment without Good Reason or the Company terminates Executive's employment with Cause within one year after the time a retention bonus payment is made (i.e., after the first and second anniversary of the Effective Date, respectively), Executive will (i) repay such retention bonus payment (net of FICA and other withholdings for which Executive will not be reimbursed) to the Company or the Subsidiary, as applicable, as follows: (A) 50% of such net amount within 30 days of the Company's request therefor and (B) 50% of such amount not later than June 30 of the following calendar year and (ii) forfeit the amount of any unpaid retention bonus.

(d) Options for an aggregate of 150,000 shares of the Company's common stock shall be granted on the Effective Date, with an exercise price equal to the fair market value (as defined in the Company's 2000 Equity Incentive Plan (the "EQUITY INCENTIVE PLAN")) of the Company's common stock on such date, subject to the terms of a stock option agreement between Executive and the Company and the letter from the Company to Coelacanth dated June 13, 2001.

4. TERM OF EMPLOYMENT. Executive's initial term of employment with the Company under this Agreement shall be for the period beginning on the Effective Date and ending at midnight (CST) on December 31, 2002, unless Notice of Termination pursuant to Section 7 is given by either the Company or Executive to the other party. The Company and Executive shall each have the right to give Notice of Termination at will, with or without cause, at any time, subject to the terms and conditions of this Agreement regarding the rights and duties of the parties upon termination of employment. The term of employment hereunder ending on December 31, 2002, shall be referred to herein as the "INITIAL TERM OF EMPLOYMENT." On December 31, 2002 and on December 31st of each succeeding year (each such date being referred to as a "RENEWAL DATE"), this Agreement shall automatically renew and extend for a period of one (1) additional year (a "RENEWAL TERM") unless written notice of non-renewal is delivered from one party to the other at least sixty (60) days prior to the relevant Renewal Date or, alternatively, the parties may mutually agree to voluntarily enter into a new employment agreement at any time. The period from the Effective Date through the date of Executive's termination of employment at any time for whatever reason shall be referred to herein as the "EMPLOYMENT PERIOD."

5. BENEFITS. Subject to the terms and conditions of this Agreement, during the Employment Period, Executive shall be entitled to the following:

(a) REIMBURSEMENT OF BUSINESS EXPENSES. The Company shall pay or reimburse, or shall cause the Subsidiary to pay and reimburse, Executive for all reasonable travel, entertainment and other expenses paid or incurred by Executive in performing his business obligations hereunder. Executive shall provide substantiating documentation for expense reimbursement requests as reasonably required by the Company.

(b) BENEFITS. Executive shall be entitled to and shall receive all other benefits and conditions of employment available generally to executives of the Company pursuant to Company or Subsidiary plans and programs, including, but not limited to, group health insurance benefits, dental benefits, life insurance benefits, disability benefits, and pension and retirement benefits. The Company shall not be obligated to institute, maintain, or refrain from changing, amending, or discontinuing, any such employee benefit program or plan, so long as such actions are similarly applicable to covered executives generally.

Notwithstanding the previous paragraph, the Company shall provide, or shall cause the Subsidiary to provide, Executive with long-term disability ("LTD") insurance coverage, at no cost to Executive, that provides income replacement benefits to Executive, if he should incur a long-term disability covered under such policy, in an amount at least equal to 60% of his base salary at the time of such disability, which benefits shall begin after a waiting period that does not exceed six months. The income replacement benefits described in the previous sentence shall remain payable at least until Executive attains the age of 65, provided that he remains unable to perform the essential functions of his occupation during such period. To the extent that the Company's or the Subsidiary's LTD policy which covers employees generally does not provide sufficient coverage to Executive, as described in the previous sentence, Company agrees to purchase, or cause Subsidiary to purchase, a supplemental LTD policy for Executive from a reputable insurer and to pay the premiums on Executive's behalf during the Employment Period.

Notwithstanding the first paragraph of this Section 5(b), the Company shall pay, or cause the Subsidiary to pay, for term life insurance coverage on Executive's life, with the beneficiary(ies) thereof designated by Executive, with a death benefit in an amount not less than twice Executive's base salary (pursuant to Section 3(a)) as such base salary is set on each January 1 during the Employment Period. Upon request, Executive agrees to take any physical exams, and to provide such information, which are reasonably necessary or appropriate to secure or maintain such term life insurance coverage.

(c) PAID VACATION. Executive shall be entitled to a paid annual vacation of three (3) weeks. Vacation time may be accumulated and carried over by Executive into any subsequent year(s); provided, however, Executive shall not be permitted to accumulate more than six (6) weeks of accrued and unused vacation. In addition, the Executive shall be allowed up to five (5) days each year to attend professional continuing education meetings or seminars; provided that attendance at such meetings or seminars shall be planned for minimum interference with the Company's business.

6. RIGHTS AND PAYMENTS UPON TERMINATION. The Executive's right to compensation and benefits for periods after the date on which his employment with the Company and its Affiliates (as defined in Section 2) terminates for whatever reason (the "TERMINATION DATE") shall be determined in accordance with this Section 6.

(a) ACCRUED SALARY AND VACATION PAYMENTS. Executive shall be entitled to the following payments under this Section 6(a) regardless of the reason for termination, in addition to any payments or benefits to which the Executive is entitled under the terms of any employee benefit plan or the provisions of Section 6(b):

(1) his accrued but unpaid salary through his Termination Date; and

(2) his accrued but unpaid vacation pay for the period ending on his Termination Date in accordance with Section 5(c) above.

(b) SEVERANCE PAYMENTS.

(1) At any time prior to a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates his own employment hereunder for Good Reason (as defined below), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to six (6) consecutive months following the Termination Date. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments (using a 5% discount rate) in a single payment to Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive's estate within 60 days of his death. Such severance payments shall be subject to Sections 10 and 11 hereof.

Prior to a Change in Control, in the event that Executive's employment is terminated through notice of non-renewal as of the end of the Initial Term of Employment (pursuant to Section 4) or any one-year Renewal Term, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for each month following his Termination Date, not to exceed six months, that Executive is (A) not in violation of the confidential information, non-competition and other covenants of Sections 10 and 11 hereof and (B) not employed by another employer, as determined by the Company.

(2) At any time after a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates his own employment hereunder for Good Reason (as defined below in this Section 6(c)), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any

bonuses or extraordinary compensation except as provided below in this paragraph) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to twelve (12) consecutive months following the Termination Date, plus an additional single sum payment equal to one-half of Executive's target bonus (pursuant to Section 3(b)) for the Bonus Year in which the termination occurred, which bonus shall be payable within 30 days from the Termination Date. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments in a single payment (using a 5% discount rate) to Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive's estate within 60 days of his death.

After a Change in Control, in the event that the Company terminates Executive's employment through notice of nonrenewal as of the end of the Initial Term of Employment (pursuant to Section 4) or any one-year Renewal Term, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period of six (6) consecutive months following the Termination Date.

(3) Except as otherwise specifically provided in this Section 6(b), severance payments shall be in addition to, and shall not reduce or offset, any other payments that are due to Executive from the Company (or any other source) or under any other agreements, except that severance payments hereunder shall offset any severance benefits otherwise due to Executive under any severance pay plan or program maintained by the Company that covers its employees generally. The provisions of this Section 6(b) shall supersede any conflicting provisions of this Agreement but shall not be construed to curtail, offset or limit Executive's rights to any other payments, whether contingent upon a Change in Control (as defined below) or otherwise, under this Agreement or any other agreement, contract, plan or other source of payment.

(4) A "CHANGE IN CONTROL" of the Company shall be deemed to have occurred if any of the following shall have taken place: (A) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) other than Gordon Cain and his Affiliates (defined below), taken together, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, or any successor provisions thereto), directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company's then-outstanding voting securities; (B) the approval by the stockholders of the Company of a reorganization, merger, or consolidation, in each case with respect to which persons who were stockholders of the Company immediately prior to such reorganization, merger, or consolidation do not, immediately thereafter, own or control more than fifty percent (50%) of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Company's then outstanding securities in

substantially the same proportion as their ownership of the Company's outstanding voting securities prior to such reorganization, merger or consolidation; (C) a liquidation or dissolution of the Company or the sale of all or substantially all of the Company's assets; (D) in the event any person is elected by the stockholders of the Company to the Board who has not been nominated for election by a majority of the Board or any duly appointed committee thereof; or (E) following the election or removal of directors, a majority of the Board consists of individuals who were not members of the Board two (2) years before such election or removal, unless the election of each director who is not a director at the beginning of such two-year period has been approved in advance by directors representing at least a majority of the directors then in office who were directors at the beginning of the two-year period. The Board, in its discretion, may deem any other corporate event affecting the Company to be a "Change in Control" hereunder.

An "AFFILIATE" of Gordon Cain shall include (1) any person or entity directly or indirectly controlled by Gordon Cain, (2) any spouse, immediate family member or relative of Gordon Cain, (3) any trust in which Gordon Cain or any person described in clause (2) above has a beneficial interest, and (4) any trust established by Gordon Cain or any person described in clause (2) above, whether or not such person has a beneficial interest in such trust. For purposes of this definition of "Affiliate," the term "control" means the power to direct the management and policies of a person, directly or through one or more intermediaries, whether through the ownership of voting securities by contract, or otherwise.

(5) "DISABILITY" means a permanent and total disability which entitles Executive to disability income payments under the Company's long-term disability plan or policy as then in effect which covers Executive pursuant to Section 5(b). If Executive is not covered under the Company's long-term disability plan or policy at such time for whatever reason or under a supplemental LTD policy provided by the Company, then the term "Disability" hereunder shall mean a "permanent and total disability" as defined in Section 22(e)(3) of the Code and, in this case, the existence of any such Disability shall be certified by a physician acceptable to both the Company and Executive. In the event that the parties are not able to agree on the choice of a physician, each shall select a physician who, in turn, shall select a third physician to render such certification. All costs relating to the determination of whether Executive has incurred a Disability shall be paid by the Company.

(6) "CODE" means the Internal Revenue Code of 1986, as amended. References in this Agreement to any Section of the Code shall include any successor provisions of the Code or its successor.

(7) "CAUSE" means a termination of employment directly resulting from material misconduct consisting of (1) the Executive having engaged in intentional misconduct causing a material violation by the Company of any state or federal laws, (2) the Executive having engaged in a theft of corporate funds or corporate assets or in a material act of fraud upon the Company, (3) an act of personal dishonesty taken

by the Executive that was intended to result in personal enrichment of the Executive at the expense of the Company, (4) Executive's final conviction (or the entry of a plea of nolo contendere or equivalent plea) in a court of competent jurisdiction of a felony, or (5) a breach by the Executive during the Employment Period of the provisions of Sections 9, 10, and 11 hereof, if such breach results in a material injury to the Company. For purposes of this definition of "Cause", the term "Company" shall mean the Company or any of its Affiliates (as defined in Section 2).

(8) "GOOD REASON" means the occurrence of any of the following events without Executive's express written consent:

(A) (i) Before a Change in Control (as defined in Section 6(b)), a five percent (5%) or greater reduction in Executive's annual base salary or (ii), after a Change in Control, any reduction in Executive's annual base salary, unless such reduction is specifically agreed to in writing by Executive, provided that, in either event, Executive specifically terminates his employment for Good Reason hereunder within 120 days from the date that he has actual notice of such reduction; or

(B) Before or after a Change in Control, (i) any breach by the Company of any material provision of this Agreement or (ii) Executive's authority, duties or responsibilities for the Company or its successor are materially reduced, provided that Executive specifically terminates his employment for Good Reason hereunder within 120 days from the date that he has actual notice of such material breach or material reduction in authority, duties or responsibilities; or

(C) Only following a Change in Control, any of the following events will constitute Good Reason, provided that Executive specifically terminates his employment for Good Reason hereunder within 12 months following his receipt of actual notice of an event listed below:

(i) the failure by the Company or its successor to expressly assume and agree to continue and perform this Agreement in the same manner and to the same extent that the Company would be required to perform if such Change in Control had not occurred; or

(ii) the Company or its successor fails to continue in effect any pension, medical, health-and-accident, life insurance, or disability income plan or program in which Executive was participating at the time of the Change in Control (or plans providing Executive with substantially similar benefits), or the taking of any action by the Company or its successor that would adversely affect Executive's participation in or materially reduce his benefits under any such plan that was enjoyed by him immediately prior to the Change in Control,

unless the Company or its successor provides a replacement plan with substantially similar benefits.

Notwithstanding the preceding provisions of this Section 6(b)(8), if Executive desires to terminate his employment for Good Reason, he shall first give written notice of the facts and circumstances providing the basis for Good Reason to the Board or the Compensation Committee, and allow the Company thirty (30) days from the date of such notice to remedy, cure or rectify the situation giving rise to Good Reason to the reasonable satisfaction of Executive.

7. NOTICE OF TERMINATION. Any termination by the Company or Executive shall be communicated by Notice of Termination to the other party hereto. For purposes of this Agreement, the term "NOTICE OF Termination" means a written notice that, in the case of a termination by the Company or by Executive for Good Reason, indicates the specific termination provision of this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

8. NO MITIGATION REQUIRED. Executive shall not be required to mitigate the amount of any payment provided for under this Agreement by seeking other employment or in any other manner.

9. CONFLICTS OF INTEREST.

(a) In keeping with his fiduciary duties to Company, Executive hereby agrees that he shall not become involved in a conflict of interest, or upon discovery thereof, allow such a conflict to continue at any time during the Employment Period. Moreover, Executive agrees that he shall immediately disclose to the Board any facts which might involve a conflict of interest that has not been approved by the Board.

(b) Executive and Company recognize and acknowledge that it is not possible to provide an exhaustive list of actions or interests which may constitute a "conflict of interest." Moreover, Company and Executive recognize there are many borderline situations. In some instances, full disclosure of facts by the Executive to the Board may be all that is necessary to enable Company to protect its interests. In others, if no improper motivation appears to exist and Company's interests have not demonstrably suffered, prompt elimination of the outside interest may suffice. In other serious instances, it may be necessary for the Company to terminate Executive's employment for Cause (as defined in Section 6(b)). The Board reserves the right to take such action as, in its good faith judgment, will resolve the conflict of interest.

(c) Executive hereby agrees that any direct or indirect interest in, connection with, or benefit from any outside activities, particularly commercial activities, which interest might adversely affect the Company or any of its Affiliates (as defined in Section 2), involves a possible conflict of interest. Circumstances in which a conflict of interest on the part of Executive would or might arise, and which must be reported immediately to the Board, include, but are not limited to, any of the following:

(1) Ownership by the Executive and his immediate family members of more than a two percent (2%) interest, on an aggregated basis, in any lender, supplier, contractor, customer or other entity with which Company or any of its Affiliates does business; or

(2) Misuse of information, property or facilities to which Executive has access in a manner which is demonstrably and materially injurious to the interests of Company or any of its Affiliates, including its business, reputation or goodwill.

#### 10. CONFIDENTIAL INFORMATION.

(a) NON-DISCLOSURE OBLIGATION OF EXECUTIVE. For purposes of this Section 10, all references to Company shall mean and include its Affiliates (as defined in Section 2). Executive hereby acknowledges, understands and agrees that all Confidential Information, as defined in Section 10(b), whether developed by Executive or others employed by or in any way associated with Executive or Company, is the exclusive and confidential property of Company and shall be regarded, treated and protected as such in accordance with this Agreement. Executive acknowledges that all such Confidential Information is in the nature of a trade secret. Failure to mark any writing confidential shall not affect the confidential nature of such writing or the information contained therein.

(b) DEFINITION OF CONFIDENTIAL INFORMATION. The term "CONFIDENTIAL INFORMATION" shall mean information, whether or not originated by Executive, which is used in Company's business and (1) is proprietary to, about or created by Company; (2) gives Company some competitive business advantage or the opportunity of obtaining such advantage, or the disclosure of which could be detrimental to the interests of Company; (3) is designated as Confidential Information by Company, known by the Executive to be considered confidential by Company, or from all the relevant circumstances considered confidential by Company, or from all the relevant circumstances should reasonably be assumed by Executive to be confidential and proprietary to Company; or (4) is not generally known by non-Company personnel. Such Confidential Information includes, but is not limited to, the following types of information and other information of a similar nature (whether or not reduced to writing or designated as confidential):

(1) Work product resulting from or related to the research, development or production of the programs of the Company including, without limitation, the Human Gene Trap(TM) database, OmniBank(R), homologous recombination, DNA sequencing, phenotypic analysis, drug target validation and drug discovery;

(2) Internal Company personnel and financial information, vendor names and other vendor information (including vendor characteristics, services and agreements), purchasing and internal cost information, internal service and operational manuals, and the manner and methods of conducting Company's business;

(3) Marketing, partnering and business and development plans, price and cost data, price and fee amounts, pricing and billing policies, quoting procedures, marketing techniques and methods of obtaining business, forecasts and forecast assumptions and volumes, and future plans and potential strategies of the Company which have been or are being discussed; and

(4) Business acquisition and other business opportunities.

(c) EXCLUSIONS FROM CONFIDENTIAL INFORMATION. The term "CONFIDENTIAL INFORMATION" shall not include (i) information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), (ii) the general skills and experience gained during Executive's work with the Company which Executive could reasonably have been expected to acquire in similar work with another company and (iii) any information excluded from Executive's Proprietary Information and Inventions Agreement dated August 15, 2000 with Coelacanth Corporation.

(d) COVENANTS OF EXECUTIVE. As a consequence of Executive's acquisition or anticipated acquisition of Confidential Information, Executive shall occupy a position of trust and confidence with respect to Company's affairs and business. In view of the foregoing and of the consideration to be provided to Executive, Executive agrees that it is reasonable and necessary that Executive make the following covenants:

(1) At any time during the Employment Period and within ten (10) years after the Employment Period, Executive shall not disclose Confidential Information to any person or entity, either inside or outside of Company, other than as necessary in carrying out duties on behalf of Company, without obtaining Company's prior written consent (unless such disclosure is compelled pursuant to law, court order or subpoena or other legal process, and at which time Executive gives notice of such proceedings to Company), and Executive will take all reasonable precautions to prevent inadvertent disclosure of such Confidential Information. This prohibition against Executive's disclosure of Confidential Information includes, but is not limited to, disclosing the fact that any similarity exists between the Confidential Information and information independently developed by another person or entity, and Executive understands that such similarity does not excuse Executive from abiding by his covenants or other obligations under this Agreement.

(2) Except as otherwise required by law or legal process, at any time during or after the Employment Period, Executive shall not use, copy or transfer Confidential Information other than as necessary in carrying out his duties on behalf of Company, without first obtaining Company's prior written consent, and will take all reasonable precautions to prevent inadvertent use, copying or transfer of such Confidential Information. This prohibition against Executive's use, copying, or transfer of Confidential Information includes, but is not limited to, selling, licensing or otherwise exploiting, directly or indirectly, any products or services (including databases, written documents and software in any form) which embody or are derived from Confidential Information, or exercising judgment in performing analyses based upon knowledge of Confidential Information.

(e) RETURN OF CONFIDENTIAL MATERIAL. Executive shall promptly turn over to the person designated by the Board or CEO all originals and copies of materials containing Confidential Information in the Executive's possession, custody, or control upon request or upon termination of Executive's employment with Company. Executive agrees to attend a termination interview with the person or persons designated by the Board or CEO in the Company's offices for a reasonable time period. The purposes of the termination interview shall be (1) to confirm turnover of all Confidential Information, (2) discuss any questions Executive may have about his continuing obligations under this Agreement, (3) answer questions related to his duties and on-going projects to allow a temporary or permanent successor to obtain a better understanding of the employment position, (4) confirm the number of any outstanding stock options, or other long-term incentive awards, and their vested percentages and other terms and conditions, and (5) any other topics relating to the business affairs of Company or its Affiliates as determined by the Company.

(f) INVENTIONS. Any and all inventions, products, discoveries, improvements, copyrightable or patentable works or products, trademarks, service marks, ideas, processes, formulae, methods, designs, techniques and trade secrets (collectively hereinafter referred to as "INVENTIONS") made, developed, conceived or resulting from work performed by Executive (alone or in conjunction with others, during regular hours of work or otherwise) while he is employed by Company and which may be directly or indirectly useful in, or related to, the business of Company (including, without limitation, research and development activities of Company), or which are made using any equipment, facilities, Confidential Information, materials, labor, money, time or other resources of Company, shall be promptly disclosed by Executive to the person or persons designated by the Board or CEO, shall be deemed Confidential Information for purposes of this Agreement, and shall be Company's exclusive property. Executive shall, upon Company's reasonable request during or after the Employment Period, execute any documents and perform all such acts and things which are necessary or advisable in the opinion of Company to cause issuance of patents to, or otherwise obtain recorded protection of right to intellectual property for, Company with respect to Inventions that are to be Company's exclusive property under this Section 10, or to transfer to and vest in Company full and exclusive right, title and interest in and to such Inventions; provided, however, that the expense of securing any such protection of right to Inventions shall be borne by Company. In addition, during or after the Employment Period, Executive shall, at Company's expense, reasonably assist the Company in any reasonable and proper manner in enforcing any Inventions which are to be or become Company's exclusive property hereunder against infringement by others. Executive shall keep confidential and will hold for Company's sole use and benefit any Invention that is to be Company's exclusive property under this Section 10 for which full recorded protection of right has not been or cannot be obtained. The Company shall reasonably compensate Executive for any assistance Executive provides pursuant to this Section 10 after the Employment Period.

(g) EXCLUSIONS FROM INVENTIONS. Anything that would otherwise constitute an Invention for purposes of this Agreement but that was first made, conceived, learned or reduced to practice by Executive, alone or jointly with others, (i) prior to Executive's employment with Coelacanth Corporation, including without limitation any inventions or improvements set forth on Exhibit A hereto, or (ii) following the Employment Period are

excluded from the term "Inventions" as defined for purposes of this Agreement, and the Company agrees that it has no right, title or interest therein or claim with respect thereto.

(h) PROPERTY RIGHTS. In keeping with his fiduciary duties to Company, Executive hereby covenants and agrees that during his Employment Period, and for a period of three (3) months following his Termination Date, Executive shall promptly disclose in writing to Company any and all Inventions, which are conceived, developed, made or acquired by Executive, either individually or jointly with others, and which relate to, or are useful in, the business, products or services of Company including, without limitation, research and development activities of the Company, or which are made using any equipment, facilities, Confidential Information, material, labor, money, time or other resources of the Company. In consideration for his employment hereunder, Executive hereby specifically sells, assigns and transfers to Company all of his worldwide right, title and interest in and to all such Inventions.

If during the Employment Period, Executive creates any original work of authorship or other property fixed in any tangible medium of expression which (1) is the subject matter of copyright (including computer programs) and (2) directly relates to Company's present or planned business, products, or services, whether such property is created solely by Executive or jointly with others, such property shall be deemed a work for hire, with the copyright automatically vesting in Company. To the extent that any such writing or other property is determined not to be a work for hire for whatever reason, Executive hereby consents and agrees to the unconditional waiver of "moral rights" in such writing or other property, and to assign to Company all of his right, title and interest, including copyright, in such writing or other property.

Executive hereby agrees to (1) assist Company or its nominee at all times in the protection of any property that is subject to this Section 10, (2) not to disclose any such property to others without the written consent of Company or its nominee, except as required by his employment hereunder, and (3) at the request of Company, to execute such assignments, certificates or other interests as Company or its nominee may from time to time deem desirable to evidence, establish, maintain, perfect, protect or enforce its rights, title or interests in or to any such property. Following the Employment Period, however, the Executive shall be required to provide only such assistance to the Company only if (i) such assistance does not unreasonably interfere with Executive's then-current employment and (ii) Executive shall be reasonably compensated for his time.

(i) EMPLOYEE PROPRIETARY INFORMATION AGREEMENT. The provisions of this Section 10 shall not supersede the Employee Proprietary Information Agreement (the "PROPRIETARY AGREEMENT") between Employee and the Company (or any other agreement of similar intent) which shall remain in full force and effect and, moreover, this Agreement, the Proprietary Agreement and any such other similar agreement between the parties shall be construed and applied as being mutually consistent to the full extent possible.

(j) REMEDIES. In the event of a breach or threatened breach of any of the provisions of this Section 10, Company shall be entitled to an injunction ordering the return of all such Confidential Information and Inventions, and restraining Executive from using

or disclosing, for his benefit or the benefit of others, in whole or in part, any Confidential Information or Inventions. Executive further agrees that any breach or threatened breach of any of the provisions of this Section 10 would cause irreparable injury to Company, for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting Company from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

11. AGREEMENT NOT TO COMPETE. All references in this Section 11 to "COMPANY" shall mean and include its Affiliates (as defined in Section 2).

(a) PROHIBITED EXECUTIVE ACTIVITIES. Executive agrees that except in the ordinary course and scope of his employment hereunder during the Employment Period, Executive shall not, while employed by Company and for a period of six (6) months following his Termination Date, within the continental United States:

(1) Directly or indirectly engage or invest in, own, manage, operate, control or participate in the ownership, management, operation or control of, be employed by, associated or in any manner connected with, or render services or advice to, any Competing Business (as defined below); provided, however, Executive may invest in the securities of any enterprise with the power to vote up to two percent (2%) of the capital stock of such enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934;

(2) Directly or indirectly, either as principal, agent, independent contractor, consultant, director, officer, employee, employer, advisor (whether paid or unpaid), stockholder, partner or in any other individual or representative capacity whatsoever, either for his own benefit or for the benefit of any other person or entity, solicit, divert or take away, any customers, clients, or business acquisition or other business opportunities of Company; or

(3) Directly or indirectly, either as principal, agent, independent contractor, consultant, director, officer, employee, advisor (whether paid or unpaid), stockholder, partner or in any other individual or representative capacity whatsoever, either for his own benefit or for the benefit of any other person or entity, either (A) hire, attempt to hire, contact or solicit with respect to hiring any employee of Company (unless such employees' employment with the Company has been terminated prior to any such action), (B) induce or otherwise counsel, advise or encourage any employee of Company to leave the employment of Company, or (C) induce any distributor, representative or agent of Company to terminate or modify its relationship with Company.

"COMPETING BUSINESS" means any individual, business, firm, company, partnership, joint venture, organization, or other entity whose products or services compete in whole or in part, at any time during the Employment Period with the products or services (or planned products and services) of Company including,

without limitation, genomics research, development and products including, without limitation, the Human Gene Trap(TM) database, OmniBank(R), homologous recombination, DNA sequencing, phenotypic analysis and drug target validation.

(b) ESSENTIAL NATURE OF NON-COMPETE OBLIGATION. It is acknowledged, understood and agreed by and between the parties hereto that the covenants made by Executive in this Section 11 are essential elements of this Agreement and that, but for the agreement of the Executive to comply with such covenants, Company would not have entered into this Agreement.

(c) NECESSITY AND REASONABLENESS OF NON-COMPETE OBLIGATION. Executive hereby specifically acknowledges and agrees that:

(1) Company has expended and will continue to expend substantial time, money and effort in developing its business;

(2) Executive will, in the course of his employment, be personally entrusted with and exposed to Confidential Information (as defined in Section 10);

(3) Company, during the Employment Period and thereafter, will be engaged in its highly competitive business in which many firms, including Company, compete;

(4) Executive could, after having access to Company's financial records, contracts, and other Confidential Information and know-how and, after receiving training by and experience with the Company, become a competitor;

(5) Company will suffer great loss and irreparable harm if Executive terminates his employment and enters, directly or indirectly, into competition with Company;

(6) The temporal and other restrictions contained in this Section 11 are in all respects reasonable and necessary to protect the business goodwill, trade secrets, prospects and other reasonable business interests of Company;

(7) The enforcement of this Agreement in general, and of this Section 11 in particular, will not work an undue or unfair hardship on Executive or otherwise be oppressive to him; it being specifically acknowledged and agreed by Executive that he has activities and other business interests and opportunities which will provide him adequate means of support if the provisions of this Section 11 are enforced after the Termination Date; and

(8) the enforcement of this Agreement in general, and of this Section 11 in particular, will neither deprive the public of needed goods or services nor otherwise be injurious to the public.

(d) JUDICIAL MODIFICATION. Executive agrees that if an arbitrator (pursuant to Section 21) or a court of competent jurisdiction determines that the length of time or any other restriction, or portion thereof, set forth in this Section 11 is overly restrictive and unenforceable, the arbitrator or court shall reduce or modify such restrictions to those which it deems reasonable and enforceable under the circumstances, and as so reduced or modified, the parties hereto agree that the restrictions of this Section 11 shall remain in full force and effect. Executive further agrees that if an arbitrator or court of competent jurisdiction determines that any provision of this Section 11 is invalid or against public policy, the remaining provisions of this Section 11 and the remainder of this Agreement shall not be affected thereby, and shall remain in full force and effect.

12. REMEDIES. In the event of any pending, threatened or actual breach of any of the covenants or provisions of Section 9, 10, or 11, it is understood and agreed by Executive that the remedy at law for a breach of any of the covenants or provisions of these Sections may be inadequate and, therefore, Company shall be entitled to a restraining order or injunctive relief from any court of competent jurisdiction, in addition to any other remedies at law and in equity. In the event that Company seeks to obtain a restraining order or injunctive relief, Executive hereby agrees that Company shall not be required to post any bond in connection therewith. Should a court of competent jurisdiction or an arbitrator (pursuant to Section 21) declare any provision of Section 9, 10, or 11 to be unenforceable due to an unreasonable restriction of duration or geographical area, or for any other reason, such court or arbitrator is hereby granted the consent of each of the Executive and Company to reform such provision and/or to grant the Company any relief, at law or in equity, reasonably necessary to protect the reasonable business interests of Company or any of its affiliated entities. Executive hereby acknowledges and agrees that all of the covenants and other provisions of Sections 9, 10, and 11 are reasonable and necessary for the protection of the Company's reasonable business interests. Executive hereby agrees that if the Company prevails in any action, suit or proceeding with respect to any matter arising out of or in connection with Section 9, 10, or 11, Company shall be entitled to all equitable and legal remedies, including, but not limited to, injunctive relief and compensatory damages.

13. DEFENSE OF CLAIMS. Executive agrees that, during the Employment Period and for a period of two (2) years after his Termination Date, upon request from the Company, he will cooperate with the Company and its Affiliates in the defense of any claims or actions that may be made by or against the Company or any of its Affiliates that affect his prior areas of responsibility, except if Executive's reasonable interests are adverse to the Company or Affiliates in such claim or action. To the extent travel is required to comply with the requirements of this Section 13, the Company shall, to the extent possible, provide Executive with notice at least 10 days prior to the date on which such travel would be required. The Company agrees to promptly pay or reimburse Executive upon demand for all of his reasonable travel and other direct expenses incurred, or to be reasonably incurred, to comply with his obligations under this Section 13. Following the Employment Period, however, the Executive shall be required to provide only such assistance to the Company only if (i) such assistance does not unreasonably interfere with Executive's then-current employment and (ii) Executive shall be reasonably compensated for his time.

14. DETERMINATIONS BY THE COMPENSATION COMMITTEE.

(a) TERMINATION OF EMPLOYMENT. Prior to a Change in Control (as defined in Section 6(b)), any question as to whether and when there has been a termination of Executive's employment, the cause of such termination, and the Termination Date, shall be determined by the Compensation Committee in its discretion exercised in good faith, subject to Executive's right to contest such determination. In the event the parties cannot agree on a determination under this section, their dispute shall be resolved in accordance with the procedures set forth in Section 21.

(b) COMPENSATION. Prior to a Change in Control (as defined in Section 6(b)), any question regarding salary, bonus and other compensation payable to Executive pursuant to this Agreement shall be determined by the Compensation Committee in its discretion exercised in good faith, subject to Executive's right to contest such determination. In the event the parties cannot agree on a determination under this section, their dispute shall be resolved in accordance with the procedures set forth in Section 21.

15. WITHHOLDINGS: RIGHT OF OFFSET. Company may withhold and deduct from any benefits and payments made or to be made pursuant to this Agreement (a) all federal, state, local and other taxes as may be required pursuant to any law or governmental regulation or ruling, (b) all other employee deductions made with respect to Company's employees generally, and (c) any advances made to Executive and owed to Company.

16. NONALIENATION. The right to receive payments under this Agreement shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge or encumbrance by Executive, his dependents or beneficiaries, or to any other person who is or may become entitled to receive such payments hereunder. The right to receive payments hereunder shall not be subject to or liable for the debts, contracts, liabilities, engagements or torts of any person who is or may become entitled to receive such payments, nor may the same be subject to attachment or seizure by any creditor of such person under any circumstances, and any such attempted attachment or seizure shall be void and of no force and effect.

17. INCOMPETENT OR MINOR PAYEES. Should the Board determine that any person to whom any payment is payable under this Agreement has been determined to be legally incompetent or is a minor, any payment due hereunder may, notwithstanding any other provision of this Agreement to the contrary, be made in any one or more of the following ways: (a) directly to such minor or person; (b) to the legal guardian or other duly appointed personal representative of the person or estate of such minor or person; or (c) to such adult or adults as have, in the good faith knowledge of the Board, assumed custody and support of such minor or person; and any payment so made shall constitute full and complete discharge of any liability under this Agreement in respect to the amount paid.

18. SEVERABILITY. It is the desire of the parties hereto that this Agreement be enforced to the maximum extent permitted by law, and should any provision contained herein be held unenforceable by a court of competent jurisdiction or arbitrator (pursuant to Section 21), the parties hereby agree and consent that such provision shall be reformed to create a valid and enforceable

provision to the maximum extent permitted by law; provided, however, if such provision cannot be reformed, it shall be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement.

19. TITLE AND HEADINGS; CONSTRUCTION. Titles and headings to Sections hereof are for the purpose of reference only and shall in no way limit, define or otherwise affect the provisions hereof. Any and all Exhibits referred to in this Agreement are, by such reference, incorporated herein and made a part hereof for all purposes. The words "herein", "hereof", "hereunder" and other compounds of the word "here" shall refer to the entire Agreement and not to any particular provision hereof.

20. CHOICE OF LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW JERSEY, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW.

21. ARBITRATION.

(a) ARBITRABLE MATTERS. If any dispute or controversy arises between Executive and the Company relating to (1) this Agreement in any way or arising out of the parties' respective rights or obligations under this Agreement or (2) the employment of Executive or the termination of such employment, then either party may submit the dispute or controversy to arbitration under the then-current Commercial Arbitration Rules of the American Arbitration Association (AAA) (the "RULES"); provided, however, the Company shall retain its rights to seek a restraining order or injunctive relief pursuant to Section 12. Any arbitration hereunder shall be conducted before a single arbitrator unless the parties mutually agree that the arbitration shall be conducted before a panel of three arbitrators. The arbitrator shall be selected (from lists provided by the AAA) through mutual agreement of the parties, if possible. If the parties fail to reach agreement upon appointment of the arbitrator within twenty (20) days following receipt by one party of the other party's notice of desire to arbitrate, then within five (5) days following the end of such 20-day period, each party shall select one arbitrator who, in turn, shall within five (5) days select a third arbitrator who shall be the single arbitrator hereunder. The site for any arbitration hereunder shall be in Mercer County, New Jersey, unless otherwise mutually agreed by the parties, and the parties hereby waive any objection that the forum is inconvenient.

(b) SUBMISSION TO ARBITRATION. The party submitting any matter to arbitration shall do so in accordance with the Rules. Notice to the other party shall state the question or questions to be submitted for decision or award by arbitration. Notwithstanding any provision of this Section 21, Executive shall be entitled to seek specific performance of the Executive's right to be paid during the pendency of any dispute or controversy arising under this Agreement. In order to prevent irreparable harm, the arbitrator may grant temporary or permanent injunctive or other equitable relief for the protection of property rights.

(c) ARBITRATION PROCEDURES. The arbitrator shall set the date, time and place for each hearing, and shall give the parties advance written notice in accordance with the Rules. Any party may be represented by counsel or other authorized representative at any hearing.

The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1 et. seq. (or its successor). The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of New Jersey to the claims asserted to the extent that the arbitrator determines that federal law is not controlling.

(d) COMPLIANCE WITH AWARD.

(1) Any award of an arbitrator shall be final and binding upon the parties to such arbitration, and each party shall immediately make such changes in its conduct or provide such monetary payment or other relief as such award requires. The parties agree that the award of the arbitrator shall be final and binding and shall be subject only to the judicial review permitted by the Federal Arbitration Act.

(2) The parties hereto agree that the arbitration award may be entered with any court having jurisdiction and the award may then be enforced as between the parties, without further evidentiary proceedings, the same as if entered by the court at the conclusion of a judicial proceeding in which no appeal was taken. The Company and the Executive hereby agree that a judgment upon any award rendered by an arbitrator may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(e) COSTS AND EXPENSES. Each party shall pay any monetary amount required by the arbitrator's award, and the fees, costs and expenses for its own counsel, witnesses and exhibits, unless otherwise determined by the arbitrator in the award. The compensation and costs and expenses assessed by the arbitrator and the AAA shall be split evenly between the parties unless otherwise determined by the arbitrator in the award. If court proceedings to stay litigation or compel arbitration are necessary, the party who opposes such proceedings to stay litigation or compel arbitration, if such party is unsuccessful, shall pay all associated costs, expenses, and attorney's fees which are reasonably incurred by the other party as determined by the arbitrator.

22. BINDING EFFECT; THIRD PARTY BENEFICIARIES. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and to their respective heirs, executors, personal representatives, successors and permitted assigns hereunder, but otherwise this Agreement shall not be for the benefit of any third parties.

23. ENTIRE AGREEMENT AND AMENDMENT. This Agreement contains the entire agreement of the parties with respect to Executive's employment and the other matters covered herein; moreover, this Agreement supersedes all prior and contemporaneous agreements and understandings, oral or written, between the parties hereto concerning the subject matter hereof. This Agreement may be amended, waived or terminated only by a written instrument executed by both parties hereto.

24. SURVIVAL OF CERTAIN PROVISIONS. Wherever appropriate to the intention of the parties hereto, the respective rights and obligations of said parties, including, but not limited to, the rights

and obligations set forth in Sections 6 through 14 and 21 hereof, shall survive any termination or expiration of this Agreement.

25. WAIVER OF BREACH. No waiver by either party hereto of a breach of any provision of this Agreement by any other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party or any similar or dissimilar provision or condition at the same or any subsequent time. The failure of either party hereto to take any action by reason of any breach will not deprive such party of the right to take action at any time while such breach continues.

26. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the Company and its Affiliates (as defined in Section 2), and upon any successor to the Company following a Change in Control (as defined in Section 6(b)); provided, however, any such assignment by the Company shall not relieve the Company of its obligations hereunder unless such successor to the Company has fully and expressly assumed the obligations of the Company to the Executive under this Agreement. Any reference herein to "Company" shall mean the Company as first written above, as well as any successor or successors thereto.

This Agreement is personal to Executive, and Executive may not assign, delegate or otherwise transfer all or any of his rights, duties or obligations hereunder without the consent of the Board. Any attempt by the Executive to assign, delegate or otherwise transfer this Agreement, any portion hereof, or his rights, duties or obligations hereunder without the prior approval of the Board shall be deemed void and of no force and effect.

27. NOTICES. Notices provided for in this Agreement shall be in writing and shall be deemed to have been duly received (a) when delivered in person or sent by facsimile transmission, (b) on the first business day after it is sent by air express overnight courier service, or (c) on the third business day following deposit in the United States mail, registered or certified mail, return receipt requested, postage prepaid and addressed, to the following address, as applicable:

(1) If to Company, addressed to:

Lexicon Genetics Incorporated  
4000 Research Forest Drive  
The Woodlands, Texas 77381  
Attention: Corporate Secretary

(2) If to Executive, addressed to the address set forth below his name on the execution page hereof;

or to such other address as either party may have furnished to the other party in writing in accordance with this Section 27.

28. COUNTERPARTS. This Agreement may be executed in any number of 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. Each counterpart may consist of a copy hereof

containing multiple signature pages, each signed by one party, but together signed by both parties hereto.

29. EXECUTIVE ACKNOWLEDGMENT; NO STRICT CONSTRUCTION. The Executive represents to Company that he is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that he has read the Agreement and that he understands its terms and conditions. Executive also represents that he is free to enter into this Agreement including, without limitation, that he is not subject to any other contract of employment or covenant not to compete that would conflict in any way with his duties under this Agreement. Executive acknowledges that he has had the opportunity to consult with counsel of his choice, independent of Employer's counsel, regarding the terms and conditions of this Agreement and has done so to the extent that he, in his unfettered discretion, deemed to be appropriate.

30. SUPERSEDING AGREEMENT. This Employment Agreement shall supersede any prior employment agreement entered into between the Company and Executive, including Executive's agreement with Coelacanth Corporation, from and after the Effective Date.

31. DATE CERTAIN. This Agreement shall be of no further force and effect as of July 31, 2001 unless the Merger is completed on or before such date.

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and Company has caused this Agreement to be executed in its name and on its behalf, to be effective as of the Effective Date first above written.

EXECUTIVE:

Signature:

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David Boulton

Date:

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Address for Notices:

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LEXICON GENETICS INCORPORATED

By:

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Arthur T. Sands, M.D., Ph.D.  
President and Chief Executive Officer

Date:

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EXHIBIT A

INVENTION EXCLUSIONS:

All prior "inventions", which includes all improvements, inventions, formulas, ideas, devices, circuits, equipment modifications, mask works, works of authorship, processes, computer programs, algorithms, techniques, schematics, know-how and data, whether or not patentable, made or conceived or reduced to practice or developed by me, either alone or jointly with others and improvements while employed by Merck, Inc. and ArQule, Inc.

All inventions related to microplate assemblies and systems, covered by provisional patent or patent applications filed by Texperts, Inc. as of the date of this agreement, and any patent applications, PCT filings, continuations, divisionals, continuation in parts, continued prosecution, and reissue applications.