AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 9, 2000

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

DELAWARE	8731	76-0474169
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

4000 RESEARCH FOREST DRIVE
THE WOODLANDS, TEXAS 77381
(281) 364-0100
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

ARTHUR T. SANDS, M.D., PH.D.
PRESIDENT AND CHIEF EXECUTIVE OFFICER
4000 RESEARCH FOREST DRIVE
THE WOODLANDS, TEXAS 77381
(281) 364-0100
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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ANDREWS & KURTH L.L.P.	CAHILL GORDON & REINDEL
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HOUSTON, TEXAS 77002	NEW YORK, NEW YORK 10005
(713) 220-4200	(212) 701-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

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

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

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

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, par value $0.001.....	$100,000,000	$26,400

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION
DATED FEBRUARY 9, 2000

PROSPECTUS

Shares

[LEXICON LOGO]

LEXICON GENETICS INCORPORATED

Common Stock

Lexicon Genetics Incorporated is selling all of the shares of common stock in this offering. This is our initial public offering. We estimate that the initial offering price will be between $ and $ per share.

We have applied to have our shares of common stock listed on the Nasdaq National Market under the symbol "LEXG".

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. PLEASE READ "RISK FACTORS" BEGINNING ON PAGE 7.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT	PROCEEDS TO LEXICON
Per Share	$	$	$
Total	$	$	$

We have granted the underwriters the rights to purchase up to an additional shares of common stock to cover over-allotments.

J.P. MORGAN & CO. CREDIT SUISSE FIRST BOSTON
DAIN RAUSCHER WESSELS PUNK, ZIEGEL & COMPANY

, 2000

[SCHEMATIC DEPICTING THE GENE DISCOVERY PROCESS, WEB PAGES FROM LEXGEN.COM, DNA SEQUENCERS AND OMNIBANK LIQUID NITROGEN FREEZER AND VAULT ROOM]

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of its delivery or of any sale of our common stock.

TABLE OF CONTENTS

Until , 2000, all dealers that effect transactions in the common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

We own or have rights to various copyrights, trademarks and trade names used in our business, including the Lexicon Genetics name and logo, OmniBank(R), LexGene(TM), Lexgen.com(TM), Internet Now(TM), Internet Universal(TM), S-T-V(TM) and e-Biology(TM).

PROSPECTUS SUMMARY

In this prospectus, "Lexicon," "we," "us" and "our" refer to Lexicon Genetics Incorporated. This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before buying shares of our common stock. You should read the entire prospectus carefully.

LEXICON GENETICS INCORPORATED

We are a leading genomics company using proprietary gene trapping technology to discover thousands of novel genes and to expand our OmniBank library of tens of thousands of knockout mouse clones for drug discovery. We have established an Internet exchange, Lexgen.com, to enable researchers worldwide to access our OmniBank library and to form collaborations with us to discover pharmaceutical products based on genes and knowledge of their function. Through our ongoing collaborations with pharmaceutical companies, biotechnology companies and academic researchers, we receive fees and may obtain royalties and milestone payments from commercialization of pharmaceutical products developed using our genomics technologies. We believe that providing global access to our OmniBank library through the Internet will significantly accelerate genomics research and will enable us to establish a leadership position in drug target and therapeutic protein discovery.

Our proprietary gene trapping technology captures gene sequence information and enables us to:

- obtain DNA sequences of rarely expressed genes;
- identify genes contained within the DNA sequence of the chromosome;
- obtain DNA sequence of genes throughout the human genome at a fraction of the cost of traditional approaches; and
- create a genome-wide knockout mouse library for discovery of gene function.

We have created three key gene discovery and functional genomics resources, which we are continuing to expand for drug discovery:

- Our Human Gene Trap database, which presently contains DNA sequence from approximately 50,000 human genes that we have rapidly and efficiently trapped from human chromosomes and analyzed in a relational database. We believe that, at present, approximately 50% of the gene sequences contained in our Human Gene Trap database are not represented in public contiguous gene sequence databases. We are using this resource to obtain full-length gene sequence information for drug discovery.
- Our OmniBank database and mouse clone library, which presently contains more than 60,000 embryonic stem (ES) cell clones stored in liquid nitrogen freezers and identified by DNA sequence in a relational database. Each OmniBank ES cell clone can be grown into a knockout mouse -- a mouse whose DNA has been altered to disrupt, or "knock out," the function of a specified gene.
- Lexgen.com, a genomics Internet exchange through which researchers at pharmaceutical and biotechnology companies and academic institutions worldwide subscribe to our OmniBank database to conduct web-based, bioinformatics mining of genes, acquire knockout mouse clones and determine the function of genes with us under e-Biology collaborations.

We believe that collaborations are an effective way to conduct research and development of pharmaceutical product opportunities created by our proprietary genomics technologies. Our collaborations are typically non-exclusive arrangements, and we retain the ability to pursue future applications of our technologies. Since September 1999, we have established collaborations with, among others, Millennium Pharmaceuticals, Inc., the R.W. Johnson Pharmaceutical Research Institute (a subsidiary of Johnson & Johnson), G.D. Searle & Co. and N.V. Organon. We may also pursue development of selected drug targets and therapeutic proteins on our own.

GENOMICS: CHALLENGE AND OPPORTUNITY

Genomics represents an opportunity for the development of drugs that address medical needs for which there are presently no effective treatments, as well as drugs that are more effective or have fewer side effects than the treatments that are currently available. Most drugs on the market today interact with a total of about 500 specific protein targets, each of which is encoded by a gene. While estimates of the total number of potential drug targets encoded within the human genome vary, many experts believe that genomics research could discover between 5,000 and 15,000 new targets for pharmaceutical development.

Consequently, genomics represents a significant opportunity for those companies with the key technologies that can efficiently discover the most promising genes for drug discovery.

Large numbers of genes with little functional information can present a major challenge to traditional drug discovery research. We believe that the solution to this challenge requires redefining the drug discovery paradigm in the genomics era by systematically determining the function of large numbers of genes in animal models to discover novel drug targets and therapeutic proteins. We believe our integrated, rapid gene discovery, functional genomics and e-Biology collaboration platform provides a significant opportunity for us and our collaborators to discover and develop drugs more successfully than those companies that utilize traditional methods.

STRATEGY

Our principal objective is to establish a leadership position in drug target and therapeutic protein discovery. The key elements of our strategy include the following:

- discover and obtain proprietary rights to a substantial number of human genes using our gene trapping technology;

- expand our genome-wide library of knockout mice using our proprietary gene trapping technology and create custom knockout mice using our gene targeting technology;

- use the Internet to establish gene function discovery collaborations based on knockout mice with researchers at pharmaceutical companies, biotechnology companies and academic institutions;

- discover the functions of large numbers of genes that encode potential drug targets and therapeutic proteins through internal research programs using knockout mice;

- develop promising drug candidates through collaborations or with our own resources.

CORPORATE INFORMATION

Lexicon Genetics was incorporated in Delaware in July 1995, and commenced operations in September 1995. Our corporate headquarters are located at 4000 Research Forest Drive, The Woodlands, Texas 77381, and our telephone number is (281) 364-0100. Our Internet exchange is located at www.Lexgen.com and our corporate website is located at www.lexicon-genetics.com. Information found on our Internet exchange and our website is not part of this prospectus.

THE OFFERING

The following information reflects 8,184,567 shares of common stock outstanding as of February 8, 2000 and the conversion of all our outstanding convertible preferred stock into 4,244,664 shares of common stock upon the closing of this offering. The number of outstanding shares of common stock does not include: 2,901,089 shares issuable on the exercise of stock options outstanding as of February 8, 2000 at a weighted average exercise price of $5.94 per share; 330,000 shares that may be issued upon exercise of warrants outstanding as of February 8, 2000 at an exercise price of $7.50 per share; or 1,009,742 additional shares that we could issue under our stock option plans.

Unless otherwise indicated, information in this prospectus assumes the following: the filing of our amended and restated certificate of incorporation and the adoption of amended and restated bylaws immediately prior to the closing of this offering; no exercise of the underwriters' over-allotment option; and an initial public offering price of $ per share, the midpoint of the range shown on the cover of this prospectus.

COMMON STOCK OFFERED.....	shares
COMMON STOCK TO BE OUTSTANDING AFTER THIS OFFERING.....	shares
USE OF PROCEEDS.....	We expect to use the net proceeds to: - increase our functional genomics research efforts; - expand our Human Gene Trap database and OmniBank database and library; - generate full-length gene sequences for potential drug targets and therapeutic proteins; and - fund working capital, capital expenditures and other general corporate purposes. Please read "Use of Proceeds."
PROPOSED NASDAQ NATIONAL MARKET SYMBOL.....	"LEXG"

SUMMARY FINANCIAL DATA

The following table summarizes our statements of operations data for the period from our inception on July 7, 1995 through December 31, 1995 and the years ended December 31, 1996, 1997, 1998 and 1999 and our balance sheet data as of December 31, 1999. The pro forma net loss per share data reflect the conversion of our outstanding convertible preferred stock upon the closing of this offering. The pro forma as adjusted balance sheet data reflect that conversion and also reflect the sale of shares of common stock in this offering at an assumed initial public offering price of $ per share after deducting underwriting discounts and estimated offering expenses. The following data should be read with our financial statements, including the accompanying notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. Because all of our outstanding convertible preferred stock will be converted at the closing of this offering, we will no longer recognize accretion on our redeemable convertible preferred stock.

In thousands, except share data	PERIOD FROM INCEPTION (JULY 7, 1995) THROUGH DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	1997	1998	1999
STATEMENTS OF OPERATIONS DATA					
Revenues	$ --	$ 306	$ 968	$ 2,242	$ 4,738
Operating expenses					
Research and development	445	2,409	4,970	8,410	14,646
General and administrative	236	764	1,473	2,024	2,913
Total operating expenses	681	3,173	6,443	10,434	17,559
Loss from operations	(681)	(2,867)	(5,476)	(8,192)	(12,821)
Interest income (expense), net	9	(12)	74	711	346
Net loss	(672)	(2,879)	(5,402)	(7,481)	(12,475)
Accretion on redeemable convertible preferred stock	--	--	--	(357)	(535)
Net loss attributable to common stockholders	$ (672)	$(2,879)	$(5,402)	$(7,838)	$(13,011)
Net loss per common share, basic and diluted	$(0.20)	$ (0.50)	$ (0.68)	$ (0.96)	$ (1.59)
Shares used in computing net loss per common share, basic and diluted	3,287,099	5,782,076	7,996,323	8,148,474	8,176,809
Pro forma net loss per common share, basic and diluted					$ (1.00)
Shares used in computing pro forma net loss per common share, basic and diluted					12,421,473

In thousands	AS OF DECEMBER 31, 1999 ACTUAL	PRO FORMA AS ADJUSTED (UNAUDITED)
BALANCE SHEET DATA		
Cash, cash equivalents and marketable securities	$ 9,156	$
Working capital	2,021	
Total assets	22,295	
Long-term obligations, net of current portion	3,577	3,577
Redeemable convertible preferred stock	30,050	--
Accumulated deficit	(29,801)	(29,801)
Total stockholders' equity (deficit)	(21,936)	

RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing our common stock. Investing in our common stock involves a high degree of risk. If any of the following risks actually occurs, we may not be able to conduct our business as currently planned and our financial condition and operating results could be seriously harmed. In addition, the trading price of our common stock could decline due to the occurrence of any of these risks, and you may lose all or part of your investment. Please read "Special Note Regarding Forward-Looking Statements."

RISKS RELATED TO OUR BUSINESS

WE HAVE A HISTORY OF NET LOSSES, AND WE EXPECT TO CONTINUE TO INCUR NET LOSSES AND MAY NOT ACHIEVE OR MAINTAIN PROFITABILITY

We have incurred net losses since our inception, including a net loss of approximately $12.5 million for the year ended December 31, 1999. As of December 31, 1999, we had an accumulated deficit of approximately $29.8 million. We are unsure when we will become profitable, if at all. The size of our net losses will depend, in part, on the rate of growth, if any, in our revenues and on the level of our expenses.

We derive substantially all of our revenues from subscriptions to our databases, collaborations for the development and, in some cases, analysis of knockout mice and government grants, and will continue to do so for the foreseeable future. Revenues from database subscriptions, collaborations and grants are uncertain because our existing agreements have fixed terms or relate to specific projects of limited duration. Our ability to secure future agreements will depend upon our ability to address the needs of our potential future subscribers and collaborators.

A large portion of our expenses are fixed, including expenses related to facilities, equipment and personnel. In addition, we expect to spend significant amounts to fund research and development and to enhance our core technologies. As a result, we expect that our operating expenses will increase significantly in the near term and, consequently, we will need to generate significant additional revenues to achieve profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

WE ARE AN EARLY-STAGE COMPANY WITH AN UNPROVEN BUSINESS STRATEGY

Our strategy of using our gene sequence databases and knockout mice to select promising candidates for drug target or therapeutic protein development is unproven. We have generated limited revenues to date from subscriptions to our databases and collaborations for the development and, in some cases, analysis of knockout mice. Our success will depend upon our ability to enter into additional subscription and collaboration agreements on favorable terms, determine which genes have potential value and select an appropriate commercialization strategy for each potential product we or our collaborators choose to pursue. Biotechnology and pharmaceutical companies have successfully developed and commercialized only a limited number of gene-based products to date. We have not proven our ability to identify gene-based drugs or drug targets with commercial potential, or to develop or commercialize drugs or drug targets that we do identify. We cannot assure you that we will successfully select those genes with the most potential for commercial development, or that any products based on genes that we discover can be successfully commercialized. In addition, we may experience unforeseen technical complications in the processes we use to generate our gene sequence database and functional genomics resources. These complications could materially delay or limit the use of those databases and resources, substantially increase the anticipated cost of generating them or prevent us from implementing our processes at appropriate quality and throughput levels.

WE FACE SUBSTANTIAL COMPETITION IN THE DISCOVERY OF THE DNA SEQUENCES OF GENES AND THEIR FUNCTIONS

There are a finite number of genes in the human genome, and we believe that the majority of such genes have been identified by us or others conducting genomic research and that virtually all will be identified within the next few years. We face significant competition in our efforts to discover and patent the sequence and other information derived from such genes from entities using high-throughput expressed sequence tag, or EST, and genomic sequencing approaches for the same purpose. We also face competition from entities using more traditional methods to discover genes related to particular diseases. Many of these entities have substantially greater financial, scientific and human resources than we do. A large number of universities and other not-for-profit institutions, many of which are funded by the U.S. and foreign governments, are also conducting research to discover genes. A substantial portion of this research is being conducted under the international Human Genome Project, a multi-billion dollar program funded by the U.S. government and The Wellcome Trust. The Human Genome Project's initial rough draft of the human genome is expected to be completed and released this year. Any one or more of these entities may discover and establish a patent position in one or more of the genes that we wish to study.

We also face significant competition from entities using traditional knockout mouse technology and other functional genomics technologies. Outside of the United States, our ability to use our patent rights to prevent competition in the creation and use of knockout mice is limited. Competitors could discover and establish patents in genes or gene products that we or our collaborators identify as a drug target or therapeutic protein. Numerous companies are in the business of determining the function of genes and gene products. Furthermore, we cannot assure you that other methods for conducting functional genomics research will not ultimately prove superior, in some or all respects, to the use of knockout mice. In addition, we cannot assure you that a technology more advanced than or superior to our gene trapping technology will not be developed, thereby rendering our gene trapping technology obsolete.

WE FACE SUBSTANTIAL COMPETITION IN OUR DRUG DISCOVERY AND PRODUCT DEVELOPMENT EFFORTS FROM PHARMACEUTICAL AND BIOTECHNOLOGY COMPANIES, UNIVERSITIES AND OTHER NOT-FOR-PROFIT INSTITUTIONS

We face competition in drug discovery and product development from entities that have substantially greater research and product development capabilities and financial, scientific, marketing and human resources than we do. We expect that competition in drug discovery and development will intensify. Our competitors may succeed in:

- developing products earlier than we do;

- obtaining approvals from the U.S. Food and Drug Administration, or FDA, or other regulatory agencies for such products more rapidly than we do; or

- developing products that are more effective than those we develop or propose to develop.

WE RELY HEAVILY ON COLLABORATORS TO DEVELOP AND COMMERCIALIZE PRODUCTS BASED ON GENES THAT WE IDENTIFY AS PROMISING CANDIDATES FOR DEVELOPMENT AS DRUG TARGETS

Since we do not currently possess the resources necessary to develop, obtain approvals for or commercialize potential products based on genes contained in our databases or genes that we identify as promising candidates for development as drug targets or therapeutic proteins, we must enter into collaborative arrangements to develop and commercialize these products. We will have limited or no control over the resources that any collaborator may devote to this effort. Any of our present or future collaborators may not perform their obligations as expected. These collaborators may breach or terminate their agreements with us or otherwise fail to conduct product discovery, development or commercialization activities successfully or in a timely manner. Further, our collaborators may elect not to develop products arising out of our collaborative arrangements or may not devote sufficient resources to the development, approval, manufacture, marketing or sale of these products. If any of these events occurs, we may not be able to develop or commercialize potential products.

Some of our agreements provide us with rights to participate in the commercial development of compounds or therapeutic approaches derived from our collaborations or access to our databases, technology or intellectual property. We cannot assure you that we will be able to obtain such rights in future collaborations or agreements. Our ability to obtain such rights depends in part on the validity of our intellectual property, the advantages and novelty of our technologies and databases and our negotiating position relative to each potential collaborator or customer. Previous attempts by others in the industry to obtain these rights with respect to the development of knockout mice and related technologies have generated considerable controversy, especially in the academic community.

ANY CANCELLATION BY OR CONFLICTS WITH OUR COLLABORATORS COULD HARM OUR BUSINESS

Our collaboration agreements may not be renewed and may be terminated in the event either party fails to fulfill its obligations under these agreements. The loss of revenues associated with a failure to renew or cancellation by a collaborator could have an adverse effect on our results of operations. In 1999, Millennium Pharmaceuticals, Inc. accounted for greater than 10% of our revenues, and if our collaboration agreement with Millennium were to be terminated, our revenues would be materially adversely affected.

In addition, we may pursue opportunities in fields that could conflict with those of our collaborators. Moreover, disagreements could arise with our collaborators over rights to our intellectual property or our rights to share in any of the future revenues of compounds or therapeutic approaches developed by our collaborators. These kinds of disagreements could result in costly and time-consuming litigation. Any conflict with our collaborators could reduce our ability to obtain future collaboration agreements and could have a negative impact on our relationship with existing collaborators, adversely affecting our business and revenues. Some of our collaborators could also become competitors in the future. Our collaborators could develop competing products, preclude us from entering into collaborations with their competitors or terminate their agreements with us prematurely. Any of these developments could harm our product development efforts.

WE HAVE NO EXPERIENCE IN DEVELOPING AND COMMERCIALIZING PRODUCTS ON OUR OWN

Our ability to develop and commercialize products on our own will depend on our ability to internally develop preclinical, clinical, regulatory and sales and marketing capabilities, or enter into arrangements with third parties to provide those functions. We cannot assure you that we will be successful in developing these capabilities or entering into agreements with third parties on favorable terms, or at all. Further, our reliance upon third parties for these capabilities could reduce our control over such activities and could make us dependent upon these parties. Our inability to develop or contract for these capabilities would have a material adverse effect on our business.

WE MAY ENCOUNTER DIFFICULTIES IN MANAGING OUR GROWTH, WHICH COULD INCREASE OUR LOSSES

We have experienced a period of rapid growth that has placed and, if this growth continues, will continue to place a strain on our human and capital resources. If we are unable to manage our growth effectively, our losses could increase. The number of our employees increased from 57 at December 31, 1997 to 93 at December 31, 1998 and 122 at December 31, 1999. We intend to increase the number of our employees significantly in 2000. Our ability to manage our operations and growth effectively requires us to continue to expend funds to improve our operational, financial and management controls, reporting systems and procedures. If we are unable to successfully implement improvements to our management information and control systems in an efficient or timely manner, or if we encounter deficiencies in existing systems and controls, our management may not have adequate information to manage our day-to-day operations.

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

We are highly dependent on Arthur T. Sands, M.D., Ph.D., our president and chief executive officer, as well as other principal members of our management and scientific staff. The loss of any of these personnel would have a material adverse effect on our business, financial condition or results of operations and could inhibit our product development and commercialization efforts. Although we have entered into employment agreements with some of our key personnel, including Dr. Sands, these employment agreements are for a limited period of time and not all key personnel have employment agreements.

We do not currently have sufficient executive management personnel to fully execute our business plan. There is currently a shortage of skilled executives, which is likely to continue and intensify. In addition, recruiting and retaining qualified scientific personnel to perform future research and development work will be critical to our success. Competition for experienced scientists is high. Failure to recruit and retain executive management and scientific personnel on acceptable terms would prevent us from achieving our business objectives.

WE WILL NEED ADDITIONAL CAPITAL IN THE FUTURE AND, IF IT IS NOT AVAILABLE, WE WILL HAVE TO CURTAIL OR CEASE OPERATIONS

Our future capital requirements will be substantial and will depend on many factors, including our ability to obtain database subscription and collaboration agreements and government grants, the amount and timing of payments under such agreements and grants, 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 anticipate that the net proceeds of this offering and interest earned thereon will enable us to maintain our currently planned operations for at least two years. However, changes may occur that would consume available capital resources significantly sooner than we expect. If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds to continue the development of our technologies and complete the commercialization of products, if any, resulting from our technologies, which could adversely affect the price of our common stock. We may be unable to raise sufficient additional capital; if so, we will have to curtail or cease operations.

BECAUSE OUR ENTIRE OMNIBANK MOUSE CLONE LIBRARY IS LOCATED AT A SINGLE FACILITY, THE OCCURRENCE OF A DISASTER COULD SIGNIFICANTLY DISRUPT OUR BUSINESS

Our OmniBank mouse clone library and its back-up are stored in liquid nitrogen freezers located at our facility in The Woodlands, Texas. If a disaster such as a fire, flood, hurricane, tornado or similar event significantly damages or destroys the facility in which our mouse clone library and back-up are stored, our business could be disrupted until we could regenerate the library and, as a result, our stock price could decline. Our business interruption insurance may not be sufficient to compensate us in the event of a major interruption due to such a disaster.

RISKS RELATED TO OUR INDUSTRY

OUR ABILITY TO PATENT OUR DISCOVERIES IS UNCERTAIN BECAUSE PATENT LAWS AND THEIR INTERPRETATION ARE HIGHLY UNCERTAIN AND SUBJECT TO CHANGE

The patent positions of biotechnology firms generally are highly uncertain and involve complex legal and factual questions that will determine who has the right to develop a particular product. No clear policy has emerged regarding the breadth of claims covered in biotechnology patents. The biotechnology patent situation outside the United States is even more uncertain and is currently undergoing review and revision in many countries. Changes in, or different interpretations of, patent laws in the United States and other countries might allow others to use our discoveries or to develop and commercialize our products without any compensation to us.

OUR PATENT APPLICATIONS MAY NOT RESULT IN ENFORCEABLE PATENT RIGHTS

Our disclosures in our patent applications may not be sufficient to meet the statutory requirements for patentability in all cases. Additionally, our patent applications will cover many genes. As a result, we cannot predict which of our patent applications will result in the granting of patents or the timing of the granting of our patents. In addition, the Human Genome Project, as well as many companies and institutions, have identified genes and deposited those partial sequences in public databases and are continuing to do so. These public disclosures might limit the scope of our claims or make unpatentable subsequent patent applications on full-length genes.

Other companies or institutions have filed and will file patent applications that attempt to patent genes or gene sequences that may be similar to our patent applications. The Patent and Trademark Office would decide competing patent claims in an interference proceeding. Any such proceeding would be costly, and we provide no assurance that we would prevail. In addition, patent applications filed by third parties may have priority over patent applications we file. In this event, the third party may require us or our collaborators to stop pursuing a potential product or to negotiate a royalty arrangement to pursue the potential product.

Some court decisions indicate that disclosure of a partial sequence may not be sufficient to support the patentability of a full-length sequence. We believe that these court decisions and the uncertain position of the Patent and Trademark Office present a significant risk that the Patent and Trademark Office will not issue patents based on patent disclosures limited to partial gene sequences, like those represented in the Human Gene Trap database. In addition, we are uncertain about the scope of the coverage, enforceability and commercial protection provided by any patents issued on the basis of partial gene sequences.

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

We intend to pursue patent protection covering the novel uses and functions of new and known genes and proteins in mammalian physiology and disease states. While an actual description of the biological function of a gene or protein should enhance a patent position, we cannot assure you that such information will increase the probability of issuance of any patents. Further, many other entities are currently filing patents on genes based primarily on gene sequence information alone. Many such applications seek to protect partial human gene sequences, full-length gene sequences and the deduced protein products encoded by the sequences. In general, such applications attempt to prophetically assign biologic function to the DNA sequences based on computer predictions. While we believe that patents covering gene function based on speculation and prediction will not be issued, there is the significant possibility that patents claiming the functional uses of genes and gene products will be issued to our competitors based on such information.

IF OUR POTENTIAL PRODUCTS CONFLICT WITH PATENTS THAT COMPETITORS, UNIVERSITIES OR OTHERS HAVE OBTAINED, THEN WE MAY BE UNABLE TO COMMERCIALIZE THOSE PRODUCTS

Our potential products and those of our collaborators may give rise to claims that they infringe the patents of others. This risk will increase as the biotechnology industry expands and as other companies obtain more patents and attempt to discover genes through the use of high-speed sequencers. Other companies or institutions could bring legal actions against us or our collaborators for damages or to stop manufacturing and marketing the affected products. If any of these actions are successful, in addition to potential liability for damages, these persons may require us or our collaborators to obtain a license in order to continue to manufacture or market the affected products or may force us to terminate manufacturing or marketing efforts. We believe that there will continue to be significant litigation in our industry regarding patent and other intellectual property rights. Certain of our competitors have and are continuing to expend significant amounts of time, money and management

resources on intellectual property litigation. If we become involved in litigation, it could consume a substantial portion of our resources and could adversely affect our business, financial condition and results of operations.

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

Issued patents may not provide commercially-meaningful protection against competitors. Other companies or institutions may challenge our or our collaborators' patents or independently develop similar products that could result in an interference proceeding in the Patent and Trademark Office or a legal action. In the event any single researcher or institution infringes upon our or our collaborators' patent rights, enforcing these rights may be difficult and can be time consuming. Others may be able to design around these patents or develop unique products providing effects similar to our products. In addition, others may discover uses for genes or proteins other than those uses covered in our patents, and these other uses may be separately patentable. Even if we have a patent claim on a particular gene, the holder of a patent covering the use of that gene could exclude us from selling a product that is based on the same use of that gene. In addition, with respect to certain of our patentable inventions, we have decided not to pursue patent protection outside the United States, both because we do not believe it is cost effective and because of confidentiality concerns. Accordingly, our international competitors could develop, and receive foreign patent protection for gene sequences and functions for which we are seeking U.S. patent protection.

OUR RIGHTS TO THE USE OF TECHNOLOGIES LICENSED BY THIRD PARTIES ARE NOT WITHIN OUR CONTROL

We rely, in part, on licenses to use certain technologies which are material to our business. We do not own the patents which underly these licenses. Our rights to use these technologies and practice the inventions claimed in the licensed patents are subject to our licensors abiding by the terms of those licenses and not terminating them. In many cases, we do not control the prosecution or filing of the patents to which we hold licenses. We rely upon our licensors to prevent infringement of those patents. Certain of the licenses under which we have rights provide us with exclusive rights in specified fields, but we cannot assure you that the scope of our rights under these and other licenses will not be subject to dispute by our licensors or third parties.

WE MAY BE UNABLE TO PROTECT OUR TRADE SECRETS

While we have entered into confidentiality agreements with employees and collaborators, we may not be able to prevent the disclosure of our trade secrets. In addition, other companies or institutions may independently develop substantially equivalent information and techniques.

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

The Animal Welfare Act, or AWA, is the only federal law that covers animals in laboratories. It applies to institutions or facilities using any regulated live animals for research, testing, teaching or experimentation, including diagnostic laboratories and private companies in the pharmaceutical and biotechnology industries. The AWA currently applies only to dogs, cats, primates, rabbits, pigs, sheep and other farm animals and does not cover rats or mice. However, we cannot assure you that the federal government will continue to monitor only those animals currently regulated under the AWA. If the reach of the AWA was expanded to cover mice, we would be subject to inspections and reporting requirements. Compliance with the AWA may be expensive, and current or future regulations could impair our research or production efforts.

Drugs and diagnostic products are subject to an extensive and uncertain regulatory approval process by the FDA and comparable agencies in other countries. The regulation of new products is extensive, and the required process of laboratory testing and human studies is lengthy and expensive. The burden of these regulations will fall on us to the extent we are developing proprietary products on our own. If the products are the result of a collaboration effort, these burdens may fall on our collaborating partner or may be shared with us. We may not be able to obtain FDA approvals for those products in a timely manner, or at all. We may encounter significant delays or excessive costs in our efforts to secure necessary approvals or licenses. Even if we obtain FDA regulatory approvals, the FDA extensively regulates manufacturing, labeling, distributing, marketing, promotion and advertising after product approval. Moreover, several of our product development areas may involve relatively new technology and have not been the subject of extensive product testing in humans. The regulatory requirements governing these products and related clinical procedures remain uncertain. In addition, these products may be subject to substantial review by foreign governmental regulatory authorities that could prevent or delay approval in those countries.

Regulatory requirements ultimately imposed on our products could limit our ability to test, manufacture and, ultimately, commercialize our products and thereby could adversely affect our financial condition and results of operations.

SECURITY RISKS IN ELECTRONIC COMMERCE OR UNFAVORABLE INTERNET REGULATION MAY DETER FUTURE USE OF OUR PRODUCTS AND SERVICES

We provide access to our databases and the opportunity to acquire our knockout mice on the Internet. A fundamental requirement to conduct Internet-based, business-to-business electronic commerce is the secure transmission of confidential information over public networks. Failure to prevent security breaches affecting our Internet exchange Lexgen.com, or the Internet in general could significantly harm our business, operating results and financial condition. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the algorithms we use to protect content and transactions on Lexgen.com or proprietary information in our OmniBank database. Anyone who is able to circumvent our security measures could misappropriate our proprietary information, confidential customer information or cause interruptions in our operations. We may be required to incur significant costs to protect against security breaches or to alleviate problems caused by breaches. Further, a well-publicized compromise of security could deter people from using the Internet to conduct transactions that involve transmitting confidential information.

Because of the growth in electronic commerce, Congress has held hearings on whether to regulate providers of services and transactions in the electronic commerce market, and federal or state authorities could enact laws, rules or regulations affecting our business or operations. If enacted and applied to our business, these laws, rules or regulations could render our business or operations more costly, burdensome, less efficient or impracticable, any of which could have a material adverse effect on our business.

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

Our research and development processes involve the use of hazardous materials, including chemicals and radioactive and biological materials. Our operations also produce hazardous waste products. We cannot eliminate the risk of accidental contamination or discharge or any resultant injury from these materials. Federal, state and local laws and regulations govern the use, manufacture, storage, handling and disposal of these materials. We could be subject to civil damages in the event of an improper or unauthorized release of, or exposure of individuals to, these hazardous materials. In addition, claimants may sue us for injury or contamination that results from our use or the use by third parties of these materials, and our liability may exceed our total assets. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair our research, development or production efforts.

WE MAY BE SUED FOR PRODUCT LIABILITY

We or our collaborators may be held liable if any product we or our collaborators develop, or any product which is made with the use or incorporation of any of our technologies, causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. Although we currently have and intend to maintain product liability insurance, this insurance may become prohibitively expensive, or may not fully cover our potential liabilities. Inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of products developed by us or our collaborators. If we are sued for any injury caused by our or our collaborators' products, our liability could exceed our total assets.

HEALTHCARE REFORM AND RESTRICTIONS ON REIMBURSEMENTS MAY LIMIT OUR FINANCIAL RETURNS ON PRODUCTS BASED ON GENES THAT WE IDENTIFY AS PROMISING CANDIDATES FOR DEVELOPMENT AS DRUGS OR DRUG TARGETS

Our ability and that of our collaborators to commercialize drugs and diagnostic products may depend in part on the extent to which reimbursement for the cost of these products will be available from government health administration authorities, private health insurers and other organizations. These third parties are increasingly challenging the price of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved pharmaceutical products, and we cannot assure you that adequate third party coverage will be available for any product to enable us to maintain price levels sufficient to realize an appropriate return on our investment in research and product development.

PUBLIC PERCEPTION OF ETHICAL AND SOCIAL ISSUES MAY LIMIT OR DISCOURAGE THE USE OF OUR TECHNOLOGIES, WHICH COULD REDUCE OUR REVENUES

Our success will depend in part upon our ability to develop products discovered through our gene trapping and knockout mouse technologies. Governmental authorities could, for social or other purposes, limit the use of genetic processes or prohibit the practice of our gene trapping and knockout mouse technologies. Claims that genetically engineered products are unsafe for consumption or pose a danger to the environment may influence public attitudes. The subject of genetically modified organisms, like knockout mice, has received negative publicity and aroused public debate in some countries. Ethical and other concerns about our technologies, particularly the use of genes from nature for commercial purposes and the products resulting from this use, could adversely affect our market acceptance.

RISKS RELATED TO THIS OFFERING

WE HAVE BROAD DISCRETION IN THE USE OF THE NET PROCEEDS FROM THIS OFFERING AND MAY NOT USE THEM EFFECTIVELY

As of the date of this prospectus, we cannot specify with certainty the particular uses for the net proceeds we will receive from this offering. Management will have broad discretion in the application of the net proceeds. Management currently intends to use the net proceeds as described in "Use of Proceeds." The failure by our management to apply these funds effectively could have a material adverse effect on our business.

OUR STOCK PRICE COULD BE EXTREMELY VOLATILE, AND YOU MAY NOT BE ABLE TO RESELL YOUR SHARES AT OR ABOVE THE INITIAL OFFERING PRICE

Prior to this offering, there has been no public market for shares of our common stock. An active trading market may not develop following completion of this offering, and if it develops, may not be maintained. The initial public offering price for the shares will be determined by negotiations between us and representatives of the underwriters. This price may not be indicative of prices that may prevail later in the market. The stock market has experienced significant price and volume fluctuations, and the market prices of technology companies, particularly life science companies such as ours and companies whose businesses are dependent on the Internet, have been highly volatile. In addition, broad market and industry fluctuations that are not within our control may adversely affect the trading price of our common stock. You may not be able to resell your shares at or above the initial public offering price.

In addition, our quarterly operating results have fluctuated in the past and are likely to do so in the future. These fluctuations could cause our stock price to fluctuate significantly or decline. In addition to the risks and uncertainties described in this section, some of the factors that could cause our operating results to fluctuate include:

- expiration of database subscriptions or research contracts with collaborators or government research grants, which may not be renewed or replaced;

- the success rate of our discovery efforts leading to milestones and royalties;

- the timing and willingness of collaborators to commercialize products which would result in royalties;

- general and industry-specific economic conditions, which may affect our and our collaborators' research and development expenditures; and

- the timing and content of information released by the Human Genome Project.

Due to the possibility of fluctuations in our revenues and expenses, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. Our operating results in some quarters may not meet the expectations of stock market analysts and investors. In that case, our stock price would probably decline.

In the past, stockholders have often instituted securities class action litigation after periods of volatility in the market price of a company's securities. If a stockholder files a securities class action suit against us, we would incur substantial legal fees and our management's attention and resources would be diverted from operating our business in order to respond to the litigation.

NEW INVESTORS IN OUR COMMON STOCK WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION

The initial public offering price will be substantially higher than the book value per share of our common stock. Investors purchasing common stock in this offering will incur immediate dilution of $ in net tangible book value per share of common stock, based on an assumed public offering price of $ per share.

CONCENTRATION OF OWNERSHIP AMONG OUR EXISTING EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS ENABLES THEM TO COLLECTIVELY CONTROL ALL SIGNIFICANT CORPORATE DECISIONS

Following this offering our directors, entities affiliated with our directors and our executive officers will beneficially own, in the aggregate, approximately % of our outstanding common stock. These stockholders as a group will be able to elect our directors and officers, control the management and affairs of our company and will be able to control most matters requiring the approval of our stockholders, including any merger, consolidation or sale of all or substantially all of our assets and any other significant corporate transaction. The concentration of ownership will also prevent a change of control of our company at a premium price if these stockholders oppose it. Please read "Principal Stockholders" for details on our stock ownership.

PROVISIONS OF OUR CHARTER DOCUMENTS AND DELAWARE LAW MAY INHIBIT A TAKEOVER, WHICH COULD NEGATIVELY AFFECT OUR STOCK PRICE

Provisions in our amended and restated charter and bylaws and applicable provisions of the Delaware General Corporation Law may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding voting common stock or delay, prevent or deter a merger, acquisition, tender offer or proxy contest, which may negatively affect our stock price.

THERE IS A LARGE NUMBER OF SHARES THAT MAY BE SOLD IN THE MARKET FOLLOWING THIS OFFERING, WHICH MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK

Sales of a substantial number of shares of our common stock in the public market following this offering could cause the market price of our common stock to decline. Upon completion of this offering, we will have outstanding an aggregate of shares of common stock, assuming no exercise of outstanding options or warrants. Of these shares, all of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act of 1933, or the Securities Act, unless these shares are purchased by affiliates. The remaining 12,429,231 shares of common stock held by existing stockholders are restricted securities. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under the Securities Act.

Our executive officers, directors and certain stockholders have agreed pursuant to "lock-up" agreements that, for a period of 180 days from the date of this prospectus, they will not sell any shares of common stock without the prior written consent of J.P. Morgan Securities Inc.

As a result of these "lock-up" agreements and the rules under the Securities Act, the restricted shares will be available for sale in the public market, subject to certain volume and other restrictions, as follows:

DAYS AFTER THE EFFECTIVE DATE	NUMBER OF SHARES ELIGIBLE FOR SALE	COMMENT
Upon effectiveness	--	Shares not locked-up and eligible for sale under Rule 144
90 days	--	Shares not locked-up and eligible for sale under Rules 144 and 701
180 days	12,139,231	Lock-up released; shares eligible for sale under Rules 144 and 701

Additionally, of the 2,901,089 shares that may be issued upon the exercise of options outstanding as of February 8, 2000, approximately 1,364,387 shares are subject to options which will be vested and exercisable 180 days after the date of this prospectus.

On the date 180 days after the closing date of this offering, the holders of 12,390,062 shares of our common stock and warrants exercisable for 246,667 additional shares of common stock will have rights to require us to register their shares under the Securities Act. Upon the effectiveness of a registration statement covering these shares, these shares would become freely tradable.

Immediately after this offering, we intend to file a registration statement under the Securities Act covering approximately 3,910,831 shares of common stock reserved for issuance under our stock option plans. We expect the registration statement to be filed and become effective as soon as practicable after the closing of this offering. Accordingly, shares registered under such registration statement will be available for sale in the open market upon the effectiveness of the registration statement unless they are held by persons that have signed a "lock-up" agreement.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus 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 and uncertainties outlined under "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 of 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 prospectus to conform these statements to actual results, unless required by law.

USE OF PROCEEDS

Our net proceeds from the sale of the shares of common stock we are offering, at an assumed initial public offering price of $ per share, are estimated to be approximately $ million after deducting underwriting discounts and estimated offering expenses payable by us. We expect to use the net proceeds to:

- increase functional genomics research using knockout mice to define the functions of genes that encode potential drug targets and therapeutic proteins;
- expand our Human Gene Trap database and OmniBank database and library;
- generate full-length sequences of a prioritized set of genes that appear by bioinformatics analysis to encode potential drug targets and therapeutic proteins; and
- fund working capital, capital expenditures and other general corporate purposes.

The amounts and timing of our actual expenditures will depend upon numerous factors, including the status of our product development and commercialization efforts, the amount of proceeds actually raised in this offering, the amount of cash generated by our operations, competition and sales and marketing activities. We may also use a portion of the proceeds for the acquisition of, or investment in, companies, technologies or assets that complement our business. However, we have no present understandings, commitments or agreements to enter into any potential acquisitions or investments. Further, we have not determined the amounts we plan to spend on any of the areas listed above or the timing of these expenditures. As a result, our management will have broad discretion to allocate the net proceeds from this offering. Pending application of the net proceeds as described above, we intend to invest the net proceeds of the offering in short-term investment grade and U.S. government securities.

DIVIDEND POLICY

We have never paid cash dividends on our common stock or any other securities. We anticipate that we will retain all of our future earnings, if any, for use in the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future.

CAPITALIZATION

The following table summarizes as of December 31, 1999 our cash, cash equivalents and marketable securities and our capitalization:

- on an actual basis; and
- on a pro forma as adjusted basis to reflect the conversion of all our outstanding convertible preferred stock into 4,244,664 shares of common stock upon the closing of this offering and the sale of shares of common stock at an assumed initial public offering price of $ per share, less estimated underwriting discounts and estimated offering expenses.

This table does not include: 1,857,487 shares issuable on the exercise of stock options outstanding as of December 31, 1999 at a weighted average exercise price of $5.05 per share; 334,500 shares issuable upon exercise of warrants outstanding as of December 31, 1999 at an exercise price of $7.50 per share; or 142,513 additional shares that we could have issued under our stock option plan as of such date.

This table should be read with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and accompanying notes appearing elsewhere in this prospectus.

	DECEMBER 31, 1999	
	ACTUAL	PRO FORMA AS ADJUSTED
In thousands, except share data		
Cash, cash equivalents and marketable securities	$ 9,156	$
Long-term obligations, net of current portion	$ 3,577	$ 3,577
Redeemable convertible preferred stock, $0.01 par value; 4,244,664 shares authorized, 4,244,664 shares issued and outstanding, actual; no shares authorized or outstanding, pro forma as adjusted	30,050	--
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value; 5,755,336 shares authorized, no shares issued and outstanding, actual; 5,000,000 shares authorized, no shares issued and outstanding, pro forma as adjusted	--	--
Common stock, $0.001 par value; 25,000,000 shares authorized, 8,180,067 shares issued and outstanding, actual; 70,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted	8	
Additional paid-in capital	8,772	
Deferred stock compensation	(915)	(915)
Accumulated deficit	(29,801)	(29,801)
Total stockholders' equity (deficit)	(21,936)	
Total capitalization	$ 11,691	$

DILUTION

The pro forma net tangible book value of our common stock on December 31, 1999, reflecting the conversion of all outstanding shares of convertible preferred stock into shares of common stock upon the closing of this offering, was approximately $8.1 million, or approximately $0.65 per share. Pro forma net tangible book value per share represents the amount of our total tangible assets less total liabilities divided by the number of shares of common stock outstanding. Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the net tangible book value per share of our common stock immediately afterwards. Assuming the sale of shares of our common stock offered by this prospectus at an assumed initial public offering price of $ per share, and after deducting estimated underwriting discounts and estimated offering expenses, our adjusted pro forma net tangible book value at December 31, 1999 would have been approximately $ million, or approximately $ per share. This represents an immediate decrease in net tangible book value of $ per share to new investors purchasing shares of common stock in this offering. The following table illustrates this dilution on a per share basis.

Assumed initial public offering price per share		$
Pro forma net tangible book value per share at December 31, 1999	$0.65	
Increase per share attributable to new investors		
Adjusted pro forma net tangible book value per share after this offering		
Dilution per share to new investors		$

The foregoing discussion and table assume no exercise of any outstanding stock options or warrants. The exercise of all options and warrants outstanding as of December 31, 1999 having an exercise price less than the initial public offering price would increase the dilutive effect to new investors to $ per share.

The following table summarizes, on a pro forma basis, as of December 31, 1999, the differences between the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by existing stockholders and by the new investors purchasing shares in this offering. We have assumed an initial public offering price of $ per share, and we have not deducted estimated underwriting discounts and estimated offering expenses in our calculations.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders	12,424,731	%	$36,716,508	%	$2.96
New investors					
Total		100.0%	$	100.0%	

SELECTED FINANCIAL DATA

The statements of operations data for each of the years ended December 31, 1997, 1998 and 1999, and the balance sheet data as of December 31, 1998 and 1999, have been derived from our audited financial statements included elsewhere in this prospectus that have been audited by Arthur Andersen LLP, independent public accountants. The statements of operations data for the period from our inception on July 7, 1995 through December 31, 1995 and for the year ended December 31, 1996, and the balance sheet data at December 31, 1995, 1996 and 1997, have been derived from our audited financial statements not included in this prospectus. The pro forma net loss per share data reflect the conversion of our outstanding convertible preferred stock upon closing of this offering. Our historical results are not necessarily indicative of results to be expected for any future period. The data presented below have been derived from financial statements that have been prepared in accordance with generally accepted accounting principles and should be read with our financial statements, including the accompanying notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	PERIOD FROM INCEPTION (JULY 7, 1995) THROUGH DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	1997	1998	1999
In thousands, except share data					
STATEMENTS OF OPERATIONS DATA					
Revenues	$ --	$ 306	$ 968	$ 2,242	$ 4,738
Operating expenses					
Research and development	445	2,409	4,970	8,410	14,646
General and administrative	236	764	1,473	2,024	2,913
Total operating expenses	681	3,173	6,443	10,434	17,559
Loss from operations	(681)	(2,867)	(5,476)	(8,192)	(12,821)
Interest income (expense), net	9	(12)	74	711	346
Net loss	(672)	(2,879)	(5,402)	(7,481)	(12,475)
Accretion on redeemable convertible preferred stock	--	--	--	(357)	(535)
Net loss attributable to common stockholders	$ (672)	$(2,879)	$(5,402)	$(7,838)	$(13,011)
Net loss per common share, basic and diluted	$(0.20)	$ (0.50)	$ (0.68)	$ (0.96)	$ (1.59)
Shares used in computing net loss per common share, basic and diluted	3,287,099	5,782,076	7,996,323	8,148,474	8,176,809
Pro forma net loss per common share, basic and diluted					$ (1.00)
Shares used in computing pro forma net loss per common share, basic and diluted					12,421,473

	AS OF DECEMBER 31, 1995	1996	1997	1998	1999
In thousands					
BALANCE SHEET DATA					
Cash, cash equivalents and marketable securities	$ 340	$ --	$ 1,980	$ 19,422	$ 9,156
Working capital	9	(303)	1,009	18,102	2,021
Total assets	721	1,090	4,917	28,516	22,295
Long-term obligations, net of current portion	--	81	5,268	5,024	3,577
Redeemable convertible preferred stock	--	--	--	29,515	30,050
Accumulated deficit	(672)	(3,551)	(8,953)	(16,790)	(29,801)
Total stockholders' equity (deficit)	340	521	(1,931)	(9,034)	(21,936)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read with "Selected Financial Data" and our financial statements and notes included elsewhere in this prospectus. The discussion in this prospectus contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this prospectus regarding forward-looking statements should be read as applying to all related forward-looking statements wherever they appear in this prospectus. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in "Risk Factors," as well as those discussed elsewhere in this prospectus. Please read "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

OVERVIEW

We are a leading genomics company using proprietary gene trapping technology to discover thousands of novel genes and to expand our OmniBank library of tens of thousands of knockout mouse clones for drug discovery. We have established an Internet exchange, Lexgen.com, to enable researchers worldwide to access our OmniBank library and to form collaborations with us to discover pharmaceutical products based on genes and knowledge of their function. Through our ongoing collaborations with pharmaceutical companies, biotechnology companies and academic researchers, we receive fees and may obtain royalties and milestone payments from commercialization of pharmaceutical products developed using our genomics technologies. We believe that providing global access to our OmniBank library through the Internet will significantly accelerate genomics research and will enable us to establish a leadership position in drug target and therapeutic protein discovery.

We derive substantially all of our revenues from subscriptions to our databases, collaborations for the development and, in some cases, analysis of knockout mice and from government grants. 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 December 31, 1999, we had an accumulated deficit of $29.8 million, which includes $892,362 of accretion on redeemable convertible preferred stock. Our losses have resulted principally from costs incurred in research and development and from general and administrative costs associated with our operations. 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 the generation of our Human Gene Trap database, OmniBank database and library and the development of knockout mice. 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. In connection with the expansion of our Human Gene Trap database, OmniBank database and library and 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.

Our quarterly operating results will depend upon many factors, including expiration of research contracts with collaborators or government research grants, the success rate of our discovery efforts leading to milestones and royalties, the timing and willingness of collaborators to commercialize products which would result in royalties, general and industry-specific economic conditions which may affect research and development expenditures and the timing and content of information released by the Human Genome Project. As a consequence, our quarterly operating results have fluctuated in the past and are likely to do so in the future.

During 1999, we recorded deferred stock compensation of $1.0 million. Deferred stock compensation represents the difference between the deemed fair value of our common stock for accounting purposes and the exercise price of options at the date of grant. We anticipate that additional deferred compensation totaling approximately $23.2 million will be recorded for options granted in the first quarter of 2000. These amounts are being amortized over the respective vesting periods of the individual stock options. We recorded amortization of deferred compensation of $85,633 for 1999. We expect to record amortization expense for deferred compensation as follows: $9.7 million during 2000, $4.3 million during 2001, $4.3 million during 2002, $4.3 million during 2003 and $600,000 during 2004. The amount of deferred compensation expense to be recorded in future periods may decrease if unvested options for which deferred compensation has been recorded are subsequently canceled.

As of December 31, 1999, we had net operating loss carryforwards of approximately $27.0 million. We also had research and development tax credit carryforwards of approximately $671,000. The net operating loss and credit carryforwards will expire at various dates beginning in 2011, if not utilized. Utilization of the net operating losses and credits may be substantially limited

due to the change in ownership provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

RESULTS OF OPERATIONS

Years Ended December 31, 1999 and 1998

Revenues. Total revenues increased 111% to $4.7 million in 1999 from $2.2 million in 1998. Of the $2.5 million increase, $1.4 million was derived from increased database subscription and license fees and $1.1 million was derived from increased fees for the development of knockout mice.

Research and Development Expenses. Research and development expenses increased 74% to $14.6 million in 1999 from $8.4 million for 1998. The increase of $6.2 million was attributable to continued growth of research and development activities, including $2.6 million related to increased personnel and laboratory supply costs to support the generation of our Human Gene Trap database, OmniBank database and library and the development of knockout mice and $2.9 million related to higher operating expenses as a result of the completion of our new animal facility in January 1999, with the remainder due to expansion in operating activities. As of December 31, 1999, production costs incurred in the development of knockout mice for commercial sale have not been significant.

General and Administrative Expenses. General and administrative expenses increased 44% to $2.9 million during 1999 from $2.0 million for 1998. The increase of $888,799 was due to $720,694 related to compensation for business development, finance and administrative personnel, with the remainder due to overall expansion in our operations.

Interest Income and Interest Expense. Interest income decreased 23% to $648,906 in 1999 from $838,110 in 1998. This decrease resulted from a declining cash and investment balance due to cash used in operating activities. Interest expense increased 139% to $302,802 in 1999 from interest expense of $126,665 in 1998. This increase resulted from higher debt obligation balances in 1999.

Years Ended December 31, 1998 and 1997

Revenues. Total revenues increased 132% to $2.2 million in 1998 from $967,742 in 1997. Of the $1.3 million increase, $425,075 was derived from increased database subscription and license fees and $585,789 was derived from increased fees from the development of knockout mice.

Research and Development Expenses. Our research and development expenses increased 69% to $8.4 million in 1998 from $5.0 million in 1997. The increase of $3.4 million was due to $1.1 million related to compensation for additional scientific personnel and $1.7 million due to additional laboratory supply costs, with the remainder due to expansion in our operating activities.

General and Administrative Expenses. General and administrative expenses increased 37% to $2.0 million in 1998 from $1.5 million in 1997. The increase was due to hiring of additional personnel to support our growing business activities.

Interest Income and Interest Expense. Interest income increased 530% to $838,110 in 1998 from interest income of $133,004 for 1997. This increase was due to increases in cash and investment balances as a result of our $31.8 million redeemable convertible Series A preferred stock equity financing in May 1998. Interest expense increased 115% to $126,665 in 1998 from interest expense of $58,861 for 1997. This increase resulted from higher average capital lease and debt obligation balances in 1998.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations from inception primarily through private sales of common and preferred stock, contract and milestone payments to us under our database subscription and collaboration agreements and equipment financing arrangements. As of December 31, 1999, we had received net proceeds of $36.7 million from issuances of common and preferred stock. In addition, from our inception through December 31, 1999, we received $13.1 million in cash payments from database subscription and license fees, fees for the development of knockout mice, sales of products related to the generation of knockout mice and government grants, of which $8.3 million had been recognized as revenues through December 31, 1999.

As of December 31, 1999, we had $9.2 million in cash, cash equivalents and marketable securities, as compared to $19.4 million as of December 31, 1998. We used $9.6 million for operations in the year ended December 31, 1999. This consisted of the net loss for the period of $12.5 million offset in part by non-cash charges of $1.9 million related to depreciation expense. We received $5.2 million from investing activities for the year ended December 31, 1999, which

consisted principally of net proceeds from the sale of marketable securities of $9.3 million offset by purchases of property and equipment of $4.1 million.

In June 1999, we entered into a $5.0 million financing arrangement for the purchase of property and equipment. As of December 31, 1999, we had drawn down approximately $4.2 million and had $831,940 remaining available under this arrangement. As of December 31, 1999, $3.7 million of the amount outstanding was secured by the equipment financed. This facility accrues interest at a weighted-average rate of approximately 11.7% and is due in monthly installments through 2003. In addition, as of December 31, 1999, we had $133,398 in capitalized lease obligations outstanding compared to $303,199 at December 31, 1998.

Our capital requirements depend on numerous factors, including our ability to obtain database subscription and collaboration agreements and government grants, the amount and timing of payments under such agreements and grants, 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 the net proceeds of this offering and revenues to be derived from subscriptions to our databases, collaborations for the development and, in some cases, analysis of knockout mice and government grants, will be sufficient to fund our operations for at least two 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 of depository accounts, master notes and liquidity optimized investment contracts. The securities in our investment portfolio are not leveraged, are classified as available-for-sale and are, due to their very short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that an increase in market rates would have any negative impact on the realized value of our investment portfolio.

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

BUSINESS

COMPANY OVERVIEW

We are a leading genomics company using proprietary gene trapping technology to discover thousands of novel genes and to expand our OmniBank library of tens of thousands of knockout mouse clones for drug discovery. We have established an Internet exchange, Lexgen.com, to enable researchers worldwide to access our OmniBank library and to form collaborations with us to discover pharmaceutical products based on genes and knowledge of their function. Through our ongoing collaborations with pharmaceutical companies, biotechnology companies and academic researchers, we receive fees and may obtain royalties and milestone payments from commercialization of pharmaceutical products developed using our genomics technologies. We believe that providing global access to our OmniBank library through the Internet will significantly accelerate genomics research and will enable us to establish a leadership position in drug target and therapeutic protein discovery.

Our proprietary gene trapping technology captures gene sequence information and enables us to:

- obtain DNA sequences of rarely expressed genes;
- identify genes contained within the DNA sequence of the chromosome;
- obtain DNA sequence of genes throughout the human genome at a fraction of the cost of traditional approaches; and
- create a genome-wide knockout mouse library for discovery of gene function.

We have created three key gene discovery and functional genomics resources, which we are continuing to expand for drug discovery:

- Our Human Gene Trap database, which presently contains DNA sequence from approximately 50,000 human genes that we have rapidly and efficiently trapped from human chromosomes and analyzed in a relational database. We believe that, at present, approximately 50% of the gene sequences contained in our Human Gene Trap database are not represented in public contiguous gene sequence databases. We are using this resource to obtain full-length gene sequence information for drug discovery.
- Our OmniBank database and mouse clone library, which presently contains more than 60,000 embryonic stem (ES) cell clones stored in liquid nitrogen freezers and identified by DNA sequence in a relational database. Each OmniBank ES cell clone can be grown into a knockout mouse -- a mouse whose DNA has been altered to disrupt, or "knock out," the function of a specified gene.
- Lexgen.com, a genomics Internet exchange through which researchers at pharmaceutical and biotechnology companies and academic institutions worldwide subscribe to our OmniBank database to conduct web-based, bioinformatics mining of genes, acquire knockout mouse clones and determine the function of genes with us under e-Biology collaborations.

STRATEGY

Our principal objective is to establish a leadership position in drug target and therapeutic protein discovery. The key elements of our strategy include the following:

Discover and Obtain Proprietary Rights to a Substantial Number of Human Genes. We plan to continue the development of our Human Gene Trap database until we have substantially covered, or saturated, the human genome using our proprietary gene-trapping technology. We intend to continue our efforts to obtain full-length sequences of a prioritized set of genes that appear by bioinformatics analysis to encode potential drug targets and therapeutic proteins.

Expand OmniBank and Develop Custom Knockout Mice for Selected Genes. OmniBank currently contains over 60,000 knockout mouse clones. We plan to expand our OmniBank library until we have saturated the mouse genome using our proprietary gene trapping technology. We intend to use our patented gene targeting technology as a complement to OmniBank to generate custom knockout mice to discover the functions of specific genes.

Use the Internet to Establish Gene Function Discovery Collaborations. Through Lexgen.com, our genomics Internet exchange, we plan to expand our efforts to use OmniBank knockout mouse clones to establish e-Biology gene function discovery collaborations with researchers at pharmaceutical and biotechnology companies and academic institutions worldwide. We believe that we can harvest high-value information on gene function for drug discovery through our e-Biology collaborations.

Discover the Functions of Large Numbers of Genes that Encode Potential Drug Targets and Therapeutic Proteins. We plan to conduct internal research programs using a large number of knockout mice to discover the physiologic, cellular and

biochemical functions of a prioritized set of genes. Our goal is to identify the most promising candidate genes for development as drug targets or therapeutic proteins. We plan to use functional genomics information obtained from our e-Biology collaborations to complement our internal research efforts.

Develop Promising Drug Candidates through Collaborations or with Our Own Resources. We have and will continue to establish drug discovery collaborations with pharmaceutical and biotechnology companies for the identification and development of promising drug target and therapeutic protein candidates. We will continue to seek combinations of research funding, licensing fees, milestone payments, royalties and co-promotion rights in connection with these collaborative agreements. Although we generally expect to rely on our collaborators for clinical development and commercialization of products, we may elect to pursue the research and clinical development of drug candidates on our own.

THE GENOME

The body is composed of specialized cells that perform different functions and are organized into tissues and organs. Cells in the body contain approximately 100,000 genes, referred to as the genome. Approximately 10% of the total number of genes are expressed in an individual cell, and different subsets of genes are expressed at significantly different levels in distinct cell types. Most genes direct the production of specific proteins, resulting in the production of approximately 10,000 different proteins in a typical cell. Proteins, such as peptide hormones, enzymes and receptors, carry out and regulate critical physiological functions in the body. The genome encodes the proteins made by cells of the body.

The human genome is comprised of complementary strands of deoxyribonucleic acid, or DNA, molecules organized into 23 pairs of chromosomes. These DNA molecules consist of long chains of nucleotide bases that pair to form a twisted ladder-like structure known as the double helix. There are four types of nucleotides in DNA, adenine, cytosine, guanine and thymine, which are often abbreviated by their first letters A, C, G and T. The entire human genome contains approximately 3.5 billion nucleotide base pairs.

Genes carry the specific information, or code, necessary to construct, or express, proteins that regulate human physiology. Genes make up approximately three to five percent of chromosomes and are structurally defined by the sequence of nucleotide bases contained in DNA. The remaining 95% to 97% of DNA in chromosomes does not code for protein. Genes are composed of segments called exons that are separated by non-coding DNA known as introns. Taken together, the coding and non-coding DNA is commonly referred to as genomic DNA or chromosomal DNA.

The information contained in genes is used to express proteins via a two-step process. The first step in protein expression is called transcription, in which the DNA sequence of a gene is copied into a molecule known as ribonucleic acid, or RNA. A splicing process within the cell then removes the introns, or non-coding segments, from the transcript, thereby creating a messenger RNA, or mRNA. The mRNA contains only the exons of the transcribed gene. In the second step, the mRNA directs the assembly of the protein product of the gene in a process called translation.

Genomics: Gene Sequence Discovery

The Human Genome Project and other publicly and privately-funded DNA sequencing efforts have invested considerable resources to sequence the genes in the human genome. Most of these resources have been invested in high-throughput sequencing projects using two approaches: EST and genomic DNA sequencing.

EST sequencing uses mRNA from transcription of genes that has been converted artificially, or in vitro, to form complementary DNA, or cDNA. High-throughput EST sequencing obtains partial DNA sequence from the ends of the cDNA molecules. It is generally believed that more than one-half of all human genes have been at least partially sequenced using the EST approach.

Obtaining a complete set of human gene sequences requires the sequencing of cDNAs from many different cell types and tissues. Since EST sequencing relies on cDNA from mRNAs, it can, at best, identify the 10% of genes that are typically expressed in the tissue or cell type from which the mRNA was obtained. EST sequencing is further complicated by the fact that many genes are expressed at thousands of times the levels of other genes, leading to thousands more copies of certain mRNAs as compared to mRNAs from rarely expressed genes. Using current EST technology, mRNAs expressed at very low levels are rarely detected. This has significant implications for genomics-based drug discovery since rare mRNAs are thought to encode key regulatory proteins that are enriched for potential drug targets or therapeutic proteins.

The Human Genome Project and certain other high-throughput genomic DNA sequencing efforts have employed a second approach involving the sequencing of genomic DNA or entire chromosomes. It is expected that the Human Genome Project will release a "working draft" of sequence from the human genome in the spring of 2000. Genomic sequencing efforts obtain the sequence of whole chromosomes, including the 95% to 97% of non-coding DNA.

Genomic sequencing of entire chromosomes is an expensive and inefficient way to determine gene sequence because the exons that represent a gene are separated by large regions of non-coding intron DNA sequence. A significant amount of analysis and additional information is required to identify the exons within the genomic sequence and to determine how those exons splice together to form mRNAs from genes.

Functional Genomics: Defining Gene Function

Gene sequencing permits identification of the nucleotide sequence of the gene but by itself does not predict the function of a gene in physiology and disease. The growing databases of gene sequences are analagous to a dictionary containing thousands of words, with only a handful of definitions.

Researchers use a variety of methods to obtain clues about gene function, like gathering information about where a gene's transcript is found and where the corresponding protein is expressed in the cell. Experiments are also conducted using cell culture, biochemical studies and non-mammalian organisms. While these methods may provide useful information about gene function at the biochemical and cellular levels, their ability to provide information about how genes control mammalian physiology is significantly limited.

The preferred method of determining a gene's function in mammals is to disrupt, or knock out, the gene in a mouse and then assess the physiological and biochemical consequences in the whole animal. The results of such an analysis can determine the function and disease relevance of a particular gene. Since mice and humans are mammals, the mouse has advantages over non-mammalian model organisms for defining the function and disease relevance of human genes:

- The human and mouse genomes bear a high degree of similarity; large regions of the two genomes contain similar genes in a similar order.

- The mouse is the only mammal for which ES cell cloning technology has been well-established, and it is also the only mammal that can be genetically engineered on a large scale.

- The mouse is one of the most widely-used animal model systems in the pharmaceutical industry because it has similar organ systems and physiology to humans.

The value of knockout mice as models for defining the function and disease relevance of human genes is further evidenced by the Mouse Genome Project recently initiated by the National Institute of Health. This project is the only large-scale mammalian genome sequencing project funded by the U.S. government other than the Human Genome Project itself.

While gene-targeting experiments in ES cells have led to substantial successes in identifying gene function, traditional methods of producing knockout mice are slow, labor-intensive and often unpredictable. These impediments have limited the rate at which knockout mice may be produced. In addition, only genes that are cloned and partially sequenced can be knocked out. This procedure requires highly-skilled scientific personnel and often requires a year or more of work. We estimate that, to date, knockout mice for fewer than five percent of genes have been made by traditional gene-targeting technology, indicating that substantial opportunities exist for high-throughput methodologies to create knockout mice to define gene function.

LEXICON GENETICS TECHNOLOGY

Gene Trapping

We believe that our proprietary gene trapping technology represents a significant advance in the discovery of genes and their function and an equally significant departure from traditional mechanisms of drug discovery. Our proprietary gene trapping technology uses a type of virus called a retrovirus that has been genetically engineered. These retroviruses infect cells in vitro, integrate into the chromosome of the cell and deliver molecular traps for genes. Our gene traps stimulate transcription and use the cell's own splicing machinery to extract a transcript of a gene from the chromosome for automated DNA sequencing. Additionally, when we introduce our gene traps in mouse ES cells, they disrupt the function of the trapped genes and allow for the production of knockout mice.

[Graphic depicting our gene trapping technology, including gene trap insertion into target chromosomes, consequent gene function and sequence discovery]

Gene Sequence Discovery. We believe that our proprietary gene trapping technology is able to identify genes largely independent of mRNA expression levels in any given cell type. This ability allows us to identify rarely expressed genes, which are thought to encode classes of proteins that are enriched for important drug targets and therapeutic proteins. The same ability also allows us to obtain DNA sequence of genes throughout the human genome at a fraction of the cost of EST or genomic sequencing approaches. As a result, we believe that our gene-trapping technology gives us a significant competitive advantage in the race to identify novel genes, overcoming many of the limitations of other gene discovery technologies.

COMPARISON OF GENE SEQUENCE DISCOVERY TECHNOLOGY

LEXICON GENE TRAPPING	EST SEQUENCING	CHROMOSOME SEQUENCING
- - Trapped genes include rarely expressed genes	- Bias toward sequencing highly expressed genes	- Only 3% - 5% of sequence contains genes
- - High rate of novel gene discovery	- Difficult to obtain any more novel genes	- Difficult to identify novel genes reliably
- - High-throughput gene function discovery	- Lacking functional genomics capability	- Lacking functional genomics capability

We have also conducted pilot programs in which we have demonstrated the utility of gene trapping in several agriculturally important animals and companion animals, and believe that our technology represents a superior method to capture gene sequences from the genomes of such animals.

We believe that our scientists are the first in the world to automate the high-throughput production and analysis of gene trap events. We have also implemented integrated and automated procedures using computers and robotics to perform most of the DNA sequencing tasks, including robotic preparation of templates for sequencing and automated sequence reactions using high-throughput, fluorescent DNA sequencers. This integrated approach allows our scientists to move from human gene trap template or mouse ES cell clone to DNA sequence with speed and efficiency. We have also implemented a rapid method to clone and sequence full-length human genes from cDNA libraries that are discovered through our gene trapping technology.

Defining Gene Function. Mouse ES cells are cells that may be genetically manipulated using our gene trapping and gene targeting technologies. When the desired genetic changes have been introduced into the ES cells, clones of cells containing specific alterations in genes are selected and grown as colonies in vitro. These colonies each represent a new mouse clone with a defined alteration in a specific gene and can be grown into knockout mice with the desired alteration. In this form, ES cell clones may be stored indefinitely in liquid nitrogen freezers.

We use our gene trap retroviral vectors in a high-throughput, automated process to rapidly and cost-effectively create knockout mouse clones. Our OmniBank library presently contains more than 60,000 frozen ES cell clones identified by DNA sequence in a relational database. Importantly, our gene trapping vectors are designed to trap genes in a manner largely independent of their levels of expression, permitting even very rare gene transcripts to be included in our OmniBank database and library. We estimate that OmniBank currently contains genes that represent approximately one-third of the mammalian genome.

[Figure which depicts growth of ES cell clones, storage in OmniBank liquid nitrogen freezers, and production of knockout mice]

We are currently generating approximately 1,000 genetically engineered knockout ES cell clones per week using our technology. Our current weekly production significantly exceeds the estimated annual production of knockout mice made by traditional methods, and at a fraction of the cost. Our OmniBank library permits researchers to analyze gene function even without prior knowledge of the DNA sequence of the gene, permitting analysis of large numbers of knockout mice in order to discover those genes that are responsible for particular biological functions. We believe that this combination of high-

throughput gene trapping and large-scale ES cell cloning of the mouse will enable us and our collaborators to more rapidly discover those genes that are the most promising for development as drug targets and therapeutic proteins.

The following chart lists examples of OmniBank knockout mice that we have developed to identify the function of specific genes. These knockout mice have been developed as part of our agreement with Merck Genome Research Institute. Please read "--Commercialization--Collaborators, Customers and Programs" for a description of this agreement.

OMNIBANK GENE KNOCKOUT	POTENTIAL AREA OF BIOLOGICAL IMPORTANCE
Anf-R (atrial natriuretic factor receptor).....	acts as the receptor for atrial natriuretic peptide, a peptide known to function as a diuretic and vasodilator that can affect blood pressure
Bendless.....	first identified as a fly protein critical for the formation of proper connections between nerves
Dystonin.....	a protein that when mutated causes a progressive loss of muscular control with similarities to the progressive loss of ability to control movement seen in Parkinson's or Lou Gehrig's disease
Endobrevin.....	important for relaying signals at nerve junctions
FKBP12.....	a potential target of immunosuppressive drugs such as FK506 and cyclosporin A, which are given to organ transplant patients to prevent rejection
Grg4 (groucho-related gene 4).....	related to a fly gene that is part of a pathway that has been implicated in embryological development, cancer and Alzheimer's disease in humans
MIP (lens major intrinsic protein).....	a major component of the lens and when it functions improperly can result in cataracts
Secretogranin III.....	a member of a family of proteins that play a role in regulated secretory pathways involved in the secretion of hormones and neuropeptides
Thrombospondin-3.....	a member of a family of secreted proteins thought to play a role in blood vessel formation; regulation of blood vessel formation is critical for processes such as wound healing but also for growth of large tumors
PECAM (platelet-endothelial cell adhesion molecule).....	an adhesion molecule expressed in several cell types and thought to play a role in blood vessel formation, inflammation and white blood cell movement to areas of infection
psp94 (prostate secretory protein of 94 amino acids).....	has been shown to inhibit the growth of a prostate cancer cell line by causing programmed cell death
Raidd.....	thought to play a role in programmed cell death, a process critical for proper development as well as the destruction of cancer cells
VEGF-C (vascular endothelial growth factor C).....	part of the secreted vascular endothelial growth factor family and thought to play a role in formation of blood vessels and lymphatic tissue important for the transfer of disease fighting white blood cells

Complementing our OmniBank genome-wide knockout approach, we use technologies of gene targeting by homologous recombination to generate custom knockout mice for the study of the functions of specific genes. These highly specific methods enable us to alter interesting genes for our focused drug discovery projects. We have implemented a yeast vector technology to more rapidly generate a wide variety of gene targeting vectors for such projects. In addition, we generate conditional knockout mice using Cre/lox recombinase technology to allow for selective disruption of gene function in certain tissues of the mouse. This conditional regulation of gene activity may closely model the pharmacological action of drugs that interact with specific targets.

We have developed a Seek-Target-Validation system to rapidly analyze large numbers of knockout mice to discover the function of genes. This sophisticated series of tests is structured in three levels: primary biological analysis, organ and physiological

systems analysis, and pathway discovery and analysis. These tests are stratified according to level of complexity required to obtain information regarding a particular function. Results obtained from tests at one level can serve to focus the types of tests applied at the next level of analysis. We apply these tests to specific knockout mice in a systematic fashion in order to reveal physiological, cellular and biochemical consequences of a specific gene knockout, thereby defining the function of the gene and the protein it encodes. Diseases and conditions that are being surveyed under this program for prioritized genes include obesity, anemia, immune disorders, inflammation, heart disease, diabetes, cancer, neurological diseases and behavioral defects.

COMMERCIALIZATION

Our commercialization strategy is to:

- expand our efforts to establish additional subscription agreements for access to our Human Gene Trap database and OmniBank database and library;

- enter into collaborations for the development and analysis of custom and OmniBank knockout mice;

- expand our e-Biology collaborations through Lexgen.com; and

- establish drug discovery and development collaborations with leading pharmaceutical and biotechnology companies.

Drug Target and Therapeutic Protein Discovery

Most human disease is associated with alterations in physiological processes controlled by genes and the proteins they encode. Virtually all drugs interact with proteins, commonly referred to as the drug's target. Some drugs, such as insulin and erythropoetin, are themselves protein products of genes. The discovery of genes within the human genome that encode novel proteins, therefore, represents an opportunity for the discovery and development of novel drug targets and therapeutic proteins that address medical needs for which there presently may be no effective treatment.

Drugs on the market today interact with a total of about 500 specific protein targets, each of which is encoded by the sequence of a gene. While estimates of the total number of potential drug targets encoded within the human genome vary widely, many experts believe that there may be between 5,000 and 15,000 such targets. The emergence of genomics, therefore, presents an opportunity for pharmaceutical companies to significantly expand the number of new targets available for drug discovery.

We believe our genomics and functional genomics resources will enable the discovery of a wide spectrum of potential pharmaceutical products. We are using these resources both to provide products and services to our collaborators and to drive our own discovery efforts. These efforts involve the following elements:

- computer analyses of our proprietary Human Gene Trap and OmniBank databases to prioritize genes for functional analysis;

- sophisticated bioinformatics analyses and expression surveys to prioritize a set of genes for full-length sequencing;

- internal and collaborative research programs analyzing the physiologic, cellular and biochemical consequences of the knockout of selected genes in mice; and

- identification of certain genes and encoded proteins as promising drug targets or therapeutic proteins.

We anticipate that most of our pharmaceutical products may be developed and marketed in collaborative arrangements with pharmaceutical and biotechnology companies. We may, however, independently develop a select group of pharmaceutical products. We believe that the genes we identify and the gene functions we define have the potential to be valuable in the discovery and development of therapeutic proteins, antibody, small molecule and gene therapy drugs, diagnostics, and pharmacology, toxicology and pharmacogenomics applications.

Collaborators, Customers and Programs

Millennium Pharmaceuticals, Inc. We established a collaboration for our Human Gene Trap and OmniBank databases with Millennium Pharmaceuticals, Inc. in October 1999. Under the agreement with Millennium, we are providing Millennium with non-exclusive access to our Human Gene Trap and OmniBank databases. We receive annual subscription fees for database

access, and may receive license fees for full-length genes, validated drug targets and protein therapeutics. Additionally, we may receive milestone and royalty payments for products developed using our Human Gene Trap and OmniBank databases. The database agreement was our second collaboration agreement with Millennium. We entered into a separate multi-year agreement in July 1999 for the creation of custom knockout mice for use by Millennium in the validation of potential drug targets identified and selected by Millennium.

Merck Genome Research Institute. We established an agreement for access to our OmniBank database and library with Merck Genome Research Institute in March 1997. We have agreed to develop 150 lines of knockout mice from OmniBank for payments totaling $8.0 million, of which $4.0 million has already been paid. The OmniBank mice produced under the agreement will be made available to researchers worldwide through one or more not-for-profit distributors selected by MGRI for that purpose. A committee of leading scientists appointed by MGRI selects the lines of OmniBank mice produced under the agreement. To date, the committee has selected 75 of the 150 lines of knockout mice to be produced under the agreement.

OmniBank Internet Universal Program. The OmniBank Internet Universal program allows pharmaceutical and biotechnology companies to obtain non-exclusive access to our OmniBank database through the Internet. In addition, these agreements allow collaborators to obtain OmniBank and custom knockout mice under predefined terms. Pharmaceutical and biotechnology companies that identify drug targets of interest through either OmniBank or custom knockout mice also have the option to engage us to analyze those mice through our Seek-Target-Validation program. We receive annual subscription fees and fees for knockout mice with annual minimum commitments and may receive royalties on products developed using novel genes discovered in OmniBank. We have entered into agreements with the following companies under this program:

COMPANY	DATE OF AGREEMENT
G.D. Searle & Co. (a subsidiary of Monsanto Company)	January 2000
The R.W. Johnson Pharmaceutical Research Institute* (a subsidiary of Johnson & Johnson)	December 1999
N.V. Organon (a subsidiary of Akzo Nobel)	December 1999
DuPont Pharmaceuticals Company (a subsidiary of E.I. du Pont de Nemours and Company)	July 1998
ZymoGenetics, Inc. (a subsidiary of Novo Nordisk A/S)	December 1997

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* includes Seek-Target-Validation analysis of knockout mice produced under this agreement

Lexgen.com and the e-Biology Global Collaboration Program. Finding the best targets for drug discovery among the estimated 100,000 genes contained in the human genome is a task of such complexity and scale that it will require the combined efforts of leading research scientists worldwide. The identification of drug targets and therapeutic proteins using our technology will require the application of in-depth scientific and medical knowledge to prioritize genes for functional studies and to execute those studies. Therefore, we believe that the magnitude of our OmniBank functional genomics resource uniquely enables global collaboration through the Internet to accelerate the discovery of gene function.

[Figure depicting Lexgen.com Internet exchange site]

Through Lexgen.com, our genomics Internet exchange, researchers at pharmaceutical companies, biotechnology companies and academic institutions worldwide subscribe to our OmniBank database. Lexgen.com allows subscribers to mine our OmniBank database for interesting genes and knockout mice through the use of our bioinformatics software. Our software uses a web interface to provide access in a relational database to OmniBank gene sequence information with similarity to publicly-available known genes, gene names and associated substance names. Our bioinformatics software also includes a powerful abstract navigator that allows users to search through knockout mouse clones based on keywords and substance names that derive from the abstracts of relevant medical and scientific articles regarding genes with high similarity to OmniBank clones. For internal use, we also apply a wide variety of sophisticated bioinformatics algorithms to identify DNA sequence motifs that can yield clues as to gene function.

Subscribers to Lexgen.com can acquire OmniBank knockout mice on a non-exclusive basis and determine the function of genes under our e-Biology Global Collaboration program. In this program, we receive fees for OmniBank knockout mice and, with participating institutions, certain rights to license inventions or to receive royalties on pharmaceutical products discovered using our mice. In cases where we do not obtain such rights, our e-Biology collaborations leverage the value of OmniBank since we may also elect to pursue any clone acquired through that program for gene function research either on our own or with a commercial partner. We believe that Lexgen.com and our e-Biology collaborations will allow us to harvest high-value functional genomics information for application in drug discovery and facilitate collaborations between us and pharmaceutical and biotechnology companies. We have entered into agreements under our e-Biology Collaboration Program with researchers at the following institutions:

- - Beth Israel Deaconess Hospital
- - Brigham & Women's Hospital
- - The Burnham Institute
- - Catholic University (Belgium)
- - Cedars-Sinai Medical Center
- - Center for Blood Research
- - Children's Hospital, Cincinnati
- - Children's Hospital Research Foundation
- - Copenhagen University (Denmark)
- - DIBIT, H. San FaFaele (Italy)
- - Emory University
- - Georgetown University
- - Harvard Medical School
- - Indiana University
- - Institute for Genetic Medicine (Italy)
- - Max-Planck Institute (Germany)
- - Mt. Sinai School of Medicine
- - New York University
- - Odense University (Denmark)
- - Osaka University (Japan)
- - Sung Kyun Kwan University (Korea)
- - Telethon Institute of Genetics and Medicine (Italy)
- - Tohoku University (Japan)
- - University of Bordeaux (France)
- - University of British Columbia (Canada)
- - University College London (U.K.)
- - Uniformed Services University
- - University of Texas Southwestern Medical Center
- - University of Utah
- - Washington University, St. Louis
- - Yale University

Custom Knockout Mouse Program. The Custom Knockout Mouse program involves our use of proprietary gene targeting technologies and our yeast vector technology to rapidly produce custom knockout mice and conditional knockout mice for specific genes. We receive research fees for the creation of knockout mice under this program and, with participating institutions, certain rights to license inventions or royalties on products discovered using such mice. We have generated custom mice for or currently have custom mouse projects under contract with the following pharmaceutical and biotechnology companies and academic institutions:

- - BASF Bioresearch Corporation
- - Bayer Corporation
- - Baylor College of Medicine
- - Blood Research Institute of Wisconsin
- - Cedars-Sinai Medical Center
- - Cephalon Inc.
- - Children's Hospital Research Foundation
- - Elan Pharmaceuticals, Inc.
- - Genetics Institute (American Home Products)
- - Harvard University
- - H. Lundbeck A/S
- - Indiana University School of Medicine
- - Johns Hopkins University School of Medicine
- - Merck & Co.
- - Millennium Pharmaceuticals, Inc.

- - Parke-Davis (Warner-Lambert)
- - Quark Biotech, Inc.
- - Roche BioSciences
- - Max Planck Institute
- - New England Medical Center
- - Peptide Research Institute
- - Pennsylvania State University
- - Rockefeller University
- - Mount Sinai School of Medicine
- - Stanford University
- - Scripps Research Institute
- - Temple University
- - Tufts University School of Medicine

- - University of California at Los Angeles
- - University of Florida
- - University of Marborg
- - University of Pennsylvania
- - University of Rochester
- - University of Southern California
- - University of Texas Medical Branch-Galveston
- - University of Virginia
- - Virginia Commonwealth University
- - Wyeth-Ayerst (American Home Products)

PATENTS AND PROPRIETARY RIGHTS

We seek patent protection for the genes, proteins and drug targets that we discover. Specifically, we seek patent protection for:

- the partial gene sequences contained in our Human Gene Trap and OmniBank databases that we believe to be novel;

- the sequences of full-length genes that we believe to be novel, the proteins they encode and their predicted utility as a drug target or therapeutic protein;

- the utility of genes and the proteins they encode using knockout mice to discover drug targets or therapeutic proteins based on our definition of their biological functions; and

- various enabling technologies in the fields of mutagenesis, ES cell manipulation and transgenic or knockout mice.

We own or have licenses to patents and patent applications in the fields of gene targeting, gene trapping and genetic manipulation of mouse ES cells. These include patents covering Cre/lox technology and the use of positive-negative selection and other methods of efficient homologous recombination.

All of our employees, consultants and advisors are required to execute a confidentiality agreement upon the commencement of employment or consultation. In general, the agreement provides that all inventions conceived by the employee or consultant, and all confidential information developed or made known to the individual during the term of the agreement, shall be our exclusive property and shall be kept confidential, with disclosure to third parties allowed only in specified circumstances. We cannot assure you, however, that these agreements will provide useful protection of our proprietary information in the event of unauthorized use or disclosure of such information.

COMPETITION

The biotechnology and pharmaceutical industries are highly competitive and characterized by rapid technological change. We face significant competition in each of the aspects of our business from for-profit companies such as Human Genome Sciences, Inc., Incyte Pharmaceuticals, Inc., Millennium Pharmaceuticals, Inc., Deltagen, Inc., DNX (a subsidiary of Phoenix International Life Sciences, Inc.) and Celera Genomics, among others, many of which have substantially greater financial, scientific and human resources than we do. In addition, the Human Genome Project and a large number of universities and other not-for-profit institutions, many of which are funded by the U.S. and foreign governments, are also conducting research to discover genes.

We face significant competition in our efforts to discover and patent genes from entities using high-throughput EST and genomic sequencing approaches, as well as from entities using more traditional methods to discover genes related to particular diseases. In addition, several genomics and bioinformatics companies, including Double Twist, Inc. (through its doubletwist.com Internet portal) and Hyseq Inc. (through its GeneSolutions.com website), provide bioinformatics-related products and services through the Internet which indirectly compete with the bioinformatics and gene discovery resources available through Lexgen.com.

While we are not aware of any other commercial or not-for-profit entity that is developing large-scale gene trap mutagenesis in ES cells, we face significant competition from entities using traditional knockout mouse technology and other technologies. Several companies and a large number of academic institutions create knockout mice for third parties using these methods, and a number of companies create knockout mice for use in their own research.

Many of our competitors in drug discovery and development have substantially greater research and product development capabilities and financial, scientific, marketing and human resources than we have. As a result, our competitors may succeed in developing products earlier than we do, obtaining approvals from the FDA or other regulatory agencies for those products more rapidly than we do, or developing products that are more effective than those we propose to develop. Similarly, our collaborators face similar competition from other competitors who may succeed in developing products more quickly, or developing products that are more effective, than those developed by our collaborators. We expect that competition in this field will intensify.

GOVERNMENT REGULATION

Regulation of Pharmaceutical Products

The development, production and marketing of any pharmaceutical products developed by us or our collaborators will be subject to extensive regulation by United States and foreign governmental authorities. In the United States, new drugs are subject to regulation under the Federal Food, Drug and Cosmetic Act and biological products are subject to regulation both under certain provisions of that Act and under the Public Health Services Act. The FDA regulates, among other things, the development, testing, manufacture, safety, efficacy, record keeping, labeling, storage, approval, advertising, promotion, sale and distribution of biologics and new drugs. The process of obtaining FDA approval has historically been costly and time-consuming.

The standard process required by the FDA before a pharmaceutical agent may be marketed in the United States includes:

- preclinical tests;
- submission to the FDA of an Investigational New Drug application, or IND, which must become effective before human clinical trials may commence;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug or biologic in our intended application;
- for drugs, submission of a New Drug Application, or NDA, or a Biologic License Application, or BLA, with the FDA; and
- FDA approval of the NDA or BLA prior to any commercial sale or shipment of the drug.

In addition to obtaining FDA approval for each product, each drug manufacturing establishment must be inspected and approved by the FDA. All manufacturing establishments are subject to inspections by the FDA and by other federal, state and local agencies and must comply with current Good Manufacturing Practices requirements.

The preclinical studies can take several years to complete, and there is no guarantee that an IND based on those studies will become effective to even permit clinical testing to begin. Once clinical trials are initiated, they generally take two to five years, but may take longer, to complete. After completion of clinical trials of a new drug or biologic product, FDA marketing approval of the NDA or BLA must be obtained. This process requires substantial time and effort and there is no assurance that the FDA will accept the NDA or BLA for filing and, even if filed, that approval will be granted. In the past, the FDA's approval of the NDA or BLA has taken, on average, two to five years; if questions arise, approval can take more than five years.

In addition to regulatory approvals that must be obtained in the United States, a drug product is also subject to regulatory approval in other countries in which it is marketed, although the requirements governing the conduct of clinical trials, product licensing, pricing, and reimbursement vary widely from country to country. No action can be taken to market any drug product in a country until an appropriate application has been approved by the regulatory authorities in that country. FDA approval does not assure approval by other regulatory authorities. The current approval process varies from country to country, and the time spent in gaining approval varies from that required for FDA approval. In some countries, the sale price of a drug product must also be approved. The pricing review period often begins after market approval is granted. Even if a foreign regulatory authority approves a drug product, it may not approve satisfactory prices for the product.

Other Regulations

In addition to the foregoing, our business is and will be subject to regulation under various state and federal environmental laws, including the Occupational Safety and Health Act, the Resource Conservation and Recovery Act and the Toxic Substances Control Act. These and other laws govern our use, handling and disposal of various biological, chemical and radioactive substances used in and wastes generated by our operations. We believe that we are in material compliance with applicable environmental laws and that our continued compliance with these laws will not have a material adverse effect on our business. We cannot predict, however, whether new regulatory restrictions on the production, handling and marketing of biotechnology products will be imposed by state or federal regulators and agencies or whether existing laws and regulations will not adversely affect us in the future.

PROPERTIES

We currently lease approximately 63,000 square feet of space for our corporate offices and laboratories in a building located at 4000 Research Forest Drive in The Woodlands, Texas, a suburb of Houston, Texas. Our facilities at this location include a 28,000 square foot state-of-the art animal facility completed in January 1999. We believe this is one of the largest facilities in the world dedicated to the generation and analysis of knockout mice. Pursuant to the lease, monthly payments of $98,000, increasing over time, are required for base rent through the expiration of the lease in 2013. We have options to lease additional property that is contiguous to our existing location. We intend to exercise these options as appropriate to accommodate our anticipated growth.

LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

EMPLOYEES AND CONSULTANTS

We believe that our success will be based on, among other things, achieving and retaining scientific and technological superiority and identifying and retaining capable management. We have assembled a highly qualified team of scientists as well as executives with extensive experience in the biotechnology industry.

As of January 31, 2000, we employed 124 persons, of whom 22 hold M.D., Ph.D. or D.V.M. degrees and 14 hold other advanced degrees. We believe that our relationship with our employees is good.

SCIENTIFIC ADVISORY PANEL MEMBERS

We have consulting relationships with a number of scientific advisors, organized into panels focused on specific human diseases or conditions. At our request, these advisors review the feasibility of product development programs under consideration, provide advice concerning advances in areas related to our technology and aid in recruiting personnel. Most of these advisors receive cash and stock-based compensation for their services, as well as access to our OmniBank database and mice from our OmniBank library. All of the advisors are employed by academic institutions or other entities and may have commitments to or advisory agreements with other entities that may limit their availability to us. Our advisors are required to disclose and assign to us any ideas, discoveries and inventions they develop in the course of providing consulting services to us. We also use consultants for various administrative needs. None of our consultants or advisors is otherwise affiliated with us. Our scientific advisors and consultants include the following persons:

NAME	AFFILIATION	TITLE
AGING AND CANCER PANEL		
Carlo M. Croce, M.D.	Thomas Jefferson University	Director, Kimmel Cancer Center
Richard Fishel	Thomas Jefferson University	Professor of Microbiology and Immunology
H. Earl Ruley	Vanderbilt University	Professor, Department of Microbiology and Immunology
METABOLISM, DIABETES AND OBESITY		
Qais Al-Awqati, M.D.	Columbia University	Professor of Medicine and Physiology
David Powell, M.D.	Baylor College of Medicine	Professor, Pediatrics Renal
Tom Coffman, M.D.	Duke University Medical Center	Professor of Medicine
Dr. Oliver Smithies	University of North Carolina at Chapel Hill	Excellence Professor, Department of Pathology and Laboratory Medicine
Kenneth Heskel Gabbay, M.D.	Baylor College of Medicine	Head, Section of Molecular Diabetes and Metabolism, Department of Pediatrics

NAME	AFFILIATION	TITLE
GENOMICS AND BIOINFORMATICS		
Eric Douglas Green, M.D., Ph.D.	National Human Genome Research Institute	Chief, Genome Technology Branch
Gregory D. Schuler, Ph.D.	National Center for Biotechnology Information	Staff Scientist
Steven R. Gullans, Ph.D.	Harvard Institutes of Medicine	Associate Professor of Medicine
Paul S. Meltzer, M.D., Ph.D.	National Human Genome Research Institute	Head, Section of Molecular Genetics, Cancer Genetics Branch
William R. Pearson, Ph.D.	University of Virginia	Professor of Biochemistry
NEUROLOGY AND DEGENERATIVE DISORDERS		
Robert Edwards, M.D.	University of California San Francisco	Professor, Departments of Neurology and Physiology
Rudolph E. Tanzi, Ph.D.	Harvard Medical School	Associate Professor of Neurology (Neuroscience)
Jeffrey L. Noebels, M.D., Ph.D.	Baylor College of Medicine	Professor, Department of Neurology
Laurence Tecott, M.D., Ph.D.	University of California San Francisco	Assistant Professor, Department of Psychiatry

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

NAME	AGE	POSITION
Arthur T. Sands, M.D., Ph.D.	38	President and Chief Executive Officer and Director
Julia P. Gregory	47	Executive Vice President and Chief Financial Officer
Jeffrey L. Wade, J.D.	35	Executive Vice President and General Counsel
James R. Piggott, Ph.D.	45	Senior Vice President of Pharmaceutical Biology
Randall B. Riggs	33	Senior Vice President of Business Development
Brian P. Zambrowicz, Ph.D.	37	Senior Vice President of Genomics
Lance K. Ishimoto, J.D., Ph.D.	40	Vice President of Intellectual Property
Christophe Person	33	Vice President of Informatics
Ray B. Webb	54	Vice President of Finance and Administration
William A. McMinn	69	Chairman of the Board of Directors
Stephen J. Banks	59	Director
Gordon A. Cain	87	Director
Patricia M. Cloherty	57	Director
Paul Haycock, M.D.	53	Director

Arthur T. Sands, M.D., Ph.D. co-founded our company and has been our President and Chief Executive Officer and a director since September 1995. From 1992 to September 1995, Dr. Sands served as an American Cancer Society postdoctoral fellow in the Department of Human and Molecular Genetics at Baylor College of Medicine, where he studied the function of the p53 gene in cancer formation and created the XPC knockout mouse, a model for skin cancer. He received his B.A. in Economics and Political Science from Yale University and his M.D. and Ph.D. from Baylor College of Medicine.

Julia P. Gregory has been our Executive Vice President and Chief Financial Officer since February 2000. Since 1998, Ms. Gregory has served as the Head of Investment Banking for Punk, Ziegel & Company, L.P. and since 1996, the Head of the firm's Life Sciences practice. From 1980 to 1996, Ms. Gregory was an investment banker with Prime Charter Ltd. and then Dillon, Read & Co., Inc. She has represented life sciences companies since 1986. Ms. Gregory is a member of the Executive Committee of the Lauder Foundation's Institute for the Study of Aging, Inc. She received her B.A. in International Affairs from George Washington University and her M.B.A. from the Wharton School of the University of Pennsylvania.

Jeffrey L. Wade, J.D. has been our Executive Vice President and General Counsel since February 2000 and was our Senior Vice President and Chief Financial Officer from January 1999 to February 2000. From 1988 through December 1998, Mr. Wade was a corporate securities and finance attorney with the law firm of Andrews & Kurth L.L.P., for the last two years as a partner, where he represented companies in the biotechnology, information technology and energy industries. Mr. Wade is a member of the boards of directors of the Texas Healthcare and Bioscience Institute and the Texas Life Sciences Foundation. He received his B.A. and J.D. from The University of Texas.

James R. Piggott, Ph.D. has been our Senior Vice President of Pharmaceutical Biology since January 2000. From 1990 through October 1999, Dr. Piggott worked for ZymoGenetics, Inc., a subsidiary of Novo Nordisk, most recently as Senior Vice President--Research Biology. Dr. Piggott's pharmaceutical research experience also includes service at the Smith Kline & French Laboratories Ltd. unit of SmithKline Beecham plc and the G.D. Searle & Co. unit of Monsanto Company. Dr. Piggott received his B.A. and Ph.D. from Trinity College, Dublin.

Randall B. Riggs has been our Senior Vice President of Business Development since February 2000 and served as our Vice President of Business Development from December 1998 to February 2000. From January through November 1998, Mr. Riggs was director of Business Development for the Infectious Disease Business Unit of GENEMEDICINE, INC. From 1992 to January 1998, Mr. Riggs was employed by Eli Lilly and Company, for the last two years as Manager, Corporate Business Development at Eli Lilly's Indianapolis, Indiana headquarters. Before joining Eli Lilly, Mr. Riggs' experience included service as a business analyst for the National Aeronautics and Space Administration and a subsidiary of Amoco Production Company. He received his B.B.A. from Texas A&M University and his M.B.A. from The University of Houston.

Brian P. Zambrowicz, Ph.D. has been our Senior Vice President of Genomics since February 2000. Dr. Zambrowicz served as our Vice President of Research from January 1998 to February 2000 and as Senior Scientist from April 1996 to January 1998. From 1993 to April 1996, Dr. Zambrowicz served as an NIH postdoctoral fellow at The Fred Hutchinson Cancer Center in Seattle, Washington, where he studied gene trapping and gene targeting technology. Dr. Zambrowicz received his B.S. in

Biochemistry from the University of Wisconsin. He received his Ph.D. from the University of Washington, where he studied tissue-specific gene regulation using transgenic mice.

Lance K. Ishimoto, J.D., Ph.D. has been our Vice President of Intellectual Property since July 1998. From 1994 to July 1998, Dr. Ishimoto was a biotechnology patent attorney at the Palo Alto, California office of Pennie & Edmonds LLP. Dr. Ishimoto received his B.A. and Ph.D. from U.C.L.A., where he studied molecular mechanisms of virus assembly and the regulation of virus ultrastructure. After receiving his Ph.D., Dr. Ishimoto served as an NIH postdoctoral fellow at University of Washington School of Medicine. He received his J.D. from Stanford University.

Christophe Person has been our Vice President of Informatics since November 1999 and served as our Director of Informatics from May 1997 to November 1999. From 1994 to May 1997, Mr. Person was the Senior Scientific Programmer for the Center for Theoretical Neurosciences at Baylor College of Medicine. From 1990 to 1994, Mr. Person was the CEPH Database Manager at the Human Polymorphism Studies Center in Paris, France. Mr. Person received his degree in Electrical Engineering from Groupe ESTE/ESIEE (Ecole Superieure de Technologie Electronique/Ecole Superieure d'Ingenieurs en Electrotechnique et Electronique).

Ray B. Webb has been our Vice President of Finance and Administration since January 1998 and was Director of Finance and Administration from September 1995 to January 1998. Before joining us, Mr. Webb was Director of Finance and Administration of Triplex Pharmaceutical Corporation, a biotechnology company founded out of Baylor College of Medicine, from 1989 until its merger with Aronex Pharmaceuticals, Inc. in 1995. He received his B.A. in Economics and Political Science from Brigham Young University.

William A. McMinn has been the Chairman of our board of directors since July 1999 and a director since September 1997. Mr. McMinn has served as Chairman of the Board of Texas Petrochemicals Corporation since 1996. He was Corporate Vice President and Manager of the Industrial Chemical Group of FMC Corporation, a manufacturer of machinery and chemical products, from 1973 through 1985. He became President and Chief Executive Officer of Cain Chemical Inc. in 1987, and served in that capacity until its acquisition by Occidental Petroleum in May 1988. He became Chairman of the board of directors of Arcadian Corporation in August 1990 and served in that capacity until it was sold in April 1997. Mr. McMinn received his B.S. from Vanderbilt University.

Stephen J. Banks has been a director since our inception in September 1995. Mr. Banks has served as President of BCM Technologies, Inc., Baylor College of Medicine's technology transfer subsidiary, since January 1988. Mr. Banks was employed with The Hillman Company from 1969 to 1987 and was Vice President from 1980 to 1987, with responsibility for venture capital activities. He is a director of BCM Technologies, several private companies and Lark Technologies, Inc., a publicly-held company. He also serves as an Adjunct Professor of Administration at Rice University. Mr. Banks received his B.S. in Physics from Massachusetts Institute of Technology and his M.B.A. from Harvard Graduate School of Business Administration.

Gordon A. Cain has been a director since September 1995 and served as Chairman of our board of directors from September 1995 until July 1999. Mr. Cain also serves as Chairman of the Board of Agennix Inc., another biotechnology company in which he is a principal investor. From August 1982 until his retirement in December 1992, he was Chairman of the Board of The Sterling Group, Inc. Mr. Cain was the Chairman of the Board of Sterling Chemicals, Inc. from 1986 until it was sold in August 1996 and was a member of the board of directors of Arcadian Corporation from May 1989 until it was sold in April 1997. Prior to organizing The Sterling Group, Mr. Cain was involved in the purchase of a variety of businesses and provided consulting services to these and other companies. Mr. Cain was also Chairman of the Board of UltraAir, Inc. from 1991 to 1994, Chairman of the Board of Cain Chemical Inc. from its organization in March 1987 until its acquisition by Occidental Petroleum Corporation in May 1988 and the Chairman of the Board of Vista Chemical Company from 1984 until 1986. Mr. Cain presently serves as a director of Texas Petrochemicals Corporation. He received a B.S. in Chemical Engineering from Louisiana State University.

Patricia M. Cloherty has been a director since May 1998. Ms. Cloherty is a Special Limited Partner of Patricof & Co. Ventures, Inc., a venture capital company. From 1988 through 1999, she was General Partner and, successively, Senior Vice President, President and Co-Chairman of that company. Ms. Cloherty served as deputy administrator of the U.S. Small Business Administration from 1977 to 1978 and has served as Chairman of the U.S. Russia Investment Fund since 1995. She is past president and chairman of the National Venture Capital Association. Ms. Cloherty serves as a director of Diversa Corporation and several private companies. She holds a B.A. from the San Francisco College for Women and an M.A. and an M.I.A. from Columbia University.

Paul Haycock, M.D. has been a director since May 1998. Dr. Haycock has been a director of Apax Partners & Co., a U.K. venture investment company since 1996. From January 1992 to October 1996, Dr. Haycock was Chief Executive of Cantab

Pharmaceuticals, a public biotechnology company quoted on Nasdaq and the London Stock Exchange. Prior to such time, Dr. Haycock held various positions in the pharmaceutical and biotechnology industries, including the managing directorships of Duphar Laboratories and Novo-Laboratories U.K. and senior medical and management positions in Europe and the United States with NovoIndustri A/S and Squibb-Novo Inc. Dr. Haycock graduated in medicine from London University and completed post-graduate studies at the University of British Columbia, and holds a diploma in pharmaceutical medicine and an M.B.A. from the Cranfield School of Management.

BOARD COMPOSITION

We currently have six directors. Upon the closing of this offering the terms of office of the board of directors will be divided into three classes. As a result, a portion of our board of directors will be elected each year. The division of the three classes, the initial directors and their respective election dates are as follows:

- the class I directors will be Stephen J. Banks and Paul Haycock, M.D. and their term will expire at the annual meeting of stockholders to be held in 2001;

- the class II directors will be Patricia M. Cloherty and Gordon A. Cain and their term will expire at the annual meeting of stockholders to be held in 2002; and

- the class III directors will be William A. McMinn and Arthur T. Sands, M.D., Ph.D. and their term will expire at the annual meeting of stockholders to be held in 2003.

At each annual meeting of stockholders after the initial classification, the successors to directors whose terms are to expire will be elected to serve from the time of election and qualification until the third annual meeting following election. The authorized number of directors may be changed only by resolution of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of the board of directors may have the effect of delaying or preventing changes in control or management of our company.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 1999, Paul Haycock, M.D., Stephen J. Banks and Patricia M. Cloherty served as members of the compensation committee of our board of directors. No member of the compensation committee serves as a member of the board of directors or compensation committee of any other entity that has one or more executive officers serving as a member of our board of directors or compensation committee. Prior to the formation of the compensation committee in January 1999, our board of directors as a whole made decisions relating to compensation of our executive officers.

BOARD COMMITTEES

Audit Committee. Our audit committee reviews our internal accounting procedures and consults with, and reviews the services provided by, our independent public accountants. Current members of our audit committee are William A. McMinn, Stephen J. Banks and Patricia M. Cloherty.

Compensation Committee. Our compensation committee reviews and recommends to the board of directors the compensation and benefits of all our officers and reviews general policy relating to compensation and benefits of our employees. The compensation committee also administers the issuance of stock options and other awards under our stock plans. Current members of the compensation committee are Paul Haycock, M.D., Stephen J. Banks and Patricia M. Cloherty.

DIRECTOR COMPENSATION

Directors currently receive no cash compensation from us for their services as members of the board or for attendance at committee meetings. Directors may be reimbursed for expenses in connection with attendance at board of directors and committee meetings.

In February 2000, we adopted the 2000 non-employee directors' stock option plan to provide for the automatic grant of options to purchase shares of common stock to our directors who are not employees of us or of any of our affiliates. Any non-employee director elected after the closing of this offering will receive an initial option to purchase 10,000 shares of common stock. Starting at the annual stockholder meeting in 2001, all non-employee directors will receive an annual option to purchase 2,000 shares of common stock. All options granted under the non-employee directors' plan will have an exercise price equal to the

fair market value of our common stock on the date of grant. See "--Employee Benefit Plans--2000 Non-Employee Directors' Stock Option Plan" for a more detailed explanation of the terms of these stock options.

LIMITATION OF DIRECTORS' AND OFFICERS' LIABILITY

Our amended and restated certificate of incorporation and bylaws provide that we will indemnify our directors and officers and may indemnify our other employees and other agents to the fullest extent permitted by Delaware law. We may also enter into indemnification contracts with our directors and officers and purchase insurance on behalf of any person we are required or permitted to indemnify. We have entered into indemnification agreements with each of our directors and officers.

We intend to obtain officer and director liability insurance to cover liabilities our officers and directors may incur in connection with their services to us, including matters arising under the federal securities laws. In addition, our amended and restated certificate of incorporation provides that, to the fullest extent permitted by Delaware law, our directors will not be liable for monetary damages for breach of the directors' fiduciary duty of care to us and our stockholders. This provision does not eliminate the duty of care, and in appropriate circumstances, equitable remedies including an injunction or other forms of non-monetary relief would remain available under Delaware law. Under current Delaware law, a director's liability to us or our stockholders may not be limited:

- for any breach of the director's duty of loyalty to our company or our stockholders;
- for acts or omissions not in good faith or involving intentional misconduct;
- for knowing violations of law;
- for any transaction from which the director derived an improper personal benefit;
- for improper transactions between the director and our company; or
- for improper distributions to stockholders and loans to directors and officers.

This provision also does not affect a director's responsibilities under any other laws, including the federal securities laws and state and federal environmental laws.

There is no pending litigation or proceeding involving any of our directors or officers as to which indemnification is being sought, nor are we aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

EXECUTIVE COMPENSATION

The following table presents summary information for the year ended December 31, 1999, regarding the compensation of each of our most highly compensated executive officers.

Summary Compensation Table

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS
NAME AND POSITION	YEAR	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS
Arthur T. Sands, M.D., Ph.D. President, Chief Executive Officer and Director	1999..	$200,000	$50,000	--
Jeffrey L. Wade, J.D. Executive Vice President and General Counsel	1999..	$170,000	$25,000	130,000
Randall B. Riggs. Senior Vice President of Business Development	1999..	$160,000	--	90,000
Brian P. Zambrowicz, Ph.D. Senior Vice President of Genomics	1999..	$175,000	--	--
Lance K. Ishimoto, J.D., Ph.D. Vice President of Intellectual Property	1999	$160,000..	--	--

Option Grants in 1999

The following table presents each grant of stock options in 1999 to each of the individuals listed in the summary compensation table.

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENTAGE OF TOTAL OPTIONS GRANTED IN 1999	EXERCISE PRICE PER SHARE	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
					5%	10%
Arthur Sands, M.D., Ph.D.	--	--	--	--	--	--
Jeffrey L. Wade, J.D.	130,000	36.2%	$7.50	1/13/2009	$269,375	$595,247
Randall B. Riggs	90,000	25.1%	$7.50	1/13/2009	$186,490	$412,094
Brian P. Zambrowicz, Ph.D.	--	--	--	--	--	--
Lance K. Ishimoto, J.D., Ph.D.	--	--	--	--	--	--

The exercise price of each option was equal to the fair market value of our common stock as determined by the board of directors on the date of grant. In determining the fair market value of our common stock on the date of grant our board of directors considered many factors, including:

- the option grants involved illiquid securities in a nonpublic company;
- prices of preferred stock issued by us to outside investors in arm's-length transactions;
- the rights, preferences and privileges of the preferred stock over the common stock;
- our performance and operating results at the time of grant;
- our stage of development and business strategy; and
- the likelihood of achieving a liquidity event for the shares of common stock underlying these options, such as an initial public offering or a sale of our company.

The exercise price for each option may be paid in cash, promissory notes, in shares of our common stock valued at fair market value on the exercise date or through a cashless exercise procedure involving a same-day sale of the purchased shares.

The potential realizable value of these options is calculated based on the ten-year term of the option at the time of grant. Stock price appreciation of 5% and 10% is assumed pursuant to rules promulgated by the SEC and does not represent our prediction of our stock price performance.

Percentages shown under "Percentage of Total Options Granted in 1999" are based on an aggregate of 358,400 options granted to our employees, consultants and directors under our stock option plans during 1999.

Option Values at December 31, 1999

The following table presents the number and value of securities underlying unexercised options that are held by each of the individuals listed in the Summary Compensation Table as of December 31, 1999. No shares were acquired on the exercise of stock options by these individuals during the year ended December 31, 1999.

Amounts shown under the column "Value of Unexercised In-the-Money Options at December 31, 1999" are based on the assumed initial public offering price of $, without taking into account any taxes that may be payable in connection with the transaction, multiplied by the number of shares underlying the option, less the exercise price payable for these shares.

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1999		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1999	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Arthur T. Sands, M.D., Ph.D.	398,345	241,655		
Jeffrey L. Wade, J.D.	32,500	97,500		
Randall B. Riggs	22,500	67,500		
Brian P. Zambrowicz, Ph.D.	108,548	121,462		
Lance K. Ishimoto, J.D., Ph.D.	12,397	22,603		

EMPLOYMENT AGREEMENTS

In October 1999, we entered into an employment agreement with Arthur T. Sands, M.D., Ph.D., our President and Chief Executive Officer. Under the agreement, Dr. Sands receives a base salary of $200,000 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. Dr. Sands' current annual salary is $250,000. The employment agreement is at-will and contains a non-competition agreement. The agreement also provides that if we terminate Dr. Sands' employment without cause or Dr. Sands voluntarily terminates his employment for good reason, we will pay him his then-current salary for 12 months.

In February 2000, we entered into an employment agreement with Julia P. Gregory to serve as our Executive Vice President and Chief Financial Officer starting in February 2000. Under the agreement, Ms. Gregory receives a base salary of $200,000 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The employment agreement is at-will and contains a non-competition agreement. The agreement also provides that during the first year, if we terminate Ms. Gregory's employment without cause or Ms. Gregory voluntarily terminates her employment for good reason, we will pay her then-current salary for twelve months; if we terminate Ms. Gregory's employment without cause or Ms. Gregory voluntarily terminates her employment for good reason after such time, we will pay her then-current salary for six months. If any such termination follows a change in control of our company, we will pay Ms. Gregory her then-current salary for 12 months.

In December 1998, we entered into an employment agreement Jeffrey L. Wade, J.D. to serve as our Senior Vice President and Chief Financial Officer starting in January 1999. In February 2000, Mr. Wade was named Executive Vice President and General Counsel. Under the agreement, Mr. Wade receives a base salary of $170,000 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. Mr. Wade's current annual salary is $190,000. The employment agreement is at-will and contains a non-competition agreement. The agreement also provides that if we terminate Mr. Wade's employment without cause or Mr. Wade voluntarily terminates his employment for good reason, we will pay him his then-current salary for six months. If any such termination follows a change in control of our company, we will pay Mr. Wade his then-current salary for 12 months.

In January 2000, we entered into an employment agreement with James R. Piggott, Ph.D. to serve as our Senior Vice President of Pharmaceutical Biology. Under the agreement, Dr. Piggott receives a base salary of $200,000 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The employment agreement is at-will and contains a non-competition agreement. The agreement also provides that if we terminate Dr. Piggott's employment without cause or Dr. Piggott voluntarily terminates his employment for good reason, we will pay him his then-current salary for six months. If any such termination follows a change in control of our company, we will pay Dr. Piggott his then-current salary for 12 months.

In February 2000, we entered into an employment agreement with Brian P. Zambrowicz, Ph.D., our Senior Vice President of Genomics. Under the agreement, Dr. Zambrowicz receives a base salary of $200,000 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The employment agreement is at-will and contains a non-competition agreement. The agreement also provides that if we terminate Dr. Zambrowicz employment without cause or Dr. Zambrowicz voluntarily terminates his employment for good reason, we will pay him his then-current salary for six months. If any such termination follows our change in control, we will pay Dr. Zambrowicz his then-current salary for 12 months.

EMPLOYEE BENEFIT PLANS

2000 Equity Incentive Plan

We adopted our 2000 Equity Incentive Plan in February 2000. The 2000 Equity Incentive Plan is an amendment and restatement of our 1995 Stock Option Plan and will terminate in 2010 unless the board terminates it sooner. The 2000 Equity Incentive Plan provides for the grant of incentive stock options to employees and nonstatutory stock options to our employees, directors and consultants and our affiliates. The plan also provides for stock bonuses and restricted stock purchase awards. Incentive stock options will have an exercise price of 100% or more of the fair market value of our common stock on the date of grant. Nonstatutory stock options may have an exercise price as low as 85% of fair market value on the date of grant. The purchase price of other stock awards may not be less than 85% of fair market value. However, the board may award stock bonuses in consideration of past services without a purchase payment. Shares may be subject to a repurchase option in the discretion of the board. The 2000 Equity Incentive Plan provides that it will be administered by the board, or a committee appointed by the board, which determines recipients and types of options to be granted, including number of shares under the option and the exercisability of the shares.

Shares Reserved. We have reserved an aggregate of 3,750,000 shares of our common stock for issuance under the 2000 Equity Incentive Plan.

On January 1 of each year for ten years, beginning in 2001, the number of shares reserved for issuance under the 2000 equity incentive plan will be automatically increased by the greater of:

- 5% of our outstanding shares on a fully-diluted basis; or

- that number of shares that could be issued under awards granted under the incentive plan during the prior 12-month period.

The total number of shares reserved for issuance under the 2000 equity incentive plan may not exceed 20,000,000 shares over the ten-year period.

Effect of Merger on Options. If we dissolve or liquidate, then outstanding options will terminate immediately prior to the event. If we sell, lease or dispose of all or substantially all of our assets, or are acquired pursuant to a merger or consolidation, all outstanding options will become immediately vested and exercisable in full.

Options Issued. As of February 8, 2000, options to purchase 2,901,089 shares of common stock were outstanding under the equity incentive plan and options for 39,169 shares had been exercised.

2000 Non-Employee Directors' Stock Option Plan

In February 2000, the board of directors adopted the 2000 Non-Employee Directors' Stock Option Plan to provide for the automatic grant of options to purchase shares of common stock to our non-employee directors. The board of directors administers the plan, unless it delegates administration to a committee.

Shares Reserved. We have reserved a total of 200,000 shares of our common stock for issuance under the directors' plan. On the day after each annual meeting of our stockholders, for 10 years, starting in 2001, the total number of shares reserved for issuance under the non-employee directors' plan will be increased by a number of shares equal to the greater of:

- 0.3% of our outstanding shares on a fully-diluted basis; or

- that number of shares that could be issued under options granted under the directors' plan during the prior 12-month period.

If an optionholder does not purchase the shares under the option before the option expires or otherwise terminates, the shares that are not purchased again become available for issuance under the non-employee directors' plan.

Initial Grants. Each person who is first elected or appointed as a non-employee director after our initial public offering will automatically receive an option for 10,000 shares, effective on the later of the approval of the non-employee directors' plan by the stockholders at the annual meeting or the date the director first becomes a member of our board.

Annual Grants. In addition, on the date of each of our annual meetings of stockholders, beginning with the annual meeting in 2000, each non-employee director who has been a director for at least six months will automatically be granted an option to purchase 2,000 shares of common stock.

Vesting and Exercise Terms. The options granted under the non-employee directors' plan will vest and become exercisable over a period of five years. All options granted under the non-employee directors' plan will have an exercise price equal to the fair market value of our common stock on the date of grant. The option term is ten years.

Effect of a Merger on Options. If we dissolve or liquidate, outstanding options will terminate immediately prior to the event. If we sell, lease or dispose of all or substantially all of our assets, or are acquired pursuant to a merger or consolidation, the surviving entity will either assume or replace all outstanding options under the 2000 Non-Employee Directors' Stock Option Plan. If it declines to do so, all outstanding options will become immediately vested and exercisable in full. If an option is assumed or replaced but the option holder is not elected to the board of directors of the acquiring or surviving corporation at the first meeting of the board after the event, the vesting of that option will accelerate by 18 months.

Options Issued. The non-employee directors' plan will not be effective until the closing of the initial public offering of our stock. Therefore, we have not issued any options under the directors' plan.

Other Plans

We maintain a retirement and deferred savings plan for our employees that is intended to qualify as a tax-qualified plan under the Internal Revenue Code. The 401(k) Plan provides that each participant may contribute up to a statutory limit, which was $10,000 in 1999. In addition, we have a profit sharing plan pursuant to which we may grant cash bonuses out of our profits to our employees.

TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND FIVE PERCENT STOCKHOLDERS

From January 1, 1997 through January 31, 2000, the following executive officers, directors or holders of more than five percent of our voting securities purchased securities in the amounts as of the dates shown below.

NAME	DATE(S) PURCHASED	COMMON STOCK	PRICE PER SHARE
Gordon A. Cain	1/97 - 7/97	590,000	$5.00
William A. McMinn	8/97	45,000(1)	--
Patricof & Co. Ventures Inc.	5/98	1,000,000(2)	$7.50
Apax Partners & Co	5/98	1,000,000(2)	$7.50

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(1) Represents a warrant to purchase common stock at a price of $7.50 per share. Please read "--Indebtedness to Director" below.

(2) Represents shares of common stock that will be issued upon the conversion of 1,000,000 shares of series A convertible preferred stock concurrent with the closing of this offering.

We have entered into the following agreements with our executive officers, directors and holders of more than five percent of our voting securities.

Amended and Restated Registration Rights Agreement. The stockholders described above have entered into an agreement with us, pursuant to which these and other stockholders will have registration rights with respect to their shares of common stock following this offering. Please read "Description of Capital Stock--Registration Rights" for a further description of the terms of that agreement.

Executive Employment Agreements. We have entered into employment contracts with Arthur T. Sands, M.D., Ph.D., our President and Chief Executive Officer, Julia P. Gregory, our Executive Vice President and Chief Financial Officer, Jeffrey L. Wade, J.D., our Executive Vice President and General Counsel, James R. Piggott, Ph.D., our Senior Vice President of Pharmaceutical Biology, and Brian P. Zambrowicz, Ph.D., our Senior Vice President of Genomics. Please read "Management -- Employment Agreements" for a description of the terms of these agreements.

Indebtedness to Director. In August of 1997, we entered into a loan agreement with William McMinn, the chairman of our board of directors. Under the terms of the promissory note, we borrowed a principal amount of $1,000,000 at an interest rate of 8.0% to be repaid in 36 monthly installments of $16,666.67 each. The monthly installments commenced on August 31, 1999, and the outstanding principal balance of the loan is due, together with all accrued but unpaid interest, on August 31, 2002. The note may be prepaid, in whole or in part, at any time without penalty. In connection with this loan agreement, we issued to Mr. McMinn a warrant to purchase 45,000 shares of our common stock at an exercise price of $7.50 per share.

We believe that all of the transactions described above were made on terms no less favorable to us than could have been obtained from unaffiliated third parties. All future transactions, including loans, between us and our officers, directors, principal stockholders and their affiliates will be approved by a majority of the board of directors, including a majority of the independent and disinterested directors, and will continue to be on terms no less favorable to us than could be obtained from unaffiliated third parties.

Indemnification Agreements. We have entered into indemnification agreements with our directors and officers for the indemnification of these persons to the full extent permitted by law. We also intend to execute these agreements with our future directors and officers.

PRINCIPAL STOCKHOLDERS

The following table presents information regarding the beneficial ownership of our common stock as of February 8, 2000, and as adjusted to reflect the sale of our common stock offered by this prospectus, by:

- each of the individuals listed in the "Summary Compensation Table" above;
- each of our directors;
- each person, or group of affiliated persons, who is known by us to own beneficially five percent or more of our common stock; and
- all current directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock under options held by that person that are currently exercisable or exercisable within 60 days of February 8, 2000 are considered outstanding. These shares, however, are not considered outstanding when computing the percentage ownership of each other person.

Except as indicated in the footnotes to this table and pursuant to state community property laws, each stockholder named in the table has sole voting and investment power for the shares shown as beneficially owned by them. Percentage of ownership is based on 12,429,231 shares of common stock outstanding on February 8, 2000 and shares of common stock outstanding after completion of this offering. Unless otherwise indicated in the footnotes, the address of each of the individuals named below is: c/o Lexicon Genetics Incorporated, 4000 Research Forest Drive, The Woodlands, Texas 77381.

	BENEFICIAL OWNERSHIP PRIOR TO OFFERING			
	NUMBER OF SHARES BENEFICIALLY OWNED	SHARES ISSUABLE PURSUANT TO OPTIONS AND WARRANTS EXERCISABLE WITHIN 60 DAYS OF FEBRUARY 4, 2000	PERCENTAGE BENEFICIALLY OWNED	
			BEFORE OFFERING	AFTER OFFERING
Baylor College of Medicine(1)	1,993,804	--	7.84%	
Apax Partners & Co.(2)	1,000,000	--	6.84%	
Patricof & Co. Ventures, Inc.(3)	1,000,000	--	6.84%	
Arthur T. Sands, M.D., Ph.D.(4)	339,100	423,347	5.94%	
Jeffrey L. Wade, J.D	--	40,627	*	
Lance K. Ishimoto, Ph.D., J.D	--	14,585	*	
Randall B. Riggs	--	28,126	*	
Brian P. Zambrowicz, Ph.D	--	122,924	*	
William A. McMinn	133,333	45,000	1.43%	
Stephen J. Banks(5)	460,487	--	3.70%	
Gordon A. Cain	5,220,000	--	41.99%	
Patricia M. Cloherty(6)	1,000,000	--	6.84%	
Paul Haycock, M.D.(7)	1,000,000	--	6.84%	
All directors and executive officers as a group (14 persons)(4)(5)(6)(7)	8,163,869	862,730	67.91%	

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* Represents beneficial ownership of less than 1 percent.

(1) The address for Baylor College of Medicine is c/o BCM Technologies, Inc., 1709 Dryden Road, Suite 901, Medical Towers Building, Houston, Texas 77030. The number of shares beneficially owned includes 460,487 shares owned by BCM Technologies, Inc., the technology transfer subsidiary of Baylor College of Medicine, and 387,427 shares held by Baylor College of Medicine as escrow agent. Mr. Banks, one of our directors, is President of BCM Technologies, Inc.

(2) Entities associated with Apax Partners & Co. are Apax UK VI-A-E, LPs. Dr. Haycock, one of our directors, is a director of Apax Partners & Co. The address of Apax Partners & Co. is 15 Portland Place, London, England WIN 3AA.

(3) Entities affiliated with Patricof & Co. Ventures, Inc. include APA Excelsior IV, L.P., APA Excelsior IV/Offshore, L.P., The P/A Fund III, LP and Patricof Private Investment Club, L.P. Ms. Cloherty, one of our directors, is a Special Limited Partner of Patricof & Co. Ventures, Inc. The address for Patricof & Co. Ventures, Inc. is 445 Park Avenue, New York, New York 10022.

(4) The number of shares beneficially owned by Dr. Sands includes 15,000 shares held in the name of minor children.

(5) The number of shares owned by Mr. Banks consists of 460,487 shares owned by BCM Technologies, Inc., of which Mr. Banks is President. Mr. Banks disclaims beneficial ownership of these shares.

(6) The number of shares owned by Patricia M. Cloherty consists of 1,000,000 shares owned by Patricof & Co. Ventures, Inc., of which Ms. Cloherty is a Special Limited Partner. Ms. Cloherty disclaims beneficial ownership of these shares.

(7) The number of shares owned by Paul Haycock, M.D. consists of 1,000,000 shares owned by Apax Partners & Co., of which Dr. Haycock is a director. Dr. Haycock disclaims beneficial ownership of these shares.

DESCRIPTION OF CAPITAL STOCK

Upon completion of this offering, our authorized capital stock will consist of 70,000,000 shares of common stock, $0.001 par value, and 5,000,000 shares of undesignated preferred stock, $0.01 par value.

COMMON STOCK

As of February 8, 2000, there were 12,429,231 shares of common stock outstanding held of record by 73 stockholders. The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. The holders of common stock are entitled to receive ratably any dividends as may be declared by the board of directors out of legally available funds, after the superior rights of the holders of preferred stock have been satisfied. Please read "Dividend Policy." Upon a liquidation, dissolution or winding up of our company, holders of the common stock are entitled to share ratably in all assets remaining after payment of liabilities and amounts due to the holders of preferred stock as described below. Holders of common stock have no preemptive rights and no right to convert their common stock into any other securities. There are no redemption or sinking fund provisions that apply to the common stock. All outstanding shares of common stock are, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and non-assessable.

PREFERRED STOCK

The board of directors has the authority to issue up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions granted to or imposed upon the preferred stock, including dividend rights, conversion rights, terms of redemption, liquidation preference, sinking fund terms and the number of shares constituting any series or the designation of a series, without any further vote or action by the stockholders. The board of directors, without stockholder approval, can issue preferred stock with voting and conversion rights that could adversely affect the voting power of the holders of common stock. The issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of our company. We have no present plan to issue any shares of preferred stock.

WARRANTS

As of February 8, 2000, we had three outstanding warrants entitling their holders to purchase an aggregate of 330,000 shares of common stock at an exercise price of $7.50 per share. The warrants contain provisions for the adjustment of the exercise price and the aggregate number of shares that may be issued upon the exercise of the warrant if a stock dividend, stock split, reorganization, reclassification or consolidation occurs.

REGISTRATION RIGHTS

On the date 180 days after the completion of this offering, the holders of 12,390,062 shares of common stock and warrants exercisable for 246,667 additional shares of common stock have rights which enable them to sell shares in transactions registered under the Securities Act of 1933. If we propose to register any of our securities under the Securities Act, either for our own account or for the account of other securityholders, the holders of these shares will be entitled to notice of the registration and will be entitled to include, at our expense, their shares of common stock. In addition, the holders of these shares may require us, at our expense and on not more than three occasions at any time beginning approximately six months from the date of the closing of this offering, to file a registration statement under the Securities Act covering their shares of common stock, and we will be required to use our best efforts to have the registration statement declared effective. These rights shall terminate on the earlier of five years after the effective date of this offering, or when a holder is able to sell all its shares pursuant to Rule 144 under the Securities Act in any 90-day period. These registration rights are subject to certain conditions and limitations, including the right of the underwriters to limit the number of shares included in the registration statement.

ANTI-TAKEOVER PROVISIONS OF DELAWARE LAW AND CHARTER PROVISIONS

Delaware Law

In general, Section 203 of the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder unless:

- prior to the date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

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

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

Section 203 defines "business combination" to include:

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

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

- in general, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or

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

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

Charter Provisions

Our amended and restated certificate of incorporation and bylaws include a number of provisions that may have the effect of deterring hostile takeovers or delaying or preventing changes in control or management of our company. First, our certificate of incorporation provides that all stockholder actions following completion of this offering must be effected at a duly called meeting of holders and not by written consent. Second, our bylaws provide that special meetings of the holders may be called only by the chairman of the board of directors, the chief executive officer or our board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors. Third, our certificate of incorporation provides that our board of directors can issue up to 5,000,000 shares of preferred stock, as described under "--Preferred Stock" above. Fourth, our certificate of incorporation and bylaws provide for a classified board of directors, in which approximately one-third of the directors would be elected each year. Consequently, any potential acquiror would need to successfully complete two proxy contests in order to take control of the board of directors. Finally, our bylaws establish procedures, including advance notice procedures, with regard to the nomination of candidates for election as directors and stockholder proposals. These provisions of our certificate of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in our control or management.

TRANSFER AGENT AND REGISTRAR

Harris Trust and Savings Bank has been appointed as the transfer agent and registrar for our common stock.

NASDAQ NATIONAL MARKET LISTING

We have applied for listing of our common stock on the Nasdaq Stock Market's National Market under the symbol "LEXG".

MATERIAL U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS OF COMMON STOCK

The following is a general discussion of certain material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a beneficial owner thereof that is a "Non-U.S. Holder." A "Non-U.S. Holder" is a person or entity that, for U.S. federal income tax purposes, is a non-resident alien individual, a foreign corporation or a foreign estate or trust.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, and administrative interpretations as of the date of this prospectus, all of which are subject to change, including changes with retroactive effect. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to Non-U.S. Holders in light of their particular circumstances (including, without limitation, Non-U.S. Holders who are pass-through entities or who hold their common stock through pass-through entities) and does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction. Prospective holders should consult their tax advisors with respect to the particular tax consequences under the laws of any state, local or foreign jurisdiction.

DIVIDENDS

Subject to the discussion below, dividends, if any, paid to a Non-U.S. Holder of our common stock generally will be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. For purposes of determining whether tax is to be withheld at a 30% rate or at a reduced rate as specified by an income tax treaty, we ordinarily will presume that dividends paid on or before December 31, 2000 to an address in a foreign country are paid to a resident of such country absent knowledge that such presumption is not warranted.

Under U.S. Treasury Regulations applicable to dividends paid after December 31, 2000 (the "New Regulations"), to obtain a reduced rate of withholding under a treaty, a Non-U. S. Holder generally will be required to provide an Internal Revenue Service Form W-8 BEN certifying such Non-U.S. Holder's entitlement to benefits under a treaty. The New Regulations also provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, dividends paid to a Non-U.S. Holder that is an entity should be treated as paid to the entity or those holding an interest in that entity.

There will be no withholding tax on dividends paid to a Non-U.S. Holder that are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States if a Form 4224, or, after December 31, 2000, a Form W-8 ECI, stating that the dividends are so connected is filed with us. Instead, the effectively connected dividends will be subject to regular U.S. income tax in the same manner as if the Non-U.S. Holder were a U.S. resident unless a specific treaty exemption applies. A non-U.S. corporation receiving effectively connected dividends may also be subject to an additional "Branch profits tax" which is imposed, under certain circumstances, at a rate of 30% (or such lower rate as may be specified by an applicable treaty) of the non-U.S. corporation's effectively connected earnings and profits, subject to certain adjustments.

Generally, we must report to the U.S. Internal Revenue Service the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or certain other agreements, the U.S. Internal Revenue Service may make its reports available to tax authorities in the recipient's country of residence.

Dividends paid to a Non-U.S. Holder at an address within the United States may be subject to backup withholding imposed at a rate of 31% if the Non-U.S. Holder fails to establish that it is entitled to an exemption or to provide a correct taxpayer identification number and certain other information to us.

Under current U.S. federal income tax law, backup withholding generally does not apply to dividends paid on or before December 31, 2000 to a Non-U.S. Holder at an address outside the United States, unless the payer has knowledge that the payee is a U.S. person. Under the New Regulations however, a Non-U.S. Holder will be subject to backup withholding unless applicable certification requirements are met.

GAIN ON DISPOSITION OF COMMON STOCK

A Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain realized on a sale or other disposition of our common stock unless (i) the gain is effectively connected with a trade or business of such holder in the United States and a specific treaty exemption does not apply, (ii) in the case of certain Non-U.S. Holders who are nonresident alien individuals and hold our common stock as a capital asset, such individuals are present in the United States for 183 or more days in the taxable year of the disposition, (iii) the Non-U.S. Holder is subject to tax pursuant to the provision of the

U.S. Internal Revenue Code regarding the taxation of U.S. expatriates, or (iv) we are or have been a "U.S. real property holding corporation" within the meaning of Section 897(c)(2) of the U.S. Internal Revenue Code at any time within the shorter of the five-year period preceding such disposition or such holder's holding period. We believe that we are not, and do not anticipate becoming, a U.S. real property holding corporation. Even if we are treated as a U.S. real property holding corporation, gain realized by a Non-U.S. Holder on a disposition of our common stock will not be subject to U.S. federal income tax so long as (i) the Non-U.S. Holder is considered to have beneficially owned no more than five percent of the common stock at all times within the shorter of (a) the five year period preceding the disposition or (b) the holder's holding period and (ii) our common stock is regularly traded on an established securities market (within the meaning of action 897(c)(3) of the U.S. Internal Revenue Code and the temporary Treasury Regulations thereunder) at some time during the calendar year in which the disposition occurs. There can be no assurance that our common stock will continue to qualify as regularly traded on an established securities market.

INFORMATION REPORTING REQUIREMENTS AND BACKUP WITHHOLDING ON DISPOSITION OF COMMON STOCK

Under current U.S. federal income tax law, information reporting and backup withholding imposed at a rate of 31% will apply to the proceeds of a disposition of our common stock effected by or through a U.S. office of a broker unless the disposing holder certifies as to its non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds where the transaction is effected outside the United States through a non-U.S. office of a non-U.S. broker. However, U.S. information reporting requirements (but not backup withholding) will apply to a payment of disposition proceeds where the transaction is effected outside the United States by or through an office outside the United States of a broker that fails to maintain documentary evidence that the holder is a Non-U.S. Holder and that certain conditions are met, or that the holder otherwise is entitled to an exemption, and the broker is (i) a U.S. person, (ii) a foreign person which derived 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) a "controlled foreign corporation" for U.S. federal income tax purposes, or (iv) effective after December 31, 2000, a foreign partnership (a) at least 50% of the capital or profits interest in which is owned by U.S. persons, or (b) that is engaged in a U.S. trade or business.

Effective after December 31, 2000, backup withholding will apply to a payment of those disposition proceeds if the broker has actual knowledge that the holder is a U.S. person.

Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the U.S. Internal Revenue Service.

FEDERAL ESTATE TAX

An individual Non-U.S. Holder who is treated as the owner of, or has made certain lifetime transfers of, an interest in our common stock will be required to include the value thereof in his gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock. Future sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices. Upon completion of this offering, we will have outstanding an aggregate of shares of common stock. Of these shares, all of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless these shares are purchased by affiliates. The remaining 12,429,231 shares of common stock held by existing stockholders are restricted securities. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under the Securities Act.

Our executive officers, directors and certain stockholders have agreed pursuant to "lock-up" agreements that, for a period of 180 days from the date of this prospectus, they will not sell any shares of common stock without the prior written consent of J.P. Morgan Securities Inc.

As a result of these "lock-up" agreements and the rules under the Securities Act, the restricted shares will be available for sale in the public market, subject, to certain volume and other restrictions, as follows:

DAYS AFTER THE EFFECTIVE DATE	NUMBER OF SHARES ELIGIBLE FOR SALE	COMMENT
On Effectiveness	--	Shares not locked-up and eligible for sale under Rule 144
90 days	--	Shares not locked-up and eligible for sale under Rules 144 and 701
180 days	12,139,231	Lock-up released; shares eligible for sale under Rules 144 and 701

Additionally, of the 2,901,089 shares that may be issued upon the exercise of options outstanding as of February 8, 2000, approximately 1,364,387 shares are subject to options which will be vested and exercisable 180 days after the date of this prospectus.

Registration Rights

On the date 180 days after the completion of this offering, the holders of 12,390,062 shares of our common stock and warrants exercisable for 246,667 additional shares of common stock will have rights to require us to register their shares under the Securities Act. Upon the effectiveness of a registration statement covering these shares, the shares would become freely tradable.

Stock Options

Immediately after this offering, we intend to file a registration statement under the Securities Act covering approximately 3,910,831 shares of common stock reserved for issuance under our stock option plans. We expect the registration statement to be filed and become effective as soon as practicable after the closing of this offering. Accordingly, shares registered under such registration statement will be available for sale in the open market after the effectiveness of the registration statement, unless they are held by persons that have signed a "lock-up" agreement.

UNDERWRITING

J.P. Morgan Securities Inc. and Credit Suisse First Boston Corporation are acting as joint lead managers for this offering. J.P. Morgan Securities Inc. is acting as book running lead manager for this offering.

We and the underwriters named below have entered into an underwriting agreement covering the common stock to be offered in this offering. J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation, Dain Rauscher Incorporated and Punk, Ziegel & Company, L.P. are acting as representatives of the underwriters. Each underwriter has agreed to purchase the number of shares of common stock set forth opposite its name in the following table.

UNDERWRITERS	NUMBER OF SHARES
J.P. Morgan Securities Inc.	
Credit Suisse First Boston Corporation	
Dain Rauscher Incorporated	
Punk, Ziegel & Company, L.P.	
Total	

The underwriting agreement provides that if the underwriters take any of the shares presented in the table above, then they must take all of these shares. No underwriter is obligated to take any shares allocated to a defaulting underwriter except under limited circumstances.

The underwriters are offering the shares of common stock, subject to the prior sale of shares, and when, as and if such shares are delivered to and accepted by them. The underwriters will initially offer to sell shares to the public at the initial public offering price shown on the cover page of this prospectus. The underwriters may sell shares to securities dealers at a discount of up to $ per share from the initial public offering price. Any such securities dealers may resell shares to certain other brokers or dealers at a discount of up to $ per share from the initial public offering price. After the initial public offering, the underwriters may vary the public offering price and other selling terms.

If the underwriters sell more shares than the total number shown in the table above, the underwriters have the option to buy up to an additional shares of common stock from us to cover such sales. They may exercise this option during the 30-day period from the date of this prospectus. If any shares are purchased with this option, the underwriters will purchase shares in approximately the same proportion as shown in the table above.

The following table shows the per share and total underwriting discounts and commissions that we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	NO EXERCISE	FULL EXERCISE
Per share	$	$
Total	$	$

The underwriters may purchase and sell shares of common stock in the open market in connection with this offering. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. Stabilizing transactions consist of bids or purchases made for the purpose of preventing or slowing a decline in the market price of the common stock while this offering is in progress. The underwriters may also impose a penalty bid, which means that an underwriter must repay to the other underwriters a portion of the underwriting discount received by it. An underwriter may be subject to a penalty bid if the representatives of the underwriters, while engaging in stabilizing or short covering transactions, repurchase shares sold by or for the account of that underwriter. These activities may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the Nasdaq National Market, in the over-the-counter market or otherwise.

We estimate that the total expenses of this offering, excluding underwriting discounts, will be $.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

We and our executive officers, directors and certain stockholders have agreed that, during the period beginning from the date of this prospectus and continuing to and including the date 180 days after the date of this prospectus, none of us will, directly or indirectly, offer, sell, offer to sell, contract to sell or otherwise dispose of any shares of common stock or any of our securities which are substantially similar to the common stock, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or any such substantially similar securities or enter into any swap, option, future, forward or other agreement that transfers, in whole or in part, the economic consequence of ownership of common stock or any securities substantially similar to the common stock, other than pursuant to employee stock option plans existing on the date of this prospectus, without the prior written consent of J.P. Morgan Securities Inc.

At our request, the underwriters have reserved shares of common stock for sale to our directors, officers, employees, consultants and family members of the foregoing. We expect these persons to purchase no more than five percent of the common stock offered in this offering. The number of shares available for sale to the general public will be reduced to the extent such persons purchase such reserved shares.

We intend to apply to have the common stock listed on the Nasdaq National Market under the symbol "LEXG".

It is expected that delivery of the shares will be made to investors on or about , 2000.

There has been no public market for the common stock prior to this offering. We and the underwriters will negotiate the initial offering price. In determining the price, we and the underwriters expect to consider a number of factors in addition to prevailing market conditions, including:

- the history of and prospects for our industry and for biotechnology companies generally;
- an assessment of our management;
- our present operations;
- our historical results of operations;
- the trend of our revenues and earnings; and
- our earnings prospects.

We and the underwriters will consider these and other relevant factors in relation to the price of similar securities of generally comparable companies. Neither we nor the underwriters can assure investors that an active trading market will develop for the common stock, or that the common stock will trade in the public market at or above the initial offering price.

From time to time in the ordinary course of their respective businesses, certain of the underwriters and their affiliates have engaged in and may in the future engage in commercial banking and/or investment banking transactions with us and our affiliates. In addition, affiliates of Punk, Ziegel & Company, L.P. beneficially own common stock, convertible preferred stock that will convert into common stock upon completion of this offering and warrants to purchase common stock at $7.50 per share, which represents % of our outstanding common stock assuming completion of this offering and exercise of the warrants.

LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon for us by Andrews & Kurth L.L.P., Houston, Texas. Legal matters in connection with the offering will be passed upon for the underwriters by Cahill Gordon & Reindel, New York, New York.

EXPERTS

The financial statements, as of December 31, 1998 and 1999, and for each of the three years in the period ended December 31, 1999, included in this prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said report.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933 regarding the shares of common stock offered by us. This prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement, some items of which are contained in exhibits to the registration statement as permitted by the rules and regulations of the SEC. For further information on us and the common stock we are offering, reference is made to the registration statement, including the exhibits, and the financial statements and notes filed as a part of the registration statement. A copy of the registration statement, including the exhibits and the financial statements and notes filed as a part of it, may be inspected without charge at the public reference facilities maintained by the SEC in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from the SEC upon the payment of fees prescribed by it. The SEC maintains a Web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with it.

As a result of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934 and will file periodic reports, proxy statements and other information with the SEC. You may inspect any of these documents as described in the preceding paragraph. Upon approval of our common stock for quotation on the Nasdaq National Market, these reports, proxy statements and other information may also be inspected at the offices of Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
Lexicon Genetics Incorporated:

We have audited the accompanying balance sheets of Lexicon Genetics Incorporated (a Delaware corporation) as of December 31, 1998 and 1999, and the related statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of Lexicon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lexicon Genetics Incorporated as of December 31, 1998 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 4, 2000

LEXICON GENETICS INCORPORATED

BALANCE SHEETS

	AS OF DECEMBER 31,		PRO FORMA STOCKHOLDERS' EQUITY (DEFICIT) AT DECEMBER 31,
	1998	1999	1999
			(UNAUDITED)
ASSETS			
Current assets			
Cash and cash equivalents	$ 3,022,201	$ 2,025,585	
Marketable securities	16,400,158	7,130,848	
Accounts receivable	1,673,479	3,391,648	
Prepaid expenses and other current assets	17,471	76,257	
Total current assets	21,113,309	12,624,338	
Property, plant and equipment	8,326,683	12,476,021	
Accumulated depreciation	(1,185,951)	(3,087,397)	
	7,140,732	9,388,624	
Other assets, net	261,962	281,605	
Total assets	$28,516,003	$22,294,567	
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities			
Accounts payable and accrued liabilities	$ 1,593,446	$ 1,192,276	
Current portion of long-term debt	83,335	1,074,178	
Current portion of capital lease obligations	196,085	127,119	
Current portion of deferred revenue	1,138,750	8,209,574	
Total current liabilities	3,011,616	10,603,147	
Capital lease obligations, net of current portion	107,114	6,279	
Long-term debt, net of current portion	916,665	3,571,028	
Deferred revenue, net of current portion	4,000,000	--	
Total liabilities	8,035,395	14,180,454	
Commitments and contingencies			
Redeemable convertible Series A preferred stock, $.01 par value, 10,000,000 shares authorized 4,244,664, 4,244,664 and no shares issued and outstanding, respectively; aggregate liquidation preference of $31,834,980 at December 31, 1999 (none pro forma)	29,514,820	30,050,236	$ --
Stockholders' equity (deficit)			
Common stock, $.001 par value, 25,000,000 shares authorized, 8,163,565, 8,180,067 and 12,424,731 shares issued and outstanding, respectively	8,164	8,180	12,425
Additional paid-in capital	7,748,116	8,772,114	38,818,105
Deferred stock compensation	--	(915,422)	(915,422)
Accumulated deficit	(16,790,492)	(29,800,995)	(29,800,995)
Total stockholders' equity (deficit)	(9,034,212)	(21,936,123)	$ 8,114,113
Total liabilities and stockholders' equity (deficit)	$28,516,003	$22,294,567	

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

LEXICON GENETICS INCORPORATED

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Revenues			
Subscription and license fees	$ 336,875	$ 761,950	$ 2,197,696
Collaborative research	486,416	1,072,205	2,120,016
Reagents	144,451	204,445	229,967
Grants	--	203,242	190,024
Total revenues	967,742	2,241,842	4,737,703
Operating expenses			
Research and development	4,970,488	8,409,770	14,645,773
General and administrative	1,472,966	2,024,322	2,913,121
Total operating expenses	6,443,454	10,434,092	17,558,894
Loss from operations	(5,475,712)	(8,192,250)	(12,821,191)
Interest income	133,004	838,110	648,906
Interest expense	58,861	126,665	302,802
Net loss	(5,401,569)	(7,480,805)	(12,475,087)
Accretion on redeemable convertible preferred stock	----------	(356,946)	(535,416)
Net loss attributable to common stockholders	$(5,401,569)	$(7,837,751)	$(13,010,503)
Net loss per common share, basic and diluted	$ (0.68)	$ (0.96)	$ (1.59)
Shares used in computing net loss per common share, basic and diluted	7,996,323	8,148,474	8,176,809
Pro forma net loss per common share, basic and diluted			$ (1.00)
Shares used in computing pro forma net loss per common share, basic and diluted			12,421,473

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

LEXICON GENETICS INCORPORATED

STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

	REDEEMABLE CONVERTIBLE PREFERRED STOCK		STOCKHOLDERS' EQUITY (DEFICIT)			
			COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED STOCK
	SHARES	AMOUNT	SHARES	PAR VALUE	CAPITAL	COMPENSATION
Balance at December 31, 1996...	--	$ --	7,550,898	$7,551	$4,064,340	$ --
Issuance of common stock for cash ($5.00 per share).....	--	--	590,000	590	2,949,410	--
Net loss.....	--	--	--	--	--	--
Balance at December 31, 1997...	--	--	8,140,898	8,141	7,013,750	--
Common stock warrants issued with debt agreement.....	--	--	--	--	24,750	--
Issuance of redeemable convertible Series A preferred stock.....	4,244,664	29,157,874	--	--	498,597	--
Common stock warrants issued for lease option.....	--	--	--	--	195,855	--
Exercise of common stock options.....	--	--	22,667	23	15,164	--
Accretion on redeemable convertible preferred stock to redemption value.....	--	356,946	--	--	--	--
Net loss.....	--	--	--	--	--	--
Balance at December 31, 1998...	4,244,664	29,514,820	8,163,565	8,164	7,748,116	--
Exercise of common stock options.....	--	--	16,502	16	22,943	--
Accretion on redeemable convertible preferred stock to redemption value.....	--	535,416	--	--	--	--
Deferred stock compensation....	--	--	--	--	1,001,055	(1,001,055)
Amortization of deferred stock compensation.....	--	--	--	--	--	85,633
Net loss.....	--	--	--	--	--	--
Balance at December 31, 1999...	4,244,664	$30,050,236	8,180,067	$8,180	$8,772,114	$ (915,422)

	STOCKHOLDERS' EQUITY (DEFICIT)	
	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Balance at December 31, 1996...	$ (3,551,172)	$ 520,719
Issuance of common stock for cash ($5.00 per share).....	--	2,950,000
Net loss.....	(5,401,569)	(5,401,569)
Balance at December 31, 1997...	(8,952,741)	(1,930,850)
Common stock warrants issued with debt agreement.....	--	24,750
Issuance of redeemable convertible Series A preferred stock.....	--	498,597
Common stock warrants issued for lease option.....	--	195,855
Exercise of common stock options.....	--	15,187
Accretion on redeemable convertible preferred stock to redemption value.....	(356,946)	(356,946)
Net loss.....	(7,480,805)	(7,480,805)
Balance at December 31, 1998...	(16,790,492)	(9,034,212)
Exercise of common stock options.....	--	22,959
Accretion on redeemable convertible preferred stock to redemption value.....	(535,416)	(535,416)
Deferred stock compensation....	--	--
Amortization of deferred stock compensation.....	--	85,633
Net loss.....	(12,475,087)	(12,475,087)

Balance at December 31, 1999...	$(29,800,995)	$(21,936,123)

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

LEXICON GENETICS INCORPORATED

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$(5,401,569)	$ (7,480,805)	$(12,475,087)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	315,929	756,600	1,901,446
Loss on sale of asset	--	21,819	--
Amortization of deferred stock compensation	--	--	85,633
Amortization of lease option	--	17,180	41,232
Amortization of deferred financing costs	--	24,750	--
Changes in operating assets and liabilities			
Increase in accounts receivable	(444,618)	(1,070,309)	(1,718,169)
(Increase) decrease in prepaid expenses and other current assets	22,321	(12,875)	(58,786)
Increase in other assets	(43,135)	(3,736)	(60,875)
Increase (decrease) in accounts payable and accrued liabilities	354,581	800,410	(401,170)
Increase in deferred revenue	4,500,000	638,750	3,070,824
Net cash used in operating activities	(696,491)	(6,308,216)	(9,614,952)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(1,289,438)	(5,658,953)	(4,100,286)
Sale of marketable securities	--	24,026,708	21,818,363
Purchase of marketable securities	--	(40,426,865)	(12,549,053)
Proceeds from sale of asset	--	47,000	--
Net cash provided by (used in) investing activities	(1,289,438)	(22,012,110)	5,169,024
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments of capital lease obligations	(83,633)	(209,569)	(218,853)
Proceeds from issuance of common stock	2,950,000	15,187	22,959
Proceeds from issuance of redeemable convertible Series A preferred stock	--	29,656,471	--
Proceeds from debt borrowings	1,100,000	--	4,168,060
Repayment of debt borrowings	--	(100,000)	(522,854)
Net cash provided by financing activities	3,966,367	29,362,089	3,449,312
Net increase (decrease) in cash and cash equivalents	1,980,438	1,041,763	(996,616)
Cash and cash equivalents at beginning of year	--	1,980,438	3,022,201
Cash and cash equivalents at end of year	$ 1,980,438	$ 3,022,201	$ 2,025,585
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 29,528	$ 49,331	$ 409,469
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Purchases of equipment under capital lease obligations	$ 407,047	$ 58,297	$ 49,052
Warrants issued in conjunction with lease option	$ --	$ 195,855	$ --
Warrants issued in conjunction with debt borrowings	$ 24,750	$ --	$ --

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

LEXICON GENETICS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999

1. ORGANIZATION AND OPERATIONS

Lexicon Genetics Incorporated is a Delaware corporation incorporated on July 7, 1995. Lexicon was organized to research, develop and market products and services related to functional genomics and drug target identification.

Lexicon has financed its operations from inception primarily through private financing transactions, contract and milestone payments related to subscription and collaboration agreements, and certain equipment financing arrangements. Lexicon's future success is dependent upon many factors, including, but not limited to, its ability to use gene sequence databases and knockout mice to select promising candidates for drug target or therapeutic protein development, reliance on subscriptions to its databases, compliance with state and federal regulatory restrictions, favorable public perception regarding ethical and social issues, reliance on collaborative research and development arrangements with corporate and academic affiliates and the obtaining of the funds necessary to complete these activities. As a result of the aforementioned factors and the related uncertainties, there can be no assurance of Lexicon's future success.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash, Cash Equivalents and Marketable Securities: Lexicon considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Management determines the appropriate classification of its cash equivalents and marketable securities at the time of purchase. Management has classified Lexicon's marketable securities as held-to-maturity securities in the accompanying financial statements. Held-to maturity securities are carried at purchase cost plus accrued interest, which approximates fair value.

Concentration of Credit Risk: Lexicon's cash equivalents and marketable securities represent potential concentrations of credit risk. Lexicon minimizes potential concentrations of risk in cash equivalents by placing investments in high-quality financial instruments. At December 31, 1999, management believes that Lexicon has no significant concentrations of credit risk and has incurred no impairments in the carrying values of its cash equivalents and marketable securities.

Significant Customers: For the years ended December 31, 1997, 1998 and 1999, six, three and three entities represented 55%, 48% and 58% of Lexicon's revenues, respectively.

Property and Equipment: Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful life of the assets which ranges from three to seven years.

Revenue Recognition: Revenues are earned from services performed pursuant to database subscription and access agreements, and collaborations for the development and, in some cases, analysis of knockout mice. Subscription and access fees received are recognized ratably over the subscription or access period. Payments received in advance under these arrangements are recorded as deferred revenue until earned. Collaborative research payments are recognized as revenue as Lexicon performs its obligations related to such research. Milestone based fees are recognized upon completion of specified milestones according to contract terms. Revenues for the supply of reagents to collaboration partners and customers are recognized upon shipment. Non-refundable sublicense fees under technology access programs are recognized as revenues upon the transfer of the sublicense to third parties and when no further performance obligations exist. Grant revenue is recognized as the related costs are incurred.

Research and Development Expenses: Research and development expenses consist of costs incurred for company-sponsored as well as collaborative research and development activities. These costs include direct and research-related overhead expenses and are expensed as incurred. Research and development expenses also include certain costs associated with the production of knockout mice for commercial sale. Through December 31, 1999, total production costs incurred have not been significant. Patent costs and costs to acquire technologies which are utilized in research and development and which have no alternative future use are expensed when incurred.

Net Loss Per Share: Net loss per share is computed using the weighted average number of shares of common stock outstanding. Shares associated with stock options and warrants and the convertible preferred stock are not included because they are antidilutive.

Pro Forma Net Loss Per Share (Unaudited): Pro forma net loss per share is computed using the weighted average number of common shares outstanding, including pro forma effects of the automatic conversion of outstanding redeemable convertible preferred stock into shares of Lexicon's common stock effective upon the closing of Lexicon's initial public offering as if such conversion occurred on the date of original issuance.

The following table sets forth the computation of basic and diluted, and pro forma basic and diluted, net loss per share for the respective periods.

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Basic and diluted			
Net loss	$(5,401,569)	$(7,480,805)	$(12,475,087)
Accretion on redeemable convertible preferred stock	--	(356,946)	(535,416)
Net loss attributable to common stockholders	$(5,401,569)	$(7,837,751)	$(13,010,503)
Shares used to compute net loss per common share	7,996,323	8,148,474	8,176,809
Net loss per common share	$ (0.68)	$ (0.96)	$ (1.59)
Pro forma basic and diluted			
Net loss			$(12,475,087)
Shares used to compute net loss per share			8,176,809
Adjustment to reflect weighted-average effect of assumed conversion of redeemable convertible preferred stock			4,244,664
Weighted-average shares used in pro forma basic and diluted net loss per share			12,421,473
Pro forma net loss per share			$ (1.00)

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1998 and 1999, are as follows:

	USEFUL LIVES IN YEARS	AS OF DECEMBER 31, 1998	AS OF DECEMBER 31, 1999
Computers and software	3	$1,188,007	$2,275,528
Furniture and fixtures	5-7	300,224	386,760
Laboratory equipment	7	3,275,454	4,678,492
Leasehold improvements	7	3,562,998	5,135,241
		8,326,683	12,476,021
Less: Accumulated depreciation		(1,185,951)	(3,087,397)
Net property and equipment		$7,140,732	$9,388,624

As of December 31, 1999, approximately $133,398 of the above equipment is held under capital leases.

4. FINANCING AND DEBT OBLIGATIONS

In June 1999, Lexicon entered into a $5.0 million financing arrangement for the purchase of property and equipment. As of December 31, 1999, Lexicon had drawn down approximately $4.2 million and had $831,940 remaining available under this arrangement. As of December 31, 1999, $3.7 million of the amount outstanding was secured by the equipment financed. This

facility accrues interest at a weighted average rate of 11.7% and is due in monthly installments of $106,054 through the year 2003. In addition, as of December 31, 1999, the balance of this obligation was $3,728,539.

In August 1997, Lexicon entered into two notes payable in the amount of $1 million and $100,000, respectively. During 1998, Lexicon paid off the entire balance of the $100,000 note. The remaining unsecured $1 million note is payable to a member of the board of directors and bears interest at the rate of 8 percent. The note is paid in monthly installments of $16,667 plus any accrued and unpaid interest with the balance due August 2002. As of December 31, 1999, the balance of this obligation was $916,667.

5. INCOME TAXES

Lexicon recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized differently in the financial statements and tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of liabilities and assets using enacted tax rates and laws in effect in the years in which the differences are expected to reverse. Deferred tax assets are evaluated for realization based on a more-likely-than-not criteria in determining if a valuation should be provided.

The components of Lexicon's deferred tax assets (liabilities) at December 31, 1998 and 1999, are as follows:

	AS OF DECEMBER 31,	
	1998	1999
Net operating loss carryforwards	$5,436,001	$ 9,466,857
Technology license	125,001	114,293
Research and development tax credits	359,034	670,663
Accrued expenses not yet deductible	(12,680)	(21,853)
Start-up and organizational costs	71,188	38,332
Property and equipment	(281,160)	(234,490)
Prepaid expenses	1,309	(20,459)
Total deferred tax assets (liabilities)	5,698,693	10,013,343
Less: Valuation allowance	(5,698,693)	(10,013,343)
Net deferred tax assets	$ --	$ --

As of December 31, 1999, Lexicon has generated net operating loss (NOL) carryforwards of approximately $27.0 million and research and development tax credits of approximately $671,000 available to reduce future income taxes. These carryforwards begin to expire in 2011. A change in ownership, as defined by federal income tax regulations, could significantly limit Lexicon's ability to utilize its carryforwards. Lexicon's ability to utilize its current and future NOLs to reduce future taxable income and tax liabilities may be limited. Additionally, because federal tax laws limit the time during which these carryforwards may be applied against future taxes, Lexicon may not be able to take full advantage of these attributes for federal income tax purposes. As Lexicon has had cumulative losses and there is no assurance of future taxable income, valuation allowances have been established to fully offset the deferred tax assets of $5,698,693 and $10,013,343 at December 31, 1998 and 1999, respectively. The valuation allowance increased approximately $4,314,650 million during 1999, primarily due to Lexicon's net loss.

6. REDEEMABLE CONVERTIBLE PREFERRED STOCK AND CAPITAL STOCK

Redeemable Convertible Series A Preferred Stock: During May 1998, a private placement was completed in which Lexicon issued 4,244,664 shares of redeemable convertible Series A preferred stock (Series A Preferred Stock) for proceeds of approximately $29.6 million net of placement agent fees and offering costs of approximately $2.2 million. The Series A Preferred Stock has the right to receive dividends in the form of cash, common stock or any combination of cash and common stock at Lexicon's discretion. Any dividends declared to junior securities must be matched or exceeded with dividends to the Series A Preferred Stock. As of December 31, 1999, no dividends had been declared. The Series A Preferred Stock has voting rights equal to one vote for each full share of common stock into which the Series A Preferred Stock held by such holder could then be converted.

The Series A Preferred Stock is convertible into common stock at the discretion of the stockholder after the stock's issuance and prior to the mandatory redemption date outlined below at a price of $7.50 per share of common stock. In addition, the Series A Preferred Stock will be automatically converted into common stock if (a) Lexicon receives the written consent of the holders of at least 66 2/3 percent of the Series A Preferred Stock then outstanding or (b) Lexicon consummates an underwritten public offering of its common stock with gross proceeds, net of underwriting discounts and commissions, exceeding $20 million and at a price of at least $18.75 per share. At December 31, 1999, a total of 4,244,664 shares of common stock were issuable upon conversion of the Series A Preferred Stock.

The Series A Preferred Stock will be automatically redeemable on May 7, 2003, for a sum of the following: (a) the greater of $7.50 per share or the fair market value of the number of shares of common stock into which a share of Series A Preferred Stock could then be converted and (b) an amount per share equal to all declared but unpaid dividends. The Series A Preferred Stock is being accreted to its redemption value of $31,834,980 on May 7, 2003.

Pro Forma Stockholders' Equity Information: Upon the effective date of Lexicon's proposed initial public offering all of the preferred stock outstanding will automatically be converted into 4,244,664 shares of common stock. The unaudited pro forma redeemable convertible preferred stock and stockholders' equity at December 31, 1999 has been adjusted for the assumed conversion of preferred stock based on the shares of preferred stock outstanding at December 31, 1999.

Common Stock: In 1996, Lexicon entered into a subscription agreement with an individual investor through which Lexicon agreed to issue 800,000 shares of common stock at a price of $5 per share. Total cash consideration of $4,000,000 was received and the related shares issued at various dates from September 1996 through July 1997.

On September 14, 1995, Lexicon entered into a stockholders' agreement with its stockholders providing for certain restrictions on the transfer of shares of Lexicon's capital stock and certain preemptive rights with respect to new securities offered by Lexicon. The agreement was subsequently extended to other stockholders and holders of warrants and was amended and restated as of May 7, 1998. As amended and restated, the stockholders' agreement (a) requires any stockholder who desires to sell shares of Company stock to first offer to sell such shares to Lexicon and to the remaining stockholders, (b) permits holders of Series A Preferred Stock, at their option, to participate on a pro rata basis in certain sales of Company stock by selling stockholders, (c) grants certain preemptive rights to a director and founding stockholder of Lexicon and to the holders of Series A Preferred Stock with respect to new securities offered by Lexicon and (d) contains voting agreements with respect to the election of directors and certain other matters, in each case subject to certain exceptions. The agreement terminates upon the earlier to occur of (a) the closing of a qualifying initial public offering of Lexicon's common stock or (b) the written approval of Lexicon and the holders of at least 75 percent of the outstanding capital stock of Lexicon subject to the agreement.

On September 14, 1995, Lexicon entered into a registration rights agreement with its founding stockholders. The agreement was subsequently extended to other stockholders and holders of warrants and was amended and restated as of May 7, 1998. As amended and restated, the registration rights agreement provides holders of registrable securities with the right to require Lexicon to register the offering of their shares under the Securities Act of 1933, as amended, under certain circumstances and subject to certain exceptions. Such rights may be exercised by holders of registrable securities who, in the aggregate, hold (a) at least 25 percent of the then-outstanding registrable securities that were originally issued to a director and founding stockholder of Lexicon or (b) 25 percent of the then-outstanding registrable securities issued or issuable upon conversion of the Series A Preferred Stock. The registration rights agreement also provides holders of registrable securities with the right to include their shares in offerings registered under the Securities Act of 1933, as amended, for the account of Lexicon or for the account of other holders of registration rights, subject to certain exceptions. The registration rights agreement provides that Lexicon shall pay the expenses associated with all such registrations.

7. STOCK OPTIONS AND WARRANTS

Stock Options: In September 1995, Lexicon's board of directors approved the 1995 Stock Option Plan (the Plan). Under the Plan, as amended, a total of 2,000,000 shares of common stock have been reserved for issuance upon exercise of stock options granted to employees, consultants or directors. The option price may not be less than the fair market value per share on the date of grant for incentive stock options. All of the options issued by Lexicon through December 31, 1999, vest in accordance with grant provisions (typically four years) and are exercisable for a period of 10 years subsequent to the date of grant.

Lexicon follows Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which permits one of two methods for accounting for stock options. Lexicon has elected the method that only requires note disclosure of stock-based compensation. Because of this election, Lexicon is required to account for its employee stock-based compensation plan under Accounting Principles Board (APB) Opinion No. 25 and its related interpretations. In accordance with APB No. 25, deferred compensation is recorded for stock-based compensation grants based on the excess of the estimated fair value of the common stock on the measurement date over the exercise price. The deferred compensation is amortized over the vesting period of each unit of stock-based compensation grant, which is generally four years. If the exercise price of the stock-based compensation grants is equal to the estimated fair value of Lexicon's stock on the date of grant, no compensation expense is recorded.

The following pro forma information regarding net loss is required by SFAS No. 123, and has been determined as if Lexicon had accounted for its employee stock options under the fair-value method as defined by SFAS No. 123. The fair value of these options was estimated at the date of grant using the Black-Scholes method and the following assumptions for 1997, 1998, and 1999: volatility of 29%, risk-free interest rate of 8%, expected option lives of seven years, three percent expected turnover, and no dividends.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of the options using the straight-line method. Lexicon's pro forma information follows:

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Net loss			
As reported	$(5,401,569)	$(7,480,805)	$(12,475,087)
Pro forma	$(5,912,092)	$(8,351,766)	$(14,522,430)
Net loss per common share, basic and diluted			
As reported	$ (0.68)	$ (0.96)	$ (1.59)
Pro forma	$ (0.74)	$ (1.07)	$ (1.84)

The following is a summary of option activity under this plan:

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance at December 31, 1996	650,100	$1.00
Granted	301,450	5.00
Exercised	--	--
Canceled	(17,700)	4.76
Balance at December 31, 1997	933,850	$2.22
Granted	711,350	7.45
Exercised	(22,667)	0.67
Canceled	(25,429)	4.98
Balance at December 31, 1998	1,597,104	$4.53
Granted	367,300	7.50
Exercised	(16,502)	1.39
Canceled	(90,415)	6.51
Balance at December 31, 1999	1,857,487	$5.05
Exercisable at December 31, 1999	1,067,947	$3.49

The weighted average fair values of options granted during the years ended December 31, 1997, 1998, and 1999 were $2.46, $3.67 and $3.69, respectively. As of December 31, 1999, 142,513 shares of common stock were available for grant under the Plan.

Lexicon recorded approximately $1.0 million in deferred compensation expense, relating to options issued during the year ended December 31, 1999, for the excess of the estimated fair value of the common stock on the date of grant over the exercise price. The fair value of the common stock on the date of grant was determined based on valuations in relation to Lexicon's preferred stock financing and the development of Lexicon's gene trapping technology. The deferred compensation will be amortized over the four-year vesting period of the options. During the year ended December 31, 1999, Lexicon recognized $85,633 in compensation expense relating to these options.

Warrants: In August 1997, Lexicon issued warrants to acquire 4,500 shares and 45,000 shares of common stock, respectively, in connection with certain loan agreements (see Note 4). The warrants are exercisable for a period of three years at a price of $7.50 per share. Management estimated the value of these warrants at $24,750 and recorded them as deferred financing costs and additional paid-in capital. Amortization of these costs is reflected as additional interest expense in the accompanying financial statements.

On May 7, 1998, simultaneous with the completion of the Series A Preferred Stock private placement, Lexicon issued a warrant to acquire 201,667 shares of common stock in conjunction with the sale of the Series A Preferred Stock (the 1998 Warrant). The 1998 Warrant is exercisable at the following prices: (a) an exercise price of $7.50 per share or (b) a "cashless" purchase of the common stock calculated based upon the difference between fair market value and exercise price. The warrant expires on the fifth anniversary of the date of grant. Management estimated the value of this warrant at approximately $498,000. Upon consummation of the private placement, this amount was recorded as a reduction of the Series A Preferred Stock balance and an increase to additional paid-in capital. The value of the warrant, along with the offering costs associated with the private placement, are being accreted back to the Series A Preferred Stock over a five-year period.

In July 1998, Lexicon issued a warrant to acquire 83,333 shares of common stock for the option to lease additional facility space. The warrant is exercisable for a period of three years at a price of $7.50 per share. Management estimated the value of this warrant at approximately $196,000. As this warrant has been treated as consideration for the option to lease certain facility space (lease option), Lexicon has recorded the warrant's value as a long-term asset and additional paid-in capital. Amortization of the lease option, $17,180 and $41,232 during 1998 and 1999, respectively, has been recorded as additional lease expense in the accompanying financial statements.

8. COLLABORATION AND LICENSE AGREEMENTS

In October 1999, Lexicon entered into an initial agreement with Millennium Pharmaceuticals, Inc. ("Millennium") for non-exclusive access to Lexicon's human and mouse gene sequence databases. Under the agreement Lexicon receives subscription fees for database access, and may receive license fees for full-length genes, validated drug targets and protein therapeutics. Lexicon may also receive milestones and royalty payments from future licenses and products.

In July 1998, Lexicon entered into a license agreement with DuPont Pharmaceuticals Company (DuPont), which grants Lexicon a nonexclusive, worldwide license to use DuPont's Cre/lox technology. The agreement also grants Lexicon certain worldwide, royalty-bearing licenses to use the Cre/lox technology together with gene trapping techniques in research collaborations. No royalties have been paid to date under the license agreement.

In March 1997, Lexicon entered into an agreement with Merck Genome Research Institute (MGRI) under which Lexicon received an initial cash payment of $4 million. This payment is recognized as revenue as Lexicon performs its obligations related to such agreement. Under the terms of the subscription agreement with MGRI, Lexicon has agreed to develop, produce and deliver certain knockout mice over a period of three or more years. To date, deferred revenue has been recorded for all cash received from MGRI. Management believes Lexicon's obligations will be satisfied during 2000, and has classified the corresponding deferred revenue amount as a current liability at December 31, 1999.

On September 14, 1995, Lexicon entered into a royalty-bearing, worldwide, exclusive license agreement with Baylor College of Medicine which permits Lexicon to use the technology under said license to grant sublicenses and to make and sell licensed products incorporating or utilizing the technology as defined in the agreement. The agreement requires that Lexicon pay a royalty equal to 2 percent of net sales. For each of the three years in the period ended December 31, 1999, royalties paid under this agreement were less than $6,000.

9. COMMITMENTS AND CONTINGENCIES

Lease Obligations: Lexicon leases office space and certain equipment under operating leases and has financed the acquisition of certain equipment through capital leases with various parties. Rental expense was $410,355, $672,523 and $1,111,039 during the years ended December 31, 1997, 1998 and 1999, respectively. At December 31, 1999, the present value of future minimum capital lease payments and future minimum lease payments under non-cancelable operating leases are as follows:

	CAPITAL LEASES	OPERATING LEASES
2000	$138,295	$ 1,078,143
2001	6,876	1,078,143
2002	--	1,078,143
2003	--	1,172,876
2004	--	1,172,876
Thereafter	--	11,852,120
Total	145,171	$17,432,301
Less: Amount representing interest (implicit rates ranging from 7% to 19%)	11,773	
Present value of remaining lease payments	133,398	
Less: Amount due within one year	127,119	
Capital lease obligations, net of current portion	$ 6,279	

Employment Agreements: In December 1998, October 1999, January 2000 and February 2000, Lexicon entered into employment agreements with some of its corporate officers. Under the agreements, each officer receives a set base salary, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The employment agreements are at-will and contain non-competition agreements. The agreements also provide for a termination clause, which requires either a six or 12-month payment based on the officer's salary, in the event of termination or change in corporate control.

10. BENEFIT PLANS

Lexicon has established an Annual Profit Sharing Incentive Plan (the Profit Sharing Plan). The purpose of the Profit Sharing Plan is to provide for the payment of incentive compensation out of the profits of Lexicon to some of its employees. Participants in the Profit Sharing Plan are entitled to a cash bonus equal to their proportionate share (based on salary) of 15 percent of Lexicon's fiscal year pretax income, if any.

Lexicon maintains a retirement and deferred savings plan for its employees that is intended to qualify as a tax-qualified plan under the Internal Revenue Code. The 401(k) Plan provides that each participant may contribute up to a statutory limit, which was $10,000 in 1999.

11. SUBSEQUENT EVENTS (UNAUDITED)

During January and February 2000, Lexicon issued 1,165,300 options to purchase common stock to certain employees and consultants. Lexicon anticipates that additional deferred compensation totaling approximately $23.2 million will be recorded for options granted in the first quarter of 2000. The additional deferred compensation expense will be amortized over the vesting periods of the individual stock options issued. Lexicon expects to record amortization expense for deferred compensation as follows: $9.7 million during 2000, $4.3 million during 2001, $4.3 million during 2002, $4.3 million during 2003 and $600,000 during 2004.

In February 2000, Lexicon adopted the 2000 Equity Incentive Plan (the 2000 Equity Incentive Plan). The 2000 Equity Incentive Plan is an amendment and restatement of the 1995 Stock Option Plan and will terminate in 2010 unless the board terminates it sooner. The board authorized and reserved an aggregate of 3,750,000 shares of common stock for issuance under the 2000 Equity Incentive Plan. The 2000 Equity Incentive Plan provides for the grant of incentive stock options to employees and nonstatutory stock options to employees, directors and consultants of Lexicon. The plan also provides for stock bonuses

and restricted stock purchase awards. Incentive stock options will have an exercise price of 100% or more of the fair market value of our common stock on the date of grant. Nonstatutory stock options may have an exercise price as low as 85% of fair market value on the date of grant. The purchase price of other stock awards may not be less than 85% of fair market value. However, the board may award bonuses in consideration of past services without a purchase payment. Shares may be subject to a repurchase option in the discretion of the board. The 2000 Equity Incentive Plan provides that it will be administered by the board, or a committee appointed by the board, which determines recipients and types of options to be granted, including number of shares under the option and the exercisability of the shares. On the day after each annual meeting of Lexicon's stockholders for ten years, beginning in 2001, the number of shares in the reserve automatically will be increased by the greater of:

- 5% of Lexicon's outstanding shares on a fully-diluted basis; or

- that number of shares that could be issued under awards granted under the incentive plan during the prior 12-month period.

The total number of shares reserved in the aggregate may not exceed 20,000,000 shares over the ten-year period. As of February 8, 2000, options to purchase 2,901,089 shares of common stock were outstanding under the equity incentive plan and no options had been exercised.

In February 2000, Lexicon adopted the 2000 Non-Employee Directors' Stock Option Plan (the "directors' plan") to provide for the automatic grant of options to purchase shares of common stock to non-employee directors of Lexicon. Lexicon reserved a total of 200,000 shares of its common stock for issuance under the directors' plan. Non-employee directors elected after the closing of Lexicon's initial public offering will receive an initial option to purchase 10,000 shares of common stock. In addition, on the date of each of Lexicon's annual meetings of stockholders, beginning with the annual meeting in 2001, each non-employee director who has been a director for at least six months will automatically be granted an option to purchase 2,000 shares of common stock. On the day after each annual meeting of our stockholders, for 10 years, starting in 2001, the share reserve will automatically be increased by a number of shares equal to the greater of:

- 0.3% of Lexicon's outstanding shares on a fully-diluted basis; or

- that number of shares that could be issued under options granted under the directors' plan during the prior 12-month period.

Options granted under the directors' plan will become vested and exercisable over a period of five years. All options granted under the non-employee directors' plan will have an exercise price equal to the fair market value of our common stock on the date of grant. The option term is ten years. The directors' plan will not be effective until the date of this initial public offering of Lexicon's stock. Therefore, Lexicon has not issued any options under the directors' plan.

In February 2000, the Board of Directors authorized the filing of a registration statement with the Securities and Exchange Commission permitting Lexicon to sell shares of its common stock to the public.

[LEXICON LOGO]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The estimated expenses payable by the Registrant in connection with the issuance and distribution of the securities being registered (other than underwriting discounts and commissions) are as follows:

SEC Registration Fee	$26,400
NASD Filing Fee	10,500
NASDAQ Listing Fee	*
Printing Expenses	*
Accounting Fees and Expenses	*
Legal Fees and Expenses	*
Transfer Agent and Registrar Fees	*
Miscellaneous Expenses	*
Total	$

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*To be provided by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law ("DGCL") provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Section 145 further provides that a corporation similarly may indemnify any such person serving in any such capacity who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or such other court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Lexicon's certificate of incorporation and bylaws provide that indemnification shall be to the fullest extent permitted by the DGCL for all current or former directors or officers. As permitted by the DGCL, the certificate of incorporation provides that directors of Lexicon shall have no personal liability to Lexicon or its stockholders for monetary damages for breach of fiduciary duty as a director, except (1) for any breach of the director's duty of loyalty to Lexicon or its stockholders, (2) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (3) under Section 174 of the DGCL or (4) for any transaction from which a director derived an improper personal benefit.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Set forth in chronological order below is information regarding the number of shares of common and preferred stock issued, and the number of options granted, by the Registrant since January 1, 1997. Further included is the consideration, if any, received by the Registrant for such shares and options, and information relating to the section of the Securities Act, or rule of

the SEC, under which exemption from registration was claimed. All awards of options did not involve any sale under the Securities Act and none of these securities were registered under the Securities Act.

1. In the past three years, the Registrant has issued options to purchase an aggregate of 1,857,487 shares of common stock at a weighted average exercise price of $5.05 per share. During this same time period, the Registrant has issued a total of 39,961 shares of common stock pursuant to the exercise of options previously granted.

2. On January 6, 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of $5.00 per share.

3. On January 27, 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of $5.00 per share.

4. In February 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of $5.00 per share.

5. In March 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of $5.00 per share.

6. In April 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of $5.00 per share.

7. In May 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of $5.00 per share.

8. In June 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of $5.00 per share.

9. In July 1997, Lexicon sold to Gordon A. Cain 30,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of $5.00 per share.

10. In August 1997, Lexicon issued to William A. McMinn 45,000 warrants with an exercise price of $7.50 per share in connection with a $1,000,000 note.

11. In August 1997, Lexicon issued to Carter Interests Ltd. 4,500 warrants with an exercise price of $7.50 share in connection with a $100,000 note.

12. In May 1998, Lexicon sold 4,244,664 shares of series A convertible preferred stock to 30 accredited investors in connection with venture capital financing at a purchase price of $7.50 per share.

13. In May 1998, Lexicon issued to Punk, Ziegel & Company 201,667 warrants with an exercise price of $7.50 per share in connection with venture capital financing.

14. In July 1998, Lexicon issued to The Woodlands Commercial Properties, L.P. 83,333 warrants with an exercise price of $7.50 per share in connection with a lease option.

Except as described above, no underwriters were engaged in connection with the foregoing sales of securities. The sales of shares of common stock, series A preferred stock and other securities listed above were made in reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder for transactions not involving a public offering and all purchasers were accredited investors as such term is defined in Rule 501(a) of Regulation D. Issuances of options to the company's employees and directors were made pursuant to Rule 701 promulgated under the Securities Act. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

ITEM 16. EXHIBITS.

a. Exhibits:

1.1*	--Form of Underwriting Agreement
3.1	--Restated Certificate of Incorporation
3.2	--Restated Bylaws
5.1*	--Opinion of Andrews & Kurth L.L.P.
10.1	--Employment Agreement with Arthur T. Sands, M.D., Ph.D.

10.2	--Employment Agreement with James R. Piggott, Ph.D.
10.3	--Employment Agreement with Jeffrey L. Wade, J.D.
10.4	--Employment Agreement with Brian P. Zambrowicz, Ph.D.
10.5*	--Employment Agreement with Julia P. Gregory
10.6	--Form of Indemnification Agreement with Officers and Directors
10.7	--2000 Equity Incentive Plan
10.8	--2000 Non-Employee Directors' Stock Option Plan
10.9*	--Database Access Agreement, dated October 5, 1999, between Lexicon and Millennium Pharmaceuticals, Inc.
10.10*	--Agreement, dated March 21, 1997, between Lexicon and Merck Genome Research Institute
10.11	--Master Loan and Security Agreement dated May 21, 1999, with FINOVA Capital Corporation
21.1	--Subsidiaries of Lexicon
23.1	--Consent of Arthur Andersen LLP
23.2*	--Consent of Andrews & Kurth L.L.P. (contained in Exhibit 5.1)
24.1	--Power of Attorney (contained in signature page)
27.1	--Financial Data Schedule

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* To be filed by amendment.

b. Financial Statement Schedules

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes:

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) To provide to the underwriter(s) at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter(s) to permit prompt delivery to each purchaser.

(c) For purpose of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(d) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of The Woodlands, in the State of Texas, on February 7, 2000.

LEXICON GENETICS INCORPORATED

By: /s/ ARTHUR T. SANDS, M.D., PH.D.
Arthur T. Sands, M.D., Ph.D.
President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below appoints Arthur T. Sands and Jeffrey L. Wade, and each of them, any of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and any Registration Statement (including any amendment thereto) for this offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or would do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute and substitutes, may lawfully do or cause to be done by virtue hereof.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED BELOW.

SIGNATURE	TITLE	DATE
/s/ ARTHUR T. SANDS, M.D., PH.D. Arthur T. Sands, M.D., Ph.D.	President, Chief Executive Officer and Director (principal executive officer)	February 7, 2000
/s/ JEFFREY L. WADE, J.D. Jeffrey L. Wade, J.D.	Senior Vice President and Chief Financial Officer (principal financial and accounting officer)	February 7, 2000
/s/ WILLIAM A. MCMINN William A. McMinn	Chairman of the Board of Directors	February 7, 2000
/s/ STEPHEN J. BANKS Stephen J. Banks	Director	February 7, 2000
/s/ GORDON A. CAIN Gordon A. Cain	Director	February 7, 2000
/s/ PATRICIA M. CLOHERTY Patricia M. Cloherty	Director	February 7, 2000
/s/ PAUL HAYCOCK, M.D. Paul Haycock, M.D.	Director	February 7, 2000

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
1.1*	--Form of Underwriting Agreement
3.1	--Restated Certificate of Incorporation
3.2	--Restated Bylaws
5.1*	--Opinion of Andrews & Kurth L.L.P.
10.1	--Employment Agreement with Arthur T. Sands, M.D., Ph.D.
10.2	--Employment Agreement with James R. Piggott, Ph.D.
10.3	--Employment Agreement with Jeffrey L. Wade, J.D.
10.4	--Employment Agreement with Brian P. Zambrowicz, Ph.D.
10.5*	--Employment Agreement with Julia P. Gregory
10.6	--Form of Indemnification Agreement with Officers and Directors
10.7	--2000 Equity Incentive Plan
10.8	--2000 Non-Employee Directors' Stock Option Plan
10.9*	--Database Access Agreement, dated October 5, 1999, between Lexicon and Millennium Pharmaceuticals, Inc.
10.10*	--Agreement, dated March 21, 1997, between Lexicon and Merck Genome Research Institute
10.11	--Master Loan and Security Agreement dated May 21, 1999 with FINOVA Capital Corporation
21.1	--Subsidiaries of Lexicon
23.1	--Consent of Arthur Andersen LLP
23.2*	--Consent of Andrews & Kurth L.L.P. (contained in Exhibit 5.1)
24.1	--Power of Attorney (contained in signature page)
27.1	--Financial Data Schedule

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* To be filed by amendment.

EXHIBIT 3.1

RESTATED CERTIFICATE OF INCORPORATION

OF

LEXICON GENETICS INCORPORATED

LEXICON GENETICS INCORPORATED (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware ("DGCL"), hereby certifies as follows pursuant to Sections 242 and 245 of the DGCL:

FIRST: The name of the Corporation is "Lexicon Genetics Incorporated."

SECOND: The original Certificate of Incorporation of the Corporation was filed in the Office of the Secretary of State of the State of Delaware (the "Secretary of State") on July 7, 1995. A Restated Certificate of Incorporation of the Corporation was filed in the Office of the Secretary of State on May 6, 1998.

THIRD: The board of directors of the Corporation, in accordance with Sections 242 and 245 of the DGCL, (i) adopted and approved this Restated Certificate of Incorporation (including the amendments to the Corporation's Certificate of Incorporation effected hereby) and (ii) proposed that the Corporation's stockholders adopt and approve this Restated Certificate of Incorporation (including the amendments to the Corporation's Certificate of Incorporation effected hereby).

FOURTH: The holders of not less than a majority of the outstanding shares of the Corporation's common stock, par value $.001 per share, and preferred stock, par value $0.01 per share, in accordance with Section 228 of the DGCL, approved and adopted on behalf of the stockholders this Restated Certificate of Incorporation (including the amendments to the Corporation's Certificate of Incorporation effected hereby).

FIFTH: This Restated Certificate of Incorporation shall become effective on its filing with the Secretary of State.

SIXTH: The Restated Certificate of Incorporation of the Corporation is hereby amended and restated to read in its entirety as follows:

ARTICLE I

Name

The name of the Corporation is "Lexicon Genetics Incorporated."

ARTICLE II

Registered Office and Registered Agent

The registered office of the Corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

ARTICLE III

Purpose

The purpose for which the Corporation is organized is to engage in any lawful acts and activities for which corporations may be organized under the General Corporation Law of the State of Delaware ("DGCL").

ARTICLE IV

Capitalization

Section 4.01. Authorized Capital. (a) The total number of shares of stock that the Corporation shall have the authority to issue is 75,000,000 shares of capital stock, consisting of (i) 5,000,000 shares of preferred stock, par value $0.01 per share (the "Preferred Stock"), and (ii) 70,000,000 shares of common stock, par value $0.001 per share (the "Common Stock").

(b) Subject to the provisions of this Certificate of Incorporation and the Preferred Stock Designation (as defined below) creating any series of Preferred Stock, the Corporation may issue shares of its capital stock from time to time for such consideration (not less than the par value thereof) as may be fixed by the Board of Directors of the Corporation (the "Board of Directors"), which is expressly authorized to fix the same in its absolute discretion subject to the foregoing conditions. Shares so issued for which the consideration shall have been paid or delivered to the Corporation shall be deemed fully paid stock and shall not be liable to any

further call or assessment thereon, and the holders of such shares shall not be liable for any further payments in respect of such shares.

(c) The right to cumulate votes for the election of directors as provided in Section 214 of the DGCL shall not be granted and is hereby expressly denied.

(d) No stockholder of the Corporation shall by reason of his or her holding shares of any class of capital stock of the Corporation have any preemptive or preferential right to acquire or subscribe for any additional, unissued or treasury shares (whether now or hereafter acquired) of any class of capital stock of the Corporation now or hereafter to be authorized, or any notes, debentures, bonds or other securities convertible into or carrying any right, option or warrant to subscribe for or acquire shares of any class of capital stock of the Corporation now or hereafter to be authorized, whether or not the issuance of any such shares or such notes, debentures, bonds or other securities would adversely affect the dividends or voting or other rights of that stockholder.

Section 4.02. Preferred Stock. (a) The Preferred Stock may be issued from time to time in one or more series. Authority is hereby expressly granted to and vested in the Board of Directors to authorize from time to time the issuance of Preferred Stock in one or more series. With respect to each series of Preferred Stock authorized by it, the Board of Directors shall be authorized to establish by resolution or resolutions, and by filing a certificate pursuant to applicable law of the State of Delaware (the "Preferred Stock Designation"), the following to the fullest extent now or hereafter permitted by the DGCL:

(1) the designation of such series;

(2) the number of shares to constitute such series;

(3) whether such series is to have voting rights (full, special or limited) or is to be without voting rights;

(4) if such series is to have voting rights, whether or not such series is to be entitled to vote as a separate class either alone or together with the holders of the Common Stock or one or more other series of Preferred Stock;

(5) the preferences and relative, participating, optional, conversion or other special rights (if any) of such series and the qualifications, limitations or restrictions (if any) with respect to such series;

(6) the redemption rights and price(s), if any, of such series, and whether or not the shares of such series shall be subject to the operation of retirement or sinking funds to be applied to the purchase or redemption of such shares for retirement and, if such retirement or sinking funds or funds are to be established, the periodic amount thereof and the terms and provisions relative to the operation thereof;

(7) the dividend rights and preferences (if any) of such series, including, without limitation, (i) the rates of dividends payable thereon, (ii) the conditions upon which and the time when such dividends are payable, (iii) whether or not such dividends shall be cumulative or noncumulative and, if cumulative, the date or dates from which such dividends shall accumulate and (iv) whether or not the payment of such dividends shall be preferred to the payment of dividends payable on the Common Stock or any other series of Preferred Stock;

(8) the preferences (if any), and the amounts thereof, which the holders of such series shall be entitled to receive upon the voluntary or involuntary liquidation, dissolution or winding-up of, or upon any distribution of the assets of, the Corporation;

(9) whether or not the shares of such series, at the option of the Corporation or the holders thereof or upon the happening of any specified event, shall be convertible into or exchangeable for (i) shares of Common Stock, (ii) shares of any other series of Preferred Stock or (iii) any other stock or securities of the Corporation;

(10) if such series is to be convertible or exchangeable, the price or prices or ratio or ratios or rate or rates at which such conversion or exchange may be made and the terms and conditions (if any) upon which such price or prices or ratio or ratios or rate or rates may be adjusted; and

(11) such other rights, powers and preferences with respect to such series as may to the Board of Directors seem advisable.

Any series of Preferred Stock may vary from any other series of Preferred Stock in any or all of the foregoing respects and in any other manner.

(b) The Board of Directors may, with respect to any existing series of Preferred Stock but subject to the Preferred Stock Designation creating such series, (i) increase the number of shares of Preferred Stock designated for such series by a resolution adding to such series authorized and unissued shares of Preferred Stock not designated for any other series and (ii) decrease the number of shares of Preferred Stock designated for such series by a resolution subtracting from such series shares of Preferred Stock designated for such series (but not below the number of shares of such series then outstanding), and the shares so subtracted shall become authorized, unissued and undesignated shares of Preferred Stock.

(c) No vote of the holders of the Common Stock or the Preferred Stock shall, unless otherwise expressly provided in a Preferred Stock Designation creating any series of Preferred Stock, be a prerequisite to the issuance of any shares of any series of the Preferred Stock authorized by and complying with the conditions of this Certificate of Incorporation. Shares of any series of Preferred Stock that have been authorized for issuance pursuant to this Certificate of Incorporation and that have been issued and reacquired in any manner by the Corporation (including upon conversion or exchange thereof) shall be restored to the status of authorized and unissued shares of Preferred Stock

and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors and a Preferred Stock Designation as set forth above.

Section 4.03. Common Stock. (a) The holders of shares of the Common Stock shall be entitled to vote upon all matters submitted to a vote of the common stockholders of the Corporation and shall be entitled to one vote for each share of the Common Stock held.

(b) Subject to the prior rights and preferences (if any) applicable to shares of Preferred Stock of any series, the holders of shares of the Common Stock shall be entitled to receive such dividends (payable in cash, stock or otherwise) as may be declared thereon by the Board of Directors at any time and from time to time out of any funds of the Corporation legally available therefor.

(c) In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation and subject to the preferential or other rights (if any) of the holders of shares of the Preferred Stock in respect thereof, the holders of shares of the Common Stock shall be entitled to receive all the remaining assets of the Corporation available for distribution to its stockholders, ratably in proportion to the number of shares of the Common Stock held by them. For purposes of this paragraph (c), a liquidation, dissolution or winding-up of the Corporation shall not be deemed to be occasioned by or to include (i) any consolidation or merger of the Corporation with or into another corporation or other entity or (ii) a sale, lease, exchange or conveyance of all or a part of the assets of the Corporation.

Section 4.04. Stock Options, Warrants, etc. Unless otherwise expressly prohibited in the Preferred Stock Designation creating any series of Preferred Stock, the Corporation shall have authority to create and issue warrants, rights and options entitling the holders thereof to purchase from the Corporation shares of the Corporation's capital stock of any class or series or other securities of the Corporation for such consideration and to such persons, firms or corporations as the Board of Directors, in its sole discretion, may determine, setting aside from the authorized but unissued capital stock of the Corporation the requisite number of shares for issuance upon the exercise of such warrants, rights or options. Such warrants, rights and options shall be evidenced by one or more instruments approved by the Board of Directors. The Board of Directors shall be empowered to set the exercise price, duration, time for exercise and other terms of such warrants, rights or options; provided, however, that the consideration to be received for any shares of capital stock subject thereto shall not be less than the par value thereof.

ARTICLE V

Directors

Section 5.01. Number and Term. The number of directors of the Corporation shall from time to time be fixed exclusively by the Board of Directors in accordance with, and subject to the limitations set forth in, the bylaws of the Corporation (the "Bylaws"); provided, however, that the Board of Directors shall at all times consist of a minimum of three and a maximum of twelve

members, subject, however, to increases above twelve members as may be required in order to permit the holders of any series of Preferred Stock to exercise their right (if any) to elect additional directors under specified circumstances. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Anything in this Certificate of Incorporation or the Bylaws to the contrary notwithstanding, each director shall hold office until his successor is elected and qualified or until his earlier death, resignation or removal.

Section 5.02. Limitation of Personal Liability. (a) No person who is or was a director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL or (iv) for any transaction from which the director derived an improper personal benefit.

(b) If the DGCL is hereafter amended to authorize corporate action further limiting or eliminating the personal liability of directors, then the personal liability of the directors to the Corporation or its stockholders shall be limited or eliminated to the fullest extent permitted by the DGCL, as so amended from time to time.

Section 5.03. Classification. The Board of Directors shall be divided into three classes designated as Class I, Class II and Class III, respectively, all as nearly equal in number as possible, with each director then in office receiving the classification to be determined with respect to such director by the Board of Directors. The initial term of office of Class I directors shall expire at the annual meeting of the Corporation's stockholders in 2001. The initial term of office of Class II directors shall expire at the annual meeting of stockholders in 2002. The initial term of office of Class III directors shall expire at the annual meeting of stockholders in 2003. Each director elected at an annual meeting of stockholders to succeed a director whose term is then expiring shall hold office until the third annual meeting of stockholders after his election or until his successor is elected and qualified or until his earlier death, resignation or removal. Increases and decreases in the number of directors shall be apportioned among the classes of directors so that all classes will be as nearly equal in number as possible. No decrease in the number of directors constituting the Corporation's Board of Directors shall shorten the term of any incumbent director.

Section 5.04. Nomination and Election. (a) Nominations of persons for election or reelection to the Board of Directors may be made by or at the direction of the Board of Directors. The Bylaws may set forth procedures for the nomination of persons for election or reelection to the Board of Directors and only persons who are nominated in accordance with such procedures (if any) shall be eligible for election or reelection as directors of the Corporation; provided, however, that such procedures shall not infringe upon (i) the right of the Board of Directors to nominate persons for election or reelection to the Board of Directors or (ii) the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect additional directors under specified circumstances.

(b) Each director shall be elected in accordance with this Certificate of Incorporation, the Bylaws and applicable law. Election of directors by the Corporation's stockholders need not be by written ballot unless the Bylaws so provide.

Section 5.05. Removal. No director of any class may be removed before the expiration of his term of office except for cause and then only by the affirmative vote of the holders of not less than a majority in voting power of all the outstanding shares of capital stock of the Corporation entitled to vote generally in an election of directors, voting together as a single class. The Board of Directors may not remove any director, and no recommendation by the Board of Directors that a director be removed may be made to the Corporation's stockholders unless such recommendation is set forth in a resolution adopted by the affirmative vote of not less than 66-2/3% of the whole Board of Directors.

Section 5.06. Vacancies. (a) In case any vacancy shall occur on the Board of Directors because of death, resignation or removal, such vacancy may be filled only by a majority (or such higher percentage as may be specified in the Bylaws) of the directors remaining in office (though less than a quorum), or by the sole remaining director. The director so appointed shall serve for the unexpired term of his predecessor or until his successor is elected and qualified or until his earlier death, resignation or removal. If there are no directors then in office, an election of directors may be held in the manner provided by applicable law.

(b) Any newly-created directorship resulting from any increase in the number of directors may be filled only by a majority (or such higher percentage as may be specified in the Bylaws) of the directors then in office (though less than a quorum), or by the sole remaining director. The director so appointed shall be assigned to such class of directors as such majority of directors or the sole remaining director, as the case may be, shall determine; provided, however, that newly-created directorships shall be apportioned among the classes of directors so that all classes will be as nearly equal in number as possible. Each director so appointed shall hold office for the remaining term of the class to which he is assigned or until his successor is elected and qualified or until his earlier death, resignation or removal.

(c) Except as expressly provided in this Certificate of Incorporation or as otherwise provided by applicable law, stockholders of the Corporation shall not have the right to fill vacancies on the Board of Directors, including newly-created directorships.

Section 5.07. Subject to Rights of Holders of Preferred Stock. Notwithstanding the foregoing provisions of this Article V, if the Preferred Stock Designation creating any series of Preferred Stock entitles the holders of such Preferred Stock, voting separately by class or series, to elect additional directors under specified circumstances, then all provisions of such Preferred Stock Designation relating to the nomination, election, term of office, removal, filling of vacancies and other features of such directorships shall, as to such directorships, govern and control over any conflicting provisions of this Article V, and such directors so elected need not be divided into classes pursuant to this Article V unless expressly provided by the provisions of such Preferred Stock Designation.

ARTICLE VI

Amendment of Bylaws

The Board of Directors is expressly authorized and empowered to adopt, alter, amend or repeal the Bylaws. Stockholders of the Corporation shall have the power to alter, amend, expand or repeal the Bylaws but only by the affirmative vote of the holders of not less than 66-2/3% in voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally at an election of directors, voting together as a single class.

ARTICLE VII

Actions and Meetings of Stockholders

Section 7.01. No Action by Written Consent. No action shall be taken by the stockholders of the Corporation except at an annual or special meeting of stockholders. Stockholders of the Corporation may not act by written consent in lieu of a meeting.

Section 7.02. Meetings. (a) Meetings of the stockholders of the Corporation (whether annual or special) may only be called by the Board of Directors or by such officer or officers of the Corporation as the Board of Directors may from time to time authorize to call meetings of the stockholders of the Corporation. Stockholders of the Corporation shall not be entitled to call any meeting of stockholders or to require the Board of Directors or any officer or officers of the Corporation to call a meeting of stockholders except as otherwise expressly provided in the Bylaws or in the Preferred Stock Designation creating any series of Preferred Stock.

(b) Stockholders of the Corporation shall not be entitled to propose business for consideration at any meeting of stockholders except as otherwise expressly provided in the Bylaws or in the Preferred Stock Designation creating any series of Preferred Stock.

(c) Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice or waivers of notice of such meeting. The person presiding at a meeting of stockholders may determine whether business has been properly brought before the meeting and, if the facts so warrant, such person may refuse to transact any business at such meeting which has not been properly brought before such meeting.

Section 7.03. Appoint and Remove Officers, etc. The stockholders of the Corporation shall have no right or power to appoint or remove officers of the Corporation nor to abrogate the power of the Board of Directors to elect and remove officers of the Corporation. The stockholders of the Corporation shall have no power to appoint or remove directors as members of committees of the Board of Directors nor to abrogate the power of the Board of Directors to establish one or more such

committees or the power of any such committee to exercise the powers and authority of the Board of Directors.

Section 7.04. Compromises and Arrangements. Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under Section 279 of Title 8 of the Delaware code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

ARTICLE VIII

Indemnification of Directors and Officers

The Corporation shall indemnify, to the fullest extent permitted by applicable law and pursuant to the Bylaws, each person who is or was a director or officer of the Corporation, and may indemnify each employee and agent of the Corporation and all other persons whom the Corporation is authorized to indemnify under the provisions of the DGCL.

ARTICLE IX

Election to be Governed by Section 203 of the DGCL

The Corporation hereby elects to be governed by Section 203 of the DGCL; provided, however, that the provisions of this Article IX shall not apply to restrict a business combination between the Corporation and an interested stockholder (as defined in Section 203 of the DGCL) of the Corporation if either (i) such business combination was approved by the Board of Directors prior to the time that such stockholder became an interested stockholder or (ii) such stockholder became an interested stockholder as a result of, and at or prior to the effective time of, a transaction which was approved by the Board of Directors prior to the time that such stockholder became an interested stockholder.

ARTICLE X

Amendment of Certificate of Incorporation

The Corporation reserves the right to amend, alter, change or repeal any provisions contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by applicable law, and all rights conferred upon stockholders, directors or any other persons by or pursuant to this Certificate of Incorporation are granted subject to this reservation. Notwithstanding the foregoing or any other provision of this Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, the provisions of this Article X and of Articles V, VI, VII and VIII may not be repealed or amended in any respect, and no provision inconsistent with any such provision or imposing cumulative voting in the election of directors may be added to this Certificate of Incorporation, unless such action is approved by the affirmative vote of the holders of not less than 66-2/3% in voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally at an election of directors, voting together as a single class; provided, however, that any amendment or repeal of Section 5.02 or Article VIII of this Certificate of Incorporation shall not adversely affect any right or protection existing thereunder in respect of any act or omission occurring prior to such amendment or repeal and, provided further, that no Preferred Stock Designation shall be amended after the issuance of any shares of the Series of Preferred Stock created thereby, except in accordance with the terms of such Preferred Stock Designation and the requirements of applicable law.

ARTICLE XI

Voting Requirements Not Exclusive

The voting requirements contained in this Certificate of Incorporation shall be in addition to the voting requirements imposed by law or by the Preferred Stock Designation creating any series of Preferred Stock.

IN WITNESS WHEREOF, this Restated Certificate of Incorporation has been executed for and on behalf and in the name of the Corporation by its officers thereunto duly authorized on _____, 2000.

LEXICON GENETICS INCORPORATED

By:

Arthur T. Sands
President and Chief Executive Officer

Attest:

By:

Jeffrey L. Wade
Assistant Secretary

EXHIBIT 3.2

RESTATED BYLAWS

OF

LEXICON GENETICS INCORPORATED

PREAMBLE

These Bylaws are subject to, and governed by, the General Corporation Law of the State of Delaware ("DGCL") and the Certificate of Incorporation of Lexicon Genetics Incorporated ("the Corporation"), as amended (the "Certificate of Incorporation", such term to include the resolutions of the Board of Directors of the Corporation creating any series of preferred stock, par value $0.01 per share, of the Corporation). In the event of a direct conflict between the provisions of these Bylaws and the mandatory provisions of the DGCL or the provisions of the Certificate of Incorporation, such provisions of the DGCL and the Certificate of Incorporation, as the case may be, will be controlling.

ARTICLE I

Offices and Records

Section 1.1. Registered Office and Agent. The registered office and registered agent of the Corporation shall be as designated from time to time by the appropriate filing by the Corporation in the office of the Secretary of State of the State of Delaware.

Section 1.2. Other Offices. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors of the Corporation (the "Board of Directors") may from time to time determine or the business of the Corporation may require.

Section 1.3. Books and Records. The books and records of the Corporation may be kept at the Corporation's principal office in Houston, Texas or at such other locations outside the State of Delaware as may from time to time be designated by the Board of Directors.

ARTICLE II

Meetings of Stockholders

Section 2.1. Annual Meetings. An annual meeting of the Corporation's stockholders (the "Stockholders") shall be held each calendar year for the purposes of (i) electing directors as provided in Article III and (ii) transacting such other business as may properly be brought before the meeting. Each annual meeting shall be held on such date (no later than 13 months after the date of the last

annual meeting of Stockholders) and at such time as shall be designated by the Board of Directors and stated in the notice or waivers of notice of such meeting.

Section 2.2. Special Meetings. Special meetings of the Stockholders, for any purpose or purposes, may be called at any time by the Chairman of the Board (if any) or the Chief Executive Officer and shall be called by the Secretary at the written request, or by resolution adopted by the affirmative vote, of a majority of the total number of directors which the Corporation would have if there were no vacancies (the "Whole Board"), which request or resolution shall fix the date, time and place, and state the purpose or purposes, of the proposed meeting. Except as provided by applicable law, these Bylaws or the Certificate of Incorporation, Stockholders shall not be entitled to call a special meeting of Stockholders or to require the Board of Directors or any officer to call such a meeting or to propose business at such a meeting. Business transacted at any special meeting of Stockholders shall be limited to the purposes stated in the notice or waivers of notice of such meeting.

Section 2.3. Place of Meetings. The Board of Directors may designate the place of meeting (either within or without the State of Delaware) for any meeting of Stockholders. If no designation is made by the Board of Directors, the place of meeting shall be held at the principal executive office of the Corporation.

Section 2.4. Notice of Meetings. (a) Written notice of each meeting of Stockholders shall be delivered to each Stockholder of record entitled to vote thereat, which notice shall (i) state the place, date and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called and (ii) be given not less than 10 nor more than 60 days before the date of the meeting.

(b) Each notice of a meeting of Stockholders shall be given as provided in Section 9.1, except that if no address appears on the Corporation's books or stock transfer records with respect to any Stockholder, notice to such Stockholder shall be deemed to have been given if sent by first-class mail or telecommunication to the Corporation's principal executive office or if published at least once in a newspaper of general circulation in the county where such principal executive office is located.

(c) If any notice addressed to a Stockholder at the address of such Stockholder appearing on the books of the Corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the Stockholder at such address, all further notices to such Stockholder at such address shall be deemed to have been duly given without further mailing if the same shall be available to such Stockholder upon written demand of such Stockholder at the principal executive office of the Corporation for a period of one year from the date of the giving of such notice.

(d) Any previously scheduled meeting of the Stockholders may be postponed by resolution of the Board of Directors upon public notice given prior to the time previously scheduled for such meeting.

Section 2.5. Voting List. At least 10 days before each meeting of Stockholders, the Secretary or other officer or agent of the Corporation who has charge of the Corporation's stock ledger shall prepare a complete list of the Stockholders entitled to vote at such meeting, arranged in alphabetical order and showing, with respect to each Stockholder, his address and the number of shares registered in his name. Such list shall be open to the examination of any Stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice or waivers of notice of the meeting or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept open at the time and place of the meeting during the whole time thereof, and may be inspected by any Stockholder who is present. The stock ledger of the Corporation shall be the only evidence as to who are the Stockholders entitled to examine any list required by this Section 2.5 or to vote at any meeting of Stockholders.

Section 2.6. Quorum and Adjournment. The holders of a majority of the voting power of the outstanding shares of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"), present in person or by proxy, shall constitute a quorum at any meeting of Stockholders, except as otherwise provided by applicable law, the Certificate of Incorporation or these Bylaws. If a quorum is present at any meeting of Stockholders, such quorum shall not be broken by the withdrawal of enough Stockholders to leave less than a quorum and the remaining Stockholders may continue to transact business until adjournment. If a quorum shall not be present at any meeting of Stockholders, the holders of a majority of the voting stock represented at such meeting or, if no Stockholder entitled to vote is present at such meeting, any officer of the Corporation may adjourn such meeting from time to time until a quorum shall be present. Notwithstanding anything in these Bylaws to the contrary, the chairman of any meeting of Stockholders shall have the right, acting in his sole discretion, to adjourn such meeting from time to time.

Section 2.7. Adjourned Meetings. When a meeting of Stockholders is adjourned to another time or place, unless otherwise provided by these Bylaws, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken; provided, however, if an adjournment is for more than 30 days or if after an adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Stockholder entitled to vote thereat. At any adjourned meeting at which a quorum shall be present in person or by proxy, the Stockholders entitled to vote thereat may transact any business which might have been transacted at the meeting as originally noticed.

Section 2.8. Voting. (a) Election of directors at all meetings of Stockholders at which directors are to be elected shall be by written ballot and, except as otherwise provided in the Certificate of Incorporation, a plurality of the votes cast thereat shall elect. Except as otherwise provided by applicable law, the Certificate of Incorporation or these Bylaws, all matters other than the election of directors submitted to the Stockholders at any meeting shall be decided by a majority of the votes cast with respect to such matter. Except as otherwise provided in the Certificate of Incorporation or by applicable law, (i) no Stockholder shall have any right of cumulative voting and

(ii) each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of Stockholders.

(b) Shares standing in the name of another corporation (whether domestic or foreign) may be voted by such officer, agent or proxy as the bylaws of such corporation may prescribe or, in the absence of such provision, as the board of directors of such corporation may determine. Shares standing in the name of a deceased person may be voted by the executor or administrator of such deceased person, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no fiduciary shall be entitled to vote shares held in such fiduciary capacity without a transfer of such shares into the name of such fiduciary. Shares standing in the name of a receiver may be voted by such receiver. A Stockholder whose shares are pledged shall be entitled to vote such shares, unless in the transfer by the pledgor on the books of the Corporation he has expressly empowered the pledgee to vote thereon, in which case only the pledgee (or his proxy) may represent the stock and vote thereon.

(c) If shares or other securities having voting power stand of record in the name of two or more persons (whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise) or if two or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect:

(i) if only one votes, his act binds all;

(ii) if more than one votes, the act of the majority so voting binds all; and

(iii) if more than one votes but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionately or any person voting the shares, or a beneficiary, (if any) may apply to the Delaware Court of Chancery or such other court as may have jurisdiction to appoint an additional person to act with the person so voting the shares, which shall then be voted as determined by a majority such persons and the person so appointed by the court.

If the instrument so filed shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of the paragraph (c) shall be a majority or even-split in interest.

Section 2.9. Proxies. (a) At any meeting of Stockholders, each Stockholder having the right to vote thereat may be represented and vote either in person or by proxy executed in writing by such Stockholder or by his duly authorized attorney-in-fact. Each such proxy shall be filed with the Secretary of the Corporation at or before the beginning of each meeting at which such proxy is to be voted. Unless otherwise provided therein, no proxy shall be valid after three years from the date of its execution. Each proxy shall be revocable unless expressly provided therein to be irrevocable and coupled with an interest sufficient in law to support an irrevocable power or unless otherwise made irrevocable by applicable law.

(b) A proxy shall be deemed signed if the Stockholder's name is placed on the proxy (whether by manual signature, telegraphic transmission or otherwise) by the Stockholder or his attorney-in-fact. In the event any proxy shall designate two or more persons to act as proxies, a majority of such persons present at the meeting (or, if only one shall be present, then that one) shall have and may exercise all the powers conferred by the proxy upon all the persons so designated unless the proxy shall otherwise provide.

(c) Except as otherwise provided by applicable law, by the Certificate of Incorporation or by these Bylaws, the Board of Directors may, in advance of any meeting of Stockholders, prescribe additional regulations concerning the manner of execution and filing of proxies (and the validation of same) which may be voted at such meeting.

Section 2.10. Record Date. For the purpose of determining the Stockholders entitled to notice of or to vote at any meeting of Stockholders (or any adjournment thereof) or to receive payment of any dividend or other distribution or allotment of any rights or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted by the Board of Directors or be more than 60 nor less than 10 days prior to the date of such meeting nor more than 60 days prior to any other action. If no record date is fixed, (i) the record date for determining Stockholders entitled to notice of or to vote at a meeting of Stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held and (ii) the record date for determining Stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of Stockholders of record entitled to notice of or to vote at a meeting of Stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 2.11. Conduct of Meetings; Agenda. (a) Meetings of the Stockholders shall be presided over by the officer of the Corporation whose duties under these Bylaws require him to do so; provided, however, if no such officer of the Corporation shall be present at any meeting of Stockholders, such meeting shall be presided over by a chairman to be chosen by a majority of the Stockholders entitled to vote at the meeting who are present in person or by proxy. At each meeting of Stockholders, the officer of the Corporation whose duties under these Bylaws require him to do so shall act as secretary of the meeting; provided, however, if no such officer of the Corporation shall be present at any meeting of Stockholders, the chairman of such meeting shall appoint a secretary. The order of business at each meeting of Stockholders shall be as determined by the chairman of the meeting, including such regulation of the manner of voting and the conduct of discussion as seems to him in order.

(b) The Board of Directors may, in advance of any meeting of Stockholders, adopt an agenda for such meeting, adherence to which the chairman of the meeting may enforce.

Section 2.12. Inspectors of Election; Opening and Closing of Polls. (a) Before any meeting of Stockholders, the Board of Directors may, and if required by law shall, appoint one or more persons to act as inspectors of election at such meeting or any adjournment thereof. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and if required by law or requested by any Stockholder entitled to vote or his proxy shall, appoint a substitute inspector. If no inspectors are appointed by the Board of Directors, the chairman of the meeting may, and if required by law or requested by any Stockholder entitled to vote or his proxy shall, appoint one or more inspectors at the meeting. Notwithstanding the foregoing, inspectors shall be appointed consistent with the mandatory provisions of Section 231 of the DGCL.

(b) Inspectors may include individuals who serve the Corporation in other capacities (including as officers, employees, agents or representatives); provided, however, that no director or candidate for the office of director shall act as an inspector. Inspectors need not be Stockholders.

(c) The inspectors shall (i) determine the number of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum and the validity and effect of proxies and (ii) receive votes or ballots, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes and ballots, determine the results and do such acts as are proper to conduct the election or vote with fairness to all Stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. The inspectors shall have such other duties as may be prescribed by Section 231 of the DGCL.

(d) The chairman of the meeting may, and if required by the DGCL shall, fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the Stockholders will vote at the meeting.

Section 2.13. Procedures for Bringing Business before Annual Meetings. (a) Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an annual meeting of Stockholders except in accordance with the procedures hereinafter set forth in this Section 2.13; provided, however, that nothing in this Section 2.13 shall be deemed to preclude discussion by any Stockholder of any business properly brought before any annual meeting of Stockholders in accordance with such procedures.

(b) At any annual meeting of Stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (iii) properly brought before the meeting by a Stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a Stockholder, the Stockholder must have given timely notice thereof in writing to the Secretary. To be timely, a Stockholder's notice must be delivered to or mailed and received at the principal executive office of the Corporation not less than 120 days nor more than

150 days in advance of the first anniversary of the date of the Corporation's proxy statement released to Stockholders in connection with the previous year's annual meeting of Stockholders; provided, however, that if no annual meeting was held in the previous year or the date of the annual meeting of Stockholders has been changed by more than 30 calendar days from the date contemplated at the time of the previous year's proxy statement, the notice must be received by the Corporation at least 80 days prior to the date the Corporation intends to distribute its proxy statement with respect to such meeting. Any meeting of Stockholders which is adjourned and will reconvene within 30 days after the meeting date as originally noticed shall, for purposes of any Stockholder's notice contemplated by this paragraph (b), be deemed to be a continuation of the original meeting, and no business may be brought before such adjourned meeting by any Stockholder unless timely notice of such business was given to the Secretary of the Corporation for the meeting as originally noticed.

(c) Each notice given by a Stockholder as contemplated by paragraph (b) above shall set forth, as to each matter the Stockholder proposes to bring before the annual meeting, (i) the nature of the proposed business with reasonable particularity, including the exact text of any proposal to be presented for adoption and any supporting statement, which proposal and supporting statement shall not in the aggregate exceed 500 words, and his reasons for conducting such business at the annual meeting, (ii) any material interest of the Stockholder in such business, (iii) the name, principal occupation and record address of the Stockholder, (iv) the class and number of shares of the Corporation which are held of record or beneficially owned by the Stockholder, (v) the dates upon which the Stockholder acquired such shares of stock and documentary support for any claims of beneficial ownership and (vi) such other matters as may be required by the Certificate of Incorporation.

(d) The foregoing right of a Stockholder to propose business for consideration at an annual meeting of Stockholders shall be subject to such conditions, restrictions and limitations as may be imposed by the Certificate of Incorporation. Nothing in this Section 2.13 shall entitle any Stockholder to propose business for consideration at any special meeting of Stockholders.

(e) The chairman of any meeting of Stockholders shall determine whether business has been properly brought before the meeting and, if the facts so warrant, may refuse to transact any business at such meeting which has not been properly brought before the meeting.

(f) Notwithstanding any other provision of these Bylaws, the Corporation shall be under no obligation to include any Stockholder proposal in its proxy statement or otherwise present any such proposal to Stockholders at a meeting of Stockholders if the Board of Directors reasonably believes that the proponents thereof have not complied with Sections 13 and 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder, and the Corporation shall not be required to include in its proxy statement to Stockholders any Stockholder proposal not required to be included in its proxy statement to Stockholders in accordance with the Exchange Act and such rules or regulations.

(g) Nothing in this Section 2.13 shall be deemed to affect any rights of Stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 of the Exchange Act.

(h) Reference is made to Section 3.4 for procedures relating to the nomination of any person for election or reelection as a director of the Corporation.

Section 2.14. Action without Meeting. No action shall be taken by Stockholders except at a meeting of Stockholders. Stockholders may not act by written consent in lieu of a meeting.

ARTICLE III

Board of Directors -- Powers, Number, Classification, Nominations, Resignations, Removal, Vacancies and Compensation

Section 3.1. Management. The business and property of the Corporation shall be managed by and under the direction of the Board of Directors. In addition to the powers and authorities expressly conferred upon the Board of Directors by these Bylaws, the Board of Directors may exercise all the powers of the Corporation and do all such lawful acts and things as are not by law, by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the Stockholders.

Section 3.2. Number and Qualification. The number of directors shall be fixed from time to time exclusively pursuant to resolution adopted by a majority of the Whole Board, but shall consist of not less than three nor more than 12 directors, subject, however, to increases above 12 members as may be required in order to permit the holders of any series of preferred stock of the Corporation to elect directors under specified circumstances. The directors need not be Stockholders or residents of the State of Delaware. Each director must have attained 21 years of age.

Section 3.3 Classes of Directors. The Board of Directors shall be divided into three classes designated as Class I, Class II and Class III, respectively, all as nearly equal in number as possible, with each director then in office receiving the classification to be determined with respect to such director by the Board of Directors.

Section 3.4. Election; Term of Office. (a) The initial term of office of Class I directors shall expire at the annual meeting of the Corporation's stockholders in 2001. The initial term of office of Class II directors shall expire at the annual meeting of stockholders in 2002. The initial term of office of Class III directors shall expire at the annual meeting of stockholders in 2003. Subject to Sections 3.9 and 3.10, each director elected at an annual meeting of stockholders to succeed a director whose term is expiring shall hold office until the third annual meeting of stockholders after his election or until his successor is elected and qualified or until his earlier death, resignation or removal.

(b) Directors shall be elected by Stockholders only at annual meetings of Stockholders, except that if any such annual meeting is not held or if any director to be elected thereat is not elected, such director may be elected at any special meeting of Stockholders held for that purpose.

(c) No decrease in the number of directors constituting the Whole Board shall have the effect of shortening the term of any incumbent director.

Section 3.5. Allocation of Directors Among Classes in the Event of Increases or Decreases in the Number of Directors. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which he is a member and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors so as to ensure that no one class has more than one director more than any other class. To the extent possible, consistent with the foregoing rule, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of office are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution adopted by the Board of Directors.

Section 3.6. Nominations. (a) Notwithstanding anything in these Bylaws to the contrary, only persons who are nominated in accordance with the procedures hereinafter set forth in this Section 3.6 shall be eligible for election as directors of the Corporation.

(b) Nominations of persons for election to the Board of Directors at a meeting of Stockholders may be made only (i) by or at the direction of the Board of Directors or (ii) by any Stockholder entitled to vote for the election of directors at the meeting who satisfies the eligibility requirements (if any) set forth in the Certificate of Incorporation and who complies with the notice procedures set forth in this Section 3.6 and in the Certificate of Incorporation; provided, however, Stockholders may not nominate persons for election to the Board of Directors at any special meeting of Stockholders unless the business to be transacted at such special meeting, as set forth in the notice of such meeting, includes the election of directors. Nominations by Stockholders shall be made pursuant to timely notice in writing to the Secretary. To be timely, a Stockholder's notice given in the context of an annual meeting of Stockholders shall be delivered to or mailed and received at the principal executive office of the Corporation not less than 120 days nor more than 150 days in advance of the first anniversary of the date of the Corporation's proxy statement released to Stockholders in connection with the previous year's annual meeting of Stockholders; provided, however, that if no annual meeting was held in the previous year or the date of the annual meeting of Stockholders has been changed by more than 30 calendar days from the date contemplated at the time of the previous year's proxy statement, the notice must be received by the Corporation at least 80 days prior to the date the Corporation intends to distribute its proxy statement with respect to such meeting. To be timely, a Stockholder's notice given in the context of a special meeting of Stockholders shall be delivered to or mailed and received at the principal executive office of the Corporation not earlier than the ninetieth day prior to such special meeting and not later than the close of business on the later of the seventieth day prior to such special meeting or the tenth day

following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such special meeting. For purposes of the foregoing, "public announcement" means the disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act. Any meeting of Stockholders which is adjourned and will reconvene within 30 days after the meeting date as originally noticed shall, for purposes of any notice contemplated by this paragraph (b), be deemed to be a continuation of the original meeting and no nominations by a Stockholder of persons to be elected directors of the Corporation may be made at any such reconvened meeting other than pursuant to a notice that was timely for the meeting on the date originally noticed.

(c) Each notice given by a Stockholder as contemplated by paragraph (b) above shall set forth the following information, in addition to any other information or matters required by the Certificate of Incorporation:

(i) as to each person whom the Stockholder proposes to nominate for election or re-election as a director, (A) the exact name of such person, (B) such person's age, principal occupation, business address and telephone number and residence address and telephone number, (C) the number of shares (if any) of each class of stock of the Corporation owned directly or indirectly by such person and (D) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act or any successor regulation thereto (including such person's notarized written acceptance of such nomination, consent to being named in the proxy statement as a nominee and statement of intention to serve as a director if elected);

(ii) as to the Stockholder giving the notice, (A) his name and address, as they appear on the Corporation's books, (B) his principal occupation, business address and telephone number and residence address and telephone number, (C) the class and number of shares of the Corporation which are held of record or beneficially owned by him and (D) the dates upon which he acquired such shares of stock and documentary support for any claims of beneficial ownership; and

(iii) a description of all arrangements or understandings between the Stockholder giving the notice and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such Stockholder.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a Stockholder's notice of nomination which pertains to the nominee.

(d) The foregoing right of a Stockholder to nominate a person for election or reelection to the Board of Directors shall be subject to such conditions, restrictions and limitations as may be imposed by the Certificate of Incorporation.

(e) Nothing in this Section 3.6 shall be deemed to affect any rights of Stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 of the Exchange Act.

(f) The chairman of a meeting of Stockholders shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in this Section 3.6 and, if any nomination is not in compliance with this Section 3.6, to declare that such defective nomination shall be disregarded.

Section 3.7. Resignations. Any director may resign at any time by giving written notice to the Board of Directors or the Secretary. Such resignation shall take effect at the date of receipt of such notice or at any later time specified therein. Acceptance of such resignation shall not be necessary to make it effective. When one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified.

Section 3.8. Removal. No director may be removed before the expiration of his term of office except for cause and then only by the affirmative vote of the holders of not less than a majority of the voting power of all outstanding Voting Stock, voting together as a single class. The Board of Directors may not remove any director, and no recommendation by the Board of Directors that a director be removed may be made to the Stockholders unless such recommendation is set forth in a resolution adopted by the affirmative vote of not less than 66-2/3% of the Whole Board.

Section 3.9. Vacancies. (a) In case any vacancy shall occur on the Board of Directors because of death, resignation or removal, such vacancy may be filled by a majority of the directors remaining in office (though less than a quorum) or by the sole remaining director. The director so appointed shall serve for the unexpired term of his predecessor or until his successor is elected and qualified or until his earlier death, resignation or removal. If there are no directors then in office, an election of directors may be held in the manner provided by applicable law.

(b) Any newly-created directorship resulting from any increase in the number of directors constituting the Whole Board may be filled by a majority of the directors then in office (though less than a quorum), or by the sole remaining director. The director so appointed shall be assigned to such class of directors as such majority of directors, or the sole remaining director, as the case may be, shall determine; provided however, that newly-created directorships shall be apportioned among the classes of directors so that all classes will be as nearly equal in number as possible. Each director

so appointed shall hold office until his successor is elected and qualified or until his earlier death, resignation or removal.

(c) Except as expressly provided in these Bylaws or the Certificate of Incorporation or as otherwise provided by law, Stockholders shall not have any right to fill vacancies on the Board of Directors, including newly-created directorships.

(d) If, as a result of a disaster or emergency (as determined in good faith by the then remaining directors), it becomes impossible to ascertain whether or not vacancies exist on the Board of Directors and a person is or persons are elected by the directors, who in good faith believe themselves to be a majority of the remaining directors, or the sole remaining director, to fill a vacancy or vacancies that such remaining directors in good faith believe exists, then the acts of such person or persons who are so elected as directors shall be valid and binding upon the Corporation and the Stockholders, although it may subsequently develop that at the time of the election (i) there was in fact no vacancy or vacancies existing on the Board of Directors or (ii) the directors, or the sole remaining director, who so elected such person or persons did not in fact constitute a majority of the remaining directors.

Section 3.10. Subject to Rights of Holders of Preferred Stock. Notwithstanding the foregoing provisions of this Article III, if the resolutions of the Board of Directors creating any series of preferred stock of the Corporation entitle the holders of such preferred stock, voting separately by series, to elect additional directors under specified circumstances, then all provisions of such resolutions relating to the nomination, election, term of office, removal, filling of vacancies and other features of such directorships shall, as to such directorships, govern and control over any conflicting provisions of this Article III.

Section 3.11. Compensation. The Board of Directors shall have the authority to fix, and from time to time to change, the compensation of directors. Each director shall be entitled to reimbursement from the Corporation for his reasonable expenses incurred in attending meetings of the Board of Directors (or any committee thereof) and meetings of the Stockholders. Nothing contained in these Bylaws shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

Board of Directors -- Meetings and Actions

Section 4.1. Place of Meetings. The directors may hold their meetings and have one or more offices, and keep the books of the Corporation, in such place or places, within or without the State of Delaware, as the Board of Directors may from time to time determine.

Section 4.2. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place, within or without the State of Delaware, as shall from time

to time be determined by the Board of Directors. Except as otherwise provided by applicable law, any business may be transacted at any regular meeting of the Board of Directors.

Section 4.3. Special Meetings. Special meetings of the Board of Directors shall be called by the Secretary at the request of the Chairman of the Board (if any) or the Chief Executive Officer on not less than 24 hours' notice to each director, specifying the time, place and purpose of the meeting. Special meetings shall be called by the Secretary on like notice at the written request of any two directors, which request shall state the purpose of the meeting.

Section 4.4. Quorum; Voting. (a) At all meetings of the Board of Directors, a majority of the Whole Board shall be necessary and sufficient to constitute a quorum for the transaction of business. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time (without notice other than announcement at the meeting) until a quorum shall be present. A meeting of the Board of Directors at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors; provided, however, that no action of the remaining directors shall constitute the act of the Board of Directors unless the action is approved by at least a majority of the required quorum for the meeting or such greater number of directors as shall be required by applicable law, by the Certificate of Incorporation or by these Bylaws.

(b) The act of a majority of the directors present at any meeting of the Board of Directors at which there is a quorum shall be the act of the Board of Directors unless by express provision of law, the Certificate of Incorporation or these Bylaws a different vote is required, in which case such express provision shall govern and control.

Section 4.5. Conduct of Meetings. At meetings of the Board of Directors, business shall be transacted in such order as shall be determined by the chairman of the meeting unless the Board of Directors shall otherwise determine the order of business. The Board of Directors shall keep regular minutes of its proceedings which shall be placed in the minute book of the Corporation.

Section 4.6. Presumption of Assent. A director who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to such action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward any dissent by certified or registered mail to the Secretary immediately after the adjournment of the meeting. Such right to dissent shall not apply to any director who voted in favor of such action.

Section 4.7. Action without Meeting. Unless otherwise provided in the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all directors consent thereto in writing. All such written consents shall be filed with the minutes of proceedings of the Board of Directors.

Section 4.8. Telephonic Meetings. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

ARTICLE V

Committees of the Board of Directors

Section 5.1. Executive Committee. (a) The Board of Directors may, by resolution adopted by the affirmative vote of a majority of the Whole Board, designate an Executive Committee which, during the intervals between meetings of the Board of Directors and subject to Section 5.11, shall have and may exercise, in such manner as it shall deem to be in the best interests of the Corporation, all of the powers of the Board of Directors in the management or direction of the business and affairs of the Corporation, except as reserved to the Board of Directors or as delegated by the Board of Directors to another committee of the Board of Directors or as may be prohibited by law. The Executive Committee shall consist of not less than two directors, the exact number to be determined from time to time by the affirmative vote of a majority of the Whole Board. None of the members of the Executive Committee need be an officer of the Corporation.

(b) Meetings of the Executive Committee may be called at any time by the Chairman of the Board (if any) or the Chief Executive Officer on not less than one day's notice to each member given verbally or in writing, which notice shall specify the time, place and purpose of the meeting.

Section 5.2. Other Committees. The Board of Directors may, by resolution adopted by a majority of the Whole Board, establish additional standing or special committees of the Board of Directors, each of which shall consist of two or more directors (the exact number to be determined from time to time by the Board of Directors) and, subject to Section 5.11, shall have such powers and functions as may be delegated to it by the Board of Directors. No member of any such additional committee need be an officer of the Corporation.

Section 5.3. Term. Each member of a committee of the Board of Directors shall serve as such until the earliest of (i) his death, (ii) the expiration of his term as a director, (iii) his resignation as a member of such committee or as a director and (iv) his removal as a member of such committee or as a director.

Section 5.4. Committee Changes; Removal. The Board of Directors shall have the power at any time to fill vacancies in, to change the membership of and to abolish any committee of the Board of Directors; provided, however, that no such action shall be taken in respect of the Executive Committee unless approved by a majority of the Whole Board.

Section 5.5. Alternate Members. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. If no alternate members have been so appointed or each such alternate committee member is absent or disqualified, the committee member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member.

Section 5.6. Rules and Procedures. (a) The Board of Directors may designate one member of each committee as chairman of such committee; provided, however, that, except as provided in the following sentence, no person shall be designated as chairman of the Executive Committee unless approved by a majority of the Whole Board. If a chairman is not so designated for any committee, the members thereof shall designate a chairman.

(b) Each committee shall adopt its own rules (not inconsistent with these Bylaws or with any specific direction as to the conduct of its affairs as shall have been given by the Board of Directors) governing the time, place and method of holding its meetings and the conduct of its proceedings and shall meet as provided by such rules.

(c) If a committee is comprised of an odd number of members, a quorum shall consist of a majority of that number. If a committee is comprised of an even number of members, a quorum shall consist of one-half of that number. If a committee is comprised of two members, a quorum shall consist of both members. If a quorum is not present at a meeting of any committee, a majority of the members present may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present. The act of a majority of the members present at any meeting at which a quorum is in attendance shall be the act of a committee, unless the act of a greater number is required by law, the Certificate of Incorporation, these Bylaws or the committee's rules as adopted in Section 5.6(b).

(d) Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when requested.

(e) Unless otherwise provided by these Bylaws or by the rules adopted by any committee, notice of the time and place of each meeting of such committee shall be given to each member of such committee as provided in these Bylaws with respect to notices of special meetings of the Board of Directors.

Section 5.7. Presumption of Assent. A member of a committee of the Board of Directors who is present at a meeting of such committee at which action on any corporate matter is taken shall be presumed to have assented to such action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward any dissent by certified or registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to any member who voted in favor of such action.

Section 5.8. Action without Meeting. Unless otherwise provided in the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting if all members of such committee consent thereto in writing. All such written consents shall be filed with the minutes of proceedings of such committee.

Section 5.9. Telephonic Meetings. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of any committee of the Board of Directors may participate in a meeting of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

Section 5.10. Resignations. Any committee member may resign at any time by giving written notice to the Board of Directors or the Secretary. Such resignation shall take effect at the date of receipt of such notice or at any later time specified therein. Acceptance of such resignation shall not be necessary to make it effective.

Section 5.11. Limitations on Authority. Unless otherwise provided in the Certificate of Incorporation, no committee of the Board of Directors shall have the power or authority to (i) authorize an amendment to the Certificate of Incorporation, (ii) adopt an agreement of merger or consolidation, recommend to the Stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, (iii) recommend to the Stockholders a dissolution of the Corporation or a revocation of a dissolution, (iv) amend these Bylaws, (v) declare a dividend or other distribution on, or authorize the issuance, purchase or redemption of, securities of the Corporation, (vi) elect any officer of the Corporation or (vii) approve any material transaction between the Corporation and one or more of its directors, officers or employees or between the Corporation and any corporation, partnership, association or other organization in which one or more of its directors, officers or employees are directors or officers or have a financial interest; provided, however, that the Executive Committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of preferred stock adopted by the Board of Directors as provided in the Certificate of Incorporation, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the decrease or increase of the shares of any such series.

ARTICLE VI

Officers

Section 6.1. Number; Titles; Qualification; Term of Office. (a) The officers of the Corporation shall be a Chief Executive Officer, a President, a Secretary and a Treasurer. The Board of Directors from time to time may also elect such other officers (including, without limitation, a Chairman of the Board and one or more Vice Presidents) as the Board of Directors deems appropriate or necessary. Each officer shall hold office until his successor shall have been duly elected and shall have been qualified or until his earlier death, resignation or removal. Any two or more offices may be held by the same person, but no officer shall execute any instrument in more than one capacity if such instrument is required by law or any act of the Corporation to be executed or countersigned by two or more officers. None of the officers need be a Stockholder or a resident of the State of Delaware. No officer (other than the Chairman of the Board, if any) need be a director.

(b) The Board of Directors may delegate to the Chairman of the Board (if any) and/or the Chief Executive Officer the power to appoint one or more employees of the Corporation as divisional or departmental vice presidents and fix their duties as such appointees. However, no such divisional or departmental vice presidents shall be considered an officer of the Corporation, the officers of the Corporation being limited to those officers elected by the Board of Directors.

Section 6.2. Election. At the first meeting of the Board of Directors after each annual meeting of Stockholders at which a quorum shall be present, the Board of Directors shall elect the officers of the Corporation.

Section 6.3. Removal. Any officer may be removed, either with or without cause, by the Board of Directors; provided, however, that (i) the Chairman of the Board (if any) and the Chief Executive Officer may be removed only by the affirmative vote of a majority of the Whole Board and (ii) the removal of any officer shall be without prejudice to the contract rights, if any, of such officer. Election or appointment of an officer shall not of itself create contract rights.

Section 6.4. Resignations. Any officer may resign at any time by giving written notice to the Board of Directors, the Chairman of the Board (if any) or the Chief Executive Officer. Any such resignation shall take effect on receipt of such notice or at any later time specified therein. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any such resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 6.5. Vacancies. If a vacancy shall occur in any office because of death, resignation, removal, disqualification or any other cause, the Board of Directors may elect or appoint a successor to fill such vacancy for the remainder of the term.

Section 6.6. Salaries. The salaries of all officers of the Corporation shall be fixed by the Board of Directors or pursuant to its direction, and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

Section 6.7. Chairman of the Board. The Chairman of the Board (if any) shall have all powers and shall perform all duties incident to the office of Chairman of the Board and such other powers and duties as may be prescribed by the Board of Directors or these Bylaws. The Chairman of the Board, if present, shall preside at all meetings of the Board of Directors and of the Stockholders. During the time of any vacancy in the office of Chief Executive Officer or in the event of the absence or disability of the Chief Executive Officer, the Chairman of the Board shall have the duties and powers of the Chief Executive Officer unless otherwise determined by the Board of Directors. In no event shall any third party having dealings with the Corporation be bound to inquire as to any facts required by the terms of this Section 6.7 for the exercise by the Chairman of the Board of the powers of the Chief Executive Officer.

Section 6.8. Chief Executive Officer. (a) The Chief Executive Officer shall be the chief executive officer of the Corporation and, subject to the supervision, direction and control of the Board of Directors, shall have general supervision, direction and control of the business and officers of the Corporation with all such powers as may be reasonably incident to such responsibilities. He shall have the general powers and duties of management usually vested in the chief executive officer of a corporation.

(b) During the time of any vacancy in the office of the Chairman of the Board or in the event of the absence or disability of the Chairman of the Board, the Chief Executive Officer shall have the duties and powers of the Chairman of the Board unless otherwise determined by the Board of Directors. During the time of any vacancy in the office of President or in the event of the absence or disability of the President, the Chief Executive Officer shall have the duties and powers of the President unless otherwise determined by the Board of Directors. In no event shall any third party having any dealings with the Corporation be bound to inquire as to any facts required by the terms of this Section 6.8 for the exercise by the Chief Executive Officer of the powers of the Chairman of the Board or the President.

Section 6.9. President. (a) The President shall be the chief operating officer of the Corporation and, subject to the supervision, direction and control of the Chief Executive Officer and the Board of Directors, shall manage the day-to-day operations of the Corporation. He shall have the general powers and duties of management usually vested in the chief operating officer of a corporation and such other powers and duties as may be assigned to him by the Board of Directors, the Chief Executive Officer or these Bylaws.

(b) During the time of any vacancy in the offices of the Chairman of the Board and Chief Executive Officer or in the event of the absence or disability of the Chairman of the Board and the Chief Executive Officer, the President shall have the duties and powers of the Chief Executive Officer unless otherwise determined by the Board of Directors. In no event shall any third party

having any dealings with the Corporation be bound to inquire as to any facts required by the terms of this Section 6.9 for the exercise by the President of the powers the Chief Executive Officer.

Section 6.10. Vice Presidents. In the absence or disability of the President, the Vice Presidents, if any, in order of their rank as fixed by the Board of Directors, or if not ranked, the Vice President designated by the President, shall perform all the duties of the President as chief operating officer of the Corporation, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President as chief operating officer of the Corporation. In no event shall any third party having dealings with the Corporation be bound to inquire as to any facts required by the terms of this Section 6.10 for the exercise by any Vice President of the powers of the President as chief operating officer of the Corporation. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer or the President.

Section 6.11. Treasurer. The Treasurer shall (i) have custody of the Corporation's funds and securities, (ii) keep full and accurate account of receipts and disbursements, (iii) deposit all monies and valuable effects in the name and to the credit of the Corporation in such depository or depositories as may be designated by the Board of Directors and (iv) perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer.

Section 6.12. Assistant Treasurers. Each Assistant Treasurer shall have such powers and duties as may be assigned to him by the Board of Directors, the Chief Executive Officer or the President. In case of the absence or disability of the Treasurer, the Assistant Treasurer designated by the President (or, in the absence of such designation, the Treasurer) shall perform the duties and exercise the powers of the Treasurer during the period of such absence or disability. In no event shall any third party having dealings with the Corporation be bound to inquire as to any facts required by the terms of this Section 6.12 for the exercise by any Assistant Treasurer of the powers of the Treasurer under these Bylaws.

Section 6.13. Secretary. (a) The Secretary shall keep or cause to be kept, at the principal office of the Corporation or such other place as the Board of Directors may order, a book of minutes of all meetings and actions of the Board of Directors, committees of the Board of Directors and Stockholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice thereof given, the names of those present at meetings of the Board of Directors and committees thereof, the number of shares present or represented at Stockholders' meetings and the proceedings thereof.

(b) The Secretary shall keep, or cause to be kept, at the principal office of the Corporation or at the office of the Corporation's transfer agent or registrar, a share register, or a duplicate share register, showing the names of all Stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same and the number and date of cancellation of every certificate surrendered for cancellation.

(c) The Secretary shall give, or cause to be given, notice of all meetings of the Stockholders and of the Board of Directors required by these Bylaws or by law to be given, and he shall keep the seal of the Corporation, if one be adopted, in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors, the Chairman of the Board (if any), the Chief Executive Officer, the President or these Bylaws.

(d) The Secretary may affix the seal of the Corporation, if one be adopted, to contracts of the Corporation.

Section 6.14. Assistant Secretaries. Each Assistant Secretary shall have such powers and duties as may be assigned to him by the Board of Directors, the Chairman of the Board (if any), the Chief Executive Officer or the President. In case of the absence or disability of the Secretary, the Assistant Secretary designated by the President (or, in the absence of such designation, the Secretary) shall perform the duties and exercise the powers of the Secretary during the period of such absence or disability. In no event shall any third party having dealings with the Corporation be bound to inquire as to any facts required by the terms of this Section 6.14 for the exercise by any Assistant Secretary of the powers of the Secretary under these Bylaws.

ARTICLE VII

Stock

Section 7.1. Certificates. Certificates for shares of stock of the Corporation shall be in such form as shall be approved by the Board of Directors. The certificates shall be signed (i) by the Chairman of the Board (if any), the President or a Vice President and (ii) by the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer.

Section 7.2. Signatures on Certificates. Any or all of the signatures on the certificates may be a facsimile and the seal of the Corporation (or a facsimile thereof), if one has been adopted, may be affixed thereto. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 7.3. Legends. The Board of Directors shall have the power and authority to provide that certificates representing shares of stock of the Corporation bear such legends and statements (including, without limitation, statements relating to the powers, designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions of the shares represented by such certificates) as the Board of Directors deems appropriate in connection with the requirements of federal or state securities laws or other applicable laws.

Section 7.4. Lost, Stolen or Destroyed Certificates. The Board of Directors, the Secretary and the Treasurer each may direct a new certificate or certificates to be issued in place of any

certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, in each case upon the making of an affidavit of that fact by the owner of such certificate, or his legal representative. When authorizing such issue of a new certificate or certificates, the Board of Directors, the Secretary or the Treasurer, as the case may be, may, in its or his discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as the Board of Directors, the Secretary or the Treasurer, as the case may be, shall require and/or to furnish the Corporation a bond in such form and substance and with such surety as the Board of Directors, the Secretary or the Treasurer, as the case may be, may direct as indemnity against any claim, or expense resulting from any claim, that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 7.5. Transfers of Shares. Shares of stock of the Corporation shall be transferable only on the books of the Corporation by the holders thereof in person or by their duly authorized attorneys or legal representatives. Upon surrender to the Corporation, or the transfer agent of the Corporation, of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Corporation or its transfer agent shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon the Corporation's books.

Section 7.6. Registered Stockholders. The Corporation shall be entitled to treat the holder of record of any share of stock of the Corporation as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim or interest in such share on the part of any other person, whether or not the Corporation shall have express or other notice thereof, except as expressly provided by the laws of the State of Delaware.

Section 7.7. Regulations. The Board of Directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of stock of the Corporation. The Board of Directors may (i) appoint and remove transfer agents and registrars of transfers and (ii) require all stock certificates to bear the signature of any such transfer agent and/or any such registrar of transfers.

Section 7.8. Stock Options, Warrants, etc. Unless otherwise expressly prohibited in the resolutions of the Board of Directors creating any class or series of preferred stock of the Corporation, the Board of Directors shall have the power and authority to create and issue (whether or not in connection with the issue and sale of any stock or other securities of the Corporation) warrants, rights or options entitling the holders thereof to purchase from the Corporation any shares of capital stock of the Corporation of any class or series or any other securities of the Corporation for such consideration and to such persons, firms or corporations as the Board of Directors, in its sole discretion, may determine, setting aside from the authorized but unissued stock of the Corporation the requisite number of shares for issuance upon the exercise of such warrants, rights or options. Such warrants, rights and options shall be evidenced by one or more instruments approved by the Board of Directors. The Board of Directors shall be empowered to set the exercise price, duration,

time for exercise and other terms of such warrants, rights and operations; provided, however, that the consideration to be received for any shares of capital stock subject thereto shall not be less than the par value thereof.

ARTICLE VIII

Indemnification

Section 8.1. Third Party Actions. The Corporation (i) shall, to the maximum extent permitted from time to time under the laws of the State of Delaware, indemnify every person who is or was a party or is or was threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation), by reason of the fact that such person is or was a director or officer of the Corporation or any of its direct or indirect subsidiaries or is or was serving at the request of the Corporation or any of its direct or indirect subsidiaries as a director, officer or fiduciary of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, and (ii) may, to the maximum extent permitted from time to time under the laws of the State of Delaware, indemnify every person who is or was a party or is or was threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation), by reason of the fact that such person is or was an employee or agent of the Corporation or any of its direct or indirect subsidiaries or is or was serving at the request of the Corporation or any of its direct or indirect subsidiaries as an employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including counsel fees), judgments, fines and amounts paid or owed in settlement, actually and reasonably incurred by such person or rendered or levied against such person in connection with such action, suit or proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, in itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal action or proceeding, that the person had reasonable cause to believe that his conduct was unlawful. Any person seeking indemnification under this Section 8.1 shall be deemed to have met the standard of conduct required for such indemnification unless the contrary is established.

Section 8.2. Actions By or in the Right of the Corporation. The Corporation (i) shall, to the maximum extent permitted from time to time under the laws of the State of Delaware, indemnify every person who is or was a party or who is or was threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the Corporation or any of its direct or indirect subsidiaries or is or was serving at the request of the Corporation or any of its direct or indirect subsidiaries as a director, officer or fiduciary of another corporation,

partnership, joint venture, trust, employee benefit plan or other enterprise, and (ii) may, to the maximum extent permitted from time to time under the laws of the State of Delaware, indemnify every person who is or was a party or who is or was threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was an employee or agent of the Corporation or any of its direct or indirect subsidiaries or is or was serving at the request of the Corporation or any of its direct or indirect subsidiaries as an employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including counsel fees) actually and reasonably incurred by such person in connection with the defense or settlement or such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation; provided, however, that no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnification.

Section 8.3. Expenses. Expenses incurred by a director or officer of the Corporation or any of its direct or indirect subsidiaries in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VIII. Such expenses incurred by other employees and agents of the Corporation and other persons eligible for indemnification under this Article VIII may be paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

Section 8.4. Non-exclusivity. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any provision of law, the Certificate of Incorporation, the certificate of incorporation or bylaws or other governing documents of any direct or indirect subsidiary of the Corporation, under any agreement, vote of stockholders or disinterested directors or under any policy or policies of insurance maintained by the Corporation on behalf of any person or otherwise, both as to action in his official capacity and as to action in another capacity while holding any of the positions or having any of the relationships referred to in this Article VIII.

Section 8.5. Enforceability. The provisions of this Article VIII (i) are for the benefit of, and may be enforced directly by, each director or officer of the Corporation the same as if set forth in their entirety in a written instrument executed and delivered by the Corporation and such director or officer and (ii) constitute a continuing offer to all present and future directors and officers of the Corporation. The Corporation, by its adoption of these Bylaws, (A) acknowledges and agrees that each present and future director and officer of the Corporation has relied upon and will continue to rely upon the provisions of this Article VIII in becoming, and serving as, a director or officer of the Corporation or, if requested by the Corporation, a director, officer or fiduciary or the like of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, (B) waives

reliance upon, and all notices of acceptance of, such provisions by such directors and officers and (C) acknowledges and agrees that no present or future director or officer of the Corporation shall be prejudiced in his right to enforce directly the provisions of this Article VIII in accordance with their terms by any act or failure to act on the part of the Corporation.

Section 8.6. Insurance. The Board of Directors may authorize, by a vote of the majority of the Whole Board, the Corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VIII.

Section 8.7. Survival. The provisions of this Article VIII shall continue as to any person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of the estate, executors, administrators, heirs, legatees and devisees of any person entitled to indemnification under this Article VIII.

Section 8.8. Amendment. No amendment, modification or repeal of this Article VIII or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future director or officer of the Corporation to be indemnified by the Corporation, nor the obligation of the Corporation to indemnify any such director or officer, under and in accordance with the provisions of this Article VIII as in effect immediately prior to such amendment, modification or repeal with respect to claims arising, in whole or in part, from a state of facts extant on the date of, or relating to matters occurring prior to, such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

Section 8.9. Definitions. For purposes of this Article VIII, (i) reference to any person shall include the estate, executors, administrators, heirs, legatees and devisees of such person, (ii) "employee benefit plan" and "fiduciary" shall be deemed to include, but not be limited to, the meaning set forth, respectively, in sections 3(3) and 21(A) of the Employee Retirement Income Security Act of 1974, as amended, (iii) references to the judgments, fines and amounts paid or owed in settlement or rendered or levied shall be deemed to encompass and include excise taxes required to be paid pursuant to applicable law in respect of any transaction involving an employee benefit plan and (iv) references to the Corporation shall be deemed to include any predecessor corporation or entity and any constituent corporation or entity absorbed in a merger, consolidation or other reorganization of or by the Corporation which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees, agents and fiduciaries so that any person who was a director, officer, employee, agent or fiduciary of such predecessor or constituent corporation or entity, or served at the request of such predecessor or constituent corporation or entity as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the Corporation as such person

would have with respect to such predecessor or constituent corporation or entity if its separate existence had continued.

ARTICLE IX

Notices and Waivers

Section 9.1. Methods of Giving Notices. Whenever, by applicable law, the Certificate of Incorporation or these Bylaws, notice is required to be given to any Stockholder, any director or any member of a committee of the Board of Directors and no provision is made as to how such notice shall be given, personal notice shall not be required and such notice may be given (i) in writing, by mail, postage prepaid, addressed to such Stockholder, director or committee member at his address as it appears on the books or (in the case of a Stockholder) the stock transfer records of the Corporation or (ii) by any other method permitted by law (including, but not limited to, overnight courier service, telegram, telex or telecopier). Any notice required or permitted to be given by mail shall be deemed to be delivered and given at the time when the same is deposited in the United States mail as aforesaid. Any notice required or permitted to be given by overnight courier service shall be deemed to be delivered and given one business day after delivery to such service with all charges prepaid and addressed as aforesaid. Any notice required or permitted to be given by telegram, telex or telecopy shall be deemed to be delivered and given at the time transmitted with all charges prepaid and addressed as aforesaid.

Section 9.2. Waiver of Notice. Whenever any notice is required to be given to any Stockholder, director or member of a committee of the Board of Directors by applicable law, the Certificate of Incorporation or these Bylaws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice. Attendance of a Stockholder (whether in person or by proxy), director or committee member at a meeting shall constitute a waiver of notice of such meeting, except where such person attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE X

Miscellaneous Provisions

Section 10.1. Dividends. Subject to applicable law and the provisions of the Certificate of Incorporation, dividends may be declared by the Board of Directors at any meeting and may be paid in cash, in property or in shares of the Corporation's capital stock. Any such declaration shall be at the discretion of the Board of Directors. A director shall be fully protected in relying in good faith upon the books of account of the Corporation or statements prepared by any of its officers as to the value and amount of the assets, liabilities or net profits of the Corporation or any other facts pertinent

to the existence and amount of surplus or other funds from which dividends might properly be declared.

Section 10.2. Reserves. There may be created by the Board of Directors, out of funds of the Corporation legally available therefor, such reserve or reserves as the Board of Directors from time to time, in its absolute discretion, considers proper to provide for contingencies, to equalize dividends or to repair or maintain any property of the Corporation, or for such other purpose as the Board of Directors shall consider beneficial to the Corporation, and the Board of Directors may thereafter modify or abolish any such reserve in its absolute discretion.

Section 10.3. Checks. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Corporation shall be signed by such officer or officers or by such employees or agents of the Corporation as may be designated from time to time by the Board of Directors.

Section 10.4. Corporate Contracts and Instruments. Subject always to the specific directions of the Board of Directors, the Chairman of the Board (if any), the President, any Vice President, the Secretary or the Treasurer may enter into contracts and execute instruments in the name and on behalf of the Corporation. The Board of Directors and, subject to the specific directions of the Board of Directors, the Chairman of the Board (if any) or the President may authorize one or more officers, employees or agents of the Corporation to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 10.5. Attestation. With respect to any deed, deed of trust, mortgage or other instrument executed by the Corporation through its duly authorized officer or officers, the attestation to such execution by the Secretary or an Assistant Secretary of the Corporation shall not be necessary to constitute such deed, deed of trust, mortgage or other instrument a valid and binding obligation of the Corporation unless the resolutions, if any, of the Board of Directors authorizing such execution expressly state that such attestation is necessary.

Section 10.6 Securities of Other Corporations. The Chairman of the Board, the Chief Executive Officer, the President or any Vice President of the Corporation shall have the power and authority to transfer, endorse for transfer, vote, consent or take any other action with respect to any securities of another issuer which may be held or owned by the Corporation and to make, execute and deliver any waiver, proxy or consent with respect to any such securities.

Section 10.7. Fiscal Year. The fiscal year of the Corporation shall be January 1 through December 31, unless otherwise fixed by the Board of Directors.

Section 10.8. Seal. The seal of the Corporation shall be such as from time to time may be approved by the Board of Directors.

Section 10.9. Invalid Provisions. If any part of these Bylaws shall be invalid or inoperative for any reason, the remaining parts, so far as is possible and reasonable, shall remain valid and operative.

Section 10.10. Headings. The headings used in these Bylaws have been inserted for administrative convenience only and shall not limit or otherwise affect any of the provisions of these Bylaws.

Section 10.11. References/Gender/Number. Whenever in these Bylaws the singular number is used, the same shall include the plural where appropriate. Words of any gender used in these Bylaws shall include the other gender where appropriate. In these Bylaws, unless a contrary intention appears, all references to Articles and Sections shall be deemed to be references to the Articles and Sections of these Bylaws.

Section 10.12. Amendments. These Bylaws may be altered, amended or repealed or new bylaws may be adopted by the affirmative vote of a majority of the Whole Board; provided, however, that no such action shall be taken at any special meeting of the Board of Directors unless notice of such action is contained in the notice of such special meeting. These Bylaws may not be altered, amended or rescinded, nor may new bylaws be adopted, by the Stockholders except by the affirmative vote of the holders of not less than 66-2/3% of the voting power of all outstanding Voting Stock, voting together as a single class. Each alteration, amendment or repeal of these Bylaws shall be subject in all respects to Section 8.7.

EXHIBIT 10.1

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of October 15, 1999 (the "EFFECTIVE DATE"), by and between Lexicon Genetics Incorporated, a Delaware corporation (hereafter "COMPANY"), and Arthur T. Sands, M.D., Ph.D. (hereafter "EXECUTIVE"), an individual and resident of Montgomery County, Texas.

W I T N E S S E T H:

WHEREAS, 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 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 shall employ Executive, and Executive shall serve, as President and Chief Executive Officer and as a member of the Company's Board of Directors ("BOARD"). Executive's principal place of employment shall be at the Company's principal corporate offices in The Woodlands, Texas, or at such other location for the Company's principal corporate offices during the Employment Period.

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 Board to the best of his ability and with reasonable diligence. Executive agrees to cooperate fully with the Board, 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 any corporate board or committee thereof with the approval of the Board, (2) to serve on any civic, or charitable boards or committees (except for boards or committees of a

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Competing Business (as defined in Section 11) unless approved by the Board), (3) deliver lectures, fulfill teaching or speaking engagements, or (4) manage personal investments; provided, however, any such activities must 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.

(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 to Executive an annual base salary of $200,000, 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 Bonus 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 Bonus Year then ended. The term "Bonus Year" refers to the 12-month period beginning on October 1 and ending on September 30, with the first Bonus Year beginning on October 1, 1998 and ending on September 30, 1999. Effective for the Bonus Year beginning October 1, 1998, and for each Bonus Year thereafter during the Employment Period, the Compensation Committee shall establish certain performance goals for the Company and the Executive and a targeted annual bonus amount (which annual target bonus shall not exceed $50,000 unless otherwise determined by the Compensation Committee in its discretion). The target bonus shall be paid to Executive within 30 days after completion of the Company's financial statements for the applicable Bonus Year (but in no event later than 120 days after the end of such Bonus Year unless otherwise agreed by Executive) based on the extent to which the performance goals and objectives, in the judgment of the Compensation Committee, for the Bonus Year

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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.

4. TERM OF EMPLOYMENT. Executive's initial term of employment with the Company under this Agreement shall be for the four-year 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 (the "RENEWAL TERM") unless written notice of nonrenewal is delivered from one party to the other at least ninety (90) 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 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 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.

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Notwithstanding the previous paragraph, Company shall 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 for the Company during such period. To the extent that the Company's LTD policy which covers employees generally does not provide sufficient coverage to Executive, as described in the previous sentence, Company agrees 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 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) SPLIT DOLLAR LIFE INSURANCE. Within sixty (60) days of the Effective Date, the Company agrees to enter into a split dollar life insurance agreement with Executive, upon terms acceptable to the parties, with any established and reputable insurance company reasonably acceptable to the Executive, for a whole or universal life insurance policy on the life of Executive with a policy death benefit of at least $1,000,000. Executive's rights under the policy shall be determined in accordance with the terms of the split dollar life insurance agreement.

(d) PAID VACATION. Executive shall be entitled to a paid annual vacation of four (4) 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 eight weeks of accrued and unused vacation. In addition, the Executive shall be allowed up to ten (10) 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.

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6. RIGHTS AND PAYMENTS UPON TERMINATION. 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(d) above.

(b) SEVERANCE PAYMENT.

(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);

(B) Executive terminates his own employment hereunder for Good Reason (as defined below); or

(C) 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,

then, in any 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 of twelve (12) consecutive months following the Termination Date. In the event of Executive's death during such salary continuation period, the Company shall pay, within 60 days of Executive's death, a lump sum equal to the present value of all remaining payments (using a 5% interest discount rate) to the Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive's estate.

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(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);

(B) Executive terminates his own employment hereunder for Good Reason (as defined below in this Section 6(c); or

(C) 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,

then, in any 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 of twelve (12) consecutive months following the Termination Date, plus an additional single sum payment equal to Executive's full target bonus (pursuant to Section 3(b)) for the Bonus Year in which the termination occurred which shall be payable within 30 days from the Termination Date. In the event of Executive's death during such salary continuation period, the Company, within 60 days of Executive's death, shall pay a lump sum equal to the present value of all remaining payments (using a 5% interest discount rate) to the Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive' estate.

(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.

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(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 controlling or controlled by or under direct or indirect common control with 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.

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(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 (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) Before a Change in Control (as defined in Section 6(b)(4)), a five percent (5%) or greater reduction in Executive's annual base salary unless any such greater reduction is (i) applied across the board to the other senior officers of the Company or (ii) specifically agreed to in writing by Executive or, after a Change in Control, any reduction in Executive's base salary unless agreed to in writing by Executive, provided that in either event Executive specifically terminates his employment for Good Reason

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hereunder within 120 days from the date that he has actual notice of such reduction; or

(B) Before or after a Change in Control, any breach by the Company of any material provision of this Agreement, 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

(C) Before or after a Change in Control, for any reason except on account of Executive's Disability (as defined above), a substantial and adverse change in the Executive's duties, control, authority, status or position, or the assignment to the Executive of any duties or responsibilities which are materially inconsistent with such status or position, or a material reduction in the duties and responsibilities exercised by Executive, or a loss of title, loss of office, loss of significant authority, power or control, or any removal of Executive from, or any failure to reappoint or reelect him to, his CEO or Board membership positions stated in Section 1; provided that Executive specifically terminates his employment for Good Reason hereunder within 120 days from the date that he has actual notice of such action; or

(D) Only after a Change in Control (as defined in Section 6(b)), any of the following events will constitute Good Reason, provided that Executive specifically terminates his employment for Good Reason hereunder within six (6) 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;

(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 replacement plans or programs 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 or program that was enjoyed by him immediately

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prior to the Change in Control unless the Company or its successor provides a replacement plan or program 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 the 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 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 the 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.

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(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;

(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; or

(3) Materially trading in products or services connected with products or services designed or marketed by or for the Company or any of its Affiliates.

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

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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, OmniBank(TM), 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 information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), and 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.

(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 court order or subpoena, and at which time Executive gives notice of such proceedings to Company), and Executive will take all reasonable precautions to prevent inadvertent

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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) 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 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 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

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disclosed by Executive to the person or persons designated by the Board, 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.

(g) 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) relates to, or is useful in, 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 vesting in the Company unless the Company otherwise consents to the copyright vesting in another person or entity; provided, however, the parties agree that, notwithstanding anything herein to the contrary, (A) Executive shall retain all copyright and other property rights in Executive's personal memoirs (or any fictional or non-fictional derivative thereof) which address topics including the founding of the Company and the development of the functional genomics field and (B) such memoirs (or any fictional or non-fictional derivative thereof) may be published and released in any medium of expression

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at any time subject to the foregoing provisions of this Section 10 regarding Confidential Information and Inventions.

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.

(h) 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. Notwithstanding the immediately preceding sentence, the second paragraph of Section 10(g) hereof, but only such provisions which address Executive's personal memoirs (or any fictional or non-fictional derivative thereof), shall control in the event of any conflict or inconsistency between such provisions in Section 10(g) and the Proprietary Agreement or any other agreement of similar intent.

(i) 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 (i) six (6) months following his Termination Date within the continental United States and (ii) twelve (12) months following his Termination Date only within the State of Texas:

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(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, (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, OmniBank(TM), homologous recombination, DNA sequencing, phenotypic analysis, drug validation and drug discovery.

(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.

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(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,

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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 reasonably 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.

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

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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.

(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.

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.

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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 TEXAS, 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 panel of three arbitrators unless the parties mutually agree that the arbitration shall be conducted before a single arbitrator. The arbitrators 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 arbitrators 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 jointly select the third arbitrator to comprise the arbitration panel hereunder. The site for any arbitration hereunder shall be in Harris County or Montgomery County, Texas, 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.

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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 Texas 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(s) 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.

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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 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.

Initials: _____

Initials: _____

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. The parties hereto agree that the language used in this Agreement shall be deemed to be the language chosen by them to express their mutual intent, and no rule of strict construction shall be applied against either party hereto. 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.

[Intentionally left blank -- signature page follows]

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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: /s/ Arthur T. Sands

Date: October 21, 1999

Address for Notices: 4000 Research Forest Drive
The Woodlands, Texas 77381
(fax) 281-364-0155

LEXICON GENETICS INCORPORATED

By: /s/ Dr. Paul Haycock

Name: Dr. Paul Haycock

Title: Chairman of Compensation Committee

Date: October 27, 1999

EXHIBIT 10.2

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of January 17, 2000 (the "EFFECTIVE DATE"), by and between Lexicon Genetics Incorporated, a Delaware corporation (hereafter "COMPANY"), and James R. Piggott, Ph.D. (hereafter "EXECUTIVE"), an individual and resident of King County, Washington.

W I T N E S S E T H:

WHEREAS, 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 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 shall employ Executive, and Executive shall serve, as Senior Vice President - Pharmaceutical Biology of the Company. Executive's principal place of employment shall be at the Company's principal corporate offices in The Woodlands, Texas, or at such other location for the Company's principal corporate offices during the Employment Period.

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.

(b) Executive has provided to Company copies of (i) the noncompetition provisions of the Employment Agreement between Executive and ZymoGenetics, Inc. and (ii) a Confidentiality Agreement between Executive and ZymoGenetics, Inc. Executive and Company have each reviewed such agreements and determined that Executive's employment by Company pursuant to this Agreement will not violate the terms of either such agreement. Executive and Company further agree that Company will not ask or request Executive to perform, and that Executive will not perform, any activity on behalf of Company that would violate either such agreement. Subject to the preceding disclosures in this Section 2(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 to Executive an annual base salary of not less than $200,000 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, 2000), the Compensation Committee shall establish certain performance goals for the Company and the Executive and a targeted annual bonus amount (the amount of which annual target bonus shall be within the sole discretion of the Compensation Committee). 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.

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, 2001, 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, 2001, shall be referred to herein as the "INITIAL TERM OF EMPLOYMENT." On December 31, 2001 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 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 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, Company shall 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

LTD policy which covers employees generally does not provide sufficient coverage to Executive, as described in the previous sentence, Company agrees 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 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.

(d) RELOCATION AND INTERIM HOUSING AND TRAVEL EXPENSES. The Company shall pay or reimburse Executive all reasonable expenses paid or incurred by Executive for the relocation of Executive's household belongings from Executive's home in Bothell, Washington to a home in The Woodlands, Texas area. In addition, the Company shall pay or reimburse Executive all reasonable expenses paid or incurred by Executive pending such relocation for a period of up to six (6) months from the Effective Date for (1) temporary living accommodations in The Woodlands, Texas area and (2) reasonable airfare for two roundtrip flights per month from Houston, Texas to Seattle, Washington. Executive shall provide substantiating documentation for expense reimbursement requests as reasonably required by the Company. During the first year of employment, the Executive will also be entitled to an additional fifteen (15) days of non-paid leave for personal use.

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 controlling or controlled by or under direct or indirect common control with 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 (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) Before a Change in Control (as defined in Section 6(b)), (i) a five percent (5%) or greater reduction in Executive's annual base salary unless any such greater reduction is (i) applied across the board to the other senior officers of the Company except the CEO or (ii) specifically agreed to in writing by Executive or, after a Change in Control, any reduction in Executive's 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, any breach by the Company of any material provision of this Agreement, 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

(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;

(ii) Executive's duties or responsibilities for the Company or its successor are materially reduced; or

(iii) 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 the 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 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 the 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;

(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; or

(3) Materially trading in products or services connected with products or services designed or marketed by or for the Company or any of its Affiliates.

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 information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), and 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.

(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 court order or subpoena, 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) 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.

(g) 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.

(h) 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.

(i) 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, (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, drug target validation and drug discovery.

(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.

14. DETERMINATIONS BY THE COMPENSATION COMMITTEE.

(e) 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.

(f) 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.

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 TEXAS, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW.

21. ARBITRATION.

(g) 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 Harris County or Montgomery County, Texas, unless otherwise mutually agreed by the parties, and the parties hereby waive any objection that the forum is inconvenient.

(h) 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.

(i) 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 Texas to the claims asserted to the extent that the arbitrator determines that federal law is not controlling.

(j) 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.

(k) 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 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. The parties hereto agree that the language used in this Agreement shall be deemed to be the language chosen by them to express their mutual intent, and no rule of strict construction shall be applied against either party hereto. Consistent with and subject to the disclosures referenced in Section 2(b) of this Agreement, Executive also represents that he is free to enter into this Agreement including, without limitation, that he is not subject to any undisclosed 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.

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: /s/ James R. Piggott

James R. Piggott, Ph.D.

Date: January 25, 2000

Address for Notices:

23827 Second Avenue West
Bothell, Washington 98021

LEXICON GENETICS INCORPORATED

By: /s/ Arthur T. Sands

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

Date: January 24, 2000

EXHIBIT 10.3

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of January 1, 1999 (the "EFFECTIVE DATE"), by and between Lexicon Genetics Incorporated, a Delaware corporation (hereafter "COMPANY"), and Jeffrey L. Wade (hereafter "EXECUTIVE"), an individual and resident of Montgomery County, Texas.

W I T N E S S E T H:

WHEREAS, 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 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 shall employ Executive, and Executive shall serve, as Senior Vice President and Chief Financial Officer of the Company. Executive's principal place of employment shall be at the Company's principal corporate offices in The Woodlands, Texas, or at such other location for the Company's principal corporate offices during the Employment Period.

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

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engagements, or (3) manage personal investments, so long as 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.

(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 to Executive an annual base salary of $170,000, 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, 1999), the Compensation Committee shall establish certain performance goals for the Company and the Executive and a targeted annual bonus amount (which annual target bonus shall not exceed fifteen percent (15%) of his annual base salary pursuant to Section 3(a)). 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.

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4. TERM OF EMPLOYMENT. Executive's initial term of employment with the Company under this Agreement shall be for the two-year period beginning on the Effective Date and ending at midnight (CST) on December 31, 2000, 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, 2000, shall be referred to herein as the "INITIAL TERM OF EMPLOYMENT." On December 31, 2000 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 nonrenewal 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 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.

The Company shall also pay State Bar dues, attorney occupation tax and reasonable continuing legal education expenses for the Executive, or reimburse the Executive for such expenses, provided that such expenses are incurred and submitted for payment or reimbursement in accordance with the Company's expense payment or reimbursement policies as they may exist from time to time.

(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 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, Company shall 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

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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 LTD policy which covers employees generally does not provide sufficient coverage to Executive, as described in the previous sentence, Company agrees to purchase a supplemental LTD policy for Executive from a reputable insurer and to pay the premiums on behalf of Executive during the Employment Period.

Notwithstanding the first paragraph of this Section 3(b), the Company shall 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 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), in addition to any payments or benefits to which the Executive is entitled under the terms of any employee benefit plan or the following provisions of this Section 6:

(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.

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(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; provided that if such termination occurs within 120 days following a reduction in Executive's base salary, such salary continuation payments shall be made in an amount equal to Executive's base salary prior to such reduction. 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 the 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 nonrenewal as of the end of the Initial Term of Employment (pursuant to Section 4) or any one-year Renewal Term, Executive shall not be entitled to receive any severance payments pursuant to the first paragraph of this Section 6(a); provided, however, Executive shall be entitled to receive a severance payment equal to $14,000 per month 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 paragraph), 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

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payment equal to one-half of Executive's target bonus (pursuant to Section 3(b)) for the Bonus Year that contains the Termination Date which bonus shall be payable within 30 days from the Termination Date; provided that if such termination occurs within 120 days following a reduction in Executive's base salary, such salary continuation payments shall be made in an amount equal to Executive's base salary prior to such reduction. 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 the 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 except as specifically provided herein.

(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 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

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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.

(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 (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 substantial 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)

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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) Before a Change in Control (as defined in Section 6(b)), (i) a five percent (5%) or greater reduction in Executive's annual base salary unless any such greater pay cut is applied across the board to the other senior officers of the Company except the CEO, or (ii) after a Change in Control, any reduction in Executive's base salary, 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, any breach by the Company of any material provision of this Agreement, 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

(C) Only following a Change in Control (as defined in Section 6(b)), 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;

(ii) Executive's duties or responsibilities for the Company or its successor are materially reduced; or

(iii) 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

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participation in or materially reduce his benefits under any such plan that was enjoyed by him immediately prior to the Change in Control.

7. NOTICE OF TERMINATION. Any termination by the Company or the 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 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 the 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,

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supplier, contractor, customer or other entity with which Company or any of its Affiliates does business;

(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; or

(3) Materially trading in products or services connected with products or services designed or marketed by or for the Company or any of its Affiliates.

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, OmniBank(TM), 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

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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 information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), and 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.

(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 court order or subpoena, 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) 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

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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

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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.

(g) 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 directly relate to the business, products or services of 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.

(h) 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.

(i) 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

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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, except as specifically provided below in this Section 11(a), 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, (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.

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In the event that Executive's Termination Date occurs after a Change in Control (as defined in Section 6(b)), then notwithstanding any provisions of this Section 11 to the contrary, all of the non-compete restrictions set forth in this Section 11 shall not apply to, or be enforced against, Executive if his employment with the Company or its successor is terminated (1) by Executive for Good Reason (as defined in Section 6(b)), (2) by the Company or its successor without Cause (as defined in Section 6(b), or (3) upon notice of nonrenewal pursuant to Section 4. Therefore, following a Change in Control, in the event that Executive terminates his employment for Good Reason or upon notice of nonrenewal, or the Company or its successor terminates Executive's employment without Cause or upon nonrenewal, Executive shall not be subject to the provisions of Section 11.

"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, OmniBank(TM), homologous recombination, DNA sequencing, phenotypic analysis, drug validation and drug discovery.

(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;

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(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,

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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.

14. DETERMINATIONS BY THE BOARD OF DIRECTORS.

(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.

(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.

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

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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 TEXAS, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW.

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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 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 Harris County or Montgomery County, Texas, 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 Texas 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.

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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

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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 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 Company of its obligations hereunder. 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.

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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. The parties hereto agree that the language used in this Agreement shall be deemed to be the language chosen by them to express their mutual intent, and no rule of strict construction shall be applied against either party hereto. 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.

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.

WITNESS:	EXECUTIVE:
Signature: /s/ Debbie Ritter	Signature: /s/ Jeffrey L. Wade
Printed Name: Debbie Ritter	
Date: December 22, 1998	Date: December 22, 1998
	Address for Notices:
	2 Thornbush Place The Woodlands, Texas 77381
ATTEST:	LEXICON GENETICS INCORPORATED
By: /s/ Jean Magdaleno	By: /s/ Arthur T. Sands
Name: Jean Magdaleno	Name: Arthur T. Sands
Title: Administrative Assistant	Title: President and Chief Executive Officer
Date: December 21, 1998	Date: December 21, 1998

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EXHIBIT 10.4

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of February ___, 2000 (the "EFFECTIVE DATE"), by and between Lexicon Genetics Incorporated, a Delaware corporation (hereafter "COMPANY"), and Brian P. Zambrowicz, Ph.D. (hereafter "EXECUTIVE"), an individual and resident of Montgomery County, Texas.

W I T N E S S E T H:

WHEREAS, 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 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 shall employ Executive, and Executive shall serve, as Senior Vice President - Genomics of the Company. Executive's principal place of employment shall be at the Company's principal corporate offices in The Woodlands, Texas, or at such other location for the Company's principal corporate offices during the Employment Period.

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.

(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 to Executive an annual base salary of $200,000 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, 2000), the Compensation Committee shall establish certain performance goals for the Company and the Executive and a targeted annual bonus amount (the amount of which annual target bonus shall be within the sole discretion of the Compensation Committee). 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.

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, 2001, 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, 2001, shall be referred

to herein as the "INITIAL TERM OF EMPLOYMENT." On December 31, 2001 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 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 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, Company shall 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 LTD policy which covers employees generally does not provide sufficient coverage to Executive, as described in the previous sentence, Company agrees 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 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 controlling or controlled by or under direct or indirect common control with 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 (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) Before a Change in Control (as defined in Section 6(b)), (i) a five percent (5%) or greater reduction in Executive's annual base salary unless any such greater reduction is (i) applied across the board to the other senior officers of the Company except the CEO or (ii) specifically agreed to in writing by Executive or, after a Change in Control, any reduction in Executive's 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, any breach by the Company of any material provision of this Agreement, 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

(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;

(ii) Executive's duties or responsibilities for the Company or its successor are materially reduced; or

(iii) 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 the 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 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 the 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;

(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; or

(3) Materially trading in products or services connected with products or services designed or marketed by or for the Company or any of its Affiliates.

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 information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), and 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.

(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 court order or subpoena, 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) 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.

(g) 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.

(h) 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.

(i) 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, (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, drug target validation and drug discovery.

(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.

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.

(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.

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 TEXAS, 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 Harris County or Montgomery County, Texas, 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 Texas 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 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. The parties hereto agree that the language used in this Agreement shall be deemed to be the language chosen by them to express their mutual intent, and no rule of strict construction shall be applied against either party hereto. 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.

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:

Brian P. Zambrowicz, Ph.D.

Date:

Address for Notices:

18 Firethorn Place
The Woodlands, Texas 77382

LEXICON GENETICS INCORPORATED

By:

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

Date:

EXHIBIT 10.6

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT is made as of _____, _____, by and between LEXICON GENETICS INCORPORATED, a Delaware corporation (the "Company"), and _____ ("Indemnitee").

WHEREAS, the Certificate of Incorporation and Bylaws of the Company provide for the indemnification of its directors and executive officers to the maximum extent permitted from time to time under applicable law and, along with the Delaware General Corporation Law, contemplate that the Company may enter into agreements with respect to such indemnification; and

WHEREAS, the Board of Directors of the Company has concluded that it is reasonable, prudent and in the best interests of the Company's stockholders for the Company to contractually obligate itself to indemnify certain of its Authorized Representatives (defined below) so that they will serve or continue to serve with greater certainty that they will be adequately protected;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnitee hereby agree as follows:

1. Definitions. For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Authorized Representative" means (i) a director, officer, employee, agent or fiduciary of the Company or any Subsidiary and (ii) a person serving at the request of the Company or any Subsidiary as a director, officer, employee, fiduciary or other representative of another Enterprise.

"Enterprise" means any corporation, partnership, limited liability company, association, joint venture, trust, employee benefit plan or other entity.

"Expenses" means all expenses, including (without limitation) reasonable fees and expenses of counsel.

"Liabilities" means all liabilities, including (without limitation) the amounts of any judgments, fines, penalties, excise taxes and amounts paid in settlement.

"Proceeding" means any threatened, pending or completed claim, action (including any action by or in the right of the Company), suit or proceeding (whether formal or informal, or civil, criminal, administrative, legislative, arbitrative or investigative) in respect of which Indemnitee is, was or at any time becomes, or is threatened to be made, a party, witness, subject or target, by reason of the fact that Indemnitee is or was an Authorized Representative or a prospective Authorized Representative.

"Subsidiary" means, at any time, (i) any corporation of which at least a majority of the outstanding voting stock is owned by the Company at such time, directly or indirectly through subsidiaries, and (ii) any other Enterprise in which the Company, directly or indirectly, owns more than a 50% equity interest at such time.

2. Interpretation. (a) In this Agreement, unless a clear contrary intention appears:

(i) the singular number includes the plural number and vice versa;

(ii) reference to any gender includes each other gender;

(iii) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision;

(iv) unless the context indicates otherwise, reference to any Section means such Section hereof; and

(v) the words "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term.

(b) The Section headings herein are for convenience only and shall not affect the construction hereof.

(c) No provision of this Agreement shall be interpreted or construed against any party solely because that party or its legal representative drafted such provision.

(d) In the event of any ambiguity, vagueness or other similar matter involving the interpretation or meaning of this Agreement, this Agreement shall be liberally construed so as to provide to Indemnitee the full benefits contemplated hereby.

(e) If the indemnification to which Indemnitee is entitled as respects any aspect of any claim varies between two or more provisions of this Agreement, that provision providing the most comprehensive indemnification shall apply.

3. Limitation on Personal Liability. To the fullest extent permitted by applicable law, Indemnitee shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director of the Company, provided that the foregoing shall not eliminate or limit the liability of Indemnitee (i) for any breach of Indemnitee's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law relating to unlawful dividend payments and unlawful stock purchases or redemptions or (iv) for any transaction from which Indemnitee derived an improper personal benefit.

4. Indemnity. (a) Subject to the following provisions of this Agreement, the Company shall hold harmless and indemnify Indemnitee against all Expenses and Liabilities actually incurred by Indemnitee in connection with any Proceeding; provided, however, that no indemnity shall be paid by the Company pursuant to this Agreement:

(i) for amounts actually paid to Indemnitee pursuant to one or more policies of directors and officers liability insurance maintained by the Company or pursuant to a trust fund, letter of credit or other security or funding arrangement provided by the Company; provided, however, that if it should subsequently be determined that Indemnitee is not entitled to retain any such amount, this clause (i) shall no longer apply to such amount;

(ii) in respect of remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that payment of such remuneration was in violation of applicable law;

(iii) on account of Indemnitee's conduct which is finally adjudged to constitute willful misconduct or to have been knowingly fraudulent, deliberately dishonest or from which the Indemnitee derives an improper personal benefit; or

(iv) on account of any suit in which final judgment is rendered against Indemnitee for an accounting of profits made from the sale or purchase by Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended.

(b) If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for only a portion (but not, however, for the total amount) of any Expenses or Liabilities actually incurred by Indemnitee in connection with any Proceeding, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses and Liabilities to which Indemnitee is entitled. If the indemnification provided for herein in respect of any Expenses or Liabilities actually incurred by Indemnitee in connection with any Proceeding is finally determined by a court of competent jurisdiction to be prohibited by applicable law, then the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount paid or payable by Indemnitee as a result of such Expenses and Liabilities in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnitee on the other hand from the events, circumstances, conditions, happenings, actions or transactions from which such Proceeding arose, (ii) the relative fault of the Company (including its other Authorized Representatives) on the one hand and of Indemnitee on the other hand in connection with the events, circumstances and happenings which resulted in such Expenses and Liabilities, such relative fault to be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the events, circumstances and/or happenings resulting in such Expenses and Liabilities, and (iii) any other relevant equitable considerations, it being agreed that it would not be just and equitable if such contribution were determined by pro rata or other method of allocation which does not take into account the foregoing equitable considerations.

(c) The indemnification provided herein shall be applicable only to Proceedings commenced after the date hereof, regardless, however, of whether they arise from acts, omissions, facts or circumstances occurring before or after the date hereof.

(d) The indemnification provided herein shall be applicable whether or not negligence of Indemnitee is alleged or proved, and regardless of whether such negligence be contributory or sole.

(e) Amounts paid by the Company to Indemnitee under this Section 4 are subject to refund by Indemnitee as provided in Section 8.

5. Notification and Defense of Claims. (a) Promptly after the receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement of such Proceeding; provided, however, that the omission to so notify the Company will not relieve the Company (i) from any liability which it may have to Indemnitee under this Agreement unless, and then only to the extent that, such omission results in insufficient time being available to permit the Company or its counsel to effectively defend against or make timely response to any loss, claim, damage, liability or expense resulting from such Proceeding or otherwise has a material adverse effect on the Company's ability to promptly deal with such loss, claim, damage, liability or expense or (ii) from any liability which it may have to Indemnitee otherwise than under this Agreement.

(b) The following provisions shall apply with respect to any such Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

(i) The Company shall be entitled to participate therein at its own expense.

(ii) Except as otherwise provided below, to the extent it may elect to do so, the Company (jointly with any other indemnifying party similarly notified) will be entitled to assume the defense thereof, with counsel of its own selection reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense thereof, the Company will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee in connection with the defense of such Proceeding other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ separate counsel in such Proceeding but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Indemnitee unless (A) the employment of separate counsel by Indemnitee has been authorized by the Company; (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of the defense of such Proceeding; or (C) the Company shall not in fact have employed counsel to assume the defense of such Proceeding, in each of which cases the reasonable fees and expenses of Indemnitee's counsel shall be borne by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnitee shall have made the conclusion provided for in (B) above. Nothing in this subparagraph (ii) shall affect the obligation of the Company to indemnify Indemnitee against Expenses and Liabilities paid in settlement for which it is otherwise obligated hereunder.

(iii) The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceedings or claims effected without its prior written consent. The Company shall not settle any Proceeding or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's prior written consent. Neither the Company nor Indemnitee will unreasonably withhold or delay its consent to any proposed settlement.

6. Advancement of Expenses, Etc. If requested to do so by Indemnitee with respect to any Proceeding, the Company shall advance to or for the benefit of Indemnitee, prior to the final disposition of such Proceeding, the Expenses actually incurred by Indemnitee in investigating, defending or appealing such Proceeding. Any judgments, fines or amounts to be paid in settlement of any Proceeding shall also be

advanced by the Company upon request by Indemnitee. Advances made by the Company under this Section 6 are subject to refund by Indemnitee as provided in Section 8.

7. Right of Indemnitee to Bring Suit. (a) If a claim for indemnification or a claim for an advance under this Agreement is not paid in full by the Company within 30 days after receipt by the Company from Indemnitee of a written request or demand therefor, Indemnitee may bring suit against the Company to recover the unpaid amount of the claim. If, in any such action, Indemnitee makes a prima facie showing of entitlement to indemnification under this Agreement, the Company shall have the burden of proving that indemnification is not required under this Agreement. The only defense to any such action shall be that indemnification is not required by this Agreement.

(b) In the event that any action is instituted by Indemnitee to enforce Indemnitee's rights or to collect monies due to Indemnitee under this Agreement and if Indemnitee is successful in such action, the Company shall reimburse Indemnitee for all Expenses incurred by Indemnitee with respect to such action.

8. Repayment Obligation of Indemnitee. If the Company advances or pays any amount to Indemnitee under Section 4, 6 or 7 and if it shall thereafter be finally adjudicated that Indemnitee was not entitled to be indemnified hereunder for all or any portion of such amount, Indemnitee shall promptly repay such amount or such portion thereof, as the case may be, to the Company. If the Company advances or pays any amount to Indemnitee under Section 4, 6 or 7 and if Indemnitee shall thereafter receive all or a portion of such amount under one or more policies of directors and officers liability insurance maintained by the Company or pursuant to a trust fund, letter of credit or other security or funding arrangement provided by the Company, Indemnitee shall promptly repay such amount or such portion thereof, as the case may be, to the Company.

9. Changes in Law. If any change after the date of this Agreement in any applicable law, statute or rule expands the power of the Company to indemnify Authorized Representatives, such change shall be within the purview of Indemnitee's rights and the Company's obligations under this Agreement. If any change after the date of this Agreement in any applicable law, statute or rule narrows the right of the Company to indemnify an Authorized Representative, such change shall, to the fullest extent permitted by applicable law, leave this Agreement and the parties' rights and obligations hereunder unaffected.

10. Continuation of Indemnity. All agreements and obligations of the Company hereunder shall continue during the period Indemnitee is an Authorized Representative, and shall continue after Indemnitee has ceased to occupy such position or have such relationship so long as Indemnitee shall be subject to any possible Proceeding.

11. Nonexclusivity. The indemnification and other rights provided by any provision of this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may be entitled under (i) any statutory or common law, (ii) the Company's Certificate of incorporation, (iii) the Company's Bylaws, (iv) any other agreement or (v) any vote of stockholders or disinterested directors or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while occupying any of the positions or having any of the relationships referred to in this Agreement. Nothing in this Agreement shall in any manner affect, impair or compromise any indemnification Indemnitee has or may have by virtue of any agreement previously entered into between Indemnitee and the Company.

12. Severability. If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, (i) the validity, legality or enforceability of the remaining provisions of this Agreement shall not be in any way affected or impaired thereby and (ii), to the fullest extent possible, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable. Each provision of this Agreement is a separate and independent portion of this Agreement.

13. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties. No waiver of any of the provisions of this Agreement shall be binding unless executed in writing by the person making the waiver nor shall such waiver constitute a continuing waiver.

14. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be addressed (i) if to the Company, at its principal office address as shown on the signature page hereof or such other address as it may have designated by written notice to Indemnitee for purposes hereof, directed to the attention of the Secretary and (ii) if to Indemnitee, at Indemnitee's address as shown on the signature page hereof or to such other address as Indemnitee may have designated by written notice to the Company for purposes hereof. Each such notice or other communication shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (ii) transmitted by facsimile transmission, at the time that receipt of such transmission is confirmed, or (iii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed.

15. Governing Law. This Agreement shall be deemed to be a contract made under, and shall be governed by and construed and enforced in accordance with, the internal laws of the State of Delaware without regard to principles of conflicts of law.

16. Heirs, Successors and Assigns. (a) This Agreement shall be binding upon, inure to the benefit of and be enforceable by (i) Indemnitee and Indemnitee's personal or legal representatives, executors, administrators, heirs, devisees and legatees and (ii) the Company and its successors and assigns. This Agreement shall not inure to the benefit of any other person or Enterprise.

(b) The Company agrees to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption and agreement provided for in this Section 16 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

ENTERED into on the day and year first above written.

THE COMPANY:

LEXICON GENETICS INCORPORATED

By:

Arthur T. Sands, M.D., Ph.D.
President and Chief Executive Officer
Address:
4000 Research Forest Drive
The Woodlands, Texas 77381
Telecopier: (281) 364-0155

INDEMNITEE:

[Name of Indemnitee]
Address:
c/o Lexicon Genetics Incorporated
4000 Research Forest Drive
The Woodlands, Texas 77381
Telecopier: (281) 364-0155

EXHIBIT 10.7

LEXICON GENETICS INCORPORATED

2000 EQUITY INCENTIVE PLAN

1. PURPOSES.

(a) AMENDMENT AND RESTATEMENT OF INITIAL PLAN. The Plan initially was established as the 1995 Stock Option Plan, effective as of September 13, 1995 (the "Initial Plan"). The Initial Plan, as amended hereby, is amended and restated in its entirety and renamed the 2000 Equity Incentive Plan, effective as of its adoption. The terms of this Plan shall supersede the Initial Plan in its entirety; provided, however, that nothing herein shall operate or be construed as modifying the terms of an incentive stock option granted under the Initial Plan in a manner that would treat the option as being a new grant for purpose of Section 424(h) of the Code (as hereafter defined).

(b) ELIGIBLE STOCK AWARD RECIPIENTS. The persons eligible to receive Stock Awards are the Employees, Directors and Consultants of the Company and its Affiliates.

(c) AVAILABLE STOCK AWARDS. The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) stock bonuses and (iv) rights to acquire restricted stock.

(d) GENERAL PURPOSE. The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) "AFFILIATE" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) "BOARD" means the Board of Directors of the Company.

(c) "CODE" means the Internal Revenue Code of 1986, as amended.

(d) "COMMITTEE" means a committee of one or more members of the Board appointed by the Board in accordance with subsection 3(c).

(e) "COMMON STOCK" means the common stock, par value $.001 per share, of the Company.

(f) "COMPANY" means Lexicon Genetics Incorporated, a Delaware corporation.

(g) "CONSULTANT" means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (ii) who is a member of the Board of Directors of an Affiliate. However, the term "Consultant" shall not include either Directors who are not compensated by the Company for their services as Directors or Directors who are merely paid a director's fee by the Company for their services as Directors.

(h) "CONTINUOUS SERVICE" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or a Director will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(i) "COVERED EMPLOYEE" means the chief executive officer and the four (4) other highest compensated officers of the Company for whom total compensation is required to be reported to stockholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.

(j) "DIRECTOR" means a member of the Board of Directors of the Company.

(k) "DISABILITY" means (i) before the Listing Date, the inability of a person, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of that person's position with the Company or an Affiliate of the Company because of the sickness or injury of the person and (ii) after the Listing Date, the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(l) "EMPLOYEE" means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(o) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(p) "LISTING DATE" means the first date upon which any security of the Company is listed (or approved for listing) upon notice of issuance on any securities exchange or designated (or approved for designation) upon notice of issuance as a national market security on an interdealer quotation system.

(q) "NON-EMPLOYEE DIRECTOR" means a Director who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent for a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(r) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.

(s) "OFFICER" means (i) before the Listing Date, any person designated by the Company as an officer and (ii) on and after the Listing Date, a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) "OPTION" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(u) "OPTION AGREEMENT" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(v) "OPTIONHOLDER" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(w) "OUTSIDE DIRECTOR" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(x) "PARTICIPANT" means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(y) "PLAN" means this Lexicon Genetics Incorporated 2000 Equity Incentive Plan.

(z) "RULE 16B-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(aa) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(bb) "STOCK AWARD" means any right granted under the Plan, including an Option, a stock bonus and a right to acquire restricted stock.

(cc) "STOCK AWARD AGREEMENT" means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(dd) "TEN PERCENT STOCKHOLDER" means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a) ADMINISTRATION BY BOARD. The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in subsection 3(c).

(b) POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock pursuant to a Stock Award; and the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 12.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

(c) DELEGATION TO COMMITTEE.

(i) GENERAL. The Board may delegate administration of the Plan to a Committee or Committees of one (1) or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

(ii) COMMITTEE COMPOSITION WHEN COMMON STOCK IS PUBLICLY TRADED. At such time as the Common Stock is publicly

traded, in the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (1) delegate to a committee of one or more members of the Board who are not Outside Directors the authority to grant Stock Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code, and/or (2) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

(d) EFFECT OF BOARD'S DECISION. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) SHARE RESERVE. Subject to the provisions of Section 11 relating to adjustments upon changes in Common Stock, the Common Stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate Three Million, Seven Hundred Fifty Thousand (3,750,000) shares.

(b) EVERGREEN SHARE RESERVE INCREASE.

(i) Notwithstanding subsection 4(a) hereof on each January 1 (the "Calculation Date") for a period of ten (10) years, commencing on January 1, 2001, the aggregate number of shares of Common Stock that is available for issuance under the Plan shall automatically be increased by that number of shares equal to the greater of (1) five percent (5%) of the Diluted Shares Outstanding or (2) the number of shares of Common Stock subject to Stock Awards granted during the prior 12-month period; provided, however, that the Board, from time to time, may provide for a lesser increase in the aggregate number of shares of Common Stock that is available for issuance under the Plan.

(ii) Subject to the provisions of Section 11 hereof relating to adjustments upon changes in securities, the increase in the maximum aggregate number of shares of Common Stock that is available for issuance pursuant to Stock Awards granted under the Plan shall not exceed Twenty Million (20,000,000) shares.

(iii) "Diluted Shares Outstanding" shall mean, as of any date, (1) the number of outstanding shares of Common Stock of the Company on such Calculation Date, plus (2) the number of shares of Common Stock issuable upon

such Calculation Date assuming the conversion of all outstanding Preferred Stock and convertible notes, plus (3) the additional number of dilutive Common Stock equivalent shares outstanding as the result of any options or warrants outstanding during the fiscal year, calculated using the treasury stock method.

(c) REVERSION OF SHARES TO THE SHARE RESERVE. If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the shares of Common Stock not acquired under such Stock Award shall revert to and again become available for issuance under the Plan.

(d) SOURCE OF SHARES. The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) ELIGIBILITY FOR SPECIFIC STOCK AWARDS. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.

(b) TEN PERCENT STOCKHOLDERS. A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) SECTION 162(m) LIMITATION. Subject to the provisions of Section 11 relating to adjustments upon changes in the shares of Common Stock, no Employee shall be eligible to be granted Options covering more than One Million (1,000,000) shares during any calendar year. This subsection 5(c) shall not apply prior to the Listing Date and, following the Listing Date, this subsection 5(c) shall not apply until (i) the earliest of: (1) the first material modification of the Plan (including any increase in the number of shares of Common Stock reserved for issuance under the Plan in accordance with Section 4); (2) the issuance of all of the shares of Common Stock reserved for issuance under the Plan; (3) the expiration of the Plan; or (4) the first meeting of stockholders at which Directors are to be elected that occurs after the close of the third calendar year following the calendar year in which occurred the first registration of an equity security under Section 12 of the Exchange Act; or (ii) such other date required by Section 162(m) of the Code and the rules and regulations promulgated thereunder.

(d) CONSULTANTS.

(i) Prior to the Listing Date, a Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, either the offer or the sale of the Company's securities to such Consultant is not exempt under Rule 701 of the Securities Act ("Rule 701") because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural

person, or as otherwise provided by Rule 701, unless the Company determines that such grant need not comply with the requirements of Rule 701 and will satisfy another exemption under the Securities Act as well as comply with the securities laws of all other relevant jurisdictions.

(ii) From and after the Listing Date, a Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("Form S-8") is not available to register either the offer or the sale of the Company's securities to such Consultant because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by the rules governing the use of Form S-8, unless the Company determines both (i) that such grant (A) shall be registered in another manner under the Securities Act (e.g., on a Form S-3 Registration Statement) or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant complies with the securities laws of all other relevant jurisdictions.

(iii) Rule 701 and Form S-8 generally are available to consultants and advisors only if (i) they are natural persons; (ii) they provide bona fide services to the issuer, its parents, its majority-owned subsidiaries or majority-owned subsidiaries of the issuer's parent; and (iii) the services are not in connection with the offer or sale of securities in a capital-raising transaction, and do not directly or indirectly promote or maintain a market for the issuer's securities.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) TERM. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, no Option granted prior to the Listing Date shall be exercisable after the expiration of ten (10) years from the date it was granted, and no Incentive Stock Option granted on or after the Listing Date shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) EXERCISE PRICE OF AN INCENTIVE STOCK OPTION. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is

granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) EXERCISE PRICE OF A NONSTATUTORY STOCK OPTION. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the exercise price of each Nonstatutory Stock Option granted prior to the Listing Date shall be not less than eighty-five percent (85%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. The exercise price of each Nonstatutory Stock Option granted on or after the Listing Date shall be not less than eighty-five percent (85%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(d) CONSIDERATION. The purchase price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option) (1) by delivery to the Company of other Common Stock, (2) according to a deferred payment or other similar arrangement with the Optionholder or (3) in any other form of legal consideration that may be acceptable to the Board. Unless otherwise specifically provided in the Option, the purchase price of Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). At any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(e) TRANSFERABILITY OF AN INCENTIVE STOCK OPTION. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) TRANSFERABILITY OF A NONSTATUTORY STOCK OPTION. A Nonstatutory Stock Option granted prior to the Listing Date shall not be transferable except by will or by the laws of descent and distribution, and to the extent provided in the Option Agreement and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. A Nonstatutory Stock Option granted on or after the Listing Date shall be transferable to the extent provided in the Option Agreement. If the Nonstatutory Stock Option does not provide for transferability, then the Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) VESTING GENERALLY. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary. The provisions of this subsection 6(g) are subject to any Option provisions governing the minimum number of shares of Common Stock as to which an Option may be exercised.

(h) TERMINATION OF CONTINUOUS SERVICE. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement, which period shall not be less than thirty (30) days for Options granted prior to the Listing Date unless such termination is for cause), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(i) EXTENSION OF TERMINATION DATE. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 6(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(j) DISABILITY OF OPTIONHOLDER. In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the

Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement, which period shall not be less than six (6) months for Options granted prior to the Listing Date) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(k) DEATH OF OPTIONHOLDER. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance by a person designated to exercise the option upon the Optionholder's death pursuant to subsection 6(e) or 6(f), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement, which period shall not be less than six (6) months for Options granted prior to the Listing Date) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(l) EARLY EXERCISE. The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of Common Stock subject to the Option prior to the full vesting of the Option. Subject to the "Repurchase Limitation" in subsection 10(g), any unvested shares of Common Stock so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate. Provided that the "Repurchase Limitation" in subsection 10(g) is not violated, the Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following exercise of the Option unless the Board otherwise specifically provides in the Option.

(m) RIGHT OF REPURCHASE. Subject to the "Repurchase Limitation" in subsection 10(g), the Option may, but need not, include a provision whereby the Company may elect, prior to the Listing Date, to repurchase all or any part of the vested shares of Common Stock acquired by the Optionholder pursuant to the exercise of the Option. Provided that the "Repurchase Limitation" in subsection 10(g) is not violated, the Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following exercise of the Option unless the Board otherwise specifically provides in the Option.

(n) RIGHT OF FIRST REFUSAL. The Option may, but need not, include a provision whereby the Company may elect, prior to the Listing Date, to exercise a right of first refusal following receipt of notice from the Optionholder of the intent to transfer all or any part of the shares of Common Stock received upon the exercise of the Option. Except as expressly provided in this subsection 6(n), such right of first refusal shall otherwise comply with any applicable provisions of the Bylaws of the Company.

(o) RE-LOAD OPTIONS.

(i) Without in any way limiting the authority of the Board to make or not to make grants of Options hereunder, the Board shall have the authority (but not an obligation) to include as part of any Option Agreement a provision entitling the Optionholder to a further Option (a "Re-Load Option") in the event the Optionholder exercises the Option evidenced by the Option Agreement, in whole or in part, by surrendering other shares of Common Stock in accordance with this Plan and the terms and conditions of the Option Agreement. Unless otherwise specifically provided in the Option, the Optionholder shall not surrender shares of Common Stock acquired, directly or indirectly from the Company, unless such shares have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes).

(ii) Any such Re-Load Option shall (1) provide for a number of shares of Common Stock equal to the number of shares of Common Stock surrendered as part or all of the exercise price of such Option; (2) have an expiration date which is the same as the expiration date of the Option the exercise of which gave rise to such Re-Load Option; and (3) have an exercise price which is equal to one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Re-Load Option on the date of exercise of the original Option. Notwithstanding the foregoing, a Re-Load Option shall be subject to the same exercise price and term provisions heretofore described for Options under the Plan.

(iii) Any such Re-Load Option may be an Incentive Stock Option or a Nonstatutory Stock Option, as the Board may designate at the time of the grant of the original Option; provided, however, that the designation of any Re-Load Option as an Incentive Stock Option shall be subject to the one hundred thousand dollar ($100,000) annual limitation on the exercisability of Incentive Stock Options described in subsection 10(d) and in Section 422(d) of the Code. There shall be no Re-Load Options on a Re-Load Option. Any such Re-Load Option shall be subject to the availability of sufficient shares of Common Stock under subsection 4(a) and the "Section 162(m) Limitation" on the grants of Options under subsection 5(c) and shall be subject to such other terms and conditions as the Board may determine which are not inconsistent with the express provisions of the Plan regarding the terms of Options.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) STOCK BONUS AWARDS. Each stock bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of stock bonus agreements may change from time to time, and the terms and conditions of separate stock bonus agreements need not be identical, but each stock bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) CONSIDERATION. A stock bonus may be awarded in consideration for past services actually rendered to the Company or an Affiliate for its benefit.

(ii) VESTING. Subject to the "Repurchase Limitation" in subsection 10(h), shares of Common Stock awarded under the stock bonus agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. Subject to the "Repurchase Limitation" in subsection 10(g), in the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the stock bonus agreement.

(iv) TRANSFERABILITY. For a stock bonus award made before the Listing Date, rights to acquire shares of Common Stock under the stock bonus agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. For a stock bonus award made on or after the Listing Date, rights to acquire shares of Common Stock under the stock bonus agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the stock bonus agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the stock bonus agreement remains subject to the terms of the stock bonus agreement.

(b) RESTRICTED STOCK AWARDS. Each restricted stock purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the restricted stock purchase agreements may change from time to time, and the terms and conditions of separate restricted stock purchase agreements need not be identical, but each restricted stock purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) PURCHASE PRICE. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the purchase price under each restricted stock purchase agreement shall be such amount as the Board shall determine and designate in such restricted stock purchase agreement. Such purchase price shall not be less than eighty-five percent (85%) of the Common Stock's Fair Market Value on the date such award is made or at the time the purchase is consummated.

(ii) CONSIDERATION. The purchase price of Common Stock acquired pursuant to the restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at the discretion of the Board, according to a deferred payment or other similar arrangement with the Participant; or (iii) in any other form of legal consideration that may be acceptable to the Board in its discretion; provided, however, that at any time that the Company is incorporated in Delaware, then payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(iii) VESTING. Subject to the "Repurchase Limitation" in subsection 10(g), shares of Common Stock acquired under the restricted stock purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iv) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. Subject to the "Repurchase Limitation" in subsection 10(g), in the event a Participant's Continuous Service terminates, the Company may repurchase or otherwise reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the restricted stock purchase agreement.

(v) TRANSFERABILITY. For a restricted stock award made before the Listing Date, rights to acquire shares of Common Stock under the restricted stock purchase agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. For a restricted stock award made on or after the Listing Date, rights to acquire shares of Common Stock under the restricted stock purchase agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the restricted stock purchase agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the restricted stock purchase agreement remains subject to the terms of the restricted stock purchase agreement.

8. COVENANTS OF THE COMPANY.

(a) AVAILABILITY OF SHARES. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.

(b) SECURITIES LAW COMPLIANCE. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

10. MISCELLANEOUS.

(a) ACCELERATION OF EXERCISABILITY AND VESTING. The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) STOCKHOLDER RIGHTS. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c) NO EMPLOYMENT OR OTHER SERVICE RIGHTS. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) INCENTIVE STOCK OPTION $100,000 LIMITATION. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates)

exceeds one hundred thousand dollars ($100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e) INVESTMENT ASSURANCES. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (1) the issuance of the shares of Common Stock upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (2) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(f) WITHHOLDING OBLIGATIONS. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Stock Award, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

(g) REPURCHASE LIMITATION. The terms of any repurchase option shall be specified in the Stock Award and may be either at Fair Market Value at the time of repurchase or at not less than the original purchase price.

11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) CAPITALIZATION ADJUSTMENTS. If any change is made in the Common Stock subject to the Plan, or subject to any Stock Award, without the receipt of

consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to subsection 4(a) and the maximum number of securities subject to award to any person pursuant to subsection 5(c), and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of Common Stock subject to such outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) CHANGE IN CONTROL -- DISSOLUTION OR LIQUIDATION. In the event of a dissolution or liquidation of the Company, then all outstanding Stock Awards shall terminate immediately prior to such event.

(c) CHANGE IN CONTROL -- ASSET SALE, MERGER, CONSOLIDATION OR REVERSE MERGER. In the event of (i) a sale, lease or other disposition of all or substantially all of the assets of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation or (iii) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then any surviving corporation or acquiring corporation shall assume any Stock Awards outstanding under the Plan or shall substitute similar stock awards (including an award to acquire the same consideration paid to the stockholders in the transaction described in this subsection 11(c) for those outstanding under the Plan). In the event any surviving corporation or acquiring corporation refuses to assume such Stock Awards or to substitute similar stock awards for those outstanding under the Plan, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the vesting of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full, and the Stock Awards shall terminate if not exercised (if applicable) at or prior to such event. With respect to any other Stock Awards outstanding under the Plan, such Stock Awards shall terminate if not exercised (if applicable) prior to such event.

12. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) AMENDMENT OF PLAN. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11 relating to adjustments upon changes in Common Stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b) STOCKHOLDER APPROVAL. The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c) CONTEMPLATED AMENDMENTS. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) NO IMPAIRMENT OF RIGHTS. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e) AMENDMENT OF STOCK AWARDS. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) PLAN TERM. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) NO IMPAIRMENT OF RIGHTS. Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

14. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

15. CHOICE OF LAW.

The law of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

EXHIBIT 10.8

LEXICON GENETICS INCORORATED

2000 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN

1. PURPOSES.

(a) ELIGIBLE OPTION RECIPIENTS. The persons eligible to receive Options are the Non-Employee Directors of the Company.

(b) AVAILABLE OPTIONS. The purpose of the Plan is to provide a means by which Non-Employee Directors may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Nonstatutory Stock Options.

(c) GENERAL PURPOSE. The Company, by means of the Plan, seeks to retain the services of its Non-Employee Directors, to secure and retain the services of new Non-Employee Directors and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) "AFFILIATE" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) "ANNUAL GRANT" means an Option granted annually to all Non-Employee Directors who meet the specified criteria pursuant to subsection 6(b) of the Plan.

(c) "ANNUAL MEETING" means the annual meeting of the stockholders of the Company.

(d) "BOARD" means the Board of Directors of the Company.

(e) "CODE" means the Internal Revenue Code of 1986, as amended.

(f) "COMMON STOCK" means the common stock, par value $.001 per share, of the Company.

(g) "COMPANY" means Lexicon Genetics Incorporated, a Delaware corporation.

(h) "CONSULTANT" means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (ii) who is a member of the Board of Directors of an Affiliate. However, the term "Consultant" shall not include either Directors of the Company who are not compensated by the Company for their services as Directors or

Directors of the Company who are merely paid a director's fee by the Company for their services as Directors.

(i) "CONTINUOUS SERVICE" means that the Optionholder's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Optionholder's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionholder renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Optionholder renders such service, provided that there is no interruption or termination of the Optionholder's Continuous Service. For example, a change in status from a Non-Employee Director of the Company to a Consultant of an Affiliate or an Employee of the Company will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(j) "DIRECTOR" means a member of the Board of Directors of the Company.

(k) "DISABILITY" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(l) "EMPLOYEE" means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(o) "INITIAL GRANT" means an Option granted to a Non-Employee Director who meets the specified criteria pursuant to subsection 6(a) of the Plan.

(p) "IPO DATE" means the effective date of the initial public offering of the Common Stock.

(q) "NON-EMPLOYEE DIRECTOR" means a Director who is not an Employee.

(r) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(s) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) "OPTION" means a Nonstatutory Stock Option granted pursuant to the Plan.

(u) "OPTION AGREEMENT" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(v) "OPTIONHOLDER" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(w) "PLAN" means this Lexicon Genetics Incorporated 2000 Non-Employee Directors' Stock Option Plan.

(x) "RULE 16B-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(y) "SECURITIES ACT" means the Securities Act of 1933, as amended.

3. ADMINISTRATION.

(a) ADMINISTRATION BY BOARD. The Board shall administer the Plan. The Board may not delegate administration of the Plan to a committee.

(b) POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine the provisions of each Option to the extent not specified in the Plan.

(ii) To construe and interpret the Plan and Options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Option Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or an Option as provided in Section 12.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

(c) EFFECT OF BOARD'S DECISION. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) SHARE RESERVE. Subject to the provisions of Section 11 relating to adjustments upon changes in the Common Stock, the Common Stock that may be issued pursuant to Options shall not exceed in the aggregate Two Hundred Thousand (200,000) shares of Common Stock.

(b) EVERGREEN SHARE RESERVE INCREASE.

(i) Notwithstanding subsection 4(a) hereof, on the day after each Annual Meeting (the "Calculation Date") for a period of ten (10) years, commencing with the Annual Meeting in 2000, the aggregate number of shares of Common Stock that is available for issuance under the Plan shall automatically be increased by that number of shares equal to the greater of (1) three-tenths of one percent (0.3%) of the Diluted Shares Outstanding or (2) the number of shares of Common Stock subject to Options granted during the prior 12-month period; provided, however, that the Board, from time to time, may provide for a lesser increase in the aggregate number of shares of Common Stock that is available for issuance under the Plan.

(ii) "Diluted Shares Outstanding" shall mean, as of any date, (1) the number of outstanding shares of Common Stock of the Company on such Calculation Date, plus (2) the number of shares of Common Stock issuable upon such Calculation Date assuming the conversion of all outstanding Preferred Stock and convertible notes, plus (3) the additional number of dilutive Common Stock equivalent shares outstanding as the result of any options or warrants outstanding during the fiscal year, calculated using the treasury stock method.

(c) REVERSION OF SHARES TO THE SHARE RESERVE. If any Option shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the shares of Common Stock not acquired under such Option shall revert to and again become available for issuance under the Plan.

(d) SOURCE OF SHARES. The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

The Options as set forth in section 6 automatically shall be granted under the Plan to all Non-Employee Directors.

6. NON-DISCRETIONARY GRANTS.

(a) INITIAL GRANTS. Without any further action of the Board, each person who is elected or appointed for the first time to be a Non-Employee Director automatically shall, upon the date of his or her initial election or appointment to be a Non-Employee Director, be granted an Initial Grant to purchase Ten Thousand (10,000) shares of Common Stock on the terms and conditions set forth herein.

(b) ANNUAL GRANTS. Without any further action of the Board, on the day following each Annual Meeting, commencing with the Annual Meeting in 2001, each person who is then a Non-Employee Director, and has been a Non-Employee Director for at least six (6) months, automatically shall be granted an Annual Grant to purchase Two Thousand (2,000) shares of Common Stock on the terms and conditions set forth herein.

7. OPTION PROVISIONS. Each Option shall be in such form and shall contain such terms and conditions as required by the Plan. Each Option shall contain such additional terms and conditions, not inconsistent with the Plan, as the Board shall deem appropriate. Each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) TERM. No Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) EXERCISE PRICE. The exercise price of each Option shall be one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) CONSIDERATION. The purchase price of stock acquired pursuant to an Option may be paid, to the extent permitted by applicable statutes and regulations, in any combination of (i) cash or check, or (ii) delivery to the Company of other Common

Stock. The purchase price of Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). At any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(d) TRANSFERABILITY. An Option is not transferable, except (i) by will or by the laws of descent and distribution, (ii) by instrument to an inter vivos or testamentary trust, in a form accepted by the Company, in which the Option is to be passed to beneficiaries upon the death of the trustor (settlor) and (iii) by gift, in a form accepted by the Company, to a member of the "immediate family" of the Optionholder as that term is defined in 17 C.F.R. 240.16a-1(e). In addition, Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(e) VESTING. Options shall vest as follows:

(i) Initial Grants shall provide for vesting of 1/60th of the shares subject to the Option each month after grant for five (5) years after the date of the grant.

(ii) Annual Grants shall provide for vesting of 1/12th of the shares subject to the Option each month after grant for twelve (12) months after the date of the grant.

(f) TERMINATION OF CONTINUOUS SERVICE. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination) but only within such period of time ending on the earlier of (i) the date six (6) months following the termination of the Optionholder's Continuous Service, or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(g) EXTENSION OF TERMINATION DATE. If the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 7(a) or (ii) the expiration of a period of three (3) months

after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(h) DISABILITY OF OPTIONHOLDER. In the event an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise it as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(i) DEATH OF OPTIONHOLDER. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the three-month period after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise the Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death, but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

8. COVENANTS OF THE COMPANY.

(a) AVAILABILITY OF SHARES. During the terms of the Options, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Options.

(b) SECURITIES LAW COMPLIANCE. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Options and to issue and sell shares of Common Stock upon exercise of the Options; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Option or any stock issued or issuable pursuant to any such Option. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such Options unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK. Proceeds from the sale of stock pursuant to Options shall constitute general funds of the Company.

10. MISCELLANEOUS.

(a) STOCKHOLDER RIGHTS. No Optionholder shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such Option unless and until such Optionholder has satisfied all requirements for exercise of the Option pursuant to its terms.

(b) NO SERVICE RIGHTS. Nothing in the Plan or any instrument executed or Option granted pursuant thereto shall confer upon any Optionholder any right to continue to serve the Company as a Non-Employee Director or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(c) INVESTMENT ASSURANCES. The Company may require an Optionholder, as a condition of exercising or acquiring stock under any Option, (i) to give written assurances satisfactory to the Company as to the Optionholder's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Option; and (ii) to give written assurances satisfactory to the Company stating that the Optionholder is acquiring the stock subject to the Option for the Optionholder's own account and not with any present intention of selling or otherwise distributing the stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (iii) the issuance of the shares upon the exercise or acquisition of stock under the Option has been registered under a then currently effective registration statement under the Securities Act or (iv) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the stock.

(d) WITHHOLDING OBLIGATIONS. The Optionholder may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of stock under an Option by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Optionholder by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares from the shares of the Common Stock otherwise issuable to the Optionholder as a result of the exercise or acquisition of stock under the Option, provided, however, that no shares of Common Stock are withheld with a value exceeding

the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of the Common Stock.

11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) CAPITALIZATION ADJUSTMENTS. If any change is made in the stock subject to the Plan, or subject to any Option, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject both to the Plan pursuant to subsection 4(a) and to the nondiscretionary Options specified in Section 5, and the outstanding Options will be appropriately adjusted in the class(es) and number of securities and price per share of stock subject to such outstanding Options. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) CHANGE IN CONTROL -- DISSOLUTION OR LIQUIDATION. In the event of a dissolution or liquidation of the Company, then all outstanding Options shall terminate immediately prior to such event.

(c) CHANGE IN CONTROL -- ASSET SALE, MERGER, CONSOLIDATION OR REVERSE MERGER.

(i) In the event of (i) a sale, lease or other disposition of all or substantially all of the assets of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation or (iii) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then any surviving corporation or acquiring corporation shall assume any Options outstanding under the Plan or shall substitute similar Options (including an option to acquire the same consideration paid to the stockholders in the transaction described in this subsection 11(c) for those outstanding under the Plan).

(ii) In the event any surviving corporation or acquiring corporation refuses to assume such Options or to substitute similar Options for those outstanding under the Plan, then the vesting of such Options and the vesting of any shares of Common Stock acquired pursuant to such Options shall be accelerated in full, and the Options shall terminate if not exercised at or prior to such event.

(iii) In the event any surviving corporation or acquiring corporation assumes such Options or substitutes similar Options for those outstanding under the Plan but the Optionholder is not elected or appointed to the board of directors of the surviving corporation or acquiring corporation at the first meeting of such board of directors after such change in control event, then the vesting of such Options and the vesting of any shares of Common Stock acquired pursuant to such Options shall be accelerated by eighteen (18) months on the day after the first meeting of the board of directors of the surviving corporation or acquiring corporation.

(iv) In the event any surviving corporation or acquiring corporation assumes such Options or substitutes similar Options for those outstanding under the Plan and the Optionholder is elected or appointed to the board of directors of the surviving corporation or acquiring corporation at the first meeting of such board of directors after such change in control event, then the vesting of such Options and the vesting of any shares of Common Stock acquired pursuant to such Options shall not be accelerated.

12. AMENDMENT OF THE PLAN AND OPTIONS.

(a) AMENDMENT OF PLAN. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b) STOCKHOLDER APPROVAL. The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval.

(c) NO IMPAIRMENT OF RIGHTS. Rights under any Option granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Optionholder and (ii) the Optionholder consents in writing.

(d) AMENDMENT OF OPTIONS. The Board at any time, and from time to time, may amend the terms of any one or more Options; provided, however, that the rights under any Option shall not be impaired by any such amendment unless (i) the Company requests the consent of the Optionholder and (ii) the Optionholder consents in writing.

13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) PLAN TERM. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the stockholders

of the Company, whichever is earlier. No Options may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) NO IMPAIRMENT OF RIGHTS. Suspension or termination of the Plan shall not impair rights and obligations under any Option granted while the Plan is in effect except with the written consent of the Optionholder.

14. EFFECTIVE DATE OF PLAN. The Plan shall become effective on the IPO Date, but no Option shall be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

15. CHOICE OF LAW. All questions concerning the construction, validity and interpretation of this Plan shall be governed by the law of the State of Delaware, without regard to such state's conflict of laws rules.

EXHIBIT 10.11

MASTER LOAN AND SECURITY AGREEMENT

Master Loan and Security Agreement No. S7260 Dated May 21, 1999

FINOVA Capital Corporation, with its principal place of business located at 1850 N. Central Avenue, Phoenix, AZ 85004 ("we," "us" or "FINOVA") is willing to make a loan (the "Loan") to LEXICON GENETICS INCORPORATED ("you" or "Borrower") under the terms and conditions contained in this Master Loan and Security Agreement (this "Master Agreement"). The Loan will be secured by the Collateral described in any schedule to this Master Agreement (a "Schedule"). The Collateral also includes any replacement parts, additions and accessories that you may add to the Collateral, as well as any proceeds of sale, lease or rental of the Collateral. We may treat any Schedule as a separate loan and security agreement containing all of the provisions of this Master Agreement.

1. THE CREDIT

We may make the Loan in more than one advance (an "Advance", each of which shall be evidenced by a "Schedule"). All of the Schedules, taken together, will make up the Loan. We will only make the Loan to you if all the conditions in this Master Agreement have been met to our satisfaction. We will rely on your representations and warranties, contained in this Master Agreement, in making the Loan. The terms of this Agreement will each apply to the Loan.

- USE OF PROCEEDS. You will use the proceeds of the Loan to pay for the Collateral. We may pay the Supplier (whom you have chosen) of the Collateral directly from the Loan proceeds. The Supplier will deliver the Collateral to you at your expense. You will properly install the Collateral at your expense at the location(s) indicated in the Schedule. If you have already paid for the Collateral, we will pay the Loan proceeds to you or to another person that you may designate in writing.

- NOTES. Your obligation to repay the Loan and to pay interest on the Loan will be evidenced by Notes. Each Note will be dated the date of the Schedule to which the Advance evidenced by the Note is related.

- TERM. The Term of each Schedule (and the related Advance) begins upon the date that we make payment for the Collateral covered under each Schedule (the "Closing Date"). The Term continues until you fully perform all of your obligations under this Agreement and each Schedule and the related Note(s). If the Collateral is not delivered, installed and accepted by you by the date indicated in the Schedule, we may terminate this Agreement and the Schedule as to the Collateral that was not delivered, installed and accepted by giving you 10 days written notice of termination. Any advance Loan payment you may have paid

us is nonrefundable, even if the Term never starts or if we rightfully terminate this Master Agreement or the Schedule.

- LOAN ACCOUNT. We will keep a loan account on our books and records (which are computerized) for the Loan. We will record all payments of principal and interest in the loan account. Unless the entries in the loan account are clearly in error, the loan account will definitively indicate the outstanding principal balance and accrued interest on the Loan. We may send you loan account statements from time to time or upon your request.

- PAYMENTS. The scheduled loan payments (the "Payments") are indicated on the Schedule. The Payments are payable periodically as specified on the Schedule from time to time (for example, monthly). The Schedule also indicates whether the Payments are payable "in advance" or "in arrears." You agree that you owe us the total of all of these Payments over the Term of the Schedule.

- FIRST PAYMENT. The first Payment is due at the beginning of the Term or at a later date that we agree to in writing. Subsequent Payments are due on the thirtieth day of each successive period (except the next following period if Payments are payable in arrears) until you pay us in full all of the Payments and any other charges or expenses you owe us.

- INTEREST. Prior to maturity of a Schedule, you will pay us interest on each Schedule at the Interest Rate indicated in the Schedule. "Maturity" means the scheduled maturity or any earlier date on which we accelerate the Loan. The Payment amount indicated in the Schedule includes interest at this Interest Rate. Interest is calculated in advance using a year of 360 days with twelve months of 30 days.

- DEFAULT INTEREST RATE. After Maturity of the Loan you will pay us interest at a rate of four (4%) percent per year above the Interest Rate. This is referred to as the "Default Rate."

- INTERIM PAYMENT. If an Advance is made on a day other than the thirtieth or thirty-first day of a period, you will also pay us an interim Payment on the first Payment date. The interim Payment will be for the period from the beginning of the Term until the twenty-ninth day of the period in which the Advance is made, unless the Advance is made on the thirty-first day of a period. If the Advance is made on the thirty-first day of a period, the interim Payment will be for the period from the beginning of the Term through and including the twenty-ninth day of the next following period. The Interim Payment will be calculated the same way as the regular Payments but pro rata on a daily basis for the number of days for which the interim Payment is due.

- USURY. You and we intend to obey the law. If the Interest Rate charged would exceed the maximum legal rate, you will only have to pay the maximum legal rate. You do not have to pay any excess interest over and above the maximum legal rate of interest. However, if it later becomes legal for you to pay all or part of any excess interest, you will then pay it to us upon our request.

- PAYMENT DETAILS. You will make all payments due under this Master Agreement by 12:00 P.M., Connecticut time, on the day they are due. You will make all payments in US Dollars (US$) in immediately available funds. We do not have to make or give "presentment, demand, protest or notice" to get paid. You waive "presentment, demand, protest and notice."

- APPLICATION OF PAYMENTS. Each payment under this Master Agreement is to

be applied in the following order: first, to any fees, costs, expenses and charges you may owe us; second, to any interest due; and third to the principal balance.

- PREPAYMENT. You may not prepay the Loan, in whole or in part, unless this is specifically permitted by Exhibit A to this Agreement. If prepayment is permitted by Exhibit A to this Master Agreement, you will give us at least 30 days advance written notice of prepayment. You will pay us the prepayment premium indicated in the Schedule(s). You will also pay us all accrued and unpaid interest through the date of prepayment, as well as all outstanding fees, costs, expenses and charges then due. Of course, you will also pay the entire outstanding principal balance of the Loan. Once you give us a notice of prepayment, that notice is final and irrevocable. If we accelerate the Loan following an Event of Default, you will also owe us a prepayment premium calculated as if the Loan were prepaid on the date of acceleration. If no prepayment is permitted, the premium due upon acceleration will be five (5%) percent of the outstanding principal balance.

- YOUR OBLIGATION TO PAY US ALL PAYMENTS IS ABSOLUTE AND UNCONDITIONAL. YOU ARE NOT EXCUSED FROM MAKING THE PAYMENTS, IN FULL, FOR ANY REASON. YOU AGREE THAT YOU HAVE NO DEFENSE FOR FAILURE TO MAKE THE PAYMENTS AND YOU WILL NOT MAKE ANY COUNTERCLAIMS OR SETOFFS TO AVOID MAKING THE PAYMENTS.

2. SECURITY INTEREST

- You grant us a security interest in the Collateral. The Collateral secures the full and timely payment and performance of all of your obligations to us under this Master Agreement and any other agreement, loan or lease that you may have with us (the "Obligations"). You also grant us a security interest in any additional collateral identified in any Schedule. Any additional collateral is considered to be "Collateral" and it secures all of the Obligations.

- If we request, you will put labels supplied by us stating "PROPERTY SUBJECT TO A SECURITY INTEREST HELD BY FINOVA" on the Collateral where they are clearly visible.

- You give us permission to add to this Master Agreement or any Schedule the serial numbers and other information about the Collateral.

- You give us permission to file this Master Agreement or a Uniform Commercial Code financing statement, at your expense, in order to perfect our security interest in the Collateral. You also give us permission to sign your name on the Uniform Commercial Code financing statements where this is permitted by law.

- You will pay our cost to do searches for other filings or judgments against you or your affiliates. You will also pay any filing, recording or stamp fees or taxes resulting from filing this Agreement or a Uniform Commercial Code financing statement. You will also pay our fees in effect from time to time for documentation, administration and Termination of this Master Agreement.

- At your expense, you will defend our first priority security interest in the Collateral against, and keep the Collateral free of, any legal process, liens, other security interests, attachments, levies and executions. You will give us immediate written notice of any legal process, liens, attachments, levies or executions, and you will indemnify us against any loss that results to us from these causes.

- You will notify us at least 15 days before you change the address of your principal executive office.

- You will promptly sign and return additional documents that we may reasonably request in order to protect our first priority security interest in the Collateral.

- The Collateral is personal property and will remain personal property. You will not incorporate it into real estate and will not do anything that will cause the Collateral to become part of real estate or a fixture.

3. CONDITIONS OF LENDING

- See our Commitment Letter to you dated May 11, 1999, which you and we consider to be a part of this Master Agreement. The terms and conditions of the Commitment Letter continue following the making of the first Advance. However, if there is a conflict between the terms and conditions of this Master Agreement, any Schedule or any Note and the terms and conditions of the Commitment Letter, then you and we agree that the terms and conditions of this Master Agreement, the Schedules and the Notes control over the Commitment Letter terms and conditions.

- Before we disburse any proceeds of any Advance, we also require the following:

* That no payment is past due to us under any other agreement, loan or lease that you or any guarantor have with us.

* That you are complying with all terms of this Master Agreement.

* That we have received all the documents we requested, including the signed Schedule, Note and Delivery and Acceptance Certificate.

* That there has been no material adverse change in your financial condition, business, operations or prospects, or that of any guarantor, from the financial condition that you disclosed to us in your application for credit.

4. REPRESENTATIONS AND WARRANTIES

You represent and warrant to us as follows:

- All financial information and other information that you or any guarantor have given us is true and complete. You or any guarantor have not failed to tell us anything that would make the financial information materially not misleading. There has been no material adverse change in your financial condition, business, operations or prospects, or the financial condition of any guarantor, from the financial condition that you disclosed to us in your application for credit.

- You have supplied us with information about the Collateral. You promise to us that the amount of our Advance as to each item of Collateral is no more than the fair and usual price for this kind of Collateral, taking into account any discounts, rebates and allowances that you or any affiliate of yours may have been given for the Collateral.

- You have materially complied with all "environmental laws" and will continue to comply with all "environmental laws." No "hazardous substances" are used, generated, treated, stored or disposed of by you or at your properties except in material compliance with all environmental laws. "Environmental laws" mean all federal, state or local environmental laws and regulations, including the following laws: CERCLA, RCRA, Hazardous Materials Transport Act and The Federal Water Pollution Control Act. "Hazardous substances" means all hazardous or toxic wastes, materials or substances, as defined

in the environmental laws, as well as oil, flammable substances, asbestos that is or could become friable, urea formaldehyde insulation, polychlorinated biphenyls and radon gas.

5. COVENANTS

You agree to do the following things (or not to do the following things if so stated) until full payment of all amounts due to us under this Master Agreement, the Schedules and the Notes:

CARE, USE, LOCATION AND ALTERATION OF THE COLLATERAL

- You will make sure that the Collateral is maintained in good operating condition, and that it is serviced, repaired and overhauled when this is necessary to keep the Collateral in good operating condition. All maintenance must be done according to the Supplier's or Manufacturer's requirements or recommendations. All maintenance must also comply with any legal or regulatory requirements.

- You will maintain service logs for the Collateral and permit us to inspect the Collateral, the service logs and service reports. You give us permission to make copies of the service logs and service reports.

- We will give you prior notice if we, or our agent, want to inspect the Collateral or the service logs or service reports. We may inspect it during regular business hours. You will pay our travel, meals and lodging costs to inspect the Collateral, but only for one inspection per year. If we find during an inspection that you are not complying with this Master Agreement, you will pay our travel, meals and lodging costs, our salary costs, and the costs and fees of our agents for reinspection. You will promptly cure any problems with the Collateral that are discovered during our inspection.

- You will use the Collateral only for business purposes. You will obey all legal and regulatory requirements in your material use of the Collateral.

- You will make all additions, modifications and improvements to the Collateral that are required by law or government regulation. Otherwise, you will not alter the Collateral without our written permission. You will replace all worn, lost, stolen or destroyed parts of the Collateral with replacement parts that are as good or better than the original parts. The new parts will become subject to our security interest upon replacement.

- You will not remove the Collateral from the location indicated in the Schedule without our written permission.

YEAR 2000 COMPLIANT

You represent, warrant and agree to take all action necessary including, but not limited to due inquiry and due diligence with critical business partners to assure that there will be no material adverse change to your business by reason of the advent of the year 2000, including without limitation that all computer-based systems, embedded microchips and other processing capabilities effectively recognize and process all dates before and after December 31, 1999 ("Y2K Compliant"). At our request, you shall provide to us assurance reasonably acceptable to us that your computer-based systems, embedded microchips and other processing capabilities are Y2K Compliant.

RISK OF LOSS

- You have the complete risk of loss or damage to the Collateral. Loss or damage to the Collateral will not relieve you of your obligation to make the Payments.

- If any Collateral is lost or damaged, you have two choices (although if you are in

default under this Master Agreement, we and not you will have the two choices). The choices are:

(1) Repair or replace the damaged or lost Collateral so that, once again, the Collateral is in good operating condition and we have a perfected first priority security interest in it.

(2) Pay us the present value (as of the date of payment) of the remaining Payments relating to the damaged or lost Collateral. We will calculate the present value using a discount rate of five (5%) percent per year. Once you have paid us this amount and any other amount that you may owe us, we will release our security interest in the damaged or lost Collateral and you (or your insurer) may keep the Collateral for salvage purposes, on an "AS IS, WHERE IS" basis.

INSURANCE

o Until you have made all Payments to us under this Master Agreement, the Schedules and the Notes, you will keep the Collateral insured. The amount of insurance, the coverage, and the insurance company must comply with the requirements of an insurance letter dated _____, from our Risk Management Department.

o If you do not provide us with written evidence of insurance that complies with such requirements, we may buy the insurance ourselves, at your expense. You will promptly pay us the cost of this insurance. We have no obligation to purchase any insurance. Any insurance that we purchase will be our insurance, and not yours.

o Insurance proceeds may be used to repair or replace damaged or lost Collateral or to pay us the present value of the Payments, as provided above.

o You appoint us as your "attorney-in-fact" to make claims under the insurance policies, to receive payments under the insurance policies, and to endorse your name on all documents, checks or drafts relating to insurance claims for Collateral.

TAXES

o You will pay all sales, use, excise, stamp, documentary and ad valorum taxes, license, recording and registration fees, assessments, fines, penalties and similar charges imposed on the ownership, possession, use, lease or rental of the equipment or on the Loan.

o You will pay all taxes (other than our federal or state net income taxes) imposed on you or on us regarding the Payments.

o You will reimburse us for any of these taxes that we pay or advance.

o You will file and pay for any personal property taxes on the Collateral.

FINANCIAL STATEMENTS

o If you have securities registered under the Securities Exchange Act of 1934, you will promptly give copies of any filings you make with the Securities and Exchange Commission (SEC) during the term. You and any guarantor will also provide us with the following financial statements:

o Quarterly balance sheet and statements of earnings and cash flow - within 45 days after the end of your first three fiscal quarters in each fiscal year. These will be certified by your chief financial officer.

* Annual balance sheet and statements of earnings and cash flow - within 90 days after the end of each fiscal year. These will be audited by independent auditors that, if not a "Big Five" accounting firm, must be

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acceptable to us. Their audit report must be unqualified.

Both the quarterly and annual financial statements will be accompanied by a certificate executed by your chief financial officer that you have complied with all covenants contained in the Master Agreement and that there are no events of default thereunder (the "Compliance Certificate").

These financial statements will be prepared according to generally accepted accounting principles, consistently applied.

All financial statements and SEC filings that you or any guarantor provide us will be true and complete. They will not fail to tell us anything that would make them materially not misleading.

6. DEFAULTS

You are in default if any of the following happens:

- You do not pay us, when it is due, any Payment or other payment that you owe us under this Master Agreement, any Schedule, Note or that you owe under any other agreement, loan or lease that you have with us.

- Any of the financial information that you give us is not true and complete, or you fail to tell us anything that would make the financial information not materially misleading.

- You do something you are not permitted to do, or you fail to do anything that is required of you, under this Master Agreement, any Schedule or any other lease, loan or other financial arrangement that you have with us, and do not cure this failure within twenty (20) days after we give notice to you.

- An event of default occurs for any other lease, loan or obligation of yours (or any guarantor) that exceeds $25,000 and continues beyond any applicable grace period provided therein.

- You or any guarantor file bankruptcy, or involuntary bankruptcy is filed against you or any guarantor.

- You or any guarantor are subject to any other insolvency proceeding other than bankruptcy (for example, a receivership action or an assignment for the benefit of creditors).

- Without our permission, you or any guarantor sell all or a substantial part of its assets, merge or consolidate, or a majority of your voting stock or interests (or any guarantor's voting stock or interests) is transferred.

- There is a material adverse change in your financial condition, business, operations or prospects, or that of any guarantor, from the condition that you disclosed to us in your application for credit.

REMEDIES, DEFAULT INTEREST, LATE FEES

If you are in default we may exercise one or more of our "remedies." Each of our remedies is independent. We may exercise any of our remedies, all of our remedies or none of our remedies. We may exercise them in any order we choose. Our exercise of any remedy will not prevent us from exercising any other remedy or be an "election of remedies." If we do not exercise a remedy, or if we delay in exercising a remedy, this does not mean that we are forgiving your default or that we are giving up our right to exercise the remedy. Our remedies allow us to do one or more of the following:

- "Accelerate" the Loan balance under any or all Notes. This means that we may require

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you to immediately pay us all Payments for the entire Term for any or all Schedules.

- Require you to immediately pay us all amounts that you are required to pay us for the entire Term of any other agreements, loans or leases that you have with us.

- Sue you for all Payments and other amounts you owe us plus the Prepayment Premium (see Section 1 above).

- Require you at your expense to assemble the Collateral at a location we request in the United States of America.

- Remove and repossess the Collateral from where it is located, without demand or notice, or make the Collateral inoperable. We have your permission to remove any physical obstructions to removal of the Collateral. We may also disconnect and separate all Collateral from other property. No court order, court hearing or "legal process" will be required for us to repossess the Collateral. You will not be entitled to any damages resulting from removal or repossession of the Collateral. We may use, ship, store, repair or lease any Collateral that we repossess. We may sell any repossessed Collateral at private or public sale. You give us permission to show the Collateral to buyers at your location free of charge during normal business hours. If we do this, we do not have to remove the Collateral from your location. If we repossess the Collateral and sell it, we will give you credit for the net sale price, after subtracting our costs of repossessing and selling the Collateral. If we rent the Collateral to somebody else, we will give you credit for the net rent received, after subtracting our costs of repossessing and renting the Collateral, but the credit will be discounted to present value using a discount rate equal to the Default Rate. The credit will be applied against what you owe us under this Master Agreement, the Schedules, the Notes and any other agreements, loans or leases that you have with us. If the credit exceeds the amount you owe under this Master Agreement, the Schedule, the Notes and any other agreements, loans or leases that you have with us, we will refund the amount of the excess to you.

- Return conditions: Following an Event of Default, at our request you will return the Collateral, freight and insurance prepaid by you, to us at a location we request in the United States of America. It will be returned in good operating condition, as required by Section 5 above. The Collateral will not be subject to any liens when it is returned. All advertising insignia will be removed and the finish will be painted or blended so that nobody can see that advertising insignia used to be there.

* You will pack or crate the Collateral for shipping in the original containers, or comparable ones. You will do this carefully and follow all recommendations of the Supplier and the Manufacturer as to packing or crating.

* You will also return to us the plans, specifications, operating manuals, software documentation, discs, warranties and other documents furnished by the Manufacturer or Supplier. You will also return to us all service logs and service reports, as well as all written materials that you may have concerning the maintenance and operation of the Collateral.

* At our request, you will provide us with up to 60 days free storage of the Collateral at your location, and will let us (or our agent) have access to the Collateral in order to inspect it and sell it.

* You will pay us what it costs us to repair the Collateral if you do not return it in the required condition.

You will also pay us for the following:

- All our expenses of enforcing our remedies. This includes all our expenses to repossess, store, ship, repair and sell the Collateral.

- Our reasonable attorney's fees and expenses.

- Default interest on everything you owe us from the date of your default to the date on which we are paid in full at the Default Rate.

You realize that the damages we could suffer as a result of your default are very uncertain. This is why we have agreed with you in advance on the Default Rate to be used in calculating the payments you will owe us if you default. You agree that, for these reasons, the payments you will owe us if you default are "agreed" or "liquidated" damages. You understand that these payments are not "penalties" or "forfeitures."

LATE FEES. You will pay us a late fee whenever you pay any amount that you owe us more than ten (10) days after it is due. You will pay the late fee within one month after the late Payment was originally due. The late fee will be ten (10%) percent of the late Payment. If this exceeds the highest legal amount we can charge you, you will only be required to pay the highest legal amount. The late fee is intended to reimburse us for our collection costs that are caused by late Payment. It is charged in addition to all other amounts you are required to pay us, including Default Interest.

7. EXPENSES AND INDEMNITIES

PERFORMING YOUR OBLIGATIONS IF YOU DO NOT

If you do not perform one or more of your obligations under this Master Agreement or a Schedule or Note, we may perform it for you. We will notify you in writing at least ten (10) days before we do this. We do not have to perform any of your obligations for you. If we do choose to perform them, you will pay us all of our expenses to perform the obligations. You will also reimburse us for any money that we advance to perform your obligations, together with interest at the Default Rate on that amount. These will be additional "Payments" that you will owe us and you will pay them at the same time that your next Payment is due.

- You will indemnify us, defend us and hold us harmless for any and all claims, expenses and attorney's fees concerning or arising from the Collateral, this Master Agreement, or any Schedule or Note, or your breach of any representation or warranty. It includes any claims concerning the manufacture, selection, delivery, possession, use, operation or return of the Collateral.

- This obligation of yours to indemnify us continues even after the Term is over.

8. MISCELLANEOUS

WE MAY ASSIGN OR GRANT A SECURITY INTEREST IN THIS AGREEMENT, ANY SCHEDULE, ANY NOTE OR ANY PAYMENTS WITHOUT YOUR PERMISSION. THE PERSON TO WHOM WE ASSIGN IS CALLED THE "ASSIGNEE." THE ASSIGNEE WILL NOT HAVE ANY OF OUR OBLIGATIONS UNDER THIS MASTER AGREEMENT. YOU WILL NOT BE ABLE TO RAISE ANY DEFENSE, COUNTERCLAIM OR OFFSET AGAINST THE ASSIGNEE.

AFTER ASSIGNMENT YOU MAY "QUIETLY ENJOY" THE USE OF THE COLLATERAL SO LONG AS YOU ARE NOT IN DEFAULT.

UNLESS YOU RECEIVE OUR WRITTEN PERMISSION, YOU MAY NOT ASSIGN OR TRANSFER YOUR RIGHTS UNDER THIS MASTER AGREEMENT OR ANY SCHEDULE. YOU ALSO ARE NOT ALLOWED TO LEASE OR RENT THE COLLATERAL OR LET ANYBODY ELSE

USE IT UNLESS WE GIVE YOU OUR WRITTEN PERMISSION.

WE DID NOT MANUFACTURE OR SUPPLY THE COLLATERAL. WE ARE NOT A DEALER IN THE COLLATERAL. INSTEAD, YOU CHOSE THE COLLATERAL.

WE DO NOT MAKE ANY WARRANTY AS TO THE COLLATERAL. WE DO NOT MAKE ANY WARRANTY AS TO "MERCHANTABILITY" OR "SUITABILITY" OR "FITNESS FOR A PARTICULAR PURPOSE" OR "NONINFRINGEMENT" OF ANY PATENT, COPYRIGHT OR OTHER INTELLECTUAL PROPERTY RIGHT.

WE WILL NOT BE RESPONSIBLE FOR ANY LOSS, DAMAGE, OR INJURY TO YOU OR ANYBODY ELSE AS A RESULT OF ANY DEFECTS, HIDDEN OR OTHERWISE, IN THE COLLATERAL UNDER "STRICT LIABILITY" LAWS OR ANY OTHER LAWS.

WE WILL NOT BE RESPONSIBLE FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, LOSS OF PROFITS OR GOODWILL.

If the Collateral is unsatisfactory, you will continue to pay us all Payments and other amounts you are required to pay us. You must seek repair or replacement of the equipment solely from the Manufacturer or Supplier and not from us. Neither the Manufacturer nor the Supplier is our "agent," so they cannot speak for us and they are not allowed to make any changes in this Master Agreement or any Schedule or Note, or give up any of our rights.

ACCEPTANCE BY FINOVA, GOVERNING LAW, JURISDICTION, VENUE, SERVICE OF PROCESS, WAIVER OF JURY TRIAL.

THIS MASTER AGREEMENT WILL ONLY BE BINDING WHEN WE HAVE ACCEPTED IT IN WRITING.

THIS MASTER AGREEMENT IS GOVERNED BY THE SUBSTANTIVE LAWS OF THE STATE OF ARIZONA (NOT INCLUDING THE "CHOICE OF LAW" DOCTRINE), THE STATE IN WHICH OUR OFFICE IS LOCATED IN WHICH FINAL APPROVAL OF THE TERMS OR CONDITIONS OF THIS MASTER AGREEMENT OCCURRED AND FROM WHICH DISBURSEMENT OF THE LOAN PROCEEDS WILL BE ORDERED. HOWEVER, IF THIS MASTER AGREEMENT IS UNENFORCEABLE UNDER ARIZONA LAW, IT WILL INSTEAD BE GOVERNED BY THE LAWS OF THE STATE IN WHICH THE COLLATERAL IS LOCATED.

YOU MAY ONLY SUE US IN A FEDERAL OR STATE COURT THAT IS LOCATED IN MARICOPA COUNTY, ARIZONA. THIS APPLIES TO ALL LAWSUITS UNDER ALL LEGAL THEORIES, INCLUDING CONTRACT, TORT AND STRICT LIABILITY. YOU CONSENT TO THE PERSONAL JURISDICTION OF THESE ARIZONA COURTS. YOU WILL NOT CLAIM THAT MARICOPA COUNTY, ARIZONA, IS AN "INCONVENIENT FORUM" OR THAT IT IS NOT A PROPER "VENUE."

WE MAY SUE YOU IN ANY COURT THAT HAS JURISDICTION. WE MAY SERVE YOU WITH PROCESS IN A LAWSUIT BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO YOUR ADDRESS INDICATED AFTER YOUR SIGNATURE BELOW.

YOU AND WE EACH WAIVE ANY RIGHT YOU OR WE MAY HAVE TO A JURY TRIAL IN ANY LAWSUIT BETWEEN YOU AND US.

NOTICES. We may give you written notice in person, by mail, by overnight delivery service, or by fax. Notice will be sent to your address below your signature. Mail notice will be effective three (3) days after we mail it with

prepaid postage to the address stated. Overnight delivery notice requires a receipt and tracking number. Fax notice requires a receipt from the sending machine showing that it has been sent to your fax number and received.

You may give us notice the same way that we may give you notice.

This Master Agreement benefits our successors and assigns. This Master Agreement benefits only those successors and assigns of yours that we have approved in writing.

This Master Agreement binds your successors and assigns. This Master Agreement binds only those successors and assigns of ours that clearly assume our obligations in writing.

TIME IS OF THE ESSENCE OF THIS MASTER AGREEMENT

This Master Agreement, all of the Schedules and the Notes and the Commitment Letter are together the entire agreement between you and us concerning the Collateral.

Only an employee of FINOVA who is authorized by corporate resolution or policy may modify or amend this Loan or any Schedule or Note on our behalf, and this must be in writing. Only he or she may give up any of our rights, and this must be in writing. If more than one person is the Borrower under this Master Agreement, then each of you is jointly and severally liable for your obligations under this Master Agreement.

This Master Agreement is only for your benefit and for our benefit, as well as our successors and assigns. It is not intended to benefit any other person.

If any provision in this Master Agreement is unenforceable, then that provision must be deleted. Only unenforceable provisions are to be deleted. The rest of this Master Agreement will remain as written.

PUBLICITY. We may make press releases and publish a tombstone announcing this transaction and its total amount. You may not publicize this transaction in any way without our prior written consent, although you may disclose information about this transaction that may be required by applicable law or the rules of the Nasdaq stock market or any securities exchange.

LENDER:	BORROWER:
FINOVA CAPITAL CORPORATION. 10 WATERSIDE DRIVE FARMINGTON, CT 06032-3065	LEXICON GENETICS INCORPORATED 4000 RESEARCH FOREST DRIVE THE WOODLANDS, TX 77381
BY: _____	BY: _____
PRINTED NAME: _____	PRINTED NAME: _____
TITLE: _____	TITLE: _____
FAX NUMBER: (860) 676-1814	Taxpayer ID# _____
DATE ACCEPTED: _____	FAX NUMBER: _____
	DATED: _____

STATE OF _____
COUNTY OF _____

I acknowledge that _____, who stated that he/she is _____ of the Borrower named above, signed this Master Loan and Security Agreement in my presence today: _____. He/She acknowledged to me that his/her signature on this Master Loan and Security Agreement was authorized by a valid resolution or other valid authorization from Borrower's board of directors or other governing body.

Notary Public

[SEAL]

Exhibit A
To Master Loan and Security Agreement No. S7260 dated as of May 21, 1999

PREPAYMENT PREMIUM

The Prepayment Premium shall be determined by multiplying the outstanding principal balance by the percentage amount shown below which corresponds with the month during the Term in which the prepayment occurs:

MONTH OF THE TERM	PERCENTAGE AMOUNT
1 THROUGH 24	NO PREPAYMENT IS ALLOWED
25 THROUGH 36	3%
37 THROUGH 48	2%

INITIAL

EXHIBIT 21.1

LIST OF SUBSIDIARIES OF LEXICON GENETICS INCORPORATED

None.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report (and to all references to our Firm) included in or made a part of this registration statement.

/s/ Arthur Andersen LLP

Houston, Texas
February 4, 2000

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LEXICON GENETICS INCORPORATED

YEAR
DEC-31-1999
JAN-01-1999
DEC-31-1999
2,025,585
7,130,848
3,391,648
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17,558,894
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302,802
(13,010,503)
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(13,010,503)
0
0
0
(13,010,503)
(1.59)
(1.59)