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

FORM 10-K/A
(AMENDMENT NO. 1)

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-30111

LEXICON GENETICS INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	76-0474169
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
8800 TECHNOLOGY FOREST PLACE THE WOODLANDS, TEXAS 77381	(281) 863-3000
(Address of Principal Executive Offices and Zip Code)	(Registrant's Telephone Number, Including Area Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, par value $0.001 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes [X] No [ ]

The aggregate market value of voting stock held by non-affiliates of the registrant as of the last day of the registrant's most recently completed second quarter was approximately $198.3 million, based on the closing price of the common stock on the Nasdaq National Market on June 30, 2003 of $6.60 per share. For purposes of the preceding sentence only, all directors, executive officers and beneficial owners of ten percent or more of the registrant's common stock are assumed to be affiliates. As of June 30, 2004, 63,409,081 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

No documents are incorporated by reference into this Form 10-K/A.

EXPLANATORY NOTE

We are filing this amendment to our Annual Report on Form 10-K for the year ended December 31, 2003, originally filed with the Securities and Exchange Commission on March 12, 2004, solely for the purpose of filing revised versions of Exhibits 10.14 and 10.15 to disclose certain information for which confidential treatment had been initially requested. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, we are including Item 15 below. Except as specifically indicated herein, no other information included in our Annual Report on Form 10-K for the year ended December 31, 2003 is amended by this Form 10-K/A.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as a part of this report:

1. Consolidated Financial Statements

	PAGE
Report of Independent Auditors	F-1
Report of Independent Public Accountants	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Stockholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

All other financial statement schedules are omitted because they are not applicable or not required, or because the required information is included in the financial statements or notes thereto.

2. Exhibits

EXHIBIT NO.		DESCRIPTION
3.1	--	Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
3.2	--	Restated Bylaws (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.1	--	Employment Agreement with Arthur T. Sands, M.D., Ph.D. (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.2	--	Employment Agreement with James R. Piggott, Ph.D. (filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.3	--	Employment Agreement with Jeffrey L. Wade, J.D. (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.4	--	Employment Agreement with Brian P. Zambrowicz, Ph.D. (filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.5	--	Employment Agreement with Julia P. Gregory (filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.6	--	Employment Agreement with Alan Main, Ph.D. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001 and incorporated by reference herein).

EXHIBIT NO.		DESCRIPTION
10.7	--	Form of Indemnification Agreement with Officers and Directors (filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.8	--	2000 Equity Incentive Plan (filed as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.9	--	2000 Non-Employee Directors' Stock Option Plan (filed as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.10	--	Coelacanth Corporation 1999 Stock Option Plan (filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (Registration No. 333-66380) and incorporated by reference herein).
+10.11	--	LexVision Database and Collaboration Agreement, dated September 26, 2000, with Bristol-Myers Squibb Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 26, 2000 and incorporated by reference herein).
+10.12	--	LexVision Database and Collaboration Agreement, dated June 27, 2001, with Incyte Genomics, Inc. (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001 and incorporated by reference herein).
+10.13	--	Therapeutic Protein Alliance Agreement, dated June 27, 2001, with Incyte Genomics, Inc. (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2001 and incorporated by reference herein).
*+10.14	--	Amended and Restated Collaboration and License Agreement, dated November 19, 2003, with Genentech, Inc.
*+10.15	--	Collaboration and License Agreement, dated December 17, 2003, with Bristol-Myers Squibb Company
10.16	--	Synthetic Lease Financing Facility with First Security Bank, National Association, the Lenders and Holders named therein, and Bank of America, N.A. (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated by reference herein).
10.17	--	Lease Agreement, dated October 21, 1998, between Coelacanth Chemical Corporation and ARE-279 Princeton Road, LLC. (filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated by reference herein).
10.18	--	Lease Agreement, dated May 23, 2002, between Lexicon Pharmaceuticals (New Jersey), Inc. and Townsend Property Trust Limited Partnership (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002 and incorporated by reference herein).
21.1	--	Subsidiaries (filed as Exhibit 21.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated by reference herein).
**23.1	--	Consent of Ernst & Young LLP
**23.2	--	Information regarding consent of Arthur Andersen LLP
**24.1	--	Power of Attorney (contained in signature page)
*31.1	--	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	--	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	--	Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT NO.		DESCRIPTION
99.1	--	Letter to the Securities and Exchange Commission regarding Audit Assurances (filed as Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated by reference herein).

---

* Filed herewith.

** Previously filed.

\+ Confidential treatment has been requested for a portion of this exhibit. The confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission.

(b) Reports on Form 8-K:

On October 30, 2003, we filed a Current Report on Form 8-K dated October 30, 2003 relating to our issuance of a press release reporting our financial results for the quarter ended September 30, 2003, which press release included our consolidated balance sheet data and consolidated statements of operations data for the period.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LEXICON GENETICS INCORPORATED

Date: July 16, 2004 By: *

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

Date: July 16, 2004 By: *

Julia P. Gregory
Executive Vice President, Corporate Development and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
*	President and Chief Executive Officer (Principal Executive Officer)	July 16, 2004
Arthur T. Sands, M.D., Ph.D.		
*	Executive Vice President, Corporate Development and Chief Financial Officer (Principal Financial and Accounting Officer)	July 16, 2004
Julia P. Gregory		
*	Chairman of the Board of Directors	July 16, 2004
C. Thomas Caskey, M.D.		
*	Director	July 16, 2004
Sam L. Barker, Ph.D.		
*	Director	July 16, 2004
Patricia M. Cloherty		
*	Director	July 16, 2004
Robert J. Lefkowitz, M.D.		
*	Director	July 16, 2004
Alan S. Nies. M.D.		

* By: /s/ Jeffrey L. Wade
Jeffrey L. Wade

Pursuant to powers-of-attorney filed on March 12, 2004 with the Annual Report on Form 10-K for the year ended December 31, 2003

EXHIBIT INDEX

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EXHIBIT 10.14

CONFIDENTIAL MATERIALS OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. ASTERISKS DENOTE OMISSIONS.

AMENDED AND RESTATED

COLLABORATION AND LICENSE AGREEMENT

This Amended and Restated Collaboration and License Agreement (the "Agreement") is executed as of the 19 day of November, 2003 and made effective as of the 17 day of December, 2002 (the "Effective Date") between Genentech, Inc., a Delaware corporation having its principal place of business at 1 DNA Way, South San Francisco, California 94080 ("Genentech"), and Lexicon Genetics Incorporated, a Delaware corporation having its principal place of business at 8800 Technology Forest Place, The Woodlands, TX 77381-1160 ("Lexicon"). The Agreement amends and restates that certain Collaboration and License Agreement between Genentech and Lexicon dated as of December 17, 2002 (the "Original Agreement"). Throughout the Agreement, Genentech and Lexicon are sometimes referred to individually as a "Party" and collectively as "Parties."

RECITALS

WHEREAS, Genentech is in the business of using human genetic information to discover, develop, manufacture and market pharmaceutical products; and

WHEREAS, Lexicon possesses certain knowledge and experience in the design, generation, and phenotypic analysis of Knock-Out Mice and ES Cell Lines; and

WHEREAS, Genentech desires, on the terms and conditions contained herein, for Lexicon to generate Knock-Out Mice and ES Cell Lines for Genentech based on human gene sequences provided by Genentech and then to analyze such Knock-Out Mice and ES Cell Lines, and Lexicon desires, on the terms and conditions, and for the consideration, contained herein, to undertake such activities; and

NOW THEREFORE, in consideration of the foregoing premises and the mutual covenants contained in this Agreement, the Parties agree as follows:

ARTICLE 1

DEFINITIONS

Terms defined in this Article 1 and parenthetically elsewhere, including in the introductory paragraph and recitals, will have the same meaning throughout this Agreement, unless otherwise specified. Defined terms are capitalized and may be used in the singular or plural.

1.1 "ACADEMIC COLLABORATOR" means a principal investigator, employed at a university or other not-for-profit academic research institution that has entered into a material transfer agreement with Genentech pursuant to Section 5.10, who is performing collaborative research with Genentech involving use of a Knock-Out Mouse or Progeny.

1.2 "ACTUAL KNOWLEDGE" of a Party means knowledge or awareness of a fact by any board member or officer of such Party or of an Affiliate of such Party, or any employee or agent of such Party that a board member or officer would reasonably consult with regard to a particular fact, in each case after making reasonable inquiries and investigations.

1.3 "AFFILIATE" of a Party means any person or corporation, joint venture, or other business entity which directly (or indirectly through one or more intermediaries) controls, is controlled by, or is under common control with such Party, as the case may be. For purposes of this definition only, the terms "controls," "controlled," and "control" mean the direct or indirect ability or power to direct or cause the direction of the management and policies of an entity or otherwise direct the affairs of such entity, whether through ownership of equity, voting securities, or beneficial interest, by contract, or otherwise. Notwithstanding the foregoing, F. Hoffmann-La Roche Ltd and its affiliates shall not be considered Affiliates of Genentech for purposes of this Agreement.

1.4 "APPLICABLE LAWS" means all applicable statutes, ordinances, regulations, rules, or orders of any kind whatsoever of any government authority or court of competent jurisdiction.

1.5 "BLA" means a Biologics License Application filed with the FDA in the United States or a corresponding application filed with a governmental authority in any other country, together with all additions, deletions and supplements thereto.

1.6 "CALENDAR QUARTER" means a period of three (3) consecutive calendar months ending on either March 31, June 30, September 30, or December 31.

1.7 "CALENDAR YEAR" means the respective period of a year commencing on January 1 and ending on December 31.

1.8 "COMMERCIALLY REASONABLE EFFORTS" or "commercially reasonable efforts" means those diligent efforts consistent with the exercise of prudent scientific and business judgment, as applied to its own high priority research projects or pharmaceutical products by the Party in question. With regard to the creation and generation of Knock-Out Mice for a Project, such efforts shall be deemed to have been exhausted if Lexicon has [**] and (i) [**] or (ii) [**].

1.9 "CONFIDENTIAL INFORMATION" means Lexicon Confidential Information, Project Confidential Information and/or Genentech Confidential Information, as applicable.

1.10 "CONTRACT SERVICE PROVIDER" means any Third Person that enters into an agreement with Genentech providing for the performance of services for Genentech, on a fee for service basis, relating to the [**].

1.11 "DERIVATIVE PROTEIN" means (i) [**] or (ii) [**].

1.12 "DOLLARS" means United States dollars.

1.13 "EFFECTIVE DATE" has the meaning set forth in the introductory paragraph of the Agreement.

1.14 "ES CELL LINE" means the embryonic stem cell line used to produce a line of Knock-Out Mice containing within their genome the corresponding mutated gene. With regard to ES Cell Lines to be delivered to Genentech pursuant to this Agreement, the term ES Cell Line, with respect to each Project Gene, shall refer to [**].

1.15 "FDA" means the U.S. Food and Drug Administration or corresponding governmental authority in another country.

1.16 "FIELD" means any human or animal healthcare applications including, without limitation, the diagnosis, prevention and treatment of diseases or conditions.

1.17 "FIRST PASS PHENOTYPIC ANALYSIS" means the tests, observations, and analyses listed on Exhibit A that Lexicon will use Commercially Reasonable Efforts to perform, under Section 3.3, on the Knock-Out Mice of each Project.

1.18 "FORCE MAJEURE" means acts of God, strikes, civil disturbances, earthquakes, fires, floods, explosions, riots, war, rebellion, sabotage, acts or failure to act of governmental authority, or any other cause beyond the reasonable control and without negligence of the defaulting Party, provided that the Party claiming force majeure has exerted all reasonable efforts to promptly remedy such force majeure.

1.19 "GAAP" shall mean United States generally accepted accounting principles, consistently applied.

1.20 "GENENTECH CONFIDENTIAL INFORMATION" means all proprietary discoveries, trade secrets, inventions (whether or not patentable), data, materials and information disclosed or provided by, or on behalf of, Genentech to Lexicon or its designees in connection with this Agreement (including, but not limited to, Genentech Gene Patents and Know-How) other than Project Confidential Information, whether provided prior to, or after, the Effective Date and whether provided orally, electronically, visually, or in writing, except such discoveries, trade secrets, inventions, data, materials or information that Lexicon can demonstrate, through its contemporaneous written records:

(i) was known to Lexicon or to the public prior to Genentech's disclosure hereunder;

(ii) became known to the public, after Genentech's disclosure hereunder, other than through an unauthorized act of Lexicon or of any person to whom Lexicon disclosed such information;

(iii) was subsequently disclosed to Lexicon by a person having lawful possession of, and a legal right to disclose without any restrictions, such information; or

(iv) was developed by Lexicon without use, and independent, of Genentech Confidential Information.

1.21 "GENENTECH GENE PATENTS AND KNOW HOW" means (i) all Patents which are owned, controlled or licensed by Genentech as of the Effective Date or which are created or acquired by Genentech during the course of this Agreement and which claim a Project Gene, polypeptides encoded by such genes and/or antibodies directed toward such polypeptides and/or methods of treatment employing such genes, polypeptides and/or antibodies (also referred to herein as a "Genentech Gene Patent") and (ii) all Know-How which is owned, controlled or licensed by Genentech as of the Effective Date or which is created or acquired by Genentech during the course of this Agreement which relates to any of the Project Genes (also referred to herein as "Genentech Gene Know-How"); provided that Genentech Gene Patents and Know-How shall not include Project Patents and Know-How. Without limiting the generality of the foregoing, Genentech Gene Know How includes any Genentech Confidential Information regarding Project Genes [**] supplied by Genentech to Lexicon hereunder. Except as expressly set forth herein, Genentech shall have no obligation to transfer Genentech Gene Know-How to Lexicon.

1.22 "GROSS SALES" means, with respect to a Licensed Product, the gross amount invoiced by Genentech, its Affiliates and Product Licensees, as applicable, for sales of such Licensed Product to Third Persons.

1.23 "IND" means an Investigational New Drug Application filed with the FDA in the United States, or a corresponding application filed with a regulatory agency in any other country, together with all additions, deletions, and supplements thereto.

1.24 "KNOCK-OUT MOUSE" means a mouse made by Lexicon pursuant to this Agreement in which Lexicon has interrupted, disrupted, or deleted a specific gene or portion thereof, homologous to a Project Gene, to inactivate the function of such gene in such mouse.

1.25 "KNOW-HOW" means all proprietary information, trade secrets, techniques and data (including Confidential Information) of a Party that are owned, controlled or licensed by such a Party as of the Effective Date or thereafter during the term of this Agreement, including but not limited to, discoveries, formulae, materials, practices, methods, knowledge, processes, experience, test data (including pharmacological, toxicological and clinical information and test data), analytical and quality control data, marketing, pricing, distribution, cost and sales data or descriptions. Know-How may be

made prior to the Effective Date or after the Effective Date whether or not during the course of, in furtherance of, and as a direct result of the activities of one or more Parties hereunder. Know-How may be made by employees of Lexicon, solely or jointly with a Third Person, by employees of Genentech, solely or jointly with a Third Person, or jointly by employees of Lexicon and Genentech, alone or together with a Third Person. Know-How does not include Patents.

1.26 "LEXICON CONFIDENTIAL INFORMATION" means all proprietary discoveries, trade secrets, inventions (whether or not patentable), data, materials, and information disclosed or provided by, or on behalf of, Lexicon to Genentech or its designees in connection with this Agreement (including, but not limited to, Lexicon Knock-Out Technology), other than Project Confidential Information, whether provided prior to, or after, the Effective Date and whether provided orally, electronically, visually, or in writing, except such discoveries, trade secrets, inventions, materials, data, or information that Genentech can demonstrate, through its contemporaneous written records:

(i) was known to Genentech or to the public prior to Lexicon's disclosure hereunder;

(ii) became known to the public, after Lexicon's disclosure hereunder, other than through an unauthorized act of Genentech or of any person to whom Genentech disclosed such information;

(iii) was subsequently disclosed to Genentech by a person having lawful possession of, and a legal right to disclose without any restrictions, such information; or

(iv) was developed by Genentech without use, and independent, of Lexicon Confidential Information.

1.27 "LEXICON KNOCK-OUT TECHNOLOGY" means all Patents and Know How which are (i) owned, controlled or licensed by Lexicon as of the Effective Date or created or acquired by Lexicon during the course of this Agreement and (ii) related to a process or method used in the creation or generation of Knock-Out or transgenic mice, including the process for creating Knock-Out Mice and Overexpression Mice. "Lexicon Knock-out Technology" shall also include (A) the Know-How consisting of the Knock-Out Mice and the Overexpression Mice; the Know-How consisting of ES Cell Lines; and the Know-How consisting of biological materials (such as nucleic acid sequences, RNA, DNA, organisms, proteins, polypeptides, plasmids and vectors) used for the creation of such Knock-Out Mice and Overexpression Mice, but not the Know-How related to the biological materials and/or sequence information provided by Genentech to Lexicon or known to Genentech (as evidenced by written records) prior to the Effective Date; and (B) Patents claiming such Know How. "Lexicon Knock-Out Technology" shall not include Patents claiming Know-How to the extent that such Patents claim methods of making or methods of use of Proteins or nucleic acids encoding such Proteins.

1.28 "LEXICON PRE-EXISTING PATENTS AND KNOW-HOW" means all Patents ("Lexicon Pre-Existing Patents") and Know-How ("Lexicon Pre-Existing Know-How") which are (i) owned, controlled or licensed by Lexicon as of the Effective Date, or involve a Project Gene for which Lexicon had already [**] prior to the initial proposal of such Project Gene by Genentech and (ii) related to a Pre-Existing Project, a Project Gene, a Protein Candidate or a Licensed Product, provided in each case that Lexicon Pre-Existing Patents and Know-How shall not include (a) Lexicon Knock-Out Technology, (b) Genentech Gene Patents and Know How, (c) Project Patents and Know How, (d) Restricted Rights Project Patents and Know-How, (e) general Patents that cover inventions that could be used for products other than products under which Genentech has a license pursuant to Article 5, including, without limitation, Patents covering manufacturing or process inventions, or (f) that portion of any such Patent or Know-How which is beyond the scope of the work performed by Lexicon for Projects other than Pre-Existing Projects.

1.29 "LICENSED PRODUCT" means a pharmaceutical preparation other than a Small Molecule Drug that is ready for administration to the ultimate consumer and that (i) contains as the active pharmaceutical ingredient a Protein Candidate or (ii) that directly modulates a Protein Candidate, or the gene that encodes a Protein Candidate.

1.30 "NDA" means a New Drug Application filed with the FDA in the United States, or a corresponding application filed with a regulatory agency in any other country, together with all additions, deletions, and supplements thereto.

1.31 "NET SALES" means, with respect to a Licensed Product, Gross Sales of such Licensed Product less Sales Returns and Allowances for such Licensed Product.

1.32 "NOTE AGREEMENT" shall have the meaning set forth in Section 7.14.

1.33 "OVEREXPRESSION ANALYSIS" has the meaning set forth in Section 3.6.

1.34 "OVEREXPRESSION MOUSE" means a mouse made by Lexicon under this Agreement in which Lexicon has overexpressed a specific gene or portion thereof, homologous to a Project Gene, [**], to exaggerate the function of such gene in such mouse.

1.35 "PATENT" means:

(i) a U.S. and corresponding foreign patent application (including provisional application, division, refiling, continuation, continuation-in-part, reissue and re-examination thereof); and

(ii) any patent (including without limitation, any substitution, extension, reissue, renewal, re-examination, patent of addition, supplementary protection certificate and inventors' certificate) that has issued or may issue in the future from any patent application described in Subsection (i).

1.36 "PHASE III CLINICAL TRIAL" means, as to a specific Licensed Product, a controlled and lawful study in humans of the efficacy and safety of such Licensed Product, which is prospectively designed to demonstrate statistically whether such Licensed Product is effective and safe for use in a particular indication in a manner sufficient to file a BLA or NDA to obtain regulatory approval to market and sell that Licensed Product in the United States or another country for the indication being investigated by the study, as further defined in Federal Regulation 21 C.F.R. 312.21.

1.37 "PIPELINE PROJECT" means a Project involving a Project Gene for which Lexicon had already created or begun to create (i.e., to the stage of targeting vector generation or beyond), prior to the proposal of such Project Gene by Genentech, a Knock-Out Mouse involving a mouse or human gene sequence, as the case may be, with [**] to the full length sequence of any Proposed Gene, as determined at the protein level using [**].

1.38 "PRE-EXISTING PROJECT" means a Pipeline Project involving a Project Gene for which Lexicon had already [**] prior to the proposal of such Project Gene by Genentech.

1.39 "PRODUCT LICENSEE" means any Third Person which enters into an agreement with Genentech or its Affiliates involving the grant to such Third Person of a license to sell a Licensed Product.

1.40 "PROGENY" means mice, including successive generations thereof, that are produced or developed by Genentech, its Affiliates or Academic Collaborators by breeding a Knock-Out Mouse with any other mouse (including, without limitation, any other Knock-Out Mouse).

1.41 "PROJECT" has the meaning set forth in Section 3.1(e).

1.42 "PROJECT CONFIDENTIAL INFORMATION" means all discoveries, trade secrets, inventions (whether or not patentable), data, materials, and information created by either Party, or created jointly by both Parties, in connection with this Agreement (including, but not limited to, Project Patents and Project Know How) and that are created during the course of performing the activities contemplated by this Agreement, and whether provided orally, electronically, visually or in writing, except such discoveries, trade secrets, inventions, materials, data, or information that a Party can demonstrate, through its contemporaneous written records:

(i) was known to such Party or to the public prior to its creation hereunder;

(ii) became known to the public, after its creation hereunder, other than through an unauthorized act of such Party or of any person to whom such Party disclosed such information;

(iii) was subsequently disclosed to such Party by a person having lawful possession of, and a legal right to disclose without any restrictions, such information; or

(iv) was developed by such Party without use, and independent, of the Project Confidential Information.

1.43 "PROJECT GENE" has the meaning set forth in Section 3.1(e); provided that a Rejected Proposed Gene shall not be a Project Gene.

1.44 "PROJECT MATERIALS" means, with respect to a Project, (i) the Knock-Out Mice made in the course of such Project, [**], and, if applicable, [**], (ii) the data from the First Pass Phenotypic Analysis of such Knock-Out Mice, (iii) the Overexpression Mice, if any, made in the course of such Project and (iv) the data, if any, from the Overexpression Analysis of such Overexpression Mice.

1.45 "PROJECT PATENTS AND KNOW-HOW" means all Patents (also referred to herein as "Project Patents") and Know How (also referred to herein as "Project Know How") (i) created or acquired by either Party during the course of and in connection with this Agreement and (ii) which are based upon data and other information reviewed by the Steering Committee related to a Project Gene or Protein Candidate; provided in each case that Project Patents and Know How shall not include (A) Lexicon Knock-Out Technology, (B) Genentech Gene Patents and Know-How, (C) Lexicon Pre-Existing Patents and Know-How, (D) Restricted Rights Project Patents and Know-How, (E) general Patents that cover inventions that could be used for products other than a Licensed Product, including, without limitation, Patents covering manufacturing or process inventions, or (F) any Patent or Know-How arising from work performed not in relation to this Agreement. Any Know-How created or acquired by Genentech after a Project Gene has been designated as a Rejected Project Gene (or Patents claiming any such Know-How) shall not be included in the definition of Project Patents and Know-How and shall not be subject to this Agreement.

1.46 "PROPOSED GENE" means a human gene sequence proposed by Genentech under Section 3.1(a), (i) that Genentech believes is the full-length gene sequence for a Protein and (ii) for which a patent application owned or controlled by Genentech has been filed claiming such full-length human gene sequence and the Protein believed to be produced by such gene.

1.47 "PROTEIN" means a high molecular weight [**], polymer compound composed of a variety of amino acids joined by peptide linkages, including allelic variants thereof and post-translationally modified variants thereof (e.g., glycosylated proteins) that is produced by a Proposed Gene or a Project Gene.

1.48 "PROTEIN CANDIDATE" has the meaning set forth in Section 3.5, and shall include Derivative Proteins.

1.49 "REGULATORY APPROVAL" means any and all approvals (including pricing and reimbursement approvals), licenses, registrations or authorizations of any kind of the FDA (or foreign equivalent) necessary for the marketing and sale of a Licensed Product in any country or other regulatory jurisdiction. "Regulatory Approval" shall include,

without limitation, approval granted with respect to any BLA, NDA or other foreign equivalent.

1.50 "REJECTED PROJECT GENE" means a Project Gene whose Protein is not designated as a Protein Candidate under Section 3.5(c).

1.51 "REJECTED PROPOSED GENE" means a Proposed Gene (i) that is rejected under Section 3.1(b), (c) or (d), (ii) that is removed from the collaboration under Section 3.1(f), (iii) that is deemed a Rejected Gene pursuant to Section 3.2(a), (iv) for which the Steering Committee does not vote, under Section 3.2(b), to proceed or (v) that is designated a Rejected Proposed Gene under Section 3.3(a).

1.52 "RESTRICTED RIGHTS PROJECT" means a Project involving a Project Gene which is subject to [**] prior to the initial proposal of such Project Gene by Genentech.

1.53 "RESTRICTED RIGHTS PROJECT PATENTS AND KNOW-HOW" means all Patents (also referred to herein as "Restricted Rights Project Patents") and Know How (also referred to herein as "Restricted Rights Project Know How") which are (i) owned, controlled or licensed by Lexicon as of the Effective Date or created or acquired by Lexicon during the course of and in connection with this Agreement and (ii) which are based upon data and other information reviewed by the Steering Committee related to a Project Gene or Protein Candidate in connection with a Restricted Rights Project; provided in each case that Restricted Rights Project Patents and Know How shall not include (A) Lexicon Knock-Out Technology, (B) Genentech Gene Patents and Know-How, (C) general Patents that cover inventions that could be used for products other than a Licensed Product, including, without limitation, Patents covering manufacturing or process inventions, or (D) any Patent claims or Know-How arising from work performed not in relation to this Agreement.

1.54 "SALES RETURNS AND ALLOWANCES" means, with respect to a Licensed Product, the sum of (a) and (b), where: (a) is a provision, [**] for sales of such Licensed Product under GAAP as provided hereinabove for (i) cash and quantity discounts or rebates on such Licensed Product (other than price discounts granted at the time of invoicing and which are included in the determination of Gross Sales), (ii) credits or allowances given or made for rejection or return of previously sold Licensed Product or for retroactive price reductions (including Medicare and similar types of rebates and chargebacks), (iii) sales taxes, duties or other governmental charges levied on or measured by the billing amount for such Licensed Product, as adjusted for rebates and refunds, (iv) charges for freight and insurance directly related to the distribution of such Licensed Product, to the extent included in the invoice to the customer, and (v) credits for allowances given or made for wastage replacement, indigent patient and any other sales programs agreed to by the Parties for such Licensed Product; and (b) is a periodic adjustment of the provision determined in (a) to reflect amounts actually incurred by Genentech, its Affiliates and Product Licensees, as applicable, for items (i), (ii), (iii), (iv) and (v) in clause (a).

1.55 "SMALL MOLECULE DRUG" means any pharmaceutical compound for the treatment of any human or animal disease or condition, the active ingredient of which is a synthetically prepared, or a naturally derived chemical compound [**]; provided, however, that "Small Molecule Drug" specifically excludes any compound which consists of or incorporates as an active ingredient a Protein, a Derivative Protein, a nucleic acid oligomer, or an antibody or any fragment thereof.

1.56 "STEERING COMMITTEE" means the committee established and described in Article 2.

1.57 "THIRD PERSON" means any person or entity other than Lexicon, Genentech or any Affiliate of Lexicon or Genentech.

ARTICLE 2

GOVERNANCE OF RESEARCH

2.1 CREATION OF A STEERING COMMITTEE. Within [**] of the Effective Date, the Parties shall establish a Steering Committee to oversee the Parties' activities under Article 3 of this Agreement. The Steering Committee shall be comprised of [**], but each Party may change its Steering Committee members at any time by giving prior written notice to the other Party.

2.2 STEERING COMMITTEE RESPONSIBILITIES. The Steering Committee shall have the following responsibilities, as well as any additional responsibilities expressly set forth in this Agreement:

(i) receiving and reviewing reports and data received from a Party from time to time as set forth herein, including without limitation the submission of Proposed Genes, data related to the murine homology of Proposed Genes, results of the First Pass Phenotypic Analysis and Overexpression Analysis;

(ii) receiving notices from the Parties as set forth herein, including without limitation notices of delays or stalled research pursuant to Section 3.3(a);

(iii) the designation of Project Genes and Protein Candidates under Sections 3.1 and 3.5, respectively;

(iv) coordinating the activities of the Parties hereunder;

(v) developing and implementing a publicity strategy and policy for the review and approval of press releases and publications in accordance with Section 9.4;

(vi) settling disputes or disagreements that arise between the parties as set forth in Article 13; and

(vii) performing such other functions as appropriate to further the purposes of this Agreement, as determined by the Parties.

2.3 STEERING COMMITTEE DECISIONS. All Steering Committee decisions will be made by [**] of all the Steering Committee's members, except as expressly stated otherwise in this Agreement. Each Steering Committee member will have one vote, and a Steering Committee member need not be present in order to vote; the Steering Committee member(s) of a Party that are present for, or participating in, a decision shall have the authority to vote on behalf of the Steering Committee member(s) of such Party who are not present for, or participating in, such decision.

2.4 STEERING COMMITTEE MEETINGS. Within [**] after the Effective Date, the Steering Committee will hold an in-person organizational meeting to establish the Committee's operating procedures. After such initial meeting, the Steering Committee will meet at such other times as are unanimously agreed to by the Steering Committee members, but no less than once each Calendar Quarter. Such meetings may be in-person, via videoconference, or via teleconference, provided that at least one meeting per Calendar Year shall be held in person. The location of in-person Steering Committee meetings will alternate between South San Francisco, California and The Woodlands, Texas. Each Party will bear the expense of its respective Committee members' participation in Steering Committee meetings. Minutes will be kept of all Steering Committee meetings. Responsibility for keeping minutes will alternate between the Parties, beginning with Genentech. Meeting minutes will be sent to each member of the Steering Committee for review as soon as practicable after a meeting.

2.5 DISSOLUTION OF THE STEERING COMMITTEE. Upon the expiration of [**] after all of the activities of Lexicon that have been approved by the Steering Committee have been completed, the Steering Committee will have no further responsibilities or authority under this Agreement and will be considered dissolved by the Parties.

ARTICLE 3

KNOCK-OUT MICE PROJECTS

3.1 GENENTECH SUBMISSION OF PROPOSED GENES.

(a) Initial Submission of Proposed Genes. Genentech, within [**], will provide the Steering Committee with a written list of up to five hundred (500) Proposed Genes, together with the date of Genentech's initial Patent filing with regard to each such Proposed Gene.

(b) Delivery of Notice by Lexicon. Within [**] of the delivery by Genentech of the list of Proposed Genes (or, with respect to replacement Proposed Genes proposed by Genentech under Section 3.1(b), (c) or (f) or Section 3.2(a), within [**] of the delivery by Genentech of notice to the Steering Committee of such replacement), Lexicon will notify the Steering Committee in writing as to whether or not: (i) to Lexicon's Actual Knowledge, Lexicon's conducting the activities contemplated by this Agreement with regard to such Proposed Gene would infringe patents or other intellectual property rights under which Lexicon is not licensed through this Agreement or otherwise; or (ii) Lexicon is working (or under contractual obligation to begin work) for, or on behalf of, any other person or entity or for itself involving a mouse or human gene sequence, as the case may be, with [**] to any Proposed Gene, as determined at the protein level using [**]. If so, Lexicon shall additionally notify Genentech which Proposed Gene(s) are the subject of such patents or intellectual property rights or such work, as the case may be, and whether such work is under an exclusive or non-exclusive license or arrangement for any Proposed Gene. Any Proposed Gene for which Lexicon is working for a Third Person under an exclusive license or arrangement shall automatically be deemed a Rejected Proposed Gene; provided, however, that Genentech may propose [**], in which case Lexicon will [**] and, if the Steering Committee elects to [**], the Parties will [**]. In the event Genentech does not [**], Genentech shall have the sole right, but not the obligation, to propose another Proposed Gene in the place of such Rejected Proposed Gene for the Steering Committee's review and approval, by notice to the Steering Committee within [**] of Lexicon's notice.

(c) Rejection of Proposed Genes by Lexicon; Proposal of Replacement Proposed Genes by Genentech. Lexicon shall not be obligated to develop, produce or deliver a Knock-Out Mouse related to a Proposed Gene where Lexicon reasonably believes, with the advice of its counsel and the Steering Committee, that such action would infringe the intellectual property rights of a Third Person. Such Proposed Gene shall become a Rejected Proposed Gene and the Steering Committee shall adopt an acceptable solution including, but not limited to, the identification by Genentech of an alternative Proposed Gene. Lexicon shall further have the sole right, but not the obligation, to reject any Proposed Gene for which Lexicon reasonably believes, with the advice of its counsel and the Steering Committee, that Genentech was not the first to file a patent application, but only in cases where the Steering Committee reasonably believes [**], by notice to the Steering Committee within the period specified in Section 3.1(b), in which case Lexicon shall have the right to designate such Proposed Gene as a Rejected Proposed Gene. In such event, Genentech shall have the sole right, but not the obligation, to propose another Proposed Gene in the place of such Rejected Proposed Gene for the Steering Committee's review and approval, by notice to the Steering Committee within [**] of Lexicon's notice.

(d) Removal of Proposed Genes by Genentech. Within [**] of Genentech's receipt of Lexicon's notice under Section 3.1(b), Genentech shall inform Lexicon which, if any, of the Proposed Genes referenced in Lexicon's notice (and not automatically deemed a Rejected Proposed Gene under Section 3.1(b)) Genentech elects to remove

from the collaboration and, thereafter, all such removed Proposed Genes shall constitute Rejected Proposed Genes. Genentech shall have no right to propose a replacement Proposed Gene for any Proposed Gene that it elects to remove from the collaboration under this Section 3.1(d).

(e) Designation of Project Genes. Following Genentech's notice pursuant to Section 3.1(d), the remaining Proposed Genes shall constitute "Project Genes" (and the work performed hereunder with regard to such Project Gene shall be deemed a corresponding "Project"), and be deemed to be submitted to the collaboration for Lexicon to begin determining, as fully described in Section 3.2(a), the murine gene that is homologous to each such Project Gene. Except as set forth in this Section 3.1, Lexicon, acting through the Steering Committee or otherwise, shall not have the ability to prevent the submission of a Project Gene to the collaboration for Lexicon to conduct its activities under Section 3.2(a) regarding such Project Gene. To the extent that the total number of Project Genes is less than (i) 500 minus (ii) the number of Proposed Genes removed by Genentech under Section 3.1(d), Genentech shall have the right, during the period ending [**], to propose up to [**] additional Proposed Genes, until the aggregate number of Project Genes is (x) 500 minus (y) the number of Proposed Genes removed by Genentech under Section 3.1(d). Within [**] following each designation of Proposed Genes as Project Genes hereunder, Lexicon shall provide Genentech with a list of the Projects, if any, that are Pipeline Projects and/or Pre-Existing Projects, and the stage of each such Pipeline Project or Pre-Existing Project, as the case may be.

(f) Removal and Replacement of Project Genes by Genentech. At any time prior to [**], Genentech shall have the sole right, but not the obligation, to remove such Project Gene and/or propose another Proposed Gene for the Steering Committee's review and approval, by delivering notice thereof to the Steering Committee; provided, however, that Genentech shall not be permitted to remove more than [**] Project Genes pursuant to this Section 3.1(f); and provided, further, that Genentech shall reimburse Lexicon for all reasonable costs and expenses, including allocable overhead, incurred by Lexicon under this Agreement prior to the date of Genentech's notice under this subsection 3.1(f) in respect of the Project Gene being removed (for purposes of which, "allocable overhead" shall mean costs incurred by Lexicon or for its account which are attributable to its supervisory functions, services functions, occupancy costs, corporate bonus (to the extent not charged directly to departments), and its payroll, information systems, human relations or purchasing functions and which are allocated to company departments based on space occupied or headcount or other activity-based method, but shall not include any costs attributable to [**]. Any such removed Project Gene shall be considered a Rejected Proposed Gene for purposes of this Agreement.

3.2 LEXICON IDENTIFICATION OF HOMOLOGOUS MURINE GENE; STEERING COMMITTEE REVIEW AND APPROVAL OF PROJECTS.

(a) Lexicon Efforts to Determine Homologous Murine Gene. For each Project Gene submitted to the collaboration under Section 3.1(e), Lexicon will use Commercially Reasonable Efforts to identify the homologous murine gene as soon as

practicable, and in any event within [**], after such Project Gene was submitted to it, and will provide Genentech with [**] reports regarding its efforts. To identify the homologous murine gene, Lexicon will use its standard resources and, if applicable, [**]. Upon identifying what it believes to be the homologous murine gene(s) for a Project Gene, Lexicon will provide the Steering Committee with written evidence of such gene's (or, if applicable, genes') homology. If Lexicon is unable to identify a homologous murine gene for a Project Gene, Lexicon will report all of the results related to such Project Gene obtained during the course of its search to the Steering Committee as well, and such Project Gene shall thereafter be deemed a Rejected Proposed Gene under this Agreement. Genentech shall have the sole right, but not the obligation, to propose another Proposed Gene in the place of such Rejected Proposed Gene for the Steering Committee's review and approval, by notice to the Steering Committee within [**] of Lexicon's report of its failure to identify a homologous murine gene.

(b) Steering Committee Review and Approval of Projects. The Steering Committee will review the information provided by Lexicon under Sections 3.2(a) with respect to a Project Gene and will confirm that Lexicon has identified the homologous murine gene, and therefore to proceed with such Project Gene under Section 3.3 hereof. If the Steering Committee determines that Lexicon has not identified a homologous murine gene for a Project Gene, such Project Gene shall thereafter be deemed a Rejected Proposed Gene under this Agreement.

(c) Project Development Plan. Concurrently with its delivery of the information contemplated by Section 3.2(a), Lexicon will provide the Steering Committee (i) for Pipeline Projects, information (as set forth in Exhibit A) regarding [**], and (ii) for Projects other than Pipeline Projects, [**]. With regard to Pipeline Projects involving the use of an ES Cell Line generated through Lexicon's gene trapping technology in the creation of a Knock-Out Mouse, [**], Lexicon will [**]; provided that [**]. For all Projects that are not Pipeline Projects, Lexicon will [**]

3.3 LEXICON'S CREATION AND TESTING OF KNOCK-OUT MICE AND ES CELL LINES.

(a) Activities Performed by Lexicon. Once the Steering Committee approves proceeding with a Project Gene under Section 3.2(b), Lexicon, in accordance with the recommendation from Genentech as to desired priority, will, at Lexicon's sole expense, use Commercially Reasonable Efforts to perform the following activities on such Project: (i) create and generate, [**] Knock-Out Mice using the Project Gene's homologous murine gene; (ii) conduct a First Pass Phenotypic Analysis of such Knock-Out Mice; and (iii) if requested by the Steering Committee pursuant to Section 3.6, create Overexpression Mice for some or all Project Genes corresponding to Protein Candidates. Lexicon agrees to use Commercially Reasonable Efforts to perform and complete such activities on a Project within [**] after the approval of a Project Gene by the Steering Committee under Section 3.2(b). If a Project is delayed or stalled due to technological or scientific difficulties, Lexicon will so notify Genentech and the Steering Committee. The Parties will consult with each other to determine whether such difficulties can be resolved or remedied. The Steering Committee shall decide, based on input from Lexicon,

whether such Project's problems can be remedied within the scope of commercially reasonable efforts for such Project or whether to terminate such Project and designate such Project Gene a Rejected Proposed Gene. Genentech shall have the right to terminate this Agreement under certain circumstances, as set forth in Section 10.2.

(b) Reports; Consultation and Site Visits. Within [**] after the end of [**], Lexicon will provide each Steering Committee member with a written report describing the status of its work on each Project, and, [**], Lexicon will provide a Genentech Steering Committee member with the same [**] report generated for Lexicon's internal purposes. Upon reasonable advance written notice from the Steering Committee or Genentech, Lexicon will make persons working on its behalf on a Project available during normal business hours for a reasonable number of consultations with the Steering Committee or Genentech regarding such Project. Such consultations will either be in-person at such person's place of employment or via videoconference or teleconference. Upon reasonable notice, Genentech representatives may visit during normal business hours the facilities where Lexicon is performing services on Projects. All Genentech representatives will be advised of, and be bound by, Genentech's confidentiality obligations in Article 9 and will follow such security and facility access procedures as are reasonably designated by Lexicon. Lexicon may require that at all times the Genentech representatives be accompanied by a Lexicon representative.

3.4 SAFEGUARDS TO PROTECT CONFIDENTIALITY OF PROJECTS.

(a) Lexicon hereby agrees that each person working on a Project on its behalf (whether as an employee, subcontractor, or otherwise) has or will, prior to commencing work on a Project, have executed an instrument:

(i) assigning to Lexicon all of his, her, or its rights, title, and interest in inventions or intellectual property arising during the course, and as a result, of his, her, or its association with Lexicon; and

(ii) agreeing to abide by confidentiality and non-use restrictions regarding Confidential Information and the existence and terms of this Agreement no less stringent than Lexicon's confidentiality and non-use obligations under Article 9.

Lexicon also agrees to maintain appropriate security measures no less stringent than measures that are customary in the industry.

(b) Genentech hereby agrees that each person working on a Project on its behalf (whether as an employee, subcontractor, or otherwise) has or will, prior to commencing work on a Project, have executed an instrument:

(i) assigning to Genentech all of his, her, or its rights, title, and interest in inventions or intellectual property arising during the course, and as a result, of his, her, or its association with Genentech; and

(ii) agreeing to abide by confidentiality and non-use restrictions regarding Confidential Information and the existence and terms of this Agreement no less stringent than Genentech's confidentiality and non-use obligations under Article 9.

Genentech also agrees to maintain appropriate security measures no less stringent than measures that are customary in the industry.

3.5 REVIEW OF FIRST PASS PHENOTYPIC ANALYSIS; DESIGNATION OF PROTEIN CANDIDATES.

(a) Review of First Pass Phenotypic Analysis. Once Lexicon completes the First Pass Phenotypic Analysis on each of the Project Genes, it will submit to Genentech, through the Steering Committee, the data from such Projects. After reviewing this information from a Project, the Steering Committee will determine by [**], within [**] following the submission of the First Pass Phenotypic Analysis on such Project, whether Lexicon has [**] for such Project Gene.

(b) Designation of Protein Candidates. The Protein produced by each such Project Gene for which the Steering Committee [**] votes that Lexicon has [**] shall be designated as a "Protein Candidate." In the event that the Steering Committee designates [**] Proteins produced by Project Genes as Protein Candidates, then Lexicon shall have the right to designate an additional number of Proteins produced by Project Genes as Protein Candidates, so that there are a total of [**] Protein Candidates; provided that Lexicon shall make such designations no later than [**] following the submission to the Steering Committee of the last First Pass Phenotypic Analysis to be submitted under this Agreement. Genentech shall have the rights and obligations set forth in Article 4 and 6 with regard to such Protein Candidates.

(c) Rejected Project Genes. Any Project Gene the Protein product of which has not been designated as a Protein Candidate pursuant to subsection (b) above, shall be deemed a Rejected Project Gene for purposes of this Agreement. Genentech shall have the rights and obligations set forth in Articles 5 and 6 with regard to such Rejected Project Genes.

3.6 CREATION OF OVEREXPRESSION MICE; OVEREXPRESSION ANALYSIS. With respect to a Protein Candidate that is designated by the Steering Committee or Lexicon in accordance with Section 3.5, the Steering Committee may elect to have Lexicon produce an Overexpression Mouse which overexpresses the Project Gene corresponding to such Protein Candidate for further testing, by voting to make such election no later than [**] following the designation of such Protein Candidate. Lexicon agrees, at its own expense, to promptly use Commercially Reasonable Efforts to create such Overexpression Mouse, and to promptly perform phenotypic tests, observations, or analyses ("Overexpression Analysis") for up to [**] Protein Candidates similar to those performed in the First Pass Phenotypic Analysis for such Project Genes. Alternately, Genentech may elect to perform Overexpression Analysis on any Overexpression Mouse

itself. Once Lexicon or Genentech, as the case may be, has completed such Overexpression Analysis on a Project, it will submit to the Steering Committee for the Steering Committee's review of the Project the data from such Overexpression Analysis. The Party performing such Overexpression Analysis shall use Commercially Reasonable Efforts to complete such Overexpression Analysis no later than [**] after the creation of such Overexpression Mouse, subject to unanimous decision by the Steering Committee for any subsequent extension of time, but in any event will submit to the Steering Committee all available data related to such Overexpression Analysis, whether complete or not, within such time period.

ARTICLE 4

LICENSED PRODUCTS

4.1 GENENTECH'S EXCLUSIVE RIGHT TO DEVELOP AND COMMERCIALIZE LICENSED PRODUCTS. Genentech shall have the sole right and responsibility for, and control over, developing and commercializing Licensed Products; provided, however, that with regard to Restricted Rights Projects, nothing in this Section will be deemed to grant Genentech rights beyond the scope of the licenses granted to Genentech (or limit the rights of Lexicon, its collaborators or licensees) with regard to such Restricted Rights Project.

4.2 TRANSFER TO GENENTECH OF LEXICON PRE-EXISTING KNOW-HOW AND PROJECT KNOW-HOW RELATED TO PROTEIN CANDIDATES. Within [**] after designation of a Protein Candidate pursuant to Section 3.5, Lexicon will provide Genentech, to the extent not previously provided, with a copy of all Lexicon Pre-Existing Know-How, Project Know-How and Restricted Rights Know-How related to such Protein Candidate in Lexicon's possession or control.

4.3 GENENTECH RESPONSIBLE FOR DEVELOPMENT COSTS. Genentech shall bear all costs and expenses associated with, and shall have sole control over, developing and commercializing Licensed Products.

4.4 PRODUCT LICENSEES. Genentech agrees to notify Lexicon promptly of any (sub)license that it enters into with a Product Licensee, and Genentech further covenants that any such (sub)licence shall contain terms and conditions consistent with Genentech's obligations under this Agreement.

ARTICLE 5

GRANT OF LICENSE RIGHTS

5.1 EXCLUSIVE LICENSE UNDER LEXICON PRE-EXISTING PATENTS AND KNOW-HOW AND RESTRICTED RIGHTS PROJECT PATENTS AND KNOW-HOW FOR THE RESEARCH, DEVELOPMENT AND COMMERCIALIZATION OF LICENSED PRODUCTS. Subject to the terms of this Agreement, Lexicon hereby grants to Genentech (i) an exclusive (even as to Lexicon), world-wide

right and license under the Lexicon Pre-Existing Patents and Know-How and (ii), to the extent specified in the Parties' designation(s) of Restricted Rights Project(s), an exclusive (even as to Lexicon) or non-exclusive, world-wide right and license under the Restricted Rights Project Patents and Know-How, in each case to research, develop, make (or have made), use, sell, offer for sale, and import Licensed Products in the Field. Such license includes the right to grant sublicenses of all or part of such rights without Lexicon's consent; provided that the grant of any such sublicense shall be consistent with the terms and conditions of this Agreement and that no such sublicense to a Product Licensee shall relieve Genentech of primary responsibility for all payments and royalties due to Lexicon under Article 7 with respect to Licensed Product(s) licensed to such Product Licensee.

5.2 LICENSE UNDER LEXICON PRE-EXISTING PATENTS AND KNOW-HOW AND RESTRICTED RIGHTS PROJECT PATENTS AND KNOW-HOW FOR THE RESEARCH, DEVELOPMENT AND COMMERCIALIZATION OF PRODUCTS OTHER THAN LICENSED PRODUCTS IN THE FIELD. Subject to the terms of this Agreement, Lexicon hereby grants to Genentech a royalty-free, worldwide right and license under the Lexicon Pre-Existing Patents and Know-How and, to the extent specified in the Parties' designation(s) of Restricted Rights Project(s), the Restricted Rights Project Patents and Know-How to research, develop, make (or have made), use, offer for sale, sell, and import products (including, but not limited to Small Molecule Drugs) other than Licensed Products for use in the Field. Such right and license (i) shall be exclusive (even as to Lexicon) under the Lexicon Pre-Existing Patents and Know-How with respect to products in the Field other than Small Molecule Drugs, (ii) shall be exclusive (even as to Lexicon) or non-exclusive under the Restricted Rights Project Patents and Know-How, to the extent specified in the Parties' designation(s) of Restricted Rights Project(s), with respect to products in the Field other than Small Molecule Drugs and (iii) shall be non-exclusive with regard to Small Molecule Drugs. Lexicon hereby grants Genentech the right to grant sublicenses under the right and license granted by Lexicon pursuant to this Section 5.2, on a Project Gene-by-Project Gene basis; provided, however, that with respect to a Small Molecule Drug related to a Project Gene, without the prior written consent of Lexicon, no such sublicense under the Lexicon Pre-Existing Patents or Know-How or Restricted Rights Project Patents or Know-How may be granted to any Third Person in the absence of (x) a corresponding license or sublicense of right to a given Small Molecule Drug that directly modulates the Protein produced by such Project Gene or Derivative Protein thereof and discovered, researched and under bona fide commercial development (at least through the stage of the demonstration of preclinical efficacy in animal studies) by Genentech and (y) the license or sublicense of Patent rights pertaining thereto owned by, licensed to or controlled by Genentech.

5.3 LICENSE UNDER PROJECT PATENTS AND KNOW-HOW FOR THE RESEARCH, DEVELOPMENT AND COMMERCIALIZATION OF SMALL MOLECULE DRUGS IN THE FIELD. Subject to the terms of this Agreement, Genentech hereby grants to Lexicon a royalty-free, non-exclusive, worldwide right and license under the Project Patents and Know-How to research, develop, make (or have made), use, offer for sale, sell, and import Small Molecule Drugs for use in the Field. Such right and license shall be exclusive; provided

that Genentech retains rights under the Genentech Project Patents and Know How (i) to research, develop, make (or have made), use, offer for sale, sell, and import Small Molecule Drugs for use in the Field and (ii) to grant licenses to Third Persons under the Genentech Project Patents and Know How to research, develop, make (or have made), use, offer for sale, sell, and import Small Molecule Drugs for use in the Field in connection with (A) a corresponding license or sublicense of right to a given Small Molecule Drug that directly modulates the Protein produced by a Project Gene or Derivative Protein thereof and discovered, researched and under bona fide commercial development (at least through the stage of the demonstration of preclinical efficacy in animal studies) by Genentech and (B) the license or sublicense of Patent rights pertaining thereto owned by, licensed to or controlled by Genentech. Genentech hereby grants Lexicon the right to grant sublicenses under the right and license granted by Genentech pursuant to this Section 5.3, subject to the restrictions, if any, on Project Materials set forth in Section 5.5.

5.4 NON-EXCLUSIVE RESEARCH LICENSE GRANT UNDER LEXICON KNOCK-OUT TECHNOLOGY TO KNOCK-OUT MICE AND PROGENY. Subject to the terms of this Agreement and the restrictions, if any, on Project Materials set forth in Section 5.5, Lexicon hereby grants to Genentech a worldwide, non-exclusive right and license under the Lexicon Knock-Out Technology to use, breed, cross-breed and have bred and cross-bred Knock-Out Mice and Progeny, at the internal research facilities of Genentech and its Academic Collaborators or Contract Service Providers, for research directed toward the discovery, identification, selection, characterization, development or commercialization of products for use in the Field. Except as provided in Section 5.10, Genentech agrees to use Knock-Out Mice and Progeny solely for its own internal research purposes in accordance with the terms and conditions of this Agreement, and not to use any Knock-Out Mice or Progeny for any purposes for any Third Person, or to transfer, license the use of or make available to any Third Person any Knock-Out Mice or Progeny.

5.5 EXCLUSIVITY PERIOD FOR PROJECT MATERIALS. Notwithstanding the provisions of Sections 5.2, 5.3 and 5.4:

(a) Lexicon shall not [**] unless [**] (and then only to the extent permitted under Section 5.5(b) below); and

(b) Lexicon shall not provide Project Materials from a Project to any Third Person before the expiration of (i) [**] following the submission to the Steering Committee of the data from the First Pass Phenotypic Analysis for such Project Gene in accordance with Section 3.5(a), for Project Genes that become Rejected Project Genes, and (ii) [**] following the submission to the Steering Committee of the data from the First Pass Phenotypic Analysis for such Project Gene in accordance with Section 3.5(a), for Project Genes that become Protein Candidates; provided, that no such restriction shall apply to Project Materials generated in the course of Projects that qualify as Pre-Existing Projects unless Genentech shall have exercised the option specified below; provided, further, that the restriction set forth in clause (ii) shall nevertheless apply to a Pre-Existing Project in the event that, at the time such Project Gene becomes a Protein

Candidate, Lexicon has no obligation to a Third Person with respect to such Pre-Existing Project or the Project Materials generated in the course thereof.. In addition to the foregoing, for Pre-Existing Projects with respect to which Lexicon has no obligation to a Third Person, at any time prior to designation of such Pre-Existing Project as a Protein Candidate, Genentech shall have the option to obtain the foregoing exclusivity period by delivering notice of such exercise to Lexicon, together with payment of the option fee specified in Section 7.3; provided that such option is exercised at a time when Lexicon has no obligation to a Third Person with respect to such Pre-Existing Project. Such option fee shall be credited against next performance or milestone payment payable by Genentech in the event the Project Gene to which such Pre-Existing Project relates shall be designated as a Protein Candidate. Nothing herein shall be deemed to restrict, at any time (except as provided in Section 5.6 below), Lexicon's right to develop for a Third Person a transgenic or Knock-Out mouse with a mutation in a Project Gene independently requested by such Third Person or provide such Third Person with phenotypic data derived therefrom; provided, that [**].

5.6 EXCLUSIVITY PERIOD FOR SPECIFIED PROJECTS. At any time after the initial designation of Project Genes under Section 3.1(e), Genentech may designate as [**], by delivering written notice of such designations to Lexicon. Except as may be independently requested under agreements with Lexicon in effect on [**], Lexicon shall not [**] prior to the submission to the Steering Committee of the data from the First Pass Phenotypic Analysis for such Project Gene in accordance with Section 3.5(a).

5.7 RESERVATION OF RIGHTS. Notwithstanding the non-exclusive rights and licenses granted to Genentech under Sections 5.2 and 5.4, but subject to the exclusive rights and licenses granted to Genentech under Sections 5.1 and 5.2 and the restrictions, if any, on Project Materials set forth in Section 5.5 and on the [**] set forth in Section 5.6:

(a) Lexicon reserves the right under the Lexicon Knock-Out Technology to make and use, and to permit others to use, (i) Project Materials and (ii) other transgenic and Knock-Out Mice (including, without limitation, transgenic and Knock-Out Mice with a mutation in the same gene as a Knock-Out Mouse or Overexpression Mouse) and phenotypic data with respect thereto, including the right to grant licenses with respect to any applicable intellectual property rights for such purpose.

(b) Lexicon reserves the right under the Lexicon Pre-Existing Patents and Know-How and Restricted Rights Project Patents and Know-How (i) to discover, research, develop, make, have made, import, use, have used, offer for sale, sell and have sold Small Molecule Drugs and (ii) to grant licenses to Third Persons to discover, research, develop, make, have made, import, use, have used, offer for sale, sell and have sold Small Molecule Drugs.

5.8 LIMITED LICENSE TO GENENTECH GENE KNOW-HOW. For each Project Gene, Genentech hereby grants Lexicon a non-exclusive, royalty-free license under the Genentech Gene Patents and Know-How related to such Project Gene solely for Lexicon to perform the following activities under this Agreement:

(i) identify, under Section 3.2(a), the homologous murine gene;

(ii) create, under Section 3.3, Knock-Out Mice with such homologous murine gene;

(iii) test, under Section 3.3 and, if applicable, Section 3.6, such Knock-Out Mice;

(iv) conduct a First Pass Phenotypic Analysis on such Project Gene under Section 3.3(a); and

(v) create Overexpression Mice and do additional testing under Section 3.6.

Lexicon has no right to sublicense under this license grant, which shall be considered personal to Lexicon. Such license will terminate with regard to a Project Gene upon the earliest to occur of such Project Gene becoming a Rejected Proposed Gene, a Rejected Project Gene, a Protein Candidate, or the completion of Lexicon's activities under this article 5.8.

5.9 NO GRANT OF OTHER TECHNOLOGY OR PATENT RIGHTS. Except as otherwise expressly provided in this Agreement, under no circumstances shall a party hereto, as a result of this Agreement, obtain any ownership interest in or other right to any technology, know-how, patents, patent applications, gene or genomic sequence data or information, products, or biological materials of the other party, including items owned, controlled or developed by, or licensed to, the other party, or transferred by the other party to said party, at any time pursuant to this Agreement.

5.10 TRANSFERS TO ACADEMIC COLLABORATOR OR CONTRACT SERVICE PROVIDERS. Genentech shall have the right to transfer a Knock-Out Mouse or Progeny made pursuant to this Agreement to an Academic Collaborator or Contract Service Providers, provided that such Academic Collaborator or Contract Service Providers shall have entered into a material transfer agreement with Genentech containing terms relating to the transfer of such material that expressly (i) prohibit the use of such Knock-Out Mice or Progeny thereof for any purpose other than such Academic Collaborator's collaborative research with, or Contract Service Provider's service for, Genentech in the Field and (ii) prohibit the transfer of such Knock-Out Mice thereof by such Academic Collaborator or Contract Service Provider to any Third Party. Within [**] of entering into any such material transfer agreement, Genentech shall provide Lexicon with a copy thereof.

5.11 LICENSE TO LEXICON ISOGENIC TECHNOLOGY. On the Effective Date, Lexicon and Genentech shall enter into the Sublicense Agreement attached hereto as Exhibit B.

ARTICLE 6

REQUEST FOR AND DELIVERY OF KNOCK-OUT MICE

6.1 REQUESTS FOR PROJECT MATERIALS BY GENENTECH. During the period of [**] following the submission to the Steering Committee of the data from the First Pass Phenotypic Analysis for a Project Gene in accordance with Section 3.5(a), Genentech shall have the option, subject to the terms and conditions of this Agreement, to have Lexicon deliver to Genentech [**] the Knock-Out Mice for such Project Gene, by delivering written notice of such request to Lexicon. During the period beginning on the date of the submission to the Steering Committee of the data from the First Pass Phenotypic Analysis for a Project Gene in accordance with Section 3.5(a) and ending on [**], Genentech shall have the option, subject to the terms and conditions of this Agreement, to have Lexicon deliver to Genentech Project Materials and Project Know-How (to the extent not already provided), including without limitation [**], for such Project Gene. Genentech may also have, during such period, [**]. Lexicon shall have no further obligation to deliver Project Materials to Genentech following such period; provided that, following such period, Genentech may [**].

6.2 MAINTENANCE OF BACK-UP COLONIES. For a period of at least [**] after the delivery of a particular Knock-Out Mouse requested by Genentech under Section 6.1, Lexicon shall retain a small back-up colony of [**] such Knock-Out Mice [**], for the purpose of replacing mice shipped to Genentech under this Article 6 which die or are otherwise unable to breed during or within [**] after shipment to Genentech hereunder. Thereafter, until the expiration of six (6) months following the submission to the Steering Committee of the data from the last First Pass Phenotypic Analysis to be submitted under this Agreement, Lexicon shall [**], if requested by Genentech. In the event Genentech requests that Lexicon maintain any such colony for a period of more than [**], Genentech shall pay Lexicon a storage and maintenance charge of [**] for such requested line of Knock-Out Mice for each [**] that Lexicon maintains such colony at Genentech's request.

6.3 DELIVERY TERMS AND CONDITIONS. Lexicon shall be responsible for making shipping arrangements for all Knock-Out Mice to be shipped to Genentech from Lexicon; provided that Genentech shall be responsible for (i) paying all shipment and delivery charges in connection therewith and (ii) obtaining, if desired, and paying for any insurance for Knock-Out Mice shipped to Genentech from Lexicon. Genentech shall also be responsible for complying with all customs, regulations, veterinary handling procedures and protocols, and obtaining any and all permits, forms or permissions that may be required for Genentech to accept shipment of Knock-Out Mice from Lexicon. Lexicon shall ship to Genentech [**] Knock-Out Mice, [**], promptly following its receipt of written notice that Genentech is prepared to accept shipment. Risk of loss with respect to any Knock-Out Mice to be transferred under this Section 6.3 shall pass to Genentech upon delivery thereof to the shipping company designated as specified herein. If Genentech fails to complete the necessary arrangements to accept shipment and provide such notice within [**] after delivery of its request for such Knock-Out Mice

pursuant to Section 6.1, Genentech shall pay Lexicon a storage and maintenance charge of [**] for such requested line of Knock-Out Mice for each week thereafter until Lexicon receives such notice.

ARTICLE 7

PAYMENTS

7.1 UP-FRONT FEE. As partial consideration for the work to be performed by Lexicon under this Agreement, Genentech shall pay Lexicon a fee of Nine Million Dollars (U.S.$9,000,000), which fee shall be payable within ten (10) days of the Effective Date.

7.2 PERFORMANCE PAYMENTS. Within [**] of achieving each of the research milestones listed below, Genentech shall pay to Lexicon the following amounts:

[**]

7.3 OPTION FEE. In the event Genentech exercises its option under Section 5.5 with respect to a Pre-Existing Project, Genentech shall pay Lexicon an option fee of [**] concurrently with its delivery of its notice exercising such option.

7.4 OVEREXPRESSION FUNDING. To the extent the Steering Committee elects to have Lexicon produce an Overexpression Mouse for more than [**] Project Genes, Genentech shall pay Lexicon funding of [**] for each additional Project Gene for which the Steering Committee elects to have Lexicon produce an Overexpression Mouse, which funding shall be payable within [**] of such election.

7.5 FEE FOR [**] KNOCK-OUT MICE. In the event Genentech requests, more than [**] following the submission to the Steering Committee of the data from the First Pass Phenotypic Analysis for a Project Gene in accordance with Section 3.5(a), that Lexicon [**], Genentech shall pay Lexicon a fee of [**] concurrently with its delivery of such request.

7.6 FEE FOR DELIVERY OF MATERIALS [**]. In the event Genentech requests, after the later of (i) the date of submission to the Steering Committee of the data from the last First Pass Phenotypic Analysis to be submitted under this Agreement and (ii) [**] following the date of submission to the Steering Committee of the data from the First Pass Phenotypic Analysis for a Project Gene, that [**], Genentech shall pay Lexicon a fee of [**] within [**] of Lexicon's notice that [**].

7.7 MILESTONE PAYMENTS. With respect to the first Licensed Product relating to a specified Protein Candidate to achieve the following development milestones listed below, within [**] of achieving each such development milestones, Genentech shall pay Lexicon the following amounts:

MILESTONE EVENT	AMOUNT
Filing of an IND for such Licensed Product	U.S.$ [**]
Commencement (i.e., first patient enrolled) of the first Phase III Clinical Trial for such Licensed Product	U.S.$ [**]
Receipt of the first Regulatory Approval of such Licensed Product	U.S.$ [**]
TOTAL	U.S.$ 17,000,000

For purposes of clarification, with respect to each Project Gene whose Protein is designated as a Protein Candidate, Genentech shall only be required to pay Lexicon for each of the above development milestones once upon the first occurrence of the respective event. All milestone payments hereunder are to be made by wire transfer of immediately available funds. Such milestone payments are non-refundable and non-creditable against any other payments hereunder. Genentech shall give Lexicon written notice of the achievement of any milestone event no later than [**] after such achievement.

7.8 ROYALTIES ON LICENSED PRODUCTS. As consideration for its exclusive rights with respect to Licensed Products and the other rights provided and activities performed by Lexicon hereunder, Genentech agrees to pay Lexicon a royalty of [**] of Net Sales of each Licensed Product by Genentech, its Affiliates and Product Licensees, on a country-by-country basis, during the period commencing with the first sale for use or consumption by the general public of a Product in a country after Regulatory Approval in such country and ending on the date that is [**] from the date of such first commercial sale of such Licensed Product in such country; provided that, in the event the worldwide Net Sales of such Licensed Product for which a royalty is payable to Lexicon hereunder exceeds [**] in any Calendar Year, Genentech shall pay Lexicon a royalty of [**] on that portion of such Net Sales of such Licensed Product that exceeds [**] in such Calendar Year. The royalty payable hereunder shall be payable only once with respect to the same unit of Licensed Product.

7.9 PAYMENT OF ROYALTY; REPORTING; EXCHANGE RATES. Within [**] after the end of each [**], Genentech will pay (and/or cause its Affiliates and/or Product Licensees to pay) the royalty owed under this Agreement, if any, on applicable Net Sales invoiced during such just-ended [**]. Such payment will be accompanied by the report showing: (i) the Gross Sales and Net Sales of Products sold during the reporting period and the calculation of Net Sales from such Gross Sales; (ii) the royalties payable in Dollars which shall have accrued hereunder in respect of such Net Sales; (iii) withholding taxes, if any, required by law to be deducted in respect of such royalties; (iv) the dates of the first commercial sales of Licensed Products in any country during the reporting period, if applicable; and (v) the exchange rates used in determining the amount of Dollars payable hereunder. Royalties payable on sales in countries other than the United States shall be calculated in accordance with the standard exchange rate conversion practices used by Genentech, its Affiliates or the Product Licensee, as applicable, for financial accounting

purposes. If no royalty or payment is due for any royalty period hereunder, Genentech shall so report. Genentech shall keep, and shall require its Affiliates and Product Licensees to keep (all in accordance with GAAP), complete and accurate records in sufficient detail to properly reflect all gross sales and Net Sales and to enable the royalties payable hereunder to be determined.

7.10 U.S. CURRENCY; WIRE TRANSFERS. All payments, including any interest pursuant to Section 7.12, payable by Genentech, its Affiliates and Product Licensees to Lexicon under this Agreement will be paid in Dollars and will be made by wire transfer, in immediately available funds, to an account designated in writing by Lexicon.

7.11 TAXES. Any and all taxes levied on any payments from Genentech to Lexicon under this Agreement will be the liability of, and paid by, Lexicon. However, if Applicable Laws require the withholding of such taxes, Genentech will deduct such taxes from its payment to Lexicon and remit such withheld amount to the proper tax authority. Genentech will provide proof of payment to Lexicon within [**] of such payment. This Agreement shall not be considered a partnership for tax reporting purposes.

7.12 INTEREST ON OVERDUE PAYMENTS. In the event a royalty or other payment under this Agreement is not made within [**] of when due, such outstanding payment will accrue interest (from the date such payment is due through and including the date upon which full payment is made) at the annual rate equal to the [**]. Payment of accrued interest will accompany payment of the outstanding payment.

7.13 ROYALTY RECORDS; AUDIT RIGHTS. Genentech will keep, and maintain for a period of [**] following the end of a Calendar Year, accurate records in sufficient detail to enable royalties under this Agreement for such Calendar Year to be determined. Lexicon has the right, upon prior written notice to Genentech, not more than [**], through an independent certified public accountant selected by Lexicon and acceptable to Genentech (which acceptance shall not be unreasonably refused) to have access during normal business hours to those records of Genentech as may be reasonably necessary to verify the accuracy of the royalty reports furnished by Genentech under this Agreement for the previous Calendar Year. Prior to implementing an audit, Lexicon agrees to submit an audit plan, including audit scope, to Genentech for Genentech's approval (which shall not be unreasonably withheld). Lexicon's independent certified public accountant will keep confidential all information obtained during such audit and will report to Lexicon only the amount of Genentech's Gross Sales and Net Sales made during, and royalties due for, the Calendar Year in question. Genentech shall have the right, at its own expense, to have its own independent certified public accountant review and confirm the results of the audit performed by Lexicon's accountants. In the event that the Parties' accountants do not agree as to the results of the audit, the Parties agree that such accountants shall attempt in good faith to resolve any discrepancies between their results according to GAAP and the terms of this Agreement.

Lexicon is solely responsible for all the expenses of an audit, unless the independent certified public accountant's report correctly shows any underpayment of royalties by

Genentech exceeding [**] of the total royalties it owed for the Calendar Year then being reviewed. If the independent certified public accountant's report correctly shows that Genentech underpaid its royalties by more than [**], Genentech is responsible for the reasonable expenses incurred by Lexicon for the independent certified public accountant's services.

If the independent certified public accountant's report correctly shows any underpayment of royalties by Genentech, Genentech shall remit to Lexicon within [**] after the Genentech receipt of such report:

(i) the amount of such royalty underpayment;

(ii) interest on the amount being paid in (i), which interest shall be calculated pursuant to Section 7.12; and

(iii) if such royalty underpayment exceeds [**] of Genentech's total royalties owed for the Calendar Year then being reviewed, the reasonable expenses incurred by Lexicon for the independent certified public accountant's services.

If the independent certified public accountant's report correctly shows any overpayment of royalties by Genentech, such overpayment shall be fully creditable against future royalties payable by Genentech in subsequent royalty periods.

The calculation of royalties payable with respect to a Calendar Year will be binding and conclusive on the Parties upon the expiration of [**] following the end of such Calendar Year, unless (i) an audit of such Calendar Year, initiated before the expiration of such [**], is on-going or (ii) Lexicon has, in good faith and through written notice to Genentech, disputed such calculation before the expiration of such [**] or, if applicable, within [**] after receipt of the audit report.

7.14 CONVERTIBLE NOTE. Simultaneously with the execution and delivery of this Agreement, the parties hereto shall enter into a Note Agreement (the "Note Agreement"), dated as of the date hereof, substantially in the form attached as Exhibit C hereto. Under the Note Agreement, Genentech shall loan Lexicon Four Million Dollars (U.S.$4,000,000), on or before December 31, 2002, pursuant to the terms and conditions set forth in such Note Agreement.

ARTICLE 8

INTELLECTUAL PROPERTY RESPONSIBILITIES

8.1 OWNERSHIP.

(a) Lexicon shall own all Lexicon Knock-Out Technology, Lexicon Pre-Existing Patents and Know-How and Restricted Rights Project Patents and Know-How. Genentech shall own all Genentech Gene Patents and Know-How and Project Patents and Know-How.

(b) Lexicon shall assign all right, title and interest in inventions encompassed within Project Patents and Know-How to Genentech by taking, and causing its employees and agents to take, all necessary actions and executing, and causing its employees and agents to execute, all necessary documents to assign such rights, title and interest to Genentech. Moreover, Lexicon covenants and agrees to cooperate, and cause its employees and agents to cooperate, with Genentech to enable Genentech to enjoy to the fullest extent the right, title and interest herein conveyed in the United States and foreign countries. Such cooperation shall include prompt production of pertinent facts and documents, giving of testimony, execution of petitions, oaths, specifications, declarations or other papers, and other assistance all to the extent deemed necessary or desirable by Genentech (a) for perfecting the right, title and interest herein conveyed; (b) for prosecuting any of said applications; (c) for filing and prosecuting applications for reissuance of any of said patents; (d) for interference or other priority proceedings involving said invention; and (e) for legal proceedings involving said invention and any applications therefor and any patents granted thereon, including without limitation opposition proceedings, cancellation proceedings, priority contests, public use proceedings, infringement actions and court actions; provided, however, that the expense incurred by Lexicon, its employees and agents in providing such cooperation shall be paid for by Genentech.

8.2 PATENT PROSECUTION OF LEXICON KNOCK-OUT TECHNOLOGY, LEXICON PRE-EXISTING PATENTS AND RESTRICTED RIGHTS PROJECT PATENTS.

(a) Patentable Inventions. Lexicon shall be responsible, at its sole discretion and expense, for filing, prosecuting, and maintaining Lexicon Knock-Out Technology, Lexicon Pre-Existing Patents and Restricted Rights Project Patents; provided that Genentech shall be responsible, at its sole discretion, for filing, prosecuting, and maintaining Lexicon Pre-Existing Patents and Restricted Rights Project Patents (to the extent exclusively licensed to Genentech) claiming Protein Candidates and uses thereof following their designation as Protein Candidates.

(b) Review and Comment. Lexicon shall provide Genentech with a copy of any patent application (including any provisional applications) within Lexicon Knock-Out Technology specifically related to a Protein Candidate prior to filing in any jurisdiction, for review and comment by Genentech. Lexicon shall reasonably consider comments and suggestions provided in a timely manner by Genentech. Genentech shall maintain any such applications in confidence.

(c) Notice of Decision. If Lexicon decides not to file an application within Lexicon Knock-Out Technology specifically related to a Protein Candidate in any country, it shall give Genentech prompt notice to this effect. After such notice,

Genentech may file, prosecute (including any interference), and maintain, at its own expense, such application in such country, and Lexicon shall execute such documents and perform such acts as may be reasonably necessary for Genentech to continue such filing, prosecution, or maintenance.

(d) Prosecution and Maintenance. Lexicon agrees to use reasonable diligence to prosecute and maintain the Lexicon Knock-Out Technology specifically related to a Protein Candidate it filed and to prosecute any interference proceedings with respect thereto, unless it provides Genentech notice under Subsection (c) or (e). Upon Genentech's request, Lexicon shall provide Genentech with (i) a copy of communications with any patent office with respect to any Lexicon Knock-Out Technology specifically related to a Protein Candidate and (ii) the opportunity to review and comment on any or all such communications. Genentech shall provide its comments on any such communication within [**] after receipt of such communication, and should no comments be received by Lexicon on or before the [**], then it shall be deemed that Genentech has no comment to make on such communication. Lexicon shall reasonably consider comments and suggestions provided in a timely manner by Genentech. Genentech shall maintain any such communications in confidence. All such communications provided to Genentech pursuant to this Section shall be sent to a person to be designated by Genentech by written notice to Lexicon.

(e) Cessation of Prosecution or Maintenance. Lexicon shall give prior written notice to Genentech of any decision by Lexicon to cease the prosecution (including any interference) and maintenance of Lexicon Knock-Out Technology specifically related to a Protein Candidate and, in such case, Genentech shall have the right at its sole discretion and expense to continue such prosecution (including any interference) or maintenance. If Genentech continues such prosecution or maintenance, Lexicon shall execute such documents and perform such acts as may be reasonably necessary for Genentech to continue such prosecution or maintenance.

8.3 PATENT PROSECUTION OF GENENTECH GENE PATENTS, PROJECT PATENTS AND LEXICON PRE-EXISTING PATENTS AND RESTRICTED RIGHTS PROJECT PATENTS CLAIMING PROTEIN CANDIDATES.

(a) Patentable Inventions. Genentech shall be responsible, at its sole discretion and expense, for filing, prosecuting, and maintaining Genentech Gene Patents, Project Patents and, following designation of a Protein Candidate, any Lexicon Pre-Existing Patents and Restricted Rights Project Patents (to the extent exclusively licensed to Genentech) related to such Protein Candidate.

(b) Review and Comment. Genentech shall provide Lexicon with a copy of any patent application (including any provisional applications) within (i) Project Patents and (ii) Lexicon Pre-Existing Patents or Restricted Rights Project Patents relating to Protein Candidates prior to filing in any jurisdiction for review and comment by Lexicon. Genentech shall reasonably consider comments and suggestions provided in a timely manner by Lexicon. Lexicon shall maintain any such applications in confidence.

(c) Notice of Decision. If Genentech decides not to file an application within (i) Project Patents related to a specific Project or (ii) Lexicon Pre-Existing Patents or Restricted Rights Project Patents related to a Protein Candidate in any country, it shall give Lexicon prompt notice to this effect. After such notice, Lexicon may file, prosecute (including any interference), and maintain, at its own expense, such application in such country, and Genentech shall execute such documents and perform such acts as may be reasonably necessary for Lexicon to continue such filing, prosecution, or maintenance.

(d) Prosecution and Maintenance. Genentech agrees to use reasonable diligence to prosecute and maintain (i) Project Patents and (ii) Lexicon Pre-Existing Patents and Restricted Rights Project Patents related to Protein Candidates it filed and to prosecute any interference proceedings with respect thereto, unless it provides Lexicon notice under Subsection (c) or (e). Upon Lexicon's request, Genentech shall provide Lexicon with (i) a copy of communications with any patent office with respect to any (A) Project Patents and (B) Lexicon Pre-Existing Patents and Restricted Rights Project Patents related to Protein Candidates and (ii) the opportunity to review and comment on any or all such communications. Lexicon shall provide its comments on any such communication within [**] after receipt of such communication, and should no comments be received by Genentech on or before the [**], then it shall be deemed that Lexicon has no comment to make on such communication. Genentech shall reasonably consider comments and suggestions provided in a timely manner by Lexicon. Lexicon shall maintain any such communications in confidence. All such communications provided to Lexicon pursuant to this Section shall be sent to a person to be designated by Lexicon by written notice to Genentech.

(e) Cessation of Prosecution or Maintenance. Genentech shall give prior written notice to Lexicon of any decision by Genentech to cease the prosecution (including any interference) and maintenance of (i) Project Patents related to a specific Project or (ii) Lexicon Pre-Existing Patents or Restricted Rights Project Patents related to a Protein Candidate and, in such case, Lexicon shall have the right at its sole discretion and expense to continue such prosecution (including any interference) or maintenance. If Lexicon continues such prosecution or maintenance, Genentech shall execute such documents and perform such acts as may be reasonably necessary for Lexicon to continue such prosecution or maintenance.

8.4 INFRINGEMENT AND MISAPPROPRIATION.

(a) Notice. Each Party shall promptly notify the other Party in writing of any alleged infringement or misappropriation, of which it becomes aware, by any person of any intellectual property licensed or sublicensed to a Party under this Agreement.

(b) Infringement of Lexicon Knock-Out Technology, Project Patents and Lexicon Pre-Existing Patents involving Small Molecule Drugs, and Restricted Rights Project Patents. Lexicon shall have the sole right, but not the obligation, to take appropriate steps to remove the infringement or alleged infringement of (i) Lexicon Knock-Out Technology, (ii) Project Patents and Lexicon Pre-Existing Patents involving

infringement or alleged infringement of a Small Molecule Drug, and (iii) Restricted Rights Project Patents (except to the extent exclusively licensed to Genentech), including, without limitation, by initiation, prosecution and control, at its own expense, of any suit, proceeding or other legal action by counsel of its own choice. Any damages or other monetary awards recovered by Lexicon shall be owned by Lexicon.

(c) Notwithstanding the above, if the infringement or alleged infringement relates to Lexicon Knock-Out Technology specifically related to a Protein Candidate or to Project Patents and Lexicon Pre-Existing Patents involving infringement or alleged infringement of a Small Molecule Drug, Lexicon shall have the first right, but not the obligation, to take appropriate steps to remove the infringement or alleged infringement, including, without limitation, by initiation, prosecution and control, at its own expense, of any suit, proceeding or other legal action by counsel of its own choice, provided that Lexicon keeps Genentech reasonably informed of the progress of such suit, proceeding or legal action and provides Genentech with copies of any substantive documents related to such suit, proceeding or legal action and reasonable notice thereof. Lexicon shall notify Genentech of its decision to exercise its right to enforce Lexicon Knock-Out Technology specifically related to a Protein Candidate or to Project Patents and Lexicon Pre-Existing Patents involving infringement or alleged infringement of a Small Molecule Drug not later than [**] following its discovery or notice of alleged infringement of Lexicon Knock-Out Technology specifically related to a Protein Candidate or to Project Patents and Lexicon Pre-Existing Patents involving infringement or alleged infringement of a Small Molecule Drug. Genentech shall have the right, at its own expense, to be represented in any such action by counsel of its own choice. If Lexicon decides not to institute an infringement suit, proceeding or other legal action that Genentech feels is reasonably required to protect such Lexicon Knock-Out Technology specifically related to a Protein Candidate or to Project Patents and Lexicon Pre-Existing Patents involving infringement or alleged infringement of a Small Molecule Drug, Genentech shall have the right, at its sole discretion, to institute such suit, proceeding or other legal action and Lexicon shall have the right to be represented in such suit, proceeding or legal action, at its own expense, by counsel of its own choice. For this purpose, the Party not bringing the suit shall execute such legal papers necessary for such suit as may be reasonably requested by the Party bringing suit.

In the case of infringement or alleged infringement of a Project Patent, Genentech in its sole discretion, may elect to assign such a Project Patent to Lexicon so that Lexicon may maintain such suit, proceding or legal action in its own name. In such event, the licenses to Genentech under such a Project Patent shall remain unaffected.

If Lexicon brings an action under this Subsection, any damages or other monetary awards recovered by Lexicon shall be applied proportionately first to defray the unreimbursed costs and expenses (including actual and reasonable attorneys' fees) incurred by the Parties in the action. If any balance remains, such balance shall be the property of Lexicon. If Lexicon fails to bring an action under this Subsection, but Genentech brings an action, any damages or other monetary awards recovered by Genentech shall be applied first to defray the costs and expenses (including actual and reasonable attorneys'

fees) incurred in the action by the Parties. The balance that remains shall be the property of Genentech

(d) Infringement of Genentech Gene Patents and Know-How, Project Patents and Know-How, and Lexicon Pre-Existing Patents and Know-How and Restricted Rights Project Patents related to Protein Candidates. Genentech shall have the sole right, but not the obligation, to take appropriate steps to remove the infringement or alleged infringement of (i) Genentech Gene Patents and Know-How, and (ii) (A) Project Patents and Know-How and (B) Lexicon Pre-Existing Patents and Know-How (except to the extent such infringement or alleged infringement relates to the development of Small Molecule Drugs, which shall be controlled by subsection (c) above) and Restricted Rights Project Patents and Know-How (to the extent exclusively licensed to Genentech) related to Protein Candidates, including, without limitation, by initiation, prosecution and control, at its own expense, of any suit, proceeding or other legal action by counsel of its own choice. Any damages or other monetary awards recovered by Genentech shall be owned by Genentech.

(e) If Genentech brings action under Subsection (d) above with respect to (i) Project Patents and Know-How or (ii) Lexicon Pre-Existing Patents and Know-How or Restricted Rights Project Patents and Know-How (to the extent exclusively licensed to Genentech) related to Protein Candidates, any damages or other monetary awards recovered by Genentech shall be applied proportionately first to defray the unreimbursed costs and expenses (including actual and reasonable attorneys' fees) incurred by the Parties in the action. If any balance remains, Lexicon shall retain as its own property an amount of compensatory damages equal to the royalty that Lexicon would otherwise be entitled to under this Agreement if such remaining balance was treated as Genentech Net Sales. If any balance remains after Lexicon's retained amount, such balance shall be the property of Genentech.

8.5 NOTICE OF INFRINGEMENT BY A PARTY. If the making, using, importing, offer for sale, or selling a Licensed Product results in a claim against a Party of patent infringement by any Third Person, the Party first having notice of that claim shall promptly notify the other Party in writing. The notice shall set forth the facts of the claim in reasonable detail.

If any notice of infringement is received by, or a suit is initiated against, either Party with respect to any Licensed Product, the Parties shall consult in good faith regarding the best response.

Notwithstanding the foregoing, if the claim involves an allegation of a violation of the trade secret rights of a Third Person, the Party accused of such violation shall have the obligation to defend against such claim and shall indemnify the other Party against all costs associated with such claim.

8.6 LITIGATION EXPENSES. Each Party shall assume and pay all of its own out-of-pocket expenses incurred in connection with all litigation described in this Article 8, including without limitation, the fees and expenses of that Party's counsel.

8.7 SETTLEMENT APPROVAL. No settlement, consent judgment or other voluntary final disposition of a suit being prosecuted by a Party under this Article may be entered into without the consent of the other Party if such settlement, consent judgment or other voluntary final disposition would alter, derogate, or diminish such other Party's rights under the Agreement, which consent will not be unreasonably withheld or delayed.

8.8 PATENT TERM EXTENSIONS. When appropriate, the Parties shall cooperate with each other in gaining patent term extension. All filings for such extension shall be made by the Party that is the owner of the patent

8.9 AUDIT RIGHTS REGARDING INVOICES. In the event there is a good faith dispute over an amount owed by a Party under this Article, the disputed payment may be delayed, and such payment will not be considered delinquent pending a resolution of the Parties' dispute. Section 7.13 (i.e., "Royalty and Reasonable Expenses Records; Audit Rights") is applicable with regard to all invoices submitted by a Party to the other Party under this Article.

ARTICLE 9

CONFIDENTIALITY

9.1 OBLIGATIONS. Except upon obtaining the other Party's prior written consent to the contrary, each Party agrees that it will, for a period of [**] after the expiration or early termination of the entire Agreement:

(i) maintain in confidence, and not disclose to any person (except as provided in Section 9.2), the other Party's Confidential Information or any Project Confidential Information; and

(ii) not use such Confidential Information for any purpose except as contemplated in this Agreement.

9.2 AUTHORIZED DISCLOSURES OF CONFIDENTIAL INFORMATION.

(a) Permitted Persons. Each Party may disclose Confidential Information of the other Party or Project Confidential Information, without such other Party's prior written consent, to its and its Affiliates' (or the other Party's and its Affiliates') directors, employees, agents, consultants, permitted (sub)licensees, suppliers, and other Third Persons who:

(i) need to know such Confidential Information to assist the Party in fulfilling its obligations or exploiting its rights hereunder (or to determine their interest in providing such assistance); and

(ii) are bound by written confidentiality and non-use obligations no less stringent than those contained herein.

(b) Legally Required or Necessary. Each Party may also disclose the Confidential Information of the other Party or Project Confidential Information, without such other Party's prior written consent, to any person or to a government or regulatory authority to the extent that such disclosure is:

(i) required by Applicable Law; or

(ii) otherwise necessary for filing a patent application, prosecuting, maintaining, or enforcing a patent, obtaining or maintaining authorizations to conduct pre-clinical or clinical studies regarding a product, or obtaining or maintaining a registration regarding a product (provided such Party is entitled at the time to engage in such activities under this Agreement).

Prior to disclosing the other Party's Confidential Information or Project Confidential Information under this Subsection (b), the disclosing Party, to the extent practicable, will give the other Party a copy of the Confidential Information to be disclosed and provide such Party a reasonable opportunity to comment on the necessity and the text of the proposed disclosure. The disclosing Party agrees to consider such comments in good faith and to reasonably avail itself of available means under the applicable law to minimize the disclosure of such Confidential Information.

(c) Court Orders. Each Party may also disclose the Confidential Information of the other Party or Project Confidential Information, without such other Party's prior written consent, pursuant to an order of a regulatory authority or court of competent jurisdiction, provided that it promptly notifies the other Party of the required disclosure in order to provide such Party an opportunity to take legal action to prevent or limit such disclosure and, if asked, reasonably assists the other Party in pursuing such action.

(d) Legal Actions. Each Party may also disclose the Confidential Information of the other Party or Project Confidential Information, without such other Party's prior written consent, as is necessary to pursue or defend against a legal or regulatory action related to this Agreement.

9.3 DISCLOSURE OF THE TERMS OF THE AGREEMENT. Each Party agrees that it will maintain in confidence, and not to disclose, the terms of this Agreement without the prior written consent of the other Party, except as authorized under Subsections (a), (b), (c), or (d) of Section 9.2. In addition, if a Party receives a request from an authorized representative of a U.S. or foreign tax authority for a copy of the Agreement, that Party may provide a copy of the Agreement to such tax authority representative without

advance notice to or the consent or cooperation of the other Party, but the disclosing Party must notify the other Party of the disclosure as soon as practical.

9.4 PUBLICITY ABOUT THE AGREEMENT. If a Party desires to issue a press release or other public statement or announcement concerning this Agreement, the subject matter hereof, or the research, development or commercial results of the products hereunder, it must first obtain the other Party's written approval of the proposed release or announcement; provided that such approval shall not be unreasonably withheld if required pursuant to the disclosure requirements of the Securities and Exchange Commission ("SEC") or the national securities exchange or other stock market on which such Party's securities are traded ("Exchange"). All press releases and other publicity will conform to the publicity strategy and policy developed by the Steering Committee in accordance with Section 2.2(v). Without limiting the generality of the foregoing, each Party agrees that the other Party will have no less than [**] to review and provide comment regarding any such proposed press release or publicity, unless a shorter review time is agreed to by both Parties. Neither Party may use any trademarks, logos, or symbols associated with the other Party without the prior written permission of such other Party. In the event that one Party reasonably concludes that a given disclosure is required by law and the other Party disagrees with the substance or extent of the disclosure, then the Party seeking such disclosure shall either (i) limit said disclosure to address the concerns of the other Party, or (ii) provide a written opinion from counsel stating that such disclosure is indeed required by law. With respect to complying with the disclosure requirements of the SEC, in connection with any required SEC filing of this Agreement, the filing Party shall seek confidential treatment of portions of this Agreement from the SEC and the other Party shall have the right to review and comment on such an application for confidential treatment prior to its being filed with the SEC. The non-filing Party shall provide its comments, if any, on such application as soon as practicable and in no event later than [**] after such application is provided to the non-filing Party. Notwithstanding the foregoing, Genentech shall not be prohibited from making a statement regarding the development or commercialization of a Protein Candidate, Licensed Product or Small Molecule Drug and Lexicon shall not be prohibited from making a statement regarding the development or commercialization of a Small Molecule Drug.

9.5 PUBLICATIONS. Genentech and Lexicon (as applicable, the "Publishing Party") may each publish or present data and/or results generated by or on behalf of such Publishing Party utilizing Knock-Out Mice or Progeny, subject to the prior review of the proposed disclosure by the other Party (the "Reviewing Party") solely to determine (i) whether the proposed disclosure contains Confidential Information of the Reviewing Party or Project Confidential Information or (ii) whether information contained in the proposed disclosure should be the subject of a patent application to be filed by Lexicon or Genentech prior to such disclosure. The Publishing Party shall provide the Reviewing Party with the opportunity to review any proposed abstract, manuscript or presentation which discloses the results of research conducted utilizing the Knock-Out Mice or Progeny by delivering a copy thereof to the Reviewing Party no less than [**] before its

intended submission for publication or presentation. The Reviewing Party shall have [**] from its receipt of any such abstract, manuscript or presentation in which to notify the Publishing Party in writing of any specific objections to the disclosure, based on either the need to seek patent protection or concern regarding the specific disclosure of the Confidential Information of the Reviewing Party or Project Confidential Information. In the event the Reviewing Party objects to the disclosure, the Publishing Party agrees not to submit the publication or abstract or make the presentation containing the objected-to information until the Reviewing Party is given a reasonable additional period of time (not to exceed an additional [**]) to seek patent protection for any material in the disclosure which the Reviewing Party believes is patentable (subject, in all events, to Article 8) or, in the case of Confidential Information of the Reviewing Party, to allow the Publishing Party to delete any Confidential Information of Reviewing Party from the proposed disclosure. Each Party agrees to delete from the proposed disclosure any Confidential Information of the Reviewing Party upon request. Notwithstanding the foregoing, publication of Patent applications shall not be subject to this Section 9.5

ARTICLE 10

TERM AND TERMINATION OF AGREEMENT

10.1 TERM. This Agreement commences on the Effective Date and will remain in full force and effect, unless earlier terminated as provided in this Article 10, until the later of: (i) [**] after the last Project Gene becomes a Rejected Project hereunder; or (ii) the expiration of all royalty obligations under this Agreement between the Parties.

10.2 GENENTECH'S UNILATERAL RIGHT TO TERMINATE.

(a) In the event that: (I) less than two hundred twenty-five (225) Project Genes reach chimeric mouse stage within twenty-four (24) months of designation of Project Genes under Section 3.1(e), or (II) less than sixty-six percent (66%) of Project Genes have completed First Pass Phenotypic Analysis within thirty-six (36) months of designation of Project Genes under Section 3.1(e), then in either case, Genentech shall have the right to terminate this Agreement, and

(i) Lexicon will provide Genentech, to the extent not previously provided, with a copy of all Project Patents and Know-How, Lexicon Pre-Existing Patents and Know-How and deliver Project Materials (to the extent not previously provided) related to such Projects;

(ii) Lexicon shall refund Genentech a portion of the upfront payment paid to Lexicon under Section 7.1 in an amount equal to 1/36th of such up-front payment for each month fewer than 36 months after the Effective Date have elapsed at the time of such termination, and Lexicon shall repay all amounts drawn down under the Note Agreement;

(iii) all licenses granted by Genentech to Lexicon shall terminate;

(iv) all rights and licenses granted by Lexicon to Genentech shall continue; and

(v) Genentech shall have no further payment obligations to Lexicon under this Agreement with respect to milestone payments, royalties or otherwise (notwithstanding the continuation of Genentech's rights and licenses hereunder).

(b) In the event that at least sixty-six percent (66%) but less than eighty percent (80%) of Project Genes have completed First Pass Phenotypic Analysis within thirty-six (36) months of designation of Project Genes under Section 3.1(e), then Genentech shall have the right to terminate this Agreement, and

(i) Lexicon will provide Genentech, to the extent not previously provided, with a copy of all Project Patents and Know-How, Lexicon Pre-Existing Patents and Know-How and deliver Project Materials (to the extent not previously provided) related to such Projects;

(ii) Lexicon shall repay all amounts drawn down under the Note Agreement; and

(iii) all licenses granted by Genentech to Lexicon shall terminate;

(iv) all rights and licenses granted by Lexicon to Genentech shall continue; and

(v) Genentech shall have no further payment obligations to Lexicon under this Agreement with respect to milestone payments, royalties or otherwise (notwithstanding the continuation of Genentech's rights and licenses hereunder); provided that Lexicon shall have the right to select up to ten (10) Protein Candidates for which First Pass Phenotypic Analysis has been completed and Lexicon Pre-Existing Patents or Project Patents have been filed for which Genentech shall have royalty obligations under Section 7.8.

10.3 TERMINATION FOR INSOLVENCY OR BANKRUPTCY. Either Party may, by written notice, terminate this Agreement with immediate effect if the other Party:

(i) makes a general assignment for the benefit of creditors;

(ii) files an insolvency petition in bankruptcy;

(iii) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets;

(iv) commences under the laws of any jurisdiction any proceeding involving its insolvency, bankruptcy, reorganization, adjustment of debt, dissolution, liquidation or any other similar proceeding for the release of financially distressed debtors; or

(v) becomes a party to any proceeding or action of the type described above in (iii) or (iv), and such proceeding or action remains undismissed or unstayed for a period of more than sixty (60) days.

All rights and licenses granted under or pursuant to this Agreement by each Party as a licensor or sublicensor are, and shall otherwise be deemed to be, for purposes of Section 365(n) of Title XI, U.S. Code (the "Bankruptcy Code"), licenses (or, if applicable, sublicenses) of rights to "intellectual property" as defined under Section 101(35A) of the Bankruptcy Code. The Parties agree that each licensee (or, if applicable, sublicensee) of such rights under this Agreement shall retain and may fully exercise all rights and elections it would have in the case of a licensor (or sublicensor) bankruptcy under the Bankruptcy Code. Each Party agrees during the term of this Agreement to create or maintain current copies, or if not amenable to copying, detailed descriptions or other appropriate embodiments, of all such intellectual property licensed or sublicensed to the other Party.

10.4 SURVIVING OBLIGATIONS. The rights and obligations of the Parties under Article 1 (Definitions), Article 9 (Confidentiality), Article 11 (Disclaimers, Representations and Warranties), Article 12 (Indemnification), and Article 13 (General Provisions) survive the termination or expiration of this Agreement. Also, termination or expiration of the Agreement shall not affect the rights and obligations of the Parties that by their nature survive, including, but not limited to, those in Article 8 (Intellectual Property Responsibilities) and, to the extent applicable, the effects of termination contained in Sections 10.2 through 10.4. The provisions of Sections 7.8 through 7.13 shall survive termination of this Agreement under Section 10.2(b) with respect to the Protein Candidates specified therein. The provisions of Sections 7.7 through 7.13 shall survive termination of this Agreement under Section 10.3. Finally, except as specifically provided to the contrary in this Agreement, termination or expiration of the Agreement shall be without prejudice to any rights that shall have accrued to the benefit of either Party prior to such termination or expiration and shall not relieve the Parties of any obligations accrued hereunder prior to such termination or expiration. This Section survives the termination or expiration of this Agreement for any reason.

ARTICLE 11

DISCLAIMERS, REPRESENTATIONS, AND WARRANTIES

11.1 CORPORATE EXISTENCE AND AUTHORITY. Each Party represents and warrants to the other Party that:

(i) it is a corporation or entity duly organized and validly existing under the law of the state or country of its incorporation; and

(ii) it has the full authority to enter into and perform all of the duties and obligations contemplated under this Agreement.

11.2 AUTHORIZED EXECUTION; BINDING OBLIGATION. Each Party represents and warrants to the other Party that its execution, delivery, and performance of this Agreement have been duly authorized and approved by all necessary corporate action and that this Agreement is binding, upon and enforceable against it in accordance with the Agreement's terms (subject to bankruptcy and similar laws affecting the rights of creditors generally).

11.3 NO CONFLICTS. Each Party represents and warrants that its execution, delivery, and performance of this Agreement:

(i) does not, except as otherwise described in this Agreement, require the approval or consent of any Third Person, which has not already been obtained;

(ii) does not, to the best of its knowledge, contravene any Applicable Law; and

(iii) does not contravene the provisions of, nor constitutes a default under, its Certificate of Incorporation or bylaws or any indenture, mortgage, contract or other agreement or instrument to which it is a signatory.

11.4 NO DEBARMENT. Each Party represents and warrants to the other that it is not debarred under the Generic Drug Enforcement Act of 1992 (the "Act") and is in compliance with the provisions of such Act. Each Party also covenants that, while this Agreement is in effect, it will comply with such Act, will not become debarred under the Act, and will not use in connection with this Agreement the services of any person debarred under such Act. Finally, upon request by the other Party, a Party will certify its compliance with the Act and this Section in writing to such other Party. If, at any time, a Party breaches a covenant under this Section, the breaching Party shall immediately notify the other Party of such fact.

11.5 REPRESENTATIONS AND WARRANTIES REGARDING LICENSES. With regard to each license granted under this Agreement, the Party granting such license (the "Granting Party") will be deemed to represent and warrant to the other Party, at the time any such license is granted, that, to the Granting Party's Actual Knowledge:

(a) the Granting Party's grant of such license does not require the approval or consent of any person or entity, which has not already been obtained;

(b) the Granting Party's grant of such license does not contravene any Applicable Law;

(c) the Granting Party's grant of such license does not contravene the provisions of, nor constitutes a default under, the Granting Party's Certificate of Incorporation or bylaws or any indenture, mortgage, contract or other agreement or instrument to which the Granting Party is a signatory;

(d) the Granting Party has the ability and right to grant the other Party such license;

(e) except as previously identified in a written notice, the Granting Party has not received, nor been made aware of, any communications alleging that its practice of the licensed intellectual property rights has infringed or misappropriated (or that it, or the other Party, will infringe or misappropriate in carrying out such license) the intellectual property rights of any person or entity;

(f) except as previously identified in a written notice, there have been no claims made against the Granting Party asserting the invalidity, abuse, misuse, or unenforceability of the licensed intellectual property rights; and

(g) there are no outstanding encumbrances on, licenses under, or covenants-not-to-sue with respect to the licensed intellectual property rights, which, in the case of licenses or covenants not-to-sue, would conflict with the rights granted herein.

11.6 DISCLAIMER OF IMPLIED WARRANTIES. EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, EITHER IN FACT OR BY OPERATION OF LAW, STATUTE, OR OTHERWISE, AND EACH PARTY SPECIFICALLY DISCLAIMS ANY AND ALL IMPLIED OR STATUTORY WARRANTIES INCLUDING WARRANTIES OF MERCHANTABILITY AND OF FITNESS FOR A PARTICULAR PURPOSE.

11.7 LIMITATION OF LIABILITY. NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY FOR INDIRECT, INCIDENTAL, CONSEQUENTIAL, OR SPECIAL DAMAGES INCLUDING, BUT NOT LIMITED TO, LOST PROFITS ARISING FROM OR RELATING TO ANY BREACH OF THIS AGREEMENT, REGARDLESS OF ANY NOTICE OF THE POSSIBILITY OF SUCH DAMAGES. HOWEVER, NOTHING IN THIS SECTION IS INTENDED TO LIMIT OR RESTRICT THE INDEMNIFICATION RIGHTS OR OBLIGATIONS OF ANY PARTY.

ARTICLE 12

INDEMNIFICATION

12.1 INDEMNIFICATION OBLIGATIONS.

(a) Genentech's Obligation. Genentech will defend, indemnify, and hold harmless Lexicon, its Affiliates and their respective directors, officers, shareholders, employees, and agents ("Lexicon Indemnitees"), from and against any and all liabilities, damages, losses, penalties, fines, costs, interest, and expenses, including, without limitation, reasonable attorneys' fees ("Damages"), arising from or occurring as a result of a Third Person's claim, action, suit, judgment, or settlement against a Lexicon Indemnitee that is due to or based upon:

(i) any breach of a representation, warranty, covenant, obligation, or agreement of Genentech under this Agreement;

(ii) any grossly negligent or more culpable act of Genentech or a Genentech Affiliate or sublicensee, or their respective directors, officers, shareholders, employees, and agents related to this Agreement; or

(iii) the development, manufacture, marketing, sale or other disposition, offer to sell, use, importation, or exportation of a Licensed Product, Protein Candidate or other product in the Field by Genentech or Genentech's Affiliates, sublicensees, subcontractors, or customers, or the customers of Genentech's Affiliates and sublicensees (any of clauses of (i) through (iii), a "Lexicon Third Person Claim").

However, Genentech shall not indemnify or hold harmless Lexicon Indemnitees from Damages from a Lexicon Third Person Claim to the extent that such Damages are finally determined to have resulted from the acts or omissions of a Lexicon Indemnitee or Third Person. Genentech's obligations under this Subsection shall survive the expiration or termination of this Agreement for any reason.

(b) Lexicon's Obligation. Lexicon will defend, indemnify, and hold harmless Genentech, its Affiliates and their respective directors, officers, shareholders, employees and agents ("Genentech Indemnitees"), from and against any and all Damages arising from or occurring as a result of a Third Person's claim, action, suit, judgment, or settlement against a Genentech Indemnitee that is due to or based upon:

(i) any breach of a representation, warranty, covenant, obligation, or agreement of Lexicon under this Agreement;

(ii) any grossly negligent or more culpable act of Lexicon or a Lexicon Affiliate or sublicensee, or their respective directors, officers,

shareholders, employees, and agents related to this Agreement (any of clauses (i) through (ii), a "Genentech Third Person Claim"); or

(iii) the development, manufacture, marketing, sale or other disposition, offer to sell, use, importation, or exportation of a Small Molecule Drug by Lexicon or Lexicon's Affiliates, sublicensees, subcontractors, or customers, or the customers of Lexicon's Affiliates and sublicensees.

However, Lexicon shall not indemnify or hold harmless Genentech Indemnitees from Damages from a Genentech Third Person Claim to the extent that such Damages are finally determined to have resulted from the acts or omissions of a Genentech Indemnitee or Third Person. Lexicon's obligations under this Subsection shall survive expiration or termination of this Agreement for any reason.

12.2 INDEMNIFICATION PROCEDURES.

(a) Notice. Promptly after a Genentech Indemnitee or a Lexicon

Indemnitee (each, an "Indemnitee") receives notice of a pending or threatened Lexicon Third Person Claim or Genentech Third Person Claim, as the case may be (an "Action"), such Indemnitee shall give written notice of the Action to the Party to whom the Indemnitee is entitled to look for indemnification pursuant to this Article 12 (the "Indemnifying Party"). However, an Indemnitee's delay in providing or failure to provide such notice shall not relieve the Indemnifying Party of its indemnification obligations, except to the extent it can demonstrate prejudice due to the delay or lack of notice.

(b) Defense. Upon receipt of notice under Subsection (a) from the Indemnitee, the Indemnifying Party will have the duty to either to compromise or defend, at its own expense and by counsel (reasonably satisfactory to Indemnitee), such Action. The Indemnifying Party will promptly (and in any event not more than [**] after receipt of the Indemnitee's original notice) notify the Indemnitee in writing of its intention to either compromise or defend such Action. Once the Indemnifying Party notifies the Indemnitee of its election to assume the defense of an Action, the Indemnifying Party is not liable to the Indemnitee for the fees of other counsel or any other expenses subsequently incurred by the Indemnitee in connection with such defense, other than the Indemnitee's reasonable costs of investigation and cooperation. However, the Indemnitee shall have the right to employ separate counsel and to participate in the defense of an Action (and the Indemnifying Party shall bear the reasonable fees, costs, and expenses of such counsel) if:

(i) the use of the counsel chosen by the Indemnifying Party would present such counsel with a conflict of interest;

(ii) the actual or potential defendants in, or targets of, such Action include both the Indemnifying Party and the Indemnitee, and the Indemnitee reasonably concludes that there may be legal defenses available to it that are different from or additional to those available to the Indemnifying

Party (in which case the Indemnifying Party shall not have the right to assume the defense of such Action on the Indemnitee's behalf);

(iii) the Indemnifying Party does not employ counsel satisfactory to the Indemnitee to represent the Indemnitee within a reasonable time after the Indemnitee's notice of such Action;

(iv) the Indemnifying Party denies or fails to timely admit its obligation to defend and indemnify the Action; or

(v) in the reasonable opinion of counsel to the Indemnitee, the claim could result in the Indemnitee becoming subject to injunctive relief or relief other than the payment of Damages that could have a materially adverse effect on the ongoing business of the Indemnitee.

(c) Cooperation. The Indemnitee shall cooperate fully with the Indemnifying Party and its legal representatives in the investigation and defense of an Action. The Indemnifying Party will keep the Indemnitee informed on a reasonable and timely basis as to the status of such Action (to the extent the Indemnitee is not participating jointly in the defense of such Action) and conduct the defense of such Action in a prudent manner.

(d) Settlement. If an Indemnifying Party assumes the defense of an Action, no compromise or settlement of such Action may be effected by the Indemnifying Party without the Indemnitee's written consent (which consent shall not be unreasonably withheld or delayed), unless (i) there is no finding or admission of any violation of law or any violation of the rights of any person and no effect on any other claims that may be made against the Indemnitee, (ii) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party, and (iii) the Indemnitee's rights under this Agreement are not adversely affected. In any event, the Indemnitee shall have no right to settle any such Action without the prior written consent of the Indemnifying Party, unless (i) there is no finding or admission of any violation of law or any violation of the rights of any person and no effect on any other claims that may be made against the Indemnifying Party, (ii) the sole relief provided is monetary damages that are paid in full by the Indemnitee, and (iii) the Indemnifying Party's rights under this Agreement are not adversely affected; any settlement under this Subsection (d) without the prior written consent of the Indemnifying Party shall relieve the Indemnifying Party of its obligations under this Article 12.

12.3 INSURANCE.

(a) During the term of this Agreement, each Party shall maintain an ongoing basis, Commercial General Liability ("CGL") insurance, including contractual liability, in the minimum amount of [**] per occurrence and [**] annual aggregate combined single limit for bodily injury and property damage liability; provided that Lexicon may satisfy such requirement by maintaining a combination of CGL insurance and umbrella insurance in such combined per occurrence and aggregate amounts. Within [**] of the

Effective Date, the Parties shall provide one another with their respective certificates of such insurance. The aggregate deductible under CGL shall be reasonably satisfactory to the other Party. The insurance policy shall be an occurrence or claims-made form, but if only on a claims made form, the insurance coverage shall be maintained for at least [**] following completion of the work performed under this Agreement.

(b) Commencing not later than [**] prior to the first use in humans of the first potential Licensed Product and thereafter for the period of time required below, Genentech shall obtain and maintain on an ongoing basis Products Liability insurance (including contractual liability), with a reputable carrier, in the amount of at least [**] per occurrence and annual aggregate combined single limit for bodily injury and property damage liability. No later than [**] prior to the first use in humans of the first potential Licensed Product with respect to the Product Liability insurance coverage, Genentech shall provide to Lexicon a certificate evidencing all such coverage required hereunder. Thereafter Genentech shall maintain such Products Liability insurance coverage without interruption during the term of this Agreement and for a period of at least [**] after the expiration or termination of the term, except as provided under the next paragraph below.

(c) In addition, the Parties agree with respect to (a) and (b) above that:

(i) The Parties shall use Commercially Reasonable Efforts to name each other as additional insureds under their respective CGL and Products Liability insurance;

(ii) Each of the above insurance policies shall be primary insurance as respects each Party's participation under this Agreement; and

(iii) Each of the above insurance coverage shall be maintained with an insurance company or companies having an A.M. Best rating of "A" or better.

ARTICLE 13

DISPUTE RESOLUTION

13.1 INTERNAL RESOLUTION. The Parties shall attempt to settle any dispute, controversy or claim arising out of or relating to the validity, enforceability or performance of this Agreement, including disputes relating to alleged breach or termination of this Agreement but excluding any determination as to the validity of the Parties' patents (hereinafter, the "Dispute"), in accordance with the provisions of this Section 13.1. The Parties have entered into the Agreement in good faith and in the belief that it is mutually advantageous to them. It is with that same spirit of cooperation that they pledge to attempt to resolve any Dispute amicably. Accordingly, the Parties agree that if any Dispute should arise, it shall be referred to a member of senior management from each of the Parties and from any sublicensee (if any).

13.2 ARBITRATION. Should the senior management be unable to resolve the dispute, any controversy, dispute or claim which may arise out of or in connection with this Agreement, or the breach, termination or validity thereof, shall be settled by final and binding arbitration pursuant to the Arbitration Rules of the American Arbitration Association as hereinafter provided:

(a) The arbitration tribunal shall consist of three arbitrators. Each party shall nominate in the request for arbitration and the answer thereto one arbitrator and the two arbitrators so named will then jointly appoint the third arbitrator as chairman of the arbitration tribunal. If one party fails to nominate its arbitrator or, if the parties' arbitrators cannot agree on the person to be named as chairman within [**], the President of the American Arbitration Association shall make the necessary appointments for arbitrator or chairman.

(b) The place of arbitration shall be in a neutral location (i.e., not California or Texas) to be decided by the Party not initiating such arbitration, and the arbitration proceedings shall be held in English. The procedural law of the State of Delaware shall apply where the said Arbitration Rules are silent.

(c) The decision of the arbitration tribunal must be in writing and must specify the basis on which the decision was made, and the award of the arbitration tribunal shall be final and judgement upon such an award may be entered in any competent court or application may be made to any competent court for juridical acceptance of such an award and order of enforcement.

ARTICLE 14

GENERAL PROVISIONS

14.1 COMMON INFORMATION TECHNOLOGY. In order to facilitate efficient communication between Genentech and Lexicon regarding the Projects, the Parties agree to establish and maintain a secure communication link between Genentech and Lexicon and work together to identify and support hardware, software, and services, in accordance with Genentech's platforms and technology architecture, appropriate for the sharing of Project information. Each Party shall bear its own costs identifying, acquiring, operating, and maintaining such hardware, software, and services.

14.2 LEGAL COMPLIANCE. Each Party will comply with all Applicable Laws in the performance of its obligations or the exercise of its rights hereunder.

14.3 ASSIGNMENT. (a) Neither Party may assign this Agreement (nor any part thereof) without the prior written consent of the other Party. Notwithstanding the foregoing, if either Party is a party to a merger and it will not be the surviving entity of such transaction, such Party may assign, without the other Party's prior written consent (but

with [**] prior written notice to the other Party) all of its rights and obligations hereunder to the surviving or new entity resulting from such merger so long as the surviving or new entity expressly agrees in writing to assume all obligations of such Party under this Agreement.

(b) Any attempted assignment of this Agreement, other than as allowed in this Section, will be of no force or effect. Subject to the provisions set forth in this Section, this Agreement will be binding upon and will inure to the benefit of the successors and permitted assigns of the Parties.

14.4 INDEPENDENT CONTRACTORS. It is understood and agreed that the Parties are independent contractors and are engaged in the operation of their own respective businesses, and neither Party is to be considered the agent of the other Party or to have a fiduciary responsibility to such other Party for any purpose whatsoever. The rights and obligations of each Party under this Agreement do not constitute the formation of a partnership for federal, state, or any other tax purpose. Each Party shall file all income tax returns consistent with that position. Neither Party will have any authority to enter into any contracts or assume any obligations for the other Party nor make any warranties or representations on behalf of that other Party.

14.5 GOVERNING LAW. This Agreement and all amendments, modifications, alterations, or supplements hereto, and the rights of the Parties hereunder, will be construed under and governed by the laws of the State of Delaware exclusive of its conflicts of laws principles.

14.6 ENTIRE AGREEMENT. This Agreement, including all Exhibits, Schedules and attachments hereto, constitutes the entire agreement between Lexicon and Genentech with respect to the subject matter hereof, and all previous or other negotiations, representations and understandings with respect to the subject matter hereof between Lexicon and Genentech, including without limitation, the Origianl Agreement, are superceded as of the Effective Date. This Agreement has been prepared jointly and will not be strictly construed against either Party.

14.7 SEVERABILITY. All rights and restrictions contained herein may be exercised and will be applicable and binding only to the extent that they do not violate any applicable laws and are intended to be limited to the extent necessary so that they will not render this Agreement illegal, invalid or unenforceable. If any provision or portion of any provision of this Agreement, not essential to the commercial purpose of this Agreement, will be held to be illegal, invalid or unenforceable by a court of competent jurisdiction, it is the intention of the Parties that the remaining provisions or portions thereof shall constitute their agreement with respect to the subject matter hereof, and all such remaining provisions, or portions thereof, will remain in full force and effect. To the extent legally permissible, any illegal, invalid or unenforceable provision of this Agreement will be replaced by a valid provision which will implement the commercial purpose of the illegal, invalid, or unenforceable provision. In the event that any provision essential to the commercial purpose of this Agreement is held to be illegal, invalid or

unenforceable and cannot be replaced by a valid provision which will implement the commercial purpose of this Agreement, the Parties will promptly negotiate a suitable resolution (potentially even termination of the Agreement) in good faith.

14.8 FORCE MAJEURE. Any delays in, or failure of, performance of any obligations of a Party will not constitute a default hereunder or give rise to any claim for damages, if, and to the extent, caused by Force Majeure. The Party asserting this Section will promptly notify the other Party of the event constituting Force Majeure, of all relevant details of the occurrence, and an estimate of how long such Force Majeure event shall continue. The affected Party will also take reasonable and diligent actions to cure such cause, and the Parties will consult with each other in order to find a fair solution and shall use all reasonable endeavors to minimize the consequences of such Force Majeure.

14.9 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

14.10 NOTICES. All notices, statements, and reports required to be given under this Agreement will be in writing, delivered in person, via registered or certified mail postage prepaid, or through a professional courier service (e.g., FedEx or DHL), and addressed as follows:

To Lexicon:	Lexicon Genetics Incorporated 8800 Technology Forest Place Woodlands, TX 77381-1160 Fax: (281) 863-8088 Phone: (281) 863-3000 Attn: President, CEO
With a copy to:	General Counsel
To Genentech:	Genentech, Inc. 1 DNA Way South San Francisco, California 94080 Fax: (650) 952-9881 Phone: (650) 225-1000 Attn: Corporate Secretary
With a copy to:	Vice President, Research

Notice will be deemed to have been given when delivered if personally delivered on a business day, on the [**] after dispatch if sent by a professional courier, and on the [**] following the date of mailing if sent by registered or certified mail. A Party may change the address to which notices to such Party are to be sent by giving written notice to the other Party at the address and in the manner provided above. Any notice may be given, in addition to the manner set forth above, by facsimile or e-mail, provided that the Party

giving such notice obtains acknowledgment by facsimile or e-mail that such notice has been received by the Party to be notified. Notices made in this manner will be deemed to have been given when such acknowledgment has been transmitted.

14.11 WAIVER. The failure of either Party to enforce any provision of this Agreement at any time will not be construed as a present or future waiver of such provision or any other provision of this Agreement. The written waiver by either Party, pursuant to this Section 14.11, of any provision or requirement hereunder will neither be deemed nor operate as a future waiver of such or any other provision or requirement.

14.12 MODIFICATIONS. No amendment, waiver or modification of this Agreement will be valid or binding on either Party unless made in writing and signed by duly authorized representatives of both Parties.

14.13 HEADINGS. All headings and captions used in this Agreement are for convenience only, and are not intended to have any substantive effect.

14.14 NO IMPLIED LICENSES. Except as specifically provided for in this Agreement, neither Party grants, expressed or implied, any license to the other Party under this Agreement.

14.15 NO THIRD PARTY BENEFICIARIES: Except as expressly provided herein, this Agreement shall not confer any rights or remedies upon any Third Person other than the Parties and their respective successors and permitted assigns.

14.16 R&D TAX CREDITS. To the extent permitted by Applicable Law, Genentech will be entitled to any tax credits due on account of research and development expenses it pays to Lexicon under this Agreement.

14.17 RESPONSIBLE FOR SUBLICENSEES. If a Party sublicenses to another person any of the rights it received under this Agreement from the other Party, such Party agrees to remain responsible to other Party for the performance and compliance of such sublicensee with all obligations under this Agreement that apply to such sublicensee.

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14.18 FURTHER ACTIONS. Each Party agrees to execute, acknowledge, and deliver such further instruments, and to do all other acts, as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

IN WITNESS WHEREOF, each Party has executed this Agreement by its respective, duly authorized officer as of the day and year herein written.

GENENTECH, INC.	LEXICON GENETICS INCORPORATED
/s/ Arthur D. Levinson	/s/ Arthur T. Sands
By: Arthur D. Levinson	By: Arthur T. Sands
Title: CEO	Title: President and CEO

EXHIBIT A

Comprehensive Therapeutic Protein Discovery & Validation Program

FIRST Pass Phenotypic Analysis of Project Genes

[**]

EXHIBIT B

SUBLICENSE AGREEMENT

THIS SUBLICENSE AGREEMENT (this "Agreement") is made and entered into this seventeenth (17th) day of December, 2002 (the "Effective Date") by and between LEXICON GENETICS INCORPORATED, a Delaware corporation ("Lexicon"), and GENENTECH, INC., a Delaware corporation ("Genentech").

RECITALS:

WHEREAS, Lexicon holds a license from GenPharm International Inc. ("GenPharm") under certain Patent Rights (as defined herein) relating to the use of "isogenic DNA constructs" in gene targeting for the generation of transgenic and knock-out mice, and has the right to grant sublicenses under said Patent Rights; and

WHEREAS, Genentech desires to obtain from Lexicon, and Lexicon desires to grant to Genentech, a sublicense under the Patent Rights in the Field of Use upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto agree as follows:

1. DEFINITIONS. For the purposes of this Agreement, the following words and phrases shall have the following meanings:

1.1 "Academic Collaborator" shall mean a principal investigator, employed by a university or other not-for-profit academic research institution, who is performing collaborative research with or sponsored research for Genentech involving use of a Mutant Mouse or Progeny.

1.2 "Contract Service Provider" shall mean any Third Party that enters into an agreement with Genentech providing for the performance of services for Genentech, on a fee-for-service basis, relating to [**] of Mutant Mice or Progeny.

1.3 "Field of Use" shall mean (i) the generation and development of Mutant Mice by Genentech at its internal research facilities and (ii) the use of Mutant Mice and Progeny, including the breeding thereof, by Genentech and, subject to the terms and conditions of Sections 2.2 and 2.3, by Genentech's Academic Collaborators and Contract Service Providers, at the internal research facilities of Genentech, such Academic Collaborators or Contract Service Providers, in each case for research purposes only, including research directed toward the discovery, development and commercialization of human therapeutic and diagnostic products. The Field of Use shall specifically exclude (i) the development of a library of mouse embryonic stem cells, (ii) the sale, lease or other transfer for consideration of any Mutant Mouse or Progeny, (iii) the use of any

Mutant Mouse or Progeny for consideration (including, without limitation, use of any Mutant Mouse or Progeny in contract testing services) and (iv) the generation, development, manufacture or importation of any Mutant Mouse or Progeny for any of the foregoing. The Field of Use shall further exclude the generation, development and use of (i) any transgenic mouse containing unrearranged human immunoglobulin DNA or inactivated murine immunoglobulin DNA, (ii) any mouse as a model for Alzheimer's disease based upon (beta)-amyloid precursor protein coded for by the App gene or mutated forms thereof, (iii) any immunomodified mouse model for the study of transplanted human cells or (iv) any transgenic immunomodified mouse for use in studies of human allergenicity of non-therapeutic proteins or peptides and in research directed toward the development of non-therapeutic proteins or peptides that demonstrate a reduction in human allergenicity (for purposes of which, "non-therapeutic proteins or peptides" shall mean proteins or peptides for use in cosmetic, cleaning and other non-therapeutic consumer products).

1.4 "Mutant Mouse" shall mean any mouse cell or mouse generated or

developed by Genentech through use of any product or process covered by a Valid Claim of the Patent Rights. As used herein, a "line of Mutant Mice" shall mean all mouse cells and mice with a mutation in the same gene.

1.5 "Patent Rights" shall mean all of Lexicon's rights and interests in and to [**] (i) the United States patents and patent applications listed in Exhibit A, (ii) any patents issuing from such patent applications, (iii) any continuations, continuations-in-part, divisionals, reissues, reexaminations or extensions of any of the foregoing, and (iv) all foreign counterparts of any of the foregoing.

1.6 "Progeny" shall mean any mouse cells or mice, including successive generations thereof, that are produced or developed by Genentech, its Academic Collaborators or Contract Service Providers by breeding a Mutant Mouse with any other mouse (including, without limitation, any other Mutant Mouse); provided, however, that Progeny shall not include, and the rights and licenses granted under this Agreement shall not extend to, any mouse cell or mouse that is produced or developed by breeding a Mutant Mouse with any mouse, other than another Mutant Mouse, that contains a mutation in its genome which was generated or developed, or whose progenitors include a mouse containing such mutation which was generated or developed, through use of any product or process covered by a Valid Claim of the Patent Rights.

1.7 [**] shall mean any [**]; provided, however, that [**] specifically excludes [**].

1.8 "Third Party" shall mean any person or entity other than Lexicon and Genentech.

1.9 "Valid Claim" shall mean a claim of an issued and unexpired patent which has not been held permanently revoked, unenforceable or invalid by a decision of a court

or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal.

2. GRANT OF SUBLICENSE AND RELEASE.

2.1 Subject to the terms and conditions of this Agreement, Lexicon hereby grants to Genentech, during the term of this Agreement, a worldwide, royalty-free, non-exclusive right and sublicense under the Patent Rights in the Field of Use, to the extent not prohibited by other patents, (i) to make (but not have made) up to a total of [**] lines of Mutant Mice per calendar year during the term of this Agreement, and (ii) to breed and use such Mutant Mice and Progeny. Nothing in this Agreement shall be construed to confer upon Genentech any rights under the Patent Rights outside the Field of Use.

2.2 Genentech shall have the right to transfer Mutant Mice and Progeny to Academic Collaborators subject to the terms and conditions of this Section 2.2. Any such transfer shall be made pursuant to a material transfer agreement or other agreement containing terms relating to the transfer of such material that expressly (i) prohibit the use of such Mutant Mice and Progeny thereof for any purpose other than such Academic Collaborator's collaborative research with Genentech in the Field of Use and (ii) prohibit the transfer of such Mutant Mice or Progeny thereof by such Academic Collaborator to any Third Party.

2.3 Genentech shall have the right to transfer Mutant Mice and Progeny to Contract Service Providers subject to the terms and conditions of this Section 2.3. Any such transfer shall be made pursuant to a material transfer agreement or other agreement containing terms relating to the transfer of such material that expressly (i) prohibits the use of such Mutant Mice and Progeny thereof for any purpose other than such Contract Service Provider's performance of services for Genentech, on a fee-for-service basis, relating to [**] of Mutant Mice or Progeny, (ii) prohibits the transfer of such Mutant Mice or Progeny thereof by such Contract Service Provider to any Third Party, and (iii) obligates such Contract Service Provider to return or destroy such Mutant Mice or Progeny upon the completion of its services for Genentech.

2.4 Genentech shall not assert or enforce against Lexicon any claims of an issued patent arising from the use by Genentech, its Academic Collaborators or Contract Service Providers of a Mutant Mouse or Progeny, to the extent, but only to the extent, any such assertion or enforcement would, absent a license from Genentech, prevent Lexicon from using or permitting others to use, [**] for research purposes directed towards the discovery, identification, selection or characterization of [**], any transgenic or knockout mouse or phenotypic data derived therefrom.

2.5 Nothing in this Agreement shall be construed to confer upon Genentech any rights, by implication, estoppel or otherwise, to any patent, technology or intellectual property of Lexicon or any other entity other than the Patent Rights, regardless of whether such intellectual property rights shall be dominant or subordinate to any Patent Rights.

2.6 Genentech shall be responsible for all development activities related to the generation of Mutant Mice and use of the Patent Rights, including the compliance with Third Party patent rights.

3. LICENSE FEE.

3.1 For the rights, privileges and sublicense granted hereunder, Genentech shall pay Lexicon a license fee of [**], payable within [**] of the Effective Date.

3.2 All payments due hereunder shall be paid in full, without deduction of taxes or other fees that may be imposed by any government.

3.3 Any payments by Genentech to Lexicon that are not paid on or before [**] the date such payments are due under this Agreement shall bear interest, to the extent permitted by applicable law, at one and one half percent (1.5%) per month, calculated on the total number of days payment is delinquent.

3.4 Payments to be made by Genentech to Lexicon under this Agreement shall be payable in United States dollars and shall be paid by check delivered to Lexicon at its principal office at The Woodlands, Texas or bank wire transfer in immediately available funds to such bank account in the State of Texas as is designated in writing by Lexicon from time to time.

4. REPORTS AND RECORDS. Within thirty (30) days after the end of each calendar year, Genentech shall deliver to Lexicon a true and accurate written report listing the number of lines of Mutant Mice made by Genentech during such year, and certifying that Genentech has complied with its obligations under this Agreement.

5. INFRINGEMENT OF PATENT RIGHTS. Lexicon shall have the exclusive right, but shall not be obligated, to prosecute any infringements of the Patent Rights. The total cost of any such infringement action commenced or defended by Lexicon shall be borne by Lexicon, and Lexicon shall keep any recovery or damages for past infringement derived therefrom.

6. INDEMNIFICATION AND LIMITATION OF LIABILITY.

6.1 Genentech shall at all times during the term of this Agreement and thereafter, indemnify, defend and hold Lexicon and its directors, officers, employees and affiliates harmless from and against all claims, proceedings, demands, liabilities and losses of any kind whatsoever that are brought by a Third Party, including legal expenses and reasonable attorneys' fees, arising out of, based upon or resulting from the use of the

Patent Rights hereunder [**] or the use, testing, marketing or sale of human therapeutic or diagnostic products by Genentech, its Academic Collaborators or Contract Service Providers, except to the extent that such claims, proceedings, demands, liabilities and losses result from Lexicon's gross negligence or willful misconduct.

6.2 Indemnification Procedures.

(a) Notice. Promptly after a Genentech Indemnitee or a Lexicon Indemnitee (each, an "Indemnitee") receives notice of a pending or threatened Lexicon Third Person Claim or Genentech Third Person Claim, as the case may be (an "Action"), such Indemnitee shall give written notice of the Action to the Party to whom the Indemnitee is entitled to look for indemnification pursuant to this Article 12 (the "Indemnifying Party"). However, an Indemnitee's delay in providing or failure to provide such notice shall not relieve the Indemnifying Party of its indemnification obligations, except to the extent it can demonstrate prejudice due to the delay or lack of notice.

(b) Defense. Upon receipt of notice under Subsection (a) from the Indemnitee, the Indemnifying Party will have the duty to either to compromise or defend, at its own expense and by counsel (reasonably satisfactory to Indemnitee), such Action. The Indemnifying Party will promptly (and in any event not more than twenty (20) days after receipt of the Indemnitee's original notice) notify the Indemnitee in writing of its intention to either compromise or defend such Action. Once the Indemnifying Party notifies the Indemnitee of its election to assume the defense of an Action, the Indemnifying Party is not liable to the Indemnitee for the fees of other counsel or any other expenses subsequently incurred by the Indemnitee in connection with such defense, other than the Indemnitee's reasonable costs of investigation and cooperation. However, the Indemnitee shall have the right to employ separate counsel and to participate in the defense of an Action (and the Indemnifying Party shall bear the reasonable fees, costs, and expenses of such counsel) if:

(i) the use of the counsel chosen by the Indemnifying Party would present such counsel with a conflict of interest;

(ii) the actual or potential defendants in, or targets of, such Action include both the Indemnifying Party and the Indemnitee, and the Indemnitee reasonably concludes that there may be legal defenses available to it that are different from or additional to those available to the Indemnifying Party (in which case the Indemnifying Party shall not have the right to assume the defense of such Action on the Indemnitee's behalf);

(iii) the Indemnifying Party does not employ counsel satisfactory to the Indemnitee to represent the Indemnitee within a reasonable time after the Indemnitee's notice of such Action;

(iv) the Indemnifying Party denies or fails to timely admit its obligation to defend and indemnify the Action; or

(v) in the reasonable opinion of counsel to the Indemnitee, the claim could result in the Indemnitee becoming subject to injunctive relief or relief other than the payment of Damages that could have a materially adverse effect on the ongoing business of the Indemnitee.

(c) Cooperation. The Indemnitee shall cooperate fully with the Indemnifying Party and its legal representatives in the investigation and defense of an Action. The Indemnifying Party will keep the Indemnitee informed on a reasonable and timely basis as to the status of such Action (to the extent the Indemnitee is not participating jointly in the defense of such Action) and conduct the defense of such Action in a prudent manner.

(d) Settlement. If an Indemnifying Party assumes the defense of an Action, no compromise or settlement of such Action may be effected by the Indemnifying Party without the Indemnitee's written consent (which consent shall not be unreasonably withheld or delayed), unless (i) there is no finding or admission of any violation of law or any violation of the rights of any person and no effect on any other claims that may be made against the Indemnitee, (ii) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party, and (iii) the Indemnitee's rights under this Agreement are not adversely affected. In any event, the Indemnitee shall have no right to settle any such Action without the prior written consent of the Indemnifying Party, unless (i) there is no finding or admission of any violation of law or any violation of the rights of any person and no effect on any other claims that may be made against the Indemnifying Party, (ii) the sole relief provided is monetary damages that are paid in full by the Indemnitee, and (iii) the Indemnifying Party's rights under this Agreement are not adversely affected; any settlement under this Subsection (d) without the prior written consent of the Indemnifying Party shall relieve the Indemnifying Party of its obligations under this Article 12.

6.3 Lexicon warrants to Genentech that it has the lawful right to grant the rights and licenses set forth in this Agreement. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS AGREEMENT, LEXICON AND ITS DIRECTORS, OFFICERS, EMPLOYEES, AND AFFILIATES MAKE NO REPRESENTATIONS AND EXTEND NO WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, VALIDITY OF

PATENT RIGHTS CLAIMS, ISSUED OR PENDING, AND THE ABSENCE OF LATENT OR OTHER DEFECTS, WHETHER OR NOT DISCOVERABLE. NOTHING IN THIS AGREEMENT SHALL BE CONSTRUED AS A REPRESENTATION MADE OR WARRANTY GIVEN BY LEXICON THAT THE PRACTICE BY GENENTECH OF THE SUBLICENSE RIGHTS GRANTED HEREUNDER SHALL NOT INFRINGE THE PATENT RIGHTS OF ANY THIRD PARTY. IN NO EVENT SHALL EITHER PARTY OR ITS DIRECTORS, OFFICERS, EMPLOYEES AND AFFILIATES BE LIABLE FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND, INCLUDING ECONOMIC DAMAGE OR INJURY TO PROPERTY AND LOST PROFITS, REGARDLESS OF WHETHER THEY SHALL BE ADVISED, SHALL HAVE OTHER REASON TO KNOW, OR IN FACT SHALL KNOW OF THE POSSIBILITY OF THE FOREGOING.

7. TERM AND TERMINATION.

7.1 This Agreement shall become effective on the Effective Date and shall remain in effect until the expiration of the last-to-expire patent included within the Patent Rights.

7.2 Upon any material breach or default of this Agreement by Genentech (including, but not limited to, breach or default under Section 2.1 or use of the Patent Rights outside of the Field of Use), Lexicon shall have the right to terminate this Agreement and the rights, privileges and sublicense granted hereunder, effective on [**] written notice, unless Genentech shall have cured any such material breach or default prior to the expiration of such [**] period.

7.3 If Genentech shall liquidate, dissolve, file a voluntary petition in bankruptcy, be adjudicated a bankrupt, make a general assignment for the benefit of creditors, admit in writing that it is insolvent or fail to discharge within [**] an involuntary petition in bankruptcy filed against it, this Agreement shall terminate upon written notice by Lexicon.

7.4 No termination of this Agreement shall be construed to release either party from any obligation that matured prior to the effective date of such termination. The provisions of Sections 2.4, 2.5, 4, 5, 6, 7.4, 9, 11, 12 and 13 shall survive any termination of this Agreement.

8. EXPORT CONTROLS. Genentech acknowledges that it is subject to United States laws and regulations controlling the export of technical data, computer software, laboratory prototypes and other commodities (including the Arms Export Control Act, as amended and the United States Department of Commerce Export Administration Regulations). The transfer of such items may require a license from the relevant agency of the United States Government and/or written assurances by Genentech that Genentech shall not export data or commodities to certain foreign countries without prior approval

of such agency. Lexicon does not represent that a license shall not be required nor that, if required, it shall be issued.

9. CONFIDENTIALITY OF TERMS; PUBLICITY. The terms of this Agreement shall be treated as confidential and shall not be disclosed to anyone except for the parties' respective employees, consultants, agents and attorneys assisting in the review and negotiation of this Agreement who have a need to know the terms of this Agreement and have an obligation to keep such terms confidential, or such other attorneys or agents who are performing due diligence on either party and who are under an implied obligation of confidentiality, without the written permission of the other party; provided that each party may disclose that Genentech has obtained a sublicense under the Patent Rights hereunder. If either party desires to release a public announcement relating to this Agreement, it shall first allow the other party to approve in writing such proposed announcement; provided that such approval shall not be unreasonably withheld or delayed.

10. ASSIGNMENT. This Agreement may not be assigned or otherwise transferred by either party without the written consent of the other party; provided, however, that Lexicon may, without such consent, assign its rights and obligations under this Agreement (i) to any affiliate or (ii) in connection with a merger, consolidation or sale of its assets to a Third Party; provided, however, that Lexicon's rights and obligations under this Agreement shall be assumed by its successor in interest in any such merger, consolidation or sale of assets transaction and shall not be transferred separate from all or substantially all of its other business assets, including those business assets that are the subject of this Agreement. Any purported assignment in violation of the preceding sentence shall be void. Any permitted assignee shall assume all obligations of its assignor under this Agreement.

11. DISPUTE RESOLUTION. If any controversy or claim should arise under this Agreement, the matter shall be referred to an individual designated by the Chief Executive Officer (or equivalent position) of Lexicon and an individual designated by the Chief Executive Officer (or equivalent position) of Genentech (the "Representatives"), who will attempt in good faith to resolve such controversy or claim promptly by negotiations. If the matter has not been resolved within [**] of the first meeting of the Representatives of the parties (which period may be extended by mutual agreement) concerning such matter, the parties shall be free to pursue all available recourse both at law and in equity.

12. PAYMENTS, NOTICES AND OTHER COMMUNICATIONS. Any payments, notice or other communication pursuant to this Agreement shall be sufficiently made or given on the date of mailing if sent to such party by certified first class mail, return receipt requested, postage prepaid, addressed to it at its address below or as it shall designate by written notice given to the other party:

In the case of Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, California 94080
Attention: Corporate Secretary
cc: Vice President of Research

In the case of Lexicon:

Lexicon Genetics Incorporated
8800 Technology Forest Place
The Woodlands, Texas 77381
Attention: President
cc: Vice President, Intellectual Property

13. MISCELLANEOUS.

13.1 Entire Agreement. The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument signed by the parties.

13.2 Severability. The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or unenforceable under any controlling body of the law, such invalidity or unenforceability shall not in any way affect the validity or enforceability of the remaining provisions hereof. The parties shall thereafter in good faith amend this Agreement to provide for an acceptable provision to replace such invalid or unenforceable provision.

13.3 No Waiver. The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

13.4 Governing Law. All disputes arising out of or related to this Agreement, or the performance, enforcement, breach or termination hereof, and any remedies relating thereto, shall be construed, governed, interpreted and applied in accordance with the laws of the State of Delaware, U.S.A., except that questions affecting the construction and effect of any patent shall be determined by the law of the country in which the patent shall have been granted.

13.5 No Trademark Rights. Except as otherwise provided herein or agreed to in advance in writing, no right, express or implied, is granted by this Agreement to a party to use in any manner the names "Lexicon" or "Genentech," or any other trade name or trademark of a party or the names of any employees thereof, for any purpose.

13.6 Captions. The captions to this Agreement are for convenience only, and are to be of no force or effect in construing or interpreting any of the provisions of this Agreement.

13.7 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

13.8 Independent Contractors. The relationship between Lexicon and Genentech is that of independent contractors. Lexicon and Genentech are not joint venturers, partners, principal and agent, master and servant, employer or employee, and have no other relationship other than independent contracting parties. Lexicon shall have no power to bind or obligate Genentech in any manner, other than as is expressly set forth in this Agreement. Likewise, Genentech shall have no power to bind or obligate Lexicon in any manner other than is expressly set forth in this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the Effective Date.

"GENENTECH"

GENENTECH, INC.

By: _____
Arthur D. Levinson
Chief Executive Officer

"LEXICON"

LEXICON GENETICS INCORPORATED

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

APPENDIX A

PATENT RIGHTS

ISOGENIC DNA

U.S. Patent No. 5,789,215 issued August 4, 1998 entitled "Gene Targeting in Animal Cells Using Isogenic DNA Constructs"

EXHIBIT C

NOTE AGREEMENT

THIS NOTE AGREEMENT is entered into as of December 17, 2002 (this "Note Agreement"), between LEXICON GENETICS INCORPORATED, A Delaware corporation (herein called "Borrower"), and GENENTECH, INC., a Delaware corporation (herein called "Lender").

1. COMMITMENT. Subject to all the terms and conditions of this Note Agreement and prior to the termination of its commitment as hereinafter provided, Lender hereby agrees to make a loan (the "Loan"), up to an aggregate principal amount not to exceed $4,000,000, pursuant to Article 7.14 of the Collaboration and License Agreement dated as of the date hereof, between Borrower and Lender (the "Collaboration Agreement"). The Loan shall become available to Borrower on or before December 31, 2002. The Loan shall be evidenced by a convertible promissory note, in the form of the Convertible Promissory Note attached as Exhibit A hereto and incorporated herein by this reference (the "Note"), which Note shall reflect the date of payment of the Loan (the "Effective Date"). The Loan will be advanced to Borrower in immediately available funds by wire transfer to a deposit account of Borrower in accordance with the wire transfer instructions set forth beneath Borrower's signature to this Agreement (as the same may be amended by written notice from Borrower to Lender).

2. LOAN.

A. MATURITY DATE. Borrower promises to pay to Lender the entire outstanding principal balance (and all accrued interest thereon) of the Loan on or before the date (the "Maturity Date") that is the earlier of (i) December 31, 2005, (ii) six (6) months after the termination of the Collaboration Agreement or (iii) the date of an Event of Default as set forth in Section 8 below.

(1) PAYMENT IN NOTE SHARES. At Borrower's option, subject to the limitations set forth in Section 2.A.(3), on the Maturity Date, Borrower may elect to pay the outstanding principal balance (and all accrued interest thereon) of the Loan in (a) shares of Borrower's common stock, par value $0.001 per share (the "Common Stock"), pursuant to the Note (the "Note Shares"), (b) immediately available funds, or (c) a combination of Note Shares and immediately available funds.

(2) OPTIONAL PREPAYMENT. At Borrower's option, subject to the limitations set forth in Section 2.A.(3), Borrower may at any time, upon fifteen (15) days written notice to Lender, prepay all or any portion of the outstanding principal balance (and all accrued interest on the principal amount so prepaid) of the Loan in (a) Note Shares pursuant to the Note, (b) immediately available funds, or (c) a combination of Note Shares and immediately available funds.

(3) LIMITATIONS ON PAYMENT IN NOTE SHARES. (a) Borrower shall have no right to pay in Note Shares any amounts in respect of principal outstanding under the Loan and accrued interest in respect thereof to the extent that the number of such Note Shares, calculated pursuant to Section 3 of the Note, would, when added to all other shares of Common Stock of Borrower then owned by Lender or issuable to Lender pursuant to the terms of any convertible securities of Borrower then owned by Lender, cause Lender to own, in the aggregate, shares of Common Stock equal to more than 15% of Borrower's issued and outstanding Common Stock plus the Note Shares so contemplated to be issued, calculated at the time such payment in Note Shares is contemplated. In such event, then Borrower shall pay in Note Shares only up to such amount as, in Lender's good faith opinion, based on the advice of legal counsel, would not exceed 15% of Borrower's issued and outstanding Common Stock plus the Note Shares so issued unless Lender elects, in its sole discretion, to receive payment of the entire amount due under the Loan in Note Shares, notwithstanding the foregoing limitation on repayment in Note Shares. Any remaining balance payable to Lender in respect of the Loan shall be paid in immediately available funds. (b) Borrower may make payments in Note Shares only to the extent that Borrower then has in reserve and available sufficient of its authorized but unissued shares of Common Stock to effect such payment in Note Shares.

B. INTEREST ON LOAN. Interest shall accrue on the sum of the daily unpaid principal balance of the Loan outstanding on each day in lawful money of the United States of America from the Effective Date until all such principal amounts shall have been paid in full, which interest shall accrue at a rate equal to eight percent (8%) per annum. Interest shall be compounded quarterly and computed at the above rate on the basis of the actual number of days elapsed year of 365 days; provided, however, that in no event shall Borrower be bound to pay for the use or forbearance of the money loaned pursuant hereto, interest of more than the maximum rate permitted by law to be charged by Lender; the right to demand any such excess being hereby expressly waived by Lender. All accrued and unpaid interest attributable to the principal amount of the Loan then being paid shall be payable concurrently with such payment of principal, whether in connection with any prepayment, on the Maturity Date or otherwise.

C. USE OF PROCEEDS. The Loan may only be used for the generation and phenotypic analysis of knock-out mice and Over-Expression Mice for Project Genes (as such terms are defined in the Collaboration Agreement).

3. DELIVERY AND APPLICATION OF PAYMENTS. Payment to Lender of all amounts due hereunder shall be made in immediately available funds on the date when due by wire transfer to a deposit account of Lender in accordance with the wire transfer instructions set forth beneath Lender's signature to this Agreement (as the same may be amended by written notice from Lender to Borrower). Payment to Lender of all amounts due hereunder payable in Note Shares shall be made by delivery of an appropriate stock certificate within two business days after the Maturity Date (in the case of a payment pursuant to Section 2.A.(l)) or two business days after the effective date of an election by Borrower to prepay (in the case of a prepayment pursuant to Section 2.A.(2)), to the office of Lender at I DNA Way, South San Francisco, California 94080, Attention: Treasurer, or at such other place as may be designated in writing by Lender from time to time. If any payment date falls on a day that is not a business day, the payment due date shall

be extended to the next business day. Any payment or prepayment received or deemed received in respect of the Loan shall be applied first, to accrued and unpaid interest, and then, to the outstanding principal balance of the Note.

4. BORROWER REPRESENTATIONS AND COVENANTS. Borrower hereby represents, warrants and covenants to Lender as follows:

A. AUTHORITY. Borrower has full right, power, authority and capacity to enter into this Note Agreement and the Note (collectively, the "Loan Documents") and to consummate the transactions contemplated hereby and thereby. Upon due execution and delivery by Borrower, the Loan Documents will constitute a legal, valid and binding obligation of Borrower enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

B. GOOD STANDING. Borrower is qualified to do business and is in good standing in the State of Delaware and each jurisdiction in which the failure to so qualify would have a material adverse effect on the business, operations, financial condition or results of operations of Borrower and its subsidiaries, taken as a whole.

C. CONSENTS. The execution and delivery of the Loan Documents, and performance by Borrower of its obligations hereunder and thereunder, have been duly authorized by all necessary corporate action on the part of Borrower. No consent, approval, order or authorization of any federal, state or local governmental authority on the part of Borrower is required in connection with the consummation of the transactions contemplated by this Note Agreement.

D. COMPLIANCE WITH SECURITIES LAWS. Assuming the accuracy of the representations made by Lender in Section 5 hereof, the Note Shares issuable upon conversion of any portion of the Note will be issued to Lender in compliance with (i) the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the registration and qualification requirements of all applicable securities laws of the states of the United States or (ii) applicable exemptions therefrom.

E. NO CONFLICTS. The execution and delivery by Borrower of the Loan Documents and consummation of the transactions contemplated thereby do not and will not (i) violate the Certificate of Incorporation or Bylaws of Borrower or any material judgment, order, writ, decree, statute, rule or regulation applicable to Borrower; (ii) violate any provision of, or result in the breach of, any material mortgage, indenture, agreement, instrument, contract, judgment or decrees to which Borrower is a party or by which it is bound; or (iii) result in the creation or imposition of any lien upon any property, asset or revenue of Borrower or the suspension, revocation or nonrenewal of any material permit, license, authorization or approval applicable to Borrower, its business or operations, or any of its assets or properties.

F. DISCLOSURE. No representation or warranty of Borrower contained in the Loan Documents, the Collaboration Agreement or any other documents, certificate or statement furnished to Lender by or on behalf of Borrower in connection with the transactions contemplated hereby or thereby contains any untrue statement of a material fact or omits to state a material fact necessary to make the statement contained herein or therein nor misleading. To the best of Borrower's knowledge, there is no fact known to Borrower that materially adversely affects the business, operations, property, assets, condition or prospects of Borrower that has not been disclosed in any filing with the Securities and Exchange Commission.

5. LENDER REPRESENTATIONS AND COVENANTS. Lender hereby represents, warrants and covenants to Borrower as follows:

A. AUTHORITY. Lender has full right, power, authority and capacity to enter into this Note Agreement and to consummate the transactions contemplated hereby. Upon due execution and delivery by Lender, this Note Agreement will constitute a legal, valid and binding obligation of Lender enforceable in accordance with its terms, subject to laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

B. INVESTMENT EXPERIENCE; INVESTMENT INTENT; ETC. (i) Lender is knowledgeable, sophisticated and experienced in making, and is qualified to make, decisions with respect to investments in shares presenting an investment decision like that involved in the purchase of the Note and the Note Shares that may be issued in payment thereof (collectively, the "Securities"); (ii) Lender has received all the information it considers necessary or appropriate for deciding whether to purchase the Securities; (iii) Lender is acquiring the Securities in the ordinary course of its business and for its own account solely for investment and with no present intention of distributing any of such Securities, except in accordance with an effective Registration Statement or otherwise pursuant to an available exemption from registration under the Securities Act, and no arrangement or understanding exists with any other person regarding the distribution of such Securities; (iv) Lender will not, directly or indirectly, offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) the Securities except in compliance with the Securities Act, and the rules and regulations promulgated thereunder; and (v) Lender is an "accredited investor" within the meaning of Rule 501 of Regulation D promulgated under the Securities Act.

C. LENDER UNDERSTANDING AND AGREEMENTS. Lender acknowledges and agrees that it will acquire the Securities being purchased by it in transactions not involving a public offering and that such Securities are subject to certain restrictions as to resale under the federal and state Securities laws. Lender agrees and understands that each certificate representing Note Shares issued in payment of the Note delivered on transfer of or in substitution for any such certificate, shall bear a legend in substantially the following form:

THE SECURiTIES REPRESENTED BY THIS CERTIFICATE
ARE SUBJECT TO RESTRICTIONS IMPOSED BY THE

SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAW. THE SHARES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN EXEMPTION THEREFROM UNDER THE SECURITIES ACT OF 1933 AND ANY APPLICABLE STATE SECURITIES LAWS.

Lender agrees that it will not sell, pledge, assign, transfer or otherwise dispose (collectively, "Transfer") of any Securities unless the Transfer will be made pursuant to an exemption from the registration requirements of the Securities Act or pursuant to an effective registration statement under the Securities Act and pursuant to an exemption from any applicable state securities laws or an effective registration or other qualification under any applicable state securities laws.

D. CONSENTS. The execution and delivery of this Note Agreement, and performance by Lender of its obligations hereunder, have been duly authorized by all necessary corporate action on the part of Lender.

6. CONDITIONS TO MAKING OF LOAN. Lender's obligation to make the Loan to Borrower under the Loan Documents is subject to satisfaction of each of the following conditions as of the date the Loan is to be made, any of which may be waived in whole or in part by Lender:

A. REPRESENTATIONS AND WARRANTIES. The representations and warranties made by Borrower in Section 4 hereof shall be true and correct as of the date the Loan is to be made, except that to the extent any representation or warranty is made as of a specified date, it shall have been true and correct as of such date.

B. NO DEFAULTS. No Event of Default or event which, with notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing under the Loan Documents, and no breach shall have occurred and be continuing under the Collaboration Agreement.

7. SUBORDINATION. The indebtedness evidenced by the Note is hereby subordinated, only in right of payment to the prior payment of (a) the indebtedness of Borrower outstanding as of the date of this Note Agreement to banks or commercial finance or other lending institutions regularly engaged in the business of lending money, whether or not secured ("Senior Indebtedness") and (b) any indebtedness or debentures, notes or other evidences of indebtedness issued in exchange for Senior Indebtedness.

8. DEFAULT AND REMEDIES. The occurrence of any one or more of the following shall constitute an "Event of Default": (a) default in the payment of any obligation by Borrower under the Note within five (5) business days after the date the same became due and payable; (b) any representation or warranty made by Borrower in Section 4 of this Note Agreement shall prove to

have been untrue in any material respect when made or deemed made; (c) except for any failure to pay as described in clause (a) above, breach of any covenant contained in the Loan Documents if such breach shall not have been cured to the reasonable satisfaction of Lender within sixty (60) days after Borrower shall have received written notice thereof from Lender; (d) Borrower files any petition or action for relief under any bankruptcy, reorganization, insolvency or moratorium law or any other law for the relief of, or relating to, debtors, now or hereafter in effect, or makes any assignment for the benefit of creditors or takes any corporate action in furtherance of any of the foregoing; (e) an involuntary petition is filed against Borrower (unless such petition is dismissed or discharged within sixty (60) days) under any bankruptcy statute now or hereafter in effect, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar official) is appointed to take possession, custody or control of any property, of Borrower (provided that no Loan will be made prior to the dismissal of such proceeding); (f) Lender terminates the Collaboration Agreement pursuant to Article 10.2 of the Collaboration Agreement; or (g) failure to pay when due any amount in respect of Senior Indebtedness, or occurrence of any other default in respect of Senior Indebtedness that pursuant to which the holder thereof accelerates the due date thereof. Upon the occurrence and during the continuance of an Event of Default, Lender may, at its option, upon notice to Borrower, do any one or more of the following: (i) terminate its obligation to make the Loan to Borrower as provided in Section 2 hereof if such Loan has not yet been made; provided that in the case of an Event of Default pursuant to clause (d) or (e) above, Lender's obligation to make the Loan to Borrower as provided in Section 3 hereof shall automatically terminate, without notice to Borrower, if such Loan has not yet been made; (ii) declare all sums evidenced hereby immediately due and payable; provided that in the case of an Event of Default pursuant to clause (d) or (e) above, all sums evidenced hereby shall be automatically and immediately due and payable, without notice to or demand on Borrower; or (iii) exercise any remedies of an unsecured creditor under applicable law.

9. GOVERNING LAW. This Agreement shall be deemed to have been made in the State of California and the validity, construction, interpretation, and enforcement hereof, and the rights of the parties hereto, shall be determined under, governed by, and construed in accordance with the internal laws of the State of California, without regard to principles of conflicts of law.

10. MISCELLANEOUS PROVISIONS.

A. Nothing herein shall in any way limit the effect of the conditions set forth in any other security or other agreement executed by Borrower, but each and every condition hereof shall be in addition thereto.

B. No failure or delay on the part of Lender, in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof.

C. All rights and remedies existing under this Note Agreement or any other Loan Document are cumulative to, and not exclusive of, any rights or remedies otherwise available.

D. All headings and captions in this Note Agreement and any related documents are for convenience only and shall not have any substantive effect.

E. This Note Agreement may be executed in any number of counterparts, each of which when so delivered shall be deemed an original, but all such counterparts shall constitute but one and the same instrument. Each such agreement shall become effective upon the execution of a counterpart hereof or thereof by each of the parties hereto and telephonic notification that such executed counterparts has been received by Borrower and Lender.

F. Neither party shall assign any of its rights or obligations hereunder except: (a) as incident to the merger, consolidation, reorganization or acquisition of stock or assets affecting substantially all of the assets or voting control of the assigning party; (b) to any wholly-owned Affiliate of such party; provided, however, that such assignment shall not relieve the assigning party of its responsibilities for performance of its obligations under this Note Agreement; or (c) with the prior written consent of the other party (in its sole discretion). This Note Agreement shall be binding upon the successors and permitted assigns of the parties, and the name of a party appearing herein shall be deemed to include the names of such party's successor's and permitted assigns to the extent necessary to carry out the intent of this Agreement. Any assignment not in accordance with this section shall be null and void.

(Signature page follows)

IN WITNESS WHEREOF, the parties hereto have caused this Note Agreement to be executed as of the date first written above.

LENDER:	BORROWER:
GENENTECH, INC., a Delaware corporation	LEXICON GENETICS INCORPORATED, a Delaware corporation
By: _____	By: _____
	Name: _____
Name: Thomas T. Thomas	Title: _____
Title: Treasurer	
Wire Transfer Instructions:	Wire Transfer Instructions:

Account Name: Genentech, Inc.
Account Number: 040-1699
Bank Name: Mellon Bank, Pittsburgh, PA
ABA Number: 043-000-261

EXHIBIT A

FORM OF CONVERTIBLE PROMISSORY NOTE

THIS CONVERTIBLE PROMISSORY NOTE IS SUBJECT TO RESTRICTIONS IMPOSED BY THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAW. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN EXEMPTION THEREFROM UNDER THE SECURITIES ACT OF 1933 AND ANY APPLICABLE STATE SECURITIES LAWS.

CONVERTIBLE PROMISSORY NOTE

$4,000,000.00 [DATE]

FOR VALUE RECEIVED, LEXICON GENETICS INCORPORATED, a Delaware corporation ("Borrower"), hereby promises to pay to the order of GENENTECH, INC., a Delaware corporation ("Lender"), in lawful money of the United States of America and in immediately available funds, the principal sum of $4,000,000.00 or such lesser amount as shall have been advanced by Lender and shall remain outstanding (the "Loan"), together with accrued and unpaid interest thereon, due and payable on the date and in the manner set forth below.

This Convertible Promissory Note ("Note") is the note referred to in and is executed and delivered in connection with the Note Agreement dated as of December 17, 2002, between Borrower and Lender (the "Note Agreement"). Additional rights and obligations of Lender and Borrower are set forth in the Note Agreement. All capitalized terms used herein and not otherwise defined shall have the respective meanings given to them in the Note Agreement.

1. MATURITY DATE. Subject to Section 3 below, all amounts payable hereunder shall be due and payable on the Maturity Date. This Note may be, prepaid in whole or in part at any time without penalty, in accordance with the terms of the Note Agreement.

2. INTEREST RATE AND PAYMENT. Borrower further promises to pay interest on the outstanding Loan amount, which interest shall accrue from the date hereof and shall be added to the principal balance of the Loan. Interest shall accrue on the sum of the daily unpaid principal balance of the Loan outstanding on each day in lawful money of the United States of America, from the Effective Date until all such principal amounts shall have been paid in full, which interest shall accrue at a rate equal to eight percent (8%) per annum. Interest shall be compounded quarterly and computed at the above rate on the basis of the actual number of days elapsed year of 365 days; provided, however, that in no event shall Borrower be bound to pay for the use or forbearance of the money loaned pursuant hereto, interest of more than the maximum rate permitted by law to be charged by Lender; the right to demand any such excess being hereby expressly waived by Lender. All accrued and unpaid interest attributable to the principal amount of the Loan then being paid shall be payable concurrently with such payment of principal, whether in connection with any prepayment, on the Maturity Date or otherwise.

3. PAYMENT. At Borrower's sole option and subject to the limitations contained in Section 2.A.(3) of the Note Agreement, (a) on the Maturity Date, the outstanding principal balance of, and accrued interest on, this Note shall be payable in (i) shares of Borrower's Common Stock, (ii) immediately available funds, or (iii) a combination of Common Stock and immediately available funds; and (b) on any date upon which Borrower desires to prepay all or any portion of the outstanding principal balance of, and accrued interest on the amount so prepaid, such prepayment shall be payable in (i) Common Stock, (ii) immediately available funds, or (iii) a combination of Common Stock and immediately available funds. The number of shares of Common Stock which shall be issuable to make any payment under this Note, including, without limitation, any optional prepayment amount, which may be made by Borrower shall be determined by dividing the amount of such payment by the Fair Market Value. "Fair Market Value" shall mean the average of the closing prices for Borrower's Common Stock as reported in The Wall Street Journal (Western Edition) for the twenty (20) trading days immediately preceding the Maturity Date or the date upon which an optional prepayment amount is paid, as the case may be.

A. MECHANICS AND EFFECT OF PAYMENT IN COMMON STOCK. No fractional shares of Common Stock shall be issued in payment of this Note. In lieu of Borrower issuing any fractional shares to Lender upon payment of this Note (or any amount thereof) in Common Stock, Borrower shall pay to Lender in cash the amount of any such payment that is not so paid in Common Stock, such payment to be in the form provided below. Upon payment of this Note in full pursuant to this Section 3, Lender shall surrender this Note, duly endorsed, at the principal office of Borrower. The payment in Common Stock shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Note or the date any optional prepayment amount is paid, as the case may be, and the person or persons entitled to receive the shares of Common Stock issuable upon such payment shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. Borrower shall, in accordance with Section 2 of the Note Agreement, issue and deliver to Lender at such principal office a certificate or certificates for the number of shares of Common Stock to which Lender shall be entitled upon such payment bearing such legends as are required by applicable state and federal securities laws and pursuant to Section S.C. of the Note Agreement, together with any other securities and property to which Lender is entitled upon such payment under the terms of this Note, including a check payable to Lender for any cash amounts payable as described above.

4. SUBORDINATION. The indebtedness evidenced by this Note is hereby subordinated, only to the extent set forth in Section 7 of the Note Agreement, in right of payment to the prior payment of the Senior Indebtedness.

5. PLACE OF PAYMENT. All amounts payable hereunder shall be payable in accordance with terms of the Note Agreement, unless otherwise specified in writing by Lender.

6. APPLICATION OF PAYMENTS. Payment on this Note shall be applied first to accrued interest, and thereafter to the outstanding principal balance hereof.

7. DEFAULT. The occurrence of an "Event of Default" under and as defined in the Note Agreement shall constitute an "Event of Default" hereunder. Upon the occurrence of an Event of

Default, Lender shall have such rights and remedies as are provided under the Note Agreement or by law.

8. GOVERNING LAW. This Note shall be governed by, and construed and enforced in accordance with, the laws of the State of California, excluding conflict of laws principles that would cause the application of laws of any other jurisdiction.

9. SUCCESSORS AND ASSIGNS. Subject to the limitations of Section 10.F. of the Note Agreement, the provisions of this Note shall inure to the benefit of and be binding on any successor to Borrower and shall extend to any holder hereof.

BORROWER:

LEXICON GENETICS INCORPORATED

By: _____

Printed Name: _____

Title: _____

EXHIBIT 10.15

Confidential materials omitted and filed separately with the Securities and Exchange Commission. Asterisks denote omissions.

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COLLABORATION AND LICENSE AGREEMENT

between

LEXICON GENETICS INCORPORATED

and

BRISTOL-MYERS SQUIBB COMPANY

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COLLABORATION AND LICENSE AGREEMENT

THIS COLLABORATION AND LICENSE AGREEMENT (this "Agreement") is dated as of December 17, 2003 (the "Effective Date") and is made by and between LEXICON GENETICS INCORPORATED, a Delaware corporation ("Lexicon"), and BRISTOL-MYERS SQUIBB COMPANY, a Delaware corporation ("BMS"). Lexicon and BMS are sometimes referred to herein individually as a "party" and collectively as the "parties."

R E C I T A L S

WHEREAS, Lexicon and BMS are each in the business of discovering, developing and commercializing pharmaceutical products; and

WHEREAS, Lexicon is engaged in the identification and validation of targets for use in the discovery of compounds potentially useful to prevent or treat diseases and conditions of the central nervous system;

WHEREAS, Lexicon and BMS are interested in collaborating in the discovery, development and commercialization of compounds for use in the prevention or treatment of such diseases and conditions;

NOW, THEREFORE, in consideration of the premises and of the covenants herein contained, the parties hereto mutually agree as follows:

ARTICLE 1. DEFINITIONS

The terms in this Agreement with initial letters capitalized, whether used in the singular or the plural, shall have the meaning set forth below or, if not listed below, the meaning designated in places throughout this Agreement.

1.1 "Affiliate" means any corporation, company, partnership, joint venture and/or firm that controls, is controlled by or is under common control with a party to this Agreement. For purposes hereof, "control" means (a) in the case of corporate entities, direct or indirect ownership of more than fifty percent (50%) of the stock or shares entitled to vote for the election of directors; and (b) in the case of non-corporate entities, direct or indirect ownership of more than fifty percent (50%) of the equity interest with the power to direct the management and policies of such non-corporate entities.

1.2 "Agreement" means this Collaboration and License Agreement, including all Exhibits hereto.

1.3 "Alliance Manager" has the meaning set forth in Section 3.12.

1.4 "Annual Research Plan" means the plan to be developed by the Joint Scientific Committee and approved by the Joint Management Committee for each Contract Year, to be updated as necessary during each Contract Year, setting forth, among other things, a master plan for the Research Program during the Research Program Term and the matters described in Section 2.7 hereof.

1.5 "Background Materials" means BMS Background Materials and Lexicon Background Materials.

1.6 "Background Technology" means BMS Background Technology and Lexicon Background Technology.

1.7 "Back-up Compound" means a Program Compound acting through the same Selected Target as a Development Candidate and designated by the Joint Management Committee as a back-up for such Development Candidate, including, without limitation, any Program Compound for which the Joint Management Committee authorizes the conduct of preclinical work sufficient to support the filing of an IND.

1.8 "Blended Rate" means (a) the total amount of royalties (stated in U.S. dollars) that would be payable in a Contract Year with respect to a Product under Section 5.5.1 or 5.5.2, as applicable, [**] divided by (b) the total Net Sales (stated in U.S. dollars) of such Product in that Contract Year, expressed as a percentage.

1.9 "BMS" means Bristol-Myers Squibb Company and its Affiliates.

1.10 "BMS Background Materials" means any compounds, assays or other materials that are (a) necessary or useful for the conduct of the Research Program, (b) Controlled by BMS, (c) utilized in the Research Program (but only to the extent so utilized) and (d) either in BMS's or any of its Affiliates' possession as of the Effective Date or are discovered or acquired by BMS or any of its Affiliates during the Research Program Term but outside of the conduct of the Research Program. BMS Background Materials excludes Selected Targets and Program Compounds.

1.11 "BMS Background Technology" means any inventions, information, methods, know-how, trade secrets or data that (a) are necessary or useful for the performance of the Research Program, (b) are Controlled by BMS, (c) are utilized in the Research Program (but only to the extent so utilized) and (d) either are in BMS's or any of its Affiliates' possession as of the Effective Date or are discovered or acquired by BMS or any of its Affiliates during the Research Program Term but outside of the conduct of the Research Program.

1.12 "BMS Development Compound" means any and all of the following:

(a) a Development Candidate for a BMS Target that is so designated under Section 2.5 hereof; and

(b) any Back-up Compound(s) designated for such Development Candidate; and

(c) any other Small Molecule Compound that acts through the same BMS Target:

(i) that is made in the course of performing medicinal chemistry on or optimizing such Development Candidate and Back-up Compound(s), or performing structure activity relationship activities using such Development Candidate, Back-up Compound(s) or other Program Compounds active against such BMS Target; provided that such Small Molecule Compound [**]; or

(ii) that is Covered by a Valid Claim of any Program Patent Rights; and

(d) any salts of any of the foregoing.

1.13 "BMS Inactive Selected Target" has the meaning set forth in Section 2.3.4.4.

1.14 "BMS Product" means a pharmaceutical product containing a BMS Development Compound as an active ingredient.

1.15 "BMS Target" means a Selected Target that is so designated under Section 2.5 hereof.

1.16 "CNS Field" means the prevention, palliation, control or treatment in humans of (a) depression, schizophrenia, bipolar disease, dementia, anxiety, attention deficit hyperactivity disorder, anorexia nervosa and other affective disorders, (b) Alzheimer's disease and other cognitive disorders, (c) Parkinson's disease, amyotrophic lateral sclerosis and other neurodegenerative disorders, (d) pain, (e) epilepsy, (f) insomnia, narcolepsy and other sleep disorders, (g) substance abuse and (h) migraine.

1.17 "Compound Library Screening" means screening of compound libraries to identify Small Molecule Compounds that are active against a Selected Target using an assay that meets requirements (for example, with respect to throughput) established by, or the use of which is otherwise approved by, the Joint Scientific Committee. For purposes of this Agreement, "commencement of Compound Library Screening" for a Selected Target means the initiation of Compound Library Screening for such Selected Target, following Joint Management Committee authorization, by either BMS or Lexicon.

1.18 "Confidential Information" means any information and data received by a party (the "Receiving Party") from the other party or its Affiliates (the "Disclosing Party") in connection with this Agreement (including, without limitation, all information disclosed by the parties under Article 2 hereof and any research, testing, clinical, regulatory, marketing or other scientific or business information, plans, or data pertaining to any Product of the Disclosing Party). Notwithstanding the foregoing, Confidential Information shall not include any part of such information or data that:

(a) is or becomes part of the public domain other than by unauthorized acts of the Receiving Party or its Affiliates;

(b) can be shown by written documents to have been already in the possession of the Receiving Party or its Affiliates prior to disclosure under this Agreement, provided such information or data was not obtained directly or indirectly from the Disclosing Party under an obligation of confidentiality;

(c) can be shown by written documents to have been disclosed to the Receiving Party or its Affiliates by a Third Party, provided such information or data was not obtained directly or indirectly from the Disclosing Party under an obligation of confidentiality; or

(d) can be shown by written documents to have been independently developed by the Receiving Party or its Affiliates without use, aid or application of Confidential Information of the Disclosing Party.

Specific Confidential Information of a Disclosing Party shall not be deemed to come under the foregoing exceptions merely because it is embraced by more general information that is or becomes part of the public domain, or is known by, disclosed to or independently developed by the Receiving Party.

1.19 "Contract Year" means (a) with respect to the first Contract Year, the period beginning on the Effective Date and ending on December 31, 2004 (the "First Contract Year"), and (b) with respect to each subsequent Contract Year, the twelve (12) month period beginning on the day following the end of the First Contract Year and each succeeding twelve (12) month period thereafter during the term of the Agreement (except that the last Contract Year shall end on the effective date of any termination or expiration of this Agreement). Each Contract Year (other than the First and last Contract Year) shall be divided into four (4) "Contract Quarters" comprised of successive three (3) month periods. In the First Contract Year, the first Contract Quarter shall begin on the Effective Date and end on March 31, 2004,

and in the last Contract Year, the last Contract Quarter shall end on the effective date of any termination or expiration of this Agreement.

1.20 "Control" or "Controlled" means, with respect to any (a) material, document, item of information, method, data or other know-how or (b) Patent Right or other intellectual property right, the possession (whether by ownership or license, other than by a license granted pursuant to this Agreement) by a party or its Affiliates of the ability to grant to the other party access, ownership, a license and/or a sublicense as provided herein under such item or right without violating the terms of any agreement or other arrangement with any Third Party as of the time such party would first be required hereunder to grant the other party such access, ownership, license or sublicense.

1.21 "Cover," "Covered" or "Covering" means, with respect to a Patent Right, that, but for rights granted to a person or entity under such Patent Right, the practice by such person or entity of an invention claimed in such Patent Right would infringe a Valid Claim included in such Patent Right, or in the case of a Patent Right that is a patent application, would infringe a Valid Claim in such patent application if it were to issue as a patent.

1.22 "Development Candidate" means a Program Compound that has been selected by the Joint Management Committee for full preclinical development in preparation for the commencement of a Phase 1 Trial and that has been designated by the Joint Management Committee as a "Development Candidate" in accordance with Section 3.4, including, without limitation, any Program Compound for which the Joint Management Committee authorizes the commencement of a Phase 1 Trial.

1.23 "Development Compound" means a BMS Development Compound or a Lexicon Development Compound.

1.24 "Diligent Efforts" means the carrying out of obligations or tasks by a party in a sustained manner using good faith commercially reasonable and diligent efforts, which efforts shall be consistent with the exercise of prudent scientific and business judgment in accordance with the efforts such party devotes to products or research, development or marketing projects of similar scientific and commercial potential. Diligent Efforts requires that the party: (a) promptly assign responsibility for such obligations to specific employees who are held accountable for progress and monitor such progress on an on-going basis, (b) set and consistently seek to achieve specific and meaningful objectives for carrying out such obligations, and (c) consistently make and implement decisions and allocate resources designed to advance progress with respect to such objectives.

1.25 "Disclosing Party" has the meaning specified in Section 1.18 hereof.

1.26 "Effective Date" means the date specified in the initial paragraph of this Agreement.

1.27 "Escrow Agent" means an independent Third Party consultant to the parties with whom BMS shall deposit a list of Excluded Targets and who shall notify Lexicon which, if any, Targets submitted in accordance with Section 2.2.4 are Excluded Targets.

1.28 "Excluded Target" means a Target that BMS has elected to exclude from consideration for the Research Program. A list of such Excluded Targets shall be provided to the Escrow Agent who shall notify Lexicon which, if any, Targets submitted in accordance with Section 2.2.4 are Excluded Targets. [**].

1.29 "First Commercial Sale" means the first sale for use or consumption by the general public of a Product in a country after Regulatory Approval has been obtained in such country. For clarity, First

Commercial Sale shall not include the sale of any Product for use in clinical trials or for compassionate use prior to the approval of an NDA.

1.30 "FDA" means the United States Food and Drug Administration, or the successor thereto.

1.31 "Full Phase Program" means a full medicinal chemistry and supporting biology program involving the commitment of resources of the scope and nature described in Exhibit A. For purposes of this Agreement, "commencement of a Full Phase Program" means the authorization by the Joint Management Committee of the commencement of activities for the first Full Phase Program for a given Selected Target.

1.32 "FTE" means the equivalent of one employee working on a dedicated full time basis for one year (consisting of [**] hours per year of dedicated effort) performing scientific, technical or managerial work on or directly related to the Target Discovery Program or the Research Program, as applicable. Any person who [**], calculated in accordance with standards that shall be consistent for both parties (as determined and monitored by the Joint Management Committee), shall be [**].

1.33 "Inactive Selected Target" has the meaning specified in Section 2.3.4 hereof. Any BMS Inactive Selected Target or Lexicon Inactive Selected Target shall remain an Inactive Selected Target unless and until it becomes a BMS Target or Lexicon Target.

1.34 "Indemnitee" has the meaning specified in Section 10.4 hereof.

1.35 "Indemnitor" has the meaning specified in Section 10.4 hereof.

1.36 "IND" means an Investigational New Drug application filed with the U.S. Food and Drug Administration or a similar application for the clinical testing of a Product in human subjects filed with a foreign regulatory authority.

1.37 "Joint Management Committee" has the meaning specified in Section 3.1.1 hereof.

1.38 "Joint Program Inventions" has the meaning specified in Section 7.1.3.3 hereof.

1.39 "Joint Research Project Team" has the meaning specified in Section 3.1.2 hereof.

1.40 "Joint Scientific Committee" has the meaning specified in Section 3.1.2 hereof.

1.41 "Laws" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of any federal, national, multinational, state, provincial, county, city or other political subdivision, domestic or foreign.

1.42 "Level 1 Phenotypic Analysis" means the analyses of the phenotypes of Mutant Mice described in Exhibit B.

1.43 "Level 2 Phenotypic Analysis" means any one or more of the analyses of the phenotypes of Mutant Mice described in Exhibit C. The Level 2 Phenotypic Analysis for a given Target shall be as determined by the Joint Scientific Committee as set forth in Section 3.5.

1.44 "Lexicon" means Lexicon Genetics Incorporated and its Affiliates.

1.45 "Lexicon Background Materials" means any compounds, assays or other materials that are (a) necessary or useful for the conduct of the Research Program, (b) Controlled by Lexicon, (c)

utilized in the Research Program (but only to the extent so utilized) and (d) either in Lexicon's or any of its Affiliates' possession as of the Effective Date or are discovered or acquired by Lexicon or any of its Affiliates during the Research Program Term but outside of the conduct of the Research Program. Lexicon Background Materials excludes Selected Targets and Program Compounds.

1.46 "Lexicon Background Technology" means any inventions, information, methods, know-how, trade secrets or data that (a) are necessary or useful for the performance of the Research Program, (b) are Controlled by Lexicon, (c) are utilized in the Research Program (but only to the extent so utilized) and (d) either are in Lexicon's or any of its Affiliates' possession as of the Effective Date or are discovered or acquired by Lexicon or any of its Affiliates during the Research Program Term but outside of the conduct of the Research Program.

1.47 "Lexicon Development Compound" means any and all of the following:

(a) a Development Candidate for a Lexicon Target that is so designated under Section 2.5 hereof; and

(b) any Back-up Compound(s) designated for such Development Candidate; and

(c) any other Small Molecule Compound that acts through the same Lexicon Target:

(i) that is made in the course of performing medicinal chemistry on or optimizing such Development Candidate and Back-up Compound(s), or performing structure activity relationship activities using such Development Candidate, Back-up Compound(s) or other Program Compounds active against such Lexicon Target; provided that such Small Molecule Compound [**]; or

(ii) that is Covered by a Valid Claim of any Program Patent Rights; and

(d) any salts of any of the foregoing.

1.48 "Lexicon Inactive Selected Target" has the meaning set forth in Section 2.3.4.4.

1.49 "Lexicon Product" means a pharmaceutical product containing a Lexicon Development Compound as an active ingredient.

1.50 "Lexicon Target" means a Selected Target that is so designated under Section 2.5 hereof.

1.51 "LexVision Agreement" means the LexVision Database and Collaboration Agreement dated September 26, 2000 between Lexicon and BMS, as amended.

1.52 "LG617 Compound" means a Small Molecule Compound acting through the LG617 Target.

1.53 "LG617 License" has the meaning specified in Section 4.4 hereof.

1.54 "LG617 Negotiation Period" has the meaning specified in Section 4.4 hereof.

1.55 "LG617 Option Period" has the meaning specified in Section 4.4 hereof.

1.56 "LG617 Target" means the Target designated by Lexicon as LG617.

1.57 "Listed Target" means the Targets for which Lexicon has completed [**] and that have been separately identified to BMS prior to the Effective Date by their Lexicon designation, and are listed as follows: [**].

1.58 "MAA Approval" means the final marketing authorization approval, including full marketing, pricing and reimbursement approval, for the applicable Product, in [**].

1.59 "MAA Filing" means the filing of a marketing authorization application or other application for marketing approval for the applicable Product filed (a) in [**] or (b) in the European Medicines Evaluation Agency under the centralized European procedure.

1.60 "Mid-Phase Program" means a mid-phase medicinal chemistry and supporting biology program involving the commitment of resources of the scope and nature described in Exhibit D.

1.61 "Mutant Mouse" means mouse cell or mouse containing a selected mutation in the murine ortholog of a Target that is made or produced by Lexicon. A "line of Mutant Mice" means Mutant Mice having the same selected mutation.

1.62 "NDA" means a New Drug Application filed with the FDA required for marketing approval for the applicable Product in the U.S.

1.63 "NDA Approval" means the final approval of an NDA by the FDA for the applicable Product in the U.S.

1.64 "NDA Filing" means the acceptance by the FDA of the filing of an NDA for the applicable Product.

1.65 "Net Sales" means, with respect to a Product, the gross amount invoiced by BMS, Lexicon, Sublicensees of BMS or Lexicon, and their respective Affiliates for sales of such Product to customers which are not Affiliates (or which are Affiliates but are end users of such Product), less:

(a) trade, quantity and cash discounts actually allowed;

(b) discounts, refunds, rebates, chargebacks, retroactive price adjustments, billing errors and any other allowances (including, without limitation, government-mandated and managed health care-negotiated rebates) actually granted which effectively reduce the net selling price;

(c) product returns credits and allowances actually granted;

(d) any tax imposed on the production, sale, delivery or use of the product (excluding federal, state or local taxes based on income);

(e) freight, postage, shipping, customs duties, excises, tariffs, surcharges, other governmental charges (excluding federal, state or local taxes based on income) and insurance charges actually allowed or paid for delivery of Products;

(f) payments or rebates paid with respect to such Product in connection with state or federal Medicare, Medicaid or similar programs in the United States or in connection with similar programs in other countries in which there are sales; and

(g) amounts repaid, credited or written off by reason of uncollectible debt, and amounts written off on account of factoring of receivables to the extent consistent with the selling party's normal business practices.

Such amounts shall be determined from the books and records of BMS, Lexicon, Sublicensees of BMS or Lexicon, and their respective Affiliates, as the case may be, maintained in accordance with U.S. generally accepted accounting principles, consistently applied.

In the event the Product is sold as part of a Combination Product (as defined below), the Net Sales from the Combination Product, for the purposes of determining royalty payments, will be determined by multiplying the actual Net Sales of the Combination Product by the fraction A/(A+B) where A is the average sale price of the Product when sold separately in finished form and B is the total average sale price of the other active ingredient or ingredients in the Combination Product sold separately in finished form.

In the event that the average sales price of both the Product and the other active compounds or ingredients in the Combination Product cannot be determined, the adjusted Net Sales of the Combination Product for the purpose of determining royalties shall be negotiated by the parties in good faith and in an equitable manner consistent with the intent of this Agreement.

The Net Sales price for a Combination Product in a given country will be calculated once each Contract Year and such price will be used during all applicable royalty reporting periods for the entire Contract Year for such country, absent extraordinary conditions or events. When determining the average sale price of a Product or the other active compounds or ingredients in the Combination Product, the average sale price will be calculated using data arising from the twelve (12) months preceding the calculation of the Net Sales price for the Combination Product. As used above, the term "Combination Product" means any Product sold in conjunction with any other active component(s) (whether packaged together or in the same therapeutic formulation).

If BMS, Lexicon, Sublicensees of BMS or Lexicon, or any of their respective Affiliates sells any Product to a customer which also purchases other products or services from such seller or any of its Affiliates in a bundled, combination or capitated transaction (a "Bundled Transaction"), and such seller discounts the sales price of the Product to a greater degree than such seller or its Affiliates generally discount the price of its other products to such customer, then the aggregate amount received with respect to such Bundled Transaction shall be allocated to Net Sales pursuant to the formula set forth in Exhibit E hereto. For purposes of the foregoing, "discounting" includes establishing the list price at lower than the seller's normal pricing level.

Free samples of Product and/or the disposition of Product for, or the use of Product in, pre-clinical or clinical (Phase 1 - 3) trials or other market-focused (Phase 4) trials in which Product is provided to patients without any payment shall not result in any Net Sales.

1.66 "Patent Prosecution" has the meaning specified in Section 7.2.1 hereof.

1.67 "Patent Rights" means all existing patents and patent applications and all patent applications hereafter filed and patents hereafter issued, including, without limitation, any continuations, continuations-in-part, divisions, provisionals or any substitute applications, any patent issued with respect to any such patent applications, any reissue, reexamination, renewal or extension (including any supplemental protection certificate) of any such patent, and any confirmation patent or registration patent or patent of addition based on any such patent, and all foreign counterparts of any of the foregoing.

1.68 "Phase 1 Trial" shall mean a human clinical trial [**] that is intended to initially evaluate the safety, pharmacokinetic and/or pharmacological effect of a Product in subjects in accordance with or otherwise in satisfaction of the requirements of 21 CFR 312.21(a). For purposes of this Agreement, "commencement of a Phase 1 Trial" for a Product shall mean the first dosing of such Product into a human patient in a Phase 1 Trial.

1.69 "Phase 2 Trial" means a human clinical trial [**] that is intended to initially evaluate the dosing and effectiveness of a Product for a particular indication or indications in patients with the disease or indication under study in accordance with or otherwise in satisfaction of the requirements of 21 CFR 312.21(b). For purposes of this Agreement, "commencement of a Phase 2 Trial" for a Product shall mean the first dosing of such Product into a human patient in a Phase 2 Trial.

1.70 "Phase 3 Trial" means a pivotal human clinical trial [**] the results of which could be used to establish safety and efficacy of a Product as a basis for an NDA in accordance with or otherwise in satisfaction of the requirements of 21 CFR 312.21(c). For purposes of this Agreement, "commencement of a Phase 3 Trial" for a Product shall mean the first dosing of such Product into a human patient in a Phase 3 Trial.

1.71 "Post Opt-out Product" has the meaning set forth in Section 2.5.3.3.

1.72 "Pre-existing Obligations" means:

(a) with respect to [**], the obligations of Lexicon existing under agreements in effect prior to the Effective Date and separately disclosed to BMS prior to the Effective Date; and

(b) with respect to any [**], the obligations of Lexicon or BMS, as may be applicable, existing under agreements in effect prior to [**], for any [**] that (i) is in such party's or any of its Affiliates' possession as of the Effective Date or (ii) is discovered or acquired by such party or any of its Affiliates during the Research Program Term but outside of and independently of the conduct of the Research Program and without breach of any obligation of such party under this Agreement.

1.73 "Product" means a BMS Product or a Lexicon Product.

1.74 "Product Licensee" means (a) with respect to a BMS Product, BMS, and (b) with respect to a Lexicon Product, Lexicon.

1.75 "Product Licensor" means (a) with respect to a BMS Product, Lexicon, and (b) with respect to a Lexicon Product, BMS.

1.76 "Program Committee" means the Joint Management Committee or the Joint Scientific Committee.

1.77 "Program Compound" means a Small Molecule Compound that:

(a) (i) is selected by the Joint Scientific Committee for optimization, characterization and/or preclinical evaluation in the conduct of the Research Program,

(ii) is Controlled by a party,

(iii) either is in a party's or any of its Affiliates' possession as of the Effective Date or is discovered or acquired by either or both parties or any of their respective Affiliates during the Research Program Term but outside the conduct of the Research Program, and

(iv) inhibits, agonizes or otherwise modulates (i.e., acts through) a Selected Target; or

(b) is first [**] in the conduct of the Research Program; or

(c) is Covered by any Valid Claim of a Program Patent Right; or

(d) is otherwise designated a Program Compound by the Joint Management Committee;

provided, however, that in no event shall [**] become a Program Compound unless such designation is affirmatively agreed to by the Joint Management Committee.

1.78 "Program Director" has the meaning specified in Section 3.2 hereof.

1.79 "Program Intellectual Property" means Program Patent Rights and any other proprietary rights in Program Material and Program Technology.

1.80 "Program Invention" has the meaning specified in Section 7.1.3.3 hereof.

1.81 "Program Material" means (a) any Program Compounds and (b) any material first identified or discovered in the conduct of the Research Program.

1.82 "Program Patent Rights" means any Patent Rights that are Controlled by one or both parties and that Cover any Program Technology or Program Materials. For clarification, such Program Patent Rights include the entire scope of all of the claims contained in such Patent Rights.

1.83 "Program Technology" means any invention, information, methods, know-how, trade secrets or data that (a) is Controlled by a party or jointly by the parties and (b) either (i) relates to the use in the CNS Field of Small Molecule Compounds acting through a Selected Target, or the use in the CNS Field of a Selected Target to identify Small Molecule Compounds acting through such Selected Target, or (ii) is first identified or discovered in the conduct of the Research Program. Program Technology specifically includes any invention, information, methods, know-how, trade secrets or data with respect to the [**]. Program Technology excludes any invention, information, methods, know-how, trade secrets or data with respect to the [**], or the [**] acting through such Selected Target, in each case that is first identified or discovered by a party outside of the conduct of the Research Program; provided, however, that, [**]. In addition, Program Technology excludes Program Materials.

1.84 "Proposed Target" means a Target proposed for designation as a Selected Target in accordance with Section 2.3.1 hereof

1.85 "Receiving Party" has the meaning specified in Section 1.18 hereof.

1.86 "Regulatory Approval" means any and all approvals (including any applicable governmental price and reimbursement approvals), licenses, registrations, or authorizations of any federal, national, multinational, state, provincial or local regulatory agency, department bureau or other

governmental entity that are necessary for the manufacture, use, storage, import, transport, promotion, marketing and sale of a Product in a country or group of countries.

1.87 "Released Target" means [**] or a Target designated as a Released Target in accordance with Section 2.3.2 hereof.

1.88 "Research Program" has the meaning specified in Section 2.1.1 hereof.

1.89 "Research Program Activities" has the meaning specified in Section 2.1.1 hereof.

1.90 "Research Program Term" has the meaning specified in Section 2.1.2 hereof.

1.91 "Research Program Costs" means the FTE costs and out-of-pocket expenditures that are incurred after the Effective Date by a party in performing activities approved by the Joint Management Committee in support of the Research Program, for purposes of which the cost of an FTE shall be [**] per FTE per year. Research Program Costs shall not include [**]. In addition, Research Program Costs shall not include [**].

1.92 [**] has the meaning specified in Section 2.3.3 hereof.

1.93 "Reviewing Party" has the meaning specified in Section 8.4 hereof.

1.94 "Selected Target" means any Target that is selected for research by the Joint Management Committee in accordance with Section 2.3.2 hereof.

1.95 "Selected Target Inventions" has the meaning specified in Section 7.1.3.2 hereof.

1.96 "Small Molecule Compound" means a chemical compound having a molecular weight of less than 1,000 Daltons, [**]. For clarity, Small Molecule Compound specifically excludes any compound that consists of or incorporates as an active ingredient [**] (a) a protein, (b) an antibody or any fragment thereof, (c) an antisense product or (d) an oligonucleotide.

1.97 "Sole Program Inventions" has the meaning specified in Section 7.1.3.3 hereof.

1.98 "Sublicensee" means (a) in the case of a BMS Product, any Third Party which is licensed by BMS to market and sell such BMS Product, and (b) in the case of a Lexicon Product, any Third Party which is licensed by Lexicon to market and sell such Lexicon Product.

1.99 "Submitting Party" has the meaning specified in Section 8.4 hereof.

1.100 "Target" means a human gene and the products encoded by such gene, including, without limitation, (a) any [**] from such gene [**], (b) any [**] encoded by any such gene, and/or (c) any [**] encoded by any such gene. Each Target shall be identified by the full length cDNA and/or amino acid sequence of the gene or, in the event the gene has more than one splice variant form, by the full length cDNA and/or amino acid sequence of at least one splice variant form of such gene.

1.101 "Target Discovery Program" has the meaning specified in Section 2.1.1 hereof.

1.102 "Target Discovery Program Term" has the meaning specified in Section 2.2.2 hereof.

1.103 "Territory" means all countries and jurisdictions throughout the world.

1.104 "Third Party" means any person or entity other than Lexicon, BMS and their respective Affiliates.

1.105 "Third Party Opportunity" has the meaning specified in Section 2.11 hereof.

1.106 "Valid Claim" means either (a) a claim of an issued and unexpired patent which has not been held permanently revoked, unenforceable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal and that is not admitted to be invalid or unenforceable through reissue, disclaimer or otherwise, or (b) a claim of a pending patent application that has not been [**], provided, however, that (x) Valid Claim shall exclude any such pending claim that has not been granted within [**] following [**] (unless and until such claim is granted) and (y) [**].

ARTICLE 2. RESEARCH PROGRAM

2.1 General.

2.1.1 Objectives. The parties intend to carry out a research program (the "Research Program") in which Lexicon and BMS will collaborate to identify, characterize and carry out the preclinical development of Small Molecule Compounds that act through Selected Targets for use in the CNS Field, consistent with the objectives set forth in and the resources allocated to such activities in the then-current Annual Research Plan ("Research Program Activities"). It is intended that the Research Program will be conducted as a unified collaborative effort with activities by the parties carried out primarily at each party's respective facilities, and this intent shall be reflected in the Annual Research Plans. It is further intended that each party shall contribute to fifty (50%) of the Research Program Costs, and the Annual Research Plans will be consistent with and provide for such equal contribution. In support of the Research Program, Lexicon will continue its efforts, using its technology for the generation and analysis of the phenotypes of Mutant Mice, to identify and validate Targets with potential utility in the CNS Field (the "Target Discovery Program").

2.1.2 Research Program Term. The Research Program shall commence on the Effective Date and continue during the Target Discovery Program Term and thereafter until all Selected Targets have become BMS Targets, Lexicon Targets or Inactive Selected Targets and thereafter for so long as the parties continue to conduct Research Program Activities with respect to any BMS Targets or Lexicon Targets (the "Research Program Term").

2.2 Target Discovery Program.

2.2.1 Generation and Analysis of Mutant Mice. In the Target Discovery Program, Lexicon shall complete (a) the development and Level 1 Phenotypic Analysis of [**] lines of Mutant Mice and (b) Level 2 Phenotypic Analysis of such lines of Mutant Mice, from the first [**] lines of Mutant Mice for which Level 1 Phenotypic Analysis was completed, that displayed a phenotype suggestive, as determined by [**], of the potential utility of the corresponding Target in the CNS Field. All lines of Mutant Mice developed by Lexicon [**] shall be [**]. Lexicon shall use Diligent Efforts to complete such work by the end of the third Contract Year of the Research Term and, if necessary, shall continue to use Diligent Efforts thereafter until such work is complete, [**]. The Target Discovery Program Term shall continue until such work is complete.

2.2.2 Target Discovery Program Term. The Target Discovery Program shall continue until the end of the third Contract Year of the Research Program Term (and thereafter until the work set forth in Section 2.2.1 is completed) (the "Target Discovery Program Term"); provided that BMS shall have the option to extend the Target Discovery Program Term for an additional two Contract Years (which two-year period may be further extended as set forth below) on the terms set forth below:

(a) BMS may extend the Target Discovery Program to include the completion by Lexicon in the Target Discovery Program of (i) the development and Level 1 Phenotypic Analysis of [**] lines of Mutant Mice (to the extent not already completed by the end of the third Contract Year of the Research Program Term) and (ii) Level 2 Phenotypic Analysis of such lines of Mutant Mice, from such [**] lines of Mutant Mice, that displayed a phenotype suggestive, as determined by [**], of the potential utility of the corresponding Target in the CNS Field. Lexicon shall use Diligent Efforts to complete such work by the end of the fifth Contract Year of the Research Term and, if necessary, shall continue to use Diligent Efforts thereafter until such work is complete, [**]. The Target Discovery Program Term shall continue until such work is complete.

(b) BMS may extend the Target Discovery Program to include the completion by Lexicon in the Target Discovery Program of (i) the development and Level 1 Phenotypic Analysis of [**] lines of Mutant Mice and (ii) Level 2 Phenotypic Analysis of such lines of Mutant Mice, from such [**] lines of Mutant Mice, that displayed a phenotype suggestive, as determined by [**], of the potential utility of the corresponding Target in the CNS Field. Lexicon shall use Diligent Efforts to complete such work by the end of the fifth Contract Year of the Research Term and, if necessary, shall continue to use Diligent Efforts thereafter until such work is complete, [**]. The Target Discovery Program Term shall continue until such work is complete.

BMS may exercise the foregoing option by delivery to Lexicon of written notice of such exercise (specifying the subsection above under which such option is being exercised) no fewer than [**] days before the end of the third Contract Year of the Research Program Term.

2.2.3 Reporting and Oversight of Target Discovery Program Progress. Lexicon shall keep the Joint Scientific informed of the progress of its activities under this Section 2.2. At a minimum, within [**] days following [**] during the Target Discovery Program Term, Lexicon shall prepare, and provide to the Joint Scientific Committee, a reasonably detailed written summary report which shall describe (a) the work performed by Lexicon during the preceding [**], including, without limitation, the status of Lexicon's development of Mutant Mice and the conduct of Level 1 Phenotypic Analysis and Level 2 Phenotypic Analysis (or only Level 1 Phenotypic Analysis if Level 2 Phenotypic Analysis has not been performed) of such Mutant Mice, and (b) identify phenotypes identified through such Level 1 Phenotypic Analysis and Level 2 Phenotypic Analysis that are suggestive, in Lexicon's good faith scientific judgment, of the potential utility of the corresponding Targets in the CNS Field. In addition, Lexicon shall provide the Joint Scientific Committee with access to [**], in each case promptly following the generation thereof, so as to enable the Joint Scientific Committee to [**]; provided, that Lexicon shall not be required to disclose to BMS the identity of such Target (by sequence or otherwise in a manner that would reveal the identity of the Target) except in accordance with Section 2.2.4 below. Following the receipt of such information by the Joint Scientific Committee, the Joint Scientific Committee may request that [**]. The parties shall at all times exercise good faith scientific judgment in making the determinations contemplated by this Section 2.2.3.

2.2.4 Disclosure of Target Identity. Prior to first disclosing to BMS the identity of any Target (by sequence or otherwise in a manner that would reveal the identity of the Target), Lexicon shall submit the identity of the Target to the Escrow Agent, who will notify Lexicon whether such Target matches any Excluded Target. Lexicon shall not submit the Target to the Escrow Agent until Lexicon has first (a) [**] and (b) [**]. In the event a Target matches an Excluded Target, as determined by the Escrow Agent, Lexicon shall promptly notify BMS of such fact and, if requested by BMS within [**] days thereafter, shall provide BMS with the phenotypic data relating to the corresponding line of Mutant Mice and such additional information with respect to any Target (without disclosing the identity of such Target) that is [**]. In such event, BMS shall have the right, within [**] days after receiving such information, to submit to the Escrow Agent a second list of Excluded Targets, in which case the Escrow Agent shall determine whether the Target in question matches any Target on the second list of Excluded Targets. If the Target in question does not match any Target on the second list of Excluded Targets, the Escrow Agent shall so notify Lexicon and BMS, and such Target shall not be considered an Excluded Target and may be considered for proposal as a Proposed Target. BMS shall not be entitled to designate a Target as an Excluded Target following Lexicon's disclosure to BMS of the identity of such Target in accordance with this Section 2.2.4. The parties may mutually agree in writing to redesignate any Excluded Target as a non-Excluded Target that may be considered for proposal as a Proposed Target.

2.2.5 BMS's Option to Obtain Mutant Mice [**]. Within [**] following Lexicon's delivery to the members of the Joint Scientific Committee of the results contemplated by Section 2.2.3 with respect to the phenotype of a line of Mutant Mice, BMS shall have the option, exercisable by delivery to Lexicon of a signed material transfer agreement in the form attached hereto as Exhibit F, to obtain Mutant Mice displaying a phenotype suggestive, [**], of the potential utility of the corresponding Target in the CNS Field, on the terms contemplated by such material transfer agreement [**]. For each line of Mutant Mice so requested, Lexicon shall provide to BMS with such [**]. BMS shall [**]. Notwithstanding any provision of this Agreement to the contrary, [**]; provided that, unless otherwise specifically agreed by [**].

2.3 Target Selection.

2.3.1 Proposal of Targets. Following Lexicon's completion of Level 2 Phenotypic Analysis of a line of Mutant Mice corresponding to a Target [**], BMS and Lexicon shall each have the right to propose such Target for inclusion in the Research Program as a Selected Target. Within [**] following the proposal by either party that such Proposed Target be considered for designation as a Selected Target [**], BMS and Lexicon shall provide the Joint Scientific Committee with the following information:

(a) all relevant scientific data in BMS's possession (and which BMS has the right to disclose to Lexicon) and all relevant scientific data in Lexicon's possession (and which Lexicon has the right to disclose to BMS) relating specifically to such Proposed Target, including, without limitation, any bioinformatics and expression analyses conducted by BMS or Lexicon with respect to such Proposed Target, and any phenotypic data with respect to mice (including, without limitation, Mutant Mice) with a mutation in the murine ortholog of such Proposed Target;

(b) the results of genomic analysis and druggability assessment with respect to such Proposed Target by BMS and/or Lexicon;

(c) whether (and, if so, to what extent) such Proposed Target is [**]; and

(d) whether BMS or Lexicon, respectively, has [**] and, in the event BMS or Lexicon, respectively, has [**], such party shall [**].

2.3.2 Designation of Proposed Targets as Selected Targets or Released Targets. Within [**] following receipt by Joint Scientific Committee of a complete package of all of the information set forth in Section 2.3.1 for a Proposed Target, the Joint Scientific Committee shall make a recommendation to the Joint Management Committee as to whether to designate such Proposed Target as a Selected Target or a Released Target. If the Joint Scientific Committee determines that [**] before a Proposed Target should be considered for designation as a Selected Target or Released Target, the parties shall [**], before it is reconsidered for designation as a Selected Target or Released Target. In the event the members of the Joint Management Committee are unable to reach agreement by consensus regarding such designation within [**] following its receipt of the Joint Scientific Committee recommendation, [**].

2.3.3 [**]. Upon recommendation by the Joint Scientific Committee, the Joint Management Committee may, by agreement, designate one or more Selected Targets that are associated with another Selected Target as being [**]. During the period in which they are designated as [**] by the Joint Management Committee [**].

2.3.4 Inactive Selected Targets.

2.3.4.1 A Selected Target shall become an "Inactive Selected Target" upon the occurrence of any of the following: (a) at such time that there has been no material activity by either party with respect to studies to further evaluate the utility of such Selected Target or the development of assays or the discovery or development of Program Compounds acting through such Selected Target for a period of [**], and [**]; (b) upon the election of a party that does not wish to proceed with the discovery or development of Program Compounds acting through a Selected Target, when the other party does wish to proceed, such that such other party could proceed with the discovery or development of Program Compounds acting through such Inactive Selected Target, without the participation of the party making such election (and, in accordance with Section 2.4.7, upon such election, the party making such election shall notify the Joint Management Committee if it wishes to [**]; or (c) upon the election of the Joint Management Committee, in order to equalize each party's participation in the Research Program (measured by Research Program Costs), such that one party could proceed with the discovery or development of Program Compounds acting through such Inactive Selected Target, without the participation of the other party.

2.3.4.2 The Joint Management Committee shall determine how the parties shall proceed with respect to the Inactive Selected Target; provided that, in the event that one party desires to proceed with the discovery or development of Program Compounds acting through such Inactive Selected Target, and the other party does not wish to proceed with such discovery and development efforts in the Research Program (or if one party has been given the opportunity to pursue the discovery or development of Program Compounds acting through such Inactive Selected Target under Section 2.3.4.1(b) or (c) above), such party may elect to proceed with such discovery or development for its own account (using Diligent Efforts), without participation of the other party. In such case, (a) the other party shall reasonably cooperate with the party electing to proceed with the discovery and development of Program Compounds acting through such Inactive Selected Target, at the developing party's expense, in transitioning such activities to such developing party (including, without limitation, the transfer of relevant Program

Material) and (b) upon the commencement of a Phase 1 Trial for a Program Compound acting through such Inactive Selected Target (and notwithstanding anything to the contrary in Section 2.5), such Inactive Selected Target shall then be designated as and treated as a BMS Target or Lexicon Target (depending on the party that proceeds with such discovery and development) for all purposes, except that the milestone payments and royalties payable with respect to BMS Products (under Sections 5.4.1 and 5.5.1) or Lexicon Products (under Sections 5.4.2 and 5.5.2), as the case may be, shall be [**] of those otherwise payable. Prior to the commencement of a Phase 1 Trial for a Product acting through an Inactive Selected Target, such Inactive Selected Target shall remain designated as an Inactive Selected Target.

2.3.4.3 If neither party elects to proceed with such discovery and development of Program Compounds acting through such Inactive Selected Target for its own account, Lexicon shall have the right to pursue the out licensing of such Inactive Selected Target, provided that BMS and Lexicon shall [**] with respect to such out licensing, after Lexicon and BMS have first been reimbursed from such consideration for [**].

2.3.4.4 An Inactive Selected Target for which BMS proceeds with the discovery and development of Program Compounds acting through such Inactive Selected Target, without the participation of Lexicon, as set forth above, shall be designated as a "BMS Inactive Selected Target." An Inactive Selected Target for which Lexicon proceeds with the discovery and development of Program Compounds acting through such Inactive Selected Target, without the participation of BMS, as set forth above, shall be designated as a "Lexicon Inactive Selected Target."

2.4 Conduct of Research Program.

2.4.1 Scope. Following the designation of a Selected Target, the parties will use Diligent Efforts, under the direction of the Joint Management Committee and Joint Scientific Committee, to carry out the following principal activities with respect to the Selected Target: (a) to carry out studies to further evaluate the biology and the utility of the Selected Target ([**]), (b) to develop assays for such Selected Target amenable to Compound Library Screening, (c) to conduct Compound Library Screening against such Selected Target, (d) to carry out a Mid-Phase Program to develop lead compounds suitable to chemically recapitulate the phenotype seen in the Mutant Mice for the Selected Target, (e) to carry out a follow-up Full Phase Program with the objective of identifying Program Compounds meeting the criteria required for designation as Development Candidates that are suitable for further development, and (f) to carry out preclinical work on selected Development Candidates and Back-up Compounds in preparation for Phase 1 Trials. The parties will carry out other specific activities in support of these principal activities.

2.4.2 Efforts. The Joint Management Committee shall adopt project progression guidelines, including criteria for the selection of Program Compounds, Development Candidates and Back-up Compounds for the Research Program. The criteria established by the Joint Management Committee for the selection of Development Candidates shall [**]. The parties shall conduct the Research Program in good scientific manner in accordance with such project progression guidelines and in compliance with applicable Laws. Each party shall use Diligent Efforts to conduct the activities of the Research Program that are assigned to it in the then-applicable Annual Research Plan, and each shall devote sufficient resources to timely perform such respective activities. While the parties acknowledge and agree that neither party guarantees the success of the Research Program or any individual task undertaken thereunder, each party

agrees that it will perform the activities assigned to it under the Research Program in a professional manner in accordance with the highest industry standards.

2.4.3 Resources. Over the course of the Research Program, tasks under the Research Program will be allocated between the parties with the goal that each party's participation in the Research Program (based on FTE utilization and out-of-pocket expenditures) and Research Program Costs will be substantially equal. Particular tasks and responsibilities shall be assigned in a manner consistent with each party's respective capabilities, capacity and expertise. For purposes of this Agreement, "out-of-pocket expenditures" includes, but is not limited to, the cost of subcontractors related to the Research Program, but specifically excludes the cost of laboratory supplies, laboratory space and capital equipment. Either party may at its sole discretion reduce its required contribution to the Research Program Costs by designating one or more Selected Targets as Inactive Selected Targets that may be pursued by the other party as contemplated in Section 2.3.4.

2.4.4 FTE Levels. The parties anticipate that the combined total personnel the parties will commit to the Research Program will start at an average of [**] FTEs for the First Contract Year and will escalate to an average of [**] FTEs for the Second Contract Year, [**] FTEs in the Third Contract Year and [**] FTEs for the Fourth Contract Year (i.e., these are the expected number of FTEs to be included in the Research Program Costs). For clarification, the number of FTEs referenced in the previous sentence shall not include Lexicon FTEs working on the Target Discovery Program, except as set forth in Section 2.2.5. Each party agrees in good faith to expedite the hiring and utility of such FTEs as early in the applicable Contract Year as possible. In the event that the Research Program generates more projects that qualify for lead optimization than are contemplated by the foregoing resource commitment, the parties agree to discuss in good faith a possible increase in the number of FTEs devoted to the Research Program, and may discuss changes in the allocation of Research Program Costs; provided that any such increase in the number of FTEs or change in the allocation of Research Program Costs shall be subject to the mutual agreement of the parties. The Annual Research Plans shall set forth specific FTE levels for each Contract Year to be assigned to specific activities.

2.4.5 Subcontractors. In accordance with Section 2.4.3, the parties will endeavor to optimize the allocation of their resources for the conduct of the Research Program. As necessary and in furtherance of the Research Program, however, either party may enter into research-related agreements or subcontracts in accordance with this Section 2.4.5; provided that (a) none of the rights of the other party hereunder are diminished or otherwise adversely affected as a result of such subcontracting, (b) such party obtains the written approval of the other party prior to engaging any subcontractor, which approval shall not be unreasonably withheld or delayed, (c) the subcontractor undertakes in writing obligations of confidentiality and non-use regarding the other party's Confidential Information that are substantially the same as those undertaken by BMS and Lexicon pursuant to Article 8 hereof, and (d) where possible, the subcontractor agrees in writing to assign to the party inventions made by such subcontractor in performing services for the party. In the event a party performs one or more of its obligations under the Research Program through a subcontractor, then such Party shall at all times be responsible for the performance of such subcontractor. The Joint Management Committee shall decide whether the cost of such agreement shall be shared equally between the parties or if the cost is to be borne by one party and whether it can be allocated to offset obligations with respect to FTE levels as set forth in Section 2.4.4 of this Agreement.

2.4.6 Reports. Each party shall submit [**] reports to the Joint Management Committee, and additional reports as may be required by the then-current Annual Research Plans,

detailing its activities under the Research Program. The Joint Management Committee shall use such [**] reports to monitor the parties' respective contributions to the Research Program. The Joint Management Committee may amend the Annual Research Plan as necessary to maintain substantial equality in resources devoted and participation by the parties over the course of the Research Program, as measured by Research Program Costs.

2.4.7 Adjustments. If either party believes that the parties are not devoting substantially equal resources and participation to the Research Program, measured by the aggregated Research Program Costs incurred by each party, such party may submit the matter to the Joint Management Committee in writing, providing a reasonably detailed description of its reasons for such belief. Taking into account historical and prospective participation and resource devotion of the parties during the current Contract Quarter and the immediately following Contract Quarter, the Joint Management Committee shall take such steps as may be reasonably necessary to ensure substantial equality in resources devoted to and participation by the parties in the Research Program including, with respect to any out-of-pocket expenditures, a reimbursement by one party to the other party. In addition or as an alternative to taking steps to reallocate resources and participation in the Research Program, the Joint Management Committee may, by agreement, take one or more of the following actions in order to equalize each party's participation in the Research Program (measured by the aggregated Research Program Costs): (a) designate a Selected Target as an Inactive Selected Target, such that one party could proceed with the discovery or development of Program Compounds acting through such Inactive Selected Target, without the participation of the other party (and such that the developing party's activities with respect to such Inactive Selected Target would no longer be included in the Research Program Costs) or (b) provide for the payment by one party to the other party of one-half of the Research Program Costs attributable to unmatched FTEs provided by such other party in support of Research Program Activities. In addition, a party may elect to designate a Selected Target as an Inactive Selected Target to be pursued by the other party as set forth in Section 2.3.4.1(b), and upon such election, the party making such election shall notify the Joint Management Committee if it wishes to maintain the level of its FTE contribution to the Research Program Costs by allocating FTEs to another Selected Target or to reduce the total number of FTEs the party contributes to the Research Program Costs. At the request of a party, the other party shall permit an independent, certified accountant appointed by the requesting party and reasonably acceptable to the other party, at reasonable times and upon reasonable notice but no more than [**], to examine, at the sole cost of the requesting party, the records of the other party to verify the accuracy of any reports submitted by the other party to the Joint Management Committee regarding the Research Program Costs devoted to the Research Program by such party.

2.5 Development and Commercialization of Products.

2.5.1 Designation of BMS Targets and Lexicon Targets. Upon the commencement of a Phase 1 Trial for the first pharmaceutical product acting through a given Selected Target that contains a Development Candidate as an active ingredient, BMS will have the first option, exercisable by written notice to Lexicon, to obtain exclusive rights under Section 4.1.1.3 and Section 4.2.1 with respect to such Selected Target, upon the exercise of which option (a) such Selected Target shall be designated as a "BMS Target," (b) BMS shall then be the Product Licensee with respect to such BMS Target and (c) the exclusive licenses granted to BMS under Section 4.1.1.3 and Section 4.2.1 shall apply to such BMS Target. BMS shall deliver written notice to Lexicon within [**] days of the commencement of such Phase 1 Trial of its election whether or not to be the Product Licensee for such Selected Target. If BMS fails, within such [**] period, to deliver written notice to Lexicon of its election whether or not to be the Product Licensee for such Selected Target, Lexicon shall provide notice to BMS advising BMS that such

notice by BMS is required. If BMS does not remedy such failure within [**] days following Lexicon's notice, then Lexicon shall have the option to obtain exclusive rights under Section 4.1.2.3 and Section 4.2.2 with respect to such Selected Target, upon the exercise of which option (a) such Selected Target shall be designated as a "Lexicon Target," (b) Lexicon shall then be the Product Licensee with respect to such Lexicon Target and (c) the exclusive licenses granted to Lexicon under Section 4.1.2.3 and Section 4.2.2 shall apply to such Lexicon Target.

2.5.2 Responsibility for Development and Commercialization Activities. From and after the time that a party is designated as the Product Licensee with respect to a Selected Target, such party shall then have full responsibility (including responsibility for funding, resourcing and decision-making) for all research, development and commercialization activities relating to Development Compounds and Products that act through such Selected Target, subject to the provisions of Section 2.5.3 and Article 6 hereof.

2.5.3 Continuation of Research Program Activities.

2.5.3.1 The party that is designated as the Product Licensee with respect to a Selected Target may, at its option, request that Research Program Activities (including but not limited to work on Back-up Compounds) continue following the designation of such Selected Target as a BMS Target or Lexicon Target, as applicable. In such event, the parties shall continue to carry out such Research Program Activities with respect to such Selected Target as may be reasonably requested by the Product Licensee (with the allocation of responsibilities determined by the Joint Management Committee and reflected in the Annual Research Plans) until the earlier of (a) the first NDA Approval or MAA Approval of a Product acting through such Selected Target or (b) the Product Licensor notifies the Product Licensee of its election to discontinue further Research Program Activities with respect to such Selected Target.

2.5.3.2 In the event the Product Licensor notifies the Product Licensee of its election to discontinue further Research Program Activities with respect to such Selected Target, (a) the Product Licensor shall have no further obligation with respect to further Research Program Activities related to such Selected Target other than to reasonably cooperate with the Product Licensee, at the Product Licensee's expense, in transitioning such activities to the Product Licensee (including, without limitation, the transfer of relevant Program Material), (b) no further activities of the Product Licensee related to such Selected Target shall be considered Research Program Activities for purposes of the parties' participation in the Research Program or Research Program Costs and (c) the milestone payments and royalties with respect to BMS Products (under Sections 5.4.1 and 5.5.1) or Lexicon Products (under Sections 5.4.2 and 5.5.2), as the case may be, that are Post Opt-out Products (as defined below) shall be [**].

2.5.3.3 As used in this Agreement, a "Post Opt-out Product" shall mean a Product acting through a Selected Target for which the Product Licensor has elected to discontinue further Research Program Activities under this Section 2.5.3, which Product does not contain as an active ingredient a Development Candidate or Back-up Compound for which [**].

2.5.3.4 The milestone payments and royalties with respect to BMS Products (under Sections 5.4.1 and 5.5.1) or Lexicon Products (under Sections 5.4.2 and 5.5.2) (a) that are Post Opt-out Products and that contain [**] as an active ingredient shall be [**]

and (b) that are Post Opt-out Products and that do not contain [**] as an active ingredient shall be [**].

2.6 Exclusivity.

2.6.1 During the Research Program Term, each party shall work exclusively with the other party under the terms of the Agreement with respect to discovery and development activities directed to identifying and developing Small Molecule Compounds that act through Selected Targets, on a Selected Target-by-Selected Target basis, until the later to occur of:

(a) such time as the applicable Selected Target either:

(i) becomes an Inactive Selected Target, or

(ii) is designated as a BMS Target or a Lexicon Target and either (A) the Product Licensee has obtained an NDA Approval or MAA Approval of a Product acting through such Selected Target or (B) the Product Licensor has notified the Product Licensee of its election to discontinue further Research Program Activities with respect to such Selected Target; or

(b) such time as the specific and substantial medical utility of

such Selected Target in the CNS Field is or becomes (through no wrongful act of a party) available in the public domain through:

(i) publication of [**];

(ii) publication of [**];

(iii) publication of [**];

(iv) publication of [**];

(v) publication of [**];

(vi) publication of [**];

(vii) publication in a single reference of [**]; or

(viii) public disclosure that [**]; or

information with respect to such Selected Target of the nature set forth above (but that is not in the public domain) that BMS or Lexicon can show by written documents or other tangible evidence is disclosed to BMS or Lexicon by a Third Party with the lawful right to disclose such information to BMS or Lexicon.

The expiration or termination of the parties' exclusivity obligations with respect to a Selected Target under this Section 2.6.1 shall not be construed as granting any right or license under any Background Materials, Background Technology or Program Intellectual Property related thereto.

2.6.2 During the Target Discovery Program Term, Lexicon shall work exclusively with BMS and shall not enter into discussions with any Third Party with respect to activities directed

to the identification of novel Targets for the identification and development of Small Molecule Compounds for use in the CNS Field, provided that Lexicon may pursue discussions with third parties with respect to Released Targets and Inactive Selected Targets that the parties have agreed to out-license. During the Target Discovery Program Term, Lexicon shall work exclusively with BMS under the terms of the Agreement with respect to all Targets identified by Lexicon as of the Effective Date and thereafter as having potential utility in the CNS Field, with the exception of Lexicon's LG617 Target (which is subject to Section 4.4) and Released Targets.

2.6.3 Except as otherwise provided for in this Agreement, and without granting any right or license under any Lexicon Background Materials or Lexicon Background Technology with respect thereto, for a period of [**] years following the proposal that a Proposed Target be considered for designation as a Selected Target under Section 2.3.2, BMS shall not, unless such Proposed Target was so designated, research, develop or commercialize any pharmaceutical product for any indication within the CNS Field that specifically targets such Proposed Target. For the avoidance of doubt, the parties agree that this covenant not to compete is not meant to restrict BMS from researching, developing and/or commercializing pharmaceutical products that do not specifically target a Proposed Target but that nevertheless bind to such Proposed Target; provided that such pharmaceutical products specifically target, and achieve their intended physiological effects by binding to, a Target other than the Proposed Target. Without granting any right or license, BMS's obligations under this Section 2.6.3 with respect to a Proposed Target shall terminate on the earlier of:

(a) the medical utility in the disclosed indication of such Proposed Target is or becomes (through no wrongful act of BMS) available in the public domain through:

(i) publication of [**];

(ii) publication of [**];

(iii) publication of [**];

(iv) publication of [**];

(v) publication of [**];

(vi) publication of [**];

(vii) publication in a single reference of [**]; or

(viii) public disclosure that [**]; or

(b) information with respect to such Proposed Target of the nature set forth above (but that is not in the public domain) that BMS can show by written documents or other tangible evidence, (i) is in the possession of BMS prior to the Effective Date; (ii) is disclosed to BMS by a Third Party with the lawful right to disclose such information to BMS; or (iii) is independently developed by or on behalf of BMS without use of Confidential Information disclosed by Lexicon to BMS pursuant to this Agreement.

2.7 Annual Research Plan.

2.7.1 The Joint Scientific Committee shall prepare and the Joint Management Committee shall approve the Annual Research Plan for every Contract Year (other than the First Contract Year) at least [**] prior to the commencement of such Contract Year. The Annual Research Plan for the First Contract Year shall be prepared by the Joint Scientific Committee and approved by the Joint Management Committee within [**] after the Effective Date.

2.7.2 The Joint Management Committee shall update and amend, as appropriate, the then-current Annual Research Plan from time to time.

2.7.3 Each Annual Research Plan shall contain the specific research objectives to be achieved during the relevant Contract Year, the specific activities to be performed under the Research Program during such year and the timeline for performing such activities, and shall designate which party shall be responsible for performing each of such activities.

2.7.4 Each Annual Research Plan shall be consistent with the other terms and conditions of this Agreement, including without limitation the objectives set forth in Section 2.1.1 and the terms and conditions set forth in Section 2.4, and each Annual Research Plan for Contract Years after the First Contract Year shall be substantially the same in form, including the items itemized in, the Annual Research Plan for the First Contract Year.

2.8 Research Program Records.

2.8.1 All work conducted by each party in the course of the Research Program shall be completely and accurately recorded, in reasonable detail and in good scientific manner, in separate laboratory notebooks. On reasonable notice, and at reasonable intervals, each party shall have the right to inspect and copy all such records of the other party reflecting Program Technology or work done under the Research Program, to the extent reasonably required to carry out its respective obligations and to exercise its respective rights hereunder. The parties acknowledge and agree that neither party guarantees the success of the Research Program tasks undertaken hereunder.

2.8.2 In order to protect the parties' Patent Rights under U.S. law in any inventions conceived or reduced to practice during or as a result of the Research Program, each party agrees to maintain a policy that requires its employees to record and maintain all data and information developed during the Research Program in such a manner as to enable the parties to use such records to establish the earliest date of invention and/or diligence to reduction to practice. At a minimum, the policy shall require such individuals to record all inventions generated by them in standard laboratory notebooks or other suitable means that are dated and corroborated by non-inventors on a regular, contemporaneous basis.

2.9 Disclosure of Research Program Results. Subject to restrictions imposed by a party's confidentiality obligations to any Third Party with respect to Background Materials or Background Technology, each party will disclose to the Joint Scientific Committee all Program Technology that is discovered, invented or made by such party during the course of the Research Program and that is useful in or relates to the Research Program, including, without limitation, information regarding Selected Targets, Small Molecule Compounds identified in the Research Program through the use of Selected Targets, activities of such Small Molecule Compounds, derivatives and results of in vitro and in vivo studies, assay techniques and new assays. Such Program Technology will be promptly disclosed to the Joint Scientific Committee, with meaningful discoveries or advances being communicated as promptly as

practicable after such information is obtained or its significance is appreciated. Upon written request by any member of the Joint Scientific Committee, each party will provide the other with copies of the raw data generated in the course of the Research Program, if reasonably necessary to the other party's work under the Research Program. Any information disclosed pursuant to this Section 2.9 may be used by the other party solely for the purposes of the Research Program or as otherwise expressly permitted in this Agreement.

2.10 Material Transfer. In order to facilitate the Research Program, either party may provide to the other party certain Program Materials and Background Materials Controlled by the supplying Party for use by the other party in furtherance of the Research Program. All such Program Materials shall be considered the Confidential Information of both parties and shall be subject to the restrictions in Article 8. All Background Materials shall be considered the Confidential Information of the supplying Party and shall be subject to the restrictions in Article 8. Except as otherwise provided under this Agreement, all such Program Materials and Background Materials delivered to the other party shall remain the sole property of the supplying party, shall be used only in furtherance of the Research Program and solely under the control of the other party and its Affiliates, shall not be used or delivered to or for the benefit of any Third Party without the prior written consent of the supplying party and shall not be used in research or testing involving human subjects. The Program Materials and Background Materials supplied under this Section 2.10 must be used with prudence and appropriate caution in any experimental work, since not all of their characteristics may be known. THE PROGRAM MATERIALS AND BACKGROUND MATERIALS ARE PROVIDED "AS IS" AND WITHOUT ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR ANY PARTICULAR PURPOSE OR ANY WARRANTY THAT THE USE OF THE MATERIALS WILL NOT INFRINGE OR VIOLATE ANY PATENT OR OTHER PROPRIETARY RIGHTS OF ANY THIRD PARTY.

2.11 Third Party Opportunities. In the event that a party is presented with an opportunity to obtain a license from a Third Party for the development and commercialization of a Small Molecule Compound acting through a Selected Target (a "Third Party Opportunity"), then the party may pursue such Third Party Opportunity, but only in the manner provided in this Section 2.11. For purposes of Third Party Opportunities, Section 2.6.1(a) shall not apply with respect to the parties' rights and obligations under this Section 2.11 and, accordingly, either party shall have the right to pursue any Third Party Opportunity, and enter into an agreement with a Third Party with respect to such Third Party Opportunity, in accordance with this Section 2.11 provided that Section 2.6.1(b) alone is satisfied.

2.11.1 Third Party Opportunities for Selected Targets. In the event that a party is presented with a Third Party Opportunity for the development and commercialization of a Small Molecule Compound acting through a Selected Target that has not been previously designated as an Inactive Selected Target, a BMS Target or a Lexicon Target, then the party may pursue such Third Party Opportunity, but only in the manner provided in this Section 2.11.1. The party shall present the Third Party Opportunity, including all relevant terms and conditions relating thereto (subject to any confidentiality obligations to the Third Party), to the Joint Management Committee. In the event that the Joint Management Committee elects to pursue such Third Party Opportunity, then the parties shall negotiate (with one another and with the Third Party, as appropriate) in a good faith effort to reach an agreement whereby the Third Party Opportunity can be included as a Product under the Agreement. In the event that the parties and the Third Party reach an agreement to include such Third Party Opportunity as a Product under the Agreement, then (a) the Third Party Opportunity shall be included as a Product under the Agreement, subject (unless otherwise agreed to by the parties) to [**], and (b) the payments and royalties payable to such Third Party in consideration for such Third Party Opportunity shall be treated [**]. In the event that the Joint Management Committee does not elect to pursue such Third Party

Opportunity, then, subject to the parties' obligations under Section 2.6.1(b) and Article 8, either party shall have the right to pursue such Third Party Opportunity and, upon completion of an agreement with such Third Party for such Third Party Opportunity, shall, by notice to the other party, either (i) include such Third Party Opportunity as a Product under this Agreement, [**], or (ii) designate such Selected Target as an Inactive Selected Target to be pursued by the other party.

2.11.2 Third Party Opportunities for Inactive Selected Targets, BMS Targets or Lexicon Targets. In the event that a party is presented with a Third Party Opportunity for the development and commercialization of a Small Molecule Compound acting through a Selected Target that has been previously designated as an Inactive Selected Target, a BMS Target or a Lexicon Target, then the party may pursue such Third Party Opportunity, but only in the manner provided in this Section 2.11.2 and subject to the parties' obligations under Section 2.6.1(b) and Article 8.

2.11.2.1 If the party pursuing such Third Party Opportunity [**], the party shall present the Third Party Opportunity, including all relevant terms and conditions relating thereto (subject to any confidentiality obligations to the Third Party), to the Joint Management Committee. In the event that the Joint Management Committee elects to pursue such Third Party Opportunity, then the parties shall negotiate (with one another and with the Third Party, as appropriate) in a good faith effort to reach an agreement whereby the Third Party Opportunity can be included as a Product under the Agreement. In the event that the parties and the Third Party reach an agreement to include such Third Party Opportunity as a Product under the Agreement, then (a) the Third Party Opportunity shall be included as a Product under the Agreement, subject (unless otherwise agreed to by the parties) to [**], and (b) the payments and royalties payable to such Third Party in consideration for such Third Party Opportunity shall be treated [**]. In the event that the Joint Management Committee does not elect to pursue such Third Party Opportunity, then, subject to the parties' obligations under Section 2.6.1(b) and Article 8, [**] shall have the right to pursue such Third Party Opportunity. If the party pursuing such Third Party Opportunity holds exclusive rights under Article 4 with respect to such Selected Target, upon completion of an agreement with such Third Party for such Third Party Opportunity, such party shall, by notice to the other party, either (i) include such Third Party Opportunity as a Product under this Agreement, subject to [**], or (ii) [**].

2.11.2.2 If the party pursuing such Third Party Opportunity [**], the party to whom the Third Party Opportunity is presented shall have the right, at its sole discretion, but subject to its obligations under Section 2.6.1(b) and Article 8, to [**]; provided that [**].

2.11.2.3 In the event the Product Licensee for a Selected Target (or the holder of exclusive rights under Section 4.1 with respect to an Inactive Selected Target) enters into an agreement for a Third Party Opportunity [**], such party shall [**]. In the event such party [**], the party entering into the agreement for such Third Party Opportunity shall [**], and the other party shall [**].

ARTICLE 3. COLLABORATION MANAGEMENT

3.1 Program Committees.

3.1.1 Joint Management Committee. As soon as practicable after the Effective Date, BMS and Lexicon shall establish a Joint Management Committee (the "Joint Management Committee") comprised of [**] representatives designated by BMS and [**] representatives designated by Lexicon, each of whom shall have experience and seniority sufficient to enable him or her to make decisions on behalf of the party he or she represents; provided that BMS and Lexicon may, by mutual agreement, designate an appropriate number of additional representatives from time to time.

3.1.2 Joint Scientific Committee. As soon as practicable after the Effective Date, BMS and Lexicon shall establish a Joint Scientific Committee (the "Joint Scientific Committee") comprised of [**] representatives designated by BMS and [**] representatives designated by Lexicon, each of whom shall have experience and seniority sufficient to enable him or her to make decisions on behalf of the party he or she represents; provided that BMS and Lexicon may, by mutual agreement, designate an appropriate number of additional representatives from time to time. From time to time during the Research Program Term, the Joint Scientific Committee may establish one or more Joint Research Project Teams (each, a "Joint Research Project Team") to implement various aspects of the Annual Research Plan. Such teams shall be governed in the same manner and subject to the relevant requirements as set forth herein for the Joint Scientific Committee.

3.2 Program Directors. Each party shall appoint one of its designees on the Joint Management Committee or the Joint Scientific Committee to serve as a program director (each, a "Program Director") with responsibility for overseeing the day-to-day activities of the parties with respect to the Research Program and for being the primary point of contact between the parties with respect to the Research Program.

3.3 Replacement of Program Committee Representatives and Program Directors. Each party shall be free to replace its representative members of any Program Committee and its Program Director with new appointees who have authority to act on behalf of such party, on notice to the other party.

3.4 Responsibilities of Joint Management Committee. The Joint Management Committee shall be responsible for overseeing and directing the parties' interaction and performance of their respective obligations under this Agreement. Without limiting the generality of the foregoing, its duties shall include, and it shall be responsible for decisions with respect to, the following:

(a) designation of Selected Targets and Released Targets in accordance with Section 2.3.2 hereof;

(b) review and approval of Annual Research Plans;

(c) oversight of the implementation of Annual Research Plans and allocation of resources and other activities in support of the Research Program, including the matters contemplated by Section 2.4 hereof;

(d) designation of Selected Targets as [**] in accordance with Section 2.3.3 hereof;

(e) classification of Selected Targets as Inactive Selected Targets in accordance with Section 2.3.4 hereof;

(f) authorization of the commencement of Compound Library Screening for a Selected Target;

(g) determination as to which Selected Targets should be pursued with a Mid-Phase Program and which party should perform such Mid-Phase Program;

(h) determination as to which Selected Targets should be pursued with a Full Phase Program and which party should perform such Full Phase Program;

(i) establishment of criteria for designation of Development Candidates (for purposes of which [**]) and Back-up Compounds;

(j) designation of Development Candidates (for purposes of which [**]) and Back-up Compounds;

(k) decisions with respect to the preclinical development of Development Candidates and Back-up Compounds leading to the commencement of a Phase 1 Trial;

(l) prioritization of programs and activities where resources are constrained;

(m) resolving matters within the responsibilities of the Joint Scientific Committee as to which the members of the Joint Scientific Committee are unable to reach a consensus; and

(n) addressing scientific issues and resolving differences that may arise between the parties related to the performance of the Target Discovery Program or the Research Program.

The Joint Management Committee shall not have the power to amend or waive compliance with this Agreement.

3.5 Responsibilities of Joint Scientific Committee. The Joint Scientific Committee shall be responsible for preparing for approval by the Joint Management Committee and implementing the Annual Research Plans, allocation of resources and other activities in support of the Research Program, with the objective of expeditiously identifying Selected Targets and identifying compounds meeting the criteria for designation as Development Candidates. Without limiting the generality of the foregoing, its duties shall include (a) establishing requirements (including, for example, with respect to throughput) for, or otherwise approving the use of, assays for Compound Library Screening, (b) selecting Small Molecule Compounds for optimization, characterization and/or preclinical evaluation in the conduct of the Research Program, (c) monitoring, reviewing and reporting on the progress of the Research Program, and (d) setting the agenda for the Joint Management Committee for scientific and technical matters relating to the Research Program and recommending actions by the Joint Management Committee. The Joint Scientific Committee shall further have responsibility during the Target Discovery Program Term for (i) determining, promptly following the completion of Level 1 Phenotypic Analysis of a line of Mutant Mice, whether [**] and [**] (provided that no affirmative action of the Joint Scientific Committee shall be required to effect such determination if [**]) and (ii) monitoring and reviewing the progress of the Target Discovery Program. The Joint Scientific Committee shall not have the power to amend or waive compliance with this Agreement. As appropriate, the Joint Scientific Committee shall establish subcommittees and working groups, having an equal number of representatives of Lexicon and BMS, which will work closely and meet frequently to further the objectives of this Agreement.

3.6 Meetings of Program Committees. Each Program Committee shall meet at least [**], and more frequently as the parties deem appropriate, on such dates and at such times as the parties shall agree, on [**] days' written notice to the other party unless such notice is waived by the parties. The first meeting of the Joint Management Committee shall take place within [**] days after the Effective Date, at Lexicon's facility in The Woodlands, Texas. Each Program Committee may convene or be polled or consulted from time to time by means of telecommunications, videoconferences or correspondence, as deemed necessary or appropriate by the parties. To the extent that meetings are held in person, they shall alternate between the offices of the parties unless the parties otherwise agree.

3.7 Decisions.

3.7.1 Quorum; Voting. A quorum for a meeting of a Program Committee shall require the presence of at least one Lexicon member (or designee) and at least one BMS member (or designee) in person or by telephone. All decisions made or actions taken by a Program Committee shall be made unanimously by its members, with the Lexicon members cumulatively having one vote and the BMS members cumulatively having one vote; provided that, in the event the members of the Joint Management Committee are unable to reach unanimity as to a decision under Section [**], [**]; and provided further, that at such time that a party is designated as a Product Licensee with respect to a Selected Target under Section 2.5, such Product Licensee shall then have final decision-making authority with respect to decisions concerning all further research and development activities with respect to such Selected Target.

3.7.2 Dispute Resolution.

3.7.2.1 In the event that unanimity cannot be reached by the Joint Scientific Committee with respect to a matter that is a subject of its decision-making authority, then the matter shall be referred for further review and resolution to the Alliance Managers and the Joint Management Committee. Except as provided in Section 3.7.1, in the event that unanimity cannot be reached by the Joint Management Committee with respect to a matter that is a subject of its decision-making authority, then the matter shall be referred for further review and resolution to [**]. The designated officers of each party shall use reasonable efforts to resolve the matter within [**] days after the matter is referred to them.

3.7.2.2 If the designated officers cannot resolve any matter described in Section 3.4 within such [**] period, the matter shall be referred to a Third Party arbitrator or arbitrators, in accordance with the following procedures, whose decision shall be [**]. In such event, the parties shall attempt to mutually agree upon a single independent Third Party arbitrator, who shall be a scientific professional with appropriate experience in the subject matter at issue in such disagreement, within [**] days after the initial referral of such matter to the designated officers. If the parties are unable to mutually agree upon one such person, then each party shall appoint one independent Third Party scientific professional with appropriate experience in the subject matter at issue in such disagreement prior to the expiration of such [**] period, and within [**] days after the initial referral of such matter to the designated officers, such person(s) shall select a single independent Third Party arbitrator, who shall be a scientific professional with appropriate experience in the subject matter at issue in such disagreement. Each party shall present all information presented to the Joint Management Committee and all other information as such party reasonably desires regarding such disagreement. Within [**] days after the initial referral of such matter to the designated officers, the arbitrator shall

provide written notice to the parties regarding his or her determination regarding such disagreement.

3.8 Administration. The chairperson of each Program Committee shall be designated annually on an alternating basis between the parties. The initial chairperson shall be selected by BMS. The party not designating the chairperson shall designate one of its representative members as secretary to such Program Committee for such year. The chairperson shall be responsible for calling meetings of such Program Committee, sending notices of meetings to all members and for leading such meetings.

3.9 Minutes. Within [**] days after each Program Committee meeting, the secretary of such Program Committee shall prepare and distribute minutes of the meeting, which shall provide a description in reasonable detail of the discussions had at the meeting and a list of any actions, decisions or determinations approved by such Program Committee. The secretary shall be responsible for circulation of all draft and final minutes. Draft minutes shall be first circulated to the chairperson, edited by the chairperson and then circulated in final draft form to all members of such Program Committee sufficiently in advance of the next meeting to allow adequate review and comment prior to the meeting. Minutes shall be approved or disapproved, and revised as necessary, at the next meeting. Final minutes shall be distributed to the members of such Program Committee.

3.10 Term. The Joint Scientific Committee and the Joint Management Committee shall exist until the termination or expiration of the Research Program Term and for such longer period as necessary to perform the responsibilities assigned to it under this Agreement.

3.11 Expenses. Each party shall be responsible for all travel and related costs for its representatives to attend meetings of, and otherwise participate on, the Joint Scientific Committee and the Joint Management Committee.

3.12 Alliance Managers. Each party shall appoint one senior representative who possesses a general understanding of the scientific and business issues relevant to this Agreement to act as its respective alliance manager (each, an "Alliance Manager") for the relationship of the parties under this Agreement. Each party may change its designated Alliance Manager from time to time upon notice to the other party. Any Alliance Manager may designate a substitute to temporarily perform the functions of that Alliance Manager. Each Alliance Manager shall be charged with creating and maintaining a collaborative work environment within and among the Joint Management Committee and Joint Scientific Committee and any other committees or working groups that may be formed pursuant to this Agreement. Each Alliance Manager will also:

(a) be the point of first referral in all matters of conflict resolution;

(b) provide a single point of communication for seeking consensus both internally within the respective parties organizations and together regarding key strategy and plan issues;

(c) plan and coordinate cooperative efforts and internal and external communications; and

(d) take responsibility for ensuring that governance activities occur as set forth in this Agreement, in particular ensuring that Joint Scientific Committee and Joint Management Committee meetings occur, and that minutes are developed from such meetings, in accordance with this Agreement, and that action items determined at such meetings are appropriately carried out or otherwise addressed.

The Alliance Managers shall be entitled to attend meetings of any of the Joint Scientific Committee and Joint Management Committee and other committees that may be formed, but shall not have, or be deemed to have, any rights or responsibilities of a member of any committee. Each Alliance Manager may bring any matter to the attention of any committee where such Alliance Manager reasonably believes that such matter requires such attention.

Any dispute between the parties arising under this Agreement shall be brought to the attention of the Alliance Managers for resolution. The Alliance Managers will endeavor to propose and define mutually acceptable solutions and facilitate communications in an attempt to bring the dispute to a mutually agreeable resolution. If the Alliance Managers cannot find an acceptable solution to a dispute and if the Joint Management Committee cannot resolve any matter properly referred to it, such dispute shall be resolved as set forth in Section 3.7.2 or Section 12.6, as applicable.

ARTICLE 4. GRANTS OF RIGHTS

4.1 Grants of Research Licenses.

4.1.1 By Lexicon.

4.1.1.1 Selected Targets. Subject to the terms of this Agreement and any applicable [**], during the Research Program Term, Lexicon hereby grants to BMS and its Affiliates, within the Territory, (a) a non-exclusive right and license (without any right to sublicense, except as set forth below) under Lexicon's rights in the Lexicon Background Materials and the Lexicon Background Technology and (b) a co-exclusive right and license (without any right to sublicense, except as set forth below) under Lexicon's rights in the Program Intellectual Property to (i) identify and validate Selected Targets (other than Selected Targets that have become BMS Inactive Selected Targets, Lexicon Inactive Selected Targets, BMS Targets or Lexicon Targets) for the identification, evaluation and optimization of Small Molecule Compounds that are active against such Selected Targets for use in the CNS Field, (ii) identify Small Molecule Compounds that are active against such Selected Targets through the use of such Selected Targets and (iii) undertake preclinical research and evaluation of Program Compounds, in each case in the conduct of the Research Program. Such right and license shall include the right to grant sublicenses to Third Parties that are approved by the Joint Management Committee.

4.1.1.2 BMS Inactive Selected Targets. Subject to the terms of this Agreement and any applicable [**], Lexicon hereby grants to BMS and its Affiliates, within the Territory, (a) a non-exclusive right and license (without any right to sublicense, except as set forth below) under Lexicon's rights in the Lexicon Background Materials and the Lexicon Background Technology and (b) an exclusive right and license (without any right to sublicense, except as set forth below) under Lexicon's rights in the Program Intellectual Property to (i) validate BMS Inactive Selected Targets for the identification, evaluation and optimization of Small Molecule Compounds that are active against such Selected Targets for use in the CNS Field, (ii) identify Small Molecule Compounds that are active against such BMS Inactive Selected Targets through the use of such BMS Inactive Selected Targets and (iii) undertake preclinical research and evaluation of Small Molecule Compounds that are active against such BMS Inactive Selected Targets. Such right and license shall include the right to grant sublicenses to Third Parties in connection with, and incident to, a sublicense granted to such Third Party under the rights and licenses granted under Section 4.2.1. The rights and licenses granted under this Section

4.1.1.2 shall be in effect during the Research Program Term and thereafter so long as BMS is using Diligent Efforts in exercising its rights under this license.

4.1.1.3 BMS Targets. Subject to the terms of this Agreement and any applicable [**], Lexicon hereby grants to BMS and its Affiliates, within the Territory, (a) a non-exclusive right and license (without any right to sublicense, except as set forth below) under Lexicon's rights in the Lexicon Background Materials and the Lexicon Background Technology and (b) an exclusive right and license (without any right to sublicense, except as set forth below) under Lexicon's rights in the Program Intellectual Property to (i) identify Small Molecule Compounds that are active against BMS Targets through the use of such BMS Targets and (ii) undertake preclinical research and evaluation of Small Molecule Compounds that are active against such BMS Targets. Such right and license shall include the right to grant sublicenses to Third Parties in connection with, and incident to, a sublicense granted to such Third Party under the rights and licenses granted under Section 4.2.1.

4.1.2 By BMS.

4.1.2.1 Selected Targets. Subject to the terms of this Agreement and any applicable [**], during the Research Program Term, BMS hereby grants to Lexicon and its Affiliates, within the Territory, (a) a non-exclusive right and license (without any right to sublicense, except as set forth below) under BMS's rights in the BMS Background Materials and the BMS Background Technology and (b) a co-exclusive right and license (without any right to sublicense, except as set forth below) under BMS's rights in the Program Intellectual Property to (i) identify and validate Selected Targets (other than Selected Targets that have become BMS Inactive Selected Targets, Lexicon Inactive Selected Targets, BMS Targets or Lexicon Targets) for the identification, evaluation and optimization of Small Molecule Compounds that are active against such Selected Targets for use in the CNS Field, (ii) identify Small Molecule Compounds that are active against such Selected Targets through the use of such Selected Targets and (iii) undertake preclinical research and evaluation of Program Compounds, in each case in the conduct of the Research Program. Such right and license shall include the right to grant sublicenses to Third Parties that are approved by the Joint Management Committee.

4.1.2.2 Lexicon Inactive Selected Targets. Subject to the terms of this Agreement and any applicable [**], BMS hereby grants to Lexicon and its Affiliates, within the Territory, (a) a non-exclusive right and license (without any right to sublicense, except as set forth below) under BMS's rights in the BMS Background Materials and the BMS Background Technology and (b) an exclusive right and license (without any right to sublicense, except as set forth below) under BMS's rights in the Program Intellectual Property to (i) validate Lexicon Inactive Selected Targets for the identification, evaluation and optimization of Small Molecule Compounds that are active against such Selected Targets for use in the CNS Field, (ii) identify Small Molecule Compounds that are active against such Lexicon Inactive Selected Targets through the use of such Lexicon Inactive Selected Targets and (iii) undertake preclinical research and evaluation of Small Molecule Compounds that are active against such Lexicon Inactive Selected Targets. Such right and license shall include the right to grant sublicenses to Third Parties in connection with, and incident to, a sublicense granted to such Third Party under the rights and licenses granted under Section 4.2.2. The rights and licenses granted under this Section 4.1.2.2 shall be in effect during the Research Program Term and

thereafter so long as Lexicon is using Diligent Efforts in exercising its rights under this license.

4.1.2.3 Lexicon Targets. Subject to the terms of this Agreement and any applicable [**], BMS hereby grants to Lexicon and its Affiliates, within the Territory, (a) a non-exclusive right and license (without any right to sublicense, except as set forth below) under BMS's rights in the BMS Background Materials and the BMS Background Technology and (b) an exclusive right and license (without any right to sublicense, except as set forth below) under BMS's rights in the Program Intellectual Property to (i) identify Small Molecule Compounds that are active against Lexicon Targets through the use of such Lexicon Targets and (ii) undertake preclinical research and evaluation of Small Molecule Compounds that are active against such Lexicon Targets. Such right and license shall include the right to grant sublicenses to Third Parties in connection with, and incident to, a sublicense granted to such Third Party under the rights and licenses granted under Section 4.2.2.

4.1.3 Restrictions on Clinical Development of Products. Neither party nor their respective Affiliates shall administer to humans any Product that incorporates or is derived from any Program Compound, unless and until (and then only to the extent that) such party has received Joint Management Committee approval or has received a license under Section 4.2 for the clinical development and commercialization of such Product.

4.2 Grants of Development and Commercialization Licenses.

4.2.1 By Lexicon. Subject to the terms of this Agreement and any applicable [**], Lexicon hereby grants to BMS and its Affiliates, within the Territory, an exclusive right and license, with the right to sublicense, under Lexicon's rights in the Program Intellectual Property to develop, make, have made, import, use, have used, offer for sale, sell and have sold BMS Development Compounds and BMS Products. Any sublicense under this Section 4.2.1 shall be set forth in a written agreement containing confidentiality, non-use, ownership of intellectual property and audit provisions consistent with and no less restrictive than those contained herein, shall be subject and subordinate to the terms and conditions of this Agreement, and shall obligate the Sublicensee to make the milestone and royalty payments required hereunder; provided that BMS shall remain responsible for all payments due to Lexicon hereunder. BMS shall provide Lexicon with an [**] copy of each sublicense agreement promptly after executing the same; provided, however, that subject to the exceptions set forth in Section 1.18, each such sublicense agreement shall be Confidential Information of BMS.

4.2.2 By BMS. Subject to the terms of this Agreement and any applicable [**], BMS hereby grants to Lexicon and its Affiliates, within the Territory, an exclusive right and license, with the right to sublicense, under BMS's rights in the Program Intellectual Property to develop, make, have made, import, use, have used, offer for sale, sell and have sold Lexicon Development Compounds and Lexicon Products. Any sublicense under this Section 4.2.2 shall be set forth in a written agreement containing confidentiality, non-use, ownership of intellectual property and audit provisions consistent with and no less restrictive than those contained herein, shall be subject and subordinate to the terms and conditions of this Agreement, and shall obligate the Sublicensee to make the milestone and royalty payments required hereunder; provided that Lexicon shall remain responsible for all payments due to BMS hereunder. Lexicon shall provide BMS with an [**] copy of each sublicense agreement promptly after executing the same; provided, however, that subject to the exceptions set forth in Section 1.18, each such sublicense agreement shall be Confidential Information of Lexicon.

4.3 No Grant of Other Technology or Patent Rights. Except as otherwise expressly provided in this Agreement, under no circumstances shall a party hereto, as a result of this Agreement, obtain any ownership interest in or other right to any technology, know-how, patents, patent applications, gene or genomic sequence data or information, products, or biological materials of the other party, including items owned, controlled or developed by, or licensed to, the other party, or transferred by the other party to said party, at any time pursuant to this Agreement.

4.4 Right of First Offer for LG617 Target Collaboration. Lexicon agrees that, during the period beginning on the Effective Date and ending on the later of (a) the expiration of the Target Discovery Program Term or (b) the commencement of a Phase 1 Trial in the U.S. for an LG617 Compound (the "LG617 Option Period"), BMS shall have the following right of first offer. During the LG617 Option Period, Lexicon shall not grant any license or otherwise transfer rights to any Third Party for the development or commercialization of any LG617 Compound (any such arrangement being referred to herein as an "LG617 License"), [**] unless and until [**]. In the event that, at any time during the LG617 Option Period after an LG617 Compound [**], Lexicon desires to enter into an LG617 License (or after the LG617 Option Period, if Lexicon has not previously notified BMS of such desire), [**], Lexicon shall first notify BMS of its desire to enter into an LG617 License and, if requested by BMS within [**] days of such notice, shall enter into good faith negotiations with BMS with respect to an LG617 License for a period of [**] days following such notice (the "LG617 Negotiation Period"). In the event Lexicon and BMS do not enter into an LG617 License within such LG617 Negotiation Period, Lexicon will be free, at any time thereafter, to enter into negotiations with respect to an LG617 License with any Third Party; provided that, during the LG617 Option Period (but not thereafter), [**], Lexicon shall [**]. Notwithstanding the foregoing, in the event that [**], Lexicon shall not [**] unless it shall have [**]. Lexicon shall likewise [**], but shall have no obligation to [**].

ARTICLE 5. PAYMENTS

5.1 Upfront Payment. In consideration of the rights granted to BMS under this Agreement, BMS shall pay to Lexicon an upfront payment of thirty-six million dollars (U.S. $36,000,000), which shall be due and payable within ten (10) business days of the Effective Date, but in no event later than December 31, 2003.

5.2 Target Discovery Program Payments. Subject to the other terms and conditions of this Agreement, in consideration for and as a contribution toward the Lexicon's costs of development and analysis of Mutant Mice in the Target Discovery Program, BMS shall make the following payments to Lexicon on the following schedule:

(a) annual research payments of ten million dollars (U.S. $10,000,000) for each of the first three Contract Years of the Target Discovery Program Term, which annual research payments shall be payable [**];

(b) in the event BMS elects to extend the Target Discovery Program Term under Section 2.2.2(a), annual research payments of [**] for each of the fourth and fifth Contract Years of the Target Discovery Program Term, which annual research payments shall be payable [**]; and

(c) in the event BMS elects to extend the Target Discovery Program Term under Section 2.2.2(b), annual research payments of [**] for each of the fourth and fifth Contract Years of the Target Discovery Program Term, which annual research payments shall be payable [**].

5.3 Research Program Milestone Payments. BMS shall pay Lexicon the following Research Program milestone payments within [**] days of the occurrence of the event giving rise to such payment:

(a) after Compound Library Screening has been first commenced for a total of [**] Selected Targets [**], BMS shall pay Lexicon [**] for each subsequent Selected Target for which Compound Library Screening is first commenced [**];

(b) during the Target Discovery Program Term, after a Full Phase Program has been first commenced for [**] Selected Target [**], BMS shall pay Lexicon [**] for each subsequent Selected Target [**] for which a Full Phase Program is first commenced; and

(c) during the period beginning after the Target Discovery Program Term, after Full Phase Programs have been first commenced for a total of [**] Selected Targets in the Research Program (a total of [**] Selected Targets in the event BMS elected to extend the Target Discovery Program Term under Section 2.2.2), BMS shall pay Lexicon [**] for each subsequent Selected Target for which a Full Phase Program is first commenced;

provided that [**]. The Research Program milestone payments payable under this Section 5.3 shall not be considered part of, or included in the calculation of the Research Program Costs contributed by BMS to the Research Program. For clarification, for purposes of determining the above Research Program milestone payments, [**].

5.4 Product Development Milestone Payments.

5.4.1 BMS Products. For each BMS Target, BMS shall pay Lexicon the following milestone payments for [**]:

MILESTONE EVENT	PAYMENTS FOR BMS TARGET FOR WHICH [**]	PAYMENTS FOR BMS TARGET FOR WHICH [**]
IND filing	U.S. $ [**]	U.S. $ [**]
Commencement of a Phase 2 Trial	[**]	[**]
Commencement of a Phase 3 Trial	[**]	[**]
NDA Filing	[**]	[**]
MAA Filing	[**]	[**]
NDA Approval or MAA Approval (upon the first to occur)	[**]	[**]
TOTAL	U.S. $50,000,000	U.S. $76,000,000

Subject to Section 5.4.3, BMS shall pay Lexicon milestone payments for [**]. For each BMS Product that is a Post Opt-out Product, milestone payment [**] as set forth in Section 2.5.3.4. For each BMS Product that acts through a BMS Target that was designated from a BMS Inactive Selected Target, the milestone payment [**] as set forth in Section 2.3.4.2.

5.4.2 Lexicon Products. For each Lexicon Target, Lexicon shall pay BMS the following milestone payments for [**]:

MILESTONE EVENT	PAYMENTS FOR LEXICON TARGET
IND filing	U.S. $ [**]
Commencement of a Phase 2 Trial	[**]
Commencement of a Phase 3 Trial	[**]
NDA Filing	[**]
MAA Filing	[**]
NDA Approval or MAA Approval (upon the first to occur)	[**]
TOTAL	U.S. $25,000,000

Subject to Section 5.4.3, Lexicon shall pay BMS milestone payments for [**]. For each Lexicon Product that is a Post Opt-out Product, milestone payment [**] as set forth in Section 2.5.3.4. For each Lexicon Product that acts through a Lexicon Target that was designated from a Lexicon Inactive Selected Target, the milestone payment [**] as set forth in Section 2.3.4.2.

5.4.3 Milestone Conditions. The milestone payments payable under Sections 5.4.1 and 5.4.2 with respect to Products acting through a given BMS Target or Lexicon Target, as the case may be, shall be subject to the following conditions.

(a) Only one set of milestone payments will be paid for all Products containing a given Development Compound (including all forms and formulations of Products containing such Development Compound) upon the first occurrence of the milestone event for a Product containing that Development Compound, regardless of the number of times a milestone event may be achieved for Products containing such Development Compound (for example, regardless of the number of Phase 3 Trials and NDA Filings and Approvals that may be obtained for Products containing such Development Compound).

(b) Each milestone payment shall be payable upon the first achievement of the milestone event for a given Development Compound; provided, however, for each subsequent Product containing a different Development Compound, the milestone payments for such subsequent Product shall [**]. Once [**], any [**]; provided that, [**], any milestone payments made for such Product shall be [**]. As [**], [**] milestone payments will be paid consistent with the foregoing principles.

(c) Subject to the foregoing provisions of this Section 5.4.3, if any milestone event for a Product is achieved prior to or in the absence of the achievement of any preceding milestone event for such Product (e.g., an NDA filing for a Product without a Phase 3 Trial) then, effective upon achievement of any such milestone event, all previously unpaid payments for any such preceding milestone event(s) shall also become due and payable.

5.4.4 Notice of Milestone Achievement. Each Product Licensee shall promptly notify the Product Licensor of the first occurrence of any milestone with respect to each Selected Target, and milestone payments shall be made within [**] days after such occurrence. Such milestone payments shall be non-refundable and shall not be credited against royalties payable to the Product Licensee under this Agreement, subject to Section 6.2.

5.5 Product Royalties.

5.5.1 BMS Products. For each BMS Product, BMS shall pay to Lexicon the following royalties on aggregate annual Net Sales in the Territory of such BMS Product:

AGGREGATE ANNUAL WORLDWIDE NET SALES OF BMS PRODUCT IN CONTRACT YEAR	ROYALTY ON NET SALES FOR BMS PRODUCT ACTING THROUGH A BMS TARGET THAT IS NOT A LISTED TARGET	ROYALTY ON NET SALES FOR BMS PRODUCT ACTING THROUGH A BMS TARGET THAT IS A LISTED TARGET
Under U.S. $[**]	[**]%	[**]%
From U.S. $[**]to U.S. $[**]	[**]%	[**]%
Above $[**]	[**]%	[**]%

By way of example, in a given Contract Year, if the aggregate annual worldwide Net Sales of a given BMS Product acting through a BMS Target that is not a Listed Target is [**], the following royalty payment would be payable under this Section 5.5.1: [**]. For BMS Products which are Post Opt-out Products, the foregoing royalty payment amounts [**] as provided in Section 2.5.3.4. For BMS Products that act through a BMS Target that was designated from a BMS Inactive Selected Target, the above royalty payment amounts shall be reduced as set forth in Section 2.3.4.2.

5.5.2 Lexicon Products. For each Lexicon Product, Lexicon shall pay to BMS the following royalties on aggregate annual Net Sales in the Territory of such Lexicon Product:

AGGREGATE ANNUAL WORLDWIDE NET SALES OF LEXICON PRODUCT IN CONTRACT YEAR	ROYALTY ON NET SALES
Under U.S. $[**]	[**]%
From U.S. $[**] to U.S. $[**]	[**]%
Above $[**]	[**]%

By way of example, in a given Contract Year, if the aggregate annual worldwide Net Sales of a given Lexicon Product is [**], the following royalty payment would be payable under this Section 5.5.2: [**]. For Lexicon Products which are Post Opt-out Products, the foregoing royalty payment amounts [**] as provided in Section 2.5.3.4. For Lexicon Products that act through a Lexicon Target that was designated from a Lexicon Inactive Selected Target, the above royalty payment [**] as set forth in Section 2.3.4.2.

5.5.3 Royalty Term. Royalties shall be payable, on a Product-by-Product and country-by-country basis, on Net Sales of Products for the longer of (a) the term of any Patents Rights Controlled by a party with a Valid Claim Covering the composition of matter or therapeutic use of such Product and providing marketing exclusivity for such Product in such country or (b) [**] years after the First Commercial Sale of such Product in such country.

5.5.4 Royalty Reduction. The royalty amounts set forth above shall be reduced by [**] on a country by country basis at any such time that [**], and [**] shall be reduced by [**] on a country by country basis at any such time that [**]. For such purposes, the reduction will be calculated assuming that the royalty rate in such country is the Blended Rate (e.g., the reduced royalty rate for such country shall be [**] of the Blended Rate, as applicable). In no event shall the royalty amounts payable in any such country be reduced below [**] of the amount otherwise

payable with respect to such Product under Section 5.5.1 or 5.5.2, as applicable. As used in this Section 5.5.4, [**].

5.5.5 Third Party Patents. If the Product Licensee, in its reasonable judgment, is required to obtain a license from any Third Party under any patent in order to [**], and if the Product Licensee is required to pay to such Third Party a royalty under such license calculated on sales of a Product, and the infringement of such patent cannot reasonably be avoided by the Product Licensee, or if the Product Licensee is required by a court of competent jurisdiction to pay such a royalty to such a Third Party (and the infringement of such patent cannot reasonably be avoided by the Product Licensee), then the Product Licensee's obligation to pay royalties under Section 5.5.1 and 5.5.2 hereof shall be reduced by [**] of the amount of the royalty paid to such Third Party, provided however, that the royalties payable under Section 5.5.1 and 5.5.2 hereof shall not be reduced in any such event below [**] of the amounts set forth in Section 5.5.1 and 5.5.2. In addition, if the Product Licensee is required to pay upfront payments or milestone payments to such Third Party in consideration for such license, or if the Product Licensee is required by a court of competent jurisdiction to pay a similar such payment, then the royalties payable under Section 5.5.1 and 5.5.2 shall be reduced by [**] of the amount of such upfront payments or milestone payments paid to such Third Party, provided however, that the royalties payable under Section 5.5.1 and 5.5.2 shall not be reduced in any such event below [**] of the amounts set forth in Section 5.5.1 and 5.5.2. The Product Licensee shall use its commercially reasonable efforts to minimize the amount of any of the foregoing payments owed by the Product Licensee to a Third Party. Prior to the Product Licensee exercising its reasonable judgment under this Section 5.5.5, the Product Licensee shall provide the Product Licensor with written notice of a potential need to obtain any license from Third Parties. The parties shall discuss the best course of action to resolve such potential license requirement(s), provided that such discussions shall not limit the Product Licensee's right to exercise its reasonable judgment.

5.5.6 Royalty Conditions. The royalties under Section 5.5.1 and 5.5.2 shall be subject to the following conditions:

(a) that only one royalty shall be due with respect to the same unit of Product;

(b) that no royalties shall be due upon the sale or other transfer among Product Licensee, its Affiliates or Sublicensees, but in such cases the royalty shall be due and calculated upon Product Licensee's or its Affiliate's or Sublicensee's Net Sales of Product to the first independent Third Party; and

(c) no royalties shall accrue on the disposition of Product in reasonable quantities by Product Licensee, its Affiliates or Sublicensees as part of an expanded access program or as bona fide samples or as donations to non-profit institutions or government agencies for non-commercial purposes, provided, in each case, that neither Product Licensee, its Affiliate or Sublicensees receives any payment for such Product.

5.5.7 Royalty Reports; Exchange Rates. During the term of this Agreement following the First Commercial Sale of any Product, the Product Licensee shall provide Product Licensor, within [**] days after the end of each Contract Quarter, an initial quarterly royalty report in a manner sufficient to enable Product Licensor to comply with its reporting requirements. Within [**] days after each Contract Quarter, Product Licensee shall furnish to the Product Licensor a written quarterly report showing, on a Product-by-Product basis:

(a) the gross sales and Net Sales of Products sold by such Product Licensee, its Sublicensees and their respective Affiliates during the reporting period and the calculation of Net Sales from such gross sales;

(b) the royalties payable in United States dollars which shall have accrued hereunder in respect of such Net Sales;

(c) withholding taxes, if any, required by applicable Law to be deducted in respect of such royalties;

(d) the dates of the First Commercial Sales of Products in any country during the reporting period; and

(e) the exchange rates used in determining the amount of United States dollars payable hereunder.

Royalties payable on sales in countries other than the United States shall be calculated in accordance with the standard exchange rate conversion practices used by the Product Licensee for financial accounting purposes. If no royalty or payment is due for any royalty period hereunder, the Product Licensee shall so report. Each Product Licensee shall keep, and shall require its Sublicensees to keep (all in accordance with generally accepted accounting principles, consistently applied), complete and accurate records in sufficient detail to properly reflect all gross sales and Net Sales and to enable the royalties payable hereunder to be determined.

5.5.8 Audits. Upon the written request of a Product Licensor, the Product Licensee shall permit an independent certified public accountant selected by the Product Licensor and acceptable to the Product Licensee, which acceptance shall not be unreasonably withheld, to have access, at reasonable times and during normal business hours, to such records of the Product Licensee as may be reasonably necessary to verify the accuracy of the royalty reports described herein, in respect of any fiscal year ending not more than [**] prior to the date of such request. The Product Licensor and the Product Licensee shall use commercially reasonable efforts to schedule all such verifications within [**] days after the Product Licensor makes its written request. All such verifications shall be conducted not more than [**]. The report of the Product Licensor's independent certified public accountant shall be made available to both parties. Subject to the Product Licensee's rights under Section 12.6, in the event the Product Licensor's independent certified public accountant concludes that additional royalties were owed to the Product Licensor for such period, the additional royalty shall be paid by the Product Licensee within [**] days of the date the Product Licensor delivers to the Product Licensee such independent certified public accountant's written report so concluding, unless such report contains manifest error. In the event the Product Licensor's independent certified public accountant concludes that there was an overpayment of royalties to the Product Licensor during such period, the overpayment shall be repaid by the Product Licensor within [**] days of the date the Product Licensor received such independent certified public accountant's written report so concluding, unless such report contains manifest error. The fees charged by such independent certified public accountant shall be paid by the Product Licensor unless such audit discloses an underpayment of more than [**] of the amount due under this Agreement for the period in question, in which case the Product Licensee will bear the full cost of such audit. The Product Licensee shall include in each agreement with each applicable Sublicensee a provision requiring such Sublicensee to make reports to the Product Licensee, to keep and maintain records of sales made pursuant to such agreement and to grant access to such records by the Product Licensor's independent certified public accountant to the same extent required of the Product Licensee under

this Agreement. The Product Licensor agrees that all information subject to review under this Section 5.5.8 or under any agreement with a Sublicensee of the Product Licensee is confidential and that the Product Licensor shall cause its independent certified public accountant to retain all such information in confidence. The Product Licensor's independent certified public accountant shall only report to the Product Licensor as to the computation of the royalties and other payments due to the Product Licensor under this Agreement and shall not disclose to the Product Licensor any other information of the Product Licensee or its Sublicensee.

5.5.9 Royalty Payment Terms. Royalty payments for each Contract Quarter shall be due at the time the Product Licensee's report under Section 5.5.7 for such Contract Quarter shall be due.

5.6 Withholding Taxes. In the event that any royalties or other payments due to a Product Licensor are subject to withholding tax required by applicable Law to be paid to the taxing authority of any foreign country, the amount of such tax may be withheld from the applicable royalties or other payment due the Product Licensor. The Product Licensee shall promptly pay such tax on behalf of the Product Licensor and shall furnish the Product Licensor with a certificate of withholding tax so deducted for the Product Licensor's avoidance of duplicate taxation in United States. The Product Licensee may not deduct any other withholding or any other governmental charges from the payments agreed upon under this Agreement, except to the extent same are paid on behalf of, or for the benefit of, the Product Licensor. The Product Licensee shall maintain official receipts of payment of any such withholding taxes and shall forward such receipts to the Product Licensor.

5.7 Blocked Currency. If by applicable Law or fiscal policy of a particular country, conversion into United States dollars or transfer of funds of a convertible currency to the United States is restricted or forbidden, the Product Licensee shall give the Product Licensor prompt written notice and shall pay the royalty due under this Article 5 through such means or methods as are lawful in such country as the Product Licensor may reasonably designate. Failing the designation by the Product Licensor of such lawful means or methods within [**] days after such written notice is given to the Product Licensor, the Product Licensee shall deposit such royalty payment in local currency to the credit of the Product Licensor in a recognized banking institution designated by the Product Licensor, or if none is designated by the Product Licensor within the [**] period described above, in a recognized banking institution selected by the Product Licensee and identified in a written notice to the Product Licensor by the Product Licensee, and such deposit shall fulfill all obligations of the Product Licensee to the Product Licensor with respect to such royalties.

5.8 Interest on Late Payments. A Product Licensor shall have the right to seek to collect interest on any payments that are not paid on or before [**] days after the date such payments are due under this Agreement at a rate equal to [**], calculated on the total number of days payment is delinquent.

5.9 Manner of Payment. Except as provided in Section 5.7, payments to be made by a Product Licensee to the Product Licensor under this Agreement shall be payable in United States dollars and shall be paid by check delivered to the Product Licensor at its principal office at the address for notice indicated in this Agreement or bank wire transfer in immediately available funds to such bank account in the state in which such principal office is located as is designated in writing by the Product Licensor from time to time.

ARTICLE 6. PRODUCT DEVELOPMENT DILIGENCE

6.1 Diligence Obligations. Each Product Licensee shall use Diligent Efforts to pursue the research and development of, and to obtain Regulatory Approvals in major markets throughout the world

as expeditiously as possible for, at least one Product that acts through each Selected Target for which such Product Licensee holds a license under Section 4.2 and, following such Regulatory Approvals, to maximize Net Sales of such Product(s), in each case in a manner consistent with the efforts such party devotes to products or research, development or marketing projects of similar market potential, profit potential or strategic value resulting from its own research efforts, based on conditions then prevailing, without any diminution on account of any interest of such Product Licensee in any competitive product in development or being marketed for the same indication(s).

6.2 Effect of Failure to Satisfy Diligence Obligations.

6.2.1 With respect to each Selected Target for which the Product Licensee fails to satisfy its Product diligence obligations under Section 6.1 above, at the option of the other party as its sole and exclusive remedy therefor, (a) the commercial licenses granted under Section 4.2 with respect to such Product(s) and related Selected Target shall terminate and (b) the Product Licensee shall deliver to the other party [**]; provided, however, that Product Licensee's exclusive rights under Section 4.1 and 4.2 shall not terminate as set forth above and Product Licensee shall not be required to deliver [**] unless (i) Product Licensee is given [**] days' prior written notice by Product Licensor of Product Licensor's intent to terminate such licenses, stating the reasons and justification for such termination and recommending steps which Product Licensee should take, and (ii) Product Licensee, or any Sublicensee, has not used Diligent Efforts during such [**] period to pursue the research and/or development of, and/or to obtain Regulatory Approvals for, Products with respect to such Selected Target. The Product Licensor shall have the right, within the period of [**] days following the Product Licensee's delivery of [**], to obtain [**] by delivering written notice thereof to the Product Licensee, subject to the obligation (A) to [**] and (B) to [**]..

6.2.2 With respect to each Selected Target and related Products and Development Compounds for which a party exercises its right, under Section 6.2.1, to obtain [**], the other party promptly shall deliver to such party [**], and shall [**] relating to such Product and related Development Compounds.

6.3 Research and Development Reports. Each party shall keep complete and accurate records of its activities conducted under this Agreement and the results thereof. Within [**] after the end of each [**] following the end of the Research Program Term, each party shall prepare and provide the other party with a reasonably detailed written report of the activities conducted under this Agreement, and the results thereof, through such date with respect to the development and/or commercialization of Products.

ARTICLE 7. INTELLECTUAL PROPERTY

7.1 Ownership of Intellectual Property.

7.1.1 Ownership by BMS of the BMS Background Materials and BMS Background Technology. Subject to the rights and licenses granted under this Agreement, BMS (and its licensors, as applicable) shall own and retain all rights to the BMS Background Materials and BMS Background Technology.

7.1.2 Ownership by Lexicon of the Lexicon Background Materials and Lexicon Background Technology. Subject to the rights and licenses granted under this Agreement, Lexicon (and its licensors, as applicable) shall own and retain all rights to the Lexicon Background Materials and Lexicon Background Technology. Without limiting the foregoing,

subject to the rights and licenses granted under this Agreement, Lexicon shall own and retain all rights to (a) all Mutant Mice and progeny thereof and any cells or other materials derived by Lexicon therefrom and (b) any invention or discovery that is conceived or first reduced to practice by Lexicon or any of its Affiliates during the course of any analysis of Mutant Mice performed in the Target Discovery Program.

7.1.3 Ownership of Program Intellectual Property.

7.1.3.1 Inventorship. Inventorship for patentable inventions and discoveries conceived or reduced to practice during the course of the performance of activities pursuant to this Agreement shall be determined in accordance with U.S. patent laws for determining inventorship. In the event of a dispute regarding inventorship, if the parties are unable to resolve such inventorship dispute, the Joint Management Committee shall establish a procedure to resolve such dispute, which may include engaging a Third Party patent attorney jointly selected by the parties to resolve such dispute, which resolution by such patent attorney shall be binding upon the parties.

7.1.3.2 Ownership of Program Technology and Program Intellectual Property for Selected Targets. Subject to the rights and licenses granted under this Agreement, Lexicon shall own all Program Technology and Program Intellectual Property that directly relates to (a) [**], (b) [**], (c) [**] or (d) [**] ("Selected Target Inventions"), whether such Selected Target Invention was invented or discovered by employees, Affiliates, agents, independent contractors or consultants of BMS, Lexicon or both parties; provided, however, that Selected Target Inventions shall not include Program Technology and Program Intellectual Property that relates to [**]. In the event BMS would otherwise be deemed to be an owner or joint owner of any such Selected Target Invention, then BMS shall assign to Lexicon its entire right, title and interest in such Selected Target Invention.

7.1.3.3 Ownership of Other Program Technology and Program Intellectual Property. Except as set forth in Section 7.1.3.2, title to all Program Technology and Program Intellectual Property shall be based upon the inventorship for such Program Technology and Program Intellectual Property. Except as set forth in Section 7.1.3.2, Lexicon shall own, Program Technology and Program Intellectual Property invented solely by employees, agents, consultants and/or contractors of Lexicon or a Lexicon Affiliate ("Lexicon Sole Program Inventions"). Except as set forth in Section 7.1.3.2, BMS shall own, Program Technology and Program Intellectual Property invented solely by employees, agents, consultants and/or contractors of BMS or a BMS Affiliate ("BMS Sole Program Inventions"). Lexicon and BMS shall jointly own Program Technology and Program Intellectual Property invented jointly by employees, agents, consultants and/or contractors of both Lexicon and BMS or Affiliates of Lexicon and BMS ("Joint Program Inventions"). All Joint Program Inventions, BMS Sole Program Inventions, Lexicon Sole Program Inventions and Selected Target Inventions shall be collectively the "Program Inventions." Each party shall disclose to the other party promptly any Program Inventions made by such party's Affiliates, employees, agents or consultants.

7.2 Prosecution and Maintenance of Program Patent Rights.

7.2.1 Primary Prosecution Rights. The responsibility for (a) preparing, filing and prosecuting patent applications (including, but not limited to, provisional, reissue, continuing, continuation, continuation-in-part, divisional, and substitute applications and any foreign

counterparts thereof) Covering a Program Invention; (b) maintaining any Program Patent Rights; and (c) managing any interference or opposition or similar proceedings relating to the foregoing ((a) through (c), collectively, "Patent Prosecution") shall be the responsibility of the party owning such Program Invention; provided, however, that with respect to any Joint Program Inventions, such responsibility shall be assigned by the Joint Management Committee on a case-by-case basis. In determining which party shall be responsible for Patent Prosecution of a jointly owned patent application, the Joint Management Committee shall consider, among other factors, the relative contribution of each party to the claimed subject matter and the relatedness of the claimed subject matter to that in other patent applications being prosecuted by each party. Each party shall bear all Patent Prosecution expenses, including attorneys' fees, incurred by such party in the performance of Patent Prosecution, except that, unless the parties agree otherwise the Patent Prosecution expenses, including attorneys' fees, for Joint Program Inventions shall be shared equally by the parties.

7.2.2 Secondary Prosecution Rights. If the prosecuting party elects not to continue pursuing Patent Prosecution for Program Inventions (and the other party has joint ownership of or a license under such Program Patent Rights pursuant to this Agreement), then the prosecuting party shall notify the other party in writing of such election at least [**] days prior to the last available date for action to preserve such Program Patent Rights. If such other party elects to continue Patent Prosecution, it may do so at its own expense. The party taking over Patent Prosecution responsibility will not be liable to the other party in any way with respect to its handling of, or the results obtained from, such Patent Prosecution. The other party will provide the party taking over Patent Prosecution with such assistance and execute such documents as are necessary to continue or permit such Patent Prosecution.

7.2.3 Cooperation. Each party hereby agrees:

(a) to take all reasonable additional actions and execute such agreements, instruments and documents as may be reasonably required to perfect the other's ownership interest in accordance with the intent of this Agreement;

(b) to make its employees, Affiliates, agents, independent contractors and consultants reasonably available to the other party (or to the other party's authorized attorneys, agents or representatives), to the extent reasonably necessary to enable the prosecuting party to undertake Patent Prosecution;

(c) to provide the other party with copies of all material correspondence with the U.S. Patent and Trademark Office or its foreign counterparts;

(d) to cooperate, if necessary and appropriate, with the other party in gaining patent term extensions wherever applicable to Program Patent Rights for Program Inventions; and

(e) to endeavor in good faith to coordinate its efforts with the other party to minimize or avoid interference with the Patent Prosecution of the other party's patent applications related to Program Inventions.

7.3 Patent Term Extension. The Product Licensor shall cooperate with the Product Licensee in obtaining patent term extension or supplemental protection certificates or their equivalents in any country with respect to the Program Patent Rights. In the event that elections with respect to obtaining such patent term extension, supplemental protection certificates or their equivalents are to be made, the

Product Licensee shall have the right to make the election and the Product Licensor agrees to abide by such election, provided that such election by the Product Licensee will be made so as to maximize the period of marketing exclusivity for the Product.

7.4 Enforcement of the Program Patent Rights.

7.4.1 Notices of Third Party Infringement. Each Party shall promptly provide the other Party with written notice reasonably detailing any known or alleged infringement of Program Patent Rights by a Third Party.

7.4.2 Hatch-Waxman Notifications. Each party shall provide to the other party copies of any allegations of alleged patent invalidity, unenforceability or non-infringement of a patent or patents with respect to Program Technology, Program Materials or Products pursuant to a Paragraph IV Patent Certification by a Third Party filing an Abbreviated New Drug Application (i.e., an action under the Hatch-Waxman Act). Such copies shall be provided promptly after receipt of such certification.

7.4.3 Other Notifications. Each party shall provide to the other party copies of any notices it receives from Third Parties regarding any patent nullity actions, any declaratory judgment actions, any alleged infringement of Program Patent Rights or any alleged misappropriation of intellectual property with respect to Program Technology, Program Materials or Products. Such copies shall be provided promptly following receipt thereof.

7.4.4 Product-Related Infringement.

7.4.4.1 The Product Licensee for a Product shall have the sole right, but not the obligation, to institute and direct legal proceedings against any Third Party believed to be infringing the Program Patent Rights of either party (including, without limitation, the Program Patent Rights Claiming Selected Target Inventions related to the Selected Target through which such Product acts) by the manufacture, use, importation, offer for sale or sale of a product competitive with such Product (whether a clinical or commercial product). Each party will bear its own costs, including attorneys' fees, relating to such legal proceedings; provided that the Product Licensee shall bear the Product Licensor's out-of-pocket expenses, including attorneys' fees, incurred in complying with requests for cooperation made by the Product Licensee. Any recovery in connection with such suit or proceeding will first be applied to reimburse the parties for their out-of-pocket expenses, including attorney's fees. All recoveries resulting from such legal proceedings that are in excess of the parties' costs of bringing or participating in such action, including attorney's fees, shall be allocated fifty percent (50%) to BMS and fifty percent (50%) to Lexicon; provided, however, that, in the event the [**], the Product Licensee shall [**]. The Product Licensee and the Product Licensor shall share in any enhanced damages due to willful infringement in proportion to their entitlement to actual damages.

7.4.4.2 In the event that a Product Licensee takes action under this Section 7.3.2, the other party shall cooperate to the extent reasonably necessary at the sole expense of the Product Licensee. Upon the reasonable request of the Product Licensee, the other party shall join the suit and shall be represented in any such legal proceedings using counsel of its own choice. Neither party shall settle any claim or proceeding relating to Program Patent Rights Controlled in whole or in part by the other party or licensed under this Agreement to the other party without the prior written consent of such other party, which consent shall not be unreasonably withheld.

7.4.5 Non-Product-Related Infringement. Each party shall have the sole right, but not the obligation, to institute and direct legal proceedings against any Third Party believed to be infringing the Sole Program Patent Rights of such party other than infringement relating to a Product. All costs, including attorneys' fees, relating to such legal proceedings shall be borne by the party instituting such legal proceedings, and all recoveries resulting from such legal proceedings shall be retained by such party. The parties shall consult with each other regarding the institution, prosecution and control of any action or proceeding with respect to infringement of any of the Joint Program Patent Rights other than infringement relating to a Product.

7.5 Notices of Other Proceedings.

7.5.1 Each party shall notify the other in writing of any allegations it receives from a Third Party that the manufacture, use, sale, offer for sale or import of Program Technology, Program Materials or any Product infringes the intellectual property rights of such Third Party. Such notice shall be provided promptly following receipt of such allegations.

7.5.2 In the event that a party receives notice that it or any of its Affiliates have been individually named as a defendant in a legal proceeding by a Third Party alleging infringement of a Third Party patent or other intellectual property right as a result of the manufacture, use, sale, offer for sale or import of Program Technology, Program Materials or a Product, such party shall immediately notify the other party in writing after the receipt of such notice. Such written notice shall include a copy of any summons or complaint (or the equivalent thereof) received regarding the foregoing.

ARTICLE 8. CONFIDENTIALITY

8.1 Nondisclosure Obligations.

8.1.1 General. Except as otherwise provided in this Article 8, each Receiving Party shall maintain the Confidential Information of each Disclosing Party in confidence and use it only for purposes specifically authorized under this Agreement. Except as otherwise specifically provided in this Article 8, each party shall disclose Confidential Information of the other party only to those employees, representatives and agents requiring knowledge thereof in connection with fulfilling the party's obligations under this Agreement, and not to any other Third Party. Each party further agrees to inform all such employees, representatives and agents of the terms and provisions of this Agreement relating to Confidential Information and their duties hereunder and to have obtained their prior written agreement to keep such Confidential Information in confidence under terms and conditions no less restrictive than those contained herein. Each party shall exercise the same standard of care as it would itself exercise in relation to its own confidential information (but in no event less than a reasonable standard of care) to protect and preserve the proprietary and confidential nature of the Confidential Information disclosed to it by the other party. Upon termination or expiration of this Agreement, each party shall promptly, upon request of the other party, use good faith commercially reasonable efforts to return or destroy (as requested by the disclosing party) all documents and any copies thereof containing Confidential Information belonging to, or disclosed by, such other party, save that it may retain one copy of the same solely for the purposes of ensuring compliance with this Section 8.1. Any breach of this Section 8.1 by any person to whom Confidential Information is disclosed by a party is considered a breach by the party itself.

8.1.2 Limitations. To the extent it is reasonably necessary or appropriate to fulfill its obligations or exercise its rights under this Agreement and subject to advance written notification

to the Disclosing Party: (a) a party may disclose to Third Parties Confidential Information it is otherwise obligated not to disclose under this Section 8.1, to its Affiliates, Sublicensees, consultants, outside contractors and clinical investigators, on a strict need-to-know basis for the purposes contemplated by this Agreement and on the condition that such entities or persons agree to keep the Confidential Information confidential for the same time periods and to the same extent as such party is required to keep the Confidential Information confidential hereunder; and (b) a party or its Sublicensees may disclose, using appropriate measures to preserve confidentiality, such Confidential Information to government or other regulatory authorities to the extent that such disclosure is reasonably necessary to obtain authorizations to conduct clinical trials of, and to commercially market, Products pursuant to this Agreement. Furthermore, a Receiving Party may request permission from the Disclosing Party to disclose such Confidential Information to the extent that such disclosure is [**].

8.1.3 Required Disclosure. A Receiving Party may disclose Confidential Information pursuant to interrogatories, requests for information or documents, subpoena, civil investigative demand issued by a court or governmental agency or as otherwise required by Law; provided, however, that the Receiving Party shall notify the Disclosing Party promptly upon receipt thereof, giving [**] the Disclosing Party sufficient advance notice to permit it to oppose, limit or seek confidential treatment for such disclosure; and provided, further, that the Receiving Party shall furnish only that portion of the Confidential Information which it is advised by counsel is legally required whether or not a protective order or other similar order is obtained by the Disclosing Party.

8.1.4 Securities Filings. In the event either party proposes to file with the Securities and Exchange Commission or the securities regulators of any state or other jurisdiction a registration statement or any other disclosure document which describes or refers to this Agreement under the Securities Act of 1933, as amended, the Securities Exchange Act, of 1934, as amended, or any other applicable securities law, the party shall notify the other party of such intention and shall provide such other party with a copy of relevant portions of the proposed filing not less than ten (10) business days prior to such filing (and any revisions to such portions of the proposed filing a reasonable time prior to the filing thereof), including any exhibits thereto relating to the Agreement, and shall [**] to obtain confidential treatment of any information concerning the Agreement that such other party requests be kept confidential, and shall only disclose Confidential Information which it is advised by counsel is legally required to be disclosed. No such notice shall be required under this Section 8.1.4 if the substance of the description of or reference to this Agreement contained in the proposed filing has been included in any previous filing made by the either party hereunder or otherwise approved by the other party.

8.2 Terms of Agreement. The existence and the terms and conditions of the Agreement that the parties have not specifically agreed to disclose pursuant to Section 8.1.4 and Section 12.8 shall be considered Confidential Information of both parties. Either party may disclose such terms to bona fide potential Sublicensee, investor, investment banker, acquiror, merger partner or other potential financial partner, and their attorneys and agents, provided that each such person to whom such information is to be disclosed is informed of the confidential nature of such information and has entered into a written agreement with the party requiring such person to keep such information confidential.

8.3 Injunctive Relief. The parties hereto understand and agree that remedies at law may be inadequate to protect against any breach of any of the provisions of this Article 8 by either party or their employees, agents, officers or directors or any other person acting in concert with it or on its behalf.

Accordingly, each party shall be entitled to the granting of injunctive relief by a court of competent jurisdiction against any action that constitutes any such breach of this Article 8.

8.4 Publication. BMS and/or Lexicon (each, a "Submitting Party") may each publish or present data and/or results relating to a Product for which the Submitting Party holds a commercial license, subject to the prior written approval of the other party and the prior review of the proposed disclosure by the other party (each, a "Reviewing Party"), solely to determine (a) whether the proposed disclosure contains the Confidential Information of the Reviewing Party or (b) whether the information contained in the proposed disclosure should be the subject of a patent application to be filed prior to such disclosure. The Submitting Party shall provide the Reviewing Party with the opportunity to review any proposed abstract, manuscript or presentation which discloses the results of research relating to the Product by delivering a copy thereof to the Reviewing Party no less than [**] days before its intended submission for publication or presentation. The Reviewing Party shall have [**] days from its receipt of any such abstract, manuscript or presentation in which to notify the Submitting Party in writing of any specific objections to the disclosure, based on either the need to seek patent protection or concern regarding the specific disclosure of the Confidential Information of the Reviewing Party. In the event the Reviewing Party objects to the disclosure, the Submitting Party agrees not to submit the publication or abstract or make the presentation containing the objected-to information until the Reviewing Party is given a reasonable additional period of time (not to exceed an additional [**] days) to seek patent protection for any material in the disclosure which the Reviewing Party believes is patentable (subject, in all events, to Section 8.3) or, in the case of Confidential Information, to allow the Submitting Party to delete any Confidential Information of the Reviewing Party from the proposed disclosure. The Submitting Party agrees to delete from the proposed disclosure any Confidential Information of the Reviewing Party upon request.

ARTICLE 9. REPRESENTATIONS AND WARRANTIES

9.1 Representations, Warranties and Covenants of Lexicon. Lexicon represents and warrants to and covenants with BMS that:

9.1.1 Lexicon is a corporation duly organized, validly existing and in corporate good standing under the Laws of the state of Delaware;

9.1.2 Lexicon has the corporate and legal right, authority and power to enter into this Agreement, and to extend the rights and licenses granted to BMS in this Agreement;

9.1.3 Lexicon has taken all necessary action to authorize the execution, delivery and performance of this Agreement;

9.1.4 upon the execution and delivery of this Agreement, this Agreement shall constitute a valid and binding obligation of Lexicon, enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' and contracting parties' rights generally and except as enforceability may be subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

9.1.5 the performance of Lexicon's obligations under this Agreement will not conflict with its charter documents or result in a breach of any agreements, contracts or other arrangements to which it is a party; and

9.1.6 Lexicon will not after the Effective Date enter into any agreements, contracts or other arrangements with others that would be inconsistent with or in conflict with or in derogation of BMS's rights and licenses under this Agreement or Lexicon's obligations under this Agreement;

9.1.7 except as otherwise disclosed to BMS prior to the Effective Date, Lexicon is not aware of any legal obstacles, including the patent rights of others, that are likely to prevent it from carrying out the provisions of this Agreement;

9.1.8 Lexicon has enforceable written agreements with all of its employees who receive Confidential Information under this Agreement assigning to Lexicon ownership of all intellectual property rights created in the course of their employment;

9.1.9 except for Pre-existing Obligations disclosed to BMS prior to the Effective Date, no other person or organization presently has [**];

9.1.10 Lexicon has not granted or permitted to be attached any lien or security interest with respect to the Lexicon Background Technology and/or Lexicon Background Materials that is licensed to BMS under this Agreement; and

9.1.11 except for [**], the [**] are not subject to Pre-existing Obligations as of the Effective Date [**], in each case that would [**].

9.2 Representations, Warranties and Covenants of BMS. BMS represents and warrants to and covenants with Lexicon that:

9.2.1 BMS is a corporation duly organized, validly existing and in corporate good standing under the Laws of the state of Delaware;

9.2.2 BMS has the corporate and legal right, authority and power to enter into this Agreement, and to extend the rights and licenses granted to Lexicon in this Agreement;

9.2.3 BMS has taken all necessary action to authorize the execution, delivery and performance of this Agreement;

9.2.4 upon the execution and delivery of this Agreement, this Agreement shall constitute a valid and binding obligation of BMS enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' and contracting parties' rights generally and except as enforceability may be subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

9.2.5 the performance of its obligations under this Agreement will not conflict with BMS's charter documents or result in a breach of any agreements, contracts or other arrangements to which it is a party; and

9.2.6 BMS will not after the Effective Date enter into any agreements, contracts or other arrangements with others that would be inconsistent with or in conflict with or in derogation of its obligations under this Agreement;

9.2.7 except as otherwise disclosed to Lexicon prior to the Effective Date, BMS is not aware of any legal obstacles, including the patent rights of others, that are likely to prevent it from carrying out the provisions of this Agreement;

9.2.8 BMS has enforceable written agreements with all of its employees who receive Confidential Information under this Agreement assigning to BMS ownership of all intellectual property rights created in the course of their employment; and

9.2.9 except for [**], the [**] are not subject to Pre-existing Obligations as of the Effective Date [**], in each case that would [**].

9.3 Warranty Disclaimer. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY WARRANTY WITH RESPECT TO ANY PRODUCT, PATENT RIGHTS, GOODS, SERVICES, PROGRAM MATERIALS, BACKGROUND MATERIALS OR ANY OTHER SUBJECT MATTER OF THIS AGREEMENT, AND EACH PARTY HEREBY DISCLAIMS WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT WITH RESPECT TO ANY AND ALL OF THE FOREGOING.

9.4 Limited Liability. EXCEPT AS SPECIFICALLY SET FORTH IN THIS AGREEMENT, NEITHER LEXICON NOR BMS WILL BE LIABLE WITH RESPECT TO ANY MATTER ARISING UNDER THIS AGREEMENT UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY FOR ANY PUNITIVE, EXEMPLARY, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR LOST PROFITS.

ARTICLE 10. INDEMNITY

10.1 BMS Indemnity Obligations. BMS agrees to defend, indemnify and hold Lexicon, its Affiliates and their respective employees and agents harmless from all claims, losses, damages or expenses (including reasonable attorneys' fees and costs of litigation) in connection with any claims made or suits brought against Lexicon by a Third Party relating to this Agreement arising as a result of: (a) actual or asserted violations of any applicable Law by BMS, its Sublicensees and their respective Affiliates by virtue of which any BMS Products manufactured, distributed or sold hereunder shall be alleged or determined to be adulterated, misbranded, mislabeled or otherwise not in compliance with any applicable Law; (b) claims for bodily injury, death or property damage attributable to the manufacture, distribution, sale or use of any BMS Products by BMS, its Sublicensees and their respective Affiliates; (c) a BMS Product recall ordered by a governmental agency or required by a confirmed BMS Product failure as reasonably determined by the parties hereto; (d) BMS's breach of any of its representations, warranties or covenants hereunder; or (e) the negligence or willful misconduct of BMS, its officers, employees or agents.

10.2 Lexicon Indemnity Obligations. Lexicon agrees to defend, indemnify and hold BMS, its Affiliates and their respective employees and agents harmless from all claims, losses, damages or expenses (including reasonable attorneys' fees and costs of litigation) in connection with any claims made or suits brought against BMS by a Third Party relating to this Agreement arising as a result of: (a) actual or asserted violations of any applicable Law by Lexicon, its Sublicensees and their respective Affiliates by virtue of which any Lexicon Products manufactured, distributed or sold hereunder shall be alleged or determined to be adulterated, misbranded, mislabeled or otherwise not in compliance with any applicable Law; (b) claims for bodily injury, death or property damage attributable to the manufacture, distribution, sale or use of any Lexicon Products by Lexicon, its Sublicensees and their respective Affiliates; (c) a

Lexicon Product recall ordered by a governmental agency or required by a confirmed Lexicon Product failure as reasonably determined by the parties hereto; (d) Lexicon's breach of any of its representations, warranties or covenants hereunder; or (e) the negligence or willful misconduct of Lexicon, its officers, employees or agents.

10.3 Limitation on Indemnity Obligations. Neither party, its Affiliates or their respective employees and agents shall be entitled to the indemnities set forth in Sections 10.1 or 10.2, respectively, to the comparative extent the claim, loss, damage or expense for which indemnification is sought was caused by the negligence, willful misconduct, reckless or intentional act or omission or material breach of this Agreement by such party, its directors, officers, employees or authorized agents.

10.4 Procedure. If a party or any of its Affiliates or their respective employees or agents (collectively, the "Indemnitee") intends to claim indemnification under this Article 10, the Indemnitee shall promptly notify the other party (the "Indemnitor") of any loss, claim, damage, liability or action in respect of which the Indemnitee intends to claim such indemnification, and the Indemnitor shall assume the defense thereof with counsel selected by the Indemnitor and reasonably acceptable to the Indemnitee, provided, however, that an Indemnitee shall have the right to retain its own counsel, with the fees and expenses to be paid by the Indemnitee, if representation of such Indemnitee by the counsel retained by the Indemnitor would be inappropriate due to actual or potential differing interests between such Indemnitee and any other party represented by such counsel in such proceedings. The Indemnitor shall have the right to settle or compromise any claims for which it is providing indemnification under this Article 10, provided that the consent of the Indemnitee (which shall not be unreasonably withheld or delayed) shall be required in the event any such settlement or compromise would adversely affect the interests of the Indemnitee. The indemnity agreement in this Article 10 shall not apply to amounts paid in settlement of any loss, claim, damage, liability or action if such settlement is effected without the consent of the Indemnitor. The failure to deliver notice to the Indemnitor within a reasonable time after the commencement of any such action, if prejudicial to the Indemnitor's ability to defend such action, shall relieve such Indemnitor of any liability to the Indemnitee under this Article 10, but the omission so to deliver notice to the Indemnitor will not relieve it of any liability that it may have to any Indemnitee otherwise than under this Article 10. The Indemnitee under this Article 10, its employees and agents, shall cooperate fully with the Indemnitor and its legal representatives in the investigation of any action, claim or liability covered by this indemnification.

10.5 Insurance. Each party shall maintain appropriate product liability insurance (and/or self-insurance) with respect to development, manufacture and sale of Products by such party in such amount as such party customarily maintains with respect to sales of its other products. Each party shall maintain such insurance for so long as it continues to manufacture or sell Products, and thereafter for so long as such party customarily maintains insurance with respect to sales of its other products.

ARTICLE 11. EXPIRATION AND TERMINATION

11.1 Term of Agreement. The term of this Agreement shall commence on the Effective Date and shall continue, unless earlier terminated under Section 11.2, until the later of (a) the expiration of the obligations of both parties to pay royalties under this Agreement and (b) the expiration or termination of the last to expire of any Valid Claim included in the Program Patent Rights. The expiration or termination of the Target Discovery Term and Research Program Term shall not affect the term of this Agreement.

11.2 Termination for Material Breach.

11.2.1 If either party believes that the other is in material breach of this Agreement, then the non-breaching party may deliver notice of such breach to the other party. In such notice, the non-breaching party shall identify the actions or conduct that such party would consider to be an acceptable cure of such breach. For any breach arising from a failure to make a payment set forth in Article 5, the allegedly breaching party shall have [**] days to cure such breach, unless such payment is in dispute. For all material breaches other than a failure to make a payment set forth in Article 5, the allegedly breaching party shall have [**] days to either cure such breach or, if cure cannot be reasonably effected within such [**] period, to deliver to the other party a plan for curing such breach that is reasonably sufficient to effect a cure. Such a plan shall set forth a program for achieving cure as rapidly as practicable. Following delivery of such plan, the breaching party shall use Diligent Efforts to carry out the plan and cure the material breach.

11.2.2 If the party receiving notice of material breach fails to cure such breach within the [**] period or [**] period (as applicable), the party originally delivering the notice shall have the right, at its option exercisable in its sole discretion, in addition to any other rights or remedies available to it at law or in equity and subject to the limitations set forth in Sections 3.7.2, 9.4 and 12.6 hereof, to terminate this Agreement upon [**] days' notice thereof to the other party, in which case the licenses granted to the defaulting party pursuant to Article 4 shall terminate; provided that such termination shall apply to the rights and licenses granted to the defaulting party under Section 4.2 with respect to a Selected Target and related Products and Development Compounds only in the event, and to the extent, that such default relates to such specific Selected Target and related Products and Development Compounds. The provisions of Sections 5.3 through 5.9 hereof and Article 6 shall survive any such termination of this Agreement. The rights and licenses granted to the defaulting party under Section 4.2 with respect to any Selected Target and related Products and Development Compounds with respect to which no default has occurred shall, subject to such party's obligations to pay milestones and royalties pursuant to Article 5, continue.

11.3 Effect of Expiration or Termination of Agreement. The expiration or termination of this Agreement shall not relieve the parties of any obligation accruing prior to such expiration or termination. The provisions of Articles 7, 8, 9, 10 and 11, and Sections 12.2 through 12.6 hereof shall survive the expiration or termination of this Agreement. The provisions of Sections 5.3 through 5.9 hereof and Article 6 shall survive any termination of this Agreement under which a party, its Sublicensees or their respective Affiliates retains the right to sell Products until such time as all royalty payment obligations applicable to such Products under Section 5.5 have expired in accordance with their terms.

ARTICLE 12. MISCELLANEOUS

12.1 Force Majeure. Neither party shall be held liable or responsible to the other party nor be deemed to have defaulted under or breached this Agreement for failure or delay in fulfilling or performing any obligation under this Agreement when such failure or delay is caused by or results from causes beyond the reasonable control of the affected party, including but not limited to fire, floods, embargoes, war, acts of war (whether war is declared or not), insurrections, riots, civil commotions, strikes, lockouts or other labor disturbances, acts of God or acts, omissions or delays in acting by any governmental authority; provided, however, that the party so affected shall use reasonable commercial efforts to avoid or remove such causes of nonperformance, and shall continue performance hereunder with reasonable dispatch whenever such causes are removed. Either party shall provide the other party with prompt written notice of any delay or failure to perform that occurs by reason of force majeure. The parties shall mutually seek a resolution of the delay or the failure to perform as noted above.

12.2 Assignment. This Agreement may not be assigned or otherwise transferred, in whole or in part, by either party without the consent of the other party; provided, however, that either Lexicon or BMS may, without such consent, assign its rights and obligations under this Agreement (a) to any Affiliate, or (b) in connection with a merger, consolidation or sale of all or substantially all of its business assets to an unrelated Third Party; provided, further, that such party's rights and obligations under this Agreement shall be assumed by its successor in interest in any such transaction and shall not be transferred separate from all or substantially all of its other business assets, including those business assets that are the subject of this Agreement. Any purported assignment in violation of the preceding sentence shall be void. Any permitted assignee shall assume all obligations of its assignor under this Agreement, unless the parties otherwise agree.

12.3 Severability. Each party hereby agrees that it does not intend to violate any public policy, statutory or common laws, rules, regulations, treaty or decision of any government agency or executive body thereof of any country or community or association of countries. Should one or more provisions of this Agreement be or become invalid, the parties hereto shall substitute, by mutual consent, valid provisions for such invalid provisions which valid provisions in their economic effect are sufficiently similar to the invalid provisions that it can be reasonably assumed that the parties would have entered into this Agreement with such valid provisions in lieu of such invalid provisions. In case such valid provisions cannot be agreed upon, the invalidity of one or several provisions of this Agreement shall not affect the validity of this Agreement as a whole, unless the invalid provisions are of such essential importance to this Agreement that it is to be reasonably assumed that the parties would not have entered into this Agreement without the invalid provisions.

12.4 Notices. Any consent, notice or report required or permitted to be given or made under this Agreement by one of the notification parties hereto to the other shall be in writing, delivered personally or by facsimile (and promptly confirmed by telephone, personal delivery or courier) or courier, postage prepaid (where applicable), addressed to such other party at its address indicated below, or to such other address as the addressee shall have last furnished in writing to the addressor and shall be effective upon receipt by the addressee.

If to Lexicon:
Lexicon Genetics Incorporated
8800 Technology Forest Place
The Woodlands, Texas 77381
Attention: President and Chief Executive Officer
Telephone: (281) 863-3000
Facsimile: (281) 863-8095

With a copy to:
Lexicon Genetics Incorporated
8800 Technology Forest Place
The Woodlands, Texas 77381
Attention: General Counsel
Telephone: (281) 863-3000
Facsimile: (281) 863-8010

If to BMS:
Bristol-Myers Squibb Company
P.O. Box 4000
Route 206 & Province Line Road
Princeton, New Jersey 08543-4000
Attention: Vice President, External Science, Technology & Licensing
Telephone: 609-252-4712
Facsimile: 609-252-7212

With a copy to: Bristol-Myers Squibb Company
P.O. Box 4000
Route 206 & Province Line Road
Princeton, New Jersey 08543-4000
Attention: Vice President & Senior Counsel,
Corporate Development
Telephone: 609-252-4311
Facsimile: 609-252-4232

All such communications shall be effective upon receipt.

12.5 Applicable Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware, without reference to the conflicts of law principles thereof.

12.6 Dispute Resolution. Subject to Section 3.7.2, the parties hereby agree that they will first attempt in good faith to resolve any dispute arising out of or relating to this Agreement promptly by negotiations. Any such dispute shall be brought to the attention of the Alliance Managers for resolution. The Alliance Managers will endeavor to propose and define mutually acceptable solutions and facilitate communications in an attempt to bring the dispute to a mutually agreeable resolution. If after discussing the matter in good faith and attempting to find a mutually satisfactory resolution to the issue, the parties are unable to resolve such dispute, the matter shall be referred to the [**] (the "Representatives"). If the matter has not been resolved within [**] days of the first meeting of the Representatives of the parties (which period may be extended by mutual agreement) concerning such matter, the parties shall be free to pursue all available recourse both at law and in equity, subject to the following. Any dispute between the parties arising out of or relating to the validity or interpretation of, compliance with, breach or alleged breach of or termination of this Agreement that is not finally resolved by the Joint Management Committee or executive officers as described above will be resolved through binding arbitration as set forth below. Any such binding arbitration shall be conducted in accordance with the then current Commercial Arbitration Rules of the American Arbitration Association. To the extent the parties cannot agree on a single arbitrator, each party shall have the right to designate one arbitrator, who shall have no prior or existing personal or financial relationship with the designating party, and the two (2) arbitrators shall designate a third arbitrator. If the two (2) arbitrators cannot agree on the designation of the third arbitrator, the American Arbitration Association shall designate the third arbitrator. Unless otherwise agreed by the parties, any arbitration initiated by BMS shall be conducted in Houston, Texas and any arbitration initiated by Lexicon shall be conducted in New York, New York. In any such arbitration proceeding, the parties shall be entitled to all remedies to which they would be entitled in a United States District Court and to full discovery to the same degree permitted under the Federal Rules of Civil Procedure. Any such arbitration shall be completed and an award rendered within [**] days of the notice of dispute. The arbitrator shall render a "reasoned decision" within the meaning of the Commercial Arbitration Rules which shall include findings of fact and conclusions of law. For avoidance of doubt, the decisions set forth in Section 3.4 shall not be subject to arbitration under this Section.

12.7 Entire Agreement. This Agreement, together with the exhibits and appendices hereto and any confidentiality agreement(s) executed in contemplation of this Agreement, contains the entire understanding of the parties with respect to the subject matter hereof. All express or implied agreements and understandings, either oral or written, heretofore made are expressly merged in and made a part of this Agreement. This Agreement may be amended, or any term hereof modified, only by a written instrument duly executed by both parties hereto. Notwithstanding the foregoing, the LexVision Agreement shall remain in full force and effect in accordance with its terms.

12.8 Publicity. Upon execution of this Agreement, the parties shall issue the press release announcing the existence of this Agreement in the form and substance previously agreed to by the parties.

Any announcements or similar publicity with respect to this Agreement shall be agreed upon between the parties in advance of such announcement. The parties understand that this Agreement is likely to be of significant interest to investors, analysts and others, and that the parties therefore may make such public announcements with respect thereto, subject to the remainder of this Section 12.8. The parties agree that any such announcement will not contain confidential business or technical information and, if disclosure of confidential business or technical information is required by Law, the parties will use reasonable efforts to minimize such disclosure and obtain confidential treatment for any such information which is disclosed to a governmental agency. Each party agrees to provide to the other party a copy of any public announcement regarding this Agreement or the subject matter thereof as soon as reasonably practicable under the circumstances prior to its scheduled release. Except under extraordinary circumstances, each party shall provide the other with an advance copy of any such announcement at least [**] prior to its scheduled release. Each party shall have the right to expeditiously review and recommend changes to any such announcement and, except as otherwise required by Law, the party whose announcement has been reviewed shall remove any information the reviewing party reasonably deems to be inappropriate for disclosure. The contents of any announcement or similar publicity which has been reviewed and approved by the reviewing party can be re-released by either party without a requirement for re-approval.

12.9 Headings. The captions to the several Articles and Sections hereof are not a part of this Agreement, but are merely guides or labels to assist in locating and reading the several Articles and Sections hereof.

12.10 No Partnership. It is expressly agreed that the relationship between Lexicon and BMS shall not constitute a partnership, joint venture or agency. Neither Lexicon nor BMS shall have the authority to make any statements, representations or commitments of any kind, or to take any action, which shall be binding on the other, without the prior consent of the other party to do so.

12.11 Exports. The parties acknowledge that the export of technical data, materials or products is subject to the exporting party receiving any necessary export licenses and that the parties cannot be responsible for any delays attributable to export controls which are beyond the reasonable control of either party. Lexicon and BMS agree not to export or re-export, directly or indirectly, any information, technical data, the direct product of such data, samples or equipment received or generated under this Agreement in violation of any applicable export control Laws. Lexicon and BMS agree to obtain similar covenants from their Sublicensees and contractors with respect to the subject matter of this Section 12.11.

12.12 Interpretation.

12.12.1 In the event an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

12.12.2 The definitions of the terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". The word "any" shall mean "any and all" unless otherwise clearly indicated by context.

12.12.3 Unless the context requires otherwise, (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or

otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or therein), (b) any reference to any laws herein shall be construed as referring to such laws as from time to time enacted, repealed or amended, (c) any reference herein to any person shall be construed to include the person's successors and assigns, (d) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, and (e) all references herein to Articles, Sections, Appendices or Schedules, unless otherwise specifically provided, shall be construed to refer to Articles, Sections, Appendices and Schedules of this Agreement.

12.12.4 References to sections of the Code of Federal Regulations and to the United States Code shall mean the cited sections, as these may be amended from time to time.

12.13 Waiver. The waiver by either party hereto of any right hereunder or the failure to perform or of a breach by the other party shall not be deemed a waiver of any other right hereunder or of any other breach or failure by said other party whether of a similar nature or otherwise.

12.14 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

* * *

[signature page follows]

IN WITNESS WHEREOF, the parties have caused their duly authorized officers to execute and deliver this Agreement as of the Effective Date.

LEXICON GENETICS INCORPORATED

By: /s/ Arthur T. Sands Date: December 17, 2003

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

BRISTOL-MYERS SQUIBB COMPANY

By: /s/ James B. D. Palmer Date: December 17, 2003

Name: James B. D. Palmer

Title: President, Research and Development

EXHIBIT A

DESCRIPTION OF FULL PHASE PROGRAM (SEE SECTION 1.31)

OBJECTIVE:	Optimization and characterization of lead Program Compounds with the objective of identifying Development Candidate(s) and Back-up Compound(s) acting through a Selected Target for full pre-clinical and clinical development.
ESTIMATED ANNUALIZED FTE COMMITMENTS:	[**]

EXHIBIT B

DESCRIPTION OF LEVEL 1 PHENOTYPIC ANALYSIS (SEE SECTION 1.42)

Level 1 Phenotypic Analysis is an initial screen designed to identify primary characteristics resulting from selected mutations in Mutant Mice. Level 1 Phenotypic Analysis currently includes the following assays, which may be changed from time to time (a) by the Joint Scientific Committee, at the Joint Scientific Committee's reasonable scientific discretion, for assays employed in behavioral analysis, and (b) at Lexicon's reasonable scientific discretion, for assays in other categories.

[**]

EXHIBIT C

DESCRIPTION OF LEVEL 2 PHENOTYPIC ANALYSIS (SEE SECTION 1.43)

Level 2 Phenotypic Analysis involves one or more of the following analyses, as appropriate, of the effects of selected mutations in Mutant Mice.

[**]

EXHIBIT D

DESCRIPTION OF MID-PHASE PROGRAM (SEE SECTION 1.60)

OBJECTIVE:	Identification and characterization of Program Compounds with the objective of identifying lead Program Compounds that justify optimization efforts in a Full Phase Program and that can be used to[**]
ESTIMATED ANNUALIZED FTE COMMITMENTS:	[**]

EXHIBIT E

ALLOCATION OF NET SALES IN BUNDLED TRANSACTION (SEE SECTION 1.65)

With respect to Products sold in a Bundled Transaction in which BMS, Lexicon or any of their respective Affiliates or Sublicensees discounts the sales price of the Products to a greater degree than BMS, Lexicon, their Affiliates or Sublicensees, respectively, generally discounts the price of its other products to such customer, the amount to be included in Net Sales of such Products shall be calculated in accordance with the following formula:

$$NS\text{-}P = \frac{(ASP\text{-}P) \times (N\text{-}P)}{(SIGMA)m=(1)\ (ASP\text{-}p(i)) \times (N\text{-}p(i)) + (ASP\text{-}P) \times (N\text{-}P)} \times BTF$$

Where:

NS-P	=	Amount allocated to Net Sales of the Product
ASP-P	=	Average Selling Price (as defined below) per unit, during the applicable period, of the Product when sold alone
ASP-p(i)	=	Average Selling Price per unit, during the applicable period, of each product, other than a Product, in the Bundled Transaction when sold alone
N-P	=	Total number of units of Product included in the Bundled Transaction during the applicable period
N-p(i)	=	Total number of units (i.e., corresponding to the same ASP-pi) of each product, other than a Product, included in the Bundled Transaction during the applicable period
(SIGMA)=(1)=		The sum of the products of the formula (ASP-p(i)) x (N-pi) for each and every product, other than a Product, included in the Bundled Transaction during the applicable period
BTF	=	The aggregate amounts paid to the seller for the Bundled Transaction during the applicable period

The Average Selling Price shall be based on the actual average selling price of the applicable Product or product other than a Product, as the case may be, determined for the applicable period.

If a Product or other product is not sold separately, the Average Selling Price with respect thereto shall be the bona fide list price.

If a Product or other product is not sold separately and no bona fide list price exists for such Product or other product, the Parties shall agree upon an imputed bona fide list price for such Product or other product, and the Average Selling Price with respect thereto shall be based on such imputed list price.

EXHIBIT F

FORM OF MATERIAL TRANSFER AGREEMENT FOR TRANSFER OF MUTANT MICE TO BMS
(SEE SECTION 2.2.5)

MATERIAL TRANSFER AGREEMENT

THIS MATERIAL TRANSFER AGREEMENT (this "Agreement") is entered into effective as of the last date set forth on the signature page hereof (the "Effective Date") by and between Lexicon Genetics Incorporated, a Delaware corporation ("Lexicon"), and Bristol-Myers Squibb Company, a Delaware corporation ("BMS").

R E C I T A L S

WHEREAS, Lexicon and BMS are parties to that certain Collaboration and License Agreement dated December 17, 2003 (the "Collaboration Agreement");

WHEREAS, BMS has the right under Section 2.2.5 of the Collaboration Agreement to obtain certain Mutant Mice;

WHEREAS, BMS desires to exercise such option with respect to the line of Mutant Mice specified in Appendix A;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, BMS agrees with Lexicon as follows:

1. DEFINITIONS

1.1 "Materials" means the Mutant Mice provided to BMS under this Agreement, any Progeny of such Mutant Mice and any cells, tissues and other biological materials derived from any of the foregoing.

1.2 "Progeny" means mice, including successive generations thereof, that are produced or developed by BMS by breeding Mutant Mice with other Mutant Mice or any other mice; provided that Progeny shall not include any mouse that does not contain the same Selected Mutation as the Mutant Mice provided to BMS under this Agreement.

1.3 "Research Field" means use by BMS, at the internal research facilities of BMS, solely for the purposes of conducting research in support of the efforts of the parties under the Collaboration Agreement.

Capitalized terms used without definition in this Agreement shall have the meanings given to such terms in the Collaboration Agreement. Capitalized terms defined in both this Agreement and the Collaboration Agreement shall have the meanings given to such terms in this Agreement.

2. REQUEST FOR AND DELIVERY OF MUTANT MICE

2.1 Request for Mutant Mice. BMS hereby requests, pursuant to the provisions of Section 2.2.5 of the Collaboration Agreement and subject to the terms thereof, that Lexicon deliver the Mutant Mice specified in Appendix A on the terms specified in this Agreement.

2.2 Processing and Delivery of Mutant Mice. Upon Lexicon's receipt and acceptance of an executed copy of this Agreement, and subject to the terms of this Agreement, Lexicon will deliver the quantity Mutant Mice and wild-type littermates specified in Appendix A, in accordance with the determination of the Joint Scientific Committee.

2.3 Delivery Conditions for Mutant Mice. Lexicon shall be responsible for making shipping arrangements for the Mutant Mice to be delivered to BMS under this Agreement; provided that BMS shall be responsible for (a) paying all shipment and delivery charges in connection therewith, (b) obtaining, if desired, and paying for any insurance relating thereto, and (c) complying with all customs, regulations, veterinary handling procedures and protocols, and obtaining any and all permits, forms or permissions that may be required for BMS to accept shipment of Mutant Mice from Lexicon. Lexicon shall ship Mutant Mice promptly following its receipt of written confirmation that BMS is prepared to accept such shipment. If BMS fails to provide such written confirmation within thirty (30) days after the Effective Date, BMS shall pay Lexicon a storage and maintenance charge of Five Thousand Dollars ($5,000) for each month or partial month thereafter until Lexicon receives such written confirmation. If BMS fails to provide such written confirmation within three (3) months after the Effective Date, Lexicon shall have no further obligation to maintain Mutant Mice for delivery to BMS under this Agreement and may dispose of such Mutant Mice at its discretion

3. USE OF THE MATERIALS

3.1 Non-Exclusive License Grant to Materials. Subject to the terms and conditions of this Agreement, Lexicon hereby grants to BMS and its Affiliates a non-transferable, non-exclusive right and license to use the Materials in the Research Field. BMS agrees to use the Materials solely for purposes of conducting research, at the internal research facilities of BMS, in accordance with the terms and conditions of this Agreement, and not to use the Materials for any purposes for any Third Party or to transfer to or license the use of or make the Materials available to any Third Party.

3.2 No Further Rights. Except as expressly provided herein, no right, title or interest is granted hereunder by Lexicon in, to or under any Lexicon Background Materials, Lexicon Background Technology or any other inventions, information, methods, know-how, trade secrets or data. Without limiting the foregoing, (a) nothing in this Agreement shall be deemed to restrict Lexicon's rights to use any Materials or, subject to the nonexclusive rights and licenses granted to BMS hereunder and the exclusivity obligations of Lexicon under the Collaboration Agreement, to sell, license or otherwise transfer any Materials to Third Parties, and (b) nothing in this Agreement shall be deemed to modify any of the rights and obligations of the parties under the Collaboration Agreement.

4. INTELLECTUAL PROPERTY RIGHTS AND OWNERSHIP

4.1 Ownership of the Materials. Subject to the non-exclusive rights and licenses granted to BMS hereunder, Lexicon shall own and retain all rights to the Materials, including, without limitation, rights to use, produce, breed, sell and license Mutant Mice.

4.2 Ownership of the Results of Research Using Materials. Subject to the non-exclusive rights and licenses granted hereunder and the rights and licenses granted by Lexicon in the Collaboration Agreement, as between the parties, the rights of Lexicon and BMS with respect to inventions, information, methods, know-how, trade secrets or data discovered, conceived, made, developed and/or reduced to practice through the use of Materials shall be governed by the provisions of the Collaboration Agreement.

5. TERM AND TERMINATION

5.1 Term. The term of this Agreement shall commence on the Effective Date and shall remain in effect until the expiration of the last-to-expire Valid Claim of any Patent Rights Controlled by Lexicon that Cover any Materials, unless earlier terminated as set forth herein.

5.2 Termination for Default. An event of default (an "Event of Default") shall have occurred upon the occurrence of a material breach of this Agreement if the breaching party fails to remedy such breach within sixty (60) days after written notice thereof by the non-breaching party.

5.3 Effect of an Event of Default.

(a) Remedies Available to Lexicon. If an Event of Default occurs relating to BMS, and BMS fails to cure such default during any applicable cure period, then Lexicon shall have the right, at its option exercisable in its sole discretion, in addition to any other rights or remedies available to it at law or in equity, to terminate this Agreement upon notice thereof to BMS, in which case (i) the licenses granted to BMS pursuant to Section 3 shall terminate, (ii) BMS shall return to Lexicon, or, upon Lexicon's written instruction, destroy all information, materials or documentation provided or made available by Lexicon pursuant to this Agreement, and any copies thereof (including electronic copies), and (iii) BMS shall return to Lexicon, or, upon Lexicon's written instruction, destroy any Materials.

(b) Remedies Available to BMS. If an Event of Default occurs relating to Lexicon, and Lexicon fails to cure such default during any applicable cure period, then BMS shall have the right, at its option exercisable in its sole discretion, in addition to any other rights or remedies available to it at law or in equity and subject to the limitations set forth in Section 6, to terminate this Agreement upon notice thereof to Lexicon.

5.4 Effect of Expiration or Termination of Agreement. The expiration or termination of this Agreement shall not relieve the parties of any obligation accruing prior to such expiration or termination. The provisions of Sections 1, 3.2, 4, 6 and 7 hereof shall survive the expiration or termination of this Agreement.

6. DISCLAIMER OF WARRANTIES AND LIMITATION OF LIABILITY

6.1 Disclaimer of Warranties. THE MUTANT MICE AND OTHER MATERIALS ARE BEING SUPPLIED TO BMS WITH NO WARRANTIES, EXPRESS OR IMPLIED. LEXICON HEREBY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. LEXICON MAKES NO REPRESENTATION OR WARRANTY THAT THE USE OF THE MATERIALS OR THE CONDUCT OF RESEARCH WITHIN THE RESEARCH FIELD HEREUNDER WILL NOT INFRINGE ANY PATENT OR OTHER PROPRIETARY RIGHTS OF THIRD PARTIES.

6.2 Experimental Nature of Materials. THE MATERIALS ARE EXPERIMENTAL IN NATURE AND SHOULD BE USED WITH CAUTION SINCE ALL OF THEIR CHARACTERISTICS ARE NOT KNOWN. BMS AGREES TO COMPLY WITH ALL FEDERAL, STATE AND LOCAL STATUTES, RULES AND REGULATIONS RELATING TO THE USE, HANDLING AND STORAGE OF THE MATERIALS.

6.3 Limitation of Liability. Lexicon shall in no event be liable for any use by BMS of the Materials or any loss, claim, damage or liability, of whatever kind or nature, which may arise from or in

connection the use, handling or storage of the Materials by BMS. NOTWITHSTANDING ANYTHING ELSE IN THIS AGREEMENT OR OTHERWISE TO THE CONTRARY, NEITHER LEXICON NOR BMS WILL BE LIABLE WITH RESPECT TO ANY MATTER ARISING UNDER THIS AGREEMENT UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY FOR (A) ANY PUNITIVE, EXEMPLARY, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR LOST PROFITS OR (B) COST OF PROCUREMENT OF SUBSTITUTE GOODS, TECHNOLOGY OR SERVICES.

7. INDEMNIFICATION

Except to the extent prohibited by law, BMS shall assume all liability for, and shall defend, indemnify and hold Lexicon, its Affiliates and their respective employees and agents harmless from, all claims, losses, damages or expenses (including reasonable attorneys' fees) arising as a result of the use by BMS or its Affiliates of the Materials, except for and to the extent that any such liability results from the gross negligence or willful misconduct of Lexicon.

8. MISCELLANEOUS

8.1 Entire Agreement. This Agreement, together with the Collaboration Agreement, constitutes the entire and exclusive agreement between the parties with respect to the subject matter hereof and, with respect to any conflicting terms from prior agreements between the parties, supersedes and cancels such conflicting sections from all previous registrations, agreements, commitments and writings in respect thereof. This Agreement may be amended, or any term hereof modified, only by a written instrument duly executed by both parties hereto.

8.2 Assignment and Waiver. This Agreement may not be assigned or otherwise transferred by either party without the consent of the other party; provided, however, that Lexicon or BMS may, without such consent, assign its rights and obligations under this Agreement to a permitted assignee under the Collaboration Agreement; provided, however, that such assigning party's rights and obligations under this Agreement shall be assumed by such permitted assignee shall not be transferred except in connection with an assignment of the assigning party's rights and obligations under the Collaboration Agreement. Any purported assignment in violation of the provisions of this Section 8.2 shall be void. The waiver by either party hereto of any right hereunder or the failure to perform or of a breach by the other party shall not be deemed a waiver of any other right hereunder or of any other breach or failure by said other party whether of a similar nature or otherwise.

8.3 Force Majeure. Neither party shall be held liable or responsible to the other party nor be deemed to have defaulted under or breached this Agreement for failure or delay in fulfilling or performing any obligation under this Agreement when such failure or delay is caused by or results from causes beyond the reasonable control of the affected party, including but not limited to fire, floods, embargoes, war, acts of war (whether war is declared or not), insurrections, riots, civil commotions, strikes, lockouts or other labor disturbances, acts of God or acts, omissions or delays in acting by any governmental authority or the other party; provided, however, that the party so affected shall use reasonable commercial efforts to avoid or remove such causes of nonperformance, and shall continue performance hereunder with reasonable dispatch whenever such causes are removed. Either party shall provide the other party with prompt written notice of any delay or failure to perform that occurs by reason of force majeure. The parties shall mutually seek a resolution of the delay or the failure to perform as noted above.

8.4 Applicable Law. This Agreement shall be governed by, construed, and interpreted in accordance with, the laws of the State of Delaware, United States of America, without reference to conflict of laws principles.

8.5 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument.

8.6 Severability. Each party hereby agrees that it does not intend to violate any public policy, statutory or common laws, rules, regulations, treaty or decision of any government agency or executive body thereof of any country or community or association of countries. Should one or more provisions of this Agreement be or become invalid, the parties hereto shall substitute, by mutual consent, valid provisions for such invalid provisions which valid provisions in their economic effect are sufficiently similar to the invalid provisions that it can be reasonably assumed that the parties would have entered into this Agreement with such valid provisions. In case such valid provisions cannot be agreed upon, the invalidity of one or several provisions of this Agreement shall not affect the validity of this Agreement as a whole, unless the invalid provisions are of such essential importance to this Agreement that it is to be reasonably assumed that the parties would not have entered into this Agreement without the invalid provisions.

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute and deliver this Agreement as of the Effective Date.

BRISTOL-MYERS SQUIBB COMPANY

By: _____
(Signature of Authorized Representative)

Printed Name: _____

Title: _____

Date: _____

LEXICON GENETICS INCORPORATED

By: _____
(Signature of Authorized Representative)

Printed Name: _____

Title: _____

Date: _____

APPENDIX A

MUTANT MICE

1. Identity of the line of Mutant Mice to which this Agreement relates: _____

2. Numbers of mice to be delivered:

   a. Male Mutant Mice homozygous for the selected mutation: ____

   b. Female Mutant Mice homozygous for the selected mutation: ____

   c. Male wild-type littermates: ____

   d. Female wild-type littermates: ____

EXHIBIT 31.1

CERTIFICATIONS

I, Arthur T. Sands, certify that:

1. I have reviewed this annual report on Form 10-K, as amended, of Lexicon Genetics Incorporated; and

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Date: July 16, 2004

/s/ Arthur T. Sands

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

EXHIBIT 31.2

CERTIFICATIONS

I, Julia P. Gregory, certify that:

1. I have reviewed this annual report on Form 10-K, as amended, of Lexicon Genetics Incorporated; and

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Date: July 16, 2004

/s/ Julia P. Gregory

Julia P. Gregory
Executive Vice President,
Corporate Development and Chief
Financial Officer

EXHIBIT 32.1

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350, as adopted), Arthur T. Sands, M.D., Ph.D., Chief Executive Officer of Lexicon Genetics Incorporated ("Lexicon"), and Julia P. Gregory, Chief Financial Officer of Lexicon, each hereby certify that:

1. Lexicon's Annual Report on Form 10-K for the year ended December 31, 2003, as amended, and to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934, and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Lexicon.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 16th day of July, 2004.

By: /s/ ARTHUR T. SANDS

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

By: /s/ JULIA P. GREGORY

Julia P. Gregory
Executive Vice President,
Corporate Development
and Chief Financial Officer