

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 1, 2000

REGISTRATION NO. 333-96469

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

8731
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

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

4000 RESEARCH FOREST DRIVE
THE WOODLANDS, TEXAS 77381
(281) 364-0100

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

ARTHUR T. SANDS, M.D., PH.D.
PRESIDENT AND CHIEF EXECUTIVE OFFICER
4000 RESEARCH FOREST DRIVE
THE WOODLANDS, TEXAS 77381
(281) 364-0100

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF AGENT FOR SERVICE)

COPIES TO:

DAVID P. OELMAN
ANDREWS & KURTH L.L.P.
600 TRAVIS, SUITE 4200
HOUSTON, TEXAS 77002
(713) 220-4200

GERALD S. TANENBAUM
CAHILL GORDON & REINDEL
80 PINE STREET
NEW YORK, NEW YORK 10005
(212) 701-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:

As soon as practicable after this registration statement becomes effective.

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

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

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

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

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

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR

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

EXPLANATORY NOTE

This Amendment No. 1 is being filed solely for the purpose of filing exhibits.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

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

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

Total.....	\$
	=====

* To be provided by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

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

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

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

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

II-1

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

1. In the past three years, the Registrant has issued options to purchase an aggregate of 1,857,487 shares of common stock at a weighted average exercise price of \$5.05 per share. During this same time period, the Registrant has issued a total of 39,961 shares of common stock pursuant to the exercise of options previously granted.
2. On January 6, 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of \$5.00 per share.
3. On January 27, 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of \$5.00 per share.
4. In February 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of \$5.00 per share.
5. In March 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of \$5.00 per share.
6. In April 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of \$5.00 per share.
7. In May 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of \$5.00 per share.
8. In June 1997, Lexicon sold to Gordon A. Cain 80,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of \$5.00 per share.
9. In July 1997, Lexicon sold to Gordon A. Cain 30,000 shares of common stock pursuant to a June 1996 subscription agreement at a purchase price of \$5.00 per share.
10. In August 1997, Lexicon issued to William A. McMinn 45,000 warrants with an exercise price of \$7.50 per share in connection with a \$1,000,000 note.
11. In August 1997, Lexicon issued to Carter Interests Ltd. 4,500 warrants with an exercise price of \$7.50 share in connection with a \$100,000 note.
12. In May 1998, Lexicon sold 4,244,664 shares of series A convertible preferred stock to 30 accredited investors in connection with venture capital financing at a purchase price of \$7.50 per share.
13. In May 1998, Lexicon issued to Punk, Ziegel & Company 201,667 warrants with an exercise price of \$7.50 per share in connection with venture capital financing.
14. In July 1998, Lexicon issued to The Woodlands Commercial Properties, L.P. 83,333 warrants with an exercise price of \$7.50 per share in connection with a lease option.

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

ITEM 16. EXHIBITS.

a. Exhibits:

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

10.2**
10.3**

-- Employment Agreement with James R. Piggott, Ph.D.
-- Employment Agreement with Jeffrey L. Wade, J.D.

10.4**	-- Employment Agreement with Brian P. Zambrowicz, Ph.D.
10.5	-- Employment Agreement with Julia P. Gregory
10.6	-- Employment Agreement with Randall B. Riggs
10.7**	-- Form of Indemnification Agreement with Officers and Directors
10.8**	-- 2000 Equity Incentive Plan
10.9**	-- 2000 Non-Employee Directors' Stock Option Plan
10.10+	-- Database Access Agreement, dated October 5, 1999, between Lexicon and Millennium Pharmaceuticals, Inc.
10.11+	-- Agreement, dated March 21, 1997, between Lexicon and Merck Genome Research Institute
10.12**	-- Master Loan and Security Agreement dated May 21, 1999, with FINOVA Capital Corporation
10.13	-- Lease Agreement, dated September 22, 1995 between Lexicon and The Woodlands Corporation
21.1**	-- Subsidiaries of Lexicon
23.1**	-- Consent of Arthur Andersen LLP
23.2*	-- Consent of Andrews & Kurth L.L.P. (contained in Exhibit 5.1)
24.1	-- Power of Attorney (contained in signature page)
27.1**	-- Financial Data Schedule

- -----
 * To be filed by amendment.

** Previously filed.

+ Confidential treatment has been requested for a portion of this exhibit.

b. Financial Statement Schedules

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes:

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

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

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

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of The Woodlands, in the State of Texas, on March 1, 2000.

LEXICON GENETICS INCORPORATED

By: *

Arthur T. Sands, M.D., Ph.D.

President and Chief Executive Officer

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

SIGNATURE -----	TITLE -----	DATE ----
* ----- Arthur T. Sands, M.D., Ph.D.	President, Chief Executive Officer and Director (principal executive officer)	March 1, 2000
/s/ JEFFREY L. WADE, J.D. ----- Jeffrey L. Wade, J.D.	Executive Vice President and General Counsel	March 1, 2000
* ----- William A. McMinn	Chairman of the Board of Directors	March 1, 2000
* ----- Stephen J. Banks	Director	March 1, 2000
* ----- Gordon A. Cain	Director	March 1, 2000
* ----- Patricia M. Cloherty	Director	March 1, 2000
* ----- Paul Haycock, M.D.	Director	March 1, 2000

*By: /s/ JEFFREY L. WADE, J.D.

Jeffrey L. Wade, J.D.

Pursuant to a power-of-attorney
filed with

the Registration Statement on
Form S-1

(333-96469) on February 9, 2000.

II-4

POWER OF ATTORNEY

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

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

SIGNATURE

/s/ JULIA P. GREGORY

Julia P. Gregory

TITLE

Executive Vice President and
Chief Financial Officer
(principal financial and
accounting officer)

DATE

March 1, 2000

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----
1.1*	-- Form of Underwriting Agreement
3.1**	-- Restated Certificate of Incorporation
3.2**	-- Restated Bylaws
5.1*	-- Opinion of Andrews & Kurth L.L.P.
10.1**	-- Employment Agreement with Arthur T. Sands, M.D., Ph.D.
10.2**	-- Employment Agreement with James R. Piggott, Ph.D.
10.3**	-- Employment Agreement with Jeffrey L. Wade, J.D.
10.4**	-- Employment Agreement with Brian P. Zambrowicz, Ph.D.
10.5	-- Employment Agreement with Julia P. Gregory
10.6	-- Employment Agreement with Randall B. Riggs
10.7**	-- Form of Indemnification Agreement with Officers and Directors
10.8**	-- 2000 Equity Incentive Plan
10.9**	-- 2000 Non-Employee Directors' Stock Option Plan
10.10+	-- Database Access Agreement, dated October 5, 1999, between Lexicon and Millennium Pharmaceuticals, Inc.
10.11+	-- Agreement, dated March 21, 1997, between Lexicon and Merck Genome Research Institute
10.12**	-- Master Loan and Security Agreement dated May 21, 1999, with FINOVA Capital Corporation
10.13	-- Lease Agreement, dated September 22, 1995 between Lexicon and The Woodlands Corporation
21.1**	-- Subsidiaries of Lexicon
23.1**	-- Consent of Arthur Andersen LLP
23.2*	-- Consent of Andrews & Kurth L.L.P. (contained in Exhibit 5.1)
24.1	-- Power of Attorney (contained in signature page)
27.1**	-- Financial Data Schedule

- -----
* To be filed by amendment.

** Previously filed.

+ Confidential treatment has been requested for a portion of this exhibit.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made and entered into as of February 8, 2000 (the "EFFECTIVE DATE"), by and between Lexicon Genetics Incorporated, a Delaware corporation (hereafter "COMPANY"), and Julia Gregory (hereafter "EXECUTIVE"), an individual and resident of New York, New York.

W I T N E S S E T H:

WHEREAS, Company wishes to secure the services of the Executive subject to the terms and conditions hereafter set forth; and

WHEREAS, the Executive is willing to enter into this Agreement upon the terms and conditions hereafter set forth;

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

1. EMPLOYMENT. During the Employment Period (as defined in Section 4 hereof), the Company shall employ Executive, and Executive shall serve, as Executive Vice President and Chief Financial Officer of the Company. Executive's principal place of employment shall be at the Company's principal corporate offices in The Woodlands, Texas, or at such other location for the Company's principal corporate offices during the Employment Period.

2. DUTIES AND RESPONSIBILITIES OF EXECUTIVE.

(a) During the Employment Period, Executive shall devote her services full time to the business of the Company and its Affiliates (as defined below), and perform the duties and responsibilities assigned to her by the Chief Executive Officer ("CEO") or Board of Directors (the "BOARD") of the Company to the best of her ability and with reasonable diligence. Executive agrees to cooperate fully with the Board, CEO and other executive officers of the Company, and not to engage in any activity which conflicts with or interferes with the performance of her duties hereunder. During the Employment Period, Executive shall devote her best efforts and skills to the business and interests of Company, do her utmost to further enhance and develop Company's best interests and welfare, and endeavor to improve her ability and knowledge of Company's business, in an effort to increase the value of her services for the mutual benefit of the parties hereto. During the Employment Period, it shall not be a violation of this Agreement for Executive to (1) serve on corporate, civic, or charitable boards or committees (except for boards or committees of a Competing Business (as defined in Section 11)), (2) deliver lectures, fulfill teaching or speaking engagements, or (3) manage personal investments; provided that such activities do not materially interfere with performance of Executive's responsibilities under this Agreement.

For purposes of this Agreement, "AFFILIATE" means any entity which owns or controls, is owned or controlled by, or is under common ownership or control with, the Company.

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

3. COMPENSATION.

(a) During the Employment Period, the Company shall pay to Executive an annual base salary of \$200,000 in consideration for her services under this Agreement, payable on a pro rata basis in not less than monthly installments, in conformity with the Company's customary payroll practices for executive salaries. Executive's base salary shall be subject to review at least annually, and such salary may be increased (but shall not be decreased), depending upon the performance of the Company and Executive, upon the recommendation of the Compensation Committee of the Board (the "COMPENSATION COMMITTEE"). All salary, bonus and other compensation payments hereunder shall be subject to all applicable payroll and other taxes.

(b) As promptly as practicable after the end of each calendar year during the Employment Period, the Compensation Committee shall determine whether Executive is entitled to a bonus based on the attainment of performance goals during the calendar year then ended (the "BONUS YEAR"). For each Bonus Year during the Employment Period (including the Bonus Year commencing on the Effective Date and ending on December 31, 2000), the Compensation Committee shall establish certain performance goals for the Company and the Executive and a targeted annual bonus amount (the amount of which annual target bonus shall be within the sole discretion of the Compensation Committee). The target bonus shall be paid to Executive within 60 days after the end of the applicable Bonus Year (whether or not Executive continues to be employed by the Company following the end of the Bonus Year to which such bonus relates, provided that Executive was employed by the Company for the full Bonus Year) based on the extent to which the performance goals and objectives for the Bonus Year have been achieved. The full amount of the target bonus shall be paid if substantially all of the designated performance goals and objectives have been achieved for the Bonus Year; if not, the Compensation Committee, in its discretion exercised in good faith, may award a target bonus to Executive in an amount less than the full target bonus for that Bonus Year. The Compensation Committee may also award additional bonuses or other compensation to Executive at any time in its complete discretion.

4. TERM OF EMPLOYMENT. Executive's initial term of employment with the Company under this Agreement shall be for the period beginning on the Effective Date and ending at midnight (CST) on December 31, 2001, unless Notice of Termination pursuant to Section 7

is given by either the Company or Executive to the other party. The Company and Executive shall each have the right to give Notice of Termination at will, with or without cause, at any time, subject to the terms and conditions of this Agreement regarding the rights and duties of the parties upon termination of employment. The term of employment hereunder ending on December 31, 2001, shall be referred to herein as the "INITIAL TERM OF EMPLOYMENT." On December 31, 2001 and on December 31st of each succeeding year (each such date being referred to as a "RENEWAL DATE"), this Agreement shall automatically renew and extend for a period of one (1) additional year (a "RENEWAL TERM") unless written notice of non-renewal is delivered from one party to the other at least sixty (60) days prior to the relevant Renewal Date or, alternatively, the parties may mutually agree to voluntarily enter into a new employment agreement at any time. The period from the Effective Date through the date of Executive's termination of employment at any time for whatever reason shall be referred to herein as the "EMPLOYMENT PERIOD."

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

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

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

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

Notwithstanding the first paragraph of this Section 5(b), the Company shall pay for term life insurance coverage on Executive's life, with the beneficiary(ies) thereof designated

by Executive, with a death benefit in an amount not less than twice Executive's base salary (pursuant to Section 3(a)) as such base salary is set on each January 1 during the Employment Period. Upon request, Executive agrees to take any physical exams, and to provide such information, which are reasonably necessary or appropriate to secure or maintain such term life insurance coverage.

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

(d) RELOCATION AND INTERIM HOUSING AND TRAVEL EXPENSES. The Company shall pay or reimburse Executive all reasonable expenses paid or incurred by Executive for the relocation of Executive's household belongings from Executive's home in New York to a home in The Woodlands, Texas area. In addition, the Company shall pay or reimburse Executive all reasonable expenses paid or incurred by Executive pending such relocation for a period of up to six (6) months from the Effective Date for (1) temporary living accommodations in The Woodlands, Texas area and (2) reasonable airfare for up to twelve roundtrip (12) flights from Houston, Texas to New York, New York. Executive shall provide substantiating documentation for expense reimbursement requests as reasonably required by the Company. During the first year of employment, the Executive will also be entitled to an additional fifteen (15) days of non-paid leave for personal use.

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

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

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

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

(b) SEVERANCE PAYMENTS.

(1) At any time prior to a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at

any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates her own employment hereunder for Good Reason (as defined below), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to her on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to six (6) consecutive months following the Termination Date; provided that if such termination occurs within twelve (12) months of the Effective Date, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to her on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to twelve (12) consecutive months following the Termination Date. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments (using a 5% discount rate) in a single payment to Executive's surviving spouse, if any, or if there is no surviving spouse, to Executive's estate within 60 days of her death. Such severance payments shall be subject to Sections 10 and 11 hereof.

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

(2) At any time after a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates her own employment hereunder for Good Reason (as defined below in this Section 6(c)), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation except as provided below in this paragraph) then being paid to her on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to twelve (12) consecutive months following the Termination Date, plus an additional single sum payment equal to one-half of Executive's target bonus (pursuant to Section 3(b)) for the Bonus Year in which the termination occurred, which bonus shall be payable within 30 days from

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

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

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

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

of the Company to the Board who has not been nominated for election by a majority of the Board or any duly appointed committee thereof; or (E) following the election or removal of directors, a majority of the Board consists of individuals who were not members of the Board two (2) years before such election or removal, unless the election of each director who is not a director at the beginning of such two-year period has been approved in advance by directors representing at least a majority of the directors then in office who were directors at the beginning of the two-year period. The Board, in its discretion, may deem any other corporate event affecting the Company to be a "Change in Control" hereunder.

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

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

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

(7) "CAUSE" means a termination of employment directly resulting from (1) the Executive having engaged in intentional misconduct causing a material violation by the Company of any state or federal laws, (2) the Executive having engaged in a theft of corporate funds or corporate assets or in a material act of fraud upon the Company, (3) an act of personal dishonesty taken by the Executive that was intended to result in personal enrichment of the Executive at the expense of the Company, (4) Executive's final conviction (or the entry of a plea of nolo contendere

or equivalent plea) in a court of competent jurisdiction of a felony, or (5) a breach by the Executive during the Employment Period of the provisions of Sections 9, 10, and 11 hereof, if such breach results in a material injury to the Company. For purposes of this definition of "Cause", the term "Company" shall mean the Company or any of its Affiliates (as defined in Section 2).

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

(A) Any reduction in Executive's base salary unless such reduction is specifically agreed to in writing by Executive, provided that, in either event, Executive specifically terminates her employment for Good Reason hereunder within 120 days from the date that she has actual notice of such reduction; or

(B) Before or after a Change in Control, any breach by the Company of any material provision of this Agreement, provided that Executive specifically terminates her employment for Good Reason hereunder within 120 days from the date that she has actual notice of such material breach; or

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

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

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

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

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

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

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

9. CONFLICTS OF INTEREST.

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

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

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

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

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

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

10. CONFIDENTIAL INFORMATION.

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

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

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

(2) Internal Company personnel and financial information, vendor names and other vendor information (including vendor characteristics, services and agreements), purchasing and internal cost information, internal service and

operational manuals, and the manner and methods of conducting Company's business;

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

(4) Business acquisition and other business opportunities.

(c) EXCLUSIONS FROM CONFIDENTIAL INFORMATION. The term "CONFIDENTIAL INFORMATION" shall not include information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), and the general skills and experience gained during Executive's work with the Company which Executive could reasonably have been expected to acquire in similar work with another company.

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

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

(2) At any time during or after the Employment Period, Executive shall not use, copy or transfer Confidential Information other than as necessary in carrying out her duties on behalf of Company, without first obtaining Company's prior written consent, and will take all reasonable precautions to prevent inadvertent use, copying or transfer of such Confidential Information. This prohibition against Executive's use, copying, or transfer of Confidential Information includes, but is not limited to, selling, licensing or otherwise exploiting, directly or indirectly, any products or services (including databases, written documents and software in any form) which

embody or are derived from Confidential Information, or exercising judgment in performing analyses based upon knowledge of Confidential Information.

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

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

(g) PROPERTY RIGHTS. In keeping with her fiduciary duties to Company, Executive hereby covenants and agrees that during her Employment Period, and for a period of three

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

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

Executive hereby agrees to (1) assist Company or its nominee at all times in the protection of any property that is subject to this Section 10, (2) not to disclose any such property to others without the written consent of Company or its nominee, except as required by her employment hereunder, and (3) at the request of Company, to execute such assignments, certificates or other interests as Company or its nominee may from time to time deem desirable to evidence, establish, maintain, perfect, protect or enforce its rights, title or interests in or to any such property.

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

(i) REMEDIES. In the event of a breach or threatened breach of any of the provisions of this Section 10, Company shall be entitled to an injunction ordering the return of all such Confidential Information and Inventions, and restraining Executive from using or disclosing, for her benefit or the benefit of others, in whole or in part, any Confidential Information or Inventions. Executive further agrees that any breach or threatened breach of any of the provisions of this Section 10 would cause irreparable injury to Company, for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting Company from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

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

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

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

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

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

"COMPETING BUSINESS" means any individual, business, firm, company, partnership, joint venture, organization, or other entity whose products or services compete in whole or in part, at any time during the Employment Period with the products or services (or planned products and services) of Company including, without limitation, genomics research, development and products including, without limitation, the Human Gene Trap(TM) database, OmniBank(R), homologous recombination, DNA sequencing, phenotypic analysis, drug target validation and drug discovery.

Notwithstanding anything to the contrary in this Section 11(a), subsequent to the Termination Date, nothing herein shall prohibit or limit Executive's ability to directly or indirectly engage or invest in, own, manage, operate, control or participate in the ownership, management, operation or control of, be employed by, associated or in any manner connected with or render services or advice to an investment bank, financial advisory firm, or other firm primarily engaged in the financial services industry.

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

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

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

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

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

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

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

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

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

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

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

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

13. DEFENSE OF CLAIMS. Executive agrees that, during the Employment Period and for a period of two (2) years after her Termination Date, upon request from the Company, he will cooperate with the Company and its Affiliates in the defense of any claims or actions that may be made by or against the Company or any of its Affiliates that affect her prior areas of responsibility, except if Executive's reasonable interests are adverse to the Company or Affiliates in such claim or action. To the extent travel is required to comply with the requirements of this Section 13, the Company shall, to the extent possible, provide Executive with notice at least 10 days prior to the date on which such travel would be required. The Company agrees to promptly pay or reimburse Executive upon demand for all of her reasonable travel and other direct expenses incurred, or to be reasonably incurred, to comply with her obligations under this Section 13.

14. DETERMINATIONS BY THE COMPENSATION COMMITTEE.

(a) TERMINATION OF EMPLOYMENT. Prior to a Change in Control (as defined in Section 6(b)), any question as to whether and when there has been a termination of Executive's employment, the cause of such termination, and the Termination Date, shall be in the first instance determined by the Compensation Committee in its discretion exercised in good faith and, in the event Executive disagrees with such determination, such dispute shall be resolved pursuant to Section 21.

(b) COMPENSATION. Prior to a Change in Control (as defined in Section 6(b)), any question regarding salary, bonus and other compensation payable to Executive pursuant to this Agreement shall be determined by the Compensation Committee in its discretion exercised in good faith.

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

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

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

18. SEVERABILITY. It is the desire of the parties hereto that this Agreement be enforced to the maximum extent permitted by law, and should any provision contained herein be held unenforceable by a court of competent jurisdiction or arbitrator (pursuant to Section 21), the parties hereby agree and consent that such provision shall be reformed to create a valid and enforceable provision to the maximum extent permitted by law; provided, however, if such provision cannot be

reformed, it shall be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement.

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

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

21. ARBITRATION.

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

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

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

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

(d) COMPLIANCE WITH AWARD.

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

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

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

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

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

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

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

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

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

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

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

- (1) If to Company, addressed to:

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

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

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

28. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall

together constitute one and the same instrument. Each counterpart may consist of a copy hereof containing multiple signature pages, each signed by one party, but together signed by both parties hereto.

29. EXECUTIVE ACKNOWLEDGMENT; NO STRICT CONSTRUCTION. The Executive represents to Company that she is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that she has read the Agreement and that she understands its terms and conditions. The parties hereto agree that the language used in this Agreement shall be deemed to be the language chosen by them to express their mutual intent, and no rule of strict construction shall be applied against either party hereto. Executive also represents that she is free to enter into this Agreement including, without limitation, that she is not subject to any other contract of employment or covenant not to compete that would conflict in any way with her duties under this Agreement. Executive acknowledges that she has had the opportunity to consult with counsel of her choice, independent of Employer's counsel, regarding the terms and conditions of this Agreement and has done so to the extent that she, in her unfettered discretion, deemed to be appropriate.

30. SUPERSEDING AGREEMENT. This Employment Agreement shall supersede any prior employment agreement entered into between the Company and Executive.

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

EXECUTIVE:

Signature: /s/ Julia Gregory

Julia Gregory

Date: February 8, 2000

Address for Notices:

240 East 39th Street, Apt. 37G
New York, New York 10016

LEXICON GENETICS INCORPORATED

By: /s/ Arthur T. Sands, M.D., Ph.D.

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

Date: February 8, 2000

EMPLOYMENT AGREEMENT

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

W I T N E S S E T H:

WHEREAS, Company wishes to secure the services of the Executive subject to the terms and conditions hereafter set forth; and

WHEREAS, the Executive is willing to enter into this Agreement upon the terms and conditions hereafter set forth,

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

1. EMPLOYMENT. During the Employment Period (as defined in Section 4 hereof), the Company shall employ Executive, and Executive shall serve, as Vice President - Business Development. Executive's principal place of employment shall be at the Company's principal corporate offices in The Woodlands, Texas, or at such other location for the Company's principal corporate offices during the Employment Period.

2. DUTIES AND RESPONSIBILITIES OF EXECUTIVE.

(a) During the Employment Period, Executive shall devote his services full time to the business of the Company and its Affiliates (as defined below), and perform the duties and responsibilities assigned to him by the Chief Executive Officer ("CEO") or Board of Directors (the "BOARD") of the Company to the best of his ability and with reasonable diligence. Executive agrees to cooperate fully with the Board, CEO and other executive officers of the Company, and not to engage in any activity which conflicts with or interferes with the performance of his duties hereunder. During the Employment Period, Executive shall devote his best efforts and skills to the business and interests of Company, do his utmost to further enhance and develop Company's best interests and welfare, and endeavor to improve his ability and knowledge of Company's business, in an effort to increase the value of his services for the mutual benefit of the parties hereto. During the Employment Period, it shall not be a violation of this Agreement for Executive to (1) serve on corporate, civic, or charitable boards or committees (except for boards or committees of a Competing Business (as defined in Section 11)), (2) deliver lectures, fulfill teaching or speaking

engagements, or (3) manage personal investments, so long as such activities do not materially interfere with performance of Executive's responsibilities under this Agreement.

For purposes of this Agreement, "AFFILIATE" means any entity which owns or controls, is owned or controlled by, or is under common ownership or control with, the Company.

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

3. COMPENSATION. During the Employment Period, the Company shall pay to Executive an annual base salary of \$160,000, in consideration for his services under this Agreement, payable on a pro rata basis in not less than monthly installments, in conformity with the Company's customary payroll practices for executive salaries. Executive's base salary shall be subject to review at least annually, and such salary may be adjusted, depending upon the performance of the Company and Executive, upon the recommendation of the Compensation Committee of the Board (the "COMPENSATION COMMITTEE"). All salary and any other compensation payments hereunder shall be subject to all applicable payroll and other taxes.

4. TERM OF EMPLOYMENT. Executive's initial term of employment with the Company under this Agreement shall be for the two-year period beginning on the Effective Date and ending at midnight (CST) on December 31, 2000, unless Notice of Termination pursuant to Section 7 is given by either the Company or Executive to the other party. The Company and Executive shall each have the right to give Notice of Termination at will, with or without cause, at any time, subject to the terms and conditions of this Agreement regarding the rights and duties of the parties upon termination of employment. The term of employment hereunder ending on December 31, 2000, shall be referred to herein as the "INITIAL TERM OF EMPLOYMENT." On December 31, 2000 and on December 31st of each succeeding year (each such date being referred to as a "Renewal Date"), this Agreement shall automatically renew and extend for a period of one (1) additional year (a "RENEWAL TERM") unless written notice of nonrenewal is delivered from one party to the other at least sixty (60) days prior to the relevant Renewal Date or, alternatively, the parties may mutually agree to voluntarily enter into a new employment agreement at any time. The period from the Effective Date through the date of Executive's termination of employment at any time for whatever reason shall be referred to herein as the "EMPLOYMENT PERIOD."

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

Initials:_____

Initials:_____

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

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

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

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

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

Initials:_____

Initials:_____

seminars shall be planned for minimum interference with the Company's business.

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

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

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

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

(b) SEVERANCE PAYMENTS.

(1) At any time prior to a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates his own employment hereunder for Good Reason (as defined below), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to six (6) consecutive months following the Termination Date; provided that if such termination occurs within 120 days following a reduction in Executive's base salary, such salary continuation payments shall be made in an amount equal to Executive's base salary prior to such reduction. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments (using a 5% discount rate) in a single payment to the Executive's estate within 60 days of his death. Such severance payments shall be subject to Sections 10 and 11 hereof.

Prior to a Change in Control, in the event that Executive's employment is terminated through notice of nonrenewal as of the end of the Initial Term of Employment (pursuant to Section 4) or any one-year Renewal Term, Executive shall

Initials:_____

Initials:_____

not be entitled to receive any severance payments pursuant to the first paragraph of this Section 6(a); provided, however, Executive shall be entitled to receive a severance payment equal to \$13,000 per month for each month following his Termination Date, not to exceed six months, that Executive is (A) not in violation of the confidential information, non-competition and other covenants of Sections 10 and 11 hereof and (B) not employed by another employer, as determined by the Company.

(2) At any time after a Change in Control (as defined below), in the event that (A) Executive's employment hereunder is terminated by the Company at any time for any reason except (i) for Cause (as defined below) or (ii) due to Executive's death or Disability (as defined below), or (B) Executive terminates his own employment hereunder for Good Reason (as defined below in this paragraph), then, in either such event, Executive shall be entitled to receive, and the Company shall be obligated to pay, Executive's base salary under Section 3(a) (without regard to any bonuses or extraordinary compensation except as provided below in this paragraph) then being paid to him on the Termination Date as salary continuation (pursuant to the Company's normal payroll procedures) for a period equal to twelve (12) consecutive months following the Termination Date, plus an additional single sum payment equal to one-half of Executive's target bonus (pursuant to Section 3(b)) for the Bonus Year that contains the Termination Date which bonus shall be payable within 30 days from the Termination Date; provided that if such termination occurs within 120 days following a reduction in Executive's base salary, such salary continuation payments shall be made in an amount equal to Executive's base salary prior to such reduction. In the event of Executive's death during such salary continuation period, the Company shall pay the sum of the present value of all remaining payments in a single payment (using a 5% discount rate) to the Executive's estate within 60 days of his death.

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

(3) Except as otherwise specifically provided in this Section 6(b), severance payments shall be in addition to, and shall not reduce or offset, any other payments that are due to Executive from the Company (or any other source) or under any other

Initials:_____

Initials:_____

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

(4) A "CHANGE IN CONTROL" of the Company shall be deemed to have occurred if any of the following shall have taken place: (A) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) other than Gordon Cain is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act, or any successor provisions thereto), directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company's then-outstanding voting securities; (B) the approval by the stockholders of the Company of a reorganization, merger, or consolidation, in each case with respect to which persons who were stockholders of the Company immediately prior to such reorganization, merger, or consolidation do not, immediately thereafter, own or control more than fifty percent (50%) of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated Company's then outstanding securities in substantially the same proportion as their ownership of the Company's outstanding voting securities prior to such reorganization, merger or consolidation; (C) a liquidation or dissolution of the Company or the sale of all or substantially all of the Company's assets; (D) in the event any person is elected by the stockholders of the Company to the Board who has not been nominated for election by a majority of the Board or any duly appointed committee thereof; or (E) following the election or removal of directors, a majority of the Board consists of individuals who were not members of the Board two (2) years before such election or removal, unless the election of each director who is not a director at the beginning of such two-year period has been approved in advance by directors representing at least a majority of the directors then in office who were directors at the beginning of the two-year period. The Board, in its discretion, may deem any other corporate event affecting the Company to be a "Change in Control" hereunder.

(5) "DISABILITY" means a permanent and total disability which entitles Executive to disability income payments under the Company's long-term disability plan or policy as then in effect which covers Executive pursuant to Section 5(b). If

Initials:_____

Initials:_____

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

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

(7) "CAUSE" means a termination of employment directly resulting from (1) the Executive having engaged in intentional misconduct causing a material violation by the Company of any state or federal laws, (2) the Executive having engaged in a theft of corporate funds or corporate assets or in a material act of fraud upon the Company, (3) an act of personal dishonesty taken by the Executive that was intended to result in substantial personal enrichment of the Executive at the expense of the Company, (4) Executive's final conviction (or the entry of a plea of nolo contendere or equivalent plea) in a court of competent jurisdiction of a felony, or (5) a breach by the Executive during the Employment Period of the provisions of Sections 9, 10, and 11 hereof, if such breach results in a material injury to the Company. For purposes of this definition of "Cause", the term "Company" shall mean the Company or any of its Affiliates (as defined in Section 2).

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

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

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

Initials:_____

Initials:_____

specifically terminates his employment for Good Reason hereunder within 120 days from the date that he has actual notice of such material breach; or

(C) Only following a Change in Control (as defined in Section 6(b)), any of the following events will constitute Good Reason, provided that Executive specifically terminates his employment for Good Reason hereunder within 12 months following his receipt of actual notice of an event listed below:

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

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

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

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

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

9. CONFLICTS OF INTEREST.

Initials:_____

Initials:_____

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

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

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

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

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

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

10. CONFIDENTIAL INFORMATION.

Initials:_____

Initials:_____

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

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

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

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

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

(4) Business acquisition and other business opportunities.

Initials:_____

Initials:_____

(c) EXCLUSIONS FROM CONFIDENTIAL INFORMATION. The term "CONFIDENTIAL INFORMATION" shall not include information publicly known other than as a result of a disclosure by Executive in breach of Section 10(a), and the general skills and experience gained during Executive's work with the Company which Executive could reasonably have been expected to acquire in similar work with another company.

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

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

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

(e) RETURN OF CONFIDENTIAL MATERIAL. Executive shall promptly turn over to the person designated by the Board or CEO all originals and copies of materials containing Confidential Information in the Executive's possession, custody, or control upon request or upon termination of Executive's employment with Company. Executive agrees to attend a termination interview with the person or persons designated by the Board or CEO in the

Initials:_____

Initials:_____

Company's offices for a reasonable time period. The purposes of the termination interview shall be (1) to confirm turnover of all Confidential Information, (2) discuss any questions Executive may have about his continuing obligations under this Agreement, (3) answer questions related to his duties and on-going projects to allow a temporary or permanent successor to obtain a better understanding of the employment position, (4) confirm the number of any outstanding stock options, or other long-term incentive awards, and their vested percentages and other terms and conditions, and (5) any other topics relating to the business affairs of Company or its Affiliates as determined by the Company.

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

(g) PROPERTY RIGHTS. In keeping with his fiduciary duties to Company, Executive hereby covenants and agrees that during his Employment Period, and for a period of three (3) months following his Termination Date, Executive shall promptly disclose in writing to Company any and all Inventions, which are conceived, developed, made or acquired by Executive, either individually or jointly with others, and which directly relate to the business, products or services of Company. In consideration for his employment hereunder, Executive

Initials:_____

Initials:_____

hereby specifically sells, assigns and transfers to Company all of his worldwide right, title and interest in and to all such Inventions.

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

Executive hereby agrees to (1) assist Company or its nominee at all times in the protection of any property that is subject to this Section 10, (2) not to disclose any such property to others without the written consent of Company or its nominee, except as required by his employment hereunder, and (3) at the request of Company, to execute such assignments, certificates or other interests as Company or its nominee may from time to time deem desirable to evidence, establish, maintain, perfect, protect or enforce its rights, title or interests in or to any such property.

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

(i) REMEDIES. In the event of a breach or threatened breach of any of the provisions of this Section 10, Company shall be entitled to an injunction ordering the return of all such Confidential Information and Inventions, and restraining Executive from using or disclosing, for his benefit or the benefit of others, in whole or in part, any Confidential Information or Inventions. Executive further agrees that any breach or threatened breach of any of the provisions of this Section 10 would cause irreparable injury to Company, for which it would have no adequate remedy at law. Nothing herein shall be construed as prohibiting Company from pursuing any other remedies available to it for any such breach or threatened breach, including the recovery of damages.

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

Initials:_____

Initials:_____

(a) PROHIBITED EXECUTIVE ACTIVITIES. Executive agrees that except in the ordinary course and scope of his employment hereunder during the Employment Period, Executive shall not while employed by Company and, except as specifically provided below in this Section 11(a), for a period of six (6) months following his Termination Date, within the continental United States:

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

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

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

In the event that Executive's Termination Date occurs after a Change in Control (as defined in Section 6(b)), then notwithstanding any provisions of this Section 11 to the contrary, all of the non-compete restrictions set forth in this Section 11 shall not apply to, or be enforced against, Executive if his employment with the Company or its successor is terminated (1) by Executive for Good Reason (as defined in Section 6(b)), (2) by the Company or its successor without Cause (as defined in Section 6(b), or (3) upon notice of nonrenewal pursuant to Section 4. Therefore, following a Change in Control, in the event that Executive terminates his

Initials:_____

Initials:_____

employment for Good Reason or upon notice of nonrenewal, or the Company or its successor terminates Executive's employment without Cause or upon nonrenewal, Executive shall not be subject to the provisions of Section 11.

"COMPETING BUSINESS" means any individual, business, firm, company, partnership, joint venture, organization, or other entity whose products or services compete, in whole or in part, at any time during the Employment Period with the products or services (or planned products and services) of Company including, without limitation, genomics research, development and products including, without limitation, OmniBank(TM), homologous recombination, DNA sequencing, phenotypic analysis, drug validation and drug discovery.

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

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

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

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

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

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

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

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

Initials:_____

Initials:_____

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

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

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

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

Initials:_____

Initials:_____

13. DEFENSE OF CLAIMS. Executive agrees that, during the Employment Period and for a period of two (2) years after his Termination Date, upon request from the Company, he will cooperate with the Company and its Affiliates in the defense of any claims or actions that may be made by or against the Company or any of its Affiliates that affect his prior areas of responsibility, except if Executive's reasonable interests are adverse to the Company or Affiliates in such claim or action. To the extent travel is required to comply with the requirements of this Section 13, the Company shall, to the extent possible, provide Executive with notice at least 10 days prior to the date on which such travel would be required. The Company agrees to promptly pay or reimburse Executive upon demand for all of his reasonable travel and other direct expenses incurred, or to be reasonably incurred, to comply with his obligations under this Section 13.

14. DETERMINATIONS BY THE BOARD OF DIRECTORS.

(a) TERMINATION OF EMPLOYMENT. Prior to a Change in Control (as defined in Section 6(b)), any question as to whether and when there has been a termination of Executive's employment, the cause of such termination, and the Termination Date, shall be determined by the Compensation Committee in its discretion exercised in good faith.

(b) COMPENSATION. Prior to a Change in Control (as defined in Section 6(b)), any question regarding salary, bonus and other compensation payable to Executive pursuant to this Agreement shall be determined by the Compensation Committee in its discretion exercised in good faith.

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

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

17. INCOMPETENT OR MINOR PAYEES. Should the Board determine that any person to whom any payment is payable under this Agreement has been determined to be legally incompetent or is

Initials:_____

Initials:_____

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

18. SEVERABILITY. It is the desire of the parties hereto that this Agreement be enforced to the maximum extent permitted by law, and should any provision contained herein be held unenforceable by a court of competent jurisdiction or arbitrator (pursuant to Section 21), the parties hereby agree and consent that such provision shall be reformed to create a valid and enforceable provision to the maximum extent permitted by law; provided, however, if such provision cannot be reformed, it shall be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement.

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

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

21. ARBITRATION.

Initials:_____

Initials:_____

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

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

(c) ARBITRATION PROCEDURES. The arbitrator shall set the date, time and place for each hearing, and shall give the parties advance written notice in accordance with the Rules. Any party may be represented by counsel or other authorized representative at any hearing. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. Sections 1 et. seq. (or its successor). The arbitrator shall apply the substantive law (and the law of remedies, if applicable) of the State of Texas to the claims asserted to the extent that the arbitrator determines that federal law is not controlling.

(d) COMPLIANCE WITH AWARD.

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

Initials:_____

Initials:_____

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

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

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

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

24. SURVIVAL OF CERTAIN PROVISIONS. Wherever appropriate to the intention of the parties hereto, the respective rights and obligations of said parties, including, but not limited to, the rights and obligations set forth in Sections 6 through 14 and 21 hereof, shall survive any termination or expiration of this Agreement.

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

Initials:_____

Initials:_____

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

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

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

(1) If to Company, addressed to:

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

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

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

28. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a copy hereof containing multiple signature pages, each signed by one party, but together signed by both parties hereto.

29. EXECUTIVE ACKNOWLEDGMENT; NO STRICT CONSTRUCTION. The Executive represents to Company that he is knowledgeable and sophisticated as to business matters, including the subject matter of this Agreement, that he has read the Agreement and that he understands its terms and

Initials:_____

Initials:_____

conditions. The parties hereto agree that the language used in this Agreement shall be deemed to be the language chosen by them to express their mutual intent, and no rule of strict construction shall be applied against either party hereto. Executive also represents that he is free to enter into this Agreement including, without limitation, that he is not subject to any other contract of employment or covenant not to compete that would conflict in any way with his duties under this Agreement. Executive acknowledges that he has had the opportunity to consult with counsel of his choice, independent of Employer's counsel, regarding the terms and conditions of this Agreement and has done so to the extent that he, in his unfettered discretion, deemed to be appropriate.

30. SUPERSEDING AGREEMENT. This Employment Agreement shall supersede any prior employment agreement entered into between the Company and Executive.

[Intentionally left blank -- signature page follows]

Initials:_____

Initials:_____

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

WITNESS:

EXECUTIVE:

Signature: _____
Printed Name: _____
Date: _____

Signature: /s/Randall Riggs

Printed Name: Randall Riggs
Date: December 22, 1998

Address for Notices:

222 South Maple Glade Circle
The Woodlands, Texas 77382

ATTEST:

LEXICON GENETICS INCORPORATED

By: /s/ Jean Magdaleno

Name: /s/ Jean Magdaleno

Title: Administrative Assistant

Date: December 21, 1998

By: /s/ Arthur T. Sands

Name: Arthur T. Sands

Title: President and Chief Executive Officer

Date: December 21, 1998

DATABASE ACCESS AGREEMENT

THIS DATABASE ACCESS AGREEMENT (the "Agreement") is entered into as of the Effective Date, as defined below, by and between LEXICON GENETICS INCORPORATED, a Delaware corporation ("Lexicon"), and MILLENNIUM PHARMACEUTICALS, INC., a Delaware corporation ("MPI").

RECITALS

WHEREAS, Lexicon wishes to grant to MPI, and MPI wishes to obtain from Lexicon, non-exclusive access to Lexicon's proprietary Human Gene Trap(TM) and OmniBank(R) Databases for the discovery, development and commercialization of (i) Small Molecule Drugs and Antibody Drugs addressing human Drug Targets, (ii) Therapeutic Proteins, (iii) Antisense Drugs, (iv) Gene Therapy Drugs, and (v) Diagnostic Products, on the terms and subject to the conditions set forth herein; and

WHEREAS, Lexicon wishes to grant to MPI, and MPI wishes to obtain from Lexicon, the right to receive certain rights and licenses under the Lexicon Technology, on the terms and subject to the conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and promises hereinafter set forth, the parties hereby agree as follows:

ARTICLE 1
DEFINITIONS

- 1.1 "ACADEMIC COLLABORATOR" means any Third Party which is a university, research institute or other non-profit organization which (a) has entered into an agreement with MPI or any of its Affiliates involving collaborative research with MPI and/or such Affiliate(s) in which MPI and/or such Affiliate(s) reasonably believes that Material Use of a specified Program Clone may have application, and (b) if MPI or an Affiliate has transferred any Program Clone to such Third Party, has entered into a material transfer agreement with MPI or such Affiliate with respect to such Program Clone or has otherwise entered into an agreement with MPI or such Affiliate limiting the Third Party's use of the Program Clone to the purposes permitted herein.
- 1.2 "ACCESS PERIOD" means the Initial Access Period and, if applicable, the Extended Access Period and any extensions thereto on terms mutually acceptable to the parties.
- 1.3 "AFFILIATE" means any corporation or other entity (e.g. a company, partnership or joint venture) which controls, is controlled by, or is under common control with Lexicon or

- - - - -

*****denotes confidential information with respect to which a separate confidential treatment request has been filed with the Securities and Exchange Commission.

CONFIDENTIAL - 9/23/99

MPI. A corporation or other entity will be regarded as in control of another corporation or entity if it owns or directly or indirectly controls more than 50% of the voting securities or other ownership interest of the other corporation or entity, or if it possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the corporation or other entity.

- 1.4 "ANTIBODY DRUG" means any Drug which contains an antibody, whether monoclonal or polyclonal, multiple or single chain, whole or fragment, including any molecule consisting of the Fc portion of an antibody fused with another polypeptide moiety(ies).
- 1.5 "ANTISENSE DRUG" means any Drug which contains nucleic acid or a functional analog, derivative or homolog thereof, which is complementary to a segment of DNA of a gene or such gene's cognate RNA, and which, upon delivery by any means, alters the transcription, processing, elaboration, RNA expression or protein production of or by such gene.
- 1.6 "CONFIDENTIAL INFORMATION" means any confidential or proprietary information of a party, including, without limitation, information relating to the Lexicon Technology, the Human Gene Trap(TM) and OmniBank(R) Databases or any Program Clone, and any information relating to any compound, research project, work in process, future development, scientific, engineering, manufacturing, marketing, business plan, financial or personnel matter relating to such party, its present or future products, sales, suppliers, customers, employees, investors or business, whether in oral, written, graphic or electronic form. Notwithstanding the foregoing, Confidential Information will not include any information which:
- (a) is now, or hereafter becomes, through no act or failure to act on the part of the receiving party, generally known or available;
 - (b) is known by the receiving party at the time of receiving such information, as demonstrated by competent written or electronic evidence;
 - (c) is hereafter furnished to the receiving party by a Third Party, as a matter of right and without restriction on disclosure;
 - (d) is independently developed by the receiving party without the use of the Confidential Information of the disclosing party as demonstrated by competent written or electronic records; or
 - (e) is the subject of a written or electronic permission to disclose provided by the disclosing party.

Notwithstanding the above, coding sequence from a gene shall not be deemed to come under the foregoing exceptions unless it is Established Exon Sequence.

- 1.7 "CORPORATE PARTNER" means any Third Party which (a) has entered into an agreement with MPI or any of its Affiliates involving the grant to such Third Party of rights for the development or commercialization of products for which MPI or such Affiliate reasonably believes that Material Use of a specified Program Clone may have application, and (b) if MPI or an Affiliate has transferred any Program Clone to such Third Party, has entered into a material transfer agreement with MPI or such Affiliate with respect to such Program Clone or has otherwise entered into an agreement with MPI or such Affiliate limiting the Third Party's use of the Program Clone to the purposes permitted herein.
- 1.8 "DIAGNOSTIC VALIDATION STUDIES" means for the development of a Diagnostic Product, human clinical validation studies the purpose of which is to establish a significant correlation between the presence or abundance of one or more genes, RNA transcripts, proteins, or any part thereof, and either (a) the cause, history, stage, progression or prognosis of a disease or (b) an actual or likely response to a drug.
- 1.9 "DIAGNOSTIC PRODUCT" means any product or service which (a) uses, is based on or incorporates a Lexicon Sequence (for purposes of which, a product or service shall be deemed to be based on a Lexicon Sequence if it measures the presence or activity of any gene represented by such Lexicon Sequences, any mutant or polymorphic form of such gene, any transcription product of such gene, or modified form thereof resulting from post-transcriptional processing, and/or any translation product of such gene, or modified form thereof resulting from post-translational processing) and (b) has utility in either (i) the diagnosis, prognosis, monitoring, prediction or disease management of a human disease or condition or (ii) the selection of a method of treatment of any human disease or condition including without limitation the assessment or prediction of responses in humans to a drug or other method of treating a disease, including without limitation the determination of efficacy and the side effects or toxicity of drug(s).
- 1.10 "DIAGNOSTIC PROGRAM" means any program directed to the discovery and development of Diagnostic Products.
- 1.11 "DRUG" means any therapeutic or prophylactic drug or drug candidate which is discovered, identified, developed, made, selected, characterized or determined to have utility using a Lexicon Sequence corresponding to a given gene or which is based on or incorporates a Lexicon Sequence corresponding to a given gene.
- 1.12 "DRUG TARGET" means a protein, which is derived from a Lexicon Sequence corresponding to a given gene, whose modulation may elicit a physiological response of interest.
- 1.13 "EFFECTIVE DATE" means the date set forth in a written notice from MPI to Lexicon as the date upon which this Agreement shall take effect, provided that such date shall not be later than 15 days from the date this Agreement is fully executed unless MPI has paid the Initial Database Access Fee set forth in Section 5.1 on October 1, 1999, in which case such date shall be no later than November 1, 1999.

CONFIDENTIAL - 9/23/99

- 1.14 "ESCROWED SEQUENCE" means any Lexicon Sequence present within a Program Clone the name of which is deposited in escrow by MPI during the Access Period pursuant to Sections 2.1, 2.2 or 2.19.
- 1.15 "ESTABLISHED EXON SEQUENCE" means *****.
- 1.16 "EXTENDED ACCESS PERIOD" has the meaning set forth in Section 2.19.
- 1.17 "FIELD" means the treatment, diagnosis, or prevention of any human disease or condition.
- 1.18 "FIRST COMMERCIAL SALE" means the first sale for use or consumption by the general public of a Licensed Product in a country after any required marketing and pricing or pricing reimbursement approval granted by the governing health authority of such country has been obtained.
- 1.19 "GENE THERAPY DRUG" means any Drug, excluding an Antisense Drug, which contains nucleic acid or a functional analog, derivative or homologue thereof, and which, upon delivery by any means, expresses a gene product encoded therein.
- 1.20 "HUMAN GENE TRAP(TM) DATABASE" means Lexicon's proprietary database made available to MPI, its Affiliates and other subscribers on a non-exclusive basis that is comprised of nucleotide sequences of human origin derived from cDNA produced by gene trapping which has been cloned into a phage vector and having an average length of approximately ***** base pairs or more ("H-TSTs"), and all associated information, as supplemented from time to time by Lexicon. For avoidance of doubt, the Human Gene Trap(TM) Database shall not include access to the LexGene(TM) Database but shall include any full-length gene sequence that is included in, or may be deduced directly from, the Human Gene Trap(TM) Database as the contiguous sequence obtained by clustering and aligning sequences in the Human Gene Trap(TM) Database that have overlapping regions of sequence information from the same gene.
- 1.21 "HUMANIZED MOUSE PROGRAM" means Lexicon's proprietary program to replace a mouse gene with a human gene to assess the physiological effects on a Drug Target following the introduction of a Small Molecule Drug or a Therapeutic Protein.
- 1.22 "INITIAL ACCESS PERIOD" means the period commencing on the date MPI receives the Human Gene Trap(TM) Database and the OmniBank(R) Database on CD ROM and ending ***** thereafter. MPI shall provide Lexicon prompt written notice of its receipt of the date it receives the Human Gene Trap(TM) and OmniBank(R) Database on CD ROM, which notice shall specify the date of such receipt.
- 1.23 "LEXGENE(TM) DATABASE" means Lexicon's proprietary database comprised of full-length gene sequences generated by Lexicon outside the scope of the gene-trapping program established by Lexicon for the purpose of creating the Human Gene Trap(TM) Database.

CONFIDENTIAL - 9/23/99

- 1.24 "LEXICON KNOW-HOW" means all information, data and biological materials consisting of, or directly and solely relating to, the Human Gene Trap(TM) and/or OmniBank(R) Databases, including without limitation any DNA sequence data contained therein, and such other know-how of Lexicon expressly provided by Lexicon to MPI, but excluding MPI Sequence and MPI Know-How, all to the extent and only to the extent Lexicon has the right to grant a license or sublicense to MPI as provided for herein without violating the terms of any agreement or other rights of any Third Party.
- 1.25 "LEXICON PATENT RIGHTS" means all rights under patents of Lexicon (i) which claim, as a composition of matter, polynucleotide sequence information present in, or polypeptide sequence encoded by, any Program Clone(s), or any full-length gene sequences disclosed by Lexicon to MPI pursuant to Section 2.20(b) or Section 4.4, and/or any contiguous DNA sequence deduced by clustering and aligning sequences in the Human Gene Trap(TM) Database with sequence information in the public domain, or (ii) which arise solely from the generation of the Human Gene Trap(TM) and/or OmniBank(R) Databases, and in either case which claim the use of Program Clone(s) in the discovery or development of human therapeutic or prophylactic drugs or human diagnostic products, excluding patent claims of Lexicon covering the use of a Program Clone in the discovery or development of human therapeutic or prophylactic drugs or human diagnostic products based on an actual reduction to practice of a specified function of the gene encoded by a Program Clone (e.g. through observation of a phenotype in a mouse relating to an ortholog to such gene), and all pending patent applications related thereto throughout the world, together with all substitutions, extensions, supplemental protection certificates, reissues, renewals, reexaminations, divisionals, provisionals, continuations or continuations-in-part thereof, in each case to the extent and only to the extent Lexicon has the right to grant a license or sublicense to MPI as provided for herein without violating the terms of any agreement or other rights of any Third Party.
- 1.26 "LEXICON SEQUENCE" means *****.
- 1.27 "LEXICON TECHNOLOGY" means the Lexicon Know-How and the Lexicon Patent Rights.
- 1.28 "LICENSED ANTIBODY DRUG" means any Antibody Drug (or any analog or derivative thereof), which interacts with a Drug Target and as to which MPI and/or its Affiliates has obtained a commercial product license from Lexicon hereunder.
- 1.29 "LICENSED ANTISENSE DRUG" means any Antisense Drug (or any analog or derivative thereof) as to which MPI and/or its Affiliates has obtained a commercial product license from Lexicon hereunder.
- 1.30 "LICENSED DIAGNOSTIC PRODUCT" means any Diagnostic Product as to which MPI and/or its Affiliates has obtained a commercial product license from Lexicon hereunder.
- 1.31 "LICENSED GENE THERAPY DRUG" means any Gene Therapy Drug (or any analog or derivative thereof) as to which MPI and/or its Affiliates has obtained a commercial product license from Lexicon hereunder.

CONFIDENTIAL - 9/23/99

- 1.32 "LICENSED PRODUCT" means any Licensed Small Molecule Drug, Licensed Antibody Drug, Licensed Therapeutic Protein, Licensed Antisense Drug, Licensed Gene Therapy Drug or Licensed Diagnostic Product.
- 1.33 "LICENSED SMALL MOLECULE DRUG" means any Small Molecule Drug (or any analog or derivative thereof) which interacts with a Drug Target, and as to which MPI and/or its Affiliates has obtained a commercial product license from Lexicon hereunder.
- 1.34 "LICENSED THERAPEUTIC PROTEIN" means any Therapeutic Protein (or any analog or derivative thereof) as to which MPI and/or its Affiliates has obtained a commercial product license from Lexicon hereunder.
- 1.35 "MAJOR MARKET COUNTRY" shall mean Canada, Japan, France, Germany, Italy, Spain, the United Kingdom, and the United States.
- 1.36 "MATERIAL ACTIVITY" means any of the following: *****
- 1.37 "MPI KNOW-HOW" means any information, data and materials, other than DNA sequence information, that is owned, developed, controlled and/or obtained by MPI and/or its Affiliates that is not Confidential Information of Lexicon.
- 1.38 "MATERIAL USE" means any use of a Lexicon Sequence in a Material Activity by or on behalf of MPI and/or its Affiliates.
- 1.39 "MPI SEQUENCE" means *****.
- 1.40 "MUTANT MOUSE PROGRAM" means the program set forth on Exhibit A to this Agreement.
- 1.41 "NET SALES" means with respect to a Licensed Product, the gross amount invoiced by MPI, its Affiliates or sublicensees for sales of the Licensed Product to a Third Party, less:
- (a) trade, quantity and cash discounts actually allowed;
 - (b) discounts, refunds, rebates, chargebacks, retroactive price adjustments, and any other allowances actually granted which effectively reduce the net selling price;
 - (c) product returns 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); and
 - (e) freight, postage, shipping, customs duties, excises and insurance charges actually allowed or paid for delivery of Licensed Products, to the extent billed.

In the event the Licensed 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 Net Sales of the Combination Product by the

CONFIDENTIAL - 9/23/99

fraction, $A/A+B$ where A is the average sale price of the Licensed Product when sold separately in finished form and B is the average sale price of the other active compounds or ingredients in the Combination Product sold separately in finished form.

In the event that the average sale price of the Licensed Product can be determined but the average sale price of the other active compounds or ingredients cannot be determined, Net Sales for purposes of determining royalty payments will be calculated by multiplying the Net Sales of the Combination Product by the fraction $C/C+D$ where C is the selling party's average sales price of the Licensed Product and D is the difference between the average selling price of the Combination Product and the average selling price of the Licensed Product. If the average sale price of the other active compounds or ingredients can be determined but the average price of the Licensed Product cannot be determined, Net Sales for purposes of determining royalty payments will be calculated by multiplying the Net Sales of the Combination Product by the following formula: one minus $C/C+D$ where C is the average selling price of the other product(s) and D is the difference between the average selling price of the Combination Product and the average selling price of the other active compounds or ingredients. In the event the applicable agreement between MPI and a sublicensee contains the same methodology for determining the average sale price of the active compounds or ingredients when the average sale price of the other active compounds or ingredients cannot be determined as set forth above, and if such sublicense agreement also contains a provision stating that the Net Sales of the Licensed Product shall not be less than 50% of the Net Sales of the Combination Product, then the same 50% limitation shall, as to that sublicensee only, also apply to this Agreement.

In the event that the average sales price of both the Licensed Product and the other active compounds or ingredients in the Combination Product cannot be determined, the Net Sales of the Licensed Product shall be negotiated in good faith by the parties.

The Net Sales price for a Combination Product will be calculated once each calendar year and such price will be used during all applicable royalty reporting periods for the entire calendar year. When determining the average sale price of a Licensed Product or the other active compounds or ingredients in the Combination Product, the average sale price will be calculated using data arising from the 12 months preceding the calculation of the Net Sales price for the Combination Product. As used above, the term "Combination Product" means any pharmaceutical or diagnostic product comprised of the Licensed Product and other active compounds and/or ingredients.

1.42 "NOVEL GENE" means a gene, part of whose coding sequence is present in the Human Gene Trap(TM) Database and in one or more Program Clones, and *****.

1.43 "OMNIBANK(R) DATABASE" means Lexicon's proprietary database comprised of OmniBank(R) Sequence Tags and all associated information, together with bioinformatics software to the extent additional access to the OmniBank (R) Database is provided, at Lexicon's sole discretion, via the Internet (and enhancements and updates related to such bioinformatics software scanning tools), all as supplemented from time to time by Lexicon.

CONFIDENTIAL - 9/23/99

- 1.44 "OMNIBANK(R) LIBRARY" means Lexicon's library of mouse embryonic stem cells, each of which contains a gene trap event in a particular mouse gene, which gene is identified by an OmniBank(R) Sequence Tag.
- 1.45 "OMNIBANK(R) MICE" means mouse embryonic stem cells contained in the OmniBank(R) Library, mice made or developed using such mouse embryonic stem cells and any successive generations thereof, and any progeny, part, derivative or expression product of any such mouse embryonic stem cells or mice.
- 1.46 "OMNIBANK(R) SEQUENCE TAGS" or "OSTS" means murine DNA sequences and mouse embryonic stem cells which contain mutations in one or more genes made using gene trap insertion techniques, which genes are identified by a DNA sequence derived from the mutated gene.
- 1.47 "PHASE I" means that portion of the clinical development program which generally provides for the first introduction into humans of a Licensed Product with the primary purpose of determining safety, metabolism and pharmacokinetic properties and clinical pharmacology of the Licensed Product, as more specifically defined by the rules and regulations of the FDA and corresponding rules and regulations in other countries or jurisdictions.
- 1.48 "PHASE II" means that portion of the clinical development program after the initial introduction of the Licensed Product into human subjects to test for safety (adverse effects), dosage tolerance, metabolism, distribution, excretion and pharmacodynamics, and, if applicable, after receipt of authorization from the competent regulatory authorities to proceed with further clinical development, and before final pivotal trials of the drug for safety and efficacy, as more specifically defined by the rules and regulations of the FDA and corresponding rules and regulations in other countries or jurisdictions. Phase II studies generally involve a limited patient population with the disease or condition to be treated and are intended to (a) determine the efficacy of the drug for specific, targeted indications, (b) determine dosage tolerance and optimal dosage (dose ranging), (c) identify possible adverse effects and safety risks, and (d) identify patient populations and clinical endpoints for Phase III trials.
- 1.49 "PHASE III" means that portion of the clinical development program which provides for the continued trials of a Licensed Product on sufficient numbers of patients to establish the safety and efficacy of a Licensed Product for the desired claims and indications, as more specifically defined by the rules and regulations of the FDA and corresponding rules and regulations in other countries or jurisdictions.
- 1.50 "PRE-IND STUDIES" means formal preclinical studies under controlled conditions, such as Good Laboratory Practice conditions, intended to provide evidence of safety of an Antibody Drug, Antisense Drug, Gene Therapy Drug, Small Molecule Drug or Therapeutic Protein in applications to regulatory agencies.

CONFIDENTIAL - 9/23/99

- 1.51 "PROGRAM CLONE" means a clone (including DNA sequence information, whether partial or full-length, pertaining to the clone) contained in, identified using or derived from the Human Gene Trap(TM) and/or OmniBank(R) Databases.
- 1.52 "PROTEIN" means a high molecular weight (i.e. with a mass greater than 1,000 daltons) polymer compound composed of a variety of amino acids joined by peptide linkages, including allelic variants thereof, post-translationally modified variants thereof (i.e. glycosylated proteins) and derivatives thereof.
- 1.53 "SMALL MOLECULE DRUG" means any Drug, the active ingredient of which is a synthetic small molecule, a natural product or a macromolecule, that (a) is identified in a screening assay on the basis ***** through use of a Lexicon Sequence, or (b) is designed or developed using medicinal chemistry, structural activity relationship ("SAR") or combinatorial chemistry techniques to interact ***** through the use of a Lexicon Sequence; provided, however, that a Small Molecule Drug will not include any Protein or any Drug in which the active ingredient is an Antibody Drug, an Antisense Drug or a Gene Therapy Drug.
- 1.54 "S-T-V(TM)PROGRAM" means the program set forth on Exhibit B to this Agreement.
- 1.55 "THERAPEUTIC PROGRAM" means any program directed to the discovery and development of Drugs.
- 1.56 "THERAPEUTIC PROTEIN" means any Drug which contains a Protein and that is not an Antibody Drug.
- 1.57 "THIRD PARTY" means any corporation, company, partnership, joint venture or other entity other than Lexicon and its Affiliates and MPI and its Affiliates.
- 1.58 "VALID CLAIM" means a claim of an issued or granted and unexpired patent included within the Lexicon Patent Rights, which claim (a) has not been held unenforceable, unpatentable or invalid by a decision of a court or governmental body of competent jurisdiction, (b) is unappealable or unappealed within the time allowed for appeal, (c) has not been rendered unenforceable through disclaimer or otherwise, and (d) has not been lost through an interference proceeding.
- 1.59 *****

As used herein, the phrases "using a Lexicon Sequence" and "use of a Lexicon Sequence," and words of similar import, shall be deemed to encompass (i) the use in a Diagnostic Program of any gene that contains a Lexicon Sequence, on which Lexicon Sequence MPI or an Affiliate has performed a Material Activity in a Diagnostic Program, or (ii) the use in a Therapeutic Program of any gene that contains a Lexicon Sequence, on which Lexicon Sequence MPI or an Affiliate has performed a Material Activity in a Therapeutic Program. For the purpose of the foregoing sentence, the word "gene" is understood to mean the gene itself, any mutant or polymorphic form of such gene, any transcription product of such gene or modified form thereof resulting from

CONFIDENTIAL - 9/23/99

post-transcriptional processing, and/or any translation product of such gene or modified form thereof resulting from post-translational processing.

ARTICLE 2

GRANT OF RIGHTS AND LICENSES

- 2.1 NON-EXCLUSIVE ACCESS TO HUMAN GENE TRAP(TM) DATABASE. Subject to the terms and conditions of this Agreement and during the Access Period, Lexicon hereby grants to MPI and its Affiliates non-exclusive access to Lexicon's Human Gene Trap(TM) Database. MPI will deposit information in escrow pursuant to Section 2.20 identifying each Program Clone of which it elects to make Material Use in research and development activities within ***** after MPI or any of its Affiliates initiates such activities. Notwithstanding the foregoing, MPI shall not be required to deposit in escrow *****. At its election, MPI and/or its Affiliates ***** whose representation in the Human Gene Trap(TM) Database at the time of such deposit ***** for purposes of this Agreement. MPI and/or its Affiliates may (either directly or via consultants), manipulate the data in any FASTA files delivered to MPI by Lexicon.
- 2.2 NON-EXCLUSIVE ACCESS TO OMNIBANK(R) DATABASE. Subject to the terms and conditions of this Agreement and during the Access Period, Lexicon hereby grants to MPI and its Affiliates non-exclusive access to Lexicon's OmniBank(R) Database. MPI will deposit information pursuant to Section 2.20 identifying each Program Clone which it elects to make Material Use in research and development activities within ***** after MPI or any of its Affiliates initiates such activities. Notwithstanding the foregoing, MPI shall not be required to deposit in escrow *****. At its election, MPI and/or its Affiliates ***** whose representation in the OmniBank(R) Database at the time of such deposit ***** for purposes of this Agreement. MPI and/or its Affiliates may (either directly or via consultants), manipulate the data in the FASTA files Lexicon is delivering to MPI. To the extent Lexicon provides the OmniBank(R) Database via the Internet (in addition to the CD-ROM), such access shall be via a commercially available third party Web Browser.
- 2.3 RESEARCH LICENSE FOR FIELD. Subject to the terms and conditions of this Agreement and during the Access Period and any extensions thereto, Lexicon hereby grants to MPI and its Affiliates a non-exclusive license under the Lexicon Technology to use Program Clones to conduct research directed towards the discovery of potential Drugs and Diagnostic Products in the Field. Lexicon hereby grants to MPI and its Affiliates the limited right to grant sublicenses to Corporate Partners and Academic Collaborators, on a Program Clone-by-Program Clone basis, solely to accomplish the purposes of such Corporate Partner's or Academic Collaborator's collaboration with MPI or its Affiliates.

CONFIDENTIAL - 9/23/99

- 2.4 DEVELOPMENT LICENSE FOR DRUG TARGETS. Subject to the terms and conditions of this Agreement and during the Access Period, Lexicon hereby grants to MPI and its Affiliates a non-exclusive license under the Lexicon Technology to research, develop, make and use any escrowed Program Clone, any Drug Target encoded by an escrowed Program Clone and any assays which are based on or incorporate such Drug Target solely to develop Small Molecule Drugs and/or Antibody Drugs in the Field. Lexicon hereby grants MPI and its Affiliates the limited right to grant sublicenses to Corporate Partners and Academic Collaborators, on a Program Clone-by-Program Clone basis, solely to accomplish the purposes of such Corporate Partner's or Academic Collaborator's collaboration with MPI or its Affiliates.
- 2.5 DEVELOPMENT LICENSE FOR THERAPEUTIC PROTEINS. Subject to the terms and conditions of this Agreement and during the Access Period, Lexicon hereby grants to MPI and its Affiliates a non-exclusive license under the Lexicon Technology to research, develop, make and use any escrowed Program Clone and any Protein encoded by an escrowed Program Clone solely to develop Therapeutic Proteins in the Field. Lexicon hereby grants MPI and its Affiliates the limited right to grant sublicenses to Corporate Partners and Academic Collaborators, on a Program Clone-by-Program Clone basis, solely to accomplish the purposes of such Corporate Partner's or Academic Collaborator's collaboration with MPI or its Affiliates.
- 2.6 DEVELOPMENT LICENSE FOR ANTISENSE DRUGS. Subject to the terms and conditions of this Agreement and during the Access Period, Lexicon hereby grants to MPI and its Affiliates a non-exclusive license under the Lexicon Technology to research, develop, make and use any escrowed Program Clone and any RNA encoded by an escrowed Program Clone solely to develop Antisense Drugs in the Field. Lexicon hereby grants MPI and its Affiliates the limited right to grant sublicenses to Corporate Partners and Academic Collaborators, on a Program Clone-by-Program Clone basis, solely to accomplish the purposes of such Corporate Partner's or Academic Collaborator's collaboration with MPI or its Affiliates.
- 2.7 DEVELOPMENT LICENSE FOR GENE THERAPY DRUGS. Subject to the terms and conditions of this Agreement and during the Access Period, Lexicon hereby grants to MPI and its Affiliates a non-exclusive license under the Lexicon Technology to research, develop, make and use any escrowed Program Clone solely to develop Gene Therapy Drugs in the Field. MPI and its Affiliates will have the right to grant limited sublicenses to Corporate Partners and Academic Collaborators, on a Program Clone-by-Program Clone basis, solely to accomplish the purposes of such Corporate Partner's or Academic Collaborator's collaboration with MPI or its Affiliates.
- 2.8 DEVELOPMENT LICENSE FOR DIAGNOSTIC PRODUCTS. Subject to the terms and conditions of this Agreement and during the Access Period, Lexicon hereby grants to MPI and its Affiliates a non-exclusive license under the Lexicon Technology to research, develop, make and use any escrowed Program Clone and any RNA or Protein encoded by an escrowed Program Clone solely to develop Diagnostic Products in the Field. Lexicon

CONFIDENTIAL - 9/23/99

hereby grants MPI and its Affiliates the limited right to grant sublicenses to Corporate Partners and Academic Collaborators, on a Program Clone-by-Program Clone basis, solely to accomplish the purposes of such Corporate Partner's or Academic Collaborator's collaboration with MPI or its Affiliates.

- 2.9 EXCLUSIVE OPTIONS FOR THERAPEUTIC PROTEINS. With respect to any gene which encode(s) a Therapeutic Protein, is partially represented by an Escrowed Sequence or set of Escrowed Sequences, and for which MPI and/or its Affiliates has obtained a full-length coding sequence from any source, MPI and/or its Affiliates will have the right to obtain from Lexicon an exclusive option (a "Therapeutic Option") to obtain an exclusive commercial product license to such Therapeutic Protein in accordance with Section 2.10; provided, however, that neither MPI nor any of its Affiliates will have the right to obtain a Therapeutic Option in the event that (a) a Third Party holds an exclusive option or has obtained an exclusive commercial product license to such Therapeutic Protein prior to MPI's and/or its Affiliates' request for such Therapeutic Option, or (b) ***** prior to MPI's and/or its Affiliates' request for a Therapeutic Option, as demonstrated by competent written records. MPI's and/or its Affiliates' right to obtain Therapeutic Options shall continue during the Access Period and for six months thereafter, provided that (i) in the event that ***** (ii) MPI and its Affiliates may have no more than ***** Therapeutic Proteins under one or more Therapeutic Options at any time during the Access Period (for purposes of which the termination by MPI and/or its Affiliates of any Therapeutic Option prior to its expiration date will be disregarded), and be granted no more than ***** Therapeutic Options in any twelve-month period, and (iii) MPI's and/or its Affiliates' right to obtain Therapeutic Options after the Access Period shall be limited to ***** such Therapeutic Options. Any request for a Therapeutic Option will be submitted to Lexicon by MPI in writing, identifying the specific Program Clone or Program Clones that contain the Escrowed Sequence(s) encoding the Therapeutic Protein for which the Therapeutic Option is requested and the date of the request. Within ***** after the date Lexicon receives such request, Lexicon will provide written notice to MPI (i) granting a Therapeutic Option, or (ii) specifying the reason why a Therapeutic Option is not available (limited to the reasons outlined in subsections (a) and (b) above.) In the event that Lexicon grants such Therapeutic Option requested by MPI and/or its Affiliates, MPI and/or its Affiliates shall ***** MPI and/or its Affiliates may exercise a Therapeutic Option, in its discretion, at any time during the period commencing on the date such Therapeutic Option was granted and ending ***** thereafter. MPI and/or its Affiliates may extend a Therapeutic Option for an additional ***** period by delivering written notice of such extension to Lexicon and paying to Lexicon the option extension fee set forth in Section 5.6 on or before the expiration of the initial ***** period. If MPI and/or its Affiliates fails to obtain an exclusive commercial product license for a Therapeutic Protein within ***** after the grant of the Therapeutic Option (***** if the Therapeutic Option has been extended), then the Therapeutic Option will terminate and all right, title and interest under the Lexicon Technology granted pursuant to the Therapeutic Option to Escrowed Sequence(s) which encodes such Therapeutic Protein will revert exclusively to Lexicon.

2.10 PRODUCT LICENSE FOR THERAPEUTIC PROTEINS.

(a) Upon payment of the applicable product license fee ***** and subject to Section 2.17 and the other terms and conditions of this Agreement, Lexicon will grant to MPI and/or its Affiliates an exclusive, worldwide license under the Lexicon Technology, with the right to grant sublicenses, to make, have made, import, use, have used, offer for sale, sell and have sold such Therapeutic Protein in the Field; provided, however, that MPI and/or its Affiliates will not obtain a commercial product license in the event that (i) a Third Party holds an exclusive option or has obtained an exclusive commercial product license to such Therapeutic Protein prior to MPI's and/or its Affiliates' request for such exclusive commercial product license (or prior to MPI's and/or its Affiliates' request for a Therapeutic Option in the case where MPI and/or its Affiliates holds a Therapeutic Option), or (ii) ***** prior to MPI's and/or its Affiliates' request for such exclusive commercial product license (or prior to MPI's and/or its Affiliates' request for a Therapeutic Option in the case where MPI's and/or its Affiliates holds a Therapeutic Option), as demonstrated by competent written records. MPI and/or its Affiliates may collectively obtain exclusive commercial product licenses to no more than ***** Therapeutic Proteins during any ***** period during the Access Period, and to no more than ***** Therapeutic Proteins after the Access Period.

(b) Lexicon will promptly annotate all Program Clones representing the full-length gene corresponding to a Therapeutic Protein licensed by MPI's and/or its Affiliates' that are contained in the Human Gene Trap(TM) Database, provided that Lexicon shall not effect such annotation in a manner that indicates that all such Program Clones are part of the same full-length gene sequence. ***** and shall use such Confidential Information for the sole purpose of annotating the Human Gene Trap(TM) Database as contemplated hereby. If an exclusive commercial product license is available for such Therapeutic Protein, such license will include Lexicon Technology related to the use of all Lexicon Sequences that represent the gene which encodes such Therapeutic Protein. Lexicon will not reveal the identity of MPI and/or its Affiliates as the company obtaining such exclusive commercial product license.

2.11 EXCLUSIVE OPTIONS FOR ANTISENSE DRUGS. With respect to any gene corresponding to an Escrowed Sequence or set of Escrowed Sequences that is complementary to an Antisense Drug, and for which MPI and/or its Affiliates has obtained a full-length coding sequence from any source, MPI and/or its Affiliates will have the right to obtain from Lexicon an exclusive option (an "Antisense Option") to obtain an exclusive commercial product license to such Antisense Drug in accordance with Section 2.12; provided, however, that neither MPI nor any of its Affiliates will have the right to obtain an Antisense Option in the event that (a) a Third Party holds an exclusive option or has obtained an exclusive commercial product license to such Antisense Drug prior to MPI's and/or its Affiliates' request for such Antisense Option, or (b) ***** prior to MPI's and/or its Affiliates'

CONFIDENTIAL - 9/23/99

request for an Antisense Option, as demonstrated by competent written records. MPI's and/or its Affiliates' right to obtain Antisense Options shall continue during the Access Period and for ***** thereafter, provided that (i) in the event that ***** (ii) MPI and its Affiliates may have no more than ***** Antisense Drugs under one or more Antisense Options at any time during the Access Period (for purposes of which the termination by MPI and/or its Affiliates of any Antisense Option prior to its expiration date will be disregarded), and be granted no more than ***** Antisense Options in any twelve-month period, and (iii) MPI's and/or its Affiliates' right to obtain Antisense Options after the Access Period shall be limited to ***** such Antisense Options. Any request for an Antisense Option will be submitted to Lexicon by MPI in writing, identifying the specific Program Clone or Program Clones that contain the Escrowed Sequence(s) complementary to the Antisense Drug for which the Antisense Option is requested and the date of the request. Within ***** after the date Lexicon receives such request, Lexicon will provide written notice to MPI (i) granting an Antisense Option, or (ii) specifying the reason why an Antisense Option is not available (limited to the reasons outlined in subsections (a) and (b) above). In the event that Lexicon grants such Antisense Option requested by MPI and/or its Affiliates, MPI and/or its Affiliates shall ***** MPI and/or its Affiliates may exercise an Antisense Option, in its discretion at any time during the period commencing on the date such Antisense Option was granted and ending ***** thereafter. MPI and/or its Affiliates may extend an Antisense Option for an additional ***** period by delivering written notice of such extension to Lexicon and paying to Lexicon the option extension fee set forth in Section 5.9 on or before the expiration of the initial ***** period. If MPI and/or its Affiliates fails to obtain an exclusive commercial product license for an Antisense Drug within ***** after the grant of the Antisense Option (***** if the Antisense Option has been extended), then the Antisense Option will terminate and all right, title and interest under the Lexicon Technology granted pursuant to the Antisense Option to the Escrowed Sequence(s) which is complementary to such Antisense Drug will revert exclusively to Lexicon.

2.12 PRODUCT LICENSE FOR ANTISENSE DRUGS.

(a) Upon payment of the applicable product license fee ***** and subject to Section 2.17 and the other terms and conditions of this Agreement, Lexicon will grant to MPI and/or its Affiliates an exclusive, worldwide license under the Lexicon Technology, with the right to grant sublicenses, to make, have made, import, use, have used, offer for sale, sell and have sold such Antisense Drug in the Field; provided, however, that MPI and/or its Affiliates will not obtain a commercial product license in the event that (i) a Third Party holds an exclusive option or has obtained an exclusive commercial product license to such Antisense Drug prior to MPI's and/or its Affiliates' request for such exclusive commercial product license (or prior to MPI's and/or its Affiliates' request for an Antisense Option in the case where MPI and/or its Affiliates holds an Antisense Option), or (ii) ***** prior to MPI's and/or its Affiliates' request for such exclusive commercial product license (or prior to MPI's and/or its Affiliates' request for an Antisense Option in the case where MPI's and/or its Affiliates holds an Antisense Option), as demonstrated by competent written records. MPI and/or its Affiliates may collectively obtain exclusive

CONFIDENTIAL - 9/23/99

commercial product licenses to no more than ***** Antisense Drugs during any ***** period during the Access Period, and to no more than ***** Antisense Drugs after the Access Period.

(b) Lexicon will promptly annotate all Program Clones representing the full-length gene corresponding to an Antisense Drug licensed by MPI's and/or its Affiliates' that are contained in the Human Gene Trap(TM) Database, provided that Lexicon shall not effect such annotation in a manner that indicates that all such Program Clones are part of the same full-length gene sequence. ***** and shall use such Confidential Information for the sole purpose of annotating the Human Gene Trap(TM) Database as contemplated hereby. If an exclusive commercial product license is available for such Antisense Drug, such license will include Lexicon Technology related to the use of all Lexicon Sequences that represent the gene which is complementary to such Antisense Drug. Lexicon will not reveal the identity of MPI and/or its Affiliates as the company obtaining such exclusive commercial product license.

- 2.13 PRODUCT LICENSE FOR SMALL MOLECULE DRUGS AND ANTIBODY DRUGS. Upon receipt of written notice from MPI and/or its Affiliates that it has initiated Pre-IND Studies with respect to a Small Molecule Drug or Antibody Drug and subject to the terms and conditions of this Agreement, Lexicon hereby grants to MPI and/or its Affiliates a non-exclusive, worldwide license under the Lexicon Technology, with the right to grant sublicenses, to make, have made, import, use, have used, offer for sale, sell and have sold such Small Molecule Drug or Antibody Drug in the Field.
- 2.14 PRODUCT LICENSE FOR GENE THERAPY DRUGS. Upon receipt of written notice from MPI and/or its Affiliates that it has initiated Pre-IND Studies related to a Gene Therapy Drug and subject to the terms and conditions of this Agreement, Lexicon hereby grants to MPI and/or its Affiliates a non-exclusive, worldwide license under the Lexicon Technology, with the right to grant sublicenses, to make, have made, import, use, have used, offer for sale, sell and have sold such Gene Therapy Drug in the Field.
- 2.15 PRODUCT LICENSE FOR DIAGNOSTIC PRODUCTS. Upon receipt of written notice from MPI and/or its Affiliates that it has initiated Diagnostic Validation Studies related to a Diagnostic Product and subject to the terms and conditions of this Agreement, Lexicon hereby grants to MPI and/or its Affiliates a non-exclusive, worldwide license under the Lexicon Technology, with the right to grant sublicenses, to make, have made, import, use, have used, offer for sale, sell and have sold such Diagnostic Product in the Field.
- 2.16 SUBLICENSES. Any sublicense granted by MPI or its Affiliates will be consistent with the terms and conditions of this Agreement. MPI or its Affiliates will notify any sublicensee of all rights and obligations of MPI under this Agreement which are sublicensed to such sublicensee and will notify Lexicon within ***** of the grant of any sublicense hereunder. MPI will remain primarily liable under this Agreement irrespective of any sublicense granted hereunder.
- 2.17 RESERVATION OF RIGHTS. Subject to the non-exclusive rights and licenses granted to MPI

CONFIDENTIAL - 9/23/99

and its Affiliates hereunder, Lexicon reserves all rights (a) to provide Third Parties access to the Human Gene Trap(TM) and OmniBank(R) Databases on terms and conditions consistent with the terms and conditions of this Agreement, (b) to research, develop and commercialize (internally or by granting non-exclusive licenses to Third Parties or otherwise) Drug Targets, Small Molecule Drugs, Antibody Drugs, Gene Therapy Drugs and Diagnostic Products derived from the Human Gene Trap(TM) and/or OmniBank(R) Databases, and (c) to research, develop and commercialize (internally or by granting exclusive licenses to Third Parties or otherwise) Therapeutic Proteins encoded by Program Clones and Antisense Drugs complementary to Program Clones or the RNA encoded by Program Clones as to which MPI (i) does not hold an unexpired Therapeutic Option or Antisense Option, or (ii) has not obtained an exclusive commercial product license. Lexicon reserves rights under the Lexicon Technology, for itself and its collaborators, to make, have made and use Program Clones and Therapeutic Proteins as to which MPI has rights of exclusivity (including Licensed Therapeutic Proteins) to research, develop and commercialize (internally or by granting non-exclusive licenses to Third Parties or otherwise) Small Molecule Drugs, Antibody Drugs, Gene Therapy Drugs, and Diagnostic Products, subject to MPI's non-exclusive right under the Lexicon Technology to use such Program Clones and Licensed Therapeutic Proteins for the same purposes. It is further understood that no license under any intellectual property of MPI is granted to Lexicon hereby. UNDER NO CIRCUMSTANCES WILL MPI HAVE ANY RIGHT OR LICENSE TO PRACTICE LEXICON'S PROPRIETARY GENE TRAPPING METHODS OR USE LEXICON'S PROPRIETARY GENE TRAP VECTORS.

- 2.18 REQUIREMENT OF PRODUCT LICENSES. The research and development licenses granted under this Article 2 will specifically exclude any right or license to market, sell, license or commercialize any Small Molecule Drugs, Antibody Drugs, Therapeutic Proteins, Gene Therapy Drugs, Antisense Drugs or Diagnostic Products discovered or developed using a Lexicon Sequence absent a commercial product license.
- 2.19 EXTENSION OF RESEARCH AND DEVELOPMENT LICENSES FOLLOWING EXPIRATION OF THE INITIAL ACCESS PERIOD. Unless MPI terminates this Agreement pursuant to Section 9.2 or Section 9.3, the Access Period will extend for an additional ***** following the end of the Initial Access Period (the "Extended Access Period"). Following the expiration of the Extended Access Period, MPI and MPI's Affiliates shall have continued rights under the research and development licenses granted hereunder and to obtain additional commercial product licenses under Sections 2.13 through 2.15 to no more than ***** Program Clones such number to be subject to revision based on mutual agreement of the parties. MPI shall deposit in escrow under the Escrow Agreement, within ***** after the end of the Extended Access Period, the name of each Program Clone for which it elects continued rights under this Section 2.19. MPI and its Affiliates will be entitled to such rights only for Program Clones that contain Lexicon Sequence of which it has made Material Use during the Access Period. All other Lexicon Sequences, except for Lexicon Sequences that are the subject of unexpired options or commercial product licenses under Sections 2.9 through 2.12, will be permanently removed from MPI's and its Affiliates records, computers, internal databases, facilities, or any other repository system used by MPI and its Affiliates for Program Clones during the Access Period, and, except as provided in Sections 2.9 through 2.12, MPI and its Affiliates shall have no further rights to obtain Therapeutic or

CONFIDENTIAL - 9/23/99

Antisense Options or commercial product licenses with respect to such other Lexicon Sequences following the expiration of the Access Period.

2.20 ESCROW AGREEMENT.

(a) Lexicon shall have entered into an escrow agreement (the "Escrow Agreement") with SourceFile Inc. or such other escrow agent mutually acceptable to MPI, under which MPI shall be a beneficiary, on mutually acceptable terms and conditions prior to or simultaneous with the execution of this Agreement. During the Access Period, Lexicon will deposit into escrow the names of all Program Clones in the Human Gene Trap(TM) Database that have a corresponding full-length gene sequence generated for purposes of Lexicon's LexGene(TM) Database or other purposes in accordance with Lexicon's current labeling method for Program Clones (e.g. H-TST1, H-TST2, H-TST3). Upon Material Use of a Program Clone, MPI will promptly deposit the name of such Program Clone in the escrow account in accordance with Lexicon's current labeling method. The identity of such Program Clones will be held in escrow by a third party escrow agent mutually acceptable to the parties. The Escrow Agreement will contain other customary terms and conditions mutually acceptable to Lexicon and MPI. Any third party escrow fees will be shared equally by Lexicon and MPI.

(b) In the event MPI and/or Lexicon deposits the names of one or more Program Clones into escrow, the escrow agent will compare, on a monthly basis, such names to the names of Program Clones deposited in escrow by Lexicon to search for any matches. If a match exists, then the escrow agent will inform Lexicon and MPI of such match and MPI may request, and upon such request Lexicon will provide to MPI, the full-length gene sequence that matches the escrowed Program Clone, provided that Lexicon shall have no obligation to provide MPI such full-length gene sequence if such full-length gene sequence *****. In the event that Lexicon is issued a Valid Claim within the Lexicon Patent Rights covering the composition of matter of a full-length gene sequence disclosed to MPI pursuant to this Section 2.20(b), then any milestone and royalty payments payable to Lexicon under Article 5 with respect to a Licensed Product derived from Program Clone(s) representing such gene *****.

2.21 NOTICE OF INFRINGEMENT. Upon Lexicon's receipt of a notice from MPI and/or MPI's Affiliate's requesting an exclusive option and/or exclusive commercial product license, and in the event Lexicon grants such option or license to MPI and/or MPI's Affiliate, at any time thereafter, Lexicon shall promptly notify MPI of any notice of infringement, claims, judgments or settlements against or owed by Lexicon with respect to such Therapeutic Proteins, Antisense Drugs and/or any Program Clones encoding or corresponding to such Therapeutic Proteins or Antisense Drugs or any part(s) thereof. In the event of such notification, MPI and/or its Affiliates shall have the right, in its sole discretion, to rescind its request.

2.22 INSPECTION RIGHT. During the Access Period MPI and/or MPI's Affiliates shall have the right to inspect Lexicon Patent Rights, including without limitation any Patent Office communications related thereto, with respect to a given Program Clone, from time to time on

reasonable notice, for the purpose of evaluating MPI's and/or such Affiliates' interest in obtaining an exclusive license under such Lexicon Patent Rights pursuant to Sections 2.9 through 2.12. Subject to Article 7, Lexicon shall provide a copy of such Lexicon Patent Rights to MPI and/or MPI's Affiliates' to facilitate such inspection.

ARTICLE 3

DEVELOPMENT AND COMMERCIALIZATION DILIGENCE

3.1 CLINICAL DILIGENCE REQUIREMENTS.

(a) MPI will use commercially reasonable efforts to develop and commercialize Licensed Products similar to the efforts it applies to its own internal products at a similar stage in development with a comparable market potential. MPI's diligence obligations may be fulfilled partially and/or wholly by the efforts of MPI's Affiliates and/or sublicensees. Without limiting the foregoing, MPI's diligence obligations with respect to Licensed Therapeutic Proteins and Licensed Antisense Drugs will include the following specific requirements with respect to clinical development:

(i) MPI will ***** Licensed Therapeutic Protein or Licensed Antisense Drug within ***** after obtaining an exclusive license to such Licensed Therapeutic Protein or Licensed Antisense Drug; and

(ii) MPI will ***** Licensed Therapeutic Protein or Licensed Antisense Drug ***** Licensed Therapeutic Protein or Licensed Antisense Drug.

(b) If MPI is unable, using commercially reasonable efforts, to satisfy the foregoing diligence obligations with respect to a Licensed Therapeutic Protein or Licensed Antisense Drug as a result of preclinical obstacles or regulatory requirements (e.g. a Licensed Therapeutic Protein or Licensed Antisense Drug requires extensive pre-clinical efforts or a Licensed Therapeutic Protein or Licensed Antisense Drug requires particularly large clinical trials or repetition or refinement of previous clinical trials or MPI has unusual difficulty in recruiting subjects for clinical trials), then the applicable time period will be extended for a period of time reasonably sufficient for MPI to complete such requirements.

3.2 LICENSED PRODUCT REVERSION RIGHTS. Subject to Section 3.1(b), MPI's license with respect to a Licensed Therapeutic Protein or Licensed Antisense Drug will terminate in the event MPI ***** or abandons the development of, such Licensed Therapeutic Proteins or Licensed Antisense Drug. If Lexicon believes that MPI has so ***** or abandoned development with respect to a Licensed Therapeutic Protein or Licensed Antisense Drug, Lexicon shall provide written notice to MPI specifying such ***** or abandonment. MPI shall within ***** after receipt of such notice, either (a) respond in writing to Lexicon indicating that it does not concur that such ***** or abandonment has occurred, (b) provide written notice to Lexicon of its intent to cure and then take steps to cure such ***** or abandonment within ***** after receipt of such

notice, and provide Lexicon with information concerning such ***** or (c) respond in writing to Lexicon that it concurs with Lexicon's notice (failure to respond within such ***** period shall be deemed to be response under this subsection (c)). If MPI responds pursuant to subsection (a), the parties shall use reasonable efforts to reach mutual agreement as to whether such ***** or abandonment has occurred. If MPI responds pursuant to subsection (c) or responds pursuant to subsection (b) but fails to effect ***** within the ***** period, then upon the resulting termination of MPI's license with respect to any Licensed Therapeutic Protein or Licensed Antisense Drug, MPI will, to the extent that MPI and its Affiliates are not then precluded under their arrangements with Corporate Partners or other Third Parties, grant to Lexicon an exclusive option to obtain an exclusive, royalty-bearing, worldwide license, with the right to grant sublicenses, under such intellectual property rights of MPI related to such Licensed Therapeutic Protein or Licensed Antisense Drug as are reasonably necessary to commercialize such Licensed Therapeutic Protein or Licensed Antisense Drug, to make, have made, use, sell, offer for sale and import such Licensed Therapeutic Protein or Antisense Drug. In no event shall such intellectual property include any generic process development or manufacturing technologies of MPI and/or MPI Affiliates. Lexicon may exercise the option within ***** after the termination of MPI's license. In the event that Lexicon exercises the option during such ***** period, MPI and Lexicon will enter into good faith negotiations to execute a definitive license agreement within ***** thereafter (the "Negotiation Period"). If Lexicon and MPI are not able to reach mutually acceptable terms with respect to such Licensed Therapeutic Protein or Antisense Drug, then MPI will not offer more favorable terms to a Third Party than the last terms MPI offered to Lexicon for ***** after the expiration of the Negotiation Period.

ARTICLE 4

DELIVERY AND ACCESS RIGHTS

- 4.1 DELIVERY OF HUMAN GENE TRAP(TM) DATABASE. Within five business days after the Effective Date, Lexicon shall deliver to MPI a copy of the Human Gene Trap(TM) Database in machine-readable form, in its most current version as of the delivery date. MPI shall install the Human Gene Trap(TM) Database on a maximum of two servers in secure locations at its principal offices. MPI may install the Human Gene Trap(TM) Database on an additional back-up server in the event either of the other two servers becomes inoperable. MPI shall take reasonable precautions to restrict access to the Human Gene Trap(TM) Database to the scientists, other employees of MPI and its Affiliates, and third party consultants and on-site collaborators who are working on MPI and/or its Affiliates' behalf, who have access to MPI's own proprietary gene databases, including without limitation all precautions MPI employs with respect to its own proprietary gene databases. Lexicon will update the Human Gene Trap(TM) Database from time to time during the Access Period as additional Program Clones, annotations and other related information become available. Lexicon will use commercially reasonable efforts to update the Human Gene Trap(TM) Database and provide such updates to MPI at least ***** but in no event less frequently and promptly than Lexicon provides to other subscribers to the Human Gene Trap(TM) Database. Lexicon shall not initiate a full-length sequencing program based on the analysis of any Program Clones or H-TSTs in the Human Gene Trap(TM) Database until after such

CONFIDENTIAL - 9/23/99

Program Clones or H-TSTs sequences are released to MPI and its other subscribers of the Human Gene Trap(TM) Database.

- 4.2 ACCESS TO THE OMNIBANK(R) DATABASE. Within five business days after the Effective Date, Lexicon shall deliver to MPI a copy of the OmniBank(R) Database in machine-readable form, in its most current version as of the delivery date. MPI shall install the OmniBank(R) Database on a maximum of two servers in secure locations at its principal offices. MPI may install the OmniBank(R) Database on an additional back-up server in the event either of the other two servers become inoperable. In addition to the foregoing, Lexicon may provide MPI with secure Internet access during the Access Period, using a minimum of 128-bit encryption, to the OmniBank(R) Database together with any necessary bioinformatic software. MPI shall take reasonable precautions to restrict access to the OmniBank(R) Database to the scientists and other employees of MPI and its Affiliates, and third party consultants and on-site collaborators who are working on MPI and/or its Affiliates' behalf, who have access to MPI's own proprietary gene databases, including without limitation all precautions MPI employs with respect to its own proprietary gene databases. Lexicon will update the OmniBank(R) Database from time to time during the Access Period as additional Program Clones, annotations and other related information becomes available. Lexicon will use commercially reasonable efforts to update the OmniBank(R) Database and provide such updates to MPI at least ***** but in no event less frequently and promptly than Lexicon provides to other subscribers to the OmniBank(R) Database. Lexicon shall not initiate a full-length sequencing program based on the analysis of any Program Clones in the OmniBank(R) Database until after such Program Clones are released to MPI and its other subscribers of the OmniBank(R) Database. Lexicon represents and warrants that any queries or records thereof resulting from MPI and/or its Affiliates' use of Lexicon's secure Internet access shall be immediately purged from Lexicon's records and Lexicon acknowledges that such queries shall constitute Confidential Information of MPI and/or its Affiliates.
- 4.3 RIGHT TO OBTAIN PCR CLONES. During the Access Period, subject to the terms and conditions of this Agreement, MPI shall have the right, upon request and payment to Lexicon pursuant to Section 5.11, to obtain a PCR clone of any escrowed Program Clone. Any request for a PCR clone will be submitted in writing to Lexicon, identifying the specific Program Clone for which a PCR clone is requested. Lexicon will use commercially reasonable efforts to deliver requested PCR clones promptly following its receipt of any such request, and will verify that each PCR clone provided to MPI corresponds to the Program Clone specified in such request.
- 4.4 ACCESS TO FULL-LENGTH CLONES. During the Access Period, subject to the terms and conditions of this Agreement, MPI may request that Lexicon extend to full-length any escrowed Program Clone. Any request for a full-length clone will be submitted in writing to Lexicon, identifying the specific Program Clone for which MPI desires a full-length clone. Lexicon may, but shall have no obligation to, accept any such request. Any such acceptance will be made by delivering written notice of such acceptance to MPI within the time frame specified in MPI's request. In the event Lexicon accepts any such request, Lexicon will use commercially reasonable efforts to deliver the full-length clone promptly following such acceptance and MPI will pay Lexicon the amount set forth in Section 5.12. Prior to and for ***** after Lexicon's delivery of such full-length clone to MPI, Lexicon shall not (i) provide any DNA sequence

CONFIDENTIAL - 9/23/99

information from such clone that is not already in the Human Gene Trap(TM) Database to any Third Party, (ii) place such full-length sequence in the LexGene(TM) Database or (iii) *****. Subject to the licenses granted under this Agreement, ownership of all intellectual property rights shall be governed by the principles of inventorship under U.S. patent law.

- 4.5 MUTANT MOUSE AND S-T-V(TM) PROGRAMS. During the Access Period and upon mutually agreeable terms by the parties, MPI and its Affiliates may participate in Lexicon's S-T-V(TM) Program to determine the biological function of those Program Clones selected by MPI for further research and development, it being understood that Lexicon and MPI are parties to a Corporate Research and Development Agreement dated June 24, 1999 (the "Knock-Out Agreement") and that, pursuant to the Knock-Out Agreement, MPI and its Affiliates are entitled under this Agreement to access Lexicon's Mutant Mouse Program, on the terms and conditions of that Knock-Out Agreement in lieu of the terms and conditions of Exhibit A to this Agreement. Any requests by MPI and/or its Affiliates to institute a knock-out mouse project pursuant to this Agreement shall be credited towards MPI's obligation under Section 2.1 of the Knock Out Agreement *****
- 4.6 ACCESS TO HUMANIZED MOUSE PROGRAM. During the Access Period and upon mutually agreeable terms by the parties, MPI and its Affiliates will have the right to access Lexicon's Humanized Mouse Program with respect to the Program Clones selected by MPI for further research and development. The parties agree to negotiate in good faith the business terms for the Humanized Mouse Program on a project-by-project basis.

ARTICLE 5

PAYMENT OBLIGATIONS

- 5.1 INITIAL DATABASE ACCESS FEE. In consideration for access to the Human Gene Trap(TM) and OmniBank(R) Databases during the Initial Access Period, such access to be accomplished via the delivery of and successful installation at MPI of such Human Gene Trap(TM) and OmniBank(R) Databases, MPI will pay to Lexicon a non-refundable database access fee of ***** payable (i) within 15 business days after MPI's receipt of the Human Gene Trap(TM) and OmniBank(R) Databases on CD-ROM pursuant to Section 4.1 and Section 4.2 or (ii) at MPI's sole election pursuant to Section 1.13, on October 1, 1999.
- 5.2 EXTENDED DATABASE ACCESS FEE. In consideration for access to the Human Gene Trap(TM) and OmniBank(R) Databases during the Extended Access Period, MPI will pay to Lexicon a non-refundable extended database access fee of (a) ***** payable within 15 business days after the expiration of the Initial Access Period, and (b) ***** payable within 15 business days after the first anniversary of the Effective Date.
- 5.3 S-T-V(TM) PROGRAM. In the event MPI wishes to participate in Lexicon's S-T-V(TM) Program, the parties will negotiate in good faith the fees payable to Lexicon on a project by project basis.
- 5.4 HUMANIZED MOUSE PROGRAM. In the event MPI wishes to participate in Lexicon's

CONFIDENTIAL - 9/23/99

Humanized Mouse Program, the parties will negotiate in good faith the fees payable to Lexicon on a project by project basis.

- 5.5 OPTION FEE FOR A THERAPEUTIC PROTEIN. MPI will pay to Lexicon a non-refundable option fee of ***** for each Therapeutic Protein subject to a Therapeutic Option, payable within 10 business days after Lexicon grants such Therapeutic Option to MPI.
- 5.6 OPTION EXTENSION FEE FOR A THERAPEUTIC PROTEIN. MPI will pay to Lexicon a non-refundable option extension fee of ***** for each Therapeutic Protein subject to a Therapeutic Option for which MPI elects to extend the Therapeutic Option for an additional ***** period, payable upon the expiration of the initial Therapeutic Option period.
- 5.7 PRODUCT LICENSE FEE FOR A LICENSED THERAPEUTIC PROTEIN. MPI will pay to Lexicon a non-refundable product license fee of ***** for each Licensed Therapeutic Protein, payable at the time MPI obtains an exclusive commercial product license to such Licensed Therapeutic Protein.
- 5.8 OPTION FEE FOR AN ANTISENSE DRUG. MPI will pay to Lexicon a non-refundable option fee of ***** for each Antisense Drug subject to an Antisense Option, payable within 10 business days after Lexicon grants such Antisense Option to MPI.
- 5.9 OPTION EXTENSION FEE FOR AN ANTISENSE DRUG. MPI will pay to Lexicon a non-refundable option extension fee of ***** for each Antisense Drug subject to an Antisense Option for which MPI elects to extend the Antisense Option for an additional ***** period, payable upon the expiration of the initial Antisense Option period.
- 5.10 PRODUCT LICENSE FEE FOR A LICENSED ANTISENSE DRUG. MPI will pay to Lexicon a non-refundable product license fee of ***** for each Licensed Antisense Drug, payable at the time MPI obtains an exclusive commercial product license to such Licensed Antisense Drug.
- 5.11 PCR CLONE. MPI will pay to Lexicon ***** for each PCR clone provided to MPI by Lexicon pursuant to Section 4.3.
- 5.12 FULL-LENGTH CLONE. MPI will pay to Lexicon ***** for each full-length clone provided to MPI by Lexicon pursuant to Section 4.4.
- 5.13 MILESTONE PAYMENTS FOR EACH LICENSED SMALL MOLECULE DRUG OR LICENSED ANTIBODY DRUG. Within 30 days after achievement of each of the milestones set forth below for a Licensed Small Molecule Drug or Licensed Antibody Drug, MPI will pay to Lexicon the non-refundable milestone payment set forth below:

CONFIDENTIAL - 9/23/99

- 5.14 ROYALTY FOR EACH LICENSED SMALL MOLECULE OR LICENSED ANTIBODY DRUG. MPI will pay to Lexicon ***** of Net Sales of each Licensed Small Molecule Drug or Licensed Antibody Drug.
- 5.15 MILESTONE PAYMENTS FOR EACH LICENSED THERAPEUTIC PROTEIN. Within 30 days after achievement of each of the milestones set forth below for a Licensed Therapeutic Protein, MPI will pay to Lexicon the non-refundable milestone payment set forth below:
- *****
- *****
- 5.16 ROYALTY FOR EACH LICENSED THERAPEUTIC PROTEIN.
- (a) MPI will pay to Lexicon on a country-by-country basis, (i) ***** and (ii) *****.
- (b) *****
- 5.17 ROYALTY OFFSETTING PROVISION. In the event that MPI and/or any of its Affiliates are required to obtain a license for ***** regarding a Licensed Therapeutic Protein and MPI's total royalty obligations to third parties, including royalties owed to Lexicon, exceeds **** related to ***** then MPI may, on a country-by-country basis, credit ***** of the royalty rate that exceeds ***** against Lexicon's royalty rate; provided, however, that in no event will Lexicon's royalty rate be reduced below ***** of its initial royalty rate. *****
- 5.18 SPECIAL PROVISION FOR ROYALTY PAYMENTS. *****
- 5.19 MILESTONE PAYMENTS FOR EACH LICENSED ANTISENSE OR GENE THERAPY DRUG. Within 30 days after achievement of each of the milestones set forth below for a Licensed Antisense Drug or Gene Therapy Drug, MPI will pay to Lexicon the non-refundable milestone payment set forth below:
- *****
- *****

CONFIDENTIAL - 9/23/99

5.20 ROYALTY FOR EACH LICENSED ANTISENSE DRUG OR LICENSED GENE THERAPY DRUG.

(a) MPI will pay to Lexicon on a country-by-country basis, (i) ***** and (ii) *****

(b) *****

5.21 MILESTONE PAYMENTS FOR EACH LICENSED DIAGNOSTIC PRODUCT. Within 30 days after the first regulatory marketing approval for a Licensed Diagnostic Product in a Major Market Country, MPI will pay to Lexicon *****.

5.22 ROYALTY FOR EACH LICENSED DIAGNOSTIC PRODUCT. MPI will pay to Lexicon on a country-by-country basis (a) ***** (b) *****.

5.23 *****

5.24 ADDITIONAL MILESTONE PAYMENTS FOR EACH NOVEL GENE.

(a) Within 30 days after the initiation of Pre-IND Studies for each Therapeutic Protein or Antisense Drug relating to a Lexicon Sequence corresponding to a given Novel Gene, MPI will pay to Lexicon ***** in addition to the milestone payments under Section 5.15 or 5.19 and royalty payments under Sections 5.16 or 5.20 payable to Lexicon; and

(b) Within 30 days after the initiation of Pre-IND Studies for each Antibody Drug, Small Molecule Drug or Gene Therapy Drug relating to a Lexicon Sequence corresponding to a given Novel Gene, MPI will pay to Lexicon ***** in addition to the milestone payments under Sections 5.13 or 5.19 and royalty payments under Sections 5.14 or 5.20 payable to Lexicon.

5.25 TERM OF ROYALTY OBLIGATIONS. MPI's obligation to make royalty payments with respect to a Licensed Product will commence on the First Commercial Sale of such Licensed Product in a given country and will continue until the later of (a) the expiration of the last to expire patent covering such Licensed Product in such country, or (b) ***** years after the First Commercial Sale of such Licensed Product in such country. *****

5.26 *****

5.27 CORPORATE PARTNERS AS SUBSCRIBERS TO THE HUMAN GENE TRAP(TM) DATABASE. In the event a Corporate Partner who is also a subscriber to the Human Gene Trap(TM) Database, elects, primarily as a result of work conducted by MPI and/or MPI's Affiliates, to pursue the discovery, development and commercialization of an Antibody Drug, Antisense Drug, Diagnostic Product, Gene Therapy Drug, Small Molecule Drug or Therapeutic Protein for which it would need to practice rights to a particular Program Clone and/or Lexicon Sequence granted by Lexicon under such Corporate Partner's own agreement with Lexicon, MPI and such Corporate Partner shall

CONFIDENTIAL - 9/23/99

agree upon and advise Lexicon in writing as to which of the two parties shall be responsible for the payments due to Lexicon and Lexicon shall waive the payments otherwise due Lexicon from the other party in connection with any such Antibody Drug, Antisense Drug, Diagnostic Product, Gene Therapy Drug, Small Molecule Drug or Therapeutic Protein developed by such Corporate Partner.

ARTICLE 6

PAYMENTS; RECORDS; AUDITS

- 6.1 PAYMENT; REPORTS. Royalty payments will be calculated and reported for each calendar quarter. All royalty payments due to Lexicon under this Agreement will be paid within ***** of the end of each calendar quarter, unless otherwise specifically provided herein. Each payment of royalties will be accompanied by a report in sufficient detail to permit confirmation of the accuracy of the royalty payment made, including, without limitation, Net Sales, the royalties payable in United States dollars, the method used to calculate the royalty and any exchange rates used.
- 6.2 EXCHANGE RATE; MANNER AND PLACE OF PAYMENT. All payments hereunder will be payable in United States dollars. With respect to each quarter, for countries other than the United States, whenever conversion of payments from any foreign currency will be required, such conversion will be made at the rate of exchange reported in the East Coast edition of The Wall Street Journal on the last business day of the applicable reporting period. All payments owed under this Agreement will be made by wire transfer to a bank account designated by Lexicon, unless otherwise specified in writing by Lexicon.
- 6.3 LATE PAYMENTS. In the event that any payment, including any royalty payment, due hereunder is not made when due, the payment will accrue interest from the date due at the rate of ***** per month; provided however, that in no event will such rate exceed the maximum legal annual interest rate. The payment of such interest will not limit Lexicon from exercising any other rights it may have as a consequence of the lateness of any payment.
- 6.4 RECORDS AND AUDITS. During the term of this Agreement and for a period of ***** thereafter, MPI will keep complete and accurate records in sufficient detail to permit Lexicon to confirm the accuracy of all payments due hereunder. Lexicon will have the right to cause an independent, certified public accountant reasonably acceptable to MPI, who has executed MPI's then-current standard confidentiality agreement to audit such records to confirm payments due hereunder. Such audits may be exercised during normal business hours, subject to MPI's security regulations, no more than once in any 12-month period upon reasonable prior written notice to MPI. Lexicon will bear the full cost of such audit, unless such audit discloses an underpayment of more than ***** of the amount due under this Agreement. In such case, MPI will bear the full cost of such audit. In all events, MPI will pay any underpayment with interest in accordance with Section 6.3.
- 6.5 TAXES. All taxes levied on account of the royalties and other payments accruing to

CONFIDENTIAL - 9/23/99

Lexicon under this Agreement will be paid by Lexicon for its own account, including taxes levied thereon as income to Lexicon. If provision is made in law or regulation for withholding, such tax will be deducted from the royalty or other payment made by MPI to the proper taxing authority and a receipt of payment of the tax secured and promptly delivered to Lexicon. Each party agrees to assist the other party in claiming exemption from such deductions or withholdings under any double taxation or similar agreement or treaty from time to time in force.

ARTICLE 7

CONFIDENTIALITY

During the term of this Agreement and for a period of ***** thereafter, each party will maintain all Confidential Information of the other party as confidential and will not disclose any Confidential Information of the other party to any Third Party or use any Confidential Information of the other party for any purpose, except (a) as expressly authorized by this Agreement, (b) as required by law, rule, regulation or court order (provided that the disclosing party will use commercially reasonable efforts to obtain confidential treatment of any such information required to be disclosed), (c) to its Affiliates, Corporate Partners, Academic Collaborators, sublicensees, employees, agents, consultants, and other representatives to accomplish the purposes of this Agreement so long as such persons are under an obligation of confidentiality no less stringent than as set forth herein or (d) as is reasonably necessary to file or prosecute patent applications or to conduct preclinical or clinical trials. Each party may use such Confidential Information only to the extent required to accomplish the purposes of this Agreement. Each party will use at least the same standard of care as it uses to protect its own Confidential Information to ensure that its Affiliates, sublicensees, employees, agents, consultants, and other representatives do not disclose or make any unauthorized use of Confidential Information of the other party. Each party will promptly notify the other party upon discovery of any unauthorized use or disclosure of Confidential Information of the other party.

ARTICLE 8

REPRESENTATIONS; WARRANTIES; INDEMNIFICATION

- 8.1 CORPORATE POWER. Each party hereby represents and warrants that it is duly organized, validly existing and in good standing under the laws of the state of its incorporation and has full corporate power and authority to enter into this Agreement and to carry out the provisions hereof.
- 8.2 DUE AUTHORIZATION. Each party hereby represents and warrants that such party is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder.
- 8.3 BINDING AGREEMENT. Each party hereby represents and warrants that this Agreement is a legal and valid obligation binding upon it and is enforceable in accordance with its terms. The execution, delivery and performance of this Agreement by such party does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having authority over it.

CONFIDENTIAL - 9/23/99

8.4 PATENTS. Lexicon hereby represents and warrants that: (i) prior to releasing any DNA sequence from a Program Clone present in the Human Gene Trap(TM) Database that it believes to be novel to any party outside of Lexicon and/or prior to the disclosure to any party outside of Lexicon of any full-length gene sequence that it believes to contain novel DNA sequence information, it will file such patent applications as are necessary to obtain Lexicon Patent Rights with respect to, or representative of, such Program Clone(s) and/or such full-length sequence as the case may be, ***** (ii) during the Access Period, it will, consistent with reasonable commercial and patent practices, prosecute such patent applications and maintain such patents as may issue thereon and (iii) subsequent to the grant to MPI of any type of commercialization option or license hereunder with respect to a Program Clone or set of Program Clones corresponding to a given gene, consistent with reasonable commercial and patent practices, continue to prosecute the patent applications pertaining to such Program Clone or set of Program Clones and to maintain such patents as may issue thereon. In the event that MPI shall be granted an exclusive commercial product license for a Licensed Therapeutic Protein or a Licensed Antisense Drug and Lexicon shall desire to cease to prosecute or maintain a patent application or patent pertaining to the related Program Clone or set of Program Clones, Lexicon shall provide MPI with prompt notice (but in no event less than ***** notice prior to any required action necessary to prosecute or maintain such patent application or patent) and, thereupon, MPI shall have the right to assume such prosecution or maintenance, in the name and on behalf of Lexicon, and to offset all of its reasonable and documented costs that are directly associated with such prosecution and maintenance against any payments due to Lexicon in relation to such Licensed Therapeutic Protein or Licensed Antisense Drug.

8.5 DATABASE WARRANTIES. Lexicon hereby represents, warrants and covenants to MPI as follows:

- (a) Lexicon has the right to grant access to the Human Gene Trap(TM) and OmniBank(R)
- (b) Databases and licenses contemplated in this Agreement, subject to the intellectual property rights of others in gene sequence information independently generated by parties other than Lexicon;
- (c) as of the date of delivery to MPI, the Human Gene Trap(TM) Database contains at least ***** H-TSTs of tag length greater than ***** nucleotides and with an average length of approximately ***** base pairs or more, and the OmniBank(R) Database contains at least ***** OSTs of tag length greater than ***** nucleotides;
- (d) the Human Gene Trap(TM) Database and the OmniBank(R) Database in the form delivered to MPI does not contain any disabling device, code, computer virus or defect that will with the passage of time or otherwise, impair the functionality or use of the Human Gene Trap(TM) Database and/or OmniBank(R) Database;

CONFIDENTIAL - 9/23/99

- (e) the Human Gene Trap(TM) Database and the OmniBank(R) Database in the form delivered to MPI shall not in any way malfunction, cease to function, or produce incorrect data or results as a result of the Year 2000, and
- (f) the Human Gene Trap(TM) Database and OmniBank(R) Databases were prepared with and will be maintained and updated with professional skill and care.

8.6 DISCLAIMER OF WARRANTIES. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, NEITHER PARTY MAKES ANY REPRESENTATION OR WARRANTY TO THE OTHER PARTY OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF TITLE, NON-INFRINGEMENT, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

8.7 LIMITATION OF LIABILITY. NEITHER PARTY WILL BE ENTITLED TO RECOVER FROM THE OTHER PARTY ANY SPECIAL, INCIDENTAL, EXEMPLARY, CONSEQUENTIAL OR PUNITIVE DAMAGES IN CONNECTION WITH THIS AGREEMENT.

8.8 INDEMNIFICATION. MPI hereby agrees to save, defend, indemnify and hold harmless Lexicon and its officers, directors, employees, consultants, agents and other representatives from and against all losses, damages, liabilities, expenses and costs, including reasonable legal expense and attorneys' fees ("Losses"), to which Lexicon may become subject as a result of any claim, demand, action or proceeding by any Third Party to the extent such Losses arise out of or result from (a) the practice by MPI of the licenses granted hereunder, or (b) the development, manufacture, use, handling, storage, sale or other disposition of any Licensed Product by MPI, its Affiliates or sublicensees. In the event Lexicon seeks indemnification under this Section 8.8, it will promptly inform MPI of a claim in writing, will permit MPI to assume direction and control of the defense of the claim including the right to settle the claim, and will cooperate as requested at the expense of MPI, in the defense of the claim. The foregoing MPI indemnification obligations shall not apply if such claim, demand, action or proceeding arises as a result of Lexicon's breach of the warranties set forth in Section 8.5.

ARTICLE 9

TERM; TERMINATION

9.1 TERM. This Agreement will commence as of the Effective Date and will continue until the expiration of all of MPI's obligations to pay royalties hereunder with respect to Licensed Products, unless terminated earlier as provided herein.

9.2 TERMINATION. Either party may terminate this Agreement prior to the expiration of the term of this Agreement upon or after the breach of any material provision of this Agreement by the other party if the breaching party has not cured such breach within ***** after written notice thereof by the non-breaching party.

CONFIDENTIAL - 9/23/99

- 9.3 TERMINATION BY MPI. MPI may terminate this Agreement by providing written notice of termination to Lexicon at least ***** prior to the expiration of the Initial Access Period. In the event MPI terminates this Agreement prior to the expiration of the Initial Access Period, MPI will provide to Lexicon a written report citing its reasons for termination, including general statistical data MPI discovered regarding the novelty of the Human Gene Trap(TM) and OmniBank(R) Databases compared to MPI's internal proprietary databases.
- 9.4 EFFECT OF TERMINATION.
- (a) *****Upon termination of this Agreement subsequent to the Initial Access Period, (i) MPI's access to the Human Gene Trap(TM) Database and OmniBank(R) Database and research and development licenses shall terminate, (ii) any commercial product licenses shall continue in full force and effect, subject to the terms and conditions of this Agreement, and (iii) MPI will promptly delete from its databases all other data provided by Lexicon to MPI during the Access Period related to the Human Gene Trap(TM) and OmniBank(R) Databases and all other Lexicon Sequences which are not related to such commercial product licenses. Notwithstanding the foregoing, in the event MPI fails to pay any fees or royalties for an individual commercial product license, Lexicon shall have the right to terminate the commercial product license for which payment was not made.
 - (b) Within 30 days following the expiration or termination of this Agreement, each party will return to the other party, or destroy, upon the written request of the other party, any and all Confidential Information of the other party in its possession.
 - (c) Expiration or termination of this Agreement will not relieve the parties of any obligation accruing prior to such expiration or termination. The provisions of Sections 6.4, 8.4, 8.5, 8.6, 8.7, 8.8 and 9.4 and Articles 1, 7 and 10 will survive termination or expiration of this Agreement.

ARTICLE 10

MISCELLANEOUS

- 10.1 FORCE MAJEURE. Neither party will 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 term of this Agreement (other than non-payment) when such failure or delay is caused by or results from causes beyond the reasonable control of the affected party, including, without limitation, fire, floods, earthquakes, natural disasters, embargoes, war, acts of war (whether war be 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.

CONFIDENTIAL - 9/23/99

- 10.2 ASSIGNMENT. Except as expressly provided hereunder, neither this Agreement nor any rights or obligations hereunder may be assigned or otherwise transferred by either party without the prior written consent of the other party (which consent will not be unreasonably withheld); provided, however, that either party may assign this Agreement and its rights and obligations hereunder without the other party's consent (a) in connection with the transfer or sale of all or substantially all of the business of such party to which this Agreement relates to a Third Party, whether by merger, sale of stock, sale of assets or otherwise, or (b) to an Affiliate. Notwithstanding the foregoing, any such assignment to an Affiliate will not relieve the assigning party of its responsibilities for performance of its obligations under this Agreement. In the event of such transaction with an unrelated Third Party, notwithstanding the other provisions of this Agreement, the intellectual property rights of such Third Party shall not be subject to the licenses granted under this Agreement. The rights and obligations of the parties under this Agreement will be binding upon and inure to the benefit of the successors and permitted assigns of the parties. Any assignment not in accordance with this Agreement will be void.
- 10.3 GOVERNING LAW. This Agreement will be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to any choice of law provisions which would result in the application of the law of another jurisdiction.
- 10.4 ENTIRE AGREEMENT; AMENDMENT. This Agreement and the Knock-Out Agreement (including the Exhibits attached hereto) set forth all of the agreements and understandings between the parties hereto with respect to the subject matter hereof, and supersede and terminate all prior agreements and understandings between the parties with respect to the subject matter hereof. There are no agreements or understandings with respect to the subject matter hereof, either oral or written, between the parties other than as set forth herein. Except as expressly set forth in this Agreement, no subsequent amendment, modification or addition to this Agreement will be binding upon the parties hereto unless reduced to writing and signed by the respective authorized officers of the parties.
- 10.5 PUBLICITY. Except as provided in this Section 10.5, Lexicon and MPI each agree not to disclose any terms or conditions of this Agreement to any Third Party without consulting the other party prior to such disclosure. Notwithstanding the foregoing, prior to the Effective Date of this Agreement, Lexicon and MPI shall agree upon the substance of information that can be used as a routine reference in the usual course of business to describe the existence and general nature of this transaction, and Lexicon and MPI may, on or after the Effective Date, disclose such information without consulting the other party. The parties may thereafter from time to time mutually agree on revisions to material to be used as a routine reference, which revisions shall be submitted by one party for the review and approval of the other party at least ten (10) days prior to the anticipated use or disclosure of the revised material, such approval not to be unreasonably withheld or delayed. If either party desires to release a separate announcement relating to this Agreement, to the extent such separate announcement contains information concerning the other party that differs from the materials previously agreed upon for use as a routine reference, it shall first allow the other party to approve in writing such proposed announcement in redacted form, such approval not to be unreasonably withheld or delayed.

CONFIDENTIAL - 9/23/99

- 10.7 INDEPENDENT CONTRACTORS. It is expressly agreed that Lexicon and MPI will be independent contractors and that the relationship between the two parties will not constitute a partnership, joint venture or agency of any kind. Neither party will have the authority to make any statements, representations or commitments of any kind, or to take any action, which will be binding on the other party, without the prior written consent of the other party.
- 10.8 WAIVER. Except as specifically provided for herein, the waiver from time to time by either party of any right or failure to exercise any remedy will not operate or be construed as a continuing waiver of the same right or remedy or of any other of such party's rights or remedies provided under this Agreement.
- 10.9 SEVERABILITY. In case any provision of this Agreement will be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions will not in any way be affected or impaired thereby.
- 10.10 HEADINGS. The captions contained in this Agreement are not a part of this Agreement, but are merely guides or labels to assist in locating and reading the several Articles hereof.
- 10.11 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.
- 10.12 DISPUTES. Any controversy, claim or dispute arising out of or relating to this Agreement shall be settled, if possible, through good faith negotiations between the parties. If, however, the parties are unable to settle such dispute after good faith negotiations, the matter shall be referred to the executive officers of each company to be resolved by negotiation in good faith as soon as is practicable but in no event later than 30 days after referral. If the executive officers are unable to settle the dispute after good faith negotiation in the manner set forth above, then in addition to any other recourse in law or in equity available to either party, with respect to issues directly relating to (a) Lexicon's reasonable, good faith belief that MPI or its Affiliates are developing or have developed a product using a specific Program Clone that (i) requires a commercial product license under this Agreement and for which MPI and/or its Affiliates have not complied with the material terms and conditions of this Agreement necessary to obtain such commercial product license or (ii) for which Lexicon is entitled to milestone payments and/or royalties under this Agreement and for which undisputed amounts have not been paid by Millennium and/or its Affiliates or (b) MPI and/or its Affiliates reasonable, good faith belief that Lexicon has failed to comply with its obligations set forth in Section 2.20(a) of this Agreement, then upon written notice to the other party, either party may proceed with the procedures set forth in the Escrow Agreement.

CONFIDENTIAL - 9/23/99

IN WITNESS WHEREOF, the parties have executed this Agreement as of the latest date set forth below.

LEXICON GENETICS INCORPORATED

MILLENNIUM PHARMACEUTICALS, INC.

By: /S/ Arthur T. Sands

By: /s/ Steven H. Holtzman

Name: Arthur T. Sands

Name: Steven H. Holtzman

Title: President and Chief
Executive Officer

Title: Chief Business Officer

Date: 9/28/99

Date: 9/27/99

EXHIBIT A

MUTANT MOUSE PROGRAM

During each year of the Access Period, MPI may submit one or more written purchase orders to Lexicon to purchase up to **** custom mutant mice under the financial terms described below. Lexicon will generate custom mutant mice (e.g. conditionals, point mutations or standard deletions) for MPI and provide updates every two months as to Lexicon's progress in generating such custom mutant mice. The cost and time to generate a custom mutant mouse will depend upon the type of mutant mouse requested as described below. The main procedures Lexicon will perform to generate a custom mutant mouse are described below. Mutant mice made by homologous recombination under this program will be subject to the terms and conditions of the collaboration agreement between Millennium Pharmaceuticals, Inc. and Lexicon Genetics Incorporated and any successor to such Agreement, dated June 24, 1999, unless otherwise agreed to in writing by the parties.

I. PRICING

MUTANT MICE GENERATED BY HOMOLOGOUS RECOMBINATION:

Non Cre-Lox	*****
Cre-Lox	*****

MUTANT MICE GENERATED BY OMNIBANK(R) METHOD (E.G. USING EMBRYONIC STEM CELLS DERIVED FROM OMNIBANK(R) SEQUENCE TAGS):

Omnibank(R)Mice	*****
-----------------	-------

The parties agree to negotiate in good faith the terms under which MPI will receive non-exclusive rights to and delivery of mice generated under the Omnibank(R) Method.

II. GENERAL CUSTOM MUTANT MOUSE SCIENTIFIC PROCEDURES

EXHIBIT B

SEEK TARGET VALIDATION (S-T-V(TM)) PROGRAM

The S-T-V Program includes the generation of custom mutant mice and primary phenotypic analysis of the mutant mouse to help discern the drug target's biological function in vivo. The price for each S-T-V Program is based on a project by project scenario for a specific gene of interest to the partner and depends on the number and type of experiments performed as depicted below through Levels I - III.

Upon completion of the mutant mouse for a specific S-T-V Program, Lexicon will work with its partner to identify a battery of biological experiments to perform under this project. Although not inclusive, the following list provides a sample representation of the breadth of biological experiments Lexicon can perform to better understand the biological function of the Drug Target.

LEVEL I - PRIMARY BIOLOGICAL ANALYSIS

Level I analysis is designed to identify primary pathophysiological perturbations resulting from engineered mutations. Although not an exhaustive list, primary phenotypic screens may include any or all of the following scientific experiments.

FULL ANATOMICAL AND HISTOLOGICAL ANALYSIS ON MUTANT ANIMALS:

Additional cost for biological experiments under Level I: *****

LEVEL II - ORGAN AND PHYSIOLOGIC SYSTEMS ANALYSIS

Level II analysis is designed as a continuation of the Level I preliminary analysis of the pathophysiological perturbations resulting from engineered mutations. Level II analysis is focused on organ and system function and represents an exhaustive analysis of organismal physiology. Phenotypic screen analysis under Level II may include any or all of the following scientific experiments. Additional screens and assays to be conducted shall be determined by the parties in accordance to the specific requirements of such project.

FULL ORGAN AND PHYSIOLOGIC SYSTEMS FUNCTIONAL ANALYSIS:

Additional cost for biological experiments under Level II: *****

CONFIDENTIAL - 9/23/99

LEVEL III - PATHWAY DISCOVERY AND ANALYSIS

Level III analysis is designed as a continuation of the Level I and Level II analysis of the pathophysiological perturbations resulting from engineered mutations. Level III analysis is designed to define biochemical pathways, identify new drug-targets and to define the biochemical mechanism of the pathophysiology identified in the Level I and Level II analysis. Level III analysis utilizes biochemistry, cell biology, enzymology, molecular biology and other biological disciplines to define the molecular mechanism leading to the identified dysfunction. Level III analysis further exploits gene expression profiling with mutant, heterozygous and wild-type mouse strains that differ in only one gene. These animals are the perfect substrate for gene expression profiling analysis. This analysis will identify up-regulated and down-regulated genes responsive to the initial genetic perturbation. This analysis is substantially aided by Lexicon's proprietary gene-trap sequence tags, which provide the advantage to analyze tens-of-thousands of novel genes. In addition Lexicon will analyze the target protein for interacting proteins by two-hybrid analysis.

Additional cost for biological experiments under Level III: *****

AGREEMENT

This Agreement (the "AGREEMENT") is made as of March 21, 1997 (the "EFFECTIVE DATE"), by and among Lexicon Genetics, Inc., a Delaware corporation having its principal offices at 4000 Research Forest Drive, The Woodlands, Texas 77381 ("LEXICON") and Merck Genome Research Institute, a Delaware not-for-profit corporation having its principal offices at 770 Sumneytown Pike, West Point, Pennsylvania 19486 ("MGRI").

PRELIMINARY STATEMENT

WHEREAS, MGRI is a non-profit corporation dedicated to the support of research regarding the genome, and in furtherance of such research provides support to various nonprofit research organizations which are doing research with regard to the genome; and

WHEREAS, Lexicon is conducting research to develop a proprietary library of embryonic stem cell clones containing mutations in genes designed to accelerate genomic research which it calls "OmniBankTM "; and

WHEREAS, Lexicon owns or has rights to, and expertise in, certain methods of producing "Mutant Mice", as defined herein, derived from OmniBankTM; and

WHEREAS, MGRI intends to distribute or contribute the Mutant Mice to one or more not-for-profit organizations ("NFP") which will distribute the Mutant Mice for "Research" as defined herein; and

WHEREAS, MGRI is willing to pay Lexicon to produce Mutant Mice for such distribution and Lexicon is willing to produce such Mutant Mice;

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

ARTICLE I

1. DEFINITIONS

Capitalized terms used in this Agreement, both in the singular and the plural, which are not otherwise defined herein shall have the following respective meanings:

***** denotes confidential information with respect to which a separate confidential treatment request has been filed with the Securities and Exchange Commission.

- 1.1 "CLAIM" means any pending or threatened claim, demand, investigation, cause of action, suit, default, assessment, litigation, third party action, arbitration proceeding or proceeding by or before any governmental authority or any other Person.
- 1.2 "CONFIDENTIAL INFORMATION" shall mean any information which either party or a member ("Member") of the Mutation Selection Committee has treated as confidential, including but not limited to information relating to OmniBank™, which information is disclosed by either party or a Member to MGRI and/or Lexicon, as necessary or useful to the parties under this Agreement and which has been designated in writing by the disclosing party as Confidential Information at the time of such disclosure. Confidential Information shall specifically include any information disclosed by or among the parties or their agents during the negotiations for this Agreement. Confidential Information does not include, however, any information which (i) was rightfully in the possession of the receiving party prior to the date of disclosure to it, (ii) was in the public domain prior to the date of disclosure, (iii) becomes part of the public domain by publication or by other means, except through an unauthorized act or omission on the part of the receiving party or any other Person, (iv) is supplied to the receiving party without restriction by a Third Party who is under no obligation to the disclosing party to maintain such information in confidence or (v) any information developed independently by or for the receiving party, provided, however, that it is conclusively established that such information was independently developed.
- 1.3. "LEXICON INTELLECTUAL PROPERTY" shall mean all trade secrets, know-how, patents, patent applications, trademarks, copyrights and other intellectual property of any type owned or controlled by Lexicon as of the Effective Date or in the future, including, without limitation, Confidential Information, which is necessary or useful to the parties in performing the work required or permitted under this Agreement.
- 1.4 "LIABILITY" means, with respect to any Person, any indebtedness, obligation and other liability of such Person, whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due.
- 1.5 "LOSSES" means any and all damages (including consequential, punitive and exemplary), fines, penalties, judgments, deficiencies, losses, costs and expenses, including court costs, reasonable fees of attorneys, accountants and other experts and other reasonable expenses associated with any Claim.
- 1.6 "MUTANT MICE" shall mean a line of mice heterozygous for a Standard Mutation, chosen by the Mutation Selection Committee, wherein such mice transmit the Standard Mutation, in the form of a mutant allele, through the germ line.

- 1.7 "MUTATION SELECTION COMMITTEE" and "COMMITTEE" shall mean *****.
- 1.8 "OMNIBANK(TM)" shall mean Lexicon's proprietary library of embryonic stem cell clones containing mutations in particular genes, which genes are identified by DNA sequence.
- 1.9 "RESEARCH" shall mean research which does not relate to the sale, lease, license or other transfer of the Mutant Mice or to the sale of services involving the use of the Mutant Mice.
- 1.10 "PERSON" means any individual, firm, corporation, trust, association, company, limited liability company, joint stock company, partnership, joint venture, governmental authority or other entity or enterprise.
- 1.11 "SET" shall mean up to ***** of Mutant Mice which are heterozygous for one selected Standard Mutation.
- 1.12 "STANDARD MUTATION" shall mean a gene trap insertion generated as part of Lexicon's OmniBankTM program for a specific gene.
- 1.13 "THIRD PARTY" shall mean any Person other than Lexicon, MGRI or NFP.

ARTICLE II

2. DEVELOPMENT

- 2.1 DEVELOPMENT. Lexicon hereby agrees to generate and develop 150 different Sets of Mutant Mice (i.e., each Set shall have a different Standard Mutation) pursuant to the terms herein.
- 2.2 GENERATION OF STANDARD MUTATIONS. Upon the Effective Date, Lexicon will commence the generation of Standard Mutations in embryonic stem cells for the production of the Mutant Mice from OmniBankTM. Lexicon will generate Standard Mutations for the production of Mutant Mice no later than the date of the first meeting of the Mutation Selection Committee. Lexicon will continue to generate Standard Mutations for no less than ***** after the ***** anniversary of the Effective Date unless such work is completed earlier.

2.3 SELECTION OF THE STANDARD MUTATIONS. The Mutation Selection Committee shall meet to select the Standard Mutations to be included in each group of Mutant Mice to be produced by Lexicon hereunder. Such meetings shall be coordinated by Lexicon and called and administered by MGRI. The first meeting shall be held no sooner than ***** after the Effective Date, and subsequent meetings shall be held no more frequently than every ***** thereafter unless otherwise agreed to by the parties hereto. Sufficiently in advance of each such meeting to enable Committee review and preparation, Lexicon shall provide the Committee with all information, including Confidential Information, necessary or useful to the Committee in performing its selections of Standard Mutations and concerning the Standard Mutations that have been generated by Lexicon up to that time. MGRI shall designate a Chairperson of the Committee. At each meeting Lexicon shall report to the Committee all of the Standard Mutations that have been generated up to that time; provided, however, Lexicon shall not be required to include in such report Standard Mutations for which Lexicon has, at such time, entered into an agreement with a Third Party for the production of Mutant Mice with such Standard Mutations. The Committee shall discuss the Standard Mutations listed in the report and choose from that list those Standard Mutations to be included in the next group of Mutant Mice to be produced by Lexicon as provided in Section 2.4; provided, however, that the Committee shall not knowingly select a Standard Mutation which has already been the subject of published data from Third Parties including, without limitation, patents, published patent applications, or presented or published research. Subject in all cases to the confidentiality provisions herein, the Committee may, in its discretion, solicit advice from Third Parties regarding the appropriate fields of research and Standard Mutations to consider for selection.

2.3.1 At each meeting, the Mutation Selection Committee shall choose that number of Standard Mutations equal to ***** in accordance with Section 2.4. The Committee shall determine the process by which it selects the Standard Mutations to be incorporated in the Mutant Mice. In addition to the selected Standard Mutations, the Committee shall provide Lexicon with a list of not fewer than ***** alternate Standard Mutations. If Lexicon is unable to produce a Mutant Mouse with a given selected Standard Mutation due to third party rights, as provided in Section 4.4 or nonviability of the heterozygous Mutant Mice, as provided in Section 2.4, the next listed alternate Standard Mutation shall become a selected Standard Mutation in lieu of the original selected Standard Mutation.

2.3.2 The Committee shall immediately notify Lexicon in writing of its selections. A Committee selection may not be withdrawn or modified if Lexicon has begun working on such selection, except with the written consent of Lexicon, which may be withheld in its sole reasonable discretion.

- 2.3.3 If for any reason the Committee fails to meet and notify Lexicon of its selections within the time provided above, the delivery date for the corresponding group of Mutant Mice shall be delayed an equivalent amount of time.
- 2.4 PRODUCTION OF MUTANT MICE. Lexicon will commence production of each group of Mutant Mice within ***** of receiving notification of the Mutation Selection Committee's decisions. Lexicon will complete the production of ***** selected by the Mutation Selection Committee, no later than ***** anniversary of the Effective Date, an additional group of ***** no later than the ***** anniversary of the Effective Date and ***** no later than each of ***** anniversaries of the Effective Date. If the nature of any of the Standard Mutations chosen prevents the production of a living Mutant Mouse heterozygous for such Standard Mutation, the parties hereto shall evaluate such conclusion and shall agree that either an alternate Standard Mutation shall be substituted for such selected Standard Mutation or Lexicon shall be deemed to have met its obligations hereunder by production and delivery of an embryonic stem cell with the original Standard Mutation.
- 2.5 SELECTION OF NFP. MGRI will select, after consultation with Lexicon, one or more not-for-profit organizations to act as the NFP. Such selection shall be made no later than the first anniversary of the Effective Date.
- 2.6 DELIVERY OF MUTANT MICE. Upon the birth of the first generation of any type of Mutant Mouse hereunder and provided such litter contains at least ***** Mutant Mice, Lexicon shall deliver one-half of such litter, dividing the males and females as evenly as possible, to MGRI or NFP. Delivery shall be in accordance with MGRI's, NFP's and Lexicon's mouse transfer policies. Lexicon shall certify to MGRI and NFP that each Mutant Mouse is heterozygous for the identified Standard Mutation. If the first generation litter does not include ***** Lexicon shall deliver breeding pairs from the second generation. Lexicon shall not be obligated to deliver a full Set for any Standard Mutation unless NFP or MGRI requests such a delivery. Normal packing and shipping costs for delivery by public carrier to MGRI and NFP shall be at Lexicon's expense. MGRI or NFP may elect, at its sole expense, to provide for an alternative delivery method.
- 2.7 BACK-UP COLONY. Lexicon shall maintain a back-up colony of ***** for each Standard Mutation for a minimum of *****.
- 2.8 PROJECT MANAGERS. Each party shall identify an employee who is the Project Manager for the work contemplated by this Agreement. The Project Managers shall be responsible for the coordination of his or her employer's efforts hereunder with the other parties and resolving, if possible, any issues or problems which arise. A party may replace its Project Manager at any time in its sole discretion.

2.9 OWNERSHIP/LICENSE GRANT.

- 2.9.1 Subject to the license granted below, Lexicon shall own and retain all rights to the Mutant Mice, including, but not limited to, the rights to produce, breed, sell or license the Mutant Mice and Lexicon Intellectual Property, as well as all inventions or discoveries made solely by its employees in the course of producing the Mutant Mice.
- 2.9.2 Lexicon hereby grants to MGRI a worldwide exclusive license under the Lexicon Intellectual Property, sublicensable by it consistent with its not-for-profit status, to use and breed, have bred, and to distribute the Mutant Mice for Research. MGRI and/or NFP shall notify all recipients of the Mutant Mice in writing of the restrictions on use of the Mutant Mice under Section 4.2 and shall upon delivering any Mutant Mice to a Third Party provide Lexicon with the name and address of such party and the type of Mutant Mouse delivered. Notwithstanding the foregoing license grant, Lexicon reserves to itself and its "Collaborators", as hereinafter defined, a personal, nontransferable right to breed, have bred and use (but not distribute) Mutant Mice for Research. "Collaborator" shall mean any Third Party with whom Lexicon enters into an agreement to perform cooperative Research. Collaborators shall agree to use the Mutant Mice only in performing the collaborative Research with Lexicon and shall acknowledge in writing the limitations of Section 4.2(i) and 4.2(ii). Lexicon shall not enter into any cooperative Research agreement for a particular Mutant Mouse with a Collaborator prior to the date on which MGRI or NFP makes such Mutant Mouse publicly available.
- 2.9.3 Except for the license granted in this Section 2.9, Lexicon does not grant to MGRI or NFP any license under the Lexicon Intellectual Property.

- 2.10 DISTRIBUTION. MGRI shall use, and agrees to require NFP to use, reasonable efforts to ensure wide spread availability and distribution of the Mutant Mice for Research.

ARTICLE III

3. PAYMENT.

- 3.1 PAYMENT TO LEXICON. Subject to the terms and conditions set forth in this Agreement, in consideration of the development, production and delivery to MGRI and/or NFP of the Mutant Mice as provided herein, MGRI agrees to pay Lexicon a total of Eight Million Dollars in accordance with the schedule set forth in Exhibit A.

- 3.1.1 All payments which are required to be made to Lexicon upon delivery of Mutant Mice to MGRI or NFP shall occur only after receipt of certification from Lexicon that each delivered Set of Mutant Mice is heterozygous for the selected Standard Mutation and, in the event of delivery to NFP, after NFP certifies in writing to MGRI that it has received the Mutant Mice and Lexicon's certification. NFP shall send its certification to MGRI as promptly as possible after receipt of the Mutant Mice, with a copy to Lexicon, but in no event later than ***** after NFP has physically received the Mutant Mice.
- 3.1.2 All payments may be made by check delivered to Lexicon at its principal offices at The Woodlands, Texas, or by wire transfer to an account identified in writing sufficiently in advance by Lexicon.
- 3.2 COSTS INCURRED BY COMMITTEE. MGRI shall reimburse all reasonable costs incurred by the Mutation Selection Committee in performing its duties hereunder, including, without limitation, Members' reasonable travel costs and other reasonable Committee meeting expenses. In determining whether costs are reasonable, MGRI shall apply the same standards that it applies to consultants and employees working for MGRI who travel at MGRI's request. To avoid misunderstandings, the Chairperson of the Mutation Selection Committee shall advise MGRI in writing of any expenses that the Committee anticipates incurring in connection with a meeting other than travel, hotel and meals at least 30 days prior to the meeting.
- 3.3 LATE PAYMENT. If any payment due hereunder is not made when due, Lexicon shall notify MGRI and NFP by letter, advising them that, at Lexicon's option, upon the expiration of ***** from the date of such letter, Lexicon may cease work on the production of Mutant Mice and/or cease delivery of Mutant Mice until such late payment has been made by MGRI.

ARTICLE IV

4. COVENANTS AND CONDITIONS

- 4.1 BEST COMMERCIALY REASONABLE EFFORTS. Lexicon shall use its best commercially reasonable efforts to produce and deliver the Mutant Mice in accordance with the terms of this Agreement. MGRI recognizes that the production of the Mutant Mice involves a number of technologically complex steps and that technical obstacles from time to time on occasion may prevent Lexicon from producing some of the Mutant Mice on the schedule provided for herein. Lexicon shall immediately notify the Committee, MGRI and NFP of any such technical obstacle encountered and its analysis of whether the obstacle can be overcome and the time required to do so. If, after consultation with NFP and MGRI, Lexicon determines that production of such Mutant Mice within the time periods provided

for herein is not feasible using its best commercially reasonable efforts, Lexicon may notify MGRI and NFP in writing that it is extending the relevant delivery date to a date that can be accomplished using its best commercially reasonable efforts. Such amended delivery date shall then be substituted for the original date currently provided in Section 2.2, provided however that under no circumstances shall any date be extended for more than one year from its original date currently provided in Section 2.2.

- 4.2 RESTRICTIONS ON USE OF MUTANT MICE. MGRI agrees to use the Mutant Mice only for Research and otherwise only as is consistent with MGRI's not-for-profit status. NFP and MGRI may provide any of the Mutant Mice that NFP receives to Third Party researchers for use in Research, provided that each such Third Party acknowledges in writing that (i) no right is granted to further sell, lease, license or otherwise transfer the Mutant Mice provided or any of their progeny, however produced; and (ii) the Mutant Mice are provided for Research purposes only. NFP and/or MGRI shall require each recipient of Mutant Mice to agree to indemnify, defend and hold harmless all the parties hereto from and against any and all claims, losses, liabilities and damages arising from or related to the recipient's use of the Mutant Mice.
- 4.3 NO INFRINGEMENT OF THIRD PARTY RIGHTS. Lexicon shall not be obligated to generate any Standard Mutation or produce or deliver any Mutant Mouse or embryonic stem cell if Lexicon reasonably believes, with the advice of its patent counsel and after consultation with NFP and the Committee, such action would infringe upon the intellectual property rights of a Third Party. In such event, Lexicon shall consult with NFP and the Committee to achieve an acceptable solution including but not limited to the generation of a non-infringing Standard Mutation and the production of non-infringing Mutant Mice. If no acceptable solution is reasonably available, MGRI may exercise its right to terminate this Agreement pursuant to Section 8.3.

ARTICLE V

5. CONFIDENTIALITY

- 5.1 In the course of producing and delivering the Mutant Mice, the parties hereto and the Members of the Committee may disclose Confidential Information to a party, NFP and/or to the Members of the Committee as necessary and useful to the performance of the parties' obligations and to enable the parties to realize their respective benefits under this Agreement. The parties receiving Confidential Information shall not disclose any of the Confidential Information to any Third Party or use any of the Confidential Information for their own benefit or any Third Party's benefit except as expressly permitted hereunder. Members shall not further disclose Confidential Information; provided however that Members who are also employees of NFP may disclose such Confidential Information to other employees and

consultants who have a need to know such Confidential Information in order to perform this Agreement, provided that such other NFP employees and consultants agree in writing to maintain such Confidential Information in confidence in accordance with the terms of this Agreement.

- 5.2 NFP and Members shall sign a Confidentiality Agreement in a form satisfactory to Lexicon and MGRI.
- 5.3 Except as otherwise provided or permitted herein, upon expiration or termination of this Agreement, NFP, the Members and any party receiving Confidential Information shall destroy or deliver to the disclosing party any and all documents (including all copies) containing Confidential Information which are then in their possession (if any), and, at the disclosing party's request, shall certify that all such documents have been destroyed or delivered to the disclosing party and that they do not retain any such documents or any copies thereof; provided, however, that Lexicon, NFP and MGRI may retain one copy of each such document for record purposes only. The confidentiality obligations set forth in this Section will remain in effect for ten (10) years.
- 5.4 Lexicon may require any Third Party receiving a Mutant Mouse to agree in writing to similar confidentiality provisions prior to being given any Confidential Information.
- 5.5 The terms of this Agreement shall be treated as Confidential Information 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) without the written permission of MGRI and Lexicon. Notwithstanding the foregoing, the parties intend to jointly announce the execution of this Agreement and the results of other activities pursuant to this Agreement. Such announcements shall first be agreed upon by the parties in writing and may include disclosure of the amounts paid or to be paid to Lexicon hereunder and the number of Mutant Mice to be produced hereunder. If either party desires to release a separate announcement relating to this Agreement, it shall first allow the other party to approve in writing such proposed announcement; such approval shall not be unreasonably delayed or denied.

ARTICLE VI

6. WARRANTIES AND LIMITATIONS

- 6.1 Lexicon represents and warrants to MGRI that as of the Effective Date:
- 6.1.1 to the best of Lexicon's knowledge, Lexicon Intellectual Property existing as of the Effective Date is subsisting and are not invalid or unenforceable, in whole or in part;

- 6.1.2 it has the full right, power and authority to enter into this Agreement;
 - 6.1.3 to the best of Lexicon's knowledge, Lexicon Intellectual Property practiced as anticipated herein for the creation of Mutant Mice does not infringe on any intellectual property rights owned by any Third Party, and does not result from a misappropriation by Lexicon of any property owned by any Third Party;
 - 6.1.4 to the best of Lexicon's knowledge, there are no claims, liabilities, losses, judgments or settlements by or against Lexicon relating to OmniBank or affecting the Lexicon Intellectual Property or that would operate to prevent Lexicon from fulfilling its obligations in whole or in part under this Agreement;
 - 6.1.5 to the best of Lexicon's knowledge, the information Lexicon has provided to MGRI during the negotiation of this Agreement is true and correct as of the Effective Date;
 - 6.1.6 during the course of producing the Standard Mutations and Mutant Mice, Lexicon will not knowingly infringe any valid patents; provided, however, Lexicon shall not be obligated to undertake any review or investigation to confirm that no such infringement exists;
 - 6.1.7 each Mutant Mouse delivered to NFP shall be heterozygous for one of the selected Standard Mutations and, subject to the terms and conditions of this Agreement, it shall deliver a Set of the Mutant Mice for each selected Standard Mutation.
- 6.2. MGRI represents and warrants to Lexicon that as of the Effective Date it has the full right, power and authority to enter into this Agreement.
- 6.3 EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS SECTION 6, LEXICON MAKES NO REPRESENTATIONS OR WARRANTIES WHATSOEVER, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, REGARDING THE MUTANT MICE. NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, LEXICON MAKES NO REPRESENTATION OR WARRANTY THAT ALL PATENT RIGHTS OF THIRD PARTIES WHICH MAY BE REQUIRED TO MAKE OR USE MUTANT MICE, IF ANY, HAVE BEEN SECURED. NOTWITHSTANDING THE ABOVE, LEXICON AGREES TO DISCLOSE TO NFP AND MGRI ANY THIRD PARTY RIGHTS, INCLUDING WITHOUT LIMITATION INTELLECTUAL PROPERTY RIGHTS, WHICH BECOME KNOWN TO LEXICON WHICH MAY BE REQUIRED TO AVOID CONFLICT WITH THE TERMS OF THIS AGREEMENT OR WHICH WOULD OBSTRUCT OR PREVENT

USE OF THE MUTANT MICE BY NFP, MGRI OR THIRD PARTIES. LEXICON SHALL NOT BE LIABLE FOR, OR RESPONSIBLE FOR, OBTAINING OR PAYING THE COSTS OF ANY LICENSE FROM ANY THIRD PARTY WHICH MAY BE REQUIRED TO PRODUCE OR USE ANY OF THE MUTANT MICE. IF LEXICON DETERMINES SUCH A LICENSE IS REQUIRED, IT MAY TERMINATE PRODUCTION OF SUCH MUTANT MOUSE WITHOUT PENALTY UNLESS NFP OR MGRI OBTAINS THE REQUIRED LICENSE AT ITS SOLE EXPENSE.

- 6.4 NONE OF THE PARTIES HERETO SHALL HAVE ANY LIABILITY WITH REGARD TO ANY CLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT EXCEPT FOR A CLAIM OF A MATERIAL BREACH OF ITS OBLIGATIONS HEREUNDER.

ARTICLE VII

7. INDEMNIFICATION

Each party (the "Indemnifying Party") agrees to indemnify, defend and hold harmless, to the fullest extent permitted by law, the other party, their affiliates, directors, officers, shareholders, employees, agents, attorneys and each of the Members (collectively, the "Indemnified Persons"), from and against any and all Claims, Liabilities and Losses which may be imposed on, incurred by or asserted against any Indemnified Person arising out of or resulting from, directly or indirectly any material breach of this Agreement by the Indemnifying Party; provided, however, that an Indemnifying Party shall not be liable for any portion of any Claims, Liabilities or Losses resulting from a material breach by the Indemnified Person of its obligations under this Agreement or from the gross negligence, fraud or intentional misconduct of the Indemnified Person or related Indemnified Persons.

ARTICLE VIII

8. TERMINATION AND RIGHTS UPON TERMINATION

- 8.1 MGRI shall have the right to terminate this Agreement on ***** written notice in the event that:

- 8.1.1 Lexicon fails or is unable to provide the Committee with at least ***** Standard Mutations to consider for selection at the first Committee Meeting, and ***** Standard Mutations to consider for selection at each subsequent meeting of the Committee;
- 8.1.2 Lexicon fails or is unable to deliver at least ***** of Mutant Mice with the selected Standard Mutations acceptable to NFP in accordance with this Agreement within three years of the Effective Date;

- 8.1.3 Lexicon has failed or has been unable to deliver ***** of Mutant Mice acceptable to NFP in accordance with this Agreement by the sixth annual anniversary of the Effective Date;
- 8.1.4 Lexicon's delivery of Mutant Mice fail to comply with the delivery procedures, to be agreed upon by Lexicon, NFP and MGRI, on more than three occasions; or
- 8.1.5 Lexicon materially breaches this Agreement and fails to cure such breach within ***** or, if such breach cannot reasonably be cured within ***** commences to cure such breach within ***** and diligently completes such cure.

Termination pursuant to this provision shall be effective on the ***** after notice to Lexicon ("Termination Date").

- 8.2 Lexicon may terminate this Agreement effective ***** after notice has been given to each of NFP and MGRI in the event that Lexicon has performed all of its obligations under this Agreement and MGRI fails to make the payments required in accordance with the terms of this Agreement.
- 8.3 MGRI shall have the right to terminate this Agreement on ***** notice if either (a) MGRI and the Committee determine that they cannot identify, from the list of Standard Mutations reported by Lexicon, any Standard Mutations of scientific interest to use in the production of Mutant Mice, or (b) MGRI determines, in its sole discretion and after consultation with Lexicon and NFP, that performance of the Agreement by any party infringes on the intellectual property rights of a third party and MGRI also determines, in its sole discretion and after consultation with Lexicon and NFP, that a license to such rights is not available on economically reasonable terms.
- 8.4 In the event of a termination of this Agreement pursuant to Section 8.1 or 8.3(a), the amount due to Lexicon pursuant to this Agreement shall be calculated as follows: ***** (the "Total Payment"). If Lexicon has received more than the Total Payment from MGRI, it shall return the balance within ***** after the Termination Date to MGRI. If Lexicon has received less than the Total Payment, MGRI shall pay Lexicon the difference between the amount already paid to Lexicon and the Total Payment within ***** of the Termination Date.
- 8.5 In the event of termination of this Agreement pursuant to Section 8.3(b) the parties shall review the status of the work hereunder at the time of termination and the costs expended and negotiate in good faith the amounts to be paid or re-paid, as the case may be, by one party to the other.

- 8.6 In the event of termination of this Agreement pursuant to Section 9.7, Lexicon shall provide MGRI with a written accounting of *****. If Lexicon has received payments hereunder in excess of ***** Lexicon shall with such written accounting refund to MGRI the amount of such excess.
- 8.7 The rights and obligations under Sections 2.7, 4.3, Article 5, Sections 6.3, 6.4, Article 7, Sections 8.4, 8.5, 8.6, 9.6 and 9.11 shall survive termination of this Agreement by any party for any reason, delivery and payment for all of the Mutant Mice to be delivered hereunder and any expiration of this Agreement.

ARTICLE IX

9. MISCELLANEOUS

- 9.1 COMPLIANCE WITH LAWS. Lexicon acknowledges, and NFP shall acknowledge, that it is subject to and agrees to abide by all laws (including the Export Administration Act of 1979 and Arms Export Control Act) controlling the export of technical data, computer software, laboratory prototypes, biological material and other commodities. The transfer and/or export of any of such items may require a license from Governmental Authorities or written assurances by NFP, Lexicon or a Third Party requesting a Mutant Mouse that it shall not export such items to certain foreign countries without prior approval of such Governmental Authorities. MGRI acknowledges and agrees that Lexicon is not making any representation or warranty herein as to the existence or absence of any such requirement or that, if any such requirement exists, that it will be issued.
- 9.2 NOTICES. Any and all notices, requests or other communications hereunder shall be given in writing and delivered by (a) regular, overnight or registered or certified mail (return receipt requested), with first class postage prepaid, (b) hand delivery, (c) facsimile transmission or (d) overnight courier service, to the parties at the addresses or facsimile numbers provided on the signature page hereto, or at such other addresses or numbers as shall be designated by any party in a notice to the other parties given in accordance with this Section 9.2. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given, (A) in the case of a notice sent by regular mail, on the date actually received by the addressee, (B) in the case of a notice sent by registered or certified mail, on the date received (or refused) as shown on the return receipt, (C) in the case of a notice delivered by hand, when personally delivered, (D) in the case of a notice sent by facsimile, upon transmission subject to telephone confirmation of receipt, and (E) in the case of a notice sent by overnight mail or overnight courier service, the date delivered at the designated address, in each case given or addressed as aforesaid.

- 9.3 BENEFIT AND BURDEN. This Agreement shall inure to the benefit of, and shall be binding upon, the parties and their respective successors and any permitted assigns.
- 9.4 NO THIRD PARTY RIGHTS. Nothing in this Agreement shall be deemed to create any right in any creditor or other Person other than the Indemnified Parties pursuant to Article VII, and this Agreement shall not be construed in any respect to be a contract in whole or in part for the benefit of any third party (other than the Indemnified Parties).
- 9.5 AMENDMENTS AND WAIVER. No amendment, modification, restatement or supplement of this Agreement shall be valid unless the same is in writing and signed by the parties hereto. No waiver of any provision of this Agreement shall be valid unless in writing and signed by the party against whom that waiver is sought to be enforced. No failure or delay on the part of any party in exercising any right, power or privilege hereunder and no course of dealing between or among any of the parties shall operate as a waiver of any right, power or privilege hereunder. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. No notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of any party to any other or further action in any circumstances without notice or demand.
- 9.6 ASSIGNMENTS. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by either of the parties without the prior written consent of all parties hereto and any attempt to do so shall be null and void.
- 9.7 FORCE MAJEURE. A non-performing party shall not be liable in damages for any delay or default in its performance, if such delay or default is caused by conditions beyond its control, including acts of God, war or insurrection, strikes, fire, or floods; provided, however, that any party shall have the right to terminate this Agreement upon ***** prior written notice if the other party is unable to fulfill its obligations under this Agreement due to any of the above-mentioned causes and such inability continues for a period of *****.
- 9.8 COUNTERPARTS. This Agreement may be executed in counterparts and by the different parties in separate counterparts, each of which when so executed shall be deemed an original and all of which taken together shall constitute one and the same agreement.
- 9.9 SEVERABILITY. Should any clause, sentence, paragraph, subsection, Section or Article of this Agreement be judicially declared to be invalid, unenforceable or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement, and the part or parts of this Agreement so held to be invalid, unenforceable or void will be deemed to have been stricken herefrom by the parties, and the remainder will have the same force and

effectiveness as if such stricken part or parts had never been included herein, provided however that in lieu of such invalid, unenforceable or void clause, sentence, paragraph, subsection, Section or Article, the parties working together in good faith are able to include as a negotiated part of this Agreement a valid and enforceable provision as similar in terms as may be possible which preserves the economic benefits to the parties.

- 9.10 APPLICABLE LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW JERSEY, WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.
- 9.11 ARBITRATION. All disputes and disagreements between or among any or all of the parties hereto (each, a "Dispute") arising in connection with or related to this Agreement shall be resolved by binding arbitration administered by the American Arbitration Association (the "AAA") in New Jersey in accordance with, and in the following order of priority, (i) the terms of these arbitration provisions, (ii) the Commercial Arbitration Rules of the AAA, (iii) the Federal Arbitration Act (Title 9 of the United States Code) and (iv) to the extent the foregoing are inapplicable, unenforceable or invalid, the laws of the State of New Jersey. The validity and enforceability of these arbitration provisions shall be determined in accordance with this same order of priority. In the event of any inconsistency between these arbitration provisions and such rules and statutes, these arbitration provisions shall control. Each of the parties may bring any action in any court of competent jurisdiction to (A) compel arbitration of any Dispute, (B) obtain interim measures of protection pending arbitration of any Dispute and/or (C) enforce any decision of the arbitrators, including the final award. If either of the parties fails or refuses to submit to binding arbitration following a lawful demand by the other, the party so failing or refusing shall bear all costs and expenses incurred by the other in compelling arbitration of such Dispute.
- 9.12 EXPENSES. Each of the parties shall pay its own legal and accounting expenses incident to the negotiation and administration and performance of this Agreement and the transactions contemplated hereby.
- 9.13 CAPTIONS. The captions and headings contained in this Agreement shall not be considered or given any effect in construing the provisions hereof if any question of intent should arise.
- 9.14 CONSTRUCTION. No provision of this Agreement shall be interpreted or construed against any of the parties solely because that party or its legal representative drafted such provision.
- 9.15 ENTIRE AGREEMENT. This Agreement sets forth all of the promises, agreements, conditions, understandings, warranties and representations among the parties with respect to the transactions contemplated hereby, and supersedes all prior agreements, arrangements and

understandings among the parties, whether written, oral or otherwise. There are no promises, agreements, conditions, understandings, warranties or representations, oral or written, express or implied, among the parties concerning the subject matter hereof except as set forth herein.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed as of the Effective Date.

LEXICON GENETICS, INC.

By: /s/ Arthur T. Sands

Arthur T. Sands, M.D., Ph.D.
President

Address: 4000 Research Forest Drive
The Woodlands, Texas 77381
Attention: President
Facsimile No: 281-364-0155
Telephone No: 281-364-0100

MERCK GENOME RESEARCH INSTITUTE

By: /s/ C. Thomas Caskey

C. Thomas Caskey, M.D., F.A.C.P.
President

Address: 700 Sumneytown Pike
P.O. Box 4, WP26-207
West Point, Pennsylvania 19486
Attention: President
Facsimile No: 215-652-4538
Telephone No: 215-652-7399

EXHIBIT A
(PAYMENT SCHEDULE)

	Payment Due Date	Amount
1.	Within ***** of signing this Agreement	\$4,000,000
2.	Within ***** of NFP's acceptance of the ***** of Mutant Mice delivered by Lexicon	\$1,000,000
3.	Within ***** of NFP's acceptance of the ***** of Mutant Mice delivered by Lexicon	\$1,000,000
4.	Within ***** of NFP's acceptance of the ***** of Mutant Mice delivered by Lexicon	\$1,000,000
5.	Within ***** of NFP's acceptance of the ***** of Mutant Mice delivered by Lexicon	\$1,000,000

LEASE AGREEMENT

4000 RESEARCH FOREST DRIVE
THE WOODLANDS, MONTGOMERY COUNTY, TEXAS

THE STATE OF TEXAS

COUNTY OF MONTGOMERY

THIS LEASE AGREEMENT (the "Lease") is made and entered into on this the 22nd day of September, 1995, between THE WOODLANDS CORPORATION, a Delaware corporation, whose address for purposes hereof is 2201 Timberloch Place, The Woodlands, Texas 77380 ("Lessor"), and LEXICON GENETICS INCORPORATED, a Delaware corporation, whose address, for the purposes hereof, is 4000 Research Forest Drive, The Woodlands, Texas 77381 ("Lessee").

WITNESSETH:

1. Leased Premises. Lessor hereby leases to Lessee and Lessee hereby takes from Lessor approximately 13,068 net rentable square feet of floor space, together with all appurtenances thereto, as shown outlined in blue on a drawing identified by the parties and attached hereto as Exhibit "A" (the "Premises"), in a building known and referred to as 4000 Research Forest Building (the "Building"), located at 4000 Research Forest Drive, The Woodlands, Montgomery County, Texas, and which contains a total of approximately 35,065 net rentable square feet of floor space. The Building is located on that certain 6.1797 acre tract of land ("Land") in Montgomery County, Texas, which is Restricted Reserve "A" of the Baylor Center for Biotechnology according to the map or plat thereof recorded in Cabinet E, Sheet 193A of the Map Records of Montgomery County, Texas, and made a part hereof for all purposes. Lessor reserves the right to change the name of the Building whenever it desires without any liability or consent of Lessee.

2. Parking. In addition to the Premises, Lessee and its invitees are hereby granted the non-exclusive right to use the loading dock affixed to the Premises. Additionally, Lessor shall provide and keep in good condition through the term of this Lease, parking areas for and vehicular access ways to the Premises, which shall be available for the non-exclusive use of Lessee, its employees and invitees. The use of such parking and access areas shall at all times be subject to such reasonable rules and regulations as Lessor may promulgate.

3. Term. The term of this Lease (the "Term") shall commence on the earlier of December 15, 1995, or the day upon which Lessee takes full possession of the Premises (other than pursuant to Exhibit "E" attached hereto) after substantial completion of the work to be performed by Lessor as hereinafter described, and expire on the last day of the eighty-fourth (84th) full calendar month following the commencement of the Term, subject to earlier

termination as hereinafter provided. If Lessor is delayed in delivering possession of the Premises to Lessee on or before December 15, 1995, the Term shall begin on the date when Lessor tenders to Lessee possession of the Premises with all work to be performed by Lessor pursuant to the Tenant Improvement Addendum attached hereto as Exhibit "B" ("Tenant Improvement Addendum") substantially completed. Lessor shall not be liable or responsible for any claims, damages or liabilities of any nature whatsoever in connection with or by reason of any delayed possession, except that in the event Lessor has not tendered to Lessee possession of the Premises with all Lessor's work described in the Tenant Improvement Addendum, substantially completed on or before December 15, 1995, said date to be extended one (1) day for each day of Lessee default or delay described in Exhibit "B" (a) Lessor shall credit one-half (1/2) of all Base Rentals paid by Lessee pursuant to Exhibit "E" hereto to the next Base Rent payment(s) due under the Lease (as liquidated damages and not as a penalty, it is being agreed by the parties that Lessee's actual damages would be uncertain and difficult of ascertainment), and (b) from December 15, 1995, until the Commencement Date the Base Rent payable for the Early Occupancy Space(s) shall be reduced by one-half (1/2). Lessee agrees to execute a recordable memorandum setting forth the commencement date ("Commencement Date") and the date of expiration of the Term of this Lease on or prior to the commencement of the Term.

4. Use. Lessee shall use the Premises solely for office, laboratory, research, marketing, sales, storage, experimentation and production of laboratory animals, and for no other use.

5. Acceptance of the Premises. Upon taking possession of all or any portion of the Premises (except as described in Exhibit "E" of this Lease), Lessee shall be deemed to have accepted the Premises, to have acknowledged that the same are in the condition called for hereunder and to have agreed that the obligations of the Lessor imposed by Exhibit "B" attached hereto have been fully performed. Lessee hereby waives any implied warranty of Lessor that the Premises are suitable for their intended commercial purpose and acknowledges and agrees that all of Lessee's obligations hereunder (including without limitation, the obligation to pay rent) are independent of any such implied warranty and agrees to perform all such obligations and pay rent notwithstanding any breach or allegation of breach by Lessor of any such implied warranty (which implied warranty as aforesaid is hereby waived by Lessee).

6. Security Deposit. Lessee contemporaneously with the execution of this Lease has deposited with Lessor the sum of \$23,413.50, receipt of which is hereby acknowledged by Lessor, said deposit being given to secure the faithful performance by Lessee of all of the terms, covenants and conditions of this Lease to be kept and performed by Lessee. If Lessee shall fail to pay the rent herein required promptly when due or if Lessee violates any of the other terms, covenants or conditions of this Lease, said deposit may, at the option of Lessor, be applied to any rent due and unpaid or to any damages suffered by Lessor as a result of Lessee's default. Nothing contained in this Article shall in any way diminish or be construed as waiving any of Lessor's other remedies as provided elsewhere in this Lease, or at law or in equity. Should the entire security deposit or any portion thereof be applied by Lessor for the payment of sums due and payable to Lessor hereunder, Lessee shall, on the written demand of Lessor, remit to Lessor a sufficient amount in cash to restore said security deposit to its original amount. Should Lessee comply with all of the terms, covenants and conditions of this Lease and promptly pay all of the

rental herein provided for as it falls due (including any additional rental due at the end of the fiscal year during which the Term expires or terminates) and all other sums payable by Lessee to Lessor hereunder, said security deposit shall be returned in full to Lessee upon the expiration of the term of this Lease. Lessor shall have the right to commingle the security deposit with other funds of Lessor, and any interest earned shall be the property of Lessor. Lessor may deliver the security deposit to any purchaser of Lessor's interest in the Premises, and thereupon be discharged from further liability with respect to such deposit.

7. Base Rent. The Base Rent, which Lessee hereby agrees to pay to Lessor monthly, in advance at Lessor's address stated above, shall be the sum set forth below, due and payable on the first day of each calendar month during the Term hereof, without offset or deduction, with a pro rata portion being due and payable in advance for any partial month occurring at the beginning of the Term:

Lease Years	Monthly Base Rent - 1/12th of
1-4	\$20.50 times the number of net rentable square feet in the Premises
5-7	\$21.50 times the number of net rentable square feet in the Premises

8. Additional Rent. Lessor agrees to pay all Operating Expenses (as defined in Section 10. below) up to a maximum amount of \$5.00 per year for each square foot of rentable floor area in the Building (the "Operating Cost Allowance"). In the event the Operating Expenses shall, in any fiscal year (ending January 31) exceed the Operating Cost Allowance (prorated for any partial fiscal year at the beginning or end of the Term), Lessee agrees to pay to Lessor, as Additional Rent, Lessee's pro rata share of any such excess (the "Excess Operating Expenses"). Lessee's pro rata share shall be determined by multiplying the Excess Operating Expenses by a fraction, the numerator of which shall be the number of rentable square feet in the Premises, and the denominator of which shall be the rentable square footage in the Building (as set out in Section I above). Within ninety (90) days following the completion of each fiscal year, Lessor will provide to Lessee a statement showing in reasonable detail the Operating Expenses for the preceding fiscal year, the Additional Rent due with regard to Lessee's portion of the Excess Operating Expenses, and Lessor's reasonable estimate of Excess Operating Expenses for the then current fiscal year. Lessee shall, on or before thirty (30) days following receipt of said statement, pay to Lessor the amount of Additional Rent due as provided herein, less the amount of Additional Rent paid in advance (if any) during the preceding fiscal year. Any overpayment will be credited by Lessor to the next rental payment(s) due (or, if no further rentals are or will become due, same shall be refunded to Lessee). Lessee agrees to pay Additional Rent each month thereafter, in addition to Base Rent, in an amount necessary to amortize the estimated Excess Operating Expenses for the then current fiscal year over a period equal to the lesser of (i) the number of months remaining in the lease Term or (ii) the number of months remaining in the current fiscal year. Notwithstanding that the lease Term has expired or been terminated, Lessee shall remain liable for and agrees to pay to Lessor within 30 days following receipt of an invoice therefor, its pro-rata portion of Excess Operating Expenses for the fiscal year (or portion

thereof) during which the Term of this lease expired or was terminated. Lessee shall have the right, at its expense and at a reasonable time, within one year after receipt of Lessor's statement to audit Lessor's books relevant to the Additional Rent due under this Section. If Lessee has been overbilled as to its pro rata share of Excess Operating Expenses by more than 5%, Lessor shall pay Lessee's reasonable costs of the audit not to exceed \$1,000.00.

9. Payment of Rentals. Lessee covenants to promptly pay all rentals when due and payable. A late charge of ten (10%) per cent shall be added to any payment of rental or additional rental which is more than 10 days past due in order to compensate Lessor for the extra administrative expenses incurred. If Lessor shall pay any monies or incur any expenses in correction of violations of the covenants herein set forth, the amounts so paid or incurred shall, on notice to Lessee, be considered additional rentals payable by Lessee with the first installment of rental thereafter to become due and payable, and may be collected or enforced as by law provided in respect of rentals.

10. Operating Expenses. The term "Operating Expenses", as used in this Lease, means all of Lessor's reasonable costs to operate and maintain the Land and the Building from time to time, as determined in accordance with Lessor's accounting practices. Operating Expenses shall include (to the extent and only to the extent same are Lessor's obligation to pay or furnish under the other provisions of this Lease), but not be limited to, all sums expended by Lessor, or in the case of major repairs or improvements having a life expectancy in excess of one year, an amortized portion of such sums, whether or not such repair or improvement is properly chargeable to capital expenses or capital improvements under generally accepted accounting principles, in connection with the Building, and the parking and common areas and other improvements on the Land, for general maintenance and repairs, maintenance and repair of the deionized water system and the diesel-powered emergency electrical generator, resurfacing, exterior painting, restriping, sweeping, porter services, any personnel or services deemed necessary by Lessor, trash removal (if Lessor elects to furnish this service to Lessee), planting, landscaping, lighting, water and other utilities paid for by Lessor and directional signs and other markers, bumpers, and personnel to implement such services. Operating Expenses shall also include all ad valorem taxes or assessments and Annual Assessments of The Woodlands Community Association, Inc., or The Woodlands Trade Center Association, whichever is applicable, which accrue against the Building or the Land during the Term, together with all insurance premiums, if any, which Lessor is required to pay or deems necessary to pay, with respect to the Building or the Land, and a building management fee ("Fee") equal to five percent (5%) of the Base Rent (except that this Fee shall not be prorated between Lessee and the other tenants in the Building as are the other Operating Expenses).

Notwithstanding anything contained herein to the contrary, if at the end of the fiscal year, the Land, with the Building thereon, has not yet been placed on the tax rolls, the fiscal year ad valorem taxes and assessment shall be adapted and increased as if it had been.

Further, notwithstanding any other provision herein to the contrary, it is agreed that in the event not more than ninety-five percent (95%) of the rentable area in the Building is occupied during any fiscal year or in the event not more than ninety-five (95%) of the rentable area in the Building is provided with building standard services during any fiscal year, an adjustment shall

be made in computing the Operating Expenses for such year so that the Operating Expenses shall be computed for such year as though the Building had been ninety-five percent (95%) occupied during such year and as though ninety-five percent (95%) of the Building had been provided with building standard services during such year. Operating Expenses to be adjusted pursuant to this paragraph shall only include operating expenses which are variable with the level of occupancy of the Building, and no other.

Further, notwithstanding anything contained herein to the contrary, Operating Expenses shall not include those items set forth in Exhibit "D" attached hereto.

11. Utilities. Except as provided herein, Lessor shall provide to the Premises natural gas, electricity, water and sewer services, and including a centralized deionized water system. Lessor and Lessee agree that Lessee shall pay all costs directly related to submetered consumption of HVAC System and submetered natural gas usage for the boiler, in each case only to the extent same are serving the Premises. Lessee agrees that submeter installation shall be the responsibility of Lessee and shall be included in costs of work necessary to construct the leasehold improvements as shown on Exhibit "B" attached hereto (except to the extent paid for or provided by the utility company). Lessor agrees to pay all costs and expenses for utilities net of submeter direct cost, and such net costs and expenses are included within Operating Expenses as defined in Section 10 hereof. Lessor shall under no circumstances be liable to Lessee in damage or otherwise for any interruption in service of water, electricity, heating, air conditioning or other utilities or services caused by governmental regulation, emergencies, Acts of God, by the making of any necessary repairs or improvements, or by any cause beyond Lessor's reasonable control. Lessor shall use reasonable efforts to give at least 24 hours notice to Lessee when any necessary interruption in service will be made by Lessor.

12. Peaceful Enjoyment. Lessee shall and may peacefully have, hold and enjoy the Premises, provided that Lessee pays the rentals and other sums herein recited and performs all of its covenants and agreements herein contained. It is understood and agreed that this covenant and any and all other covenants of Lessor contained in this Lease shall be binding upon Lessor and its successors and assigns, but only with respect to breaches occurring during its and their respective ownership of Lessor's interest hereunder.

13. Tenant Alterations, Additions and Improvements. Lessee shall not make or allow to be made any alterations or physical additions in or to the Premises without first obtaining the written consent of Lessor, which consent shall not be unreasonably withheld. Any and all alterations, additions or improvements, other than that portion of the initial tenant improvements which are to be provided by Lessor pursuant to the terms of Exhibit "B" hereto, shall be made at Lessee's sole expense. All such alterations, additions or improvements shall, upon completion, become the property of Lessor and shall be surrendered to Lessor upon the termination of this Lease by lapse of time or otherwise provided, however, this clause shall not apply to removable equipment or furniture owned by Lessee and which can be removed without damage to the Building or the Premises. It is understood and agreed by Lessee that all equipment, improvements and fixtures that exist in the Premises prior to occupancy of the Premises (other than the Autoclave, described in Rider No. 1, 9, and any other property purchased by Lessee from Lessor, and any property owned by or installed by Lessee) are the property of Lessor and

may not be removed by Lessee, but Lessee shall have the full and exclusive use thereof during the Term. Notwithstanding anything contained herein to the contrary, Lessee may remove the Autoclave and any other equipment Lessee owns which may be removed on the terms of the Lease only on the condition that Lessee shall pay the cost of repairing any damage to the Premises caused by Lessee's removal of this equipment.

14. Repairs by Lessor. Lessor will keep the exterior of the Building, including, but not limited to, the foundation, exterior walls and roof, and any doors, windows, or glass, together with common areas on the Land and the deionized water system in the Premises and the diesel-powered emergency electrical generator in good condition and repair, provided Lessee shall give Lessor written notice of the necessity for any such repairs, and provided that the damage thereto shall not have been caused by the negligence of Lessee, its agents, employees, licensees or invitees, in which event Lessee shall be responsible therefore for the cost (except as otherwise provided elsewhere in this Lease). Lessor shall be under no liability for repair, maintenance, alteration or any other action with reference to any plumbing, electrical or other mechanical installation within or serving the Premises or any part thereof, except for the service lines leading to the Premises and except as otherwise provided elsewhere in this Lease. Lessor shall also maintain a service contract, substantially in accordance with the proposal attached hereto as Exhibit "F", on the deionized water system in the Premises providing for inspections, testing, and maintenance of specified water standards.

15. Operation by Lessee. Except to the extent to which any of the following obligations are imposed upon Lessor elsewhere in this Lease (including without limitation, Section 14 of this Lease and Lessor's one (1) year warranty as to the leasehold improvements and HVAC system under Exhibit "B" to the Lease) Lessee, at Lessee's sole expense, agrees to (a) keep, maintain and repair the interior of the Premises and all improvements therein, in good and sanitary order and condition, including, without limitation, the maintenance and repair of the doors, windows, window casements, glazing, heating and air conditioning system, plumbing pipes, electrical wiring, and conduits (but excluding any improvements, systems, equipment or other items which Lessor has agreed to maintain or repair pursuant to this Lease); (b) replace promptly, at its expense, any cracked or broken window glass inside the Premises with glass of like kind and quality; (c) keep any garbage, trash, rubbish or refuse in rat-proof containers within the interior of the Premises until removed from the area; (d) have such garbage, trash, rubbish and refuse removed at its expense (except for so long as Lessor shall cause such removal to be performed) on a regular basis from location points and at such times as designated by Lessor if the trash removal services are not provided by Lessor; (e) keep all mechanical apparatus free of vibration, noise or pollution which may be transmitted beyond the Premises; (f) comply with all laws, ordinances, rules and regulations of the Fire Underwriters Rating Bureau now or hereafter in affect; and (g) conduct its business in a manner which will not create a nuisance to other lessees in the Building. Lessee shall also be responsible, at its sole cost and expense, for providing any security services it may desire for the Premises and all janitorial services for the Premises. Lessee also will provide for trash removal, if said service is not provided by Lessor. Upon execution of this Lease, Lessee, at its sole cost and expense, will enter into a scheduled preventive maintenance/service contract for servicing the HVAC system with Lessor (for the first year of the Term) and with Lessor or a maintenance contractor approved by Lessor for the remainder of the Term.

In addition, Lessee shall not (a) place or maintain any merchandise or other articles in any vestibule or entry of the Premises, on the footwalks adjacent thereto or elsewhere on the exterior of the Premises or Building without the written consent of Lessor; (b) permit undue accumulation of garbage, trash, rubbish or other refuse within or without the Premises; (c) cause or permit objectionable odors to emanate or be dispelled from the Premises; (d) cause or permit the parking of vehicles so as to interfere with the use of any driveway, walk, parking area, dock or other common facility in the area; (e) occupy, use or permit the use or occupancy of any portion of the Premises for any business or purpose which is immoral, disreputable or in violation of any legal direction of any public officer; or (f) occupy, use or permit the use or occupancy of any portion of the Premises for any business or purpose which, in the reasonable opinion of Lessor, constitutes a public or private nuisance or unduly disturbs the business of other tenants in the Building.

Lessor shall have the right, upon written notice to Lessee, to provide for rubbish and refuse removal services as required of Lessee above, and Lessee agrees to reimburse Lessor for the cost incurred in providing such service within thirty (30) days after receipt of a statement setting forth the cost of such service.

Lessee agrees to discharge all waste materials from the Premises in compliance with the rules and regulations as set forth in The Woodlands Metro Center Municipal Utility District Policy Manual - Industrial Waste Discharges - Permits and Charges - No. R&S-50, issued July 12, 1979, with an effective date of July 12, 1979, as it may be amended from time to time. Lessee shall haul away for disposal at its own expense, any waste material not meeting the standards for discharge set forth in the above-referenced manual.

Lessee shall promptly comply, at its own expense, with all other present and future laws, ordinances, order, rules and regulations of all state, federal, municipal and other agencies or bodies having jurisdiction over the Premises and Lessee's use or manner of use of the Premises or improvements, including, but not limited to, all environmental laws and the Americans with Disabilities Act. In the event of a release of hazardous substances by Lessee which Lessee is responsible to clean up, Lessee shall conduct a "Standard 1" cleanup so that there is a total and complete removal of all contaminants from the Premises. No such cleanup shall be subject to risk reduction standard and no deed recordation notice shall be recorded by Lessee against the Premises in connection with said cleanup. Lessee will comply with the Rules and Regulations of the Building, a copy of which are attached hereto as Exhibit "C". Lessor may amend said rules, from time to time, if reasonably necessary for the safety, care or cleanliness of the Building, provided that no amendment shall alter any covenant or provision contained in this Lease. Lessee agrees to comply with any amendment which is made to said Rules and Regulations in compliance with the terms of this paragraph.

16. Interior Repairs. Lessee will keep the interior of the Premises, together with all electrical, plumbing and other mechanical installations therein, all heating and air conditioning equipment, and all interior windows or doors serving the Premises, in good order and repair, and will make all replacements thereto as its expense. Lessee will surrender the Premises at the expiration or earlier termination of this Lease, in as good condition as when received, excepting

ordinary wear and tear. Lessee will not overload the electrical wiring serving the Premises or within the Premises, and will install at its expense, but only after obtaining Lessor's written approval, any additional electrical service which may be required in connection with Lessee's use or occupancy. Notwithstanding anything herein to the contrary, Lessor, and not Lessee, shall be liable for any and all interior repairs which may result from any structural failure of the Building, unless caused by Lessee, its agents, employees or invitees. Lessee will repair promptly, at its expense, any damage to the Premises caused by bringing into the Premises any property for Lessee's use, or by the install or removal of such property, regardless of fault or by whom such damage was caused, unless caused by Lessor, its agents, employees or contractors. If Lessee fails to make such repairs, Lessor may make same, and Lessee agrees to pay, as additional rent, the cost thereof to Lessor promptly upon Landlord's demand therefore.

17. Roof and Walls. Lessor or its designee shall have the exclusive right (a) to use all or any part of the roof of the Building for any purpose including to erect additional stories or other structures over all or any part of the Premises, and to erect in connection with the construction thereof temporary scaffolds and other aids to construction on the exterior of the Premises, provided that access to the Premises shall not be denied; and (b) to install, maintain, use, repair and replace within the Premises, pipes, ducts, conduits, wires and all other mechanical equipment serving other parts of the Building, the same to be in locations within the Premises as will not materially interfere with Lessee's use thereof Lessee shall have no right to penetrate or erect improvements on the roof without the prior written consent of Lessor. Lessee shall be liable in damages to Lessor for any breach of this provision, including damages for loss of any and all warranties.

18. Signs and Advertising. Lessee will not place or suffer to be placed or maintained on or displaced to the exterior of the Premises, any sign, advertising matter or other thing of any kind, and will not place or maintain any decoration, lettering or advertising matter on the glass of any window or door of the Premises without first obtaining the written approval of Lessor. Lessee will maintain any approved sign, decoration, lettering, advertising matter or other thing in good condition and repair at all times.

19. Entry by Lessor. Lessee shall permit Lessor and any current or prospective mortgagee or purchaser, and their agents or representatives, upon twenty-four (24) hours advance notice, except in an emergency situation when no notice is required, to enter into and upon any part of the Premises at all reasonable hours to inspect the Premises, or clean, make repairs, alterations or additions thereto as Lessor may deem necessary or desirable, and Lessee shall not be entitled to any abatement or reduction of rent by reason thereof. Lessor agrees upon entry not to unreasonably interfere with Lessee's business and use of the Premises.

20. Liens. In the event that any mechanic's, materialmen's, or other lien shall at any time be filed against the Premises, the Building or the Land purporting to be for work, labor, services or materials performed for or furnished to Lessee or anyone holding the Premises through or under Lessee, or arising out of any alleged act or omission of Lessee Lessee shall forthwith cause the same to be properly bonded or released. If Lessee shall fail to cause such lien to be bonded or released within 15 days after being notified of the filing thereof, then, in addition to any other right or remedy of Lessor, Lessor may, but shall not be obligated to,

discharge the same by posting a bond or paying the amount claimed to be due, and the amount so paid by Lessor, and all costs and expenses incurred by Lessor in procuring the discharge of such lien, including reasonable attorney's fees, shall be due and payable by Lessee to Lessor as Additional Rent on the first day of the next succeeding month. Notice is hereby given that Lessor shall not be liable for any labor or materials furnished to Lessee upon credit, and that no mechanics', materialmen's or other liens for any such labor or materials shall attach to or affect the estate or interest of Lessor in and to the Land or Building.

21. Subordination. Lessee agrees that this Lease is and shall be subordinate to any mortgage or deed of trust which may now or hereafter encumber the Building or the Land, and to all renewals, modifications, consolidations, replacements and extensions thereof, provided, however, that the holder of any such mortgage or deed of trust shall agree that Lessee shall not be disturbed in its possession of the Premises or its rights hereunder terminated or amended by the mortgagee, any purchaser at or in lieu of foreclosure or other party so long as Lessee is not in default under this Lease. In confirmation of such subordination, Lessee shall at Lessor's request execute promptly any appropriate certificate or instrument that Lessor may reasonably request. In the event of the enforcement by the trustee or the beneficiary under a mortgage or deed of trust of the remedies provided for by law or by such mortgage or deed of trust, Lessee will, upon request of any person or party succeeding to the interest of Lessor as a result of such enforcement, automatically become the lessee of such successor in interest without change in the terms or other provisions of this Lease; provided, however, that such successor in interest shall not be bound by (i) any payment of rent for more than one month in advance except prepayments in the nature of security for the performance by Lessee of its obligations under this Lease, including, without limitation, the return of Lessee's security deposit; (ii) any amendment or modifications under this Lease made without the written consent of such trustee, beneficiary or successor in interest; (iii) any default by the prior owner or landlord in the observance or performance of any of its covenants or obligations hereunder; or (iv) any right of offset which Lessee may have had against the prior owner or landlord. Upon request by any successor in interest, Lessee shall execute and deliver an instrument or instruments confirming the attornment herein provided for.

Within fifteen days after Lessor's request, Lessee agrees to execute an estoppel certificate or other agreement certifying to Lessor and/or any current or prospective mortgagee or purchaser of the Building such facts and agreeing to such reasonable notice provisions and other matters as such mortgagee or purchaser may request in connection with Lessor's sale or financing, subject, however, to the non-disturbance rights of Lessee above described. In addition, Lessee hereby irrevocably appoints Lessor its attorney in fact to execute in its place and stead any such estoppel certificate or other instrument required under this section.

Lessor hereby represents and warrants that as of the date of this Lease there are no liens, mortgages or security interests covering and affecting the Land, the Building, or the Premises.

22. Condemnation. If the whole or any part of the Premises shall be taken under the power of eminent domain, this Lease shall terminate as to the part so taken on the date Lessee is required to yield possession thereof to the condemning authority. Lessor shall, with reasonable diligence, make such repairs and alterations as may be necessary in order to restore the part not

taken to a useful condition, and the Base Rent and Additional Rent payable hereunder shall be reduced proportionately to the portion of the Premises so taken. If the amount of the Premises so taken substantially impairs the usefulness of the Premises for the purposes set forth in Section 4 either party may terminate this Lease within 30 days after Lessee is dispossessed, effective as of the date when Lessee is required to yield possession. All compensation awarded for any taking shall belong to and be the property of Lessor.

23. Fire and Casualty. In the event of a fire or other casualty in the Premises, Lessee shall immediately give notice thereof to Lessor. If the Premises, through no fault or neglect of Lessee, its agents, employees, invitees, licensees or visitors, shall be destroyed by fire or other casualty so as to render the Premises untenable, the rental herein shall cease thereafter until such time as the Premises are made tenantable by Lessor. If from such cause the same shall be so damaged that Lessor shall decide not to rebuild, then all rent and other sums owed hereunder up to the time of such destruction or casualty shall be paid by Lessee, and thenceforth this Lease shall cease and come to an end.

24. Casualty Insurance. Lessor shall, at all times during the term of this Lease, maintain a policy or policies of insurance with the premiums thereon fully paid in advance, issued by and binding upon some solvent insurance company, licensed to do business in the State of Texas, insuring Lessor's interest in the Building against loss or damage by fire and other hazards within the coverage of a Texas standard form of fire and extended coverage policy, for the full replacement value thereof, with payments for losses thereunder payable solely to Lessor or its designee. Lessee shall maintain in force a like policy insuring Lessee's interest in any furniture, equipment, machinery, goods or supplies which Lessee may bring or obtain upon the Premises, or any improvements which Lessee may construct thereon.

25. Liability Insurance. Lessee shall maintain, at its expense, at all times during the Term, a policy or policies of commercial general liability insurance, with the premiums thereon fully paid in advance, issued by (i) an insurance company or companies rated "A-" or higher under the most current edition of A.M. Best's Key Rating Guide, (ii) a Lloyds of London underwriter, or (iii) an insurance company agreed to by Lessor. All insurers must be licensed to do business in the State of Texas. The insurance shall afford protection of not less than \$1,000,000 combined single limit bodily injury and property damage per occurrence. The policy or policies shall name Lessor as an additional insured. As to any injury or damage occurring in or on the Premises, Lessee's insurance shall be primary. As to any injury or damage occurring outside of the Premises, to the extent that Lessee and Lessor have overlapping insurance coverage, the allocation of coverage between the policies shall be based upon the percentage of legal responsibility of the named insured under each policy. Lessee's policy shall contain an agreement by the insurer that such policy, or policies may not be cancelled or materially modified without 30 days' prior notice to Lessor. Lessee shall provide Lessor a copy of the required policy or policies, or a certificate evidencing the required coverage, before beginning any work in the Premises or taking occupancy of same. Additionally, Lessee shall provide Lessor evidence of the renewal of each policy at least 30 days before the expiration of the policy.

26. Waiver of Subrogation. Anything in this Lease to the contrary notwithstanding, Lessor and Lessee each waive any and all right of recovery, claim, action or cause of action

against the other and its partners (if any, and the agents, officers or employees of the other party or its partners, for any loss or damage that may occur to such persons or the Premises or any improvements thereto, the Building or any improvements thereto, or any personal property of any party therein, by reason of fire, the elements or any other cause which could have been insured against under the terms of a Texas standard form of fire and extended coverage insurance policy, regardless of cause or origin, including sole or concurrent negligence of the other party hereto or its partners, or the agents, officers or employees of the other party or its partners. Lessor and Lessee covenant that no insurer shall hold any right of subrogation against the other party for losses which must be insured against by the terms of this Lease. This waiver of subrogation provision shall be effective to the full extent, but only to the extent that, it does not impair the effectiveness of insurance policies of Lessor and Lessee. Lessor and Lessee each agree to obtain any endorsement to their respective insurance policies, which may be necessary to effectuate the waiver of subrogation contained herein.

27. Hold Harmless. Subject to the provisions of Section 26 above, Lessee hereby releases and agrees to defend, indemnify and hold Lessor harmless from and against all claims or causes of action for damage or injury to persons or property arising out of this Lease or Lessee's use or occupancy of the Premises, including attorney's fees and court costs, to the extent caused by the negligence or willful act or omission of Lessee. Subject to the provisions of Section 26 above, Lessor hereby releases and agrees to defend, indemnify and hold Lessee harmless from and against all claims or causes of action for damage or injury to persons or property arising out of this Lease or use or occupancy of the Premises, the Building or the Land, or Lessor's ownership, use or operation of the Building or the Land, including without limitation attorney's fees and court costs, to the extent caused by the negligence or willful act or omission of Lessor.

28. Holding Over. In the event of holding over by Lessee after the expiration or termination of the Term and without the written consent of Lessor, Lessee shall pay monthly rent equal to double the amount of all Base Rent, and Additional Rents payable during the last month of the Term. Further, Lessee shall indemnify Lessor against all claims for damages by any other lessee to whom Lessor may have leased all or any part of the Premises. No holding over by Lessee, either with or without the consent and acquiescence of Lessor, shall operate to extend the Lease for a longer period than one (1) month. Any holding over with the consent of Lessor in writing shall thereafter constitute this Lease a lease from month to month.

29. Default by Lessee. If (a) default shall be made in the timely payment of any sum to be paid by Lessee under this Lease, which remains unpaid for more than three (3) business days after written notice is delivered to Lessee or deposited in the United States mail, registered or certified, addressed to Lessee's address above (except that Lessor shall have no obligation to deliver said notice under this subsection (a) more than three (3) times during the Term), or (b) default shall be made in the performance of any of the other covenants or conditions which Lessee is required to observe and to perform and such default shall continue for twenty (20) days after written notice is delivered to Lessee or deposited in the U. S. Mail, registered or certified, addressed to Lessee's address above, provided that in the event of any default by Lessee of a nonmonetary nature which is not reasonably capable of being cured within twenty (20) days due to its nature, Lessee shall be entitled to such longer period as may be reasonably necessary to cure such default with the exercise of due diligence, or (c) the interest of Lessee under this Lease

shall be levied on under execution or other legal process, or any petition shall be filed by or against Lessee to declare Lessee a bankrupt or to delay, reduce or modify Lessee's debts or obligations, or any petition under the Bankruptcy Code shall be filed or other action taken to reorganize or modify Lessee's capital structure, or Lessee be declared insolvent according to law, or any general assignment of Lessee's property shall be made for the benefit of creditors, or a receiver or trustee is appointed for Lessee or its property, and provided that Lessee fails to vigorously contest any such levy, execution, legal process or petition filed against Lessee and to cause same to be removed, dismissed or vacated within thirty (30) days from the date of its entry or filing, or (d) Lessee shall vacate or abandon the Premises, or (e) if Lessee shall be a corporation and Lessee shall thereafter cease to exist as a corporation in good standing in the State of Texas, or (f) if Lessee shall be a partnership or other entity and Lessee shall be dissolved or otherwise liquidated, then Lessor may treat the occurrence of any one or more of the foregoing events as a breach of this Lease and thereupon, at Lessor's option, Lessor may have any one or more of the following described remedies, in addition to all other rights and remedies provided at law or in equity:

A. Lessor may terminate this Lease and forthwith repossess the Premises and be entitled to recover (i) the cost of recovering the Premises, including the cost of the removal and storage of any of Lessee's possessions left within the Premises, (ii) the unpaid rent earned at the time of termination, plus interest thereon at the highest lawful rate from the due date, (iii) the balance of the rent for the remainder of the Term less the present fair market net rental value of the Premises for said period and (iv) any other sum of money and damages owed by Lessee to Lessor.

B. Lessor may terminate Lessee's right of possession, and repossess the Premises by forcible entry and detainer suit without demand or notice of any kind to Lessee and without terminating this Lease, in which event Lessor may, but shall have no obligation to, relet the same for the account of Lessee, for such rent and upon such terms as shall be satisfactory to Lessor. For the purpose of such reletting, Lessor is authorized to make any repairs, changes, alterations or additions in or to the Premises that may be reasonably necessary for uses substantially the same as the permitted uses set forth in Section 4 hereof if (i) Lessor shall fail to relet the Premises, or (ii) the same are relet and a sufficient sum shall not be realized from such reletting to pay the due and unpaid Base Rent and Additional Rent, the accrued interest thereon, the cost of recovering the costs and expenses of all such repairs, changes, alterations and additions reasonably necessary in Lessor's opinion and the expense of such reletting and of the collection of the rent accruing therefrom, then Lessee shall pay to Lessor as damages a sum equal to the amount of the rent provided for in this Lease for such period or periods, or if the Premises have been relet, the Lessee shall satisfy and pay any such deficiency upon demand therefor from time to time. Lessee agrees that Lessor may file one or more suits to recover any sums falling due under the terms of this section from time to time. No such reletting shall be construed as an election on the part of Lessor to terminate this Lease unless a written notice of such intention is given to Lessee by Lessor. Notwithstanding any such reletting without termination, Lessor may at any time thereafter elect to terminate this Lease for such previous breach.

C. Lessor may change the locks on the Premises and not return the new key to Lessee unless the Lessee cures the default; and the new key will only be provided during the Lessor's regular business hours.

30. Waiver. Failure of Lessor to declare any default immediately upon occurrence thereof, or delay in taking any action in connection therewith, shall not waive such default, but Lessor shall have the right to declare any such default at any time and take such action as might be lawful or authorized hereunder, either in law or at equity.

31. Lien for Rent. Lessee hereby grants to Lessor a lien on all property of Lessee now or hereafter placed in or upon the Premises, including but not limited to all goods, wares, fixtures, machinery, equipment, furnishings, and other articles of personal property, and all proceeds from the sale or lease thereof (except such part of any property as may be exchanged, replaced or sold from time to time in the ordinary course of business, operation or trade), and such property shall be and remain subject to such lien of Lessor for payment of all rent and other sums agreed to be paid by Lessee herein. This Lease shall constitute a security agreement under the Uniform Commercial Code so that Lessor shall have and may enforce a security interest in all property of Lessee now or hereafter placed in or on the Premises, including but not limited to all goods, wares, fixtures, machinery, equipment, furnishings and other articles of personal property now or hereafter placed in or upon the Premises by Lessee, and all proceeds from the sale or lease thereof Lessee agrees to execute as debtor such financing statement or statements as Lessor may now or hereafter reasonably request in order that such security interest or interests may be perfected pursuant to said Code. Lessor may at its election at any time file a copy of this Lease as a financing statement. Lessor, as secured party, shall be entitled to all of the rights and remedies afforded a secured party under said Uniform Commercial Code, which rights and remedies shall be in addition to and cumulative of the landlord's liens and rights provided by law or by the other terms and provisions of this Lease. Provided there is no default by Lessee in any of the terms and conditions of the Lease, Lessor agrees to subordinate its lien to bona fide loan to Lessee for purchase of inventory and equipment to be utilized by Lessee at the Premises.

32. Assignment by Lessor. Lessor shall have the right to sell, transfer or assign, in whole or in part, all of its rights and obligations hereunder and in the Building and the Land. In such event and upon the assumption by such transferee of Lessor's obligations hereunder, no further liability or obligation shall thereafter accrue against Lessor hereunder.

33. Assignment by Lessee. Lessee shall not assign this Lease or any interest therein, nor sublet the Premises or any part thereof or any right or privilege appurtenant thereto, nor permit any other person, firm or entity to occupy or use the Premises or any portion thereof without first obtaining the written consent of Lessor. Lessor shall have the right, at its option, to either terminate this Lease as to any portion of the Premises covered by a proposed assignment or sublease, or to approve any such assignment or sublease only upon the condition that (a) fifty percent (50%) of all rentals paid by the sublessee in excess of the rentals due from Lessee hereunder, shall be paid directly to Lessor (after deducting therefrom all Lessee's reasonable costs associated with such subletting or assignment, including, without limitation, brokerage commissions and leasehold remodeling costs); (b) the proposed sublessee or assignee is financially capable of assuming Lessee's obligations hereunder, in the sole reasonable judgment

of Lessor, and (c) the proposed sublessee or assignee agrees to use the Premises only for the uses permitted of Lessee under this Lease, and to comply with all of the other terms and conditions of this Lease. Otherwise, Lessor's consent to any proposed sublease or assignment shall not be unreasonably withheld. In the event Lessor fails to advise Lessee of its approval or disapproval of a proposed sublease or assignment within twenty (20) days after Lessee requests Lessor's approval thereof, so long as Lessee has provided Lessor with all financial information about the proposed sublessee or assignee requested by Lessor, Lessor shall be deemed to have approved same. Consent by Lessor to one assignment, subletting, occupation or use by another person shall not be deemed to be a consent to any subsequent assignment, subletting, occupation or use by the same or another person. Consent to an assignment or sublease shall not release Lessee from liability for the continued performance of the terms and provisions to be kept and performed by Lessee hereunder, unless Lessor expressly and in writing releases Lessee from said liability. Any assignment or subletting by operation of law or otherwise (other than a transfer of controlling interest in Lessee to any other person, firm or entity which shall be governed by the terms of Section 35. below), without the prior written approval by Lessor as to the financial capability of the proposed assignee to assume Lessee's obligations hereunder, in the reasonable judgment of Lessor, shall be void and shall, at the option of Lessor, terminate this Lease. Lessee covenants and agrees that when the prior written consent of Lessor is obtained, and in the event the subletting or assignment is to be arranged through public advertisement or listing of any kind, Lessee will treat all applications for sublease or assignment in a uniform manner and will award leases according to objective standards. No decision on any application shall be made on the ground of the applicant's race, color, religion, sex or national origin. Notwithstanding any other provision hereof, Lessor acknowledges and agrees that Lessee intends to use all or portions of the Premises to house, store, tend, treat, and otherwise deal with laboratory animals owned by others and to allow others to do the same with respect to their own animals, and Lessor agrees that the foregoing and any related activities shall not constitute subletting or require Lessor's consent.

34. Binding Effect. This Lease shall be binding upon and inure to the benefit of the heirs, successors or assigns of Lessor and Lessee, subject to the limitation on subleasing and assignment herein contained.

35. Transfer of Control. If Lessee is a corporation, and if at any time during the term of this Lease, corporate shares of Lessee shall be transferred by sale, assignment, bequest, inheritance, operation of law or other disposition so as to result in a change in the present control of said corporation by the person or persons now owning a majority of said corporate shares, without the prior written approval of Lessor, as to the financial capability of assignee to assume Lessee's obligations hereunder, in the reasonable judgment of Lessor (such approval to be granted by Lessor if the assignee or sublessee has a minimum net worth of \$3,000,000.00), Lessee shall be in default of this Lease and Lessor may exercise its rights in respect of default hereunder.

36. Entire Agreement. This Lease shall constitute the sole and only agreement of Lessor and Lessee with regard to the Lease of the Premises, and shall supercede any prior or contemporaneous oral or written agreements. This Lease may not be altered, changed or amended, except by an instrument in writing, signed by both parties hereto.

37. Pronouns. Pronouns which refer to either Lessor or Lessee shall be construed to mean the appropriate number and gender intended.

38. Joint and Several Tenancy. If more than one person executes this Lease as Lessee, their obligations hereunder are joint and several, and any act or notice of or to, or refund to, or the signature of, any one or more of them, in relation to the renewal or termination of this Lease, or under or with respect to any of the terms hereof shall be fully binding on each and all of the persons executing this Lease as a Lessee.

39. Force Majeure. If either party shall be delayed or prevented from the performance of any act required hereunder by reason of acts of God, strikes, lockouts, labor troubles, inability to procure materials, restrictive governmental laws or regulations or other cause without fault and beyond the control of the party obligated (financial inability excepted), performance of such act shall be excused for the period of the delay, and the period for the performance of any such act shall be extended by a period equal to the period of such delay; provided, however, nothing in this Article shall excuse Lessee from the prompt payment of any rental or other charge required of Lessee hereunder, except as may be expressly provided elsewhere in this Lease.

40. General. Time is of the essence of this Lease. All rights and remedies of Lessor and Lessee under this Lease shall be cumulative and none shall exclude any other rights or remedies allowed by law. This Lease shall be declared to be a Texas lease, and all of the terms hereof shall be construed according to the laws of the State of Texas. Said Lease shall be performable only in Montgomery County, Texas, and venue for any action hereunder shall lie exclusively in Montgomery County, Texas or in the Southern District of Texas, Houston Division, as appropriate. Lessor and Lessee warrant to each other that this Lease has been duly authorized and executed on behalf of such party, and that same is valid and binding upon such party. The section headings and numbers herein and the grouping of the provisions of this Lease into separate articles, sections and paragraphs, are for the purpose of convenience only and shall not be considered in construing the meaning of any provision in this Lease.

41. Notices. Any notice required or permitted to be given pursuant to the terms of this Lease shall be sent by certified or registered U.S. mail to Lessor at 2201 Timberloch Place, The Woodlands, Texas 77380, Attn: Property Management, and to Lessee at 4000 Research Forest Drive, The Woodlands, Texas 77380, Attention: President. The place to which such notices shall be sent may be changed by either party giving notice of such change to the other party in the manner hereinabove provided.

42. Severability. If any of the provisions of this Lease shall contravene or be invalid under the laws of the particular state, county, or jurisdiction where applied, such contravention or invalidity shall not invalidate the Lease or any other portions thereof and the remainder of this Lease or the application thereof to other persons or circumstances shall not be affected thereby.

43. Corporate Authority. If Lessor or Lessee signs as a corporation, each of the persons executing this Lease on behalf of Lessor or Lessee represents and warrants that such

party is a duly organized and existing corporation, that such party has and is qualified to do business in Texas, that such party has full right and authority to enter into this Lease, and that all persons signing on behalf of such party were authorized to do so by appropriate corporate actions.

44. Not an Offer. The submission of this Lease to Lessee shall not be construed as an offer, nor shall Lessee have any rights with respect thereto unless Lessor executes a copy of this Lease and delivers the same to Lessee.

45. Exhibits, Riders and Addenda. This lease also includes and incorporates herein for all purposes all attached Exhibits, Riders, and Addenda, if any.

46. Use of Woodlands Country Club Membership.

A. During the Term, provided there has been no default by Lessee in any of the terms and conditions of the Lease, Lessee may utilize, without payment of Initiation Fees, one (1) Executive Golf Membership ("Membership") in the Woodlands Country Club. Lessee may designate one (1) employee as member ("Designee"), and the Designee will have full use and privileges afforded by the Membership. Lessee understands and agrees that it will be responsible for payment of monthly dues and all use fees and club charges.

B. At any time during the term of the Lease, or any extension thereof, Lessee may substitute another employee as Designee, by payment of the then current Transfer Fee established by the Woodlands Country Club.

C. At the expiration or termination of the Lease, Lessee's right to utilize the Membership shall expire and thereafter be of no further force or effect.

IN TESTIMONY WHEREOF, the parties hereto have executed this Lease in duplicate counterparts, each of which shall constitute an original but collectively shall constitute only one document, such execution to be effective on the date first above written.

LESSOR

Date: 9/22/95

THE WOODLANDS CORPORATION

By: /s/ Eric Wojner

Name: Eric Wojner
Title: V.P. Inv. Properties

LESSEE

Date: 9/22/95

LEXICON GENETICS INCORPORATED

By: /s/ Arthur T. Sands

Name: Arthur T. Sands
Title: President CEO

EXHIBIT B

TENANT IMPROVEMENT ADDENDUM

Lexicon Genetics Incorporated

Re: Leasehold improvements for 13,068 rentable square feet of space in a building known as 4000 Research Forest Building, in The Woodlands, Texas.

Gentlemen:

Lessor is pleased to quote for your approval the cost of work necessary to construct the proposed leasehold improvements in the above-referenced space.

The cost of the work is based upon the Plans hereinafter described as follows:

Total Cost of Work	\$ 65,300.00
Lessor Allowance	(\$ 65,300.00)
Total Amount Due from Lessee	\$ -0-

Lessor will construct the proposed leasehold improvements in the above-referenced space in accordance with the design, architectural and mechanical plans and specifications ("Plans") dated July 19, 1995, which have been prepared by Turnbow Design Services at Lessor's expense and initialled by both Lessor and Lessee. The Plans show all work which will be required for commencement of the Lease and use by Lessee for purposes set out in Section 4 of the Lease.

As used herein, "substantial completion" shall occur when the Lessor has completed the leasehold improvements in accordance with the Plans, subject to minor punchlist items which do not adversely affect Lessee's use or occupancy of the Premises in any material respect, and a permanent certificate of occupancy has been issued by the applicable governmental authority. Lessor will deliver the Premises to Lessee in broom clean condition. Lessor will deliver at least thirty (30) days advance written notice of the date Lessor anticipates that substantial completion will occur.

Lessor will also notify Lessee when Lessor believes that substantial completion has occurred. Within five (5) days thereafter, Lessee will jointly inspect the Premises with Lessor. Unless Lessee disputes that substantial completion has occurred, the parties will on the date of inspection agree upon the punchlist items which Lessor agrees to use best efforts to complete within thirty (30) days thereafter. The Commencement Date for the Lease will be on the date of the parties' agreement on the punchlist items.

Lessor guarantees the leasehold improvements and HVAC System against all defective workmanship and materials for a period of one (1) year after the improvements have been fully

completed and Lessor agrees, at its sole cost and expense, to promptly repair or replace any defective workmanship or materials which appear and of which Lessee gives Lessor written notice thereof during said one year period. Upon the expiration of such one-year warranty period, Lessor shall assign and transfer to Lessee all warranties and guaranties, if any, granted or made to or for the benefit of Lessor by contractors, suppliers, or manufacturers which supplied labor, material or equipment for the construction of the improvements or for the HVAC system and all rights, titles and interests (including, without limitation, causes of action) of Lessor under each contract for work involving the construction of the improvements. From and after the expiration of the guaranties of Lessor set forth in this paragraph, Lessor agrees to cooperate with Lessee in the enforcement by Lessee, at Lessee's sole cost and expense, of any express or implied warranties or guaranties of workmanship or materials granted or made by, and all rights, titles, interests and causes of action against, contractors, subcontractors or materialmen that provided work, labor, materials or equipment (or any or all of them) to Lessor in connection with the construction of the leasehold improvements, or in connection with the HVAC system. Lessor further agrees to cooperate with Lessee in the enforcement by Lessee, at Lessee's sole cost and expense, of any service contracts that provide service, repair or maintenance to any item incorporated in the Premises for a period of time in excess of such construction guaranty periods.

Lessor will permit Lessee and its agents and contractors access to the Premises during normal working hours prior to occupancy pursuant to Exhibit "E" or the Commencement Date for the limited purposes of performing construction work, decorations and cleanup to prepare portions of the Premises for occupancy provided that (a) Lessee and its contractors will not interfere with the work being performed by Lessor and its contractors, (b) Lessee gives Lessor prior notice of its desire to enter the Premises, and (c) Lessee understands and assumes all risks of its entry onto the Premises and carries the insurance required by the Lease. Lessee's access and use of utilities at the Premises, in connection with Lessee's construction work and other preparations for occupancy shall be without charge to Lessee.

If Lessor further agrees to perform, at your request, any additional or non-standard work over and above that specified on the attached plans, such work shall be performed by Lessor, at your sole expense, as a tenant extra. Prior to commencing any such work requested by you, Lessor will submit to you written estimates of the cost of any such work. Within one (1) week from the date of submission thereof by Lessor, you shall either provide written approval of the estimate for construction, submit to Lessor revisions in the plans and specifications, or notify Lessor that the work is no longer requested. You agree to pay Lessor promptly upon being billed therefore, the cost of all such work, together with fifteen percent (15%) of the cost for Lessor's overhead. You agree that in the event of default in payment thereof, Lessor shall (in addition to all other remedies) have the same rights as in the event of default of payment of rent under the Agreement.

It is agreed that, notwithstanding the date provided in the Lease for the commencement of the Term, and notwithstanding Lessee's partial occupation of the Premises prior to Lessor's substantial completion of the leasehold improvements, your obligation for the payment of full Base Rent and other sums thereunder shall not commence until Lessor has substantially completed all work to be performed by Lessor pursuant to this Tenant Improvement

Addendum, except as and to the extent specifically otherwise provided for in Exhibit "E" to the Lease; provided, however, that if Lessor shall be delayed in substantially completing the work by December 15, 1995, as a result of:

- (a) Your failure to timely furnish the information and approval as and when required;
- (b) Your request for materials, finishes or installations other than specified on plans attached;
- (c) Your changes in approved plans or specifications; or
- (d) The performance of work by a person, firm or corporation employed by you and the completion of said work by said person, firm or corporation,

The commencement of the Term and the payment of Base Rent and other sums (other than the Base Rent provided for in Exhibit "E") thereunder shall be accelerated by the number of days of such delay. Lessor and Lessee agree that the number of days of acceleration shall be reduced by the number of days of delay caused by Lessor, its agents or contractors. Lessor and Lessee will notify each other of delays which it believes the other has caused.

All monies due from you for leasehold improvements must be paid to Lessor prior to your occupancy of the space.

/s/ Arthur T. Sands 9/22/95

Arthur T. Sands Date
Tenant Acceptance

By: /s/ Gerald D. Irons

Sales Director

/s/ Greg Swan

Director of
Tenant Improvements

EXHIBIT C
TO LEASE AGREEMENT
RULES AND REGULATIONS

PASSAGE WAY OBSTRUCTION

The sidewalks, entries, passages, courts, corridors and stairways shall not be obstructed by any Lessee, its employees or agents, or used by them for purposes other than for ingress and egress to and from their respective Premises.

SIGNAGE

No sign, advertisement, display, notice or other lettering shall be exhibited, inscribed, painted or affixed on any part of the outside of the Premises or inside, if visible from the outside, of the Building of which they form a part without Lessor's prior written approval. All signs, and notices of Lessee, so approved by Lessor, shall be maintained by Lessee in good and attractive condition at Lessee's expense and risk. Lessor shall have the right to remove all signs erected in violation of this rule without notice to Lessee, at the expense of Lessee. Signage must comply with sign standards of The Woodlands Development Standards Committee.

NOISE AND DISTURBANCE

No loud speakers, television sets, phonographs, radios, security systems, or other devices shall be used in a manner so as to be heard or seen outside of the Premises without the prior written consent of Lessor.

Lessee shall not make or permit any noise or odor which Lessor deems objectionable or unpleasant to emanate from the Premises.

ANTENNAE AND AERIALS

No aerial or antenna, including satellite dish, shall be erected on the roof or exterior walls of the Premises or Building in which the Premises is a part, in each instance, without the prior written consent of Lessor. Any aerial or antenna so installed without such written consent shall be subject to removal by Lessor without notice at any time.

USE OF PREMISES

No portion of the Premises shall be used for a purpose other than as permitted under the terms of their Lease.

No portion of the Premises shall be used for the purpose of lodging rooms, or for any immoral or unlawful purposes.

FIRE PROTECTION

Lessee shall not do or permit anything to be done in the Premises, or in the common areas of the Building, or bring or keep anything therein, which will in any way increase the rate of fire insurance on the Building or property kept therein, or obstruct or interfere with the rights of other Lessees, or in any way injure or annoy them, or conflict with the laws relating to fire, or with any regulations of the fire department, or with any insurance policy upon the Building or any part thereof, or conflict with any of the rules or ordinances of any county, state or federal authority. Should Lessee utilize flammable or combustible liquids, all such flammables and combustibles will be stored and maintained in OSHA approved cabinets.

PARKING

Lessee and Lessee's employees shall park their cars only in those portions of the parking area designated for that purpose by Lessor.

All vehicles will be parked within striped lanes. Parking across the stripes or in unmarked areas, blocking of walkways, loading area, entrances or driveways will not be permitted. Should such a situation exist, Lessor, at its option, shall have the right to tow such vehicle away at the owner's expense.

MAINTENANCE OF PREMISES

Lessee shall keep the Premises at a temperature sufficiently high to prevent freezing of water in pipes and fixtures.

No awning or other projections shall be attached to the outside walls of the Premises or the Building of which they form a part without, in each instance, the prior written consent of Lessor.

DELIVERIES AND MOVES

All loading and unloading of goods shall be done only at such times, in the areas and through the entrances designated for such purpose by Lessor.

TRASH REMOVAL

All garbage, refuse and waste shall be kept in the kind of container specified by Lessor, and shall be placed outside of the Premises, prepared for collection in the manner and at the times and places specified by Lessor. In no event shall Lessee dispose of garbage, refuse and waste in public areas of the Building. If Lessor shall provide or designate a service for picking up refuse, garbage, and waste, Lessee shall use the same at Lessee's cost, provided such cost shall be competitive to any similar service available to Lessee.

PEST CONTROL

Lessee shall use at Lessee's cost such pest extermination contractors as Lessor may direct and at such intervals as Lessor may require, provided the cost thereof is competitive to any similar service available to Lessee.

ELECTRICAL AND TELEPHONE SERVICE

If Lessee desires telegraphic, telephonic or other electric connections Lessor or its agents will direct the electricians as to where and how the wires may be introduced, and without such direction no boring or cutting for wires will be permitted. Access to any mechanical, electrical or telephone rooms must be approved by Lessor.

EXCESS TRASH DISPOSAL

In the event Lessee must dispose of crates, boxes, etc., which will not fit into a standard exterior trash container, it will be the responsibility of Lessee to dispose of same. In no event will Lessee set such items in the common areas of the Building. Lessor may provide a common trash receptacle for Lessee's use.

WATER USAGE

The water closets and other water fixtures shall not be used for any purpose other than those for which they were intended, and any damage resulting to them from misuse, or the defacing or injury of any part of the Building shall be borne by the person who shall occasion it. No person shall waste water by interfering with the faucets or otherwise.

ALTERATIONS AND CONTRACTOR APPROVAL

All contractors and/or technicians performing any alterations for Lessee within the Premises must be referred to Lessor for approval and shall, prior to commencement, execute proper lien waivers.

LESSOR'S RIGHT OF ENTRY

Lessor or its agents shall have the right to enter the Premises to examine the same or to make such repairs, alterations or additions as Lessor shall deem necessary for the safety, preservation or improvement of the Building. Lessor or its agents may show said Premises and place on the windows or doors thereof, or upon the bulletin board, a notice "To Rent" for one month prior to the expiration of the Term of the Lease.

LOCKS AND KEYS

Lessor agrees to furnish Lessee two keys for the doors entering the Building, Lessee's suite and each entry door therein. Any additional keys will be furnished at a charge by Lessor equal to its cost plus 15% overhead. No additional locks shall be placed upon any doors without the written

consent of Lessor, nor shall any duplicate keys be made. All necessary keys shall be furnished by Lessor, and the same shall be surrendered upon the termination of this Lease, and Lessee shall then give to Lessor or its agents explanation of the combination of all locks upon the doors or vaults.

UPKEEP OF PREMISES

All glass, locks and trimmings in or about the doors and windows, and all electric globes and shades belonging to the Building shall be kept whole, and whenever broken by the Lessee or its agents or invitees, shall be immediately replaced or repaired and put in order by Lessee under the direction and to the satisfaction of Lessor and on vacating Premises shall be left whole and in good repair.

SKYLIGHTS AND WINDOWS

No floors, skylights or windows that reflect or admit light into the corridors or passage-ways, or to any other place in the Building, shall be covered or obstructed by any Lessee. If Lessee desires blinds or window coverings, they must be of such shade, color, material and make as shall be prescribed by Lessor (and any awning proposed may be prohibited by Lessor).

ADDITIONAL RULES AND REGULATIONS

Lessor reserves the right to make such other and further reasonable rules and regulations as in its judgment may from time to time be necessary for the safety, care and cleanliness of the Building and its occupants and for the preservation of good order therein.

/s/ Arthur T. Sands

Arthur T. Sands
LESSEE

/s/ F. Earl Higgins, Jr.

F. Earl Higgins, Jr.
Vice President, Property
Management

EXHIBIT "D"

Lessor and Lessee agree that the following items shall be excluded from Operating Expenses:

- A. Capital expenditures in accordance with generally accepted accounting principles except that, unless excluded from Operating Expenses pursuant to any other provision, Operating Expenses shall include the costs (amortized over such reasonable period as Landlord shall determine, together with interest thereon at the Prime Rate adjusted daily on the unamortized balance thereof) of any capital improvement:
- 1) which acts in any manner to reduce Operating Expenses;
 - 2) which is required under any governmental law, code or regulation passed or enacted on or after the effective date of this Lease;
 - 3) which is a necessary replacement (as opposed to additions or new improvements) of items located in the common areas adjacent to the Building, the parking area and other facilities used in connection with the Building, or involving the exterior of the Building, including, but not limited to the roof and structural elements.
- Prime Rate, as used herein, shall mean the varying per annum rate of interest which shall from day to day be equal to the per annum rate of interest then most recently established and announced by Chase Bank of Texas, N.A., as its prime lending rate of interest, with each such change in such per annum rate of interest to become effective on the effective date of each such change.
- B. Costs of correcting defects in the Building, the common areas adjacent thereto and the parking area and other facilities used in connection therewith, or the equipment used therein and the replacement of defective equipment to the extent such costs of replacing defective equipment are covered by warranties of manufacturers, suppliers, or contractors, or are otherwise borne by parties other than Lessor, except that conditions resulting from ordinary wear and tear will not be deemed defects for the purpose of this category.
- C. Costs of bringing the Building, the common areas adjacent thereto and the parking area and other facilities used in connection therewith into compliance with building codes, laws, rules, regulations, ordinances, or any other governmental rules or requirements, including, without limitation, the Americans With Disabilities Act of 1990, which compliance was required prior to the effective date of this Lease.
- D. Costs of repairs or other work occasioned by fire, windstorm, or other casualty of an insurable nature, whether or not Lessor carries such insurance, and costs reimbursable to Lessor by governmental authorities in eminent domain or condemnation proceedings, except that the amount of any insurance deductible up to the amount of \$25,000.00 shall be included in Operating Expenses.

- E. Any expenses or costs that, under generally accepted accounting principles, are attributable to losses due to uncollected rent or fees or reserves for bad debts.
- F. Any expenses that are or should be separately metered or billed directly to or separately paid by another lessee or other third party.
- G. Costs of preparation of space, including buildout, renovating, or otherwise improving, changing, decorating, or redecorating space, for new lessees, prospective lessees, or other occupants in the Building, or vacant space in the Building except for routine, periodic repair, and replacement not considered to be capital items under generally accepted accounting principles.
- H. Costs incurred in removing the property or improvements of former lessees or other occupants of the Building.
- I. Architectural fees, leasing commissions, attorneys' fees, costs and disbursements, and other expenses incurred in connection with negotiations or disputes with lessees, prospective lessees, or other occupants of the Building and any such expenses incurred in connection with this Lease.
- J. All utility costs for which Lessee directly contracts with local utility companies.
- K. Costs incurred due to acts of Lessor, any other lessee, or other occupant of the Building causing an increase in the rate of insurance on the Building or its contents.
- L. Costs, fines, interest penalties, attorneys' fees, and costs of litigation incurred due to late payment of taxes (except for penalties associated with Lessor's good faith contest of real estate taxes), utility bills, ground rentals, or mortgage debt, and other such costs incurred by Lessor's failure to make such payments when due.
- M. Penalties, fines, and other costs incurred due to violations or alleged violations by Lessor, any other lessee, or any third party of any laws, rules, regulations, codes, or ordinances. It is understood and agreed that Operating Expenses shall include costs to comply with laws, rules, regulations passed or enacted by the governmental authority on or after the effective date of this Lease, unless excluded pursuant to any other provision.
- N. Costs incurred due to violations or alleged violations by Lessor, any other lessee, or other occupant of the Building of the terms and conditions of any lease or other rental arrangement covering space in the Building.
- O. Ground rentals, payment of principal and interest on debt (and other debt costs), amortization payments on any mortgage or mortgages executed by Lessor covering the Building or the Land (or any portion thereof) (except to the extent that any of the foregoing may include payments or prepayments of insurance premiums or taxes that would be included in Operating Expenses if paid directly by Lessor), rental concessions, and negative cash flow guarantees.

- P. Costs incurred in connection with the sale, refinancing, mortgaging, or selling, or change of ownership of the Building or the Land, including, without limitation, brokerage commissions, attorneys' and accountants' fees, loan brokerage fees, closing costs, interest charges and property transfer taxes.
- Q. State, local, federal, personal, and corporate income taxes measured by the income of Lessor from all sources or from sources other than rent alone; estate and inheritance taxes; franchise, succession and transfer taxes.
- R. All costs incurred by Lessor in connection with any dispute relating to the Lessor's title to or ownership of the Building or the Land.
- S. Contributions to charitable organizations.
- T. Expenses and costs relating in any way whatsoever to the identification, testing, monitoring and control, encapsulation, removal, replacement, repair, or abatement of any hazardous materials within the Building or the Land (a) which material was classified as "hazardous" prior to the effective date of this Lease and (b) was required to be removed, replaced, repaired or abated prior to the effective date of this Lease.
- U. Costs and expenses in excess of \$10,000.00 in the aggregate for owning, leasing, and maintaining sculpture, painting, and other works of art installed in and/or on the Building or the Land.
- V. Advertising and promotional expenditures.
- W. Lessor's general corporate overhead, if any.
- X. Wages, salaries or other compensation of any kind or nature paid to any employees above the grade of Director of Property Management.
- Y. Costs of Lessor's compliance with warranties given to Lessee by Lessor.
- Z. Management fees, except for the fee of five percent (5%) of the Base Rent under this Lease.
- AA. Submetered utility service costs paid by Lessee to Lessor directly, or any utility service costs paid by Lessee directly to the service provider.

EXHIBIT "E"

Notwithstanding anything contained in the Lease to the contrary, Lessor agrees that Lessee may take occupancy of portions of the Premises prior to the Commencement Date on the following terms and conditions:

- 1) Lessee may take possession of portions of the Premises ("Early Occupancy Space(s)") designated from time-to-time prior to the Commencement Date on a month-to-month basis.
- 2) Monthly Base Rent on the Early Occupancy Space(s) shall be calculated as follows: \$20.50 times the number of rentable square feet in the Early Occupancy Space(s) divided by twelve (12). All Base Rent and other sums shall be prorated in the case of a partial month.
- 3) Base Rent shall be payable in advance on the first day of each month, with a prorated portion being due and payable in advance for any partial month.
- 4) "Additional Rent", "utilities expense", "Excess Operating Expenses", and other similar sums will not be charged with respect to the Early Occupancy Space(s) (until the Commencement Date of the Lease), except that Lessee agrees to pay to Lessor, together with the Base Rent paid for the Early Occupancy Space(s), a monthly Utility Fee of \$.17 times the number of rentable square feet in the Early Occupancy Space(s), which Utility Fee shall be prorated for any partial month.
- 5) Lessor agrees that Lessee, at Lessee's sole expense, may provide electrical service to the Early Occupancy Space(s) through the use of "pig tails".
- 6) All terms and conditions of the Lease shall apply to Lessee's occupancy of the Early Occupancy Space(s), except as provided herein. Lessee will deliver to Lessor the required insurance certificates prior to occupancy of the Early Occupancy Space(s).

Rider No. 1

to Lease Agreement Dated September 22, 1995, by and between

THE WOODLANDS CORPORATION, as Lessor, and
LEXICON GENETICS INCORPORATED, as Lessee

- I. INTERRUPTION OF UTILITIES. Lessor has been advised by Lessee that the capacity of the utilities used by the former occupant of the Building, Baylor College of Medicine, is adequate to meet its normal use needs and Lessor agrees that said capacity shall be maintained during the Term and Lessor has no knowledge of any restrictions which would adversely affect Lessee's operations permitted under the Lease. Notwithstanding anything to the contrary contained in this Lease, if (i) there shall occur interruption or discontinuance of utilities or services to be provided or made available by Lessor as described in this Lease of such nature that Lessee is unable to, or does not, make normal use of the Premises, (ii) such interruption or discontinuance has not been caused in whole or substantial part, directly or indirectly, by the negligence or willful misconduct of Lessee, or Lessee's agents, employees, contractors, subcontractors, subtenants or assignees, (iii) Lessee shall have given written notice respecting such interruption or discontinuance to Lessor and Lessor shall have failed to cure such interruption or discontinuance for four (4) consecutive days after Lessor receives said notice, and (iv) the cause of such interruption or discontinuance of a utility is outside the Premises, then all rents payable herein shall automatically abate from the fifth (5th) business day until such time as the services or utilities are restored or Lessee begins normal use of the Premises again, whichever occurs first. For purposes of determining whether there is an interruption or discontinuance of utilities or services, an outage or series of outages totalling four (4) hours or more on any day shall constitute an interruption or discontinuance of services or utilities for such day, but outages that in the aggregate are of shorter duration, shall not be considered. If (i) there shall occur interruption or discontinuance of utilities or services to be provided or made available by Lessor as described in this Lease of such nature that Lessee is unable to, or does not, make normal use of the Premises, (ii) such interruption or discontinuance has not been caused in whole or substantial part, directly or indirectly, by the negligence or willful misconduct of Lessee, or Lessee's agents, employees, contractors, subcontractors, subtenants or assignees, (iii) Lessee shall have given written notice respecting such interruption or discontinuance to Lessor and Lessor shall have failed to cure such interruption or discontinuance for ninety (90) consecutive days after receiving said notice, and (iv) the cause of such interruption or discontinuance of a utility is outside the Premises, then Lessee may terminate the Lease.
2. ATTORNEYS' FEES. In the event that at any time during the Term either Lessor or Lessee shall institute any action or proceeding against the other relating to the provisions of this Lease, or any default hereunder, the unsuccessful party in such action or proceeding agrees to reimburse the successful party for the reasonable expenses of attorneys' fees and paralegal fees and disbursements incurred therein by the successful party. Such reimbursement shall include all legal expenses incurred prior to trial, at trial

and at all levels of appeal and post-judgment proceedings. If Lessor employs in-house counsel, then the court shall make a determination of the reasonable legal expenses which would have been incurred had Lessor employed outside counsel.

3. USE BY LESSOR. Lessor shall not use or permit the use of any part of the Premises or the Building in any way that is unlawful or disreputable in Lessee's reasonable opinion and will use its best efforts not to permit or create any nuisance, noise or odor, or otherwise interfere with, annoy or disturb Lessee in its normal business operations.
4. BROKER COMMISSIONS. Lessee and Lessor each warrant to the other that in connection with the negotiation of this Lease, it has not dealt with any broker or agent. Lessee and Lessor shall each indemnify the other against all costs, expenses, attorneys' fees, and other liability for commissions or compensation claimed by any broker or agent claiming by, through, or under the indemnifying party.
5. REPRESENTATIONS BY LESSOR. Lessor does hereby warrant to represent to Lessee that, as of the date the Premises are tendered to the Lessee, the Premises, the Building and other improvements erected or to be erected by Lessor on or about the Premises shall be and are in compliance with applicable government and private rules, regulations, restrictions and ordinances, and in good working order in accordance with their intended use, including all equipment, fixtures, heating, air-conditioning, electrical, plumbing and sewer systems. Taking possession of the Premises by Lessee shall not be deemed to be acceptance of any defects or matters of which Lessee provides to Lessor notice within thirty (30) business days after the Commencement Date and, in no event, shall be deemed acceptance of latent defects.
6. MAINTENANCE OF THE BUILDING AND LAND. Except with respect to those items to be maintained by Lessee, the Building and the Land shall at all times be maintained by Lessor in a commercially reasonable manner consistent with the manner in which projects in the development known as The Woodlands of a similar type and character are maintained. In addition to those items described in the Lease, Lessor shall provide and maintain the common areas, access, paving, parking areas, downspouts, exterior paint, exterior electrical and alleys in good condition and repair. Lessee shall not be required to pay any cost attributable to the actions of any other tenant or occupant of the building. Any material, service, management, or maintenance charges allocated to Lessee shall not exceed commercially reasonable rates, including an overhead charge, for buildings of a similar size, age, character and location. Lessor shall not be entitled to reimbursements for any expenses related to faulty workmanship or for structural items. Subject to the terms of the Lease, Lessee shall have access to the Premises seven (7) days a week, twenty-four (24) hours a day.
7. RENEWAL OPTION. Lessee, upon payment of the rent herein reserved and performance of the covenants contained herein, shall have the option to extend the Lease one (1) period of five (5) years ("Extension Term"). Such Extension Term shall be subject to the same terms and conditions as are set forth herein, except that (a) the Base Rent and the Operating Cost Allowance shall be at the then market rate for comparable

office space in The Woodlands Development, at the time the Extension Term commences, but in no event less than the Base Rent and Operating Cost Allowance that apply during the last month of the primary Term, (b) Lessee shall have no option to renew the Lease beyond the Extension Term, (c) a one (1) year warranty as to leasehold improvements and HVAC system shall not apply, and (d) the "Term" as defined in the Lease shall include the Extension Term if duly exercised by Lessee. Lessee shall notify Lessor in writing at lease nine (9) months prior to the expiration of the primary Term of Lessee's election to exercise the option to extend. Lessor, shall within fifteen (15) days of such notice, notify Lessee of the Base Rent and Operating Cost Allowance to be in effect during the Extension Term. Lessee will have fifteen (15) days thereafter to notify Lessor in writing of its exercise of the option to extend at the stated rental (provided Lessor has provided a reasonably accurate estimate of market rent) or cancellation of its election to exercise the option to extend. If Lessee elects not to extend or fails to timely exercise its option, the option to extend shall terminate and be of no further force and effect. In the event of a dispute as to market rate, Lessor and Lessee shall in good faith attempt to resolve any dispute promptly in order to avoid any delay in finalizing the rental for the Extension Term. The term "market rate" shall mean the rental rates then being charged in the development known as The Woodlands for space comparable to the Premises, taking into consideration use, location, floor level, quality, age and location of the Building, tenant improvements, rent concessions and tenant inducements, and other relevant factors.

8. FIRE AND CASUALTY. If the Premises are damaged in part or whole from any cause and the Premises can be substantially repaired and restored within one hundred and eighty (180) days from the date of the damage using standard working methods and procedures, Lessor shall at its expense promptly and diligently repair and restore the Premises to substantially the same condition as existed before the damage. This repair and restoration shall be made within one hundred and eighty (180) days from the date of the damage. If the Premises cannot be repaired and restored within the one hundred and eighty(180) day period, then either party may, within thirty (30) days after the date of damage, cancel the Lease by giving notice to the other party. Nevertheless, if the Premises are not repaired and restored within one hundred and eighty (180) days from the date of the damage, then Lessee may cancel the Lease at any time after the one hundred eightieth (180th) day and before the two hundred tenth (210th) day following the date of damage. Unless the damage is caused by Lessee's willful misconduct, the Base Rent, Additional Rent and any other rental shall abate in proportion to that part of the Premises that is unfit for use in Lessee's business. The abatement shall consider the nature and extent of interference to Lessee's ability to conduct business in the Premises and the need for access and essential services. The abatement shall continue until the earlier of the date Lessor completes the repairs and restoration to the Premises or the part rendered unusable and notice to Lessee that the repairs and restoration are completed, or until Lessee again uses the Premises or the part rendered unusable, whichever is first. The provisions of this paragraph 8 shall prevail over the provisions of paragraph 23 of the Lease to the extent of any conflict.

9. PURCHASE OF AUTOCLAVE. On or before the earlier of (a) the date Lessee occupies any portion of the Premises or (b) December 15, 1995, Lessee shall purchase from Lessor the AMSCO 2023 Autoclave Vacamatic ("Autoclave"), located in the Premises for \$15,000.00. Lessee has inspected the Autoclave and agrees to purchase it "As Is" and "With All Faults." Lessee understands that Lessor makes no express or implied warranties with respect to the Autoclave and makes no warranties of merchantability or fitness of the Autoclave for any purpose.

MODIFICATION AND RATIFICATION OF LEASE

between THE WOODLANDS CORPORATION ("Lessor") and LEXICON GENETICS INCORPORATED ("Lessee").

This Modification and Ratification of Lease is made and entered into, effective the 26th day of September, 1995, for and in consideration of One Dollar (\$1.00), and other good and valuable consideration.

WITNESSETH:

1. Lessor and Lessee hereby confirm and ratify (as modified below) all of the terms, conditions and covenants in that certain Lease Agreement ("Lease") between the parties dated September 22, 1995, under which Lessee has leased from Lessor 13,068 square feet of net rentable area in the building located at 4000 Research Forest Drive, The Woodlands, Montgomery County, Texas ("Premises").

2. In accordance with the terms of Exhibit "E" of the Lease, effective September 26, 1995, Lessee will take possession of that certain 220 rentable square foot portion of the Premises shown on Annex "T" attached hereto ("Early Occupancy Space 1").

3. Lessee agrees to pay to Lessor Base Rent of \$375.83 per month for the Early Occupancy Space 1, together with a Utility Fee of \$37.40 per month.

EXECUTED this 25th of October, 1995.

LESSOR:

THE WOODLANDS CORPORATION

By: /s/ Eric H. Wojner

Name: Eric H. Wojner

Title: VP - Investment Properties

LESSEE:

LEXICON GENETICS INCORPORATED

By: /s/ Ray B. Webb

Name: Ray B. Webb

Title: Director - Administration

MODIFICATION OF LEASE

This Modification and Ratification of Lease is made and entered into, effective the 18th day January 1996, between THE WOODLANDS CORPORATION ("Lessor") and LEXICON GENETICS INCORPORATED ("Lessee") for and in consideration of One Dollar (\$1.00), and other good and valuable consideration.

W I T N E S S E T H :

1. Lessor and Lessee hereby confirm and ratify (as modified below) all of the terms, conditions and covenants in that certain written Lease Agreement ("Lease") between the parties dated September 22, 1995 and modified by Modification and Ratification of Lease dated October 25, 1995, under which Lessee has leased from Lessor 13,068 square feet of net rentable area in that building located at 4000 Research Forest Drive, The Woodlands, Montgomery County, Texas ("Premises").

2. In accordance with the terms of Exhibit "E" of the Lease, effective November 13, 1995, Lessee has taken possession of that certain 2,229 rentable square foot portion of the Premises shown on Annex "II" attached hereto ("Early Occupancy Space 2").

3. Effective November 13, 1995, Lessee agrees to pay to Lessor an increase in Base Rent of \$3,807.88 per month for the Early Occupancy Space 2, so that the total Base Rent shall be \$4,183.71 per month, together with a Utility Fee of \$378.93 per month.

Signed this the 21st day of December, 1995, at The Woodlands, Texas.

LESSEE
LEXICON GENETICS INCORPORATED
BY: /s/ Ray Webb

NAME: Ray Webb
TITLE: Director-Administration

LESSOR
THE WOODLANDS CORPORATION
BY: /s/ Eric H. Wojner

NAME: Eric H. Wojner
TITLE: Vice-President/Investment Properties

EXPANSION, MODIFICATION AND RATIFICATION OF LEASE

This Expansion, Modification and Ratification of Lease is made and entered into, effective the 4th day of November, 1996, between THE WOODLANDS CORPORATION ("Lessor") and LEXICON GENETICS INCORPORATED, A DELAWARE CORPORATION ("Lessee") for and in consideration of One Dollar (\$1.00), and other good and valuable consideration.

WITNESSETH:

1. Lessor and Lessee hereby confirm and ratify (as modified below) all of the terms, conditions and covenants in that certain written Lease ("Lease") between the parties dated September 22 1995, modified by Modification of Lease dated October 25, 1995, and Modification of Lease dated January 18, 1996, under which Lessee has leased from Lessor approximately 13,068 square feet of net rentable area in that building located at 4000 Research Forest Drive, The Woodlands, Montgomery County, Texas.
2. Lessor and Lessee agree that the Term of the Lease shall be defined as seventy-four (74) months commencing November 1, 1996 ("Expansion Area Effective Date"), expiring on December 31, 2002.
3. Lessor and Lessee agree that effective on the Expansion Area Effective Date, the area of the Premises shall be increased by 2,572 square feet of net rentable area ("Expansion Area") which Expansion Area is outlined on attached Exhibit "A", changing the size of the Premises to 15,640 square feet of net rentable area.
4. Lessor and Lessee agree that, effective on the Expansion Area Effective Date, the Base Rent, as set out in Section 4 of the Lease Agreement, shall be increased by Four thousand, three hundred ninety-three and 83/100 Dollars (\$4,393.83) per month commencing November 1, 1996 and Four thousand six hundred eight and 17/100 Dollars (\$4,608.17) per month commencing January 1, 2000.
5. Lessor agrees to make alterations and improvements ("Improvements") to the Premises, upon the terms set forth in Exhibit "B" attached hereto.

Signed this the 4th day of November, 1996, at The Woodlands, Texas.

LESSEE
LEXICON GENETICS INCORPORATED

LESSOR
THE WOODLANDS CORPORATION

BY: /s/ Arthur T. Sands

BY: /s/ Eric H. Wojner

NAME: Arthur T. Sands
TITLE: President/CEO

NAME: Eric H. Wojner
TITLE: Vice President/Investment Properties

EXHIBIT B

LEXICON GENETICS INCORPORATED

Re: Leasehold improvements for 2,572 rentable square feet (2,572 usable square feet) of space in a building known as 4000 Research Forest Drive in The Woodlands, Texas.

Gentlemen:

Lessor is pleased to quote for your approval the cost of work necessary to construct the proposed leasehold improvements in the above referenced space.

The cost of work is based upon the attached drawings dated TBD

Total Cost of Work	\$ 12,860.00
Lessor Allowance	(\$ 12,860.00)
Total Amount Due from Lessee	\$ -0-

If Lessor further agrees to perform, at your request, any additional or non-standard work over and above that specified on the attached plans, such work shall be performed by Lessor, at your sole expense, as a tenant extra. Prior to commencing any such work requested by you, Lessor will submit to you written estimates of the cost of any such work. Within one (1) week from the date of submission thereof by Lessor, you shall either provide written approval of the estimate for construction, submit to Lessor revisions in the plans and specifications, or notify Lessor that the work is no longer requested. You agree to pay Lessor promptly upon being billed therefore, the cost of all such work, together with fifteen percent (15%) of the cost for Lessor's overhead. You agree that in the event of default in payment thereof, Lessor shall (in addition to all other remedies) have the same rights as in the event of default of payment of rent under the Lease.

It is agreed that, notwithstanding the date provided in the Lease for the commencement of the lease Term, your obligation for the payment of rental thereunder shall not commence until Lessor has substantially completed all work to be performed by Lessor pursuant to this agreement; provided, however, that if Lessor shall be delayed in substantially completing the work as required hereunder as a result of:

- (a) Your failure to timely furnish the information and approval as and when required;
- (b) Your request for materials, finishes or installations other than specified on plans attached;
- (c) Your changes in approved plans or specifications; or

(d) The performance by a person, firm or corporation employed by you and the completion of said work by said person, firm or corporation,

then the commencement of the term of the Lease and the payment of rent thereunder shall be accelerated by the number of days of such delay.

All monies due from you for leasehold improvements must be paid to Lessor prior to your occupancy of your space.

Upon your approval as indicated below, Lessor will begin construction of your leasehold improvements and estimate construction completion within 3* months of commencement of construction.

Sincerely,

/s/Arthur Sands

Arthur Sands
Tenant Acceptance

11/4/96

Date

/s/ Damon Palermo

Damon Palermo
Sales Director

/s/ Leon Lee

Leon Lee
Director Of Tenant Improvements

* If the Total Cost of Work should exceed the Lessor Allowance of \$12,860.00, Lessee agrees to pay Lessor the overage amount in cash at move-in or reduce the scope of work.

THE WOODLANDS CORPORATION
AGREEMENT

This Agreement (the "Agreement") is made and entered into by and between THE WOODLANDS CORPORATION, a Delaware corporation, with offices and its principal place of business in The Woodlands, Montgomery County, Texas (hereinafter "TWC"), and LEXICON GENETICS INCORPORATED (hereinafter the "Occupant").

WITNESSETH

WHEREAS, Occupant desires to use the suites at 4000 Research Forest Drive for the purpose of storage;

WHEREAS, Suites A110/A120 (Suites) is the property of TWC; and

NOW, THEREFORE, for and in consideration of the mutual covenants and obligations herein contained, the sufficiency of which is hereby acknowledged, TWC and Occupant agree as follows:

1. TWC hereby grants Occupant the nonexclusive use of the Suites at 4000 Research Forest Drive, for the period of time from November 1, 1996 to April 30, 1997 for the exclusive purpose of storage and for such other uses as are incident thereto.
2. Occupant shall be solely responsible for the use of the Suites during the term of this Agreement. Occupant shall, in its use of the Suites, comply with any and all rules and regulations imposed by TWC. Occupant agrees to operate the Suites in such a manner so as not to unreasonably interfere with the activities of TWC tenants who are located adjacent to the Suites. All repairs and maintenance costs associated with Occupant's occupancy shall be borne by Occupant.
3. Occupant agrees to indemnify and hold TWC and its affiliated companies, their agents, officers, directors, servants and employees (herein "Indemnatee") harmless from and against and to reimburse Indemnatee with respect to, any and all claims, demands, causes of action, loss, damage, liabilities, costs and expenses (including attorney's fees and court costs) of any and every kind or character, known or unknown, fixed or contingent, asserted against or incurred by Indemnatee at any time and from time to time by reason of, or arising, either directly or indirectly, out of Occupant's, its members', its agents', subcontractors', representatives' or invitees, use and/or misuse of the Suites.
4. Occupant shall maintain, during the term of this Agreement, a policy or policies of comprehensive general liability insurance issued by and binding upon some solvent insurance company licensed to do business in the State of Texas, such insurance to afford protection of not less than \$500,000.00 combined single limit bodily injury and property damage per occurrence. Said policy or policies shall name TWC as an additional named insured and include a waiver of subrogation in

favor of TWC. The Occupant shall provide TWC a copy of the required policy or a certificate evidencing the required coverage upon execution of this Agreement.

- 5. The Occupant for itself, its members, their representatives, heirs, executors, administrators, and next of kin (herein "Releasor") does hereby release, waive, discharge and covenant not to sue TWC, any affiliated company, its employees, agents and officers from any and every claim, demand, action or right of action of every kind or nature, either in law or in equity, arising from Releasor's use of the Suites at 4000 Research Forest Drive.
- 6. This agreement may be terminated by either party with five (5) days written notice. Upon termination of this Agreement the Occupant shall return the Suites in the same condition as it was in when this Agreement commenced.
- 7. This agreement is not assignable by the Occupant.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed this 1st day of November, 1996.

THE WOODLANDS CORPORATION

By: /s/ Ross Foldetta

 Name: Ross Foldetta
 Title: Director of Property Management

LEXICON GENETICS INCORPORATED

By: /s/ Arthur T. Sands

 Name: Arthur T. Sands
 Title: President/CEO

THE WOODLANDS CORPORATION
AGREEMENT

This Agreement (the "Agreement") is made and entered into by and between THE WOODLANDS CORPORATION, a Delaware corporation, with offices and its principal place of business in The Woodlands, Montgomery County, Texas (hereinafter "TWC"), and LEXICON GENETICS, INC. (hereinafter the "Tenant").

WITNESSETH

WHEREAS, the Tenant desires to use the suite at 4000 Research Forest #B109, The Woodlands, TX 77381 for the purpose of storage;

WHEREAS, the suite at 4000 Research Forest #B109 is the property of TWC; and

WHEREAS, TWC has agreed to allow the Tenant to use the suite for storage;

NOW, THEREFORE, for and in consideration of the mutual covenants and obligations herein contained, the sufficiency of which is hereby acknowledged, TWC and Tenant agree as follows:

1. TWC hereby grants the Tenant the nonexclusive use of the suite at 4000 Research Forest #B109, The Woodlands, TX 77381, for the period of month-to-month beginning July 22, 1996 to use for storage and for such other uses as are incident thereto.

2. The Tenant shall be solely responsible for the use of the suite at 4000 Research Forest #B109, during the term of this Agreement. The Tenant shall, in its use of the suite, comply with any and all rules and regulations imposed by TWC. The Tenant agrees to operate the storage area in such a manner so as not to unreasonably interfere with the activities of TWC tenants who are located adjacent to the suite at 4000 Research Forest #B109. All expenses and costs necessary to operate the storage area shall be borne by the Tenant.

3. The Tenant agrees to indemnify and hold TWC and its affiliated companies, their agents, officers, directors, servants and employees (herein "Indemnitee") harmless from and against and to reimburse Indemnitee with respect to, any and all claims, demands, causes of action, loss, damage, liabilities, costs and expenses (including attorney's fees and court costs) of any and every kind or character, known or unknown, fixed or contingent, asserted against or incurred by Indemnitee at any time and from time to time by reason of, or arising, either directly or indirectly, out of Tenant's, its members', its agents', subcontractors', representatives' or invitees' use and/or misuse of the suite at 4000 Research Forest #B109, The Woodlands, TX 77381.

4. The Tenant shall maintain, during the term of this Agreement, a policy or policies of comprehensive general liability insurance issued by and binding upon some

solvent insurance company licensed to do business in the State of Texas, such insurance to afford protection of not less than \$500,000.00 combined single limit bodily injury and property damage per occurrence. Said policy or policies shall name TWC as an additional named insured and include a waiver of subrogation in favor of TWC. The Tenant shall provide TWC a copy of the required policy or a certificate evidencing the required coverage upon execution of this Agreement.

5. The Tenant for itself, its members, their representatives, heirs, executors, administrators, and next of kin (herein "Releasor") does hereby release, waive, discharge and covenant not to sue TWC, any affiliated company, its employees, agents and officers from any and every claim, demand, action or right of action of every kind or nature, either in law or in equity, arising from Releasor's use of the suite at 4000 Research Forest #B109, The Woodlands, TX 77381.

6. This agreement may be terminated by either party with five (5) days written notice. Upon termination of this Agreement the Tenant shall return the suite at 4000 Research Forest #B109 in the same condition as it was in when this Agreement commenced.

7. This agreement is not assignable by the Tenant.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed this 19th day of July 1996.

THE WOODLANDS CORPORATION

By: /s/ Ross Foldetta

Name: Ross Foldetta
Title: Director of Property Management

LEXICON GENETICS, INC.

By: /s/ Arthur Sands

Name: Arthur Sands
Title: President

EXPANSION, MODIFICATION AND RATIFICATION OF LEASE

This Expansion, Modification and Ratification of Lease is made and entered into, effective the 2nd day of January, 1997 between THE WOODLANDS CORPORATION (Lessor") and LEXICON GENETICS INCORPORATED, a Delaware corporation ("Lessee"), for and in consideration of One Dollar (\$1.00), and other good and valuable consideration.

WITNESSETH:

- 1. Lessor and Lessee hereby confirm and ratify (as modified below) all of the terms, conditions and covenants in that certain written Lease ("Lease") between the parties dated September 22 1995, modified by modification of Lease dated October 25, 1995, Modification of Lease dated January 18, 1996, and Expansion, Modification and Ratification of Lease dated November 4, 1996, under which Lessee has leased from Lessor approximately 15,640 square feet of net rentable area in that building located at 4000 Research Forest Drive, The Woodlands, Montgomery County, Texas.
- 2. Lessor and Lessee agree that the Term of this expansion be defined as seventy-two (72) months commencing January 1, 1997 ("Expansion Area Effective Date"), expiring on December 31, 2002.
- 3. Lessor and Lessee agree that effective on the Expansion Area Effective Date, the area of the Premises shall be increased by 80 square feet of net rentable area ("Expansion Area") which Expansion Area is outlined on attached Exhibit "A", changing the size of the Premises to 15,720 square feet of net rentable area.
- 4. Lessor and Lessee agree that, effective on the Expansion Area Effective Date, the Base Rent, as set out in Section 4 of the Lease Agreement, shall be increased by one hundred thirty-six and 67/100 Dollars (\$136.67) per month commencing January 1, 1997 and one hundred forty-three and 33/100 Dollars (\$143.33) per month commencing January 1, 2000.
- 5. Lessor agrees to make alterations and improvements ("Improvements") to the Premises, upon the terms set forth in Exhibit "B" attached hereto.

LESSEE
 LEXICON GENETICS INCORPORATED
 CORPORATION
 a Delaware corporation

LESSOR
 THE WOODLANDS CORPORATION
 a Delaware corporation

BY: /s/ Ray B. Webb

 NAME: Ray B. Webb
 TITLE: Director-Finance

BY: /s/ Eric H. Wojner

 NAME: Eric H. Wojner
 TITLE: Vice President
 Investment Properties

EXHIBIT B

Lexicon Genetics Incorporated

Re: Leasehold improvements for 80 rentable square feet (80 usable square feet) of space in a building known as 4000 Research Forest Drive in The Woodlands, Texas.

Gentlemen:

Lessor is pleased to quote for your approval the cost of work necessary to construct the proposed leasehold improvements in the above referenced space.

The cost of work is based upon the attached drawings dated To be determined

Total Cost of Work	\$ To be determined*
Lessor Allowance	(\$ 400.00)
 Total Amount Due from Lessee	 \$ To be determined

If Lessor further agrees to perform, at your request, any additional or non-standard work over and above that specified on the attached plans, such work shall be performed by Lessor, at your sole expense, as a tenant extra. Prior to commencing any such work requested by you, Lessor will submit to you written estimates of the cost of any such work. Within one (1) week from the date of submission thereof by Lessor, you shall either provide written approval of the estimate for construction, submit to Lessor revisions in the plans and specifications, or notify Lessor that the work is no longer requested. You agree to pay Lessor promptly upon being billed therefore, the cost of all such work, together with fifteen percent (15%) of the cost for Lessor's overhead. You agree that in the event of default in payment thereof, Lessor shall (in addition to all other remedies) have the same rights as in the event of default of payment of rent under the Lease.

It is agreed that, notwithstanding the date provided in the Lease for the commencement of the lease Term, your obligation for the payment of rental thereunder shall not commence until Lessor has substantially completed all work to be performed by Lessor pursuant to this agreement; provided, however, that if Lessor shall be delayed in substantially completing the work as required hereunder as a result of:

- (a) Your failure to timely furnish the information and approval as and when required;
- (b) Your request for materials, finishes or installations other than specified on plans attached;
- (c) Your changes in approved plans or specifications; or

(d) The performance by a person, firm or corporation employed by you and the completion of said work by said person, firm or corporation,

then the commencement of the term of the Lease and the payment of rent thereunder shall be accelerated by the number of days of such delay.

All monies due from you for leasehold improvements must be paid to Lessor prior to your occupancy of your space.

Upon your approval as indicated below, Lessor will begin construction of your leasehold improvements and estimate construction completion within TBD weeks of commencement of construction.

Sincerely,

/s/ Ray B. Webb

Ray B. Webb
Tenant Acceptance

12/20/96

Date

/s/ Damon Palermo

Damon Palermo
Sales Director

/s/ Scott Lewis

Scott Lewis
Director of
Tenant Improvements

* If the Total Cost of Work should exceed the Lessor Allowance of \$400.00, Lessee agrees to pay in cash to Lessor the overage amount at move-in or reduce the scope of work.

THE WOODLANDS CORPORATION

AGREEMENT

This Agreement (the "Agreement") is made and entered into by and between THE WOODLANDS CORPORATION, a Delaware corporation, with offices and its principal place of business in The Woodlands, Montgomery County, Texas (hereinafter "TWC"), and LEXICON GENETICS, INC. (hereinafter the "Tenant").

WITNESSETH

WHEREAS, the Tenant desires to use the suites at 4000 Research Forest #A203 and #A224, The Woodlands, TX 77381 for the purpose storage;

WHEREAS, the suites at 4000 Research Forest #A203 and #A224 is the property of TWC; and

WHEREAS, TWC has agreed to allow the Tenant to use the suites for storage;

NOW, THEREFORE, for and in consideration of the mutual covenants and obligations herein contained, the sufficiency of which is hereby acknowledged, TWC and Tenant agree as follows:

1. TWC hereby grants the Tenant the nonexclusive use of the suites at 4000 Research Forest #A203 and #A224, The Woodlands, TX 77381, for the period of month-to-month beginning March 26, 1997 to use for storage and for such other uses as are incident thereto.

2. The Tenant shall be solely responsible for the use of the suites at 4000 Research Forest #A203 and #A224 during the term of this Agreement. The Tenant shall, in its use of the suites, comply with any and all rules and regulations imposed by TWC. The Tenant agrees to operate the storage area in such a manner so as not to unreasonably interfere with the activities of TWC tenants who are located adjacent to the suites at 4000 Research Forest #A203 and #A224. All expenses and costs necessary to operate the storage area shall be borne by the Tenant.

3. The Tenant agrees to indemnify and hold TWC and its affiliated companies, their agents, officers, directors, servants and employees (herein "Indemnitee") harmless from and against and to reimburse Indemnitee with respect to, any and all claims, demands, causes of action, loss, damage, liabilities, costs and expenses (including attorney's fees and court costs) of any and every kind or character, known or unknown, fixed or contingent, asserted against or incurred by Indemnitee at any time and from time to time by reason of, or arising, either directly or indirectly, out of Organization's, its members', its agents', subcontractors', representatives' or invitees' use and/or misuse of the suites at 4000 Research Forest #A203 and #A224, The Woodlands, TX 77381.

4. The Base Rent, which Lessee hereby agrees to pay to Lessor monthly, in advance, at Lessor's address, shall be the sum of Forty and 00/100 Dollars (\$40.00) per month, due and payable on the first day of each calendar month during the Term hereof, without offset or deduction, with a pro-rata portion being due and payable in advance for any partial month occurring at the beginning of the Term.

5. The Tenant shall maintain, during the term of this Agreement, a policy or policies of comprehensive general liability insurance issued by and binding upon some solvent insurance company licensed to do business in the State of Texas, such insurance to afford protection of not less than \$500,000.00 combined single limit bodily injury and property damage per occurrence. Said policy or policies shall name TWC as an additional named insured and include a waiver of subrogation in favor of TWC. The Tenant shall provide TWC a copy of the required policy or a certificate evidencing the required coverage upon execution of this Agreement.

6. The Tenant for itself, its members, their representatives, heirs, executors, administrators, and next to kin (herein "Releasor") does hereby release, waive, discharge and covenant not to sue TWC, and affiliated company, its employees, agents and officers from any and every claim, demand, action or right of action of every kind or nature, either in law or in equity, arising from Releasor's use of the suites at 4000 Research Forest #A203 and #A224, The Woodlands, TX 77381.

7. This agreement may be terminated by either party with five (5) days' written notice. Upon termination of this Agreement the Tenant shall return the suites at 4000 Research Forest, #A203 and #A224, in the same condition as it was in when this Agreement commenced.

8. This agreement is not assignable by the Tenant.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed this 27th day of March 1997.

THE WOODLANDS CORPORATION

By: /s/ Damon Palermo

Name: Damon Palermo
Title: Assistant Asset Manager

LEXICON GENETICS, INC.

By: /s/ Ray B. Webb

Name: Ray B. Webb
Title: President

EXTENSION, MODIFICATION AND RATIFICATION OF LEASE

This Extension, Modification and Ratification of Lease ("Modification") is made and entered into, effective the 9th day of September, 1997, between THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P., a Texas limited partnership ("Lessor"), and LEXICON GENETICS INCORPORATED, a Delaware corporation ("Lessee") for and in consideration of One Dollar (\$1.00), and other good and valuable consideration.

W I T N E S S E T H:

1. Lessor and Lessee hereby confirm and ratify (as modified below) all of the terms, conditions and covenants in that certain Lease Agreement between the parties dated September 22, 1995, as modified by Modification of Lease, dated October 25, 1995, Modification of Lease, dated January 18, 1996, Expansion, Modification, and Ratification of Lease, dated November 4, 1996, and Expansion, Modification and Ratification of Lease, dated January 2, 1997, under which Lessee has leased from Lessor approximately 15,720 square feet of net rentable area in that Building located at 4000 Research Forest Drive, The Woodlands, Montgomery County, Texas.

2. Lessor and Lessee agree that beginning January 1, 1998, the area of the Premises shall be increased by 11,937 square feet of net rentable area ("Expansion Area"), which Expansion Area is outlined on attached Exhibit "A," changing the size of the Premises to 27,657 square feet of net rentable area.

3. Lessor and Lessee agree that, beginning January 1, 1998, the Base Rent, as set out in Section 7 of the Lease Agreement, shall be \$35,559.88; on February 1, 1998, the Base Rent shall be \$47,247.38 per month (\$20.50/SF/YR); and beginning November 1, 1999 through the end of the Term, the Base Rent shall be \$49,552.13 per month (\$21.50/SF/YR).

4. Lessor agrees to make alterations and improvements ("Improvements") to the Premises upon the terms set forth in Exhibit "B" attached hereto.

5. Lessee, contemporaneously with the execution of this Modification, has deposited with Lessor the sum of \$26,586.50 as additional Security Deposit (for a total as of the date of this Lease of \$50,000.00), to be held by Lessor subject to the terms of Section 6 of the Lease.

Signed this the 9th day of September 1997, at The Woodlands, Texas.

LESSOR:

THE WOODLANDS COMMERCIAL
PROPERTIES COMPANY, L.P.
a Texas limited partnership

By: The Woodlands Operating Company, L.P.
a Texas limited partnership Its Authorized Agent

By: /s/ Eric H. Wojner

Name: Eric H. Wojner
Title: V.P., Investment Properties

LESSEE:

LEXICON GENETICS INCORPORATED

By /s/ Ray B. Webb

Name: Ray B. Webb
Title: Vice President - Finance

EXHIBIT B

LEXICON GENETICS INCORPORATED

Re: Leasehold improvements for 11,937 rentable square feet (11,937 usable square feet) of space in a building known as 2204 Timberloch Place in The Woodlands, Texas.

Gentlemen:

Lessor is pleased to quote for your approval the cost of work necessary to construct the proposed leasehold improvements in the above referenced space.

The cost of work is based upon the attached drawings dated July 14, 1997.

Total Cost of Work	\$ To be determined
Lessor Allowance	(\$ 72,545.00)
Total Amount Due from Lessee	\$ To be determined

The Lessor Allowance of \$72,545.00 includes the sum of \$12,860.00 which Lessor owed Lessee pursuant to the Expansion, Modification, and Ratification of Lease dated November 4, 1996. The Total Cost of the Work includes a construction management fee of \$7,500.00.

Lessor shall enter into a construction contract for the leasehold improvements. Lessee shall pay for all of the costs of the leasehold improvements. On the date of this Modification, Lessee has paid to Lessor the amount of \$100,000.00 to fund a portion of the construction costs. Lessee shall pay to Lessor an additional \$100,000.00 on September 22, 1997 to fund another portion of the construction costs. On October 22, 1997, Lessee shall pay Lessor for all work performed through October 1, 1997 and the construction management fee of \$7,500.00, after application of the Lessor Allowance; Lessor is responsible for paying the Lessor Allowance to the general contractor. Thereafter, Lessee shall pay Lessor for any portion of the Total Cost of the Work which Lessor has not incurred by October 1, 1997 when invoiced by Lessor following Lessee's acceptance of the Leasehold Improvements.

If Lessor further agrees to perform, at Lessee's request, any additional or non-standard work over and above that specified on the attached plans, such work shall be performed by Lessor, at Lessee's sole expense, as a tenant extra. Prior to commencing any such work requested by Lessee, Lessor will submit to Lessee written estimates of the cost of any such work. Within one (1) week from the date of submission thereof by Lessor, Lessee shall either provide written approval of the estimate for construction, submit to Lessor revisions in the plans and specifications, or notify Lessor that the work is no longer requested. Lessee shall pay Lessor promptly upon being billed therefore, the cost of all such work, together with fifteen percent (15%) of the cost for Lessor's overhead. In the event of default in payment thereof, Lessor shall (in addition to all other remedies) have the same rights as in the event of default of payment of rent under the Lease.

All monies due from Lessee for leasehold improvements must be paid to Lessor prior to Lessee's occupancy of the Expansion Area.

Upon Lessee's approval as indicated below, Lessor will begin construction of Lessee's leasehold improvements and estimate construction completion within 120 days of commencement of construction.

Sincerely,

/s/ Ray B. Webb

Ray B. Webb
Tenant Acceptance

9/3/97

Date

By: /s/ Gerald D. Irons

Gerald D. Irons
Sales Director

By: /s/ Greg Swan

Greg Swan
Director of
Tenant Improvements

The Woodlands Operating Company, L.P.

2201 Timberloch Place (281) 719-6100
The Woodlands, Texas 77380-1181
Mailing:
P.O. Box 5050
The Woodlands, Texas 77387-5050

July 6, 1998

Dr. Arthur Sands
Lexicon Genetics Incorporated
4000 Research Forest Drive
The Woodlands, Texas 77380

Dear Dr. Sands:

In consideration of the Option Fees hereinafter described, during the period commencing on the date hereof and ending on December 31, 2000 ("Period"), The Woodlands Commercial Properties Company, L.P. ("Woodlands Commercial") grants to Lexicon Genetics Incorporated ("Lexicon") the option ("Option") to utilize the 5.59 acre tract of land shown on Exhibit "A" attached hereto ("Option Tract") for expansion. The Option shall be exercised by Lexicon, and effective upon Lexicon delivering written notice to Lessor, within the Period, of its desire to exercise the Option by either:

- (a) entering into a lease agreement with Woodlands Commercial agreeing (i) to build a new project or (ii) to expand the existing buildings on the tract of land adjoining the Option Tract, which lease agreement covers all of the Option Tract; or
- (b) entering into a long term ground lease with Woodlands Commercial covering the Option Tract.

With respect to either (a) or (b) above, the land costs ("Land Costs") to be used in the calculation of the rental to be paid shall be as follows: \$6.00 per square foot of land in the Option Tract if the Option is exercised in calendar year 1998, \$6.25 per square foot of land in the Option Tract if the Option is exercised in calendar year 1999, and \$6.75 per square foot of land in the Option Tract if the Option is exercised in calendar year 2000.

The term "Option Fee" as used herein shall mean 4% of the Land Costs hereinabove specified for the Option Tract each year. Said Option Fees shall be payable monthly, in advance, on or before the 1st day of each month. If Lexicon exercises the Option, the Option Fees paid to date shall be applied to the Land Costs utilized in the calculation of the Project Costs in the event of a) (i) or (ii) above or rental for the Option Tract in the event of (b) above. "Project Costs" as used herein means Woodlands Commercial's costs to build a new project or expand the premises on the Option Tract, whichever is applicable. If Lexicon fails to pay the monthly Option Fees as

required herein, and said failure continues for more than 3 days after written notice from Woodlands Commercial, the Option shall terminate and be of no further force or effect and Woodlands Commercial shall retain the Option Fees paid to date.

If Lessee fails to properly and timely exercise the Option within the Period, Lexicon's rights under the Option will terminate and be of no further force and effect and Woodlands Commercial shall retain the Options Fees. Time is of the essence with respect to this paragraph.

It is understood and agreed, however, that Lexicon's option rights in accordance with this agreement will be preserved in the event of a sale or lease of the Option Tract by Woodlands Commercial for financing purposes such as a sale/leaseback, or sale or lease to a partnership in which Woodlands Commercial participates or a sale or lease to an Affiliate, or a foreclosure of a deed of trust or mortgage lien. "Affiliate", as used herein, shall mean an entity which controls, is controlled by or is under common control with Woodlands Commercial, or The Woodlands Land Development Company, L.P.

In further consideration of this agreement, Lexicon agrees to grant Woodlands Commercial \$625,000.00 in warrants at \$7.50/share in order to purchase Lexicon stock. The warrants shall be delivered to Woodlands Commercial on or before 10 days after you date and return this letter agreement. The warrants do not constitute Option Fees. The warrants will have an expiration date no earlier than April 15, 2003.

If this letter accurately sets forth our agreement please sign both copies of this letter in the space provided below and return both copies to me. I will return an executed copy to you for your file.

THE WOODLANDS COMMERCIAL PROPERTIES
COMPANY, L.P., a Texas limited partnership

By: The Woodlands Operating Company, L.P.
Its Authorized Agent

By: /s/ R. Stephen McPhetridge

Name: R. Stephen McPhetridge
Title: Vice President

AGREED TO AND ACCEPTED ON July 22, 1998, by Dr. Arthur T. Sands,
President & CEO of Lexicon Genetics Incorporated.

LEXICON GENETICS INCORPORATED

By: /s/ Arthur T. Sands

Name: Arthur T. Sands
Title: President & CEO

EXTENSION, MODIFICATION AND RATIFICATION OF LEASE

This Extension, Modification and Ratification of Lease ("Modification") is made and entered into, effective the 12th day of August, 1998, between THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P., a Texas limited partnership ("Lessor"), and LEXICON GENETICS INCORPORATED, a Delaware corporation ("Lessee"), for and in consideration of One Dollar (\$ 1.00), and other good and valuable consideration.

WITNESSETH:

1. Lessor and Lessee hereby confirm and ratify (as modified below) all of the terms, conditions and covenants in that certain Lease Agreement between the parties dated September 22, 1995, as modified by Modification of Lease, dated October 25, 1995; Modification of Lease, dated January 18, 1996; Expansion, Modification, and Ratification of Lease, dated November 4, 1996; Expansion, Modification and Ratification of Lease, dated January 2, 1997; and Extension, Modification and Ratification of Lease dated September 9, 1997, under which Lessee has leased from Lessor 27,657 square feet of net rentable area ("Base Lease Space") in that Building located at 4000 Research Forest Drive, The Woodlands, Montgomery County, Texas.

2. Lessor and Lessee agree that the Term of the Lease shall be extended ("Extension Period") so that the Lease Agreement will terminate 180 full calendar months from the Expansion Area I Commencement Date hereinafter described in paragraph 4 below, rather than on December 31, 2002.

3. During the Extension Period, the monthly Base Rent, as set out in Section 7 of the Lease Agreement, for the Base Lease Space shall be calculated as follows: Base Rent Rate times 27,657 (square feet of net rentable area in the Base Lease Space) divided by 12. The "Base Rent Rate" shall be as follows:

Period	Base Rent	Base Rent Rate
1/1/2003 -12/31/2006	\$53,009.25	\$23.00
1/1/2007 -12/31/2010	\$57,618.75	\$25.00
1/1/2011 -12/31/2012	\$62,228.25	\$27.00
1/1/2013 -180 months following Expansion Area I Commencement Date	\$64,533.00	\$28.00

4. Lessor and Lessee agree that on the Expansion Area I Commencement Date Lessor will have expanded the Building and the area of the Premises will be increased by 28,865 square feet of net rentable area ("Expansion Area I"), which Expansion Area I is outlined on attached Exhibit "A". The Land will be as described in Exhibit "B" attached hereto. The Expansion Area I Commencement Date shall be the earlier of (a) February 1, 1999, or (b) the day upon which Lessee takes occupancy of the Expansion Area 1. If Lessor has not tendered to Lessee possession of the Expansion Area 1 with all work to be performed by Lessor pursuant to

the Improvement Construction Agreement attached hereto as Exhibit "C" ("Improvement Construction Agreement") substantially completed by the date set forth in (a) above, the Expansion Area I Commencement Date shall be the date Lessor has tendered to Lessee possession of the Expansion Area I with all work to be performed by Lessor pursuant to the Improvement Construction Agreement substantially completed. Lessor shall not be liable or responsible for any claims, damages or liabilities of any nature whatsoever in connection with or by reason of any delayed occupancy. The term "substantial completion" is described in the Improvement Construction Agreement.

5. Lessor and Lessee agree that effective on the Expansion Area I Commencement Date, the monthly Base Rent, as set out in Section 7 of the Lease Agreement, shall be adjusted by adding the amounts specified as follows:

Full Months From the Expansion Area I Commencement Date	Additional Base Rent
1 - 12	\$50,166.67
13-48	\$53,666.67
49-96	\$57,166.67
97-144	\$61,833.33
145- 180	\$66,500.00

A pro rata portion shall be due and payable in advance for any partial month.

6. Lessor agrees to expand the Building and make alterations and improvements to the Expansion Area I ("Expansion Work") upon the terms set forth in Exhibit "C" attached hereto.

7. Lessor and Lessee agree that anytime during the Term, beginning 90 days after Lessor gives written notice to Lessee that the Space Utilization Agreement dated effective December 15, 1995, amended by letter agreement dated September 11, 1997, by and between The Woodlands Corporation and The University of Texas M. D. Anderson Cancer Center ("M.D. Anderson"), covering 7,403 square feet of net rentable area, is terminated and M. D. Anderson has vacated such area, then the area of the Premises shall be increased by 7,403 square feet of net rentable area ("Expansion Area 11"), which Expansion Area 11 is outlined on attached Exhibit "D".

8. Subject to the next sentence, Lessor agrees to provide to Lessee, upon written request from Lessee, with an allowance of \$37,015.00 for alterations and improvements to the Expansion Area 11, said alterations and improvements to be made by Lessor. If Lessee fails to request this allowance within 6 months after the date of the notice from Lessor specified in Section 7, then Lessor shall not be obligated to provide such allowance or make any alterations or improvements to this area.

9. Lessor and Lessee agree that beginning on the Expansion Area 11 Commencement Date, the Base Rent, as set out in Section 7 of the Lease Agreement, shall be

adjusted by adding the amounts calculated as follows: Base Rent Rate times 7,403 (square feet of net rentable area) divided by 12. The "Base Rent Rate" shall be as follows:

Period	Additional Base Rent	Base Rent Rate
Date hereof - 12/31/99	\$12,646.79	\$20.50
1/1/2000 - 12/31/2002	\$13,263.71	\$21.50
1/1/2003 - 12/31/2006	\$14,189.08	\$23.00
1/1/2007 - 12/31/2010	\$15,422.92	\$25.00
1/1/2011 - 12/31/2012	\$16,656.75	\$27.00
1/1/2013 -180 Months Following Expansion Area I Commencement Date	\$17,273.67	\$28.00

The Base Rent Rate for the Expansion Area 11 space is the same as the Base Rent Rate for the Base Lease Space.

Effective on the first date written above.

LESSOR:

THE WOODLANDS COMMERCIAL PROPERTIES
COMPANY, L.P., a Texas limited partnership

By: The Woodlands Operating Company, L.P., a
Texas limited partnership, Its Authorized
Agent

By: /s/ Michael H. Richmond

Name: Michael H. Richmond
Title: President & CEO

LESSEE:

LEXICON GENETICS INCORPORATED

By: /s/ Arthur Sands

Name: Arthur Sands
Title: President & CEO

EXHIBIT C

IMPROVEMENT CONSTRUCTION AGREEMENT

LEXICON GENETICS INCORPORATED

Re: Improvement Construction Agreement for the 28,865 square feet of net rentable area expansion ("Expansion Area I") of the Premises in the building located at 4000 Research Forest Drive, in The Woodlands, Texas.

Gentlemen:

Lexicon Genetics Incorporated ("Lessee") and The Woodlands Commercial Properties Company, L.P. ("Lessor") are executing, simultaneously with this agreement ("Improvement Construction Agreement") an Extension, Modification and Ratification of Lease ("Modification") wherein Lessee agrees that the Premises covered by its existing Lease with Lessor will be expanded to cover an additional 28,865 square feet of net rentable area in the building located at 4000 Research Forest Drive, The Woodlands, Texas.

The cost of the expansion work ("Expansion Work") is based upon the attached drawings dated (N/A) prepared by Budd Beets Harden Kolflat Architecture ("architect"). Lessor agrees to cause the Expansion Work to be constructed. The contractor is Fretz Construction.

Lessee shall bear all costs of the Expansion Work that exceed the Lessor Allowance of \$2,500,000.00 ("Lessor Allowance"). It is understood and agreed that the cost of the Expansion Work will include a 3% administrative fee for construction management, including, but not limited to, review of the plans, drawings, and specifications for the leasehold improvements, including, the mechanical systems and construction inspections. If the total cost of the Expansion Work exceeds the Lessor Allowance and there are excess costs ("Excess Costs"), Lessee agrees to pay to Lessor monthly, within 15 days after receipt of an invoice from Lessor, the estimated Excess Costs divided by the estimated number of months to complete the Expansion Work. Lessee agrees to pay to Lessor any additional portion of the Excess Costs which Lessor had not been reimbursed for prior to Lessee taking occupancy of the Expansion Area I within 30 days after receipt of an invoice from Lessor.

The Expansion Area I shall be deemed substantially complete when Lessor has procured and delivered to Lessee a certificate signed by Lessor and the architect, certifying that the Expansion Area I is substantially complete in accordance with the contract documents and permitting the occupancy of the Expansion Area 1. For the purposes of the Modification and this Improvement Construction Agreement, the Expansion Work to be done by Lessor shall be deemed substantially complete even though minor details or adjustment which shall not materially interfere with Lessee's use of the Expansion Area I may not have been completed, but which work Lessor agrees to complete as soon as reasonably practicable.

If Lessor further agrees to perform, at your request, any additional or non-standard work over and above that specified on the attached plans, such work shall be performed by Lessor, at

your sole expense, as a tenant extra. Prior to commencing any such work requested by you, Lessor will submit to you written estimates of the cost of any such work. Within one (1) week from the date of submission thereof by Lessor, you shall either provide written approval of the estimate for construction, submit to Lessor revisions in the plans and specifications, or notify Lessor that the work is no longer requested. You agree to pay Lessor promptly upon being billed therefore, the cost of all such work. You agree that in the event of default in payment thereof, Lessor shall (in addition to all other remedies) have the same rights as in the event of default of payment of rent under the Lease.

It is agreed that, notwithstanding the date provided in the Modification for the Expansion Area I Commencement Date, your obligation for the payment of increased rental thereunder shall not commence until Lessor has substantially completed all work to be performed by Lessor pursuant to this agreement; provided, however, that if Lessor shall be delayed in substantially completing the work as required hereunder as a result of:

- (a) Your failure to timely furnish the information and approval as and when required;
- (b) Your request for materials, finishes or installations other than specified on plans attached;
- (c) Your changes in approved plans or specifications; or
- (d) The performance by a person, firm or corporation employed by you and the completion of said work by said person, firm or corporation,

then the commencement of the term of the Lease and the payment of rent thereunder shall be accelerated by the number of days of such delay.

Upon your approval as indicated below, Lessor will begin construction of your leasehold improvements and estimate construction completion on or before February 1, 1999.

Sincerely,

/s/Arthur Sands

Arthur Sands
Tenant Acceptance

4/27/98

Date

/s/ R. Stephen McPhetridge

R. Stephen McPhetridge
Sales Director

/s/ Leon Lee

Leon Lee
Director Of Tenant Improvements

MODIFICATION AND RATIFICATION OF LEASE

This Modification and Ratification of Lease ("Modification"). is made and entered into, effective the 25th day of November, 1998, between THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P., a Texas limited partnership ("Lessor"), and LEXICON GENETICS INCORPORATED, a Delaware corporation ("Lessee"), for and in consideration of One Dollar (\$1.00), and other good and valuable consideration.

WITNESSETH:

1. Lessor and Lessee hereby confirm and ratify (as modified below) all of the terms, conditions and covenants in that certain Lease Agreement ("Lease") between the parties dated September 22, 1995, as modified by Modification of Lease, dated October 25, 1995; Modification of Lease, dated January 18, 1996; Expansion, Modification, and Ratification of Lease, dated November 4, 1996; Expansion, Modification and Ratification of Lease, dated January 2, 1997; Extension, Modification and Ratification of Lease dated September 9, 1997; and Extension, Modification and Ratification of Lease dated August 12, 1998 ("Last Modification"), under which Lessee has leased from Lessor 35,060 square feet of net rentable area ("Base Lease Space") in that Building located at 4000 Research Forest Drive, The Woodlands, Montgomery County, Texas. Lessor and Lessee acknowledge that the Expansion Area 11 (7,403 square feet of net rentable area) described in the Last Modification has been incorporated into the Base Lease Space.

2. Lessor and Lessee agree that beginning January 1, 1999, the monthly Base Rent, as set out in Section 7 of the Lease for the Base Lease Space shall be calculated as follows: Base Rent Rate times 35,060 (square feet of net rentable area in the Base Lease Space) divided by 12. The "Base Rent Rate" shall be as follows:

Period	Base Rent	Base Rent Rate
1/1/1999 - 12/31/1999	\$45,285.83	\$15.50
1/1/2000 - 12/31/2002	\$48,207.50	\$16.50
1/1/2003 - 12/31/2006	\$52,590.00	\$18.00
1/1/2007 - 12/31/2010	\$58,433.33	\$20.00
1/1/2011 - 12/31/2012	\$64,276.67	\$22.00
1/1/2013 - 180 months following	\$67,198.33	\$23.00

Expansion Area I

Commencement Date

The "Expansion Area I Commencement Date" is defined in the Last Modification.

3. Lessor and Lessee agree that effective January 1, 1999, Lessee shall be responsible for the costs of all Operating Expenses and Section 8 of the Lease shall be deleted in its entirety and the following Section 8 shall be inserted in its stead:

"8. Additional Rent. Lessee agrees to pay, as Additional Rent, all Operating Expenses (as defined in Section 10 below) for the Premises. Within 10 days after execution of this Modification, Lessor will provide Lessee a statement showing Lessor's reasonable estimate of the Operating Expenses for the then current Fiscal Year. Within 90 days following the completion of each Fiscal Year thereafter, Lessor will provide to Lessee a statement showing in reasonable detail the actual Operating Expenses for the preceding Fiscal Year, any Additional Rent due, and Lessor's reasonable estimate of Operating Expenses for the then current Fiscal Year. Lessee shall, on or before 30 days following receipt of said statement, pay to Lessor the amount of Additional Rent due as provided herein, less the amount of Additional Rent paid in advance (if any) during the preceding Fiscal Year. Any overpayment will be paid to Lessee within 30 days of the determination of such overpayment. Lessee agrees to pay Additional Rent each month thereafter, in addition to Base Rent, in an amount necessary to amortize the estimated Operating Expenses for the then current Fiscal Year over a period equal to the lesser of (i) the number of months remaining in the Term or (ii) the number of months remaining in the current Fiscal Year. Notwithstanding that the Term has expired or been terminated, Lessee shall remain liable for and agrees to pay to Lessor within 30 days following receipt of an invoice therefor, Additional Rent for the Fiscal Year during which the Term expired or was terminated but only for those months prior to expiration of the Term. The term "Fiscal Year", as used herein, shall mean Lessor's fiscal year for accounting purposes which currently is the 12-month period beginning January 1 and ending December 31. Lessor shall have the right to change the Fiscal Year, from time to time, and, in such event, Lessor shall notify Lessee in writing of such change. Lessee shall have the right, at its expense and at a reasonable time within 1 year after the date the statement is provided to Lessee, to audit Lessor's books relevant to the Additional Rent due under this Section. If Lessee has been overbilled by more than 5%, Lessor shall pay Lessee's reasonable costs of the audit, not to exceed \$1,000.00."

4. Lessor and Lessee agree that effective January 1, 1999, Section 10 of the Lease shall be deleted in its entirety and the following Section 10 shall be inserted in its stead:

"10. Operating Expenses. The term "Operating Expenses" means all of Lessor's costs, expenses and disbursements (but not acquisition of capital investment items, except as hereinafter expressly provided or specific costs billed to specific lessees) to operate and maintain the Land, the Building, and all improvements on the Land from time to time (to the extent and only to the extent same are Lessor's obligation to pay or furnish under the other provisions of this Lease), including, but not limited to, Lessor's costs of providing porter services and supplies; refuse removal (if Lessor elects to furnish this service); landscaping, including irrigation; and general maintenance and repairs, including, but not limited to, repairs to roof surface and preventive maintenance, parking area restriping, exterior painting and other activities. Operating Expenses shall also include a reasonable charge for amortization of all capital items Lessor installs (a) to

reduce Operating Expenses, or (b) to promote safety, or (c) which Lessor is required to install on or for the benefit of the Building by any governmental law, code or regulation passed or enacted on or after the Commencement Date, or (d) which is a replacement (as opposed to additions or new improvements) of items located in the common areas adjacent to the Building, the parking area and other facilities used in connection with the Building, or involving the exterior of the Building, including, but not limited to, the roof and structural elements. Additionally, Operating Expenses shall include all ad valorem taxes or assessments, and Annual Assessments of The Woodlands Community Association, Inc. and The Woodlands Commercial Owners Association, whichever is applicable, which accrue against the Building or the Land during the Term, together with all insurance premiums which Lessor is required to pay or deems necessary to pay with respect to the Building or the Land, including, but not limited to, casualty insurance and liability insurance, and a management fee ("Management Fee") of 5% of Lessee's annual Base Rent."

5. Lessor and Lessee agree that effective January 1, 1999, Section II shall be deleted in its entirety and the following Section 11 shall be inserted in its stead:

11. Utilities. Lessor shall make available to the Building gas, electricity, water and sewer facilities. Lessee agrees to assume all costs and expenses for water and sewer, gas, electricity, telephone, and any other service needed for its use at the Premises, including any license or deposit required to establish or maintain such services, and the costs of installation, hook-up and metering. Lessee shall promptly pay for all utility services furnished to the Premises during the term of this Lease. Lessor shall under no circumstances be liable to Lessee in damage or otherwise for any interruption in service of water, electricity, heating, air conditioning or other utilities or services caused by governmental regulation, emergencies, Acts of God, by the making of any necessary repairs or improvements, or by any cause beyond Lessor's reasonable control. Lessor shall endeavor in good faith to give at least 24 hours notice to Lessee when any necessary interruption in service will be made by Lessor."

6. Lessor and Lessee agree that effective January 1, 1999, Section 14 shall be deleted in its entirety and the following Section 14 shall be inserted in its stead:

14. Exterior Repairs. Lessor will keep the exterior of the Building, including any doors, windows, or glass, in repair, provided Lessee shall give Lessor written notice of the necessity for such repairs, and provided that the damage thereto shall not have been caused by the negligence of Lessee, its agents, employees, licensees or invitees, in which event Lessee shall be responsible therefor for the cost. Lessor shall be under no liability for repair, maintenance, alteration or any other action with reference to any plumbing, electrical or other mechanical installation within or serving the Premises or any part thereof, except for the service lines leading to the Premises."

7. Lessor and Lessee agree that effective January 1, 1999, Section 15, of the Lease shall be deleted in its entirety and the following Section 15 shall be inserted in its stead:

15. Operation by Lessee. Lessee agrees to (a) keep the inside of all glass in the doors and windows of the Premises clean; (b) keep all interior surfaces of the Premises clean; (c) replace promptly, at its expense, any cracked or broken window glass inside the Premises with glass of like kind and quality; (d) maintain the Premises in a clean, orderly and sanitary condition and free of insects, rodents, vermin and other pests; (e) keep any garbage, trash, rubbish or refuse in rat-proof containers within the interior of the Premises until removed from the area; (f) have such garbage, trash, rubbish and refuse removed at its expense on a regular basis from location points and at such times as designated by Lessor, if said service is not provided by Lessor; (g) keep all mechanical apparatus free of vibration, noise or pollution which may be transmitted beyond the Premises; (h) comply with all laws, ordinances, rules and regulations of the Fire Underwriters Rating Bureau now or hereafter in affect; and (i) conduct its business in all respects in a dignified manner in accordance with high standards of business operation.

In addition, Lessee shall not (a) place or maintain any merchandise or other articles in any vestibule or entry of the Premises, on the footwalks adjacent thereto or elsewhere on the exterior of the Premises or Building without the written consent of Lessor; (b) permit undue accumulation of garbage, trash, rubbish or other refuse within or without the Premises; (c) cause or permit objectionable odors to emanate or be dispelled from the Premises; (d) cause or permit the parking of vehicles so as to interfere with the use of any driveway, walk, parking area, dock or other common facility in the area; (e) occupy, use or permit the use or occupancy of any portion of the Premises for any business or purpose is immoral, disreputable or in violation of any legal direction of any public officer; or (f) occupy, use or permit the use or occupancy of any portion of the Premises for any business or purpose which, in the reasonable opinion of Lessor constitutes a public or private nuisance or unduly disturbs the business of other tenants in the Building.

Lessor shall have the right, upon written notice to Lessee, to provide for rubbish and refuse removal services as required of Lessee above, and Lessee agrees to reimburse Lessor for the cost incurred in providing such service within 30 days after receipt of a statement setting forth the cost of such service.

Lessee agrees to discharge all waste materials from the Premises in compliance with the rules and regulations as set forth in The Woodlands Metro Center Municipal Utility District Policy Manual - Industrial Waste Discharges Permits and Charges - No. R&S-50, issued July 12, 1979, with an effective date of July 12, 1979, as it may be amended from time to time. Lessee shall haul away for disposal at its own expense, any waste material not meeting the standards for discharge set forth in the above-referenced manual.

Lessee shall comply, at Lessee's cost and expense, with all private restrictions encumbering the Land and all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state, and municipal governments, including all municipal and road utility districts and municipal utility districts, and all departments, commissions, boards and officers thereof, and any other body exercising similar

functions, which now or hereafter may be applicable to the Premises, the improvements in the Premises, or to the use or manner of use of the Premises or the improvements, including but not limited to, all environmental laws and the Americans With Disabilities Act. In the event of a release of hazardous substances by Lessee which Lessee is responsible to cleanup, Lessee shall conduct a Standard I cleanup so that there is a total and complete removal of all contaminants from the Premises. Lessee agrees that no such cleanup shall be subject to a risk reduction standard and no deed recordation notice shall be recorded against the Premises.

Lessee also agrees to comply with the Rules and Regulations of the Building, a copy of which is attached hereto as Exhibit "C". Lessor may amend said Rules and Regulations, from time to time, if reasonably necessary for the safety, care, or cleanliness of the Building, provided that no amendment shall alter any covenant or provision contained in this Lease. Lessee agrees to comply with any amendment which is made to said rules and Regulations in compliance with the terms of this subsection.

Lessee shall promptly pay directly to the taxing authority all sales and/or ad valorem taxes now or hereafter levied by separate bill on Lessee's personal property and leasehold improvements. Lessee waives all rights under applicable law to protest appraised values or receive notice of reappraisal regarding the Land and Building (including Lessor's personalty), irrespective of whether Lessor contests same. To the extent such waiver is prohibited, Lessee appoints Lessor as Lessee's attorney-in-fact, coupled with an interest, to appear and take all actions which Lessee would otherwise be entitled to take under applicable law."

8. Lessor and Lessee agree that effective January 1, 1999, Section 16 of the Lease shall be deleted in its entirety and the following Section 16 shall be inserted in its stead:

"16. Interior Repairs and Maintenance. Lessee will, at Lessee's cost and expense, keep the interior of the Premises, together with all electrical, plumbing and other mechanical installations therein, all heating and air conditioning equipment, and all interior windows or doors serving the Premises, in good order and repair, and will make all replacements thereto as its expense. Lessee will surrender the Premises at the expiration or earlier termination of this Lease, in as good condition as when received, excepting depreciation caused by ordinary wear and tear. Lessee will not overload the electrical wiring serving the Premises or within the Premises, and will install at its expense, but only after obtaining Lessor's written approval, any additional electrical service which may be required in connection with Lessee's use or occupancy. Notwithstanding anything herein to the contrary, Lessor, and not Lessee, shall be liable for any and all interior repairs which may result from any structural failure of the Building, unless caused by Lessee, its agents, employees or invitees. Lessee will repair promptly, at its expense, any damage to the Premises caused by bringing into the Premises any property for Lessee's use, or by the installation or removal of such property, regardless of fault or by whom such damage was caused, unless caused by Lessor, its agents, employees or contractors. Upon execution of this Lease, Lessee, at its own cost and expense, shall enter into a regularly scheduled preventative maintenance/service contract with Lessor, or a maintenance contractor

approved by Lessor, for servicing all hot water, heating, and airconditioning systems and equipment within the Premises. If Lessee fails to make such repairs and/or to perform the maintenance and repairs to the Premises which are Lessee's obligation under this Lease, Lessor may make same, and Lessee agrees to pay, as additional rent, the cost thereof to Lessor promptly upon Lessor's demand therefor."

9. Lessor and Lessee agree that effective on the Expansion Area I Commencement Date the monthly Base Rent, as set out in Section 7 of the Lease, shall be adjusted by adding the amounts specified as follows, rather than the amounts set forth in the Last Modification:

Full Months From the Expansion Area I Commencement Date	Additional Base Rent
1-12	\$38,149.91
13-48	\$41,637.76
49-96	\$45,149.67
97-144	\$49,816.18
145-180	\$54,482.69

A pro rata portion shall be due and payable in advance for any partial month.

10. Lessor and Lessee agree that notwithstanding anything contained in numbered paragraph 9. of the Last Modification to the contrary, no Base Rent shall be payable on the Expansion Area 11 until January 1, 1999. The Expansion Area 11 has been incorporated into the Base Lease Space and the Base Rent payable effective January 1, 1999, set forth in numbered paragraph 2. of this Modification, includes the Base Rent payable for the Expansion Area 11.

Effective on the first date written above.

LESSOR:

THE WOODLANDS COMMERCIAL PROPERTIES
COMPANY, L.P., a Texas limited partnership

By: The Woodlands Operating Company, L.P., a
Texas limited partnership, Its Authorized
Agent

By: /s/ Eric H. Wojner

Name: Eric H. Wojner
Title: Vice President/
Investment Properties

LESSEE:

LEXICON GENETICS INCORPORATED

By: /s/ Arthur T. Sands

Name: Arthur T. Sands
Title: President & CEO