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

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 000-30111

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

DELAWARE	76-0474169
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

8800 TECHNOLOGY FOREST PLACE THE WOODLANDS, TEXAS 77381	(281) 863-3000
(Address of Principal Executive Offices and Zip Code)	(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of the last day of the registrant's most recently completed second quarter was approximately $413.9 million, based on the closing price of the common stock on the Nasdaq National Market on June 30, 2004 of $7.84 per share. For purposes of the preceding sentence only, all directors, executive officers and beneficial owners of ten percent or more of the registrant's common stock are assumed to be affiliates. As of March 8, 2005, 63,538,171 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's definitive proxy statement relating to the registrant's 2005 annual meeting of stockholders, which proxy statement will be filed under the Securities Exchange Act of 1934 within 120 days of the end of the registrant's fiscal year ended December 31, 2004, are incorporated by reference into Part III of this annual report on Form 10-K.

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LEXICON GENETICS INCORPORATED

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In this annual report on Form 10-K, "Lexicon Genetics," "Lexicon," "we," "us" and "our" refer to Lexicon Genetics Incorporated.

FACTORS AFFECTING FORWARD LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under "Item 1. Business - Risk Factors," that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

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

PART I

ITEM 1. BUSINESS

OVERVIEW

Lexicon Genetics is a biopharmaceutical company focused on the discovery and development of breakthrough treatments for human disease. We are systematically discovering the physiological and behavioral functions of genes to identify those that encode potential targets for therapeutic intervention, or drug targets. We make our discoveries using our proprietary technology to knock out, or disrupt, the function of genes in mice to model the effects on physiology that could be expected from prospective drugs directed against those targets. For targets that we believe have high pharmaceutical value, we engage in programs for the discovery and development of potential small molecule, antibody and protein drugs. We focus our discovery efforts in six therapeutic areas - diabetes and obesity, cardiovascular disease, psychiatric and neurological disorders, cancer, immune system disorders and ophthalmic disease - and we have advanced targets into drug discovery programs in each of these areas with potential for addressing large medical markets.

We make our discoveries using proprietary technology to knock out genes in mice, analyze the resulting effects on physiology and behavior, and identify those genes that exhibit a favorable therapeutic profile in mouse models. Using this information, we select potential targets encoded by the corresponding human genes for our drug discovery programs. Our physiology-based approach to understanding gene function and our use of mouse models in our drug discovery efforts allow us to make highly-informed decisions throughout the drug discovery and development process, which we believe will increase our likelihood of success in discovering breakthrough therapeutics.

The scope of our gene knockout technology, combined with the size and sophistication of our facilities and our evaluative technologies, provides us with what we believe to be a significant competitive advantage. We are using these technologies in our Genome5000 program to discover the physiological and behavioral functions of 5,000 genes from the human genome that belong to gene families that we consider to be pharmaceutically important. We have completed our analysis of more than 40% of these genes, and we expect to complete the analysis of the remaining genes by the end of 2008. Through February 2005, we have advanced into drug discovery programs more than 60 targets, each of which we have validated in living mammals, or in vivo. To date, none of our programs had yet advanced into clinical development.

We are working both independently and through strategic collaborations and alliances to commercialize our technology and turn our discoveries into drugs. We have established multiple collaborations with leading pharmaceutical and biotechnology companies, as well as research institutes and academic institutions. We are working with Bristol-Myers Squibb Company to discover and develop novel small molecule drugs in the neuroscience field. We are working with Genentech, Inc. to discover the functions of secreted proteins and potential antibody targets identified through Genentech's internal drug discovery research. We are working with Takeda Pharmaceutical Company Limited for the discovery of new drugs for the treatment of high blood pressure. In addition, we have established collaborations and license agreements with many other leading pharmaceutical and biotechnology companies under which we receive fees and, in some cases, are eligible to receive milestone and royalty payments, in return for granting access to some of our technologies and discoveries for use in such companies' own drug discovery efforts.

Lexicon Genetics was incorporated in Delaware in July 1995, and commenced operations in September 1995. Our corporate headquarters are located at 8800 Technology Forest Place, The Woodlands, Texas 77381, and our telephone number is (281) 863-3000.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are made available free of charge on our corporate website located at www.lexicon-genetics.com as soon as reasonably practicable after the filing of those reports with the Securities and Exchange Commission. Information found on our website should not be considered part of this annual report on Form 10-K.

OUR DRUG DISCOVERY PROCESS

Our drug discovery process begins with our Genome5000 program, in which we are using our gene knockout technology to discover the physiological and behavioral functions of 5,000 human genes through analysis of the corresponding knockout mouse models. Our Genome5000 efforts are focused on the discovery of the functions in mammalian physiology of proteins encoded by gene families that we consider to be pharmaceutically important, such as G-protein coupled, or GPCRs, and other receptors, kinases, ion channels, other key enzymes and secreted proteins. We have already completed our physiology- and behavior-based analysis of more than 40% of these 5,000 genes, and we expect to complete the analysis of the remaining genes by the end of 2008.

We use knockout mice - mice whose DNA has been altered to disrupt, or knock out, the function of the altered gene - to discover the physiological and behavioral effects that result from loss of functioning protein encoded by the disrupted gene. Historically, the study of such loss of function genetic alterations in mice has been a very powerful tool for understanding human genes because of the close similarity of gene function and physiology between mice and humans. With the genomic sequence of both organisms now available, it is noteworthy that approximately 99% of all human genes have a counterpart in the mouse genome. Our patented gene trapping and gene targeting technologies enable us to rapidly generate these knockout mice by altering the DNA of genes in a special variety of mouse cells, called embryonic stem cells, which can be cloned and used to generate mice with the altered gene. We employ an integrated platform of advanced medical technologies to systematically discover, in vivo, the physiological and behavioral functions and pharmaceutical utility of the genes we have knocked out and the potential drug targets they encode.

We believe that our medical center approach and the technology platform that makes it possible provide us with substantial advantages over other approaches to discover gene function and identify novel drug targets. In particular, we believe that the comprehensive nature of this approach allows us to uncover functions within the context of mammalian physiology that might be missed by more narrowly focused efforts. We also believe our approach is more likely to reveal those side effects that may be a direct result of inhibiting or otherwise modulating the drug target and may limit the utility of potential therapeutics directed at the drug target. We believe these advantages will contribute to better target selection and, therefore, to the success of our drug discovery and development efforts.

We believe that the power of our technology has been described in a large body of scientific literature which was summarized in a retrospective analysis that we performed of the 100 best selling drugs of 2001 and their targets, as modeled by the physiological characteristics of knockout mice. This analysis was published in the January 2003 issue of Nature Reviews Drug Discovery, a peer-reviewed scientific journal. In this analysis we concluded that in most cases there was a direct correlation between the physiological characteristics, or phenotypes, of knockout mice and the therapeutic effect of the 100 best-selling drugs of 2001.

We are working to discover potential small molecule, antibody and protein drugs for those in vivo-validated drug targets that we consider to have high pharmaceutical value. We have established an internal small molecule drug discovery program, in which we use our own sophisticated libraries of drug-like chemical compounds in high-throughput screening assays to identify "hits," or chemical compounds demonstrating activity, against these targets. We then employ our industrialized medicinal chemistry platform to optimize the potency and selectivity of these hits and to identify lead compounds for potential development. Our compound libraries include chemical scaffolds and building blocks that we designed based on analyses of the characteristics of drugs that have proven safe and effective in the past. When we identify a hit, we can rapidly reassemble these building blocks to create hundreds or thousands of variations around the structure of the initial compound, enabling us to accelerate our medicinal chemistry efforts.

In all of our drug discovery programs, we use the same physiological analysis technology platform that we use in the discovery of gene function to analyze the in vivo efficacy and safety profiles of drug candidates in mice. We believe that by focusing on the physiological functions and pharmaceutical utility of genes at the outset of the drug discovery process, we will increase our likelihood of success in discovering breakthrough treatments for human disease.

OUR LEAD DRUG DISCOVERY PROGRAMS

We have advanced two of our drug discovery programs into preclinical development in preparation for Investigational New Drug applications.

LX-1521. LX-1521 is a novel small molecule compound with potential for treating solid tumor cancers. LX-1521 works by blocking the cell cycle prior to cell division, resulting in cancer cell death through apoptosis. When administered orally to mouse models of human cancer, LX-1521 demonstrates significant anti-tumor activity in vivo. In vitro, the compound inhibits cell growth of more than 20 human tumor cell lines derived from multiple types of cancer. Potential uses of LX-1521 as a cancer therapy include the treatment of breast, prostate, lung, colon, ovarian, renal and pancreatic cancer, as well as melanoma. LX-1521 was discovered in our LG152 kinase target program.

LX-5431. LX-5431 is a novel human protein with the potential for treating thrombocytopenia, a disorder characterized by a substantial depletion of platelets in the blood that can lead to severe bleeding. LX-5431 has been demonstrated in ex vivo bone marrow culture to stimulate production of platelet forming cells called megakaryocytes. LX-5431 may have potential for treating thrombocytopenia resulting from chemotherapy, leukemia, autoimmune disease and other conditions. LX-5431 was identified in our LG543 secreted protein program.

OUR TECHNOLOGY

The scope of our gene knockout and evaluative technologies allows us to create and analyze knockout mice at a rate and on a scale that we believe is unmatched by our competitors. Combined with our state-of-the-art facilities, which are among the largest and most sophisticated of their kind in the world, these technologies provide us with what we believe to be a significant competitive advantage. The core elements of our technology platform include our patented technologies for the generation of knockout mice, our integrated platform of advanced medical technologies for the systematic and comprehensive biological analysis of in vivo physiology and our industrialized approach to medicinal chemistry and the generation of high-quality, drug-like compound libraries.

GENE KNOCKOUT TECHNOLOGIES

Gene Targeting. Our gene targeting technology, which is covered by eight issued patents that we have licensed, enables us to generate highly specific alterations in targeted genes. The technology uses a vector to replace DNA of a gene in a mouse embryonic stem cell through a process known as homologous recombination to disrupt the function of the targeted gene, permitting the generation of knockout mice. By using this technology in combination with one or more additional technologies, we are able to generate alterations that selectively disrupt, or conditionally regulate, the function of the targeted gene for the analysis of the gene's function in selected tissues, at selected stages in the animal's development or at selected times in the animal's life. We can also use this technology to replace the targeted gene with its corresponding human gene for use for preclinical research in our therapeutic discovery programs.

Gene Trapping. Our gene trapping technology, which is covered by nine issued patents that we own, is a high-throughput method of generating knockout mouse clones that we invented. The technology uses genetically engineered retroviruses that infect mouse embryonic stem cells in vitro, integrate into the chromosome of the cell and disrupt the function of the gene into which it integrates, permitting the generation of knockout mice. This process also stimulates transcription of a non-protein producing portion of the trapped gene, using the cell's own splicing machinery to extract this transcript from the chromosome for automated DNA sequencing. This allows us to identify and catalogue each embryonic stem cell clone by DNA sequence from the trapped gene and to select embryonic stem cell clones by DNA sequence for the generation of knockout mice. We have used our gene trapping technology in an automated process to create our OmniBank library of more than 200,000 frozen gene knockout embryonic stem cell clones, each identified by DNA sequence in a relational database. We estimate that our OmniBank library currently contains embryonic stem cell clones representing more than half of all genes in the mammalian genome and believe it is the largest library of its kind.

PHYSIOLOGICAL ANALYSIS TECHNOLOGIES

We employ an integrated platform of advanced medical examinations to rapidly and systematically discover the physiological and behavioral effects resulting from loss of gene function in the mouse knockouts we have generated using our gene trapping and gene targeting technologies and catalogue those effects in our comprehensive and relational LexVision database. These examinations include many of the most sophisticated diagnostic technologies and tests currently available, many of which might be found in a major medical center. The following are included among the many tests we use:

- CAT-scans;
- magnetic resonance imaging, or MRI;
- complete blood cell analysis, including red and white blood cell counts;
- fluorescently activated cell sorting, or FACS, analysis;
- automated behavior analyses;
- nuclear magnetic resonance, or NMR, analysis; and
- dual energy X-ray absorptiometry.

Each of these technologies has been adapted specifically for the analysis of mouse physiology. This state-of-the-art technology platform enables us to assess the consequences of loss of gene function in a living mammal across a wide variety of parameters relevant to human disease.

We employ the same physiological analysis technology platform that we use in the discovery of gene function to analyze the in vivo efficacy and safety profiles of therapeutic candidates in mice. We believe that this approach will allow us, at an early stage, to identify and optimize therapeutic candidates for further preclinical and clinical development that demonstrate in vivo efficacy and to distinguish side effects caused by a specific compound from the target-related side effects that we defined using the same comprehensive series of tests.

PRODUCTION AND ANALYSIS INFRASTRUCTURE

Our facilities, which are among the largest and most sophisticated of their kind in the world, enable us to capitalize on our gene knockout and physiological analysis technologies by generating knockout mice and analyzing the physiological function of genes on an expansive scale. We are able to generate knockout mice for the large number of genes that we believe may be pharmaceutically important and analyze the physiology of each of those knockout mice by utilizing our broad range of medical technologies. Our state-of-the-art animal facilities, occupying a total of approximately 100,000 square feet, are designed to allow us to generate and analyze approximately 1,000 knockout mice per year. These facilities, completed in 1999 and 2002, respectively, were custom designed for the generation and analysis of knockout mice and are accredited by AAALAC International, or Association for Assessment and Accreditation of Laboratory Animal Care.

Our facilities also enable us to maintain in-house control over our entire in vivo validation process, from the generation of embryonic stem cell clones through the completion of in vivo analysis, in a specific pathogen-free environment. As part of our Genome5000 program, we have already examined the physiological functions of more than 2,000 genes and expect to complete our analysis of an aggregate of 5,000 genes by the end of 2008. We are not aware of any study approaching either the magnitude or breadth of our Genome5000 program, and we believe that the investment of significant resources over a period of several years would be required for any competitor to duplicate our gene knockout and physiological analysis capabilities. The scope of our gene knockout technology, combined with the size and sophistication of our facilities and our evaluative technologies, provides us with what we believe to be a significant competitive advantage.

MEDICINAL CHEMISTRY TECHNOLOGY

We use solution-phase chemistry to generate diverse libraries of optically pure compounds that are targeted against the same pharmaceutically relevant gene families that we address in our Genome5000 program. These

libraries are built using highly robust and scalable organic reactions that allow us to generate compound collections of great diversity and to specially tailor the compound collections to address various therapeutic target families. We design these libraries by analyzing the chemical structures of drugs that have been proven safe and effective against human disease and using that knowledge in the design of scaffolds and chemical building blocks for the generation of large numbers of new drug-like compounds. We can rapidly reassemble these building blocks to generate optimization libraries when we identify a hit against one of our in vivo-validated targets, enabling us to rapidly optimize those hits and accelerate our medicinal chemistry efforts.

Our medicinal chemistry technology is housed in a state-of-the-art 76,000 square foot facility in Hopewell, New Jersey. Our lead optimization chemistry groups are organized around specific discovery targets and work closely with their pharmaceutical biology counterparts in our facilities in The Woodlands, Texas. The medicinal chemists optimize lead compounds in order to select clinical candidates with the desired absorption, distribution, metabolism, excretion and physicochemical characteristics. We have the capability to profile our compounds using the same battery of in vivo assays that we use to characterize our drug discovery targets. This provides us with valuable detailed information relevant to the selection of the highest quality compounds for clinical development.

RESEARCH AND DEVELOPMENT EXPENSES

In 2004, 2003 and 2002, respectively, we incurred expenses of $90.6 million, $82.2 million and $74.9 million in company-sponsored as well as collaborative research and development activities, including $0.4 million, $5.0 million and $5.2 million, respectively, of stock-based compensation expense.

OUR COMMERCIALIZATION STRATEGY

We are working both independently and through strategic collaborations and alliances with leading pharmaceutical and biotechnology companies, research institutes and academic institutions to commercialize our technology and turn our discoveries into drugs. Consistent with this approach, we intend to develop and commercialize certain of our drug discovery programs internally and retain exclusive rights to the benefits of such programs and to collaborate with third parties with respect to the development and commercialization of other drug discovery programs.

We apply our internal resources to our drug discovery programs in order to commercialize our technology and turn our discoveries into drugs. As we advance targets into our drug discovery programs, we allocate our internal resources in a manner designed to maximize our ability to commercialize opportunities presented by these programs. Our prioritization and allocation of internal resources among these programs are based on our expectations regarding their relative likelihood of success and the relevant medical market, as well as progress realized in our drug discovery efforts for the program. We revise our prioritization and resource allocation among programs as necessary in order to capitalize on new discoveries and opportunities.

Our collaboration and alliance strategy involves drug discovery alliances to discover and develop therapeutics based on our drug target discoveries, particularly when the alliance enables us to obtain access to technology and expertise that we do not possess internally or is complementary to our own. These strategic collaborations, as well as our licenses with pharmaceutical and biotechnology companies, research institutes and academic institutions, enable us to generate near-term revenues in exchange for access to some of our technologies and discoveries for use by these third parties in their own drug discovery efforts. These collaborations and licenses also offer us the potential, in many cases, to receive milestone payments and royalties on products that our collaborators and licensees develop using our technology.

ALLIANCES, COLLABORATIONS AND LICENSES

DRUG DISCOVERY ALLIANCES

We have entered into the following alliances for the discovery and development of therapeutics based on our in vivo drug target discovery efforts:

Bristol-Myers Squibb Company. We established a drug discovery alliance with Bristol-Myers Squibb in December 2003 to discover, develop and commercialize small molecule drugs in the neuroscience field. In the alliance, we are contributing a number of neuroscience drug discovery programs at various stages of development.

We will continue to use our gene knockout technology to identify additional drug targets with promise in the neuroscience field. For those targets that are selected for the alliance, we and Bristol-Myers Squibb will work together, on an exclusive basis, to identify, characterize and carry out the preclinical development of small molecule drugs, and will share equally both in the costs and in the work attributable to those efforts. As drugs resulting from the alliance enter clinical trials, Bristol-Myers Squibb will have the first option to assume full responsibility for clinical development and commercialization.

We received an upfront payment under the agreement and are entitled to receive research funding during the initial three years of the agreement. We may receive additional cash payments if we exceed specified research productivity levels. We will also receive clinical and regulatory milestone payments for each drug target for which Bristol-Myers Squibb develops a drug under the alliance and royalties on sales of drugs commercialized by Bristol-Myers Squibb. The target discovery portion of the alliance has a term of three years, subject to Bristol-Myers Squibb's option to extend the discovery portion of the alliance for an additional two years in exchange for further research funding payments.

Genentech, Inc. We established a drug discovery alliance with Genentech in December 2002 to discover novel therapeutic proteins and antibody targets. Under the alliance agreement, we are using our target validation technologies to discover the functions of secreted proteins and potential antibody targets identified through Genentech's internal drug discovery research. Genentech will have exclusive rights to the discoveries resulting from the collaboration for the research, development and commercialization of therapeutic proteins and antibodies. We will retain certain other rights to those discoveries, including non-exclusive rights, along with Genentech, for the development and commercialization of small molecule drugs. We received an up-front payment and are entitled to receive performance payments for our work in the collaboration as it is completed. We are also entitled to receive milestone payments and royalties on sales of therapeutic proteins and antibodies for which Genentech obtains exclusive rights. The agreement has an expected collaboration term of three years.

Takeda Pharmaceutical Company Limited. We established a drug discovery alliance with Takeda in July 2004 to discover new drugs for the treatment of high blood pressure. In the collaboration, we are using our gene knockout technology to identify drug targets that control blood pressure. Takeda will be responsible for the screening, medicinal chemistry, preclinical and clinical development and commercialization of drugs directed against targets selected for the alliance, and will bear all related costs. We received an upfront payment under the agreement and are entitled to receive research milestone payments for each target selected for therapeutic development. In addition, we are entitled to receive clinical development and product launch milestone payments for each product commercialized from the collaboration. We will also earn royalties on sales of drugs commercialized by Takeda. The target discovery portion of the alliance has a term of three years, subject to Takeda's option to extend the discovery portion of the alliance for an additional two years in exchange for further research funding payments.

OTHER COMMERCIAL COLLABORATIONS

Target Validation Collaborations. We have established target validation collaboration agreements with a number of leading pharmaceutical and biotechnology companies. Under these collaboration agreements, we generate and, in some cases, analyze knockout mice for genes requested by the collaborator. In addition, we grant non-exclusive licenses to the collaborator for use of the knockout mice in its internal drug discovery programs and, if applicable, analysis data that we generate under the agreement. Some of these agreements also provide for non-exclusive access to our OmniBank database. We receive fees for knockout mice under these agreements. In some cases, these agreements also provide for annual subscription fees, annual minimum commitments and the potential for royalties on products that our collaborators discover or develop using our technology.

LexVision Collaborations. The collaboration periods have terminated under each of our LexVision collaborations, pursuant to which our LexVision collaborators obtained non-exclusive access to our LexVision database of in vivo-validated drug targets for the discovery of small molecule compounds. We remain entitled to receive milestone payments and royalties on products those LexVision collaborators develop using our technology.

E-BIOLOGY COLLABORATION PROGRAM

We provide access to our OmniBank database through the Internet to subscribing researchers at academic and non-profit research institutions. Our bioinformatics software allows subscribers to mine our OmniBank

database for genes of interest, and we permit subscribers to acquire OmniBank knockout mice or embryonic stem cells on a non-exclusive basis in our e-Biology collaboration program. We receive fees for knockout mice or embryonic stem cells provided to collaborators in this program and, with participating institutions, rights to license inventions or to receive royalties on products discovered using our materials. In all cases we retain rights to use the same OmniBank knockout mice in our own gene function research and with commercial collaborators. We have entered into more than 250 agreements under our e-Biology collaboration program with researchers at leading institutions throughout the world.

TECHNOLOGY LICENSES

We have granted non-exclusive, internal research-use sublicenses under certain of our gene targeting patent rights to a total of 13 leading pharmaceutical and biotechnology companies. Many of these agreements extend for the life of the patents. Others have terms of one to three years, in some cases with provisions for subsequent renewals. We typically receive up-front license fees and, in some cases, receive additional license fees or milestone payments on products that the sublicensee discovers or develops using our technology.

PATENTS AND PROPRIETARY RIGHTS

We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that those rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. Accordingly, patents and other proprietary rights are an essential element of our business. We seek patent protection for the genes, proteins and drug targets that we discover. Specifically, we seek patent protection for:

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

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

- drug discovery assays for our in vivo-validated targets;

- chemical compounds and their use in treating human diseases and conditions; and

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

We own or have exclusive rights to nine issued United States patents that are directed to our gene trapping technology, 70 issued United States patents that are directed to full-length sequences of potential drug targets identified in our gene discovery programs, and five issued United States patents that are directed to specific knockout mice and discoveries of the functions of genes made using knockout mice. We have licenses under 66 additional United States patents, and corresponding foreign patents and patent applications, directed to gene targeting, gene trapping and genetic manipulation of mouse embryonic stem cells. These include patents to which we hold exclusive rights in certain fields, including a total of eight United States patents directed to the use of gene targeting technologies known as positive-negative selection and isogenic DNA targeting, as well as patents directed to the use of site specific genetic recombination technology known as Cre/lox technology.

We have filed or have exclusive rights to more than 600 pending patent applications in the United States Patent and Trademark Office, the European Patent Office, the national patent offices of other foreign countries or under the Patent Cooperation Treaty, directed to our gene trapping technology, the DNA sequences of genes, the uses of specific drug targets, drug discovery assays, and other products and processes. Collectively, these patent applications are directed to, among other things, approximately 200 full-length human gene sequences, more than 50,000 partial human gene sequences, and more than 45,000 knockout mouse clones and corresponding mouse gene sequence tags. Patents typically have a term of no longer than 20 years from the date of filing.

As noted above, we hold rights to a number of these patents and patent applications under license agreements with third parties. In particular, we license our gene targeting technologies from GenPharm International, Inc. and our Cre/lox technology from DuPont Pharmaceuticals Company. Many of these licenses are

nonexclusive, although some are exclusive in specified fields. Most of the licenses, including those licensed from GenPharm and DuPont, have terms that extend for the life of the licensed patents. In the case of our license from GenPharm, the license generally is exclusive in specified fields, subject to specific rights held by third parties, and we are permitted to grant sublicenses.

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

COMPETITION

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

While we are not aware of any other commercial entity that is developing large-scale gene trap mutagenesis in ES cells, we face competition from entities using traditional knockout mouse technology and other technologies. Several companies, including Regeneron Pharmaceuticals, Inc. and DNX (a subsidiary of Xenogen Corporation), and a large number of academic institutions create knockout mice for third parties using these more traditional methods, and a number of companies create knockout mice for use in their own research.

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

GOVERNMENT REGULATION

REGULATION OF PHARMACEUTICAL PRODUCTS

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

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

- preclinical laboratory and animal tests performed under the FDA's current Good Laboratory Practices regulations;

- submission to the FDA of an Investigational New Drug application, or IND, which must become effective before human clinical trials may commence;

- adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug or biologic in our intended application;

- for drugs, submission of a New Drug Application, or NDA, and, for biologics, submission of a Biologic License Application, or BLA, with the FDA; and

- FDA approval of the NDA or BLA prior to any commercial sale or shipment of the product.

Among other things, the FDA reviews an NDA to determine whether a product is safe and effective for its intended use and a BLA to determine whether a product is safe, pure and potent and the facility in which it is manufactured, processed, packed, or held meets standards designed to assure the product's continued safety, purity and potency.

In addition to obtaining FDA approval for each product, each drug or biologic manufacturing establishment must be inspected and approved by the FDA. All manufacturing establishments are subject to inspections by the FDA and by other federal, state and local agencies and must comply with current Good Manufacturing Practices requirements. Non-compliance with these requirements can result in, among other things, total or partial suspension of production, failure of the government to grant approval for marketing and withdrawal, suspension or revocation of marketing approvals.

Preclinical studies can take several years to complete, and there is no guarantee that an IND based on those studies will become effective to even permit clinical testing to begin. Once clinical trials are initiated, they take years to complete. In addition, the FDA may place a clinical trial on hold or terminate it if, among other reasons, the agency concludes that clinical subjects are being exposed to an unacceptable health risk. After completion of clinical trials of a new drug or biologic product, FDA marketing approval of the NDA or BLA must be obtained. An NDA or BLA, depending on the submission, must contain, among other things, information on chemistry, manufacturing controls and potency and purity, non-clinical pharmacology and toxicology, human pharmacokinetics and bioavailability and clinical data. The process of obtaining approval requires substantial time and effort and there is no assurance that the FDA will accept the NDA or BLA for filing and, even if filed, that approval will be granted. The FDA's approval of an NDA or BLA can take years and can be delayed if questions arise. Limited indications for use or other conditions could also be placed on any approvals that could restrict the commercial applications of products.

Once the FDA approves a product, a manufacturer must provide certain updated safety and efficacy information. Product changes as well as certain changes in a manufacturing process or facility would necessitate additional FDA review and approval. Other post-approval changes may also necessitate further FDA review and approval. Additionally, a manufacturer must meet other requirements including those related to adverse event reporting and record keeping.

Violations of the FDC Act, the PHS Act or regulatory requirements may result in agency enforcement action, including voluntary or mandatory recall, license suspension or revocation, product seizure, fines, injunctions and civil or criminal penalties.

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

OTHER REGULATIONS

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

EMPLOYEES AND CONSULTANTS

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

As of March 8, 2005, we employed 704 persons, of whom 144 hold M.D., Ph.D. or D.V.M. degrees and another 94 hold other advanced degrees. We believe that our relationship with our employees is good.

RISK FACTORS

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

RISKS RELATED TO OUR COMPANY AND BUSINESS

We have a history of net losses, and we expect to continue to incur net losses and may not achieve or maintain profitability.

We have incurred net losses since our inception, including net losses of $59.7 million for the year ended December 31, 2002, $64.2 million for the year ended December 31, 2003 and $47.2 million for the year ended December 31, 2004. As of December 31, 2004, we had an accumulated deficit of $261.1 million. We are unsure when we will become profitable, if ever. The size of our net losses will depend, in part, on the rate of growth, if any, in our revenues and on the level of our expenses.

We derive substantially all of our revenues from drug discovery alliances, collaborations for the development and, in some cases, analysis of the physiological effects of genes altered in knockout mice and technology licenses, and will continue to do so for the foreseeable future. Our future revenues from alliances and collaborations are uncertain because our existing agreements have fixed terms or relate to specific projects of limited duration. Our future revenues from technology licenses are uncertain because they depend, in part, on securing new agreements. Our ability to secure future revenue-generating agreements will depend upon our ability to address the needs of our potential future collaborators and licensees, and to negotiate agreements that we believe are in our long-term best interests. We may determine that our interests are better served by retaining rights to our discoveries and advancing our therapeutic programs to a later stage, which could limit our near-term revenues. Given the early-stage nature of our operations, we do not currently derive any revenues from sales of pharmaceuticals.

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

We will need additional capital in the future and, if it is not available, we will have to curtail or cease operations.

As of December 31, 2004, we had cash, cash equivalents and short-term investments (net of restricted cash and investments) of $87.1 million. We anticipate that our existing capital resources and the revenues we expect to derive from drug discovery alliances, collaborations for the development and, in some cases, analysis of the physiological effects of genes altered in knockout mice and technology licenses will enable us to fund our currently

planned operations for approximately the next two years. Our currently planned operations for that time period consist of the continuation of our efforts to discover the physiological functions of 5,000 human genes that we consider to be pharmaceutically important and the expansion of our medicinal chemistry and preclinical research operations in preparation for the initiation of clinical trials. However, we caution you that we may generate less revenues or incur expenses more rapidly than we currently anticipate.

Although difficult to accurately predict, the amount of our future capital requirements will be substantial and will depend on many factors, including:

- our ability to obtain alliance, collaboration and technology license agreements;
- the amount and timing of payments under such agreements;
- the level and timing of our research and development expenditures;
- market acceptance of products that we successfully develop and commercially launch; and
- the resources we devote to developing and supporting such products.

Our capital requirements will increase substantially to the extent we advance potential therapeutics into clinical development. Our capital requirements will also be affected by any expenditures we make in connection with license agreements and acquisitions of and investments in complementary products and technologies. For all of these reasons, our future capital requirements cannot easily be quantified.

If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds to continue the development of our technologies and complete the commercialization of products, if any, resulting from our technologies. We cannot be certain that additional financing, whether debt or equity, will be available in amounts or on terms acceptable to us, if at all. We may be unable to raise sufficient additional capital; if so, we will have to curtail or cease operations.

Any sale of additional equity securities in the future may be dilutive to our stockholders.

If we raise additional capital by issuing equity securities, our then-existing stockholders will experience dilution and the terms of any new equity securities may have preferences over our common stock.

We are an early-stage company, and we may not successfully develop or commercialize any therapeutics that we have identified.

Our business strategy of using our technology platform and, specifically, the discovery of the functions of genes using knockout mice to select promising drug targets and developing and commercializing drugs based on our discoveries, in significant part through collaborations and alliances, is unproven. Our success will depend upon our ability to successfully develop potential therapeutics for drug targets we consider to have pharmaceutical value, whether on our own or through collaborations, and to select an appropriate commercialization strategy for each potential therapeutic we choose to pursue.

Biotechnology and pharmaceutical companies have successfully developed and commercialized only a limited number of genomics-derived pharmaceutical products to date. We have not proven our ability to develop or commercialize therapeutics or drug targets that we identify, nor have we advanced any drug candidates to clinical trials. We do not know that any pharmaceutical products based on our drug target discoveries can be successfully commercialized. In addition, we may experience unforeseen technical complications in the processes we use to generate knockout mice, conduct in vivo analyses, generate compound libraries, develop screening assays for drug targets or conduct screening of compounds against those drug targets. These complications could materially delay or limit the use of those resources, substantially increase the anticipated cost of generating them or prevent us from implementing our processes at appropriate quality and throughput levels. Finally, the information that we learn from knockout mice may prove not to be useful in identifying pharmaceutically-important drug targets or safe and effective therapies.

We face substantial competition in the discovery of the DNA sequences of genes and their functions and in our drug discovery and product development efforts.

We face significant competition in each of the aspects of our business from companies such as Human Genome Sciences, Inc., Millennium Pharmaceuticals, Inc., Exelixis, Inc. and other similar companies that engage in programs for the discovery and development of drugs utilizing a genetics-based approach to target discovery and validation.

There are a finite number of genes in the human genome, and we believe that the majority of such genes have been identified and that virtually all will be identified within the next few years. We face substantial competition in our efforts to discover and patent the sequence and other information derived from such genes from entities using alternative, and in some cases higher volume and larger scale, approaches for the same purpose. These alternative approaches may ultimately prove superior, in some or all respects, to the use of knockout mice.

We also face competition from other companies in our efforts to discover the functions of genes. The Human Genome Project and a large number of universities and other not-for-profit institutions, many of which are funded by the United States and foreign governments, are also conducting research to discover the functions of genes. Competitors could discover and establish patents on genes or gene products that we identify as promising drug targets, which might hinder or prevent our ability to capitalize on such targets.

We face significant competition from other companies, as well as from universities and other not-for-profit institutions, in our drug discovery and product development efforts. Many of our competitors have substantially greater financial, scientific and human resources than we do. As a result, our competitors may succeed in developing products earlier than we do, obtaining regulatory approvals faster than we do and developing products that are more effective or safer than any that we may develop.

We rely heavily on our collaborators to develop and commercialize pharmaceutical products based on genes that we identify as promising candidates for development as drug targets, and our collaborators' efforts may fail to yield pharmaceutical products on a timely basis, if at all.

It is our strategy to develop drug candidates on our own as well as developing drug candidates in collaboration with third parties, particularly when such collaborations enable us to obtain access to technology and expertise that we do not possess internally or is complementary to our own.

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

Some of our existing collaboration agreements contain, and collaborations that we enter into in the future may contain, exclusivity agreements or other limitations on our activities. These agreements may have the effect of limiting our flexibility and may cause us to forego attractive business opportunities.

We rely on several key collaborators for a significant portion of our revenues, the loss of any of which would negatively impact our business to the extent such losses are not offset by additional collaborators.

Most of our revenues in a given year have been derived from a limited number of collaborators. For the fiscal year ended December 31, 2004, for example, Bristol-Myers Squibb accounted for approximately 43% of our revenues, Genentech accounted for approximately 26% of our revenues and Incyte Corporation accounted for approximately 8% of our revenues. In general, we cannot predict with certainty which, if any, of our major collaborators will continue to generate revenues for us. If our relationship terminates with any of these

collaborators, our revenues will be negatively impacted to the extent such losses are not offset by additional collaboration agreements.

Cancellations by or conflicts with our collaborators could harm our business.

Our alliance and collaboration agreements may not be renewed and may be terminated in the event either party fails to fulfill its obligations under these agreements. Failures to renew or cancellations by collaborators could mean a significant loss of revenues and could harm our reputation in the business and scientific communities.

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

We may be unsuccessful in developing and commercializing pharmaceutical products on our own.

Our ability to develop and commercialize pharmaceutical products on our own will depend on our ability to internally develop preclinical, clinical, regulatory and sales and marketing capabilities, or enter into arrangements with third parties to provide these functions. It will be expensive and will require significant time for us to develop these capabilities internally. We may not be successful in developing these capabilities or entering into agreements with third parties on favorable terms, or at all. Further, our reliance upon third parties for these capabilities could reduce our control over such activities and could make us dependent upon these parties. Our inability to develop or contract for these capabilities would significantly impair our ability to develop and commercialize pharmaceutical products.

We lack the capability to manufacture materials for preclinical studies, clinical trials or commercial sales and will rely on third parties to manufacture our potential products, which may harm or delay our product development and commercialization efforts.

We currently do not have the manufacturing capabilities or experience necessary to produce materials for preclinical studies, clinical trials or commercial sales and intend to rely on collaborators and third-party contractors to produce such materials. We will rely on selected manufacturers to deliver materials on a timely basis and to comply with applicable regulatory requirements, including the current Good Manufacturing Practices of the United States Food and Drug Administration, or FDA, which relate to manufacturing and quality control activities. These manufacturers may not be able to produce material on a timely basis or manufacture material at the quality level or in the quantity required to meet our development timelines and applicable regulatory requirements. In addition, there are a limited number of manufacturers that operate under the FDA's current Good Manufacturing Practices and that are capable of producing such materials, and we may experience difficulty finding manufacturers with adequate capacity for our needs. If we are unable to contract for the production of sufficient quantity and quality of materials on acceptable terms, our product development and commercialization efforts may be delayed. Moreover, noncompliance with the FDA's current Good Manufacturing Practices can result in, among other things, fines, injunctions, civil and criminal penalties, product recalls or seizures, suspension of production, failure to obtain marketing approval and withdrawal, suspension or revocation of marketing approvals.

We may engage in future acquisitions, which may be expensive and time consuming and from which we may not realize anticipated benefits.

We may acquire additional businesses, technologies and products if we determine that these businesses, technologies and products complement our existing technology or otherwise serve our strategic goals. We currently have no commitments or agreements with respect to any acquisitions. If we do undertake any transactions of this sort, the process of integrating an acquired business, technology or product may result in operating difficulties and expenditures and may not be achieved in a timely and non-disruptive manner, if at all, and may absorb significant management attention that would otherwise be available for ongoing development of our business. If we fail to

integrate acquired businesses, technologies or products effectively or if key employees of an acquired business leave, the anticipated benefits of the acquisition would be jeopardized. Moreover, we may never realize the anticipated benefits of any acquisition, such as increased revenues and earnings or enhanced business synergies. Future acquisitions could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to intangible assets, which could materially impair our results of operations and financial condition.

If we lose our key personnel or are unable to attract and retain additional personnel, we may be unable to pursue collaborations or develop our own products.

We are highly dependent on Arthur T. Sands, M.D., Ph.D., our president and chief executive officer, as well as other principal members of our management and scientific staff. We do not carry key man insurance on Dr. Sands or any other key personnel. The loss of any of these personnel could negatively impact our business, financial condition or results of operations and could inhibit our product development and commercialization efforts. Although we have entered into employment agreements with some of our key personnel, including Dr. Sands, these employment agreements are all at will. In addition, not all key personnel have employment agreements.

Recruiting and retaining qualified scientific personnel to perform future research and development work will be critical to our success. Competition for experienced scientists is intense. Failure to recruit and retain scientific personnel on acceptable terms could prevent us from achieving our business objectives.

Any contamination among our knockout mouse population could negatively affect the reliability of our scientific research or cause us to incur significant remedial costs.

Our generation and analysis of knockout mice are conducted in a specific pathogen-free environment. Any contamination of our knockout mouse population could distort or compromise the quality of our research and negatively impact the reliability of our scientific discoveries. Although we have expended substantial resources in order to secure our facilities from such risk, in the event such a contamination were to occur, our drug discovery efforts could be significantly harmed or delayed and our reputation within the scientific community could be eroded. In addition, we may incur significant remedial costs relating to the elimination of any pathogens present in our facilities.

Because all of our target validation operations are located at a single facility, the occurrence of a disaster could significantly disrupt our business.

Our OmniBank mouse clone library and its backup are stored in liquid nitrogen freezers located at our facility in The Woodlands, Texas, and our knockout mouse research operations are carried out entirely at the same facility. While we have developed redundant and emergency backup systems to protect these resources and the facilities in which they are stored, they may be insufficient in the event of a severe fire, flood, hurricane, tornado, mechanical failure or similar disaster. If such a disaster significantly damages or destroys the facility in which these resources are maintained, our business could be disrupted until we could regenerate the affected resources and, as a result, our stock price could decline. Our business interruption insurance may not be sufficient to compensate us in the event of a major interruption due to such a disaster.

Our operating results have been and likely will continue to fluctuate, and we believe that period-to-period comparisons of our operating results are not a good indication of our future performance.

Our operating results and, in particular, our ability to generate additional revenues are dependent on many factors, including:

- our ability to establish new research collaborations and technology licenses, and the timing of such arrangements;

- the expiration or other termination of research collaborations with our collaborators, which may not be renewed or replaced;

- the success rate of our discovery efforts leading to opportunities for new research collaborations and licenses, as well as milestone payments and royalties;

- the timing and willingness of our collaborators to commercialize pharmaceutical products that would result in milestone payments and royalties; and

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

Because of these and other factors, including the risks and uncertainties described in this section, our operating results have fluctuated in the past and are likely to do so in the future. Due to the likelihood of fluctuations in our revenues and expenses, we believe that period-to-period comparisons of our operating results are not a good indication of our future performance.

RISKS RELATED TO OUR INDUSTRY

Our ability to patent our inventions is uncertain because patent laws and their interpretation are highly uncertain and subject to change.

The patent positions of biotechnology firms generally are highly uncertain and involve complex legal and factual questions that will determine who has the right to develop or use a particular technology or product. No clear policy has emerged regarding the scope of protection provided in biotechnology patents. The biotechnology patent situation outside the United States is similarly uncertain. Changes in, or different interpretations of, patent laws in the United States or other countries might allow others to use our inventions or to develop and commercialize any technologies or products that we may develop without any compensation to us. We anticipate that these uncertainties will continue for a significant period of time.

Our patent applications may not result in patent rights and, as a result, the protection afforded to our scientific discoveries may be insufficient.

Our disclosures in our patent applications may not be sufficient to meet the statutory requirements for patentability. Our ability to obtain patent protection based on genes or gene sequences will depend, in part, upon identification of a use for the gene or gene sequences sufficient to meet the statutory requirements that an invention have utility and that a patent application enable one to make and use the invention. While the United States Patent and Trademark Office has issued guidelines for the examination of patent applications claiming gene sequences, their therapeutic uses and novel proteins encoded by such genes, the impact of these guidelines is uncertain and may delay or negatively affect our patent position. Furthermore, biologic data in addition to that obtained by our current technologies may be required for issuance of patents covering any potential human therapeutic products that we may develop. If required, obtaining such biologic data could delay, add substantial costs to, or affect our ability to obtain patent protection for such products. There can be no assurance that the disclosures in our current or future patent applications, including those we may file with our collaborators, will be sufficient to meet these requirements. Even if patents are issued, there may be current or future uncertainty as to the scope of the coverage or protection provided by any such patents.

Some court decisions indicate that disclosure of a partial sequence may not be sufficient to support the patentability of a full-length sequence. These decisions have been confirmed by recent pronouncements of the United States Patent and Trademark Office. We believe that these court decisions and the uncertain position of the United States Patent and Trademark Office present a significant risk that the United States Patent and Trademark Office will not issue patents based on patent disclosures limited to partial gene sequences. In addition, we are uncertain about the scope of the coverage, enforceability and commercial protection provided by any patents issued primarily on the basis of gene sequence information.

If other companies and institutions obtain patents relating to our drug target or product candidate discoveries, we may be unable to obtain patents for our inventions based upon those discoveries and may be blocked from using or developing some of our technologies and products.

Many other entities have filed or may file patent applications on genes or gene sequences, uses of those genes or gene sequences, gene products and drug targets, assays for identifying potential therapeutic products, potential therapeutic products and methods of treatment which are identical or similar to some of our filings. Some of these applications attempt to assign biologic function to the genes and proteins based on predictions of function based upon similarity to other genes and proteins or patterns of gene expression. There is the significant possibility

that patents claiming the functional uses of such genes and gene products will be issued to our competitors based on such information. If any such patents are issued to other entities, we will be unable to obtain patent protection for the same or similar discoveries that we make. Moreover, we may be blocked from using or developing some of our existing or proposed technologies and products, or may be required to obtain a license that may not be available on reasonable terms, if at all.

Alternatively, the United States Patent and Trademark Office could decide competing patent claims in an interference proceeding. Any such proceeding would be costly, and we may not prevail. In this event, the prevailing party may require us or our collaborators to stop using a particular technology or pursuing a potential product or may require us to negotiate a license arrangement to do so. We may not be able to obtain a license from the prevailing party on acceptable terms, or at all.

The Human Genome Project, as well as many companies and institutions, have identified genes and deposited partial gene sequences in public databases and are continuing to do so. The entire human genome and the entire mouse genome are now publicly known. These public disclosures might limit the scope of our claims or make unpatentable subsequent patent applications on partial or full-length genes or their uses.

Issued or pending patents may not fully protect our discoveries, and our competitors may be able to commercialize technologies or products similar to those covered by our issued or pending patents.

Pending patent applications do not provide protection against competitors because they are not enforceable until they issue as patents. Issued patents may not provide commercially meaningful protection. If anyone infringes upon our or our collaborators' patent rights, enforcing these rights may be difficult, costly and time-consuming and, as a result, it may not be cost-effective or otherwise expedient to pursue litigation to enforce those patent rights. Others may be able to design around these patents or develop unique products providing effects similar to any products that we may develop. Other companies or institutions may challenge our or our collaborators' patents or independently develop similar products that could result in an interference proceeding in the United States Patent and Trademark Office or a legal action.

In addition, others may discover uses for genes, drug targets or therapeutic products other than those covered in our issued or pending patents, and these other uses may be separately patentable. Even if we have a patent claim on a particular gene, drug target or therapeutic product, the holder of a patent covering the use of that gene, drug target or therapeutic product could exclude us from selling a product that is based on the same use of that product.

We may be involved in patent litigation and other disputes regarding intellectual property rights and may require licenses from third parties for our discovery and development and planned commercialization activities. We may not prevail in any such litigation or other dispute or be able to obtain required licenses.

Our discovery and development efforts as well as our potential products and those of our collaborators may give rise to claims that they infringe the patents of others. This risk will increase as the biotechnology industry expands and as other companies and institutions obtain more patents covering the sequences, functions and uses of genes and the drug targets they encode. We are aware that other companies and institutions have conducted research on many of the same targets that we have identified and have filed patent applications potentially covering many of the genes and encoded drug targets that are the focus of our drug discovery programs. In some cases, patents have issued from these applications. In addition, many companies and institutions have well-established patent portfolios directed to common techniques, methods and means of developing, producing and manufacturing pharmaceutical products. Other companies or institutions could bring legal actions against us or our collaborators for damages or to stop us or our collaborators from engaging in certain discovery or development activities or from manufacturing and marketing any resulting therapeutic products. If any of these actions are successful, in addition to our potential liability for damages, these entities would likely require us or our collaborators to obtain a license in order to continue engaging in the infringing activities or to manufacture or market the resulting therapeutic products or may force us to terminate such activities or manufacturing and marketing efforts.

We may need to pursue litigation against others to enforce our patents and intellectual property rights and may be the subject of litigation brought by third parties to enforce their patent and intellectual property rights. In addition, we may become involved in litigation based on intellectual property indemnification undertakings that we

have given to certain of our collaborators. Patent litigation is expensive and requires substantial amounts of management attention. The eventual outcome of any such litigation is uncertain and involves substantial risks.

We believe that there will continue to be significant litigation in our industry regarding patent and other intellectual property rights. We have expended and many of our competitors have expended and are continuing to expend significant amounts of time, money and management resources on intellectual property litigation. If we become involved in future intellectual property litigation, it could consume a substantial portion of our resources and could negatively affect our results of operations.

Furthermore, in light of recent United States Supreme Court precedent, our ability to enforce our patents against state agencies, including state sponsored universities and research laboratories, is limited by the Eleventh Amendment to the United States Constitution. In addition, opposition by academicians and the government may hamper our ability to enforce our patents against academic or government research laboratories. Finally, enforcement of our patents may cause our reputation in the academic community to be injured.

We use intellectual property that we license from third parties. If we do not comply with these licenses, we could lose our rights under them.

We rely, in part, on licenses to use certain technologies that are important to our business, such as certain gene targeting technology licensed from GenPharm International, Inc. and conditional knockout technology licensed from DuPont Pharmaceuticals Company. We do not own the patents that underlie these licenses. Most of these licenses, however, including those licensed from GenPharm and DuPont, have terms that extend for the life of the licensed patents. Our rights to use these technologies and practice the inventions claimed in the licensed patents are subject to our abiding by the terms of those licenses and the licensors not terminating them. We are currently in compliance with all requirements of these licenses. In many cases, we do not control the filing, prosecution or maintenance of the patent rights to which we hold licenses and rely upon our licensors to prosecute infringement of those rights. The scope of our rights under our licenses may be subject to dispute by our licensors or third parties.

We have not sought patent protection outside of the United States for some of our inventions, and some of our licensed patents only provide coverage in the United States. As a result, our international competitors could be granted foreign patent protection with respect to our discoveries.

We have decided not to pursue patent protection with respect to some of our inventions outside the United States, both because we do not believe it is cost-effective and because of confidentiality concerns. Accordingly, our international competitors could develop, and receive foreign patent protection for, genes or gene sequences, uses of those genes or gene sequences, gene products and drug targets, assays for identifying potential therapeutic products, potential therapeutic products and methods of treatment for which we are seeking United States patent protection. In addition, most of our gene trapping patents and our licensed gene targeting patents cover only the United States and do not apply to discovery activities conducted outside of the United States or, in some circumstances, to importing into the United States products developed using this technology.

We may be unable to protect our trade secrets.

Significant aspects of our intellectual property are not protected by patents. As a result, we seek to protect the proprietary nature of this intellectual property as trade secrets through proprietary information agreements and other measures. While we have entered into proprietary information agreements with all of our employees, consultants, advisers and collaborators, we may not be able to prevent the disclosure of our trade secrets. In addition, other companies or institutions may independently develop substantially equivalent information and techniques.

Our efforts to discover, evaluate and validate potential targets for drug intervention and our drug discovery programs are subject to evolving data and other risks inherent in the drug discovery process.

We are employing our knockout technology and integrated drug discovery platform to systematically discover, evaluate and validate potential targets for drug intervention and to develop drugs to address those targets. The drug discovery and development process involves significant risks of delay or failure due, in part, to evolving data and the uncertainties involved with the applications of new technologies. As we refine and advance our efforts, it is likely that the resulting data will cause us to change our targets from time to time and, therefore, that the targets

that we believe at any time to be promising may prove not to be so. These developments can occur at any stage of the drug discovery and development process.

Our industry is subject to extensive and uncertain government regulatory requirements, which could significantly hinder our ability, or the ability of our collaborators, to obtain, in a timely manner or at all, government approval of products based on genes that we identify, or to commercialize such products.

We or our collaborators must obtain approval from the FDA in order to conduct clinical trials and sell our future product candidates in the United States and from foreign regulatory authorities in order to conduct clinical trials and sell our future product candidates in other countries. In order to obtain regulatory approvals for the commercial sale of any products that we may develop, we will be required to complete extensive clinical trials in humans to demonstrate the safety and efficacy of our drug candidates. We or our collaborators may not be able to obtain authority from the FDA or other equivalent foreign regulatory agencies to initiate or complete any clinical trials. In addition, we have limited internal resources for making regulatory filings and dealing with regulatory authorities.

The results from preclinical testing of a drug candidate that is under development may not be predictive of results that will be obtained in human clinical trials. In addition, the results of early human clinical trials may not be predictive of results that will be obtained in larger scale, advanced stage clinical trials. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after achieving positive results in earlier trials. Negative or inconclusive results from a preclinical study or a clinical trial could cause us, one of our collaborators or the FDA to terminate a preclinical study or clinical trial or require that we repeat it. Furthermore, we, one of our collaborators or a regulatory agency with jurisdiction over the trials may suspend clinical trials at any time if the subjects or patients participating in such trials are being exposed to unacceptable health risks or for other reasons.

Any preclinical or clinical test may fail to produce results satisfactory to the FDA or foreign regulatory authorities. Preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent regulatory approval. The FDA or institutional review boards at the medical institutions and healthcare facilities where we sponsor clinical trials may suspend any trial indefinitely if they find deficiencies in the conduct of these trials. Clinical trials must be conducted in accordance with the FDA's current Good Clinical Practices. The FDA and these institutional review boards have authority to oversee our clinical trials, and the FDA may require large numbers of test subjects. In addition, we must manufacture, or contract for the manufacture of, the product candidates that we use in our clinical trials under the FDA's current Good Manufacturing Practices.

The rate of completion of clinical trials is dependent, in part, upon the rate of enrollment of patients. Patient accrual is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the study, the nature of the study, the existence of competitive clinical trials and the availability of alternative treatments. Delays in planned patient enrollment may result in increased costs and prolonged clinical development, which in turn could allow our competitors to bring products to market before we do and impair our ability to commercialize our products or potential products.

We or our collaborators may not be able to successfully complete any clinical trial of a potential product within any specified time period. In some cases, we or our collaborators may not be able to complete the trial at all. Moreover, clinical trials may not show our potential products to be both safe and effective. Thus, the FDA and other regulatory authorities may not approve any products that we develop for any indication or may limit the approved indications or impose other conditions.

If our potential products receive regulatory approval, we or our collaborators will remain subject to extensive and rigorous ongoing regulation.

If we or our collaborators obtain initial regulatory approvals from the FDA or foreign regulatory authorities for any products that we may develop, we or our collaborators will be subject to extensive and rigorous ongoing domestic and foreign government regulation of, among other things, the research, development, testing, manufacture, labeling, promotion, advertising, distribution and marketing of our products and product candidates. The failure to comply with these requirements or the identification of safety problems during commercial marketing could lead to the need for product marketing restrictions, product withdrawal or recall or other voluntary or

regulatory action, which could delay further marketing until the product is brought into compliance. The failure to comply with these requirements may also subject us or our collaborators to stringent penalties.

Moreover, several of our product development areas involve relatively new technology and have not been the subject of extensive product testing in humans. The regulatory requirements governing these products and related clinical procedures remain uncertain and the products themselves may be subject to substantial review by foreign governmental regulatory authorities that could prevent or delay approval in those countries. Regulatory requirements ultimately imposed on any products that we may develop could limit our ability to test, manufacture and, ultimately, commercialize such products.

The uncertainty of pharmaceutical pricing and reimbursement may decrease the commercial potential of any products that we or our collaborators may develop and affect our ability to raise capital.

Our ability and the ability of our collaborators to successfully commercialize pharmaceutical products will depend, in part, on the extent to which reimbursement for the cost of such products and related treatment will be available from government health administration authorities, private health coverage insurers and other organizations. The pricing, availability of distribution channels and reimbursement status of newly approved pharmaceutical products is highly uncertain. As a result, adequate third-party coverage may not be available for us to maintain price levels sufficient for realization of an appropriate return on our investment in product discovery and development.

In certain foreign markets, pricing or profitability of healthcare products is subject to government control. In the United States, there have been, and we expect that there will continue to be, a number of federal and state proposals to implement similar governmental control. In addition, an increasing emphasis on managed care in the United States has increased and will continue to increase the pressure on pharmaceutical pricing. While we cannot predict the adoption of any such legislative or regulatory proposals or the effect such proposals or managed care efforts may have on our business, the announcement of such proposals or efforts could harm our ability to raise capital, and the adoption of such proposals or efforts could harm our results of operations. Further, to the extent that such proposals or efforts harm other pharmaceutical companies that are our prospective collaborators, our ability to establish corporate collaborations would be impaired. In addition, third-party payers are increasingly challenging the prices charged for medical products and services. We do not know whether consumers, third-party payers and others will consider any products that we or our collaborators develop to be cost-effective or that reimbursement to the consumer will be available or will be sufficient to allow us or our collaborators to sell such products on a profitable basis.

We use hazardous chemicals and radioactive and biological materials in our business; any disputes relating to improper handling, storage or disposal of these materials could be time consuming and costly.

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

We may be sued for product liability.

We or our collaborators may be held liable if any product that we or our collaborators develop, or any product that is made with the use or incorporation of any of our technologies, causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. Although we currently have and intend to maintain product liability insurance, this insurance may become prohibitively expensive or may not fully cover our potential liabilities. Our inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or inhibit the commercialization of products

developed by us or our collaborators. If we are sued for any injury caused by our or our collaborators' products, our liability could exceed our total assets.

Public perception of ethical and social issues may limit or discourage the use of our technologies, which could reduce our revenues.

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

ITEM 2. PROPERTIES

We currently own approximately 300,000 square feet of space for our corporate offices and laboratories in buildings located in The Woodlands, Texas, a suburb of Houston, Texas, and lease approximately 76,000 square feet of space for offices and laboratories near Princeton, New Jersey.

Our facilities in The Woodlands, Texas include two state-of-the art animal facilities totaling approximately 100,000 square feet. These facilities, completed in 1999 and 2002, respectively, were custom designed for the generation and analysis of knockout mice and are accredited by AAALAC International (Association for Assessment and Accreditation of Laboratory Animal Care). These facilities enable us to maintain in-house control over our entire in vivo validation process, from the generation of embryonic stem cell clones through the completion of in vivo analysis, in a specific pathogen free environment. We believe these facilities, which are among the largest and most sophisticated of their kind in the world, provide us with significant strategic and operational advantages relative to our competitors. Because of the size and sophistication of our facilities, it would require the investment of significant resources over an extended period of time for any competitor to develop facilities with the scale, efficiency and productivity with respect to the analysis of the functionality of genes that our facilities provide.

In April 2004, we purchased our facilities in The Woodlands, Texas from the lessor under our previous synthetic lease agreement. In connection with such purchase, we repaid the $54.8 million funded under the synthetic lease with proceeds from a $34.0 million third-party mortgage financing and $20.8 million in cash. The mortgage loan has a ten-year term with a 20-year amortization and bears interest at a fixed rate of 8.23%. As a result of the refinancing, all restrictions on the cash and investments that had secured the obligations under the synthetic lease were eliminated.

In May 2002, our subsidiary Lexicon Pharmaceuticals (New Jersey), Inc. entered into a lease for a 76,000 square-foot facility in Hopewell, New Jersey. The term of the lease extends until June 30, 2013. The lease provides for an escalating yearly base rent payment of $1.3 million in the first year, $2.1 million in years two and three, $2.2 million in years four to six, $2.3 million in years seven to nine and $2.4 million in years ten and eleven. We are the guarantor of the obligations of our subsidiary under the lease.

We believe that our facilities are well-maintained, in good operating condition and acceptable for our current operations.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of the year ended December 31, 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on The Nasdaq National Market under the symbol "LEXG." The following table sets forth, for the periods indicated, the high and low sales prices for our common stock as reported on The Nasdaq National Market.

	HIGH	LOW
2003		
First Quarter	$5.29	$3.00
Second Quarter	$7.00	$3.98
Third Quarter	$7.45	$4.24
Fourth Quarter	$6.90	$4.75
2004		
First Quarter	$8.19	$5.68
Second Quarter	$8.24	$6.00
Third Quarter	$7.90	$5.03
Fourth Quarter	$7.95	$6.02

As of March 8, 2005, there were approximately 240 holders of record of our common stock.

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

ITEM 6. SELECTED FINANCIAL DATA

The statement of operations data for the years ended December 31, 2004, 2003 and 2002 and the balance sheet data as of December 31, 2004 and 2003 have been derived from our audited financial statements included elsewhere in this annual report on Form 10-K. The statements of operations data for the years ended December 31, 2001 and 2000, and the balance sheet data as of December 31, 2002, 2001 and 2000 have been derived from our audited financial statements not included in this annual report on Form 10-K. Our historical results are not necessarily indicative of results to be expected for any future period. The data presented below has been derived from financial statements that have been prepared in accordance with accounting principles generally accepted in the United States and should be read with our financial statements, including the notes, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this annual report on Form 10-K.

	YEAR ENDED DECEMBER 31,				
	2004	2003	2002	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENTS OF OPERATIONS DATA:					
Revenues	$ 61,740	$ 42,838	$ 35,200	$ 30,577	$ 14,459
Operating expenses:					
Research and development, including stock-based compensation of $426 in 2004, $5,048 in 2003, $5,155 in 2002, $5,539 in 2001 and $10,883 in 2000	90,586	82,198	74,859	53,355	31,647
General and administrative, including stock-based compensation of $412 in 2004, $5,067 in 2003, $5,113 in 2002, $5,231 in 2001 and $9,958 in 2000	18,608	23,233	23,234	20,861	18,289
Total operating expenses	109,194	105,431	98,093	74,216	49,936
Loss from operations	(47,454)	(62,593)	(62,893)	(43,639)	(35,477)
Interest and other income, net	282	1,471	3,223	8,467	9,483
Net loss before cumulative effect of a change in accounting principle	(47,172)	(61,122)	(59,670)	(35,172)	(25,994)
Cumulative effect of a change in accounting principle	--	(3,076)	--	--	--
Net loss	(47,172)	(64,198)	(59,670)	(35,172)	(25,994)
Accretion on redeemable convertible preferred stock	--	--	--	--	(134)
Net loss attributable to common stockholders	$ (47,172)	$ (64,198)	$ (59,670)	$ (35,172)	$ (26,128)
Net loss per common share basic and diluted:					
Net loss before cumulative effect of a change in accounting principle	$ (0.74)	$ (1.08)	$ (1.14)	$ (0.70)	$ (0.63)
Cumulative effect of a change in accounting principle	--	(0.05)	--	--	--
Net loss per common share, basic and diluted	$ (0.74)	$ (1.13)	$ (1.14)	$ (0.70)	$ (0.63)
Shares used in computing net loss per common share, basic and diluted	63,327	56,820	52,263	50,213	41,618

	AS OF DECEMBER 31,				
	2004	2003	2002	2001	2000
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash, cash equivalents and investments, including restricted cash and investments of $430 in 2004, $57,514 in 2003, $57,710 in 2002, $43,338 in 2001 and $13,879 in 2000	$ 87,558	$ 161,001	$ 123,096	$ 166,840	$202,680
Working capital	60,038	139,739	111,833	147,663	194,801
Total assets	211,980	284,199	201,772	239,990	220,693
Long-term debt, net of current portion	32,940	56,344	4,000	--	1,834
Accumulated deficit	(261,115)	(213,943)	(149,745)	(90,075)	(54,903)
Stockholders' equity	121,594	166,216	169,902	218,372	207,628

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read with "Selected Financial Data" and our financial statements and notes included elsewhere in this annual report on Form 10-K.

OVERVIEW

We are a biopharmaceutical company focused on the discovery and development of breakthrough treatments for human disease. We are using gene knockout technology to systematically discover the physiological functions of genes in living mammals, or in vivo. We generate our gene function discoveries using knockout mice - mice whose DNA has been altered to disrupt, or "knock out," the function of the altered gene. Our patented gene trapping and gene targeting technologies enable us to rapidly generate these knockout mice by altering the DNA of genes in a special variety of mouse cells, called embryonic stem cells, which can be cloned and used to generate mice with the altered gene. We employ an integrated platform of advanced medical technologies to systematically discover and validate which genes, when knocked out, result in a favorable medical profile with pharmaceutical utility. We then pursue those genes and the proteins they encode as potential targets for therapeutic intervention in our drug discovery programs.

We employ internal resources and drug discovery alliances to discover potential small molecule, antibody and protein drugs for in vivo-validated drug targets that we consider to have high pharmaceutical value. We use our own sophisticated libraries of drug-like chemical compounds and an industrialized medicinal chemistry platform to identify small molecule drug candidates for our in vivo-validated drug targets. We have established alliances with Bristol-Myers Squibb Company to discover and develop novel small molecule drugs in the neuroscience field; with Genentech, Inc. for the discovery of therapeutic proteins and antibody targets; and with Takeda Pharmaceutical Company Limited to discover new drugs for the treatment of high blood pressure. In addition, we have established collaborations and license agreements with many other leading pharmaceutical and biotechnology companies under which we receive fees and, in some cases, are eligible to receive milestone and royalty payments, for access to some of our technologies and discoveries for use in their own drug discovery efforts.

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

Our operating results and, in particular, our ability to generate additional revenues are dependent on many factors, including our success in establishing research collaborations and technology licenses, expirations of our research collaborations, the success rate of our discovery efforts leading to opportunities for new research collaborations and licenses, as well as milestone payments and royalties, the timing and willingness of collaborators to commercialize products which may result in royalties, and general and industry-specific economic conditions which may affect research and development expenditures. Our future revenues from collaborations and alliances are uncertain because our existing agreements have fixed terms or relate to specific projects of limited duration. Our future revenues from technology licenses are uncertain because they depend, in large part, on securing new agreements. Subject to limited exceptions, we do not intend to offer subscriptions to our databases or make our compound libraries available for purchase in the future. Our ability to secure future revenue-generating agreements will depend upon our ability to address the needs of our potential future collaborators and licensees, and to negotiate agreements that we believe are in our long-term best interests. We may determine that our interests are better served by retaining rights to our discoveries and advancing our therapeutic programs to a later stage, which could limit our near-term revenues. Because of these and other factors, our operating results have fluctuated in the past and are likely to do so in the future, and we do not believe that period-to-period comparisons of our operating results are a good indication of our future performance.

Since our inception, we have incurred significant losses and, as of December 31, 2004, we had an accumulated deficit of $261.1 million. Our losses have resulted principally from costs incurred in research and development, general and administrative costs associated with our operations, and non-cash stock-based compensation expenses associated with stock options granted to employees and consultants prior to our April 2000 initial public offering. Research and development expenses consist primarily of salaries and related personnel costs, material costs, facility costs, depreciation on property and equipment, legal expenses resulting from intellectual

property prosecution and other expenses related to our drug discovery and LexVision programs, the development and analysis of knockout mice and our other target validation research efforts, and the development of compound libraries. General and administrative expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, professional fees and other corporate expenses including information technology, facilities costs and general legal activities. In connection with the expansion of our drug discovery programs and our target validation research efforts, we expect to incur increasing research and development and general and administrative costs. As a result, we will need to generate significantly higher revenues to achieve profitability.

As of December 31, 2004 we had net operating loss carryforwards of approximately $190.8 million. We also had research and development tax credit carryforwards of approximately $8.6 million. The net operating loss and credit carryforwards will expire at various dates beginning in 2011, if not utilized. Utilization of the net operating losses and credits may be significantly limited due to a change in ownership as defined by provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

CRITICAL ACCOUNTING POLICIES

REVENUE RECOGNITION

We recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collectibility is reasonably assured. Payments received in advance under these arrangements are recorded as deferred revenue until earned.

Upfront fees and annual research funding under our drug discovery alliances are recognized as revenue on a straight-line basis over the estimated period of service, generally the contractual research term, to the extent they are non-refundable. Milestone-based fees are recognized upon completion of specified milestones according to contract terms. Fees for access to our databases and other target validation resources are recognized ratably over the subscription or access period. Payments received under target validation collaborations and government grants are recognized as revenue as we perform our obligations related to such research to the extent such fees are non-refundable. Non-refundable technology license fees are recognized as revenue upon the grant of the license when performance is complete and there is no continuing involvement.

Revenues recognized from multiple element contracts are allocated to each element of the arrangement based on the relative fair value of the elements. The determination of fair value of each element is based on objective evidence. When revenues for an element are specifically tied to a separate earnings process, revenue is recognized when the specific performance obligation associated with the element is completed. When revenues for an element are not specifically tied to a separate earnings process, they are recognized ratably over the term of the agreement.

A change in our revenue recognition policy or changes in the terms of contracts under which we recognize revenues could have an impact on the amount and timing of our recognition of revenues.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of costs incurred for company-sponsored as well as collaborative research and development activities. These costs include direct and research-related overhead expenses and are expensed as incurred. Patent costs and technology license fees for technologies that are utilized in research and development and have no alternative future use are expensed when incurred.

Prior to preclinical development work, we are unable to segregate the costs related to research performed on drug candidates because the drug candidate is often not specifically identified until the later stages of our research. With the commencement of formal preclinical development in 2005, we will account on a program by program basis for the costs related to the development of the identified drug products.

GOODWILL IMPAIRMENT

Goodwill is not amortized, but is tested at least annually for impairment at the reporting unit level. We have determined that the reporting unit is the single operating segment disclosed in our current financial statements. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The first step in the impairment process is to determine the fair value of the reporting unit and then compare it to the carrying value, including goodwill. We determined that the market capitalization approach is the most appropriate method of measuring fair value of the reporting unit. Under this approach, fair value is calculated as the average closing price of our common stock for the 30 days preceding the date that the annual impairment test is performed, multiplied by the number of outstanding shares on that date. A control premium, which is representative of premiums paid in the marketplace to acquire a controlling interest in a company, is then added to the market capitalization to determine the fair value of the reporting unit. If the fair value exceeds the carrying value, no further action is required and no impairment loss is recognized. Additional impairment assessments may be performed on an interim basis if we encounter events or changes in circumstances that would indicate that, more likely than not, the carrying value of goodwill has been impaired. There was no impairment of goodwill in 2004.

RECENT ACCOUNTING PRONOUNCEMENT

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123 (Revised) "Share-Based Payment." The statement eliminates the ability to account for stock-based compensation using APB 25 and requires such transactions be recognized as compensation expense in the income statement based on their fair values on the date of the grant, with the compensation expense recognized over the period in which an employee is required to provide service in exchange for the stock award. We will adopt this statement on July 1, 2005 using a modified prospective application. As such, the compensation expense recognition provisions will apply to new awards and to any awards modified, repurchased or cancelled after the adoption date. Additionally, for any unvested awards outstanding at the adoption date, we will recognize compensation expense over the remaining vesting period. We are currently evaluating the impact of SFAS 123 (Revised) on our financial condition and results of operation. However, if we continue to use a Black-Scholes option pricing model consistent with our current practice, the adoption of SFAS 123 (Revised) on July 1, 2005 is estimated to result in additional compensation expense of approximately $4.0 million for the year ended December 31, 2005 related to options granted as of December 31, 2004 that will be unvested on the date of adoption. Grants awarded subsequent to December 31, 2004 will result in increased compensation expense.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2004 AND 2003

Revenues. Total revenues and dollar and percentage changes as compared to the prior year are as follows (dollar amounts are presented in millions):

	YEAR ENDED DECEMBER 31,	
	2004	2003
Total revenues.....	$61.7	$42.8
Dollar increase.....	$18.9	
Percentage increase.....	44%	

- Subscription and license fees - Revenue from subscriptions and license fees decreased 44% to $12.0 million due to decreased technology license fees and the termination of Incyte's subscription to our LexVision database in June 2004.

- Collaborative research - Revenue from collaborative research increased 134% to $49.7 million primarily due to increased revenue under our neuroscience drug discovery alliance with Bristol-Myers Squibb, which was entered into in December 2003, our completion of a performance milestone under our therapeutic protein and antibody target discovery alliance with Genentech and the commencement of our hypertension drug discovery alliance with Takeda, which was entered into in July 2004. This was offset in part by a decrease in revenues from target validation collaborations due to the scheduled conclusion of many of these arrangements and the termination of our collaboration with Incyte in June 2004.

In 2004, Bristol-Myers Squibb, Genentech and Incyte represented 43%, 26% and 8% of revenues, respectively. In 2003, Incyte, Amgen, Inc., Bristol-Myers Squibb and Genentech represented 23%, 15%, 14% and 14% of revenues, respectively.

Research and Development Expenses. Research and development expenses and dollar and percentage changes as compared to the prior year are as follows (dollar amounts are presented in millions):

	YEAR ENDED DECEMBER 31,	
	2004	2003
Total research and development expense.....	$90.6	$82.2
Dollar increase.....	$ 8.4	
Percentage increase.....	10%	

Research and development expenses consist primarily of salaries and other personnel-related expenses, stock-based compensation expenses, laboratory supplies, facility and equipment costs, third-party and other services. The change in 2004 as compared to 2003 resulted primarily from the following costs:

- Personnel - Personnel costs increased 24% to $43.3 million primarily due to increased personnel to support the expansion of our drug discovery programs, merit-based pay increases for employees and increasing employee benefit costs. Salaries, bonuses, employee benefits, payroll taxes, recruiting and relocation costs are included in personnel costs.

- Stock-based compensation - Stock based compensation expense, primarily relating to option grants made prior to our April 2000 initial public offering, decreased 92% to $0.4 million. All deferred stock compensation relating to these options was fully amortized as of January 31, 2004 when these options became fully vested.

- Laboratory supplies - Laboratory supplies expense increased 27% to $14.1 million due primarily to increased purchases of consumables and other supplies, compounds and animal food and bedding related to our drug discovery activities.

- Facilities and equipment - Facilities and equipment costs increased 2% to $20.2 million primarily due to an increase in depreciation expense on our facilities in The Woodlands, Texas offset, in part, by the elimination of rent expense for those facilities as a result of our consolidation of the lessor under our synthetic lease on December 31, 2003 and subsequent refinancing of those facilities as well as the January 2004 expiration of the lease for our former facility in East Windsor, New Jersey.

- Third-party and other services - Third-party and other services increased 7% to $7.5 million primarily due an increase in third-party research costs offset, in part, by the termination of our subscription to a third-party database. Third-party and other services include third-party research, subscriptions to third-party databases, technology licenses, legal and patent fees.

- Other - Other costs increased by 17% to $5.0 million.

General and Administrative Expenses. General and administrative expenses and dollar and percentage changes as compared to the prior year are as follows (dollar amounts are presented in millions):

	YEAR ENDED DECEMBER 31,	
	2004	2003
Total general and administrative expense.....	$18.6	$23.2
Dollar decrease.....	$ 4.6	
Percentage decrease.....	20%	

General and administrative expenses consist primarily of personnel costs to support our research activities, stock-based compensation expense, facility and equipment costs and professional fees, such as legal fees. The change in 2004 as compared to 2003 resulted primarily from the following costs:

- Personnel - Personnel costs were $10.6 million in both periods. Salaries, bonuses, employee benefits, payroll taxes, recruiting and

relocation costs are included in personnel costs.

- Stock-based compensation - Stock based compensation expense, primarily relating to option grants made prior to our April 2000 initial public offering, decreased 92% to $0.4 million. All deferred stock compensation relating to these options was fully amortized as of January 31, 2004 when these options became fully vested.

- Facilities and equipment - Facilities and equipment costs decreased 15% to $3.1 million primarily due to the elimination of rent expense on our facilities in The Woodlands, Texas as a result of our consolidation of the lessor under our synthetic lease on December 31, 2003 and subsequent refinancing of those facilities as well as the January 2004 expiration of the lease for our former facility in East Windsor, New Jersey.

- Professional fees - Professional fees increased 30% to $2.1 million primarily due to increased board of director fees and audit fees.

- Other - Other costs increased 6% to $2.4 million.

Interest Income. Interest income was $1.6 million in 2004 and 2003.

Interest Expense. Interest expense increased 718% to $2.7 million in 2004 from $0.3 million in 2003. This increase was attributable to the interest expense on the $54.8 million funded under the synthetic lease following our consolidation of the lessor on December 31, 2003 and the interest expense on the $34.0 million mortgage loan used in the subsequent refinancing in April 2004 of the facilities funded under the synthetic lease.

Other Income. Other income increased 441% to $1.3 million in 2004 from $0.2 million in 2003. This increase resulted primarily from a settlement with our former insurance provider for a disputed claim under our insurance policy.

Net Loss and Net Loss Per Common Share Before Cumulative Effect of a Change in Accounting Principle. Net loss before a change in accounting principle decreased to $47.2 million in 2004 from $61.1 million in 2003. Net loss per common share before a change in accounting principle decreased to $0.74 in 2004 from $1.08 in 2003. Net loss before a change in accounting principle includes stock-based compensation expense of $0.8 million and $10.1 million in 2004 and 2003, respectively.

Change In Accounting Principle. We adopted FASB Interpretation No. 46, "Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51," or FIN 46 on December 31, 2003. We determined that the lessor under the synthetic lease is a variable interest entity as defined by FIN 46, and that we absorb a majority of the variable interest entity's expected losses. Accordingly, we recorded a cumulative effect of a change in accounting principle equal to the accumulated depreciation of $3.1 million for the period from the date the buildings were placed in service under the synthetic lease through December 31, 2003.

Net Loss and Net Loss Per Common Share. Net loss decreased to $47.2 million in 2004 from $64.2 million in 2003. Net loss per common share decreased to $0.74 in 2004 from $1.13 in 2003.

YEARS ENDED DECEMBER 31, 2003 AND 2002

Revenues. Total revenues and dollar and percentage changes as compared to the prior year are as follows (dollar amounts are presented in millions):

	YEAR ENDED DECEMBER 31,	
	2003	2002
Total revenues.....	$42.8	$35.2
Dollar increase.....	$ 7.6	
Percentage increase.....	22%	

- Subscription and license fees - Revenue from subscriptions and license fees increased 21% to $21.6 million due to additional technology licenses granted to pharmaceutical and biotechnology companies in 2003.

- Collaborative research - Revenue from collaborative research increased 24% to $21.2 million primarily due to increased revenue under our drug discovery alliances with Genentech, Inc., which was entered into in December 2002, and with Bristol-Myers Squibb Company, which was entered into in December 2003, offset in part by a decrease in revenues from target validation collaborations due to the scheduled conclusion of many of these arrangements.

- Other - Other revenue decreased 81% to $46,000 due to the fact that we no longer made our compound libraries available for purchase, subject to limited exceptions. We may, however, provide additional quantities of selected compounds or optimization services under existing compound sales agreements.

In 2003, Incyte Corporation, Amgen, Inc., Bristol-Myers Squibb and Genentech represented 23%, 15%, 14% and 14% of revenues, respectively. In 2002, Incyte, Bristol-Myers Squibb and Millennium Pharmaceuticals, Inc. represented 28%, 14% and 11% of revenues, respectively.

Research and Development Expenses. Research and development expenses and dollar and percentage changes as compared to the prior year are as follows (dollar amounts are presented in millions):

	YEAR ENDED DECEMBER 31,	
	2003	2002
Total research and development expense.....	$82.2	$74.9
Dollar increase.....	$ 7.3	
Percentage increase.....	10%	

Research and development expenses consist primarily of salaries and other personnel-related expenses, stock-based compensation expenses, laboratory supplies, facility and equipment costs, third-party and other services. The change in 2003 as compared to 2002 resulted primarily from the following costs:

- Personnel - Personnel costs increased 14% to $35.0 million primarily due to increased personnel to support the expansion of our drug discovery programs, merit pay increases for employees and increasing employee benefit costs. Salaries, bonuses, employee benefits, payroll taxes, recruiting and relocation costs are included in personnel costs.

- Stock-based compensation - Stock based compensation expense, primarily relating to option grants made prior to our April 2000 initial public offering, decreased 2% to $5.0 million.

- Laboratory supplies - Laboratory supplies expense increased 5% to $11.1 million due primarily to an increase in drug discovery activities such as high throughput screening.

- Facilities and equipment - Facility and equipment costs increased 13% to $19.8 million primarily due to increased rent resulting from the May 2002 lease of our facility in Hopewell, New Jersey and increased property taxes on our facilities in The Woodlands, Texas. Additionally, depreciation expense increased as a result of purchases of capital equipment and leasehold improvements.

- Third-party and other services - Third-party and other services decreased by 1% to $7.7 million. Third-party and other services include subscriptions to third-party databases, technology licenses and legal and patent fees.

- Other - Other costs increased by 17% to $3.6 million.

General and Administrative Expenses. General and administrative expenses and dollar and percentage changes as compared to the prior year are as follows (dollar amounts are presented in millions):

	YEAR ENDED DECEMBER 31,	
	2003	2002
Total general and administrative expense.....	$ 23.2	$ 23.2
Dollar increase.....	$ --	
Percentage increase.....	--	

General and administrative expenses consist primarily of personnel costs to support our research activities, stock-based compensation expense, facility and equipment costs and professional fees, such as legal fees. The change in 2003 as compared to 2002 resulted primarily from the following costs:

- Personnel - Personnel costs decreased 4% to $10.6 million primarily due to decreased staffing in overhead departments. Salaries, bonuses, employee benefits, payroll taxes, recruiting and relocation costs are included in personnel costs.

- Stock-based compensation - Stock based compensation expense, primarily relating to option grants made prior to our April 2000 initial public offering, decreased 1% to $5.1 million.

- Facilities and equipment - Facility and equipment costs increased 12% to $3.6 million primarily due to increased rent resulting from the May 2002 lease of our facility in Hopewell, New Jersey and increased property taxes on our facilities in The Woodlands, Texas.

- Professional fees - Professional fees increased 43% to $1.6 million primarily due to increased legal fees.

- Other - Other costs increased 13% to $2.3 million.

Interest Income. Interest income decreased 48% to $1.6 million in 2003 from $3.0 million in 2002. This decrease resulted primarily from lower average cash and investment balances due to the timing of cash receipts and lower average interest rates on our investments.

Net Loss and Net Loss Per Common Share Before Cumulative Effect of a Change in Accounting Principle. Net loss before a change in accounting principle increased to $61.1 million in 2003 from $59.7 million in 2002. Net loss per common share before a change in accounting principle decreased to $1.08 in 2003 from $1.14 in 2002. Net loss before a change in accounting principle includes stock-based compensation expense of $10.1 million and $10.3 million in 2003 and 2002, respectively.

Change In Accounting Principle. We adopted FIN 46 on December 31, 2003 and determined that the lessor under the synthetic lease is a variable interest entity as defined by FIN 46, and that we absorb a majority of the variable interest entity's expected losses. Accordingly, we recorded a cumulative effect of a change in accounting principle equal to the accumulated depreciation of $3.1 million for the period from the date the buildings were placed in service under the synthetic lease through December 31, 2003.

Net Loss and Net Loss Per Common Share. Net loss increased to $64.2 million in 2003 from $59.7 million in 2002. Net loss per common share decreased to $1.13 in 2003 from $1.14 in 2002.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations from inception primarily through sales of common and preferred stock, contract and milestone payments to us under our drug discovery alliance, target validation, database subscription, and license agreements, equipment financing arrangements and leasing arrangements. From our inception through December 31, 2004, we had received net proceeds of $294.8 million from issuances of common and preferred stock, including $203.2 million of net proceeds from the initial public offering of our common stock in April 2000 and $50.1 million from our July 2003 common stock offering. In addition, from our inception through December 31, 2004, we received $224.0 million in cash payments from drug discovery alliances, target validation collaborations,

database subscription and technology license fees, sales of compound libraries and reagents and government grants, of which $193.1 million had been recognized as revenues through December 31, 2004.

As of December 31, 2004, we had $87.6 million in cash, cash equivalents and short-term investments (including $0.4 million of restricted investments), as compared to $161.0 million (including $57.5 million of restricted cash and investments) as of December 31, 2003. We used cash of $42.3 million in operations in 2004. This consisted primarily of the net loss for the year of $47.2 million offset by non-cash charges of $10.8 million related to depreciation expense, $1.2 million related to amortization of intangible assets other than goodwill and $0.8 million related to stock-based compensation expense; a $10.1 million decrease in deferred revenue; and changes in other operating assets and liabilities of $2.1 million. Investing activities provided cash of $40.5 million, primarily due to net sales of short-term investments of $37.8 million. Additionally, restricted cash decreased by $14.4 million as a result of the April 2004 refinancing of our synthetic lease with a conventional mortgage loan (discussed in the following paragraph), which resulted in the elimination of all restricted cash and investments that had secured our obligations under the synthetic lease. This was offset by purchases of property and equipment of $11.8 million. We used cash of $19.5 million in financing activities. This consisted of the repayment of $54.8 million in obligations under the synthetic lease and principal repayments of $0.4 million on the mortgage loan, offset by cash proceeds of $34.0 million from the mortgage loan and $1.7 million from stock option exercises.

In April 2004, we purchased our facilities in The Woodlands, Texas from the lessor under our previous synthetic lease agreement. In connection with such purchase, we repaid the $54.8 million funded under the synthetic lease with proceeds from a $34.0 million third-party mortgage financing and $20.8 million in cash. The mortgage loan has a ten-year term with a 20 year amortization and bears interest at a fixed rate of 8.23%. As a result of the refinancing, all restrictions on the cash and investments that had secured our obligations under the synthetic lease were eliminated, leaving a total of $0.4 million in restricted investments related to our New Jersey facility.

In May 2002, our subsidiary Lexicon Pharmaceuticals (New Jersey), Inc. entered into a lease for a 76,000 square-foot facility in Hopewell, New Jersey. The term of the lease extends until June 30, 2013. The lease provides for an escalating yearly base rent payment of $1.3 million in the first year, $2.1 million in years two and three, $2.2 million in years four to six, $2.3 million in years seven to nine and $2.4 million in years ten and eleven. We are the guarantor of the obligations of our subsidiary under the lease.

In December 2002, we borrowed $4.0 million under a note agreement with Genentech. The proceeds of the loan are to be used to fund research efforts under our alliance with Genentech for the discovery of therapeutic proteins and antibody targets. The note matures on or before December 31, 2005, but we may prepay it at any time. We may repay the note, at our option, in cash, in shares of our common stock valued at the then-current market value, or in a combination of cash and shares, subject to certain limitations. The note accrues interest at an annual rate of 8%, compounded quarterly.

Including the lease and debt obligations described above, we had incurred the following contractual obligations as of December 31, 2004:

	PAYMENTS DUE BY PERIOD (IN MILLIONS)				
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Debt	$ 37.6	$ 4.7	$ 1.6	$ 1.8	$ 29.5
Interest payment obligations	24.1	3.8	5.4	5.1	9.8
Operating leases	20.3	2.2	4.6	4.8	8.7
Total	$ 82.0	$ 10.7	$ 11.6	$ 11.7	$ 48.0

Our future capital requirements will be substantial and will depend on many factors, including our ability to obtain alliance, collaboration and technology license agreements, the amount and timing of payments under such agreements, the level and timing of our research and development expenditures, market acceptance of our products, the resources we devote to developing and supporting our products and other factors. Our capital requirements will also be affected by any expenditures we make in connection with license agreements and acquisitions of and investments in complementary technologies and businesses. We expect to devote substantial capital resources to continue our research and development efforts, to expand our support and product development activities, and for other general corporate activities. We believe that our current unrestricted cash and investment balances and revenues we expect to derive from drug discovery alliances, target validation collaborations and technology licenses

will be sufficient to fund our operations at least through the next two years. During or after this period, if cash generated by operations is insufficient to satisfy our liquidity requirements, we will need to sell additional equity or debt securities or obtain additional credit arrangements. Additional financing may not be available on terms acceptable to us or at all. The sale of additional equity or convertible debt securities may result in additional dilution to our stockholders.

DISCLOSURE ABOUT MARKET RISK

We are exposed to limited market and credit risk on our cash equivalents which have maturities of three months or less. We maintain a short-term investment portfolio which consists of U.S. government agency debt obligations, investment grade commercial paper, corporate debt securities and certificates of deposit that mature three to twelve months from the time of purchase and auction rate securities that mature greater than twelve months from the time of purchase, which we believe are subject to limited market and credit risk. We currently do not hedge interest rate exposure or hold any derivative financial instruments in our investment portfolio.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Disclosure about Market Risk" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for quantitative and qualitative disclosures about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item are incorporated under Item 15 in Part IV of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are sufficiently effective to ensure that the information required to be disclosed by us in the reports we file under the Securities Exchange Act is gathered, analyzed and disclosed with adequate timeliness, accuracy and completeness, based on an evaluation of such controls and procedures as of the end of the period covered by this report.

Subsequent to our evaluation, there were no significant changes in internal controls or other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework.

Based on such assessment using those criteria, management believes that, as of December 31, 2004, our internal control over financial reporting is effective.

Our independent auditors have issued an audit report on our assessment of our internal control over financial reporting which appears on page F-2 and is incorporated under Item 15 in Part IV of this report.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item as to our directors and executive officers is hereby incorporated by reference from the information appearing under the captions "Stock Ownership of Certain Beneficial Owners and Management - - Section 16(a) Beneficial Ownership Reporting Compliance," "Election of Directors" and "Executive Compensation - Executive Officers" in our definitive proxy statement which involves the election of directors and is to be filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 within 120 days of the end of our fiscal year on December 31, 2004.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item as to our management is hereby incorporated by reference from the information appearing under the captions "Executive Compensation" and "Election of Directors - Director Compensation" in our definitive proxy statement which involves the election of directors and is to be filed with the Commission pursuant to the Securities Exchange Act of 1934 within 120 days of the end of our fiscal year on December 31, 2004. Notwithstanding the foregoing, in accordance with the instructions to Item 402 of Regulation S-K, the information contained in our proxy statement under the sub-heading "Report of the Compensation Committee of the Board of Directors" and "Performance Graph" shall not be deemed to be filed as part of or incorporated by reference into this annual report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item as to the ownership by management and others of our securities is hereby incorporated by reference from the information appearing under the captions "Stock Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our definitive proxy statement which involves the election of directors and is to be filed with the Commission pursuant to the Securities Exchange Act of 1934 within 120 days of the end of our fiscal year on December 31, 2004.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item as to certain business relationships and transactions with our management and other related parties is hereby incorporated by reference from the information appearing under the captions "Election of Directors - Director Compensation" and "Election of Directors - Compensation Committee Interlocks and Insider Participation" in our definitive proxy statement which involves the election of directors and is to be filed with the Commission pursuant to the Securities Exchange Act of 1934 within 120 days of the end of our fiscal year on December 31, 2004.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item as to the fees we pay our principal accountant is hereby incorporated by reference from the information appearing under the caption "Ratification and Approval of Independent Auditors - Compensation of Independent Auditors" in our definitive proxy statement which involves the election of directors and is to be filed with the Commission pursuant to the Securities Exchange Act of 1934 within 120 days of the end of our fiscal year on December 31, 2004.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Consolidated Financial Statements

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

2. Exhibits

EXHIBIT NO.	DESCRIPTION
3.1 --	Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
3.2 --	Restated Bylaws (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
4.1 --	Amended and Restated Registration Rights Agreement, dated May 7, 1998, with the stockholders named therein (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-3 (Registration No. 333-67294) and incorporated by reference herein).
10.1 --	Employment Agreement with Arthur T. Sands, M.D., Ph.D. (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.2 --	Employment Agreement with James R. Piggott, Ph.D. (filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.3 --	Employment Agreement with Jeffrey L. Wade, J.D. (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.4 --	Employment Agreement with Brian P. Zambrowicz, Ph.D. (filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.5 --	Employment Agreement with Julia P. Gregory (filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.6 --	Employment Agreement with Alan Main, Ph.D. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001 and incorporated by reference herein).

EXHIBIT NO.	DESCRIPTION

10.7 -- Consulting Agreement with Alan S. Nies, M.D. dated February 19, 2003, as amended (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2004 and incorporated by reference herein).

10.8 -- Consulting Agreement with Robert J. Lefkowitz, M.D. dated March 31, 2003 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003 and incorporated by reference herein).

10.9 -- Form of Indemnification Agreement with Officers and Directors (filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).

*10.10 -- 2000 Equity Incentive Plan

10.11 -- 2000 Non-Employee Directors' Stock Option Plan (filed as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).

10.12 -- Coelacanth Corporation 1999 Stock Option Plan (filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (Registration No. 333-66380) and incorporated by reference herein).

10.13 -- Form of Stock Option Agreement with Officers under the 2000 Equity Incentive Plan (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004 and incorporated by reference herein).

10.14 -- Form of Stock Option Agreement with Directors under the 2000 Non-Employee Directors' Stock Option Plan (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004 and incorporated by reference herein).

+10.15 -- Amended and Restated Collaboration and License Agreement, dated November 19, 2003, with Genentech, Inc. (filed as Exhibit 10.14 to the amendment to the Company's Annual Report on Form 10-K/A for the period ended December 31, 2003, as filed on July 16, 2004, and incorporated by reference herein).

+10.16 -- Collaboration and License Agreement, dated December 17, 2003, with Bristol-Myers Squibb Company (filed as Exhibit 10.15 to the amendment to the Company's Annual Report on Form 10-K/A for the period ended December 31, 2003, as filed on July 16, 2004, and incorporated by reference herein).

+10.17 -- Collaboration Agreement, dated July 27, 2004, with Takeda Pharmaceutical Company Limited (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004 and incorporated by reference herein).

*10.18 -- Loan and Security Agreement, dated April 21, 2004, between Lex-Gen Woodlands, L.P. and iStar Financial Inc.

10.19 -- Lease Agreement, dated May 23, 2002, between Lexicon Pharmaceuticals (New Jersey), Inc. and Townsend Property Trust Limited Partnership (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002 and incorporated by reference herein).

*21.1 -- Subsidiaries

*23.1 -- Consent of Independent Registered Public Accounting Firm

*24.1 -- Power of Attorney (contained in signature page)

*31.1 -- Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

*31.2 -- Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

EXHIBIT NO.	DESCRIPTION
*32.1 --	Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Filed herewith.

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

SIGNATURES

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

LEXICON GENETICS INCORPORATED

Date: March 11, 2005 By: /s/ ARTHUR T. SANDS

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

Date: March 11, 2005 By: /s/ JULIA P. GREGORY

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Julia P. Gregory and Jeffrey L. Wade, or either of them, each with the power of substitution, his or her attorney-in-fact, to sign any amendments to this Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, here ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

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

SIGNATURE	TITLE	DATE
/s/ ARTHUR T. SANDS Arthur T. Sands, M.D., Ph.D.	President and Chief Executive Officer (Principal Executive Officer)	March 11, 2005
/s/ JULIA P. GREGORY Julia P. Gregory	Executive Vice President, Corporate Development and Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2005
/s/ C. THOMAS CASKEY C. Thomas Caskey, M.D.	Chairman of the Board of Directors	March 11, 2005
/s/ SAM L. BARKER Sam L. Barker, Ph.D.	Director	March 11, 2005
/s/ PATRICIA M. CLOHERTY Patricia M. Cloherty	Director	March 11, 2005
/s/ ROBERT J. LEFKOWITZ Robert J. Lefkowitz, M.D.	Director	March 11, 2005
/s/ ALAN S. NIES Alan S. Nies, M.D.	Director	March 11, 2005
/s/ FRANK PALANTONI Frank Palantoni	Director	March 11, 2005
/s/ CLAYTON S. ROSE Clayton S. Rose	Director	March 11, 2005

REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Lexicon Genetics Incorporated and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lexicon Genetics Incorporated and subsidiaries as of December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lexicon Genetics Incorporated's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas
February 25, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
of Lexicon Genetics Incorporated:

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Lexicon Genetics Incorporated (Lexicon) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Lexicon's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Lexicon Genetics Incorporated maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Lexicon Genetics Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lexicon Genetics Incorporated and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004 of Lexicon Genetics Incorporated and our report dated February 25, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Houston, Texas
February 25, 2005

LEXICON GENETICS INCORPORATED

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PAR VALUE)

	AS OF DECEMBER 31,	
	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,612	$ 35,856
Restricted cash	--	14,372
Short-term investments, including restricted investments of $430 and $43,142, respectively	72,946	110,773
Accounts receivable, net of allowances of $75 and $109, respectively	5,345	6,571
Other receivables	1,052	--
Prepaid expenses and other current assets	4,793	3,933
Total current assets	98,748	171,505
Property and equipment, net of accumulated depreciation and amortization of $41,892 and $31,941, respectively	84,573	83,676
Goodwill	25,798	25,798
Intangible assets, net of amortization of $4,160 and $2,960, respectively	1,840	3,040
Other assets	1,021	180
Total assets	$ 211,980	$ 284,199
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,574	$ 5,884
Accrued liabilities	6,945	4,757
Current portion of deferred revenue	19,500	21,125
Current portion of long-term debt	4,691	--
Total current liabilities	38,710	31,766
Deferred revenue, net of current portion	18,092	26,567
Long-term debt	32,940	56,344
Other long-term liabilities	644	3,306
Total liabilities	90,386	117,983
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000 shares authorized; no shares issued and outstanding	--	--
Common stock, $.001 par value; 120,000 shares authorized; 63,491 and 62,827 shares issued and outstanding, respectively	63	63
Additional paid-in capital	382,666	380,995
Deferred stock compensation	(20)	(899)
Accumulated deficit	(261,115)	(213,943)
Total stockholders' equity	121,594	166,216
Total liabilities and stockholders' equity	$ 211,980	$ 284,199

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

LEXICON GENETICS INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
Revenues:			
Subscription and license fees	$ 12,004	$ 21,550	$ 17,871
Collaborative research	49,736	21,242	17,088
Other	--	46	241
Total revenues	61,740	42,838	35,200
Operating expenses:			
Research and development, including stock-based compensation of $426, $5,048, and $5,155, respectively	90,586	82,198	74,859
General and administrative, including stock-based compensation of $412, $5,067, and $5,113, respectively	18,608	23,233	23,234
Total operating expenses	109,194	105,431	98,093
Loss from operations	(47,454)	(62,593)	(62,893)
Interest income	1,638	1,555	3,003
Interest expense	(2,660)	(325)	(7)
Other income, net	1,304	241	227
Net loss before cumulative effect of a change in accounting principle	(47,172)	(61,122)	(59,670)
Cumulative effect of a change in accounting principle	--	(3,076)	--
Net loss	$ (47,172)	$ (64,198)	$ (59,670)
Net loss per common share basic and diluted:			
Net loss before cumulative effect of a change in accounting principle	$ (0.74)	$ (1.08)	$ (1.14)
Cumulative effect of a change in accounting principle	--	(0.05)	--
Net loss per common share, basic and diluted	$ (0.74)	$ (1.13)	$ (1.14)
Shares used in computing net loss per common share, basic and diluted	63,327	56,820	52,263

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

LEXICON GENETICS INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED STOCK	ACCUMULATED	ACCUMULATED OTHER COMPREHENSIVE	TOTAL STOCKHOLDERS'
	SHARES	PAR VALUE	CAPITAL	COMPENSATION	DEFICIT	LOSS	EQUITY
Balance at December 31, 2001	52,022	$52	$331,092	$(22,260)	$(90,075)	$(437)	$218,372
Deferred stock compensation, net of reversals	--	--	(985)	985	--	--	--
Issuance of restricted stock	18	--	99	(99)	--	--	--
Amortization of deferred stock compensation	--	--	--	10,268	--	--	10,268
Cancellation of equity securities in connection with acquisition	(7)	--	(79)	--	--	--	(79)
Exercise of common stock options	330	--	574	--	--	--	574
Exercise of common stock warrants	4	--	--	--	--	--	--
Net loss	--	--	--	--	(59,670)	--	(59,670)
Reversal of unrealized loss on sale of long-term investments	--	--	--	--	--	437	437
Comprehensive loss	--	--	--	--	--	--	(59,233)
Balance at December 31, 2002	52,367	52	330,701	(11,106)	(149,745)	--	169,902
Deferred stock compensation, net of reversals	--	--	(92)	92	--	--	--
Amortization of deferred stock compensation	--	--	--	10,115	--	--	10,115
Public offering of common stock, net of offering costs	10,240	10	50,147	--	--	--	50,157
Exercise of common stock options	102	1	239	--	--	--	240
Exercise of common stock warrants	118	--	--	--	--	--	--
Net and comprehensive loss	--	--	--	--	(64,198)	--	(64,198)
Balance at December 31, 2003	62,827	63	380,995	(899)	(213,943)	--	166,216
Deferred stock compensation, net of reversals	--	--	(41)	41	--	--	--
Amortization of deferred stock compensation	--	--	--	838	--	--	838
Exercise of common stock options	664	--	1,712	--	--	--	1,712
Net and comprehensive loss	--	--	--	--	(47,172)	--	(47,172)
Balance at December 31, 2004	63,491	$63	$ 382,666	$ (20)	$(261,115)	$ --	$ 121,594

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

LEXICON GENETICS INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (47,172)	$ (64,198)	$ (59,670)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	10,834	10,215	9,111
Amortization of intangible assets, other than goodwill	1,200	1,200	1,200
Amortization of deferred stock compensation	838	10,115	10,268
Loss on sale of long-term investments	--	--	197
Gain on disposal of property and equipment	(11)	(18)	--
Cumulative effect of a change in accounting principle	--	3,076	--
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	174	(1,428)	(599)
(Increase) decrease in prepaid expenses and other current assets	(860)	960	484
(Increase) decrease in other assets	(841)	1,060	3,965
Increase in accounts payable and other liabilities	3,682	2,257	700
Increase (decrease) in deferred revenue	(10,100)	29,045	5,552
Net cash used in operating activities	(42,256)	(7,716)	(28,792)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(11,811)	(4,824)	(19,766)
Proceeds from disposal of property and equipment	91	48	--
(Increase) decrease in restricted cash	14,372	15,115	(22,794)
Purchase of short-term investments	(178,355)	(212,869)	(107,603)
Sale of short-term investments	216,182	170,939	172,154
Sale of long-term investments	--	--	10,638
Net cash provided by (used in) investing activities	40,479	(31,591)	32,629
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	1,712	50,397	574
Proceeds from debt borrowings	34,000	--	4,000
Repayment of debt borrowings	(52,713)	--	--
Repayment of other long-term liabilities	(2,466)	--	--
Net cash provided by (used in) financing activities	(19,467)	50,397	4,574
Net increase (decrease) in cash and cash equivalents	(21,244)	11,090	8,411
Cash and cash equivalents at beginning of year	35,856	24,766	16,355
Cash and cash equivalents at end of year	$ 14,612	$ 35,856	$ 24,766
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 1,985	$ 4	$ 7
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Reversal of unrealized loss on long-term investments	$ --	$ --	$ 437
Cancellation of equity securities in connection with acquisition	$ --	$ --	$ (79)
Deferred stock compensation, net of reversals	$ 41	$ 92	$ 886
Retirement of property and equipment	$ 963	$ 1,148	$ 90
Property and equipment recorded in connection with consolidation of variable interest entity	$ --	$ 54,811	$ --
Long-term debt recorded in connection with consolidation of variable interest entity	$ --	$ (52,344)	$ --
Other long-term liabilities recorded in connection with consolidation of variable interest entity	$ --	$ (2,467)	$ --

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

LEXICON GENETICS INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

1. ORGANIZATION AND OPERATIONS

Lexicon Genetics Incorporated (Lexicon or the Company) is a Delaware corporation incorporated on July 7, 1995. Lexicon was organized to discover the functions and pharmaceutical utility of genes and use those gene function discoveries in the discovery and development of pharmaceutical products for the treatment of human disease.

Lexicon has financed its operations from inception primarily through sales of common and preferred stock, contract and milestone payments received under database subscription and collaboration agreements, technology licenses, equipment financing arrangements and leasing arrangements. The Company's future success is dependent upon many factors, including, but not limited to, its ability to discover and develop pharmaceutical products for the treatment of human disease, discover additional promising candidates for drug discovery and development using its gene knockout technology, establish additional research contracts and agreements for access to its technology, achieve milestones under such contracts and agreements, obtain and enforce patents and other proprietary rights in its discoveries, comply with federal and state regulations, and maintain sufficient capital to fund its activities. As a result of the aforementioned factors and the related uncertainties, there can be no assurance of the Company's future success.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated financial statements include the accounts of Lexicon and its subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

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

Cash, Cash Equivalents and Short-term Investments: Lexicon considers all highly-liquid investments with original maturities of three months or less to be cash equivalents. Short-term investments consist of U.S. government agency debt obligations, investment grade commercial paper, corporate debt securities, certificates of deposit and auction rate securities. Short-term investments are classified as available-for-sale securities and are carried at fair value, based on quoted market prices of the securities. The Company views its available-for-sale securities as available for use in current operations regardless of the stated maturity date of the security. Unrealized gains and losses on such securities, when material, are reported as a separate component of stockholders equity. Net realized gains and losses, interest and dividends are included in interest income. The cost of securities sold is based on the specific identification method.

Restricted Cash and Investments: Lexicon is required to maintain restricted cash or investments to collateralize standby letters of credit for the lease on its office and laboratory facilities in Hopewell, New Jersey (see Note 10). As of December 31, 2004, the Company maintained restricted cash and investments of $0.4 million. As of December 31, 2003, restricted cash and investments were $57.5 million, which collateralized borrowings made under the previous synthetic lease as well as standby letters of credit for the leases on office and laboratory facilities in East Windsor and Hopewell, New Jersey.

Concentration of Credit Risk: Lexicon's cash equivalents, short-term investments and trade accounts receivable represent potential concentrations of credit risk. The Company minimizes potential concentrations of risk in cash equivalents and short-term investments by placing investments in high-quality financial instruments. The Company's accounts receivable are unsecured and are concentrated in pharmaceutical and biotechnology companies located in the United States, Europe and Japan. The Company has not experienced any significant credit losses to date and, at December 31, 2004, management believes that the Company has no significant concentrations of credit risk.

Segment Information and Significant Customers: Lexicon operates in one business segment, which primarily focuses on the discovery of the functions and pharmaceutical utility of genes and the use of those gene function

discoveries in the discovery and development of pharmaceutical products for the treatment of human disease. Substantially all of the Company's revenues have been derived from drug discovery alliances, target validation collaborations for the development and, in some cases, analysis of the physiological effects of genes altered in knockout mice, technology licenses, subscriptions to its databases and compound library sales. In 2004, Bristol-Myers Squibb Company, Genentech, Inc. and Incyte Corporation represented 43%, 26% and 8% of revenues, respectively. In 2003, Incyte, Amgen Inc., Bristol-Myers Squibb and Genentech represented 23%, 15%, 14% and 14% of revenues, respectively. In 2002, Incyte, Bristol-Myers Squibb and Millennium Pharmaceuticals, Inc. represented 28%, 14% and 11% of revenues, respectively.

Property and Equipment: Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful life of the assets which ranges from three to 40 years. Maintenance, repairs and minor replacements are charged to expense as incurred. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining lease term. Significant renewals and betterments are capitalized.

Impairment of Long-Lived Assets: Under Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the assets, the assets are written down to their estimated fair values.

Goodwill Impairment: Under SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized, but is tested at least annually for impairment at the reporting unit level. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The first step in the impairment process is to determine the fair value of the reporting unit and then compare it to the carrying value, including goodwill. If the fair value exceeds the carrying value, no further action is required and no impairment loss is recognized. Additional impairment assessments may be performed on an interim basis if the Company encounters events or changes in circumstances that would indicate that, more likely than not, the carrying value of goodwill has been impaired. There was no impairment of goodwill in 2004.

Revenue Recognition: Revenues are recognized under Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition," when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable and collectibility is reasonably assured. Payments received in advance under these arrangements are recorded as deferred revenue until earned. Revenues are earned from drug discovery alliances, database subscriptions, target validation collaborations for the development and, in some cases, analysis of the physiological effects of genes altered in knockout mice, technology licenses, government grants and compound library sales.

Upfront fees and annual research funding under our drug discovery alliances are recognized as revenue on a straight line basis over the estimated period of service, generally the contractual research term, to the extent they are non-refundable. Milestone-based fees are recognized upon completion of specified milestones according to contract terms. Fees for access to databases and other target validation resources are recognized ratably over the subscription or access period. Payments received under target validation collaborations and government grants are recognized as revenue as Lexicon performs its obligations related to such research to the extent such fees are non-refundable. Non-refundable technology license fees are recognized as revenue upon the grant of the license when performance is complete and there is no continuing involvement. Compound library sales are recognized as revenue upon shipment.

Revenues recognized from multiple element contracts are allocated to each element of the arrangement based on the relative fair values of the elements. The determination of fair value of each element is based on objective evidence. When revenues for an element are specifically tied to a separate earnings process, revenue is recognized when the specific performance obligation associated with the element is completed. When revenues for an element are not specifically tied to a separate earnings process, they are recognized ratably over the term of the agreement.

Research and Development Expenses: Research and development expenses consist of costs incurred for company-sponsored as well as collaborative research and development activities. These costs include direct and research-related overhead expenses and are expensed as incurred. Patent costs and technology license fees for

technologies that are utilized in research and development and have no alternative future use are expensed when incurred.

Stock-Based Compensation: As further discussed in Note 12, Lexicon has three stock-based compensation plans, which are accounted for under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees, and Related Interpretations." Under the intrinsic value method described in APB Opinion No. 25, no compensation expense is recognized if the exercise price of the employee stock option equals the market price of the underlying stock on the date of grant. Lexicon recognized $0.8 million, $10.1 million and $10.3 million of stock-based compensation during 2004, 2003 and 2002, respectively, which was primarily related to option grants made prior to Lexicon's April 2000 initial public offering. The following table illustrates the effect on net loss and net loss per share if the fair value recognition provisions of SFAS No. 123, "Accounting for Stock Based Compensation," had been applied to all outstanding and unvested awards in each period:

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	(IN THOUSANDS)		
Net loss, as reported	$(47,172)	$(64,198)	$(59,670)
Add: Stock-based employee compensation expense included in reported net loss	838	10,115	10,268
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(16,189)	(26,344)	(25,913)
Pro forma net loss	$(62,523)	$(80,427)	$(75,315)
Net loss per common share, basic and diluted			
As reported	$ (0.74)	$ (1.13)	$ (1.14)
Pro forma	$ (0.99)	$ (1.42)	$ (1.44)

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

Comprehensive Loss: Comprehensive loss is comprised of net loss and unrealized gains and losses on available-for-sale securities. Comprehensive loss is reflected in the consolidated statements of stockholders' equity. There were no unrealized gains or losses as of December 31, 2004 and 2003. During 2002, Lexicon sold its long-term investment for $10.6 million, resulting in a realized loss of $197,000 reflected in its net loss for the year.

3. RECENT ACCOUNTING PRONOUNCEMENT

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123 (Revised) "Share-Based Payment." The statement eliminates the ability to account for stock-based compensation using APB 25 and requires such transactions be recognized as compensation expense in the income statement based on their fair values on the date of the grant, with the compensation expense recognized over the period in which an employee is required to provide service in exchange for the stock award. The Company will adopt this statement on July 1, 2005 using a modified prospective application. As such, the compensation expense recognition provisions will apply to new awards and to any awards modified, repurchased or cancelled after the adoption date. Additionally, for any unvested awards outstanding at the adoption date, the Company will recognize compensation expense over the remaining vesting period. The Company is currently evaluating the impact of SFAS 123 (Revised) on its financial condition and results of operation. However, if the Company continues to use a Black-Scholes option pricing model consistent with its current practice, the adoption of SFAS 123 (Revised) on July 1, 2005 is estimated to result in additional compensation expense of approximately $4.0 million for the year ended December 31, 2005 related to options granted as of December 31, 2004 that will be unvested on the date of adoption. Grants awarded subsequent to December 31, 2004 will result in increased compensation expense.

4. RECLASSIFICATION

In the accompanying consolidated balance sheet as of December 31, 2003, Lexicon has reclassified $46.1 million of auction rate securities from cash equivalents to short-term investments and $42.6 million from restricted cash to

short-term investments. The accompanying consolidated statements of cash flow for the years ended December 31, 2003 and 2002 have been adjusted to reflect this reclassification.

5. SHORT-TERM INVESTMENTS

The fair value of securities held at December 31, 2004 and 2003 are as follows:

	AS OF DECEMBER 31	
	2004	2003
	(IN THOUSANDS)	
Securities maturing within one year:		
Certificates of Deposit	$ 565	$ 561
U.S. government agencies	2,499	3,500
Corporate debt securities	25,832	16,572
Auction rate securities	1,000	--
Commercial paper	--	1,490
Total securities maturing within one year	29,896	22,123
Securities maturing after one year through five years:		
Auction rate securities	7,450	22,350
Securities maturing after ten years:		
Auction rate securities	35,600	66,300
Total available-for-sale investments	$72,946	$110,773

There were no unrealized gains or losses as of December 31, 2004 and 2003. Realized losses were $0, $0, and $197,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

6. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 and 2003 are as follows:

	ESTIMATED USEFUL LIVES IN YEARS	AS OF DECEMBER 31,	
		2004	2003
		(IN THOUSANDS)	
Computers and software	3-5	$ 12,522	$ 11,519
Furniture and fixtures	5-7	7,538	7,676
Laboratory equipment	3-7	33,764	29,847
Leasehold improvements	3-10	7,764	11,765
Buildings	15-40	61,313	51,246
Land	--	3,564	3,564
Total property and equipment		126,465	115,617
Less: Accumulated depreciation and amortization		(41,892)	(31,941)
Net property and equipment		$ 84,573	$ 83,676

7. INCOME TAXES

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

The components of Lexicon's deferred tax assets (liabilities) at December 31, 2004 and 2003 are as follows:

	AS OF DECEMBER 31,	
	2004	2003
	(IN THOUSANDS)	
Deferred tax assets:		
Net operating loss carryforwards ...	$ 66,767	$ 46,130
Research and development tax credits.....	8,597	8,105
Stock-based compensation	7,206	7,468
Deferred revenue	13,149	16,685
Other	2,121	1,628
Total deferred tax assets	97,840	80,016
Deferred tax liabilities:		
Property and equipment	(1,502)	(1,643)
Other	(139)	(59)
Total deferred tax liabilities ...	(1,641)	(1,702)
Less: Valuation allowance	(96,199)	(78,314)
Net deferred tax assets	$ --	$ --

At December 31, 2004, Lexicon had net operating loss carryforwards of approximately $190.8 million and research and development tax credit carryforwards of approximately $8.6 million available to reduce future income taxes. These carryforwards will begin to expire in 2011. A change in ownership, as defined by federal income tax regulations, could significantly limit the Company's ability to utilize its carryforwards. Based on the federal tax law limits and the Company's cumulative loss position, Lexicon concluded it was appropriate to establish a full valuation allowance for its net deferred tax assets until an appropriate level of profitability is sustained. During 2004, the valuation allowance increased $17.9 million primarily due to the Company's current year net loss.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

On July 12, 2001, Lexicon completed the acquisition of Coelacanth Corporation in a merger. Coelacanth, now Lexicon Pharmaceuticals (New Jersey), Inc., forms the core of Lexicon Pharmaceuticals, the division of the Company responsible for small molecule compound discovery. The results of Lexicon Pharmaceuticals (New Jersey), Inc. are included in the Company's results of operations for the period subsequent to the acquisition.

Goodwill, associated with the acquisition, of $25.8 million, which represents the excess of the $36.0 million purchase price over the fair value of the underlying net identifiable assets, was assigned to the consolidated entity, Lexicon. There was no change in the carrying amount of goodwill for the year ended December 31, 2004. In accordance with SFAS No. 142, the goodwill balance is not subject to amortization, but is tested at least annually for impairment at the reporting unit level, which is the Company's single operating segment. The Company performed an impairment test of goodwill on its annual impairment assessment date. This test did not result in an impairment of goodwill.

Other intangible assets represent Coelacanth's technology platform, which consists of its proprietary ClickChem(TM) reactions, novel building blocks and compound sets, automated production systems, high throughput ADMET (Absorption, Distribution, Metabolism, Excretion and Toxicity) capabilities and its know-how and trade secrets. The Company amortizes other intangible assets on a straight-line basis over an estimated life of five years.

The amortization expense for the year ended December 31, 2004 was $1.2 million. The estimated remaining amortization expense is as follows:

FOR THE YEAR ENDING DECEMBER 31	
	(IN THOUSANDS)
2005.....	$ 1,200
2006.....	640

9. DEBT OBLIGATIONS

Genentech Loan: On December 31, 2002, Lexicon borrowed $4.0 million under a note agreement with Genentech, Inc. The proceeds of the loan are to be used to fund research efforts under the alliance agreement with Genentech

discussed in Note 14. The note matures on December 31, 2005, but the Company may prepay it at any time. The Company may repay the note, at its option, in cash, in shares of common stock valued at the then-current market price, or in a combination of cash and shares, subject to certain limitations. The note accrues interest at an annual rate of 8%, compounded quarterly.

Mortgage Loan: In October 2000, Lexicon entered into a synthetic lease agreement under which the lessor purchased the Company's existing laboratory and office buildings and animal facility in The Woodlands, Texas and agreed to fund the construction of additional facilities. Including the purchase price for the Company's existing facilities, the synthetic lease, as amended, provided funding of $54.8 million in property and improvements and required that the Company maintain restricted cash or investments to collateralize these borrowings. Lexicon adopted Financial Accounting Standards Board Interpretation No. 46, or FIN 46, "Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51" on December 31, 2003. Lexicon determined that the lessor under the synthetic lease was a variable interest entity as defined by FIN 46, and that the Company absorbed a majority of the variable interest entity's expected losses. Accordingly, the Company consolidated the variable interest entity. In April 2004, Lexicon purchased the facilities subject to the synthetic lease, repaying the $54.8 million funded under the synthetic lease with proceeds from a $34.0 million third-party mortgage financing and $20.8 million in cash. The mortgage loan has a ten-year term with a 20-year amortization and bears interest at a fixed rate of 8.23%. As a result of the refinancing, all restrictions on the cash and investments that had secured the obligations under the synthetic lease were eliminated. The buildings and land that serve as collateral for the mortgage loan are included in property and equipment at $61.3 million and $3.6 million, respectively, before accumulated depreciation.

The following table includes the aggregate future principal payments of the Company's long-term debt as of December 31, 2004:

	FOR THE YEAR ENDING DECEMBER 31 (IN THOUSANDS)
2005	$ 4,691
2006	751
2007	816
2008	880
2009	964
Thereafter	29,529
	37,631
Less current portion	(4,691)
Total long-term debt	$ 32,940

The fair value of Lexicon's debt financial instruments approximates their carrying value.

10. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligation: A Lexicon subsidiary leases laboratory and office space in Hopewell, New Jersey under an agreement that expires in June 2013. The lease provides for two five year renewal options at 95% of the fair market rent. Lexicon is the guarantor of the obligation of its subsidiary under this lease. The Company is required to maintain restricted investments to collateralize a standby letter of credit for this lease. As of December 31, 2004, the Company had $0.4 million in restricted investments as collateral. Lexicon's subsidiary had also leased a facility in East Windsor, New Jersey through January 2004. As of December 31, 2003, the Company had $0.5 million in restricted investments to collateralize standby letters of credit under both the Hopewell and East Windsor leases. Additionally, Lexicon leases certain equipment under operating leases.

Rent expense for all operating leases was approximately $2.3 million, $3.7 million, and $2.8 million for the years ended December 31, 2004, 2003 and 2002, respectively. These amounts included rent expense related to the synthetic lease in 2003 and 2002. Payments under the synthetic lease made subsequent to the consolidation of the lessor under the lease on December 31, 2003 are reflected in interest expense rather than rent expense as are the interest payments made under the mortgage loan used to purchase the facilities funded under the synthetic lease in April 2004. The following table includes non-cancelable, escalating future lease payments for the facility in New Jersey:

	FOR THE YEAR ENDING DECEMBER 31 (IN THOUSANDS)
2005	$ 2,230
2006	2,287
2007	2,287
2008	2,347
2009	2,408
Thereafter	8,687
Total	$ 20,246

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

11. CAPITAL STOCK

Common Stock: In July 2003, Lexicon completed the public offering and sale of 10.0 million shares of its common stock at a price of $5.25 per share. In August 2003, the underwriters partially exercised their over-allotment option, purchasing an additional 240,000 shares. The total net proceeds from the offering was $50.1 million, after deducting underwriting discounts of $3.2 million and offering expenses of $0.4 million.

12. STOCK OPTIONS AND WARRANTS

Stock Options

2000 Equity Incentive Plan: In September 1995, Lexicon adopted the 1995 Stock Option Plan, which was subsequently amended and restated in February 2000 as the 2000 Equity Incentive Plan (the "Equity Incentive Plan"). The Equity Incentive Plan will terminate in 2010 unless the Board of Directors terminates it sooner. The Equity Incentive Plan provides that it will be administered by the Board of Directors, or a committee appointed by the Board of Directors, which determines recipients and types of options to be granted, including number of shares under the option and the exercisability of the shares. The Equity Incentive Plan is presently administered by the Compensation Committee of the Board of Directors.

The Equity Incentive Plan provides for the grant of incentive stock options to employees and nonstatutory stock options to employees, directors and consultants of the Company. The plan also permits the grant of stock bonuses and restricted stock purchase awards. Incentive stock options have an exercise price of 100% or more of the fair market value of our common stock on the date of grant. Nonstatutory stock options may have an exercise price as low as 85% of fair market value on the date of grant. The purchase price of other stock awards may not be less than 85% of fair market value. However, the plan administrator may award bonuses in consideration of past services without a purchase payment. Shares may be subject to a repurchase option in the discretion of the plan administrator.

The Board of Directors initially authorized and reserved an aggregate of 11,250,000 shares of common stock for issuance under the Equity Incentive Plan. On January 1 of each year for ten years, beginning in 2001, the number of shares reserved for issuance under the Equity Incentive Plan automatically will be increased by the greater of:

- 5% of Lexicon's outstanding shares on a fully-diluted basis; or
- that number of shares that could be issued under awards granted under the Equity Incentive Plan during the prior 12-month period;

provided that the Board of Directors may provide for a lesser increase in the number of shares reserved under the Equity Incentive Plan for any year. The total number of shares reserved in the aggregate may not exceed 60,000,000 shares over the ten-year period.

As of December 31, 2004, an aggregate of 17,000,000 shares of common stock had been reserved for issuance, options to purchase 13,026,084 shares were outstanding and 2,455,846 shares had been issued upon the exercise of stock options issued under the Equity Incentive Plan.

2000 Non-Employee Directors' Stock Option Plan: In February 2000, Lexicon adopted the 2000 Non-Employee Directors' Stock Option Plan (the "Directors' Plan") to provide for the automatic grant of options to purchase shares of common stock to non-employee directors of the Company. Under the Directors' Plan, non-employee directors first elected after the closing of the Company's initial public offering receive an initial option to purchase 30,000 shares of common stock. In addition, on the day following each of the Company's annual meetings of stockholders, beginning with the annual meeting in 2001, each non-employee director who has been a director for at least six months is automatically granted an option to purchase 6,000 shares of common stock. Initial option grants become vested and exercisable over a period of five years and annual option grants become vested over a period of 12 months from the date of grant. Options granted under the Directors' Plan have an exercise price equal to the fair market value of the Company's common stock on the date of grant and term of ten years from the date of grant.

The Board of Directors initially authorized and reserved a total of 600,000 shares of its common stock for issuance under the Directors' Plan. On the day following each annual meeting of Lexicon's stockholders, for 10 years, starting in 2001, the share reserve will automatically be increased by a number of shares equal to the greater of:

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

- that number of shares that could be issued under options granted under the Directors' Plan during the prior 12-month period;

provided that the Board of Directors may provide for a lesser increase in the number of shares reserved under the Directors' Plan for any year.

As of December 31, 2004, an aggregate of 600,000 shares of common stock had been reserved for issuance, options to purchase 198,000 shares were outstanding and no options had been exercised under the Directors' Plan.

Coelacanth Corporation 1999 Stock Option Plan: Lexicon assumed the Coelacanth Corporation 1999 Stock Option Plan (the "Coelacanth Plan") and the outstanding stock options under the plan in connection with our July 2001 acquisition of Coelacanth Corporation. The Company will not grant any further options under the plan. As outstanding options under the plan expire or terminate, the number of shares authorized for issuance under the plan will be correspondingly reduced.

The purpose of the plan was to provide an opportunity for employees, directors and consultants of Coelacanth to acquire a proprietary interest, or otherwise increase their proprietary interest, in Coelacanth as an incentive to continue their employment or service. Both incentive and nonstatutory options are outstanding under the plan. Most outstanding options vest over time and expire ten years from the date of grant. The exercise price of options awarded under the plan was determined by the plan administrator at the time of grant. In general, incentive stock options have an exercise price of 100% or more of the fair market value of Coelacanth common stock on the date of grant and nonstatutory stock options have an exercise price as low as 85% of fair market value on the date of grant.

As of December 31, 2004, an aggregate of 122,649 shares of common stock had been reserved for issuance, options to purchase 74,821 shares of common stock were outstanding, options to purchase 21,756 shares of common stock had been cancelled and 26,072 shares of common stock had been issued upon the exercise of stock options issued under the Coelacanth Plan.

Stock-Based Compensation: SFAS No. 123, "Accounting for Stock-Based Compensation," allows companies to adopt one of two methods for accounting for stock options. Lexicon has elected the method that requires disclosure only of stock-based compensation. Because of this election, the Company is required to account for its employee stock-based compensation plans under APB Opinion No. 25 and its related interpretations. Accordingly, deferred compensation is recorded for stock-based compensation grants based on the excess of the estimated fair value of the common stock on the measurement date over the exercise price. The deferred compensation is amortized over the vesting period of each unit of stock-based compensation grant, generally four years. If the exercise price of the stock-based compensation grants is equal to the estimated fair value of the Company's stock on the date of grant, no compensation expense is recorded.

During the year ended December 31, 2000, Lexicon recorded $54.1 million in aggregate deferred compensation relating to options issued to employees and non-employee directors prior to our initial public offering. During the years ended December 31, 2004, 2003 and 2002, the Company recognized $0.8 million, $10.1 million and $10.3 million, respectively, in compensation expense relating to these options.

The pro forma information regarding net loss required by SFAS No. 123 has been included in Note 2. The information has been determined as if Lexicon had accounted for its employee stock options under the fair-value method as defined by SFAS No. 123. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of the options using the straight-line method. The fair value of these options was estimated at the date of grant using the Black-Scholes method and the following weighted-average assumptions for 2004, 2003 and 2002:

- volatility factors of 92%, 92% and 100%, respectively;
- risk-free interest rates of 3.69%, 3.40% and 4.64%, respectively;
- expected option lives of seven years;
- three percent expected turnover; and
- no dividends.

Lexicon records the fair value of options issued to non-employee consultants, including Scientific Advisory Panel members, at the fair value of the options issued. The fair values of the issuances were estimated using the Black-Scholes pricing model with the assumptions noted in the preceding paragraph. Any expense is recognized over the service period or at the date of issuance if the options are fully vested and no performance obligation exists.

Stock Option Activity: The following is a summary of option activity under Lexicon's stock option plans:

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS)	
Balance at December 31, 2001	10,103	$ 6.04
Granted	2,200	8.68
Exercised	(330)	1.74
Canceled	(601)	9.70
Balance at December 31, 2002	11,372	6.47
Granted	1,897	4.24
Exercised	(102)	2.34
Canceled	(278)	8.92
Balance at December 31, 2003	12,889	6.12
Granted	1,935	7.40
Exercised	(664)	2.65
Canceled	(861)	10.44
Outstanding at December 31, 2004	13,299	$ 6.20

The weighted average fair values of options granted during the years ended December 31, 2004, 2003 and 2002 were $5.95, $3.52 and $7.32, respectively. As of December 31, 2004, 1,920,070 shares of common stock were available for grant under Lexicon's stock option plans.

Stock Options Outstanding: The following table summarizes information about stock options outstanding at December 31, 2004:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICE	OUTSTANDING AS OF DECEMBER 31 2004	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE AS OF DECEMBER 31, 2004	WEIGHTED AVERAGE EXERCISE PRICE	
	(IN THOUSANDS)			(IN THOUSANDS)		
$0.0003 - $0.22	862	0.9	$ 0.05	862	$ 0.05	
1.67 - 2.50	4,935	4.3	2.40	4,935	2.40	
3.16 - 4.70	1,383	8.1	3.92	638	3.93	
4.76 - 7.12	905	8.7	6.02	283	5.71	
7.15 - 10.55	3,228	7.9	8.55	1,314	9.36	
10.87 - 16.00	1,429	6.3	12.65	1,321	12.69	
16.63 - 22.06	374	5.3	19.66	372	19.66	
25.25 - 31.63	31	5.8	26.68	31	26.88	
38.00 - 38.50	152	5.7	38.49	152	38.49	
	13,299		$ 6.20	9,908	$ 5.96	

Warrants

In July 1998, Lexicon issued a warrant to purchase 249,999 shares of common stock at an exercise price of $2.50 per share, in connection with the grant to the Company of an option to lease additional real property. Amortization of the remaining balance of $155,000 on the lease option was expensed in 2000 upon the Company's completion of a synthetic lease agreement under which the lessor purchased the optioned real property under an arrangement providing for its lease to the Company. The warrant was exercised in 2003 by way of a cashless exercise, resulting in the issuance of a total of 117,784 shares of common stock.

In connection with the acquisition of Coelacanth in July 2001, Lexicon assumed Coelacanth's outstanding warrants to purchase 25,169 shares of common stock. The warrants expire on March 31, 2009. The fair value of the warrants was included in the total purchase price for the acquisition. As of December 31, 2004, warrants to purchase 16,483 shares of common stock, with an exercise price of $11.93 per share, remained outstanding.

Aggregate Shares Reserved for Issuance

As of December 31, 2004 an aggregate of 13,315,388 shares of common stock were reserved for issuance upon exercise of outstanding stock options and warrants and 1,920,070 additional shares were available for future grants under Lexicon's stock option plans.

13. BENEFIT PLANS

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

Lexicon maintains a defined-contribution savings plan under Section 401(k) of the Internal Revenue Code. The plan covers substantially all full-time employees. Participating employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Beginning in 2000, the Company was required to match employee contributions according to a specified formula. The matching contributions totaled approximately $776,000, $637,000, and $645,000, in 2004, 2003 and 2002, respectively. Company contributions are vested based on the employee's years of service, with full vesting after four years of service.

14. COLLABORATION AND LICENSE AGREEMENTS

Lexicon has derived substantially all of its revenues from drug discovery alliances, target validation collaborations for the development and, in some cases, analysis of the physiological effects of genes altered in knockout mice, technology licenses, subscriptions to its databases and compound library sales.

Drug Discovery Alliances

Lexicon has entered into the following alliances for the discovery and development of therapeutics based on its in vivo drug target discovery efforts:

Abgenix, Inc. Lexicon established a drug discovery alliance with Abgenix in July 2000 to discover novel therapeutic antibodies using the Company's target validation technologies and Abgenix's technology for generating fully human monoclonal antibodies. Lexicon and Abgenix expanded and extended the alliance in January 2002, with the intent of accelerating the selection of in vivo-validated antigens for antibody discovery and the development and commercialization of therapeutic antibodies based on those targets. Under the alliance agreement, the Company and Abgenix will each have the right to obtain exclusive commercialization rights, including sublicensing rights, for an equal number of qualifying therapeutic antibodies, and will each receive milestone payments and royalties on sales of therapeutic antibodies from the alliance that are commercialized by the other party or a third party sublicensee. Each party bears its own expenses under the alliance. The expanded alliance also provides us with access to Abgenix's XenoMouse(R) technology for use in some of our own drug discovery programs. The collaboration period under the agreement terminated in July 2004.

Bristol-Myers Squibb Company: Lexicon established an alliance with Bristol-Myers Squibb in December 2003 to discover, develop and commercialize small molecule drugs in the neuroscience field. Lexicon is contributing a number of drug discovery programs at various stages of development. Lexicon will continue to use its gene knockout technology to identify additional drug targets with promise in the neuroscience field. For those targets that are selected for the alliance, Lexicon and Bristol-Myers Squibb will work together, on an exclusive basis, to identify, characterize and carry out the preclinical development of small molecule drugs, and will share equally both in the costs and in the work attributable to those efforts. As drugs resulting from the collaboration enter clinical trials, Bristol-Myers Squibb will have the first option to assume full responsibility for clinical development and commercialization. Lexicon received an upfront payment of $36.0 million and is entitled to receive research funding of $30.0 million in the initial three years of the agreement. Bristol-Myers Squibb has the option to extend the discovery portion of the alliance for an additional two years in exchange for further committed research funding of up to $50.0 million. Lexicon may receive additional cash payments for exceeding specified research productivity levels. Lexicon will also receive clinical and regulatory milestone payments for each drug target for which Bristol-Myers Squibb develops a drug under the alliance. Lexicon will earn royalties on sales of drugs commercialized by Bristol-Myers Squibb. The party with responsibility for the clinical development and commercialization of drugs resulting from the alliance will bear the costs of those efforts. Revenue recognized under this agreement was $21.5 million and $0.8 million for the years ended December 31, 2004 and 2003, respectively.

Genentech, Inc. Lexicon established a drug discovery alliance with Genentech in December 2002 to discover novel therapeutic proteins and antibody targets. Under the alliance agreement, Lexicon will use its target validation technologies to discover the functions of secreted proteins and potential antibody targets identified through Genentech's internal drug discovery research. Genentech will have exclusive rights in the discoveries resulting from the collaboration for the research, development and commercialization of therapeutic proteins and antibodies. Lexicon will retain certain other rights in those discoveries, including rights for the development of small molecule drugs. Lexicon received an upfront payment of $9.0 million and funding under a $4.0 million loan in 2002. The terms of the loan are discussed in Note 9. In addition, Lexicon can earn up to $24.0 million in performance payments for its work in the collaboration as it is completed. Lexicon will also receive milestone payments and royalties on sales of therapeutic proteins and antibodies for which Genentech obtains exclusive rights. The agreement has an expected collaboration term of three years. Total revenue recognized under this agreement was $16.0 million, $6.0 million and $0.1 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Incyte Corporation. Lexicon established a drug discovery alliance with Incyte in June 2001 to discover novel therapeutic proteins using the Company's target validation technologies in the discovery of the functions of secreted proteins from Incyte's LifeSeq(R) Gold database. Under the alliance agreement, the Company and Incyte will each have the right to obtain exclusive commercialization rights, including sublicensing rights, for an equal number of qualifying therapeutic proteins, and will each receive milestone payments and royalties on sales of therapeutic proteins from the alliance that are commercialized by the other party or a third party sublicensee. Lexicon received research funding of $15.0 million under the agreement and recognized revenue of $2.5 million, $5.0 million and $5.0 million for the years ended December 31, 2004, 2003 and 2002, respectively and $2.5 million in a previous year. The collaboration period under the agreement terminated in June 2004.

Takeda Pharmaceutical Company Limited. Lexicon established an alliance with Takeda in July 2004 to discover new drugs for the treatment of high blood pressure. In the collaboration, Lexicon is using its gene knockout technology to identify drug targets that control blood pressure. Takeda will be responsible for the screening, medicinal chemistry, preclinical and clinical development and commercialization of drugs directed against targets selected for the alliance, and will bear all related costs. Lexicon received an upfront payment of $12 million from Takeda for the initial, three-year term of the agreement. This upfront payment will be recognized as revenue over the three-year contractual service period. Takeda has the option to extend the discovery portion of the alliance for an additional two years in exchange for further committed funding. Takeda will make research milestone payments to Lexicon for each target selected for therapeutic development. In addition, Takeda will make clinical development and product launch milestone payments to Lexicon for each product commercialized from the collaboration. Lexicon will also earn royalties on sales of drugs commercialized by Takeda. Total revenue recognized under this agreement was $3.2 million for the year ended December 31, 2004.

Revenues from drug discovery alliances are included in collaborative research revenue in the accompanying consolidated statements of operations.

Other Collaborations

Lexicon has entered into the following other collaborations:

Bristol-Myers Squibb Company. Lexicon established a LexVision collaboration with Bristol-Myers Squibb in September 2000, under which Bristol-Myers Squibb was granted non-exclusive access to the Company's LexVision database and OmniBank library for the discovery of small molecule drugs. The Company received annual access fees under this agreement, and is entitled to receive milestone payments and royalties on products Bristol-Myers Squibb develops using the Company's technology. The collaboration period under the agreement, as amended, terminated in December 2004. Revenue recognized under this agreement was $5.0 million, in each of the years ended December 31, 2004, 2003 and 2002.

Lexicon entered into a drug target validation agreement with Bristol-Myers Squibb in December 2004. Under this agreement, Lexicon will develop mice and phenotypic data for certain genes previously requested by Bristol-Myers Squibb under their LexVision Agreement, but that Lexicon was not required to deliver thereunder, and certain additional genes to be requested by Bristol-Myers Squibb. The agreement terminates in March 2007. There was no revenue recognized under this agreement for the year ended December 31, 2004.

Incyte Corporation. Lexicon established a LexVision collaboration with Incyte in June 2001, under which Incyte was granted non-exclusive access to the Company's LexVision database and OmniBank library for the discovery of small molecule drugs. The Company received annual access fees under this agreement, and is entitled to receive milestone payments and royalties on products Incyte develops using the Company's technology. The collaboration period under the agreement terminated in June 2004. Revenue recognized under this agreement was $2.5 million, $5.0 million and $5.0 million for the years ended December 31, 2004, 2003 and 2002, respectively, and $2.5 million in a previous period.

15. SELECTED QUARTERLY FINANCIAL DATA

The table below sets forth certain unaudited statements of operations data, and net loss per common share data, for each quarter of 2004 and 2003.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(UNAUDITED)			
2004				
Revenues	$ 11,842	$ 10,778	$ 13,109	$ 26,011
Loss from operations	$(15,603)	$(16,444)	$(13,949)	$ (1,458)
Net loss	$(15,466)	$(16,788)	$(14,377)	$ (541)
Net loss per common share, basic and diluted	$ (0.25)	$ (0.26)	$ (0.23)	$ (0.01)
Shares used in computing net loss per common share	63,065	63,369	63,422	63,449

	QUARTER ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(UNAUDITED)			
2003				
Revenues	$ 8,106	$ 8,921	$ 12,111	$ 13,700
Loss from operations	$(17,532)	$(17,852)	$(14,868)	$(12,341)
Net loss before cumulative effect of a change in accounting principle	$(17,145)	$(17,619)	$(14,558)	$(11,800)
Cumulative effect of a change in accounting principle	--	--	--	(3,076)
Net loss	$(17,145)	$(17,619)	$(14,558)	$(14,876)
Net loss per common share before cumulative effect of a change in accounting principle	$ (0.33)	$ (0.34)	$ (0.24)	$ (0.19)
Cumulative effect of a change in accounting principle	--	--	--	(0.05)
Net loss per common share, basic and diluted	$ (0.33)	$ (0.34)	$ (0.24)	$ (0.24)
Shares used in computing net loss per common share	52,371	52,496	59,475	62,794

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
3.1	-- Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
3.2	-- Restated Bylaws (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
4.1	-- Amended and Restated Registration Rights Agreement, dated May 7, 1998, with the stockholders named therein (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-3 (Registration No. 333-67294) and incorporated by reference herein).
10.1	-- Employment Agreement with Arthur T. Sands, M.D., Ph.D. (filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.2	-- Employment Agreement with James R. Piggott, Ph.D. (filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.3	-- Employment Agreement with Jeffrey L. Wade, J.D. (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.4	-- Employment Agreement with Brian P. Zambrowicz, Ph.D. (filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.5	-- Employment Agreement with Julia P. Gregory (filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).
10.6	-- Employment Agreement with Alan Main, Ph.D. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2001 and incorporated by reference herein).

EXHIBIT NO.	DESCRIPTION

10.7 -- Consulting Agreement with Alan S. Nies, M.D. dated February 19, 2003, as amended (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2004 and incorporated by reference herein).

10.8 -- Consulting Agreement with Robert J. Lefkowitz, M.D. dated March 31, 2003 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2003 and incorporated by reference herein).

10.9 -- Form of Indemnification Agreement with Officers and Directors (filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).

*10.10 -- 2000 Equity Incentive Plan

10.11 -- 2000 Non-Employee Directors' Stock Option Plan (filed as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (Registration No. 333-96469) and incorporated by reference herein).

10.12 -- Coelacanth Corporation 1999 Stock Option Plan (filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (Registration No. 333-66380) and incorporated by reference herein).

10.13 -- Form of Stock Option Agreement with Officers under the 2000 Equity Incentive Plan (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004 and incorporated by reference herein).

10.14 -- Form of Stock Option Agreement with Directors under the 2000 Non-Employee Directors' Stock Option Plan (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004 and incorporated by reference herein).

+10.15 -- Amended and Restated Collaboration and License Agreement, dated November 19, 2003, with Genentech, Inc. (filed as Exhibit 10.14 to the amendment to the Company's Annual Report on Form 10-K/A for the period ended December 31, 2003, as filed on July 16, 2004, and incorporated by reference herein).

+10.16 -- Collaboration and License Agreement, dated December 17, 2003, with Bristol-Myers Squibb Company (filed as Exhibit 10.15 to the amendment to the Company's Annual Report on Form 10-K/A for the period ended December 31, 2003, as filed on July 16, 2004, and incorporated by reference herein).

+10.17 -- Collaboration Agreement, dated July 27, 2004, with Takeda Pharmaceutical Company Limited (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004 and incorporated by reference herein).

*10.18 -- Loan and Security Agreement, dated April 21, 2004, between Lex-Gen Woodlands, L.P. and iStar Financial Inc.

10.19 -- Lease Agreement, dated May 23, 2002, between Lexicon Pharmaceuticals (New Jersey), Inc. and Townsend Property Trust Limited Partnership (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002 and incorporated by reference herein).

*21.1 -- Subsidiaries

*23.1 -- Consent of Independent Registered Public Accounting Firm

*24.1 -- Power of Attorney (contained in signature page)

*31.1 -- Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

*31.2 -- Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

EXHIBIT NO.	DESCRIPTION
*32.1	-- Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Filed herewith.

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

EXHIBIT 10.10

LEXICON GENETICS INCORPORATED
2000 EQUITY INCENTIVE PLAN

(RESTATED TO REFLECT SPLIT PRIOR TO IPO)

1. PURPOSES.

(a) AMENDMENT AND RESTATEMENT OF INITIAL PLAN. The Plan initially was established as the 1995 Stock Option Plan, effective as of September 13, 1995 (the "Initial Plan"). The Initial Plan, as amended hereby, is amended and restated in its entirety and renamed the 2000 Equity Incentive Plan, effective as of its adoption. The terms of this Plan shall supersede the Initial Plan in its entirety; provided, however, that nothing herein shall operate or be construed as modifying the terms of an incentive stock option granted under the Initial Plan in a manner that would treat the option as being a new grant for purpose of Section 424(h) of the Code (as hereafter defined).

(b) ELIGIBLE STOCK AWARD RECIPIENTS. The persons eligible to receive Stock Awards are the Employees, Directors and Consultants of the Company and its Affiliates.

(c) AVAILABLE STOCK AWARDS. The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) stock bonuses and (iv) rights to acquire restricted stock.

(d) GENERAL PURPOSE. The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) "AFFILIATE" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) "BOARD" means the Board of Directors of the Company.

(c) "CODE" means the Internal Revenue Code of 1986, as amended.

(d) "COMMITTEE" means a committee of one or more members of the Board appointed by the Board in accordance with subsection 3(c).

(e) "COMMON STOCK" means the common stock, par value $.001 per share, of the Company.

(f) "COMPANY" means Lexicon Genetics Incorporated, a Delaware corporation.

(g) "CONSULTANT" means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (ii) who is a member of the Board of Directors of an Affiliate. However, the term "Consultant" shall not include either Directors who are not compensated by the Company for their services as Directors or Directors who are merely paid a director's fee by the Company for their services as Directors.

(h) "CONTINUOUS SERVICE" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Participant's Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or a Director will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(i) "COVERED EMPLOYEE" means the chief executive officer and the four (4) other highest compensated officers of the Company for whom total compensation is required to be reported to stockholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code.

(j) "DIRECTOR" means a member of the Board of Directors of the Company.

(k) "DISABILITY" means (i) before the Listing Date, the inability of a person, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of that person's position with the Company or an Affiliate of the Company because of the sickness or injury of the person and (ii) after the Listing Date, the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(l) "EMPLOYEE" means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(o) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(p) "LISTING DATE" means the first date upon which any security of the Company is listed (or approved for listing) upon notice of issuance on any securities exchange or designated (or approved for designation) upon notice of issuance as a national market security on an interdealer quotation system.

(q) "NON-EMPLOYEE DIRECTOR" means a Director who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent for a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under

Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(r) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.

(s) "OFFICER" means (i) before the Listing Date, any person designated by the Company as an officer and (ii) on and after the Listing Date, a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(t) "OPTION" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(u) "OPTION AGREEMENT" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(v) "OPTIONHOLDER" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(w) "OUTSIDE DIRECTOR" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently receiving direct or indirect remuneration from the Company or an "affiliated corporation" for services in any capacity other than as a Director or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(x) "PARTICIPANT" means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(y) "PLAN" means this Lexicon Genetics Incorporated 2000 Equity Incentive Plan.

(z) "RULE 16B-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(aa) "SECURITIES ACT" means the Securities Act of 1933, as amended.

(bb) "STOCK AWARD" means any right granted under the Plan, including an Option, a stock bonus and a right to acquire restricted stock.

(cc) "STOCK AWARD AGREEMENT" means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(dd) "TEN PERCENT STOCKHOLDER" means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a) ADMINISTRATION BY BOARD. The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in subsection 3(c).

(b) POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock pursuant to a Stock Award; and the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 12.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

(c) DELEGATION TO COMMITTEE.

(i) GENERAL. The Board may delegate administration of the Plan to a Committee or Committees of one (1) or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

(ii) COMMITTEE COMPOSITION WHEN COMMON STOCK IS PUBLICLY TRADED. At such time as the Common Stock is publicly traded, in the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (1) delegate to a committee of one or more members of the Board who are not Outside Directors the authority to grant Stock Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code, and/or (2) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

(d) EFFECT OF BOARD'S DECISION. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) SHARE RESERVE. Subject to the provisions of Section 11 relating to adjustments upon changes in Common Stock, the Common Stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate Eleven Million, Two Hundred Fifty Thousand (11,250,000) shares.

(b) EVERGREEN SHARE RESERVE INCREASE.

(i) Notwithstanding subsection 4(a) hereof on each January 1 (the "Calculation Date") for a period of ten (10) years, commencing on January 1, 2001, the aggregate number of shares of Common Stock that is available for issuance under the Plan shall automatically be increased by that number of shares equal to the greater of (1) five percent (5%) of the Diluted Shares Outstanding or (2) the number of shares of Common Stock subject to Stock Awards granted during the prior 12-month period; provided, however, that the Board, from time to time, may provide for a lesser increase in the aggregate number of shares of Common Stock that is available for issuance under the Plan.

(ii) Subject to the provisions of Section 11 hereof relating to adjustments upon changes in securities, the increase in the maximum aggregate number of shares of Common Stock that is available for issuance pursuant to Stock Awards granted under the Plan shall not exceed Thirty Million (30,000,000) shares.

(iii) "Diluted Shares Outstanding" shall mean, as of any date, (1) the number of outstanding shares of Common Stock of the Company on such Calculation Date, plus (2) the number of shares of Common Stock issuable upon such Calculation Date assuming the conversion of all outstanding Preferred Stock and convertible notes, plus (3) the additional number of dilutive Common Stock equivalent shares outstanding as the result of any options or warrants outstanding during the fiscal year, calculated using the treasury stock method.

(c) REVERSION OF SHARES TO THE SHARE RESERVE. If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, the shares of Common Stock not acquired under such Stock Award shall revert to and again become available for issuance under the Plan.

(d) SOURCE OF SHARES. The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) ELIGIBILITY FOR SPECIFIC STOCK AWARDS. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.

(b) TEN PERCENT STOCKHOLDERS. A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) SECTION 162(m) LIMITATION. Subject to the provisions of Section 11 relating to adjustments upon changes in the shares of Common Stock, no Employee shall be eligible to be granted Options covering more than Three Million (3,000,000) shares during any calendar year. This subsection

5(c) shall not apply prior to the Listing Date and, following the Listing Date, this subsection 5(c) shall not apply until (i) the earliest of: (1) the first material modification of the Plan (including any increase in the number of shares of Common Stock reserved for issuance under the Plan in accordance with Section 4); (2) the issuance of all of the shares of Common Stock reserved for issuance under the Plan; (3) the expiration of the Plan; or (4) the first meeting of stockholders at which Directors are to be elected that occurs after the close of the third calendar year following the calendar year in which occurred the first registration of an equity security under Section 12 of the Exchange Act; or (ii) such other date required by Section 162(m) of the Code and the rules and regulations promulgated thereunder.

(d) CONSULTANTS.

(i) Prior to the Listing Date, a Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, either the offer or the sale of the Company's securities to such Consultant is not exempt under Rule 701 of the Securities Act ("Rule 701") because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by Rule 701, unless the Company determines that such grant need not comply with the requirements of Rule 701 and will satisfy another exemption under the Securities Act as well as comply with the securities laws of all other relevant jurisdictions.

(ii) From and after the Listing Date, a Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("Form S-8") is not available to register either the offer or the sale of the Company's securities to such Consultant because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by the rules governing the use of Form S-8, unless the Company determines both (i) that such grant (A) shall be registered in another manner under the Securities Act (e.g., on a Form S-3 Registration Statement) or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant complies with the securities laws of all other relevant jurisdictions.

(iii) Rule 701 and Form S-8 generally are available to consultants and advisors only if (i) they are natural persons; (ii) they provide bona fide services to the issuer, its parents, its majority-owned subsidiaries or majority-owned subsidiaries of the issuer's parent; and (iii) the services are not in connection with the offer or sale of securities in a capital-raising transaction, and do not directly or indirectly promote or maintain a market for the issuer's securities.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) TERM. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, no Option granted prior to the Listing Date shall be exercisable after the expiration of ten (10) years from the date it was granted, and no Incentive Stock Option granted on or after the Listing Date shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) EXERCISE PRICE OF AN INCENTIVE STOCK OPTION. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted

pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) EXERCISE PRICE OF A NONSTATUTORY STOCK OPTION. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the exercise price of each Nonstatutory Stock Option granted prior to the Listing Date shall be not less than eighty-five percent (85%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. The exercise price of each Nonstatutory Stock Option granted on or after the Listing Date shall be not less than eighty-five percent (85%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(d) CONSIDERATION. The purchase price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option) (1) by delivery to the Company of other Common Stock, (2) according to a deferred payment or other similar arrangement with the Optionholder or (3) in any other form of legal consideration that may be acceptable to the Board. Unless otherwise specifically provided in the Option, the purchase price of Common Stock acquired pursuant to an Option that is paid by delivery to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). At any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(e) TRANSFERABILITY OF AN INCENTIVE STOCK OPTION. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) TRANSFERABILITY OF A NONSTATUTORY STOCK OPTION. A Nonstatutory Stock Option granted prior to the Listing Date shall not be transferable except by will or by the laws of descent and distribution, and to the extent provided in the Option Agreement and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. A Nonstatutory Stock Option granted on or after the Listing Date shall be transferable to the extent provided in the Option Agreement. If the Nonstatutory Stock Option does not provide for transferability, then the Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) VESTING GENERALLY. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem

appropriate. The vesting provisions of individual Options may vary. The provisions of this subsection 6(g) are subject to any Option provisions governing the minimum number of shares of Common Stock as to which an Option may be exercised.

(h) TERMINATION OF CONTINUOUS SERVICE. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement, which period shall not be less than thirty (30) days for Options granted prior to the Listing Date unless such termination is for cause), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(i) EXTENSION OF TERMINATION DATE. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 6(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(j) DISABILITY OF OPTIONHOLDER. In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement, which period shall not be less than six (6) months for Options granted prior to the Listing Date) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(k) DEATH OF OPTIONHOLDER. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance by a person designated to exercise the option upon the Optionholder's death pursuant to subsection 6(e) or 6(f), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement, which period shall not be less than six (6) months for Options granted prior to the Listing Date) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(l) EARLY EXERCISE. The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of Common Stock subject to the Option prior to the full vesting of the Option. Subject to the "Repurchase Limitation" in subsection 10(g), any unvested shares of Common Stock so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate. Provided that the "Repurchase Limitation" in subsection 10(g) is not violated, the Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following exercise of the Option unless the Board otherwise specifically provides in the Option.

(m) RIGHT OF REPURCHASE. Subject to the "Repurchase Limitation" in subsection 10(g), the Option may, but need not, include a provision whereby the Company may elect, prior to the Listing Date, to repurchase all or any part of the vested shares of Common Stock acquired by the Optionholder pursuant to the exercise of the Option. Provided that the "Repurchase Limitation" in subsection 10(g) is not violated, the Company will not exercise its repurchase option until at least six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) have elapsed following exercise of the Option unless the Board otherwise specifically provides in the Option.

(n) RIGHT OF FIRST REFUSAL. The Option may, but need not, include a provision whereby the Company may elect, prior to the Listing Date, to exercise a right of first refusal following receipt of notice from the Optionholder of the intent to transfer all or any part of the shares of Common Stock received upon the exercise of the Option. Except as expressly provided in this subsection 6(n), such right of first refusal shall otherwise comply with any applicable provisions of the Bylaws of the Company.

(o) RE-LOAD OPTIONS.

(i) Without in any way limiting the authority of the Board to make or not to make grants of Options hereunder, the Board shall have the authority (but not an obligation) to include as part of any Option Agreement a provision entitling the Optionholder to a further Option (a "Re-Load Option") in the event the Optionholder exercises the Option evidenced by the Option Agreement, in whole or in part, by surrendering other shares of Common Stock in accordance with this Plan and the terms and conditions of the Option Agreement. Unless otherwise specifically provided in the Option, the Optionholder shall not surrender shares of Common Stock acquired, directly or indirectly from the Company, unless such shares have been held for more than six (6) months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes).

(ii) Any such Re-Load Option shall (1) provide for a number of shares of Common Stock equal to the number of shares of Common Stock surrendered as part or all of the exercise price of such Option; (2) have an expiration date which is the same as the expiration date of the Option the exercise of which gave rise to such Re-Load Option; and (3) have an exercise price which is equal to one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Re-Load Option on the date of exercise of the original Option. Notwithstanding the foregoing, a Re-Load Option shall be subject to the same exercise price and term provisions heretofore described for Options under the Plan.

(iii) Any such Re-Load Option may be an Incentive Stock Option or a Nonstatutory Stock Option, as the Board may designate at the time of the grant of the original Option; provided, however, that the designation of any Re-Load Option as an Incentive Stock Option shall be subject to the one hundred thousand dollar ($100,000) annual limitation on the exercisability of Incentive Stock Options described in subsection 10(d) and in Section 422(d) of the Code. There shall be no Re-Load Options on a Re-Load Option. Any such Re-Load Option shall be subject to the availability of sufficient shares of Common Stock under subsection 4(a) and the "Section 162(m) Limitation" on the grants of Options under subsection 5(c) and shall be subject to such other terms and conditions as the Board may determine which are not inconsistent with the express provisions of the Plan regarding the terms of Options.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) STOCK BONUS AWARDS. Each stock bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of stock bonus agreements may change from time to time, and the terms and conditions of separate stock bonus agreements need not be identical, but each stock bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) CONSIDERATION. A stock bonus may be awarded in consideration for past services actually rendered to the Company or an Affiliate for its benefit.

(ii) VESTING. Subject to the "Repurchase Limitation" in subsection 10(h), shares of Common Stock awarded under the stock bonus agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. Subject to the "Repurchase Limitation" in subsection 10(g), in the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the stock bonus agreement.

(iv) TRANSFERABILITY. For a stock bonus award made before the Listing Date, rights to acquire shares of Common Stock under the stock bonus agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. For a stock bonus award made on or after the Listing Date, rights to acquire shares of Common Stock under the stock bonus agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the stock bonus agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the stock bonus agreement remains subject to the terms of the stock bonus agreement.

(b) RESTRICTED STOCK AWARDS. Each restricted stock purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the restricted stock purchase agreements may change from time to time, and the terms and conditions of separate restricted stock purchase agreements need not be identical, but each restricted stock purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) PURCHASE PRICE. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the purchase price under each restricted stock purchase agreement shall be such amount as the Board shall determine and designate in such restricted stock purchase agreement. Such purchase price shall not be less than eighty-five percent (85%) of the Common Stock's Fair Market Value on the date such award is made or at the time the purchase is consummated.

(ii) CONSIDERATION. The purchase price of Common Stock acquired pursuant to the restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at the discretion of the Board, according to a deferred payment or other similar arrangement with the Participant; or (iii) in any other form of legal consideration that may be acceptable to the Board in its discretion; provided, however, that at any time that the Company is incorporated in Delaware, then payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(iii) VESTING. Subject to the "Repurchase Limitation" in subsection 10(g), shares of Common Stock acquired under the restricted stock purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iv) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. Subject to the "Repurchase Limitation" in subsection 10(g), in the event a Participant's Continuous Service terminates, the Company may repurchase or otherwise reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the restricted stock purchase agreement.

(v) TRANSFERABILITY. For a restricted stock award made before the Listing Date, rights to acquire shares of Common Stock under the restricted stock purchase agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. For a restricted stock award made on or after the Listing Date, rights to acquire shares of Common Stock under the restricted stock purchase agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the restricted stock purchase agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the restricted stock purchase agreement remains subject to the terms of the restricted stock purchase agreement.

8. COVENANTS OF THE COMPANY.

(a) AVAILABILITY OF SHARES. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.

(b) SECURITIES LAW COMPLIANCE. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

10. MISCELLANEOUS.

(a) ACCELERATION OF EXERCISABILITY AND VESTING. The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) STOCKHOLDER RIGHTS. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c) NO EMPLOYMENT OR OTHER SERVICE RIGHTS. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d) INCENTIVE STOCK OPTION $100,000 LIMITATION. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year

(under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars ($100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e) INVESTMENT ASSURANCES. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (1) the issuance of the shares of Common Stock upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (2) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(f) WITHHOLDING OBLIGATIONS. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Stock Award, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

(g) REPURCHASE LIMITATION. The terms of any repurchase option shall be specified in the Stock Award and may be either at Fair Market Value at the time of repurchase or at not less than the original purchase price.

11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) CAPITALIZATION ADJUSTMENTS. If any change is made in the Common Stock subject to the Plan, or subject to any Stock Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to subsection 4(a) and the maximum number of securities subject to award to any person pursuant to subsection 5(c), and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of Common Stock subject to such outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction "without receipt of consideration" by the Company.)

(b) CHANGE IN CONTROL -- DISSOLUTION OR LIQUIDATION. In the event of a dissolution or liquidation of the Company, then all outstanding Stock Awards shall terminate immediately prior to such event.

(c) CHANGE IN CONTROL -- ASSET SALE, MERGER, CONSOLIDATION OR REVERSE MERGER. In the event of (i) a sale, lease or other disposition of all or substantially all of the assets of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation or (iii) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then any surviving corporation or acquiring corporation shall assume any Stock Awards outstanding under the Plan or shall substitute similar stock awards (including an award to acquire the same consideration paid to the stockholders in the transaction described in this subsection 11(c) for those outstanding under the Plan). In the event any surviving corporation or acquiring corporation refuses to assume such Stock Awards or to substitute similar stock awards for those outstanding under the Plan, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the vesting of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full, and the Stock Awards shall terminate if not exercised (if applicable) at or prior to such event. With respect to any other Stock Awards outstanding under the Plan, such Stock Awards shall terminate if not exercised (if applicable) prior to such event.

12. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) AMENDMENT OF PLAN. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 11 relating to adjustments upon changes in Common Stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b) STOCKHOLDER APPROVAL. The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c) CONTEMPLATED AMENDMENTS. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d) NO IMPAIRMENT OF RIGHTS. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e) AMENDMENT OF STOCK AWARDS. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) PLAN TERM. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) NO IMPAIRMENT OF RIGHTS. Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

14. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

15. CHOICE OF LAW.

The law of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

EXHIBIT 10.18

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$34,000,000

LOAN AND SECURITY AGREEMENT

BETWEEN

LEX-GEN WOODLANDS, L.P.,
A DELAWARE LIMITED PARTNERSHIP
AS BORROWER

AND

ISTAR FINANCIAL INC.,
AS LENDER

DATED AS OF APRIL 21, 2004

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LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "AGREEMENT") dated as of April 21, 2004, by LEX-GEN WOODLANDS, L.P., a Delaware limited partnership ("BORROWER"), having an address at c/o Lexicon Genetics Incorporated, 8800 Technology Forest Place, The Woodlands, Texas 77381-1160 and iSTAR FINANCIAL INC., a Maryland corporation (together with its successors and assigns, hereinafter referred to as "LENDER"), with offices at 1114 Avenue of the Americas, 27th Floor, New York, New York 10036.

RECITALS

A. The Mortgaged Property. Borrower is the fee owner of the Land and Improvements (as such terms are defined herein).

B. The Loan. Borrower desires to borrow from Lender and Lender desires to lend to Borrower, a loan in the amount of $34,000,000.

NOW, THEREFORE, in consideration of the foregoing and of the covenants, conditions and agreements contained herein, Borrower and Lender agree as follows:

SECTION 1
DEFINITIONS

1.1 GENERAL DEFINITIONS.

In addition to any other terms defined in this Agreement, the following terms shall have the following meanings:

"ACCEPTABLE FINANCIAL INSTITUTION" means a depository institution or trust company incorporated under the laws of the United States of America or any state thereof and subject to supervision and examination by federal or state banking authorities, so long as (a) at all times the short-term commercial paper, certificates of deposit or other debt obligations of such depository institution or trust company are rated at least A-1 by S&P and P-1 by Moody's and the long-term unsecured debt obligations of which are rated at least A by S&P and the equivalent thereof by Moody's or (b) such depository institution or trust company has otherwise been approved by Lender, such approval not to be unreasonably withheld.

"ACCOUNTING CHANGES" means (a) changes in accounting principles required by GAAP consistently applied and implemented by Borrower; and (b) changes in accounting principles recommended or approved by Borrower's certified public accountant, with the approval of Lender, which approval shall not be unreasonably withheld; provided that Lender's approval shall not be required so long as (i) Borrower's financial statements are prepared on a consolidated basis with the financial statements of Guarantor, (ii) Guarantor is a reporting company under the Exchange Act, and (iii) Guarantor's financial statements are audited by a so-called "Big-4" accounting firm.

"ACCOUNTS" means Borrower's present and future rights to payment of money, accounts and accounts receivable including (a) rights to payment of money, accounts and accounts receivable arising from or relating to the construction, use, leasing, occupancy or operation of the Mortgaged Property, the rental of, or payment for, space, goods sold or leased or services rendered, whether or not yet earned by performance, and all other "accounts" (as defined in the UCC), (b) rights to payment, accounts, and accounts receivable arising from any consumer credit, charge, entertainment or travel card or service organization or entity, (c) all reserves, deferred payments, refunds, cost savings payments and deposits no matter how evidenced and whether now or later to be received from third parties (including all earnest money sales deposits) or deposited with, or by, Borrower by, or with, third parties (including all utility deposits), (d) all chattel paper, instruments, documents, notes, drafts and letters of credit (other than any letters of credit in favor of Lender), (e) the Reserve Accounts and any and all other accounts held by or on behalf of Lender and/or Borrower pursuant to this Agreement, (f) all "deposit accounts" (as defined in the UCC), (g) all "securities accounts" (as defined in the UCC), and (h) all contracts and agreements which relate to any of the foregoing.

"AFFILIATE" means any Person: (A) directly or indirectly controlling, controlled by, or under common control with, another Person; (B) directly or indirectly owning or holding ten percent (10%) or more of any equity interest in another Person; or (C) ten percent (10%) or more of whose voting stock or other equity interest is directly or indirectly owned or held by such other Person. When used with respect to Borrower, the term "Affiliate" shall also include the spouse, ancestors, descendants and siblings of an Affiliate of Borrower (such Persons being sometimes referred to as "FAMILY MEMBERS"), Affiliates of such Family Members and trusts for the benefit of another Affiliate of Borrower.

"AGREEMENT" means this Loan and Security Agreement (including all schedules, exhibits, annexes and appendices hereto), as amended, modified or supplemented from time to time.

"ALTERATION" is defined in Section 7.14.

"ANNUAL BUDGET" is defined in Section 5.1(D) hereof.

"APPROVED BUDGET" means the Budget and Capital Plan approved by Lender from time to time as described in Section 5.1(D) hereof.

"APPROVED CAPITAL PLAN" means the Capital Plan approved by Lender as part of the Approved Budget.

"APPROVED OPERATING EXPENSES" means Expenses set forth in an Approved Budget.

"ASSIGNMENT(S)" means individually and collectively, the assignment of leases and rents, assignments of contracts, agreements and equipment leases, the assignments of licenses, permits and approvals, the assignments of management agreement, if any, the assignment of trademarks, tradenames and copyrights, if any, and such other assignments of even date herewith from Borrower to or for the benefit of Lender, each granting a security interest in collateral for the Loan.

"BANKRUPTCY CODE" means Title 11 of the United States Code entitled "Bankruptcy," as amended from time to time and all rules and regulations promulgated thereunder.

"BANK(S)" means the Acceptable Financial Institution at which the Reserve Accounts are maintained.

"BASE RATE" means a fixed rate per annum equal to eight and 23/100ths percent (8.23%).

"BORROWER ACCOUNT" means a demand, time or deposit account maintained by the Borrower at the Bank or other financial institution selected by the Borrower, as required under the Loan Agreement.

"BORROWER REPRESENTATIVE" means Lex-Gen Woodlands GP, LLC, a Delaware limited liability company, the sole general partner in Borrower.

"BUDGET" means a budget setting forth the projected revenues and budgeted costs and expenses for the ownership, operation and management for the Mortgaged Property for each calendar year commencing with calendar year 2004.

"BUSINESS DAY" means any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the State of New York or is a day on which banking institutions located in such state is closed.

"CAPITAL LEASE" means any lease of any property (whether real, personal or mixed) that, in conformity with GAAP, should be accounted for as a capital lease.

"CAPITAL PLAN" means Borrower's budget for capital improvements and equipment for the Mortgaged Property for each calendar year.

"CASH MANAGEMENT AGREEMENT" shall mean the Cash Management Agreement dated as of the date hereof, among Borrower, Lender and Bank.

"CHANGE IN CONTROL" means the occurrence of any one or more of the following: (i) a sale of all or substantially all of the assets of Guarantor, in a single transaction or series of transactions, (ii) a Person or Group shall have acquired, in one or more transactions, ownership or control of forty-nine percent (49%) or more of the voting Securities of Guarantor, (iii) Guarantor shall cease to directly or indirectly Control the business and affairs of the Borrower or (iv) Guarantor shall cease to directly or indirectly own fifty-one percent (51%) or more of the voting Securities of Borrower.

"CLAIMS" is defined in Section 5.3(A).

"CLOSING" means that all conditions for disbursement of the proceeds of the Loan to or for the benefit of Borrower have been satisfied or waived in writing by Lender and the disbursement of the proceeds of the Loan shall have been made to, or upon the order of, Borrower.

"CLOSING CHECKLIST" means the closing checklist attached hereto as Exhibit F.

"CLOSING DATE" means the date on which the Closing occurs.

"CODE" means the United States Internal Revenue Code of 1986, and any rule or regulation promulgated thereunder from time to time.

"COLLATERAL" means the Mortgaged Property, the Reserve Account Collateral and all other real and personal property of Borrower or any other Person pledged or mortgaged to Lender as collateral security for repayment of the Loan, if any.

"CONFIDENTIAL INFORMATION" is defined in Section 11.12.

"CONSTRUCTION" means the Restoration, the Alterations, the construction, equipping and fixturing of the Required Capital Improvements or any other construction, equipping, fixturing and furnishing, approved (or deemed approved) by Lender.

"CONSTRUCTION LEGAL COMPLIANCE" means Borrower's satisfaction of all of the following: (A) (i) the applicable Construction through the applicable date of determination, has been constructed substantially in accordance with the applicable Plans and Specifications (other than deviations therefrom that are immaterial individually and in the aggregate); and (ii) the applicable Construction has been, or will be, constructed in substantial compliance with all Legal Requirements; (B) all material entitlements, approvals, allocations, certificates, authorizations, permits and licenses required through the then-current stage of construction have been obtained from all appropriate Governmental Authorities and have been validly and irrevocably obtained without qualification, appeal or existence of unexpired appeal periods; (C) all conditions to the issuance of, and the requirements under, all permits, conditional use permits and licenses required through the current stage of construction have been satisfied in all material respects; and (D) no appeals, suits or other actions are pending or threatened in writing by any Governmental Authority which, if determined adversely to the interests of Borrower or the Mortgaged Property, would result in the revocation, suspension or qualification of any of such permits or approvals.

"CONTINGENT OBLIGATION," as applied to any Person, means any direct or indirect liability, contingent or otherwise, of that Person: (A) with respect to any indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto; (B) with respect to any letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings; (C) under any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement or arrangement designed to protect the applicable Person against fluctuations in interest rates; or (D) under any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect that Person against fluctuations in currency values. Contingent Obligations shall include (1) the direct or indirect guaranty, endorsement (other than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another, (2) the obligation to make take-or-pay or similar payments if required regardless of nonperformance by any other party or parties to an agreement, and (3) any liability of such Person for the obligations of

another through any agreement to purchase, repurchase or otherwise acquire such obligation or any property constituting security therefor, to provide funds for the payment or discharge of such obligation or to maintain the solvency, financial condition or any balance sheet item or level of income of another. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guaranteed or otherwise supported or, if not a fixed and determined amount, the maximum amount so guaranteed.

"CONTRACTOR" means the contractor(s) or construction manager(s) for the Construction as Lender may, from time to time approve, which approval shall not be unreasonably withheld, conditioned or delayed.

"CONTRACTS" means all contracts, agreements, warranties and representations relating to or governing the use, occupancy, design, construction, operation, management, repair and service of any other component of the Mortgaged Property, as amended, modified or supplemented from time to time.

"CONTRACTUAL OBLIGATION," as applied to any Person, means any indenture, mortgage, deed of trust, contract, undertaking, agreement or other instrument to which that Person is a party or by which it or any of its properties is bound or to which it or any of its properties is subject including the Loan Documents.

"CONTROL" (including with correlative meanings, the terms "controlling," "controlled by" and "under common control with") means the possession directly or indirectly of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"CREDIT RATING" means the senior unsecured debt rating issued by S&P and Moody's or if either or both no longer exist or no longer issue ratings then, for either or both as so applicable, another Rating Agency. All references to specific levels of a Credit Rating mean such rating with a "stable" or "positive" outlook, but not a "negative" outlook or "on watch" associated with such rating.

"DEFAULT" means a condition or event that, after notice or lapse of time or both, would constitute an Event of Default if that condition or event were not cured or removed within any applicable grace or cure period.

"DEFAULT INTEREST" is defined in Section 2.2(A).

"DEFAULT RATE" means a rate per annum equal to the Base Rate plus five percent (5%).

"DISTRIBUTION" is defined in Section 7.12.

"DOLLARS" and the sign "$" mean the lawful money of the United States of America.

"EBITDA INTEREST COVERAGE" means, at any reporting date, for a Person, the ratio calculated by dividing (A) the earnings from continuing operations (including interest income and equity earnings, but excluding nonrecurring items) before interest, taxes, depreciation and

amortization for such Person by (B) gross interest incurred by such Person before subtracting (i) capitalized interest and (ii) interest income.

"ELIGIBLE ACCOUNT" means a segregated account maintained at an Acceptable Financial Institution. An Eligible Account will not be evidenced by a certificate of deposit, passbook or other instrument.

"EMPLOYEE BENEFIT PLAN" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Part 3 of Title I of ERISA or Section 412 of the Code and is either (a) maintained by any Person or any ERISA Affiliate for employees of such Person or any ERISA Affiliate or (b) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which such Person or any ERISA Affiliate is then making or has any obligation to make contributions or, within the preceding five (5) plan years, has made or has had any obligation to make contributions.

"ENVIRONMENTAL CLAIMS" is defined in Section 4.13.

"ENVIRONMENTAL INDEMNITY AGREEMENT" means the Environmental Indemnity Agreement, dated of even date herewith, executed by Borrower and Guarantor in favor of Lender, together with all amendments, modifications, renewals, substitutions and extensions thereto.

"ENVIRONMENTAL LAWS" means all present and future federal, state and/or local laws, statutes, ordinances, codes, rules, regulations, orders, decrees, licenses, decisions, orders, injunctions, requirements and/or directives of Governmental Authorities, as well as common law, imposing liability, standards of conduct or otherwise pertains or relates to, or for, for the environment, industrial hygiene, the regulation of Hazardous Substances, natural resources, pollution or waste management.

"ENVIRONMENTAL REPORTS" means those reports and audits itemized on Schedule 1.1(B) hereto.

"EQUIPMENT, FIXTURES AND PERSONALTY" means all fixtures and all of the equipment and personalty listed on Exhibit B hereto, together with all accessions, replacements and substitutions thereto and the proceeds thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, and all rules and regulations promulgated thereunder.

"ERISA AFFILIATE" means any Person who is a member of a group which is under common control with another Person, who together with such other Person is treated as a single employer within the meaning of Sections 414(b), (c), (m) and (o) of the IRC or Sections 4001 of ERISA. Guarantor shall be deemed to be an ERISA Affiliate of Borrower for purposes of this Agreement, irrespective of whether it and Borrower would be treated as a single employer.

"EVENT OF DEFAULT" is defined in Section 9.1.

"EXCESS INTEREST" is defined in Section 2.2(C).

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"EXISTING INDEBTEDNESS" means the synthetic lease encumbering the Mortgaged Property immediately prior to the Closing.

"EXPENSES" means the costs and expenditures accrued or incurred by Borrower, without duplication, in connection with the ownership, operation and management of the Mortgaged Property, specifically including in Expenses (1) periodic deposits required to be made into the Reserves; (2) capital expenditures incurred pursuant to an Approved Budget to the extent not paid from any Reserves or the proceeds of the Loan; and (3) management fees and specifically excluding from Expenses, however, (i) all expenditures to the extent funded from any Reserves, (ii) principal, interest and all other payments made by Borrower to Lender under the Loan Documents, (iii) federal or state income taxes, and (iv) depreciation and other non-cash expenses of the Mortgaged Property.

"FINANCING STATEMENTS" means the UCC-1 Financing Statements naming Borrower, as debtor, and Lender, as secured party, and filed with such filing offices as Lender may require.

"FIRREA" means The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73 Stat. 183 (1989) and the regulations adopted pursuant thereto, as the same may be amended from time to time.

"GAAP" means generally accepted accounting principles in the United States of America, consistently applied, as of the date in question.

"GENERAL INTANGIBLES" means all of the items listed on Exhibit C hereto. In addition, the General Intangibles also include all of Borrower's right, title and interest in and to all Contracts.

"GOVERNMENTAL AUTHORITY" means the United States of America, any state, any foreign governments and any political subdivision or regional division of the foregoing, and any agency, department, court, regulatory body, commission, board, bureau or instrumentality of any of them.

"GROSS REVENUES" means, for the applicable period, all Rents and all other income, rents, revenues, issues, profits, deposits, proceeds of rent loss insurance, lease termination or similar payments and all other payments actually received by or for the benefit of Borrower in cash or current funds or other consideration from any source whatsoever from or with respect to the Mortgaged Property; provided, however, that Gross Revenues shall exclude Proceeds (other than insurance proceeds in respect of rent loss insurance), litigation proceeds, sale or refinancing proceeds and any other non-recurring income from extraordinary events.

"GROUP" means any Person or Persons acting together which would constitute a "group" for purposes of Section 13(d) of the Exchange Act, as in effect on the date hereof, together with all affiliates and associates (as defined in Rule 12b-2 under the Exchange Act, as in effect on the date hereof) thereof.

"GUARANTOR" means Lexicon Genetics Incorporated, a Delaware corporation and its successors.

"GUARANTOR LEASE" means that Lease Agreement dated as of even date herewith, by and between Borrower and Guarantor for the Lease by Guarantor of the Improvements.

"GUARANTY" means that certain Guaranty of Guarantor in favor of Lender of even date herewith.

"HAZARDOUS MATERIALS" means (a) any pollutants, toxic pollutants, oil, gasoline, petroleum products, asbestos, materials or substances containing asbestos, explosives, chemical liquids or solids, radioactive materials, polychlorinated biphenyls or related or similar materials, or any other solid, liquid or other emission, substance, material, product or by-product, in each case defined, listed or regulated as a hazardous, noxious, toxic or solid substance, material or waste or defined, listed or regulated as causing cancer or reproductive toxicity, or otherwise defined, listed or regulated as hazardous or toxic in, pursuant to, or by any federal, state or local law, ordinance, rule, or regulation, now or hereafter enacted, amended or modified, in each case to the extent applicable to the Mortgaged Property including the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. Section 9601, et seq.); the Hazardous Materials Transportation Act (49 U.S.C. Section 1801, et seq.); the Resource Conservation and Recovery Act (42 U.S.C. Section 6901, et seq.); any so-called "Superfund" or "Superlien" law; the Toxic Substance Control Act of 1976 (15 U.S.C. Section 2601 et seq.); the Clean Water Act (33 U.S.C. Section 1251 et seq.); and the Clean Air Act (42 U.S.C. Section 7901 et seq.); (b) any substance which is or contains asbestos, radon, polychlorinated biphenyl, urea formaldehyde foam insulation, explosive or radioactive material, lead paint, motor fuel or other petroleum hydrocarbons, and/or (c) fungus, mold, mildew, or other biological agents the presence of which may adversely affect the health of individuals or other animals or materially adversely affect the value or utility of the Mortgaged Property.

"IMPOSITIONS" means all real estate and personal property taxes, and vault charges and all other taxes, levies, assessments and other similar charges, general and special, ordinary and extraordinary, foreseen and unforeseen, of every kind and nature whatsoever, which at any time prior to, at or after the execution hereof may be assessed, levied or imposed by, in each case, (i) a Governmental Authority or (ii) The Woodlands Community Association or The Woodlands Commercial Owners Association (or their respective successor entities) upon the Mortgaged Property or upon the ownership, use, occupancy or enjoyment thereof, and any interest, cost or penalties imposed by such entity with respect to any of the foregoing. Impositions shall not include any sales or use taxes or any income taxes payable by Borrower.

"IMPROVEMENTS" means all buildings, improvements, alterations or appurtenances now, or at any time hereafter, located upon, in, under or above the Land or any part thereof. The term "Improvements" also includes all buildings, improvements, alterations or appurtenances not located on, in, under or above the land to the extent of Borrower's right, title and interest therein.

"INDEBTEDNESS" means with respect to any Person, without duplication, (a) any indebtedness of such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of any property or asset of such Person to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such property from such Person), (b) any obligations of such Person for the deferred purchase price of property or services, (c) any obligations of such Person evidenced by notes, bonds, debentures or other

similar instruments, (d) any obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) any obligations of such Person as lessee under leases that have been or should be, in accordance with GAAP, recorded as capital leases, (f) any obligations of such Person as a result of any final judgment rendered against such Person or any settlement agreement entered into by such Person with respect to any litigation unless such obligations are stayed upon appeal (for so long as such appeal shall be maintained) or are fully discharged or bonded within thirty (30) days after the entry of such judgment or execution of such settlement agreement, (g) any obligations, contingent or otherwise, of such Person in respect of acceptances, letters of credit or similar extensions of credit, (h) any Contingent Obligations, (i) any Indebtedness of others referred to in clauses (a) through (h) above or clause (j) below guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (1) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (2) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss, (3) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (4) otherwise to assure a creditor against loss, and (j) any Indebtedness referred to in clauses (a) through (i) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"INDEMNIFIED LIABILITIES" is defined in Section 11.3.

"INDEMNITEES" is defined in Section 11.3.

"INDEPENDENT ARCHITECT" is defined in Section 7.14.

"INDEPENDENT PERSON" has the meaning ascribed to it in Schedule 7.13.

"INSPECTION CERTIFICATE" means a certificate from an architect or other design professional approved by Lender in form and substance reasonably acceptable to Lender.

"INSURANCE RESERVE" is the reserve for insurance premiums established pursuant to Section 5.5.

"INSURANCE RESERVE ACCOUNT" is defined in Section 6.1.

"INTEREST PERIOD" means the period of time beginning on the 10th day of a Loan Month and ending on the 9th day of the following Loan Month, provided, however, the first Interest Period shall commence on the date the Loan commences to bear interest and continues to and includes May 9, 2004.

"INTEREST RATE" means the applicable of the Base Rate or the Default Rate.

"INVENTORY" means "inventory" (as defined in the UCC), including any and all goods, merchandise and other personal property, whether tangible or intangible, now owned or hereafter acquired by Borrower which is held for sale, lease or license to customers, furnished to customers under any contract or service or held as raw materials, work in process, or supplies or materials used or consumed in Borrower's business, if any.

"INVESTMENT" means (A) any direct or indirect purchase or other acquisition by Borrower of any beneficial interest in, including stock, partnership interest or other Securities of, any other Person or (B) any direct or indirect loan, advance or capital contribution by Borrower to any other Person, including all indebtedness and accounts receivable from that other Person that are not current assets or did not arise from sales to that other Person in the ordinary course of business.

"LAND" means the real estate comprising the Mortgaged Property, as more specifically described in the Mortgage, including all of Borrower's right, title and interest in and to all oil, gas and mineral rights, oil, gas and minerals (whether before or after extraction), easements, appurtenances, water rights, water stock, rights in and to streets, roads and highways (whether before or after vacation thereof), hereditaments and privilege relating, in any manner whatsoever, to the Land. The Land is legally described on Exhibit A.

"LATE CHARGE" is defined in Section 2.2(D).

"LEASES" means any and all leases, subleases, occupancy agreements or grants of other possessory interests, whereby Borrower acts as the lessor, sublessor, licensor, grantor or in another similar capacity, now or hereafter in force, oral or written, covering or affecting the Land or Improvements, or any part thereof, together with all rights, powers, privileges, options and other benefits of Borrower thereunder and any and all guaranties of the obligations of the lessees, sublessees, occupants, and grantees thereunder, as such leases, subleases, occupancy agreements or grants may be extended, renewed, modified or replaced from time to time (exclusive of any ground lease having Borrower as ground lessee).

"LEGAL REQUIREMENTS" means all applicable laws, statutes, ordinances, rulings, regulations, codes, decrees, orders, judgments, covenants, conditions, restrictions, approvals, permits and requirements under any Permitted Encumbrances or of, from or by any Governmental Authority, including zoning, subdivision, land use, environmental, building, safety, health, wetlands and landmark preservation, housing and fire laws and the Americans with Disabilities Act.

"LENDER'S REPRESENTATIVE" means an independent consulting architect, inspector and/or engineering designated by Lender in Lender's sole discretion.

"LIEN" means (a) any lien, mortgage, pledge, security interest, charge or monetary encumbrance of any kind, whether voluntary or involuntary (including any conditional sale or other title retention agreement, any lease in the nature thereof, and any agreement to give any security interest) and (b) any negative pledge or analogous agreement including any agreement not to directly or indirectly convey, assign, sell, mortgage, pledge, hypothecate, grant a security interest in, grant options with respect to, transfer or otherwise dispose of, voluntarily or

involuntarily, by operation of law or otherwise, any direct or indirect interest in an asset or direct or indirect interest in the ownership of an asset.

"LOAN" means the loan in the aggregate amount of $34,000,000 from Lender to Borrower as evidenced by the Note.

"LOAN DOCUMENTS" means this Agreement, the Note, the Mortgage, the Assignments, the Environmental Indemnity Agreement, the Cash Management Agreement, the Financing Statements, the Guaranty and all other documents, instruments, certificates and other deliveries made by Borrower or Guarantor to Lender in accordance herewith or which otherwise evidence, secure and/or govern the Loan.

"LOAN MONTH" means a calendar month.

"LOAN QUARTER" means a calendar quarter.

"LOCKOUT EXPIRATION DATE" means the third anniversary of the Closing.

"MANAGEMENT AGREEMENT" means the property management agreement for the Mortgaged Property between Borrower and Manager, if any.

"MANAGER" means the Person which is the manager of the Mortgaged Property from time to time, which Person must be a Qualified Manager.

"MATERIAL ADVERSE EFFECT" means (A) a material adverse effect upon the business, operations, properties, assets or condition (financial or otherwise) of Borrower, Guarantor or the Mortgaged Property taken as a whole, or (B) the impairment, in any material respect, of the ability of Borrower or Guarantor to perform its respective obligations under any of the Loan Documents or of Lender to enforce any of the Obligations. In determining whether any individual event would result in a Material Adverse Effect, notwithstanding that such event does not of itself have such effect, a Material Adverse Effect shall be deemed to have occurred if the cumulative effect of such event and all other then existing events would result in a Material Adverse Effect.

"MATERIAL CONTRACTS" means (a) the Permitted Encumbrances (not otherwise referred to in this definition of Material Contracts), and (b) those (i) Contracts set forth on Schedule 4.6(C) attached hereto and (ii) other Contracts which, if not complied with by Borrower, could reasonably be expected to have a Material Adverse Effect.

"MATURITY DATE" means the Maturity Date, as defined in Section 2.4(B), or such earlier date as the Loan is prepaid in full or accelerated.

"MAXIMUM RATE" is defined in Section 2.2(C).

"MOODY'S" means Moody's Investors Services, Inc. and its successors and assigns.

"MORTGAGE" means the Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing of even date herewith from Borrower to or for the benefit of Lender, constituting a first Lien on the Mortgaged Property as collateral for the Loan.

"MORTGAGED PROPERTY" means the Land, the Improvements and the Equipment, Fixtures and Personalty, and all of Borrower's now and/or hereafter existing right, title and interest in and to the Inventory, the Accounts, the General Intangibles, the Leases, the Rents and other Gross Revenues, the Proceeds, the Plans and Specifications and all other property of every kind and description used or useful in connection with the ownership, occupancy, operation and maintenance of the other components of the Mortgaged Property and all substitutions therefor, replacements and accessions thereto, and proceeds including "proceeds" (as defined in the UCC) derived therefrom, all as more specifically described in the Mortgage.

"MULTIEMPLOYER PLAN" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which Borrower or any ERISA Affiliate is making, or is accruing an obligation to make, contributions or has made, or been obligated to make, contributions within the preceding six (6) years, or for which Borrower or any ERISA Affiliate has any liability, including contingent liability.

"NET WORTH" means, at any reporting date, for a Person, which shall include such Person's subsidiaries, if any, on either a combined or consolidated basis pursuant to and determined in accordance with GAAP (such combined or consolidated entities are collectively herein called the "SUBJECT PERSON") the total assets of the Subject Person less (i) intangible assets of such Subject Person (including, goodwill, anticipated future benefits of tax loss carry forwards, and organization or developmental expenses and specifically excluding from the definition of intangible assets solely for purposes of this definition, patents, trademarks, service marks, trade names and copyrights) otherwise determined in accordance with GAAP, and less (ii) the total liabilities of such Subject Person, all on either a combined or consolidated basis, as applicable, determined in accordance with GAAP, in each case without duplication.

"NOTE" means the Promissory Note, together with the Substitute Notes and all future advances, extensions, renewals, substitutions, modifications and amendments of the Promissory Note and Substitute Notes.

"OBLIGATIONS" means, in the aggregate, all obligations, liabilities and indebtedness of every nature of Borrower from time to time owed to Lender under the Loan Documents, including the principal amount of all debts, claims and indebtedness, accrued and unpaid interest and all fees, costs and expenses, whether primary, secondary, direct, contingent, fixed or otherwise, heretofore, now and/or from time to time hereafter owing, due or payable to Lender under the Loan Documents whether before or after the filing of a proceeding under the Bankruptcy Code by or against Borrower. The term "Obligations" shall also include any judgment against Borrower or the Mortgaged Property with respect to such obligations, liabilities and indebtedness of Borrower.

"OFAC" is defined in Section 4.9.

"OFFICER'S CERTIFICATE" means the certificate of a president, vice president, or other officer or representative with knowledge of the matters addressed in such certificate.

"ORGANIZATIONAL DOCUMENTS" means, as applicable, for any Person, such Person's articles or certificate of incorporation, by-laws, partnership agreement, trust agreement, certificate of limited partnership, articles of organization, certificate of formation, shareholder agreement, voting trust agreement, operating agreement, limited liability company agreement and/or analogous documents, as amended, modified or supplemented from time to time.

"ORIGINATION FEE" means an amount of money equal to $510,000.

"PAYMENT DATE" means the 10th day of each calendar month commencing on June 10, 2004.

"PERMITTED CONTEST" is defined in Section 5.3(B).

"PERMITTED ENCUMBRANCES" means the matters identified on Exhibit D .

"PERMITTED INDEBTEDNESS" means (a) ordinary and customary trade payables incurred in the ordinary course of business of ownership and operation of the Mortgaged Property which are payable not later than thirty (30) days after receipt of the original invoice which are in fact not more than sixty (60) days overdue, and do not at any one time exceed $500,000 in the aggregate (not including any payables for Impositions or insurance premiums for which amounts have been deposited by Borrower in the Reserve Accounts) and (b) the Loan.

"PERMITTED INVESTMENTS" means any of the investments identified on Schedule 6.4, and any other investments that are approved by Lender in its sole discretion, provided that at all times Lender has a perfected first priority security interest in such investment, and Borrower has provided evidence of such, in form and substance satisfactory to Lender, and provided further that the Lender has approved the maturity of such investments.

"PERSON" means and includes natural persons, corporations, limited liability companies, limited partnerships, general partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof and their respective permitted successors and assigns (or in the case of a governmental person, the successor functional equivalent of such Person).

"PHYSICAL CONDITION REPORT" means the report(s) regarding the physical inspection of the Land and Improvements listed on Schedule 1.1(C).

"PLANS AND SPECIFICATIONS" means the final drawings and specifications for the development and construction of each component part of the applicable Construction (as the same may be amended in accordance with the provisions permitted by this Agreement), as applicable, which plans and specifications and all amendments thereto shall be (i) subject to Lender's approval, which approval shall not be unreasonably withheld or delayed, and (ii) in accordance with all applicable Legal Requirements.

"PREPAYMENT PREMIUM" means the Yield Maintenance Amount. However, if an Event of Default occurs on or before the Lockout Expiration Date and the Loan is accelerated to a date on or before the Lockout Expiration Date, the Prepayment Premium shall be equal to the sum of (a) the Yield Maintenance Amount and (b) five percent (5%) of the principal balance of the Loan.

"PROCEEDS" is defined in Section 8.1.

"PROMISSORY NOTE" means the Promissory Note dated of even date herewith made by Borrower to the order of Lender in the original principal amount of $34,000,000.

"PROPRIETARY RIGHTS" is defined in Section 4.11.

"PUNCH-LIST ITEMS" means details of construction, decoration and mechanical and electrical adjustment which in the aggregate are minor in character and do not materially interfere with the intended use and operation of the applicable Construction.

"QUALIFIED MANAGER" shall mean any property manager reasonably acceptable to Lender that, as of the date of such designation, is a nationally recognized management firm engaged in the business, operation and management of office buildings, laboratories, vivariums, life service facilities or facilities for other similar uses containing in the aggregate at least 1,000,000 square feet of gross leaseable office space which are located in the United States and which is approved by Lender and with respect to which a Rating Agency Confirmation is provided.

"RATING AGENCY CONFIRMATION" shall mean, collectively, an affirmation from each of the Rating Agencies that the credit rating by such Rating Agency of the securities issued in connection with a securitization of the Loan or otherwise secured by a pledge of the Note immediately prior to the occurrence of the event with respect to which such Rating Agency Confirmation is sought will not be qualified, downgraded or withdrawn as a result of the occurrence of such event, which affirmation may be granted or withheld in such Rating Agency's sole and absolute discretion provided, however if the Loan has not been securitized in connection with a Securitization in which some or all of the securities have been rated by one or more of the Rating Agencies, Rating Agency Confirmation means Lender's approval, which approval is not to be unreasonably withheld or delayed.

"RATING AGENCIES" shall mean S&P and Moody's or, if any of such firms shall for any reason no longer perform the functions of a securities rating agency, any other nationally recognized statistical rating agency reasonably designated by Lender; provided, however, that at any time during which the Loan is an asset of a securitization, "Rating Agencies" shall mean the rating agencies that from time to time rate the securities issued in connection with such securitization. If the Loan is not an asset in a securitization, Rating Agency shall mean those rating agencies designated by Lender from time to time.

"RENTS" shall mean all of Borrower's right, title and interest in and to rents, income, receipts, royalties, profits, issues, service reimbursements, fees, termination payments receivables, accounts receivable and payments from or related to the Land and/or Improvements from time to time accruing from the operation of the Land and/or Improvements.

"REQUEST FOR RELEASE" means a request from Borrower to Lender in connection with a request for disbursement from the applicable Reserve accompanied by the following items, which request and items are subject to the approval of Lender not to be unreasonably withheld, conditioned or delayed: (a) currently dated certificate approved by Borrower from a Contractor, the Independent Architect, if any, and Lender's Representative, if any, on a form to be reasonably approved by Lender; (b) the Required Lien Waivers in form and substance reasonably satisfactory to Lender; (c) if requested by Lender, from time to time, the requisitions for payment then the subject of such Request for Release from subcontractors and material suppliers engaged in the construction of the applicable Construction in form and content reasonably satisfactory to Lender; (d) an Inspection Certificate of an architect approved by Lender based upon an on-site inspection of the applicable Construction made by the Independent Architect and confirmed by Lender's Representative, if any, which shall certify to all work for which such Request for Release has been completed; (e) evidence reasonably satisfactory to Lender of Construction Legal Compliance in the form of (i) a certificate of an Independent Architect as to items (a), (b) and (c) of the definition of Construction Legal Compliance (together with copies of the applicable entitlements, approvals, allocations, permits, licenses and conditional use permits), (ii) a certificate from the Borrower Representative as to item (d) of the definition of Construction Legal Compliance (which certificate may, as to "threatened" matters, be qualified to "such Person's knowledge following due inquiry") and (iii) such other showings, certificates, reports and items as Lender or Lender's Representative, if any, may reasonably request to confirm Construction Legal Compliance; (f) a date-down endorsement to the Title Policy dating the Title Policy down to the date and time of the requested disbursement; and (g) such other information and documents as may be reasonably requested or required by Lender or Lender's Representative, if any, including, but not limited to, certificates, inspections, date-down and other title policy endorsements, invoices, receipts, estoppel certificates, permits, licenses and certificates of occupancy, affidavits and other documents, appropriate for the applicable stage of Construction.

"REQUIRED CAPITAL IMPROVEMENTS" is defined in Section 5.12.

"REQUIRED COMPLETION DATE" means with respect to the Required Capital Improvements the applicable date for the applicable component of the Required Capital Improvements identified on Exhibit E.

"REQUIRED LIEN WAIVERS" means, waivers of liens executed by (a) for each Request for Release, Contractor and each design professional with whom Borrower has a direct agreement, respectively, waiving their respective rights, if any, and any right of a subcontractor claiming through or under any of them, to file or maintain any construction liens or claims, all in such form containing such provisions as may be reasonably required by Lender and in accordance with applicable law and (b) for each Request for Release that includes a request for final payment to any subcontractor, such subcontractor, waiving its right to file or maintain any construction liens or claims, all in such form and containing such provisions as may be reasonably required by Lender executed with respect to and applicable to the extent such subcontractor has received payment. Such waivers may be conditioned upon payment for work performed and materials supplied; provided, that the Request for Release that includes the request described in clause (b) above shall include (and in the case of the final Request for Release, within ten (10) days after the funding of such final Request for Release, Borrower shall

deliver to Lender) a duly executed, unconditional waiver for each Person described in clauses (a) or (b) above.

"REQUIRED RESTORATION DATE" is defined in Section 8.1.

"RESERVE ACCOUNT COLLATERAL" is defined in Section 6.5.

"RESERVE ACCOUNTS" means the Insurance Reserve Account, the Tax Reserve Account and any other securities or deposit accounts required to be maintained pursuant to this Agreement or the other Loan Documents.

"RESERVES" means the Tax Reserve and the Insurance Reserve.

"RESTORATION" is defined in Section 8.1.

"S&P" means Standard & Poor's Rating Service and its successors and assigns.

"SECURE AREAS" means the restricted access areas located within (i) that certain building containing approximately 29,600 square feet of rentable area, commonly referred to as the "Original Vivarium" and (ii) that certain building containing approximately 60,000 square feet of rentable area, commonly referred to as the "New Vivarium" in which access to such areas is restricted in order to provide a specific pathogen free environment, such restricted access areas being commonly referred to as the "area behind the barrier."

"SECURITIES" means any stock, shares, voting trust certificates, bonds, debentures, options, warrants, notes, or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "securities" or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

"SECURITIZATION" is defined in Section 10.1.

"SERVICER" is defined in Section 10.1.

"SPECIAL PURPOSE BANKRUPTCY REMOTE ENTITY" is defined in Schedule 7.13.

"SUBSIDIARY" means, with respect to any Person (the "PARENT") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than fifty percent (50%) of the equity or more than fifty percent (50%) of the ordinary voting power or, in the case of a partnership, more than fifty percent (50%) of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more Subsidiaries of the parent or by the parent and one or more Subsidiaries of the parent.

"SUBSTANTIAL COMPLETION AND SUBSTANTIALLY COMPLETED" means the satisfaction of all of the following conditions: (a) the date when the applicable Construction shall have been completed (except for Punch List Items and minor items which can be fully completed without material interference with the use and operation of the Mortgaged Property) in accordance with the applicable Plans and Specifications as certified by the Independent Architect on standard AIA-G702 forms and approved by Lender's Representative, if any, and Lender, such approval not to be unreasonably withheld or delayed; (b) all material permits and approvals required for the normal use and occupancy of the applicable Construction (including a certificate of occupancy if required for occupancy under applicable Legal Requirements) shall have been issued by the appropriate Governmental Authority and shall be in full force and effect; and (c) the applicable Construction shall have been equipped with all fixtures and equipment required for the intended use and operation of the Required Capital Improvements.

"SUBSTITUTE NOTE" means all notes given in substitution or exchange for the Promissory Note or another Substitute Note.

"TAX ABATEMENT AGREEMENTS" means, collectively, the Tax Abatement Agreement dated as of December 1, 2000, by and among Wells Fargo Bank Northwest, National Association (formerly First Security Bank, National Association), not in its individual capacity but solely as the Owner Trustee under the LEXI TRUST 2000-1, Guarantor and Montgomery County, Texas, as amended, and that certain Assessment Abatement Agreement dated as of December 4, 2000, by and between Wells Fargo Bank Northwest, National Association (formerly First Security Bank, National Association), not in its individual capacity but solely as the Owner Trustee under the LEXI TRUST 2000-1, Guarantor and The Woodlands Commercial Owners Association, as amended.

"TAX RESERVE" is the reserve for Impositions established pursuant to Section 5.5.

"TAX RESERVE ACCOUNT" shall have the meaning provided in Section 6.1.

"TENANT IMPAIRMENT EVENT" means any one or more of the following has occurred: (a) the tenant under the Guarantor Lease has commenced or is the subject of a proceeding under the Bankruptcy Code; or (b) a default by the tenant under the Guarantor Lease shall have occurred which is not cured prior to the expiration of the applicable grace or curative period, if any, in such Lease.

"TITLE COMPANY" means Commonwealth Land Title Insurance Company.

"TITLE POLICY" means a the mortgagee's policy of title insurance issued on the standard Texas form by the Title Company, together with such reinsurance and direct access agreements as Lender may require, insuring that the Mortgage is a valid first and prior enforceable lien on Borrower's fee simple interest in the Mortgaged Property (including any easements appurtenant thereto but excluding any non-real estate property interests included in the definition of Mortgaged Property) subject only to the Permitted Encumbrances. The Title Policy shall contain such endorsements as Lender may require.

"TOTAL DEBT/CAPITALIZATION" means, at any reporting date, for a Person, the percentage equal to (A) the sum of the long term debt (including any amounts for operating lease debt

equivalents) of such Person plus the amount of any current maturities, commercial paper and other short-term borrowings (the "TOTAL DEBT") divided by (B) the sum of the Total Debt plus the amount of shareholder's equity (including any preferred stock) plus minority interests.

"TOTAL LOSS" means (i) a casualty, damage or destruction of the Mortgaged Property, the cost of restoration of which (as reasonably determined by Lender) would exceed $40,000,000, (ii) a permanent taking of fifty percent (50%) or more of the gross leasable area of the Land or Improvements, (iii) a permanent taking of fifty percent (50%) or more of the automobile parking spaces located on the Land or such number of parking spaces as would cause the Borrower or the Mortgaged Property to cease to comply with applicable Legal Requirements or Material Contracts, or (iv) a permanent taking of so much of the Land or Improvements, in either case, such that it would be impracticable, in Lender's reasonable discretion, even after restoration, to operate the Mortgaged Property as an economically viable whole.

"TRANSFER" means, (a) when used as a verb, to, directly or indirectly, lease, sell, assign, convey, give, exchange, devise, mortgage, encumber, pledge, hypothecate, alienate, grant a security interest, or otherwise create or suffer to exist any Lien, transfer or otherwise dispose, or to contract or agreement to do any of the foregoing, whether by operation of law, voluntarily, involuntarily or otherwise as well as any other action or omission which has the practical effect of initiating or completing the foregoing and (b) when used as a noun, a direct or indirect, lease, sale, assignment, conveyance, gift, exchange, devise, mortgage, encumbrance, pledge, hypothecation, alienation, grant of a security interest or other creation or sufferance of a Lien, transfer of other disposition, or contract or agreement by which any of the foregoing may be effected, whether by operation of law, voluntary or involuntary and any other action or omission which has the practical effect of initiating or completing the foregoing.

"TREASURY RATE" means the annualized yield on securities issued by the United States Treasury having a maturity corresponding to the remaining term to the originally scheduled Maturity Date, as quoted in Federal Reserve Statistical Release H. 15(519) under the heading "U.S. Government Securities - Treasury Constant Maturities" for the Treasury Rate Determination Date (as defined below), converted to a monthly equivalent yield. If yields for such securities of such maturity are not shown in such publication, then the Treasury Rate shall be determined by Lender by linear interpolation between the yields of securities of the next longer and next shorter maturities. If said Federal Reserve Statistical Release or any other information necessary for determination of the Treasury Rate in accordance with the foregoing is no longer published or is otherwise unavailable, then the Treasury Rate shall be reasonably determined by Lender based on comparable data.

"TREASURY RATE DETERMINATION DATE" means the date which is five (5) Business Days prior to the scheduled prepayment date.

"UCC" means the Uniform Commercial Code as in effect in the State of New York.

"UCC COLLATERAL" is defined in Section 2.9.

"U.S. GOVERNMENT OBLIGATIONS" means any direct obligations of, or obligations guaranteed as to principal and interest by, the United States Government or any agency or

instrumentality thereof, provided that such obligations are backed by the full faith and credit of the United States. Any such obligation must be limited to instruments that have a predetermined fixed dollar amount of principal due at maturity that cannot vary or change. If any such obligation is rated by S&P, it shall not have an "r" highlighter affixed to its rating. Interest must be fixed or tied to a single interest rate index plus a single fixed spread (if any), and move proportionately with said index. U.S. Government Obligations include, but are not limited to: U.S. Treasury direct or fully guaranteed obligations, Farmers Home Administration certificates of beneficial ownership, General Services Administration participation certificates, U.S. Maritime Administration guaranteed Title XI financing, Small Business Administration guaranteed participation certificates or guaranteed pool certificates, U.S. Department of Housing and Urban Development local authority bonds, and Washington Metropolitan Area Transit Authority guaranteed transit bonds. In no event shall any such obligation have a maturity in excess of one hundred eighty (180) days.

"YIELD MAINTENANCE AMOUNT" means (A) the net present value of all future payments of principal and interest due for the remainder of the Term, discounted, each from the date such payments are due to the date of the prepayment, at the result of the Treasury Rate divided by 12, less (B) the then outstanding principal balance of the Loan; such Yield Maintenance Amount can never be less than zero; provided, however, for purposes of any partial prepayment, all references to the remaining outstanding principal balance of the Loan shall instead refer to the amount of such partial prepayment. For purposes of computing the Yield Maintenance Amount with regard to Section 2.4(C)(iii), the date of prepayment shall be deemed the date the Loan is accelerated.

1.2 TERMS; UTILIZATION OF GAAP FOR PURPOSES OF FINANCIAL STATEMENTS UNDER AGREEMENT.

For purposes of this Agreement, all accounting terms not otherwise defined herein shall have the meanings assigned to such terms in conformity with GAAP. Financial statements and other information furnished to Lender pursuant to subsection 5.1 shall be prepared in accordance with GAAP as in effect at the time of such preparation. No Accounting Changes shall affect financial covenants, standards or terms in this Agreement; provided, that Borrower shall prepare footnotes to the financial statements required to be delivered hereunder that show the differences between the financial statements delivered (which reflect such Accounting Changes) and the basis for calculating financial covenant compliance (without reflecting such Accounting Changes).

1.3 OTHER DEFINITIONAL PROVISIONS.

References to "SECTIONS," "EXHIBITS" and "SCHEDULES" shall be to Sections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. Any of the terms defined in Section 1.1 may, unless the context otherwise requires, be used in the singular or the plural depending on the reference. In this Agreement, "HEREOF," "HEREIN," "HERETO," "HEREUNDEr" and the like mean and refer to this Agreement as a whole and not merely to the specific section, paragraph or clause in which the respective word appears; words importing any gender include the other genders; references to "WRITING" include printing, typing, lithography and other means of reproducing words in a tangible visible form; the words "INCLUDING,"

"INCLUDES" and "INCLUDE" shall be deemed to be followed by the words "WITHOUT LIMITATION"; the phrase "AND/OR" shall mean that either "and" or "or" may apply; the phrases "ATTORNEYS' FEES," "LEGAL FEES" and "COUNSEL FEES" shall include any and all attorneys', paralegal and law clerk fees and disbursements, including court costs, fees and disbursements at the pre-trial, trial and appellate levels incurred or paid by Lender in protecting its interest in the Mortgaged Property and the Collateral and enforcing its rights hereunder and/or the other Loan Documents; references to agreements and other contractual instruments shall be deemed to include subsequent amendments, assignments, and other modifications thereto, but only to the extent such amendments, assignments and other modifications are not prohibited by the terms of this Agreement or any other Loan Document; references to Persons include their respective permitted successors and assigns or, in the case of governmental Persons, Persons succeeding to the relevant functions of such Persons; references to a Person's "KNOWLEDGE" in this Agreement or the other Loan Documents refers to the actual knowledge of the Person in question and such knowledge as a reasonably prudent Person would have acquired by virtue of such inquiry and due diligence as a reasonably prudent Person would have undertaken and all references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations.

SECTION 2
AMOUNTS AND TERMS OF THE LOAN

2.1 LOAN DISBURSEMENT AND NOTE. Subject to the terms and conditions of this Agreement, Lender shall lend the Loan to Borrower on the Closing Date. The proceeds of the Loan shall be used to (i) satisfy the Existing Indebtedness encumbering the Mortgaged Property; and (ii) satisfy actual, documented closing costs related to the Loan and approved by Lender. The disbursement of the Loan in accordance with the foregoing shall be made on the Closing Date. The Loan shall be evidenced by the Note. The Obligations of Borrower under this Agreement, the Note and the other Loan Documents are secured by, among other things, the Mortgage and the Liens created or arising under the other Loan Documents.

2.2 INTEREST.

(A) INTEREST RATE. Subject to the provisions of Section 2.2(C) hereof, the outstanding principal balance of the Loan shall bear interest at the Base Rate. However, (a) during the existence of any Event of Default, or (b) after the Maturity Date or earlier upon acceleration of the Loan, the principal amount of the Loan shall bear interest ("DEFAULT INTEREST") at the Default Rate. With respect to any scheduled payments of principal and interest (excluding the payment due on the Maturity Date), Borrower will be entitled to a grace period of five (5) days from such date before Default Interest is imposed by reason of such late payment; provided, however, such grace period will not be available more than once in any twelve (12) Loan Month period and if Borrower fails to make the required payment within said five (5) day period, Default Interest will be calculated from the original due date. Except as set forth in the preceding sentence, the Default Interest shall commence, without notice, immediately upon and from the occurrence of (a) or (b) above, as the case may be, and shall continue until all Events of Default are cured and all sums then due and payable under the Loan Documents are paid in full; provided that in the event of any monetary Event of Default, Default Interest shall be calculated from the date the

applicable Default actually occurred. Default Interest shall be payable upon demand, and, to the extent unpaid, shall be compounded monthly at the Default Rate.

(B) COMPUTATION AND PAYMENT OF INTEREST. Interest on the Loan and all other Obligations owing to Lender shall be computed on the daily principal balance of the Note on the basis of actual days elapsed and a three hundred sixty (360)-day year. Interest on the Loan is payable in arrears. Payments of interest shall be paid to Lender as specified in Section 2.3. In addition, all accrued and unpaid interest shall be paid to Lender on the earlier of the date of prepayment (to the extent prepayment is permitted under Section 2.4) and maturity, whether by acceleration or otherwise. The Loan shall commence to bear interest on the date the proceeds of the Loan are to be disbursed to or for the order of Borrower, provided, however, if the proceeds are disbursed to an escrowee, the Loan shall commence to bear interest from and including the date of disbursement to such escrowee regardless of the date such proceeds are disbursed from escrow.

(C) INTEREST LAWS. Notwithstanding any provision to the contrary contained in this Agreement or the other Loan Documents, Borrower shall not be required to pay, and Lender shall not be permitted to collect, any amount of interest in excess of the maximum amount of interest permitted by law ("EXCESS INTEREST"). If any Excess Interest is provided for or determined by a court of competent jurisdiction to have been provided for in this Agreement or in any of the other Loan Documents, then in such event: (1) the provisions of this Section shall govern and control; (2) Borrower shall not be obligated to pay any Excess Interest; (3) any Excess Interest that Lender may have received hereunder shall be, at Lender's option, (a) applied as a credit against the outstanding principal balance of the Obligations due and owing to Lender (without any prepayment penalty or premium therefor) or for accrued and unpaid interest thereunder (not to exceed the maximum amount permitted by law), (b) refunded to the payor thereof, or (c) any combination of the foregoing; (4) the interest rate(s) provided for herein shall be automatically reduced to the maximum lawful rate allowed from time to time under applicable law (the "MAXIMUM RATE"), and this Agreement and the other Loan Documents shall be deemed to have been and shall be, reformed and modified to reflect such reduction; and (5) Borrower shall not have any action against Lender for any damages arising out of the payment or collection of any Excess Interest. Notwithstanding the foregoing, if for any period of time interest on any Obligation due and owing to Lender is calculated at the Maximum Rate rather than the applicable rate under this Agreement, and thereafter such applicable rate becomes less than the Maximum Rate, the rate of interest payable on such Obligations due and owing to Lender shall, to the extent permitted by law, remain at the Maximum Rate until Lender shall have received or accrued the amount of interest which Lender would have received or accrued during such period on Obligations due and owing to Lender had the rate of interest not been limited to the Maximum Rate during such period. All sums paid or agreed to be paid to Lender for the use, forbearance or detention of the Obligations of Borrower to Lender shall, to the extent permitted by applicable law, (i) be amortized, prorated, allocated and spread throughout the full term of such Obligations until payment in full so that the actual rate of interest on account of such Obligations does not exceed the Maximum Rate throughout the term thereof, (ii) be characterized as a fee, expense or other charge other than interest, and/or (iii) exclude any voluntary prepayments and the effects thereof.

(D) LATE CHARGES. If any scheduled payment of principal and/or interest or other amount owing pursuant to this Agreement or the other Loan Documents (excluding the payment due on the Maturity Date) is not paid when due, Borrower shall pay to Lender, in addition to all sums otherwise due and payable, a late charge ("LATE CHARGE") in an amount equal to five percent (5%) of the unpaid amount. With respect to regular monthly payments of principal and/or interest, Borrower will be entitled to a grace period of five (5) days (five (5) Business Days with respect to any non-scheduled payment due pursuant to this Agreement or the other Loan Documents) from the date due before a late charge is imposed by reason of such late payment; provided, however, such grace period will not be available more than once in any consecutive twelve (12) month period. Any unpaid late charge shall bear interest at the Default Rate until paid.

2.3 PAYMENTS.

Interest for the period commencing on the date of disbursement of the Loan and ending on May 9, 2004 shall be paid on the Closing Date. On each Payment Date thereafter commencing with the Payment Date occurring on June 10, 2004, Borrower shall pay to Lender interest on the outstanding principal of the Loan accrued from and including the immediately preceding Payment Date, to, but not including, the Payment Date on which such payment is to be made. Commencing on June 10, 2004, and on each Payment Date thereafter, principal of the Loan evidenced by the Note shall be paid to Lender in monthly installments of principal and interest in an amount equal to Two Hundred Eighty-Nine Thousand Two Hundred Seventy-Five and 64/100 Dollars ($289,275.64) per month, which amount shall be sufficient to amortize the full principal amount outstanding as of the date of disbursement of the Loan over a twenty (20) year term (such amortization schedule is attached hereto as Schedule 2.3). A balloon payment will be required on the Maturity Date as set forth on Schedule 2.3.

2.4 PAYMENTS AND PREPAYMENTS ON THE LOAN.

(A) MANNER AND TIME OF PAYMENT. Borrower agrees to pay all of the Obligations relating to the Loan as such amounts become due or are declared due pursuant to the terms of this Agreement and the other Loan Documents. All payments shall be made without deduction, defense, setoff or counterclaim by the wire transfer of good immediately available wire transferred federal funds to Lender's account at JP Morgan Chase Bank for the account of Lender, Reference: The Lexicon Campus, or at such other place as Lender may direct from time to time by five (5) days' advance written notice to Borrower. Borrower shall receive credit for such funds on the date received if such funds are received by Lender by 1:00 P.M. (New York time) on such day. In the absence of timely receipt, such funds shall be deemed to have been paid by Borrower on the following Business Day. Whenever any payment to be made under the Loan Documents shall be stated to be due on a day that is not a Business Day, or any time period relating to a payment to be made hereunder is stated to expire on a day that is not a Business Day, the payment may be made on the following Business Day and the period will not expire until the following Business Day.

(B) MATURITY. The outstanding principal balance of the Loan, all accrued and unpaid interest thereon and all other sums owing to Lender pursuant to the Loan Documents, shall be due and payable on April 21, 2014 (the "MATURITY DATE").

(C) PREPAYMENTS.

(i) Except as otherwise provided in Section 5.3(C), Section 8.1 or Section 11.17 herein, no prepayment of the Loan shall be allowed in whole or in part, on or prior to the Lockout Expiration Date other than principal payments required pursuant to Section 2.3. Thereafter, the Loan may be prepaid, in whole, but not in part, upon not less than thirty (30) days' prior notice to Lender. Any prepayments on the principal balance of the Loan evidenced by the Note whether voluntary or involuntary, shall be accompanied by payment of interest accrued to the date of prepayment, together with the applicable Prepayment Premium.

(ii) In the event of (a) the payment of any principal of any Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default) or (b) the failure to borrow or prepay the Loan on the date specified in any notice delivered pursuant to this Agreement or the other Loan Documents (regardless of whether such notice was revoked by Borrower prior to such prepayment), then, in any such event and, in addition to the payments to be made to Lender pursuant to 2.4(C)(i), Borrower agrees to compensate Lender for all out-of-pocket losses, costs, expenses and damages Lender may incur attributable to such event. A certificate of Lender setting forth any amount or amounts that Lender is entitled to receive pursuant to this Section shall be delivered to Borrower and shall be conclusive absent manifest error. Borrower shall pay Lender the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(iii) If, following an Event of Default, payment of all or any part of the Loan is tendered by Borrower or otherwise recovered by Lender, such tender or recovery shall be deemed a voluntary prepayment by Borrower in violation of the prohibition against prepayment set forth in Section 2.4(C)(i) and Borrower shall pay to Lender, in addition to the other Obligations, the Prepayment Premium. If the Maturity Date is accelerated, due to an Event of Default or otherwise, or if any prepayment of all or any portion of the Loan hereunder occurs, whether in connection with Lender's acceleration of the Loan or otherwise, or if the Mortgage is satisfied or released by foreclosure (whether by power of sale or judicial proceeding), deed in lieu of foreclosure or by any other means, then the Prepayment Premium shall become immediately due and owing and Borrower shall immediately pay the Prepayment Premium to Lender. Nothing contained in this Section 2.4(C)(iii) shall create any right of prepayment.

2.5 LENDER'S RECORDS; MUTILATED, DESTROYED OR LOST NOTES. The balance on Lender's books and records shall be presumptive evidence (absent manifest error) of the amounts due and owing to Lender by Borrower; provided that any failure to so record or any error in so recording shall not limit or otherwise affect Borrower's obligation to pay the Obligations. In case any Note shall become mutilated or defaced, or be destroyed, lost or stolen, Borrower shall, upon request from Lender, execute and deliver a new Note of like principal amount in exchange and substitution for the mutilated or defaced Note, or in lieu of and in substitution for the destroyed, lost or stolen Note. In the case of a mutilated or defaced Note, the mutilated or defaced Note shall be surrendered to Borrower upon delivery to Lender of the new Note. In the case of any destroyed, lost or stolen Note, Lender shall furnish to Borrower, upon delivery to Lender of the

new Note (i) certification of the destruction, loss or theft of such Note and (ii) such security or indemnity as may be reasonably required by Borrower to hold Borrower harmless.

2.6 TAXES. Any and all payments or reimbursements made under the Agreement, the Note or the other Loan Documents shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto arising out of or in connection with the transactions contemplated by the Loan Documents; excluding, however, the following: taxes imposed on the income of Lender by any jurisdiction or any political subdivision thereof; taxes that are not directly attributable to the Loan; and any "doing business" taxes, however denominated, charged by any state or other jurisdiction (all such taxes, levies, imposts, deductions, charges or withholdings and all liabilities with respect thereto, excluding such taxes imposed on income, taxes not directly attributable to the Loan and any "doing business" taxes, herein "TAX LIABILITIES"). If Borrower shall be required by law to deduct any such amounts from or in respect of any sum payable hereunder to Lender, then the sum payable hereunder shall be increased as may be necessary so that, after making all required deductions, Lender receives an amount equal to the sum it would have received had no such deductions been made. In the event that, subsequent to the Closing Date, (1) any changes in any existing law, regulation, treaty or directive or in the interpretation or application thereof, (2) any new law, regulation, treaty or directive enacted or any interpretation or application thereof, or (3) compliance by Lender with any new request or directive (whether or not having the force of law) from any governmental authority, agency or instrumentality does or shall subject Lender to any tax of any kind whatsoever with respect to this Agreement, the other Loan Documents or the Loan, or change the basis of taxation of payments to Lender of principal, fees, interest or any other amount payable hereunder (except for income taxes, or franchise taxes imposed in lieu of income taxes, imposed generally by federal, state or local taxing authorities with respect to interest or commitment or other fees payable hereunder or changes in the rate of interest or tax on the overall income of Lender, taxes that are not directly attributable to the Loan and any "doing business" taxes, however denominated, charged by any state or other jurisdiction) and the result of any of the foregoing is to increase the cost to Lender of making or continuing its Loan hereunder, as the case may be, or to reduce any amount receivable hereunder, then, in any such case, Borrower shall promptly pay to Lender, within thirty (30) days after its demand, any additional amounts necessary to compensate Lender, on an after-tax basis, for such additional cost or reduced amount receivable, as determined by Lender with respect to this Agreement or the other Loan Documents. If Lender becomes entitled to claim any additional amounts pursuant to this Section 2.6, it shall promptly notify Borrower of the event by reason of which Lender has become so entitled.

2.7 APPLICATION OF PAYMENTS. Except as otherwise expressly provided in the last sentence of this Section 2.7, all payments made hereunder shall be applied first, to the payment of any Late Charges and other sums (other than principal and interest) due from Borrower to Lender under the Loan Documents, second, to any interest then due at the Default Rate, third to interest then due at the Base Rate, and last to the principal amount. Following and during the continuance of an Event of Default, all sums collected by Lender shall be applied in such order of priority to such items set forth below as Lender shall determine in its sole discretion: (i) to the costs and expenses, including reasonable attorneys' and paralegals' fees and costs of appeal, incurred in the collection of any or all of the Loan due or the realization of any collateral securing any or all

of the Loan; and (ii) to any or all unpaid amounts owing pursuant to the Loan Documents in any order of application as Lender, in its sole discretion, shall determine.

2.8 ORIGINATION FEE. Borrower shall pay the Origination Fee to Lender on the Closing Date.

2.9 SECURITY AGREEMENT. To secure the payment, performance and discharge of the Obligations, Borrower hereby grants, assigns, transfers, conveys and sets over unto Lender, and hereby grants to Lender a continuing first priority, perfected security interest in all of Borrower's right, title and interest in, to and under any and all of the following, whether now and/or existing and/or now owned and/or hereafter acquired and/or arising:

(1) the Accounts;

(2) the Contracts;

(3) the Reserve Accounts and other Reserve Account Collateral;

(4) the Equipment, Fixtures and Personalty;

(5) the General Intangibles;

(6) the Leases;

(7) the Inventory;

(8) the Management Agreement(s);

(9) the Rents and other Gross Revenues;

(10) the Proceeds; and

(11) together with all accessions to, substitutions for, and replacements of, any of the foregoing and any and all products and cash and non-cash proceeds of any of the foregoing (collectively, the "UCC COLLATERAL").

With respect to all UCC Collateral constituting a part of the Mortgaged Property, including, without limitation, the Accounts, this Agreement shall constitute a "security agreement" within the meaning of, and shall create a security interest under, the UCC. Borrower hereby acknowledges and agrees that Lender shall be permitted to file one or more financing statements naming Borrower as debtor and Lender as secured party identifying "the Accounts, the Contracts, the Reserve Accounts and other Reserve Account Collateral, the Equipment, Fixtures and Personalty, the General Intangibles, the Leases, the Inventory, the Management Agreements, the Rents and other Gross Revenues and the Proceeds" of Borrower in the collateral description thereon. As to the UCC Collateral, the grant, transfer, and assignment provisions of this Section 2.9 shall control over the grant provision of Section 2.1 of the Mortgage. Borrower represents and warrants that, except for any financing statement filed by Lender, no presently effective financing statement covering the Collateral or any part thereof has been filed with any filing officer, and no other security interest has attached to or has been perfected in the Collateral or any part thereof. Borrower shall from time to time within fifteen (15) days after request by Lender, execute, acknowledge and deliver, or authorize the filing of any financing statement, renewal, affidavit, certificate, continuation statement or other document as Lender may reasonably request in order to evidence, perfect, preserve, continue, extend or maintain this security agreement and the security interest created hereby as a first priority Lien on the UCC Collateral, subject only to the Permitted Encumbrances.

2.10 CERTAIN SECURED PARTY REMEDIES. If an Event of Default shall have occurred and be continuing, Lender shall have all the remedies of a secured party under the UCC and all other

rights and remedies now or hereafter provided or permitted by law, including, without limitation, the right to take immediate and exclusive possession of the UCC Collateral, or any part thereof, and for that purpose Lender may, as far as Borrower can give authority therefor, with or without judicial process, enter (if this can be done without breach of the peace) upon any premises on which any of the Collateral or any part thereof may be situated. Without limitation of the foregoing, Lender shall be entitled to hold, maintain, preserve and prepare all of the Collateral for sale and to dispose of said Collateral, if Lender so chooses, from the Mortgaged Property provided that Lender may require Borrower to assemble such UCC Collateral and make it available to Lender for disposition at a place to be designated by Lender from which the UCC Collateral would be sold or disposed of, and provided further that, for a reasonable period of time prior to the disposition of such UCC Collateral, Lender shall have the right to use same in the operation of the Mortgaged Property. Borrower will execute and deliver to Lender any and all forms, documents, certificates and registrations as may be necessary or appropriate to enable Lender to sell and deliver good and clear title to the UCC Collateral to the buyer at the sale as herein provided. Unless the UCC Collateral is of the type customarily sold on a recognized market, Lender will give Borrower at least ten (10) days' written notice of the time and place of any public sale of such UCC Collateral or of the time after which any private sale or any other intended disposition thereof is to be made. The requirements of reasonable notice shall be met if such notice is given to Borrower in writing at least ten (10) days before the time of the sale or disposition. Lender may buy at any public sale and, if the UCC Collateral is of a type customarily sold in a recognized market or is a type which is the subject of widely distributed standard price quotations, it may buy at private sale. Unless Lender shall otherwise elect, any sale of the UCC Collateral shall be solely as a unit and not in separate lots or parcels, it being expressly agreed, however, that Lender shall have the absolute right to dispose of such UCC Collateral in separate lots or parcels. Lender shall further have the absolute right to elect to sell the UCC Collateral as a unit with, and not separately from, the Land and Improvements constituting a portion of the Mortgaged Property. The net proceeds realized upon any disposition of the UCC Collateral, after deduction for the expenses of retaining, holding, preparing for sale, selling and the like and the attorneys' fees and legal expenses incurred by Lender shall be applied towards satisfaction of such of the Obligations secured hereby, and in such order of application, as Lender may elect. If all of the Obligations are satisfied, Lender will account to Borrower for any surplus realized on such disposition.

SECTION 3
CONDITIONS TO LOAN

3.1 CONDITIONS TO FUNDING OF THE LOAN ON THE CLOSING DATE.

The obligation of Lender to disburse the Loan is subject to the prior or concurrent satisfaction of the conditions set forth below.

(A) PERFORMANCE OF AGREEMENTS; TRUTH OF REPRESENTATIONS AND WARRANTIES; NO INJUNCTION. Borrower, Guarantor and all other Persons executing any Loan Document on behalf of Borrower and Guarantor shall have performed in all material respects all agreements which any of the Loan Documents provide shall be performed on or before the Closing Date. The representations and warranties contained in the Loan Documents shall be true, correct and complete in all material respects on and as of the Closing Date to the same extent as though

made on and as of that date. No Legal Requirements shall have been adopted, no order, judgment or decree of any Governmental Authority shall have been issued or entered, and no litigation shall be pending or threatened, which in the reasonable judgment of Lender would enjoin, prohibit or restrain, or impose or result in an adverse effect upon the making, borrowing or repayment of the Loan or the execution, delivery or performance of the Loan Documents. No Default or Event of Default shall have occurred and then be continuing.

(B) OPINION OF COUNSEL. Lender shall have received and approved written opinions of counsel for Borrower, Guarantor and Borrower Representative, in form and substance reasonably satisfactory to Lender and its counsel, dated as of the Closing Date. By execution of this Agreement, Borrower authorizes and directs its counsel to render and deliver such opinions to Lender.

(C) LOAN DOCUMENTS. On or before the Closing Date, Borrower shall execute and deliver and cause to be executed and delivered, to Lender all of the Loan Documents, each, unless otherwise noted, dated the Closing Date, duly executed, in form and substance satisfactory to Lender and in quantities designated by Lender (except for the Promissory Note, of which only the original shall be executed). Borrower hereby authorizes Lender to file the financing statements in such filing offices as Lender elects.

(D) [Intentionally Omitted.]

(E) INSURANCE POLICIES AND ENDORSEMENTS. Lender shall have received and approved the original policies of insurance required to be maintained under this Agreement and the other Loan Documents, together with endorsements satisfactory to Lender naming Lender as additional insured under such policies. If such policies are not delivered to Lender, Lender must receive and approve a copy of the insurance policies in question and evidence of such insurance required to be maintained in connection with this Agreement.

(F) ORGANIZATIONAL AND AUTHORIZATION DOCUMENTS. Lender shall have received all documents reasonably requested by Lender, including all Organizational Documents, with regard to the due organization, existence, internal governance, power and authority, due authorization, execution and delivery, authorization to do business and good standing of Borrower, Guarantor and the Borrower Representative, the validity and binding effect of the Loan Documents and other matters relating thereto, in form and substance reasonably satisfactory to Lender.

(G) CLOSING STATEMENT. Lender shall have received and approved a closing and disbursement statement executed by Borrower with respect to the disbursement of the proceeds of the Loan.

(H) FINANCIAL STATEMENTS. Lender shall have received financial statements of Guarantor as of December 31, 2003. Lender shall have received (a) audited historical operating statements for the Mortgaged Property (such statements may be unaudited, to the extent audited statements are not available), for the calendar years 2002 and 2003, and unaudited financial statements for 2004 (to date); (b) audited financial statements for Guarantor for the calendar years 2002 and 2003, and unaudited financial statements for the calendar year 2004 (to date); and (c) a pro forma balance sheet of Borrower dated the Closing Date giving effect to the making of

the Loan and the transactions occurring on the Closing Date, each accompanied by an Officer's Certificate of the Borrower Representative.

(I) BUDGET AND CAPITAL PLAN. Lender shall have received and approved the initial Budget and initial Capital Plan for Borrower.

(J) APPOINTMENT OF AGENT FOR SERVICE OF PROCESS. Lender shall have received and approved a letter appointing (and accepted by) CT Corporation System as Borrower's and Guarantor's agent for service of process.

(K) MATERIAL CONTRACTS AND OTHER AGREEMENTS. Lender shall have received and approved true, correct and complete certified copies of each Material Contract, all other operating agreements, service contracts and equipment leases and all permits, licenses and documents pertaining to the Proprietary Rights relating to the Mortgaged Property. Lender shall have received executed estoppel certificates from all Parties to the Material Contracts designated by Lender (and not otherwise addressed in this Section 3.1).

(L) ENVIRONMENTAL ASSESSMENTS, PHYSICAL CONDITION REPORTS AND LENDER'S INSPECTION AND PLANS AND SPECIFICATIONS. Lender shall have received and approved the Environmental Reports and Physical Condition Reports relating to the Mortgaged Property, together with letters from the preparer(s) thereof permitting Lender to rely upon the Environmental Reports and Physical Condition Reports. To the extent in the possession of, or reasonably obtainable by, the Borrower, a true, correct and complete copy of "as-built" plans and specifications for the Improvements.

(M) TITLE POLICY, SURVEY, SEARCHES, PERFECTION AND PRIORITY. Lender shall have received and approved (i) the Title Policy and (ii) a plat of survey of the Land, Improvements and other components of the Mortgaged Property constituting real estate certified to such Persons as Lender may designate and prepared in accordance with Lender's requirements. Lender shall have received and approved copies of Uniform Commercial Code financing statement, judgment, tax lien, bankruptcy and litigation search reports of such jurisdictions and offices as Lender may reasonably designate with respect to Borrower, Guarantor, Borrower Representative and such other Persons as Lender may reasonably require. Lender shall have received such other evidence as Lender may require confirming that Lender has a perfected first priority security interests and Lien upon the Collateral.

(N) LICENSES, PERMITS AND APPROVALS, ZONING AND LAND USE COMPLIANCE. Lender shall have received and approved (i) a copy of the certificate of compliance issued by The Community Standards Committee of The Woodlands Commercial Owners Association and The Woodlands Community Association issued with respect to the Mortgaged Property and all other applicable licenses, permits and approvals required to own, use, occupy, operate and maintain the Mortgaged Property, including all necessary licenses and permits relating to wetlands compliance, and use of water; (ii) evidence satisfactory to Lender of the existence, ownership and status of all Proprietary Rights and Material Contracts; and (iii) evidence satisfactory to Lender as to the compliance of the Mortgaged Property with all applicable Legal Requirements.

(O) RESERVE ACCOUNTS AND DEPOSITS. The Reserve Accounts shall have been established in a manner satisfactory to Lender. The initial deposits into the Reserves on the Closing Date, shall have been made (which amounts may, with Lender's approval, be made from the proceeds of the Loan).

(P) ORIGINATION FEE. Lender shall have received its Origination Fee.

(Q) LEASES. Lender shall have received (a) an estoppel certificate and subordination, nondisturbance and attornment agreement executed by each tenant of the Mortgaged Property and (b) true, correct and complete certified copies of each of the Leases.

(R) OTHER DOCUMENTS AND DELIVERIES. Borrower shall have delivered such other documents and deliveries as are set forth on the Closing Checklist attached hereto as Schedule 1.1(A).

(S) LEGAL FEES; CLOSING EXPENSES. Borrower shall have paid any and all legal fees and expenses of counsel to Lender, together with all recording fees and taxes, title insurance premiums, and other costs and expenses related to the Loan.

(T) GUARANTY. Guarantor shall have executed and delivered the Guaranty.

SECTION 4
REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender that, after giving effect to the Loan, as of the Closing Date:

4.1 ORGANIZATION, POWERS, QUALIFICATION AND ORGANIZATION CHART. Borrower is a limited partnership duly formed, validly existing and in good standing under the laws of its state of formation. Each of Borrower and Borrower Representative has all requisite power and authority to own and operate its properties, to carry on its business as now conducted and proposed to be conducted, and to enter into each Loan Document to which it is a party and to perform the terms thereof. Guarantor is a corporation, duly organized, validly existing and in good standing under the laws of its state of formation and has all requisite power and authority to own and operate its properties, to carry on its business as now conducted, and to enter into each Loan Document to which it is a party and to perform the terms thereof. Borrower's U.S. taxpayer identification number is set forth on Schedule 4.1(A)-1. Borrower and Guarantor are each duly qualified and in good standing wherever necessary to carry on its present business and operations. Borrower Representative is a limited liability company, duly organized and validly existing under the laws of the State of Delaware and is the sole general partner in Borrower. Guarantor owns one hundred percent (100%) of the ownership interests in Borrower Representative. Guarantor owns, indirectly, one hundred percent (100%) of the ownership interests in Borrower. The organization chart attached hereto as Schedule 4.1(A)-2 correctly identifies each Subsidiary of Borrower and each Person directly owning (and/or indirectly owning five percent (5%) or more of) the ownership interests in Borrower and Borrower Representative; provided that such organizational chart shall not identify any Person owning, directly or in directly, any ownership interests of Guarantor. The principal place of business and chief executive office of Borrower is set forth on

Schedule 4.1(A)-3. Borrower has filed in a timely manner all reports, documents and other materials required to be filed by it with any Governmental Authorities and the information contained in each of such filings is true, correct and complete in all respects). Borrower has retained all records and documents required to be retained by it pursuant to any law, ordinance, rule, regulation, order, policy, guideline or other requirement of any Governmental Authority. Borrower has no Subsidiaries and has not made an Investment in any Person. Borrower Representative's sole asset is its interest in Borrower.

4.2 AUTHORIZATION OF BORROWING; NO CONFLICTS; GOVERNMENTAL CONSENTS; BINDING OBLIGATIONS AND LICENSE AND SECURITY INTERESTS OF LOAN DOCUMENTS. Borrower has the power and authority to incur the Obligations evidenced by the Note and other Loan Documents to which it is a party, to execute and deliver the Loan Documents to which it is a party and to perform its Obligations, to own the Mortgaged Property and to continue its businesses and affairs as presently conducted. Guarantor has the power and authority to execute and deliver the Guaranty, the Environmental Indemnification Agreement and the other Loan Documents to which it is a party. The incurring of the Obligations and the execution, delivery and performance by Borrower and Guarantor of each of the Loan Documents to which either is a party and the consummation of the transactions contemplated thereby have been duly authorized by all necessary partnership, corporate or limited liability company action, as the case may be. The incurring of the Obligations and the execution, delivery and performance by Borrower and Guarantor of the Loan Documents to which either is a party and the consummation of the transactions contemplated thereby do not and will not: (1) violate any provision of law applicable to Borrower, Guarantor or the Mortgaged Property, the respective other Organizational Documents of, or applicable to, Borrower or Guarantor, as the case may be, or any order, judgment or decree of any court or other agency of government binding on Borrower or Guarantor or their respective properties including the Mortgaged Property; (2) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any Material Contracts or any other agreement or document to which such Person is a party or by which such Person or its property may be bound; (3) result in or require the creation or imposition of any Lien upon the Mortgaged Property or assets of Borrower or Guarantor (other than the Liens of Lender); or (4) require any approval or consent of any Person under any Material Contracts or any other agreement or document to which such Person is a party or by which such Person or its property may be bound (except to the extent such approvals or consents have been unconditionally obtained on or before the Closing Date). The incurring of the Obligations, the execution, delivery and performance by Borrower and Guarantor of the Loan Documents and the consummation of the transactions contemplated thereby do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any federal, state or other Governmental Authority or regulatory body (except to the extent unconditionally obtained on or before the Closing Date). The Loan Documents, when executed and delivered by Borrower and Guarantor, as applicable, will be the legally valid and binding obligations of Borrower and Guarantor, as applicable, enforceable against Borrower and Guarantor, subject to bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting creditors' rights generally and to the application of general equitable principles in connection with the enforcement thereof. The Mortgage, together with the Financing Statements to be filed in connection therewith, create a valid, enforceable and perfected first priority lien and security interest in the Mortgaged Property subject to no other interests, Liens or encumbrances, other than the Permitted Encumbrances. Article 6 of this Agreement creates a valid, enforceable

and perfected first priority security interest in the Reserve Account Collateral. Borrower is a "registered organization" (as defined in the UCC) organized under the laws of the State of Delaware.

4.3 FINANCIAL STATEMENTS. All financial statements concerning Borrower and Guarantor which have been or will hereafter be furnished by Borrower and Guarantor to Lender pursuant to this Agreement have been or will be prepared in accordance with GAAP consistently applied (except as disclosed therein, to the extent Lender approves such disclosure) and do or will, in all material respects, present fairly the financial condition of the Persons covered thereby as at the dates thereof and the results of their operations for the periods then ended.

4.4 INDEBTEDNESS. As of the Closing Date, after giving effect to the transactions contemplated hereby, Borrower does not have any Indebtedness except for Permitted Indebtedness. Other than ordinary operating expenses pertaining to the Mortgaged Property, all Expenses owing or accrued as of the Closing Date, have been paid in full or have been reserved for by deposit into the Reserves. No claim of any creditor of Borrower exists which would have a Material Adverse Effect.

4.5 NO MATERIAL ADVERSE CHANGE. Since December 31, 2003, no event or change has occurred that has caused or evidences, either individually or together with such other events or changes, a Material Adverse Effect.

4.6 TITLE TO PROPERTY; LIENS; ZONING; CONTRACTS; CONDITION OF THE MORTGAGED PROPERTY.

(A) Borrower has good and indefeasible fee simple title to the Land, the Improvements and the other components of the Mortgaged Property, subject only to the Permitted Encumbrances. Borrower owns all real and personal property necessary for the operation of the Mortgaged Property subject only to the Permitted Encumbrances. Except for the Permitted Encumbrances, the Mortgaged Property is free and clear of Liens and other encumbrances. Except as otherwise identified on Schedule 4.6(a), there are no outstanding Claims and all work, services or materials the provision of which might ripen into a Claim have been fully paid for. There are no assessments for improvements or other similar outstanding charges or Impositions affecting the Mortgaged Property. Except as otherwise identified on the survey provided to Lender, no Improvements lie outside the boundaries and building restriction lines of the Land or encroach onto any easements to any extent (unless affirmatively insured by the Title Policy), and no improvements on adjoining properties encroach upon the Land to any extent which would materially impair the Mortgaged Property. The Title Policy premium has been fully paid. Except for the affidavit as to debts, liens and possession provided by Borrower to the Title Company at Closing, neither Borrower, nor, to Borrower's knowledge, any other Person, has provided any title indemnities (or analogous documentation) or deposits of cash or other security to the title insurer to obtain the Title Policy. The Permitted Encumbrances do not and will not materially interfere with the security intended to be provided by the Mortgage, the use or operation of the Mortgaged Property or the marketability or value of the Mortgaged Property. Borrower will preserve its right, title and interest in and to the Mortgaged Property for so long as the Obligations remain outstanding and will warrant and defend same and the validity and priority of the Mortgage and the Liens arising pursuant to the Loan Documents from and against any and all claims whatsoever other than the Permitted Encumbrances.

(B) The Mortgaged Property is restricted for use as an office, laboratory, vivarium, research, marketing, sales, storage, experimentation and production of laboratory animals, which restriction is in full force and effect, and is beyond all applicable appeal periods. Borrower is not in violation of, and, the Mortgaged Property is in full compliance with all applicable zoning, subdivision, land use and other Legal Requirements. No legal proceedings are pending or, to Borrower's knowledge threatened, with respect to the compliance of the Mortgaged Property with Legal Requirements. Neither the zoning nor any other right to construct, use or operate the Mortgaged Property is in any way dependent upon or related to any real estate other than the Mortgaged Property and validly created, existing appurtenant perpetual easements insured in the Title Policy or use of public rights of way. In the event that all or any part of the Improvements are destroyed or damaged, said Improvements can be legally reconstructed to their condition prior to such damage or destruction, and thereafter exist for the same use without violating any zoning or other Legal Requirements applicable thereto and without the necessity of obtaining any variances or special permits. The Mortgaged Property contains not less than 468 parking spaces, which is enough permanent parking spaces to satisfy all requirements imposed by applicable Legal Requirements with respect to parking. All licenses, permits and other Proprietary Rights necessary to operate the Mortgaged Property as it is currently operated are in full force and effect including all water permits and approvals. Borrower has not received any written notice of any violation of any such licenses, permits, authorizations, registrations or approvals that materially impair the value of the Mortgaged Property for which such notice was given or which would affect the use or operation of the Mortgaged Property in any material respect, which noticed violation remains uncured.

(C) Borrower has provided Lender with true and complete copies of all Material Contracts, all of which are specifically listed on Schedule 4.6(C) hereof, other than the Permitted Encumbrances. Except for the Loan Documents and as set forth on Schedule 4.6(C), Borrower is not a party to and neither it nor the Mortgaged Property is bound by any material agreement, document or instrument which is binding upon the Mortgaged Property other than the Loan Documents, the Permitted Encumbrances, the other Material Contracts, if any, and such party's organizational documents, true, correct and complete copies of which have been delivered to Lender. Except for the Loan Documents and the Material Contracts, none of Borrower, Borrower Representative and Guarantor are parties to or bound by, nor is any of their respective property subject to or bound by, any contract or other agreement which restricts its ability to conduct its business at the Mortgaged Property in the ordinary course or, either individually or in the aggregate, has a Material Adverse Effect or could reasonably be expected to have a Material Adverse Effect. Borrower, Borrower Representative and Guarantor are not in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any Material Contract of any such Person which could have a Material Adverse Effect. No Default or Event of Default exists.

(D) All of the Improvements are in good condition and repair except with respect to the Required Capital Improvements. To Borrower's knowledge, except as disclosed in the Physical Condition Report, there are no latent or patent structural or other significant defects or deficiencies in the Improvements or Equipment, Fixtures and Personalty. Municipal or private water supply, storm and sanitary sewers, and electrical, gas and telephone facilities are available to the Mortgaged Property to the boundary lines of the Mortgaged Property through publicly dedicated streets or highways or perpetual appurtenant easements insured on the Title Policy as

appurtenant easements, are sufficient to meet the reasonable needs of the Mortgaged Property as now used or as otherwise presently contemplated to be used, and are connected to, and is in full unimpaired operation with respect to the Improvements and no other utility facilities are necessary to meet the reasonable needs of the Mortgaged Property as now used. The design and as-built conditions of the Mortgaged Property are such that surface and storm water does not accumulate on the Mortgaged Property and does not drain from the Mortgaged Property across land of adjacent property owners or others in any manner which would have a Material Adverse Effect or which require any approvals or easements not already obtained. Except as set forth on Schedule 4.6(D) or on the plat of survey delivered to Lender, no part of the Mortgaged Property is within a flood plain or in a flood hazard area as currently shown on the most recent Flood Hazard Boundary Maps prepared by the Department of Housing and Urban Development and (except to the extent validly created and existing perpetual appurtenant easements insured in the Title Policy have been created therefor) none of the Improvements create encroachments over, across or upon any of the Mortgaged Property's boundary lines, rights of way or easements, and no building or other improvements on adjoining land create such an encroachment. All irrigation lines servicing the Mortgaged Property are entirely located on the Mortgaged Property or are located on adjacent property pursuant to validly created and existing perpetual appurtenant easements insured as appurtenant easements in the Title Policy. The Land and Improvements have legally adequate contiguous rights of access to public ways. All roads necessary for the full utilization of the Land and Improvements for their current purpose have been completed and dedicated to public use and accepted by all Governmental Authorities. No offsite improvements are necessary or used for the ownership, use or operation of the Mortgaged Property, other than public utilities. The Improvements, the Land, the Equipment, Fixtures and Personalty and the Inventory located on the Land constitutes all of the real property, equipment, fixtures and other tangible property currently owned or leased by Borrower or used in the operation of the Mortgaged Property and the Equipment, Fixtures and Personalty owned by the Borrower are sufficient to own, operate and use the Land and Improvements as currently operated. Except as identified in the Permitted Encumbrances, Borrower has not entered into any agreement or option, and is not otherwise bound, to sell the Mortgaged Property (or any part thereof). Borrower has not entered into any agreement or option, and is not otherwise bound, to acquire any additional real estate or Investments. As of the date hereof, no portion of the Improvements constituting part of the Mortgaged Property or on the Land has been materially damaged, destroyed or injured by fire or other casualty which has not been fully restored.

4.7 LITIGATION. Except as set forth on Schedule 4.7, there are no judgments outstanding against Borrower or Guarantor or are binding upon the Mortgaged Property or any property of, Borrower Representative or Guarantor, nor is there any litigation, governmental investigation or arbitration pending or, to Borrower's knowledge, threatened against Borrower, Borrower Representative or Guarantor. The judgments, litigation, investigations and arbitrations set forth on Schedule 4.7 will not result, if adversely determined, and could not reasonably be expected to result, either individually or in the aggregate, in any Material Adverse Effect and do not relate to and will not affect the consummation of the transactions contemplated hereby. No petition in bankruptcy, whether voluntary or involuntary, or assignment for the benefit of creditors, or any other action involving debtors' and creditors' rights has ever been filed under the laws of the United States of America or any state thereof, or threatened, by or against, Borrower, Guarantor or Borrower Representative. Except as set forth on Schedule 4.7, there are no mechanics' or materialmen's liens, alienable bills or other claims constituting or that may constitute a Lien on

the Mortgaged Property or any part thereof, and no work for which any such Lien could be asserted has been performed which has not been fully paid for. Borrower has not received any notice from any governmental or quasi-governmental body or agency or from any person or entity with respect to (and Borrower does not know of) any actual or threatened taking of the Land or Improvements, or any portion thereof, for any public or quasi-public propose or of any moratorium which may affect the use, operation or ownership of the Mortgaged Property.

4.8 PAYMENT OF TAXES. All tax returns and reports of Borrower, Borrower Representative and Guarantor required to be filed by such Persons have been timely filed, and all taxes, assessments, fees and other governmental charges upon such Person and upon the Mortgaged Property, assets, income and franchises which are due and payable have been paid in full. To Borrower's knowledge, no tax returns of Borrower, Borrower Representative or Guarantor is under audit. No tax liens have been filed and, to Borrower's knowledge no claims are being asserted with respect to any such taxes. The charges, accruals and reserves on the books of Borrower, Borrower Representative and Guarantor in respect of any taxes or other governmental charges are in accordance with GAAP. Except as described in Schedule 4.8, none of Borrower, Guarantor and Borrower Representative has given or been requested to give waivers or extensions (or is or would be subject to a waiver or extension given by any other Person) of any statute of limitations relating to the payment of taxes of Borrower, Guarantor and Borrower Representative or for which Borrower, Guarantor and Borrower Representative may be liable. All taxes that Borrower, Guarantor and Borrower Representative is or was required by Legal Requirements to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the applicable Governmental Authority. All tax returns filed by (or that include on a consolidated basis) Borrower, Guarantor and Borrower Representative are true, correct and complete. There is no tax sharing agreement that will require any payment by Borrower, Guarantor and Borrower Representative after the date of this Agreement.

4.9 GOVERNMENTAL REGULATION; MARGIN LOAN. Borrower, Borrower Representative and Guarantor are not, nor after giving effect to the Loan, will be, subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or the Investment Company Act of 1940 or to any federal or state statute or regulation limiting its ability to incur indebtedness for borrowed money. Borrower shall use the proceeds of the Loan only for the purposes set forth in this Agreement and consistent with all applicable laws, statutes, rules and regulations. No portion of the proceeds of the Loan shall be used by Borrower in any manner that might cause the borrowing or the application of such proceeds to violate Regulation U, Regulation T or Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act or any other Legal Requirements. The Loan is an exempt transaction under the Truth-in-Lending Act (15 U.S.C.A. Sections 1601 et seq.). Borrower is not a non-resident alien for purposes of U.S. income taxation and neither Borrower nor Borrower Representative is a foreign corporation, partnership, foreign trust or foreign estate (as said terms are defined in the United States Internal Revenue Code). Borrower, Borrower Representative, Guarantor or any of their respective Subsidiaries are not, and shall not become, a Person with whom Lender is restricted from doing business with under regulations of the Office of Foreign Asset Control ("OFAC") of the Department of the Treasury (including, but not limited to, those named on OFAC's Specially Designated and Blocked Persons list) or under any statute, executive order (including, but not limited to, the September 24, 2001 Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or

Support Terrorism) or other governmental action relating to terrorism financing, terrorism support and/or otherwise relating to terrorism and are not and shall not engage in any dealings or transaction or otherwise be associated with Persons named on OFAC's Specially Designated and Blocked Persons list.

4.10 EMPLOYEE BENEFIT PLANS; ERISA; EMPLOYEES. Except for the Employee Benefit Plans set forth on Schedule 4.10, neither Borrower nor any ERISA Affiliate of Borrower maintains or contributes to, or has any obligation under, any Employee Benefit Plans. Borrower is not an "employee benefit plan" (within the meaning of section 3(3) of ERISA) to which ERISA applies and the Mortgaged Property and Borrower's assets do not constitute plan assets. No actions, suits or claims under any laws and regulations promulgated pursuant to ERISA are pending or, to Borrower's knowledge, threatened against Borrower. Borrower has no knowledge of any material liability incurred by Borrower which remains unsatisfied for any taxes or penalties with respect to any Employee Benefit Plan or any Multiemployer Plan, or of any lien which has been imposed on Borrower's assets pursuant to section 412 of the Code or section 302 or 4068 of ERISA. The Loan, the execution, delivery and performance of the Loan Documents and the transactions contemplated by this Agreement do not constitute a non-exempt prohibited transaction under ERISA. Borrower is not a party to any collective bargaining or other employment agreement other than the agreements identified on Schedule 4.10.

4.11 INTELLECTUAL PROPERTY. Schedule 4.11 sets forth a true, correct and complete list of all of the patents, trademarks, tradenames, technology, other intellectual property rights and other Proprietary Rights owned by Borrower and used in connection with the ownership, operation and management of the Mortgaged Property. Borrower possesses, owns or has valid licenses, permits, certificates of public convenience, service marks, authorizations, licenses, patents, patent rights or licenses, trademarks, trademark rights, trade name rights, trade styles, trade dress, logos and other source or business affiliation identifiers, and copyrights, certificates, consents, orders, approvals and other authorizations from, and have made all declarations and filings with, all federal, state, local and other Governmental Authority, all self-regulatory organizations and all courts and other tribunals (collectively, together with the goodwill associated therewith, "PROPRIETARY RIGHTS") presently required or necessary to own or lease, as the case may be, and to operate, the Mortgaged Property and to carry on its business as now conducted in accordance with the Approved Budget and Approved Capital Plan, except where the failure to obtain same would not, individually or in the aggregate, have a Material Adverse Effect. Borrower has fulfilled and performed all of its obligations with respect to such permits, and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or could result in any other material impairment of the rights of the holder of any such permit; and Borrower has not received any notice of any proceeding relating to unenforceability, invalidity, revocation or modification of any Proprietary Rights, except where such revocation, unenforceability, invalidity, or modification would not, individually or in the aggregate, have a Material Adverse Effect. Borrower has not received any notice that any Proprietary Rights have been declared unenforceable or otherwise invalid by any court or Governmental Authority other than notices relating to Proprietary Rights the loss of which would not, individually or in the aggregate, have a Material Adverse Effect. Borrower has not received any notice of infringement of, or conflict with, and Borrower does not know of any such infringement of or conflict with, asserted rights of others with respect to any Proprietary Rights

which, if such assertion of infringement or conflict were sustained, would have a Material Adverse Effect.

4.12 BROKER'S FEES. No broker's or finder's fee, commission or similar compensation will be payable with respect to the Loan, the issuance of the Note or any of the other transactions contemplated hereby or by any of the Loan Documents based upon any broker or lender engaged by Borrower, Guarantor or any affiliate of Borrower. Borrower shall indemnify and hold Lender harmless from and against any and all claims of all brokers or finders claiming by, through or under Borrower and in any way related to the Loan or any of the transactions contemplated hereby.

4.13 ENVIRONMENTAL COMPLIANCE. There are no claims, liabilities, investigations, litigation, administrative proceedings, whether pending or, to Borrower's knowledge threatened, or judgments or orders relating to any Hazardous Materials (collectively called "ENVIRONMENTAL CLAIMS") asserted or threatened against Borrower, any predecessor owner, tenant or operator or relating to any real property currently or formerly owned, leased or operated by Borrower including the Mortgaged Property. Except as disclosed in the Environmental Reports, to Borrower's knowledge, neither Borrower nor any other Person has caused or permitted any Hazardous Material to be used, generated, reclaimed, transported, released, treated, stored or disposed of in a manner which could form the basis for an Environmental Claim against Borrower. Except as disclosed in the Environmental Reports, to Borrower's knowledge, no Hazardous Materials in violation of applicable Environmental Laws are or were stored or otherwise located, and no underground storage tanks or surface impoundments are or were located, on real property currently or formerly owned, leased or operated by Borrower, including the Mortgaged Property, or to the knowledge of Borrower, on adjacent parcels of real property, and no part of such real property or, to the knowledge of Borrower no part of such adjacent parcels of real property, including the groundwater located thereon, is presently contaminated by Hazardous Materials in violation of applicable Environmental Laws or to any extent which has, or might reasonably be expected to have, a Material Adverse Effect. Except as disclosed in the Environmental Reports, to Borrower's knowledge, Borrower and the Mortgaged Property has been and is currently in compliance with all applicable Environmental Laws, including obtaining and maintaining in effect all permits, licenses or other authorizations required by applicable Environmental Laws.

4.14 SOLVENCY. As of the date of this Agreement and after giving effect to the consummation of the transactions contemplated by the Loan Documents, Borrower: (A) owns and will own assets the fair saleable value of which are (1) greater than the total amount of liabilities (including Contingent Obligations) of Borrower, and (2) greater than the amount that will be required to pay the probable liabilities of Borrower's then existing debts as they become absolute and matured considering all financing alternatives and potential asset sales reasonably available to Borrower; (B) has capital that is not insufficient in relation to its business as presently conducted or any contemplated or undertaken transaction; and (C) does not intend to incur and does not believe that it will incur debts beyond its ability to pay such debts as they become due. Borrower has not entered into the Loan Documents or the transactions contemplated under the Loan Documents with the actual intent to hinder, delay, or defraud any creditor. After giving effect to the Loan and the transactions occurring on the Closing Date, Borrower's net unreimbursed investment in the Mortgaged Property is not less than $21,000,000. After giving

effect to the transactions occurring on the Closing Date, no Default or Event of Default exists. No material adverse change in the financial conditions or operation of the business of Borrower and Guarantor has occurred since the applicable dates of the financial statements of the applicable Person provided on or before the Closing Date.

4.15 DISCLOSURE. The representations and warranties of Borrower and Guarantor contained in the Loan Documents, the financial statements referred to in Section 5.1(A), and any other documents, certificates or written statements furnished to Lender by or on behalf of Borrower or Guarantor for use in connection with the Loan do not contain any untrue statement of a material fact or omit or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made. There is no material fact known to Borrower that has had or will have a Material Adverse Effect that has not been disclosed in this Agreement or in such other documents, certificates and statements furnished to Lender by or, on behalf of, Borrower for use in connection with the Loan.

4.16 INSURANCE. Schedule 4.16 sets forth a complete and accurate description of all policies of insurance that will be in effect as of the Closing Date for Borrower and such policies of insurance satisfy all of the requirements of Section 5.4. All premiums thereon have been paid in full through December 1, 2004, no notice of cancellation has been received with respect to such policies and Borrower is in compliance, in all material respects, with all conditions contained in such policies.

4.17 BUDGET. The Approved Budget submitted to Lender for the Mortgaged Property is a true, correct and complete copy of the Budget and Capital Plan in effect on and as of the Closing Date. A true, correct and complete copy of the initial Approved Budget for the period ending December 31, 2004 is attached hereto as Schedule 4.17. The Approved Budget and all of the amounts set forth therein, present a true, full and complete line itemization (by category for the fiscal year to which such Annual Budget applies) of all reasonably estimated Gross Revenues and all reasonably estimated Expenses which Borrower expects to pay or anticipates becoming obligated to pay relating to the Mortgaged Property. No material capital expenditures with respect to the Mortgaged Property are being incurred, contemplated or are reasonably necessary, except as specified in the Approved Budget.

4.18 ACCOUNTS. Schedule 4.18 sets forth a complete and accurate itemization of all of Borrower's time, demand, securities or similar Accounts that are in existence as of the Closing Date.

4.19 MANAGEMENT AGREEMENT. Borrower is not party to any Management Agreement nor has it otherwise contracted with any managing agent to assist Borrower in the management and operation of the Mortgaged Property.

4.20 SPECIAL ASSESSMENTS; TAXES. There are no pending or, to the knowledge of Borrower proposed, special or other assessments for public improvements or otherwise affecting the Mortgaged Property, nor, to Borrower's knowledge, are there any contemplated improvements to the Mortgaged Property that may result in such special or other assessments. Borrower has provided Lender with true, correct and complete copies of all bills and invoices for Impositions

which have been levied or assessed against or are outstanding with respect to the Mortgaged Property. Borrower has provided Lender with a true, correct and complete schedule of the assessment of the Mortgaged Property in effect as of the Closing Date. Borrower has not received any notice that any portion of the Mortgaged Property has been re-assessed or is currently the subject of a reassessment. Except for abatements pursuant to the Tax Abatement Agreements, no portion of the Mortgaged Property is exempt from taxation or constitutes an "omitted" tax parcel. No Impositions are currently delinquent or outstanding with respect to the Mortgaged Property. The conveyance of the Mortgaged Property to Borrower did not, in and of itself, constitute the basis for any reassessment of all or any part of the Mortgaged Property or the basis for any increase in any currently outstanding or previously satisfied Impositions which has not already been imposed and disclosed in writing to Lender by Borrower. No tax contests of any Impositions or assessments are currently pending. The Land and Improvements constitute a separate tax lot or lots, with a separate tax assessment or assessments, independent of any other land or improvements not constituting a part of the Mortgaged Property and no other land or improvements is assessed and taxed together with any portion of the Mortgaged Property.

4.21 LEASES. Except for the Guarantor Lease, there are no Leases or other arrangements for occupancy of space within the Mortgaged Property that are currently in effect. Borrower has provided Lender with a true, complete and correct copy of the Guarantor Lease, including any amendments or modifications thereto. The Mortgaged Property is occupied solely by Guarantor.

4.22 REPRESENTATIONS REMADE. Borrower warrants and covenants that the foregoing representations and warranties will be true and shall be deemed remade as of the date of the Closing. All representations and warranties made in the other Loan Document or in any certificate or other document delivered to Lender by or on behalf of Borrower pursuant to the Loan Documents shall be deemed to have been relied upon by Lender, notwithstanding any investigation made by or on behalf of Lender. All such representations and warranties shall survive the making of the Loan and shall continue in full force and effect until such time as the Loan has been paid in full.

SECTION 5
AFFIRMATIVE COVENANTS

Borrower covenants and agrees that so long as this Agreement shall remain in effect or the Note shall remain outstanding, Borrower shall perform and comply with all covenants in this Section 5.

5.1 FINANCIAL STATEMENTS AND OTHER REPORTS. Borrower will maintain a system of accounting in accordance with sound business practices to permit preparation of financial statements in conformity with GAAP and proper and accurate books, records and accounts reflecting all of the financial affairs of Borrower with respect to all items of income and expense in connection with the operation of the Mortgaged Property.

(A) FINANCIAL STATEMENTS. Within one hundred twenty (120) days after the end of each calendar year, Borrower shall provide to Lender true and complete annual audited consolidated financial statements for Guarantor and true and complete annual unaudited financial statements for Borrower and the operation of the Mortgaged Property, all prepared in accordance

with GAAP. All audited financial statements shall be audited by a so-called "Big-4" accounting firm or another independent certified public accounting firm reasonably satisfactory to Lender. All financial statements (whether or not audited) shall include a balance sheet as of the end of such year, profit and loss statements for such year and a statement of cash flow for such year, with such detailed supporting schedules covering the operation of the Mortgaged Property as Lender shall reasonably require including a reconciliation to the monthly reports and statements delivered to Lender and include an itemized accounting of all Gross Revenues and Expenses for the Mortgaged Property. As soon as reasonably practicable (but in any event within forty-five (45) days) after the end of each calendar quarter, Borrower shall provide to Lender a true and complete quarterly cash flow, balance sheet, and operating statement for Borrower, Guarantor and the Mortgaged Property (none of which are required to be audited) certified by the president or vice president of Borrower Representative and Guarantor which quarterly statements shall be in form and substance acceptable to Lender. Such quarterly statements shall be compared to the prior year's quarter and year-to-date and to the then applicable Approved Budget. Borrower shall also provide (and cause Guarantor to provide), such other financial information as Lender may, from time to time, reasonably request certified (if requested by Lender) by the applicable chief financial officer (or similar position). Borrower will deliver, concurrently with the annual and quarterly statements, a certificate of its chief financial officer (or analogous position) certifying that no Default or Event of Default has occurred. In the event Borrower enters into a Management Agreement subsequent to the date hereof, as soon as available, and in any event within twenty (20) days after the end of each Loan Month, Borrower will deliver to Lender a copy of the periodic reporting package required to be delivered to Borrower by a Manager pursuant to such Management Agreement.

(B) ACCOUNTANTS' CERTIFICATION. Together with each delivery of annual financial statements of Borrower and Guarantor pursuant to subsection 5.1(A), Borrower shall request as part of the engagement of its independent certified public accountant, and shall use best efforts to obtain, a written statement by such independent certified public accountant (1) stating that the examination has included a review of the terms of this Agreement as such terms relate to accounting matters, (2) stating whether, in connection with the examination, any condition or event that constitutes a Default or an Event of Default (of which said accountants may be aware from said review, and without obligation to review other aspects of this Agreement or to review any of the other Loan Documents) has come to their attention, and (3) if such a condition or event has come to their attention, specifying the nature and period of existence thereof; provided that the requirements set forth in this subsection (B) shall be waived for so long as (i) Borrower's financial statements are prepared on a consolidated basis with the financial statements of Guarantor and (ii) Guarantor is a reporting company under the Exchange Act, and provided further that, for purposes of the foregoing, "best efforts" shall not require a change in Borrower's independent certified public accountant.

(C) ACCOUNTANTS' REPORTS. Promptly upon receipt thereof, Borrower will deliver copies of all significant reports submitted to Borrower or Guarantor, as applicable, by independent public accountants in connection with each annual, interim or special audit of the financial statements of Borrower or Guarantor, as applicable, made by such accountants, including the comment letter submitted by such accountants to management in connection with their annual audit; provided that the requirements set forth in this subsection (C) shall be waived for so long as (i) Borrower's financial statements are prepared on a consolidated basis with the

financial statements of Guarantor and (ii) Guarantor is a reporting company under the Exchange Act.

(D) ANNUAL BUDGETS AND CAPITAL PLANS. Not later than November 30th of each calendar year, Borrower shall deliver a Budget and a Capital Plan for the following calendar year for the Mortgaged Property to Lender for its review and approval (the Budget and Capital Plan are collectively referred to as the "ANNUAL BUDGET" and the Annual Budget approved by Lender is referred to herein as the "APPROVED BUDGET"), which approval shall not be unreasonably withheld, conditioned or delayed. Lender shall have fifteen (15) Business Days to approve or reject each proposed Annual Budget. Concurrently, Borrower shall deliver an annual business plan for the Mortgaged Property. If Lender disapproves the Annual Budget, which disapproval shall specify the respects in which it is unacceptable, Borrower shall resubmit same to Lender for its review until such time as the Annual Budget is approved by Lender. Borrower shall not modify any Approved Budget without Lender's approval, which approval shall not be unreasonably withheld, conditioned or delayed. Borrower shall not incur any Expenses which are not set forth in the Approved Budget except as otherwise approved by Lender, which approval shall not be unreasonably withheld, conditioned or delayed. Borrower shall, within one hundred twenty (120) days after the end of each calendar year during the term of the Loan, deliver to Lender an annual summary of any and all capital expenditures made at the Mortgaged Property during the prior twelve (12)-month period.

(E) NOTICES, EVENTS OF DEFAULT AND LITIGATION. Borrower shall promptly deliver, or cause to be delivered, copies of all notices, demands, reports or requests given to, or received by Borrower from, any Governmental Authorities or with respect to any Indebtedness of Borrower or any Material Contracts, and shall notify Lender within two (2) Business Days after Borrower receives notice or acquires knowledge of, any violation of Legal Requirements, investigation, subpoena or audit by any Governmental Authority or default with respect to the Mortgaged Property or any Indebtedness or Material Contracts. Promptly upon Borrower obtaining knowledge of any of the following events or conditions, Borrower shall deliver to Lender a written notice specifying the nature and period of existence of such condition or event and what action Borrower has taken, is taking and proposes to take with respect thereto: (1) any condition or event that constitutes an Event of Default or Default; and/or (2) or any fact, circumstance, event or condition which has, or would reasonably be expected to have, a Material Adverse Effect. Promptly upon Borrower obtaining knowledge of (i) the institution of any action, suit, proceeding, governmental investigation or arbitration against or affecting Borrower or Guarantor or the Mortgaged Property, or any other property of Borrower that would reasonably be expected to have a Material Adverse Effect or (ii) any material development in any action, suit, proceeding, governmental investigation or arbitration at any time pending against or affecting Borrower or Guarantor or the Mortgaged Property or any other property of Borrower that would reasonably be expected to have a Material Adverse Effect, Borrower will give notice thereof to Lender and provide such other information as may be available to it to enable Lender and its counsel to evaluate such matters.

(F) ERISA. Borrower shall deliver to Lender such certifications or other evidence from time to time throughout the term of the Loan, as Lender, in its sole discretion, may reasonably request, that (A) Borrower is not and does not maintain an "employee benefit plan" as defined in Section 3(3) of ERISA, which is subject to Title I of ERISA, or a "governmental

plan" within the meaning of Section 3(32) of ERISA; (B) Borrower is not subject to state statutes regulating investments and fiduciary obligations with respect to governmental plans; and (C) one or more of the following circumstances is true: (i) equity interests in Borrower are publicly offered securities, within the meaning of 29 C.F.R. Section 2510.3-101(b)(2); (ii) less than twenty-five percent (25%) of each outstanding class of equity interests in Borrower is held by "benefit plan investors" within the meaning of 29 C.F.R. Section 2510.3-101(f)(2); or (iii) Borrower qualifies as an "operating company" or a "real estate operating company" within the meaning of 29 C.F.R. Section 2510.3-101(c) or (e).

(G) TAX RETURNS. Borrower will deliver to Lender copies of all federal and state income and other tax returns, schedules, statements and reports to its owners within ten (10) Business Days after the earlier of filing or delivery of such tax returns or other items with the Internal Revenue Service or the applicable Governmental Authority or delivery to its owners.

(H) ESTOPPEL CERTIFICATES. Within ten (10) Business Days following a request by Lender, Borrower shall provide to Lender, a duly acknowledged written statement confirming the amount of the outstanding Obligations, the terms of payment and maturity date of the Note, the date to which interest has been paid, and whether, to Borrower's knowledge, any offsets or defenses exist against the Obligations, and if any such offsets or defenses are alleged to exist, the nature thereof shall be set forth in detail.

(I) OTHER. With reasonable promptness, Borrower will deliver such other information and data with respect to Borrower as from time to time may be reasonably requested by Lender. Borrower shall also provide Lender with a copy of each 8K, 10Q and 10K (each as defined in the Exchange Act) or their successor forms under the Exchange Act, filed by Guarantor from time to time with the United States Securities and Exchange Commission not later than five (5) Business Days after the filing thereof. Borrower shall deliver, or cause to be delivered, to Lender annually, concurrently with the renewal of the insurance policies required hereunder, an Officer's Certificate stating that the insurance policies required to be delivered to Lender pursuant to Section 5.4 are maintained with insurers who comply with the terms of Section 5.4, setting forth a schedule describing all premiums required to be paid by Borrower to maintain the policies of insurance required under Section 5.4, and confirming full payment of all such premiums.

(J) ELECTRONIC FORMAT. To the extent then available, Borrower will provide to Lender a copy of any reports, notices, statements or other deliveries required pursuant to this Section 5.1 in an electronic format reasonably satisfactory to Lender.

5.2 EXISTENCE; QUALIFICATION. Borrower will be, and will cause Guarantor to be, and continue to be, qualified in the jurisdiction in which the Mortgaged Property is located and keep in full force and effect its existence in the jurisdiction in which the Mortgaged Property is located.

5.3 PAYMENT OF IMPOSITIONS AND LIEN CLAIMS; PERMITTED CONTESTS.

(A) Subject to Section 5.3(B), Borrower will pay, or cause payment of, (i) all Impositions before in each instance any penalty or fine is incurred with respect thereto, (ii) all

claims ("CLAIMS") (including claims for labor, services, materials and supplies) for sums that have become due and payable and that by law have or may become a Lien upon the Mortgaged Property or Borrower, before in each instance any penalty or fine is incurred with respect thereto, and (iii) all federal, state and local income taxes, sales taxes, excise taxes and all other taxes and assessments levied, imposed, confirmed or assessed against Borrower, its business, income, liabilities or assets or the Mortgaged Property, before in each instance any penalty or fine is incurred with respect thereto.

(B) With prior notice to Lender, Borrower shall have the right to pay Impositions, in full, under "protest." Notwithstanding Section 5.3(A), Borrower shall not be required to pay, discharge or remove or cause payment, discharge or removal of any Imposition or Claims pertaining to labor, services, materials and supplies supplied to the Land and Improvements so long as Borrower contests (each such contest, a "PERMITTED CONTEST") in good faith such Imposition or Claims or the validity, applicability or amount thereof by an appropriate legal proceeding which operates to prevent the collection of such amounts and the sale of the Mortgaged Property or any portion thereof so long as: (a) at least thirty (30) days prior to the date on which such Imposition or Claims would otherwise have become delinquent, Borrower shall have given Lender notice of its intent to contest said Imposition, (b) at least thirty (30) days prior to the date on which such Imposition would otherwise have become delinquent, Borrower shall have deposited with Lender (or with a court of competent jurisdiction or other appropriate Person approved by Lender) such additional amounts or other security as are necessary to keep on deposit at all times, an amount equal to at least one hundred twenty-five percent (125%) (or such higher amount as may be required by applicable law) of the total of (x) the balance of such Imposition or Claims then remaining unpaid, and (y) all interest, penalties, costs and charges accrued or accumulated thereon, (c) no risk of sale, forfeiture or loss of any interest in the Mortgaged Property or any part thereof arises, in Lender's reasonable judgment, during the pendency of such contest, (d) such contest does not, in Lender's reasonable discretion, have a Material Adverse Effect and (e) in the case of Claims, the liens, if any, securing the Claims in question have been defeased or bonded against in a manner satisfactory to Lender. Each Permitted Contest shall be prosecuted, at Borrower's sole cost and expense, with reasonable diligence, and Borrower shall promptly pay, or cause payment of, the amount of such Imposition or Claims as finally determined, together with all interest and penalties payable in connection with such Permitted Contest. Lender, in its sole discretion, may apply any amount or other security deposited with Lender under this subsection or otherwise to the payment of any unpaid Imposition or Claims to prevent the sale, loss or forfeiture of the Mortgaged Property or any portion thereof. Lender shall not be liable for any failure to so apply any amount or other security deposited. Any surplus retained by Lender after payment of the Imposition or Claims for which a deposit was made shall be repaid to Borrower unless an Event of Default exists, in which case the surplus may be applied by Lender to the Obligations. Notwithstanding any provision of this Section 5.3 to the contrary, Borrower shall promptly pay any Imposition or Claims which it might otherwise be entitled to contest if, in reasonable determination of Lender, the Mortgaged Property or any portion thereof is in jeopardy or in danger of being forfeited or foreclosed. If Borrower refuses to pay any such Imposition or Claims, Lender may (but shall not be obligated to) make such payment and Borrower shall reimburse Lender within five (5) Business Days of written notice by Lender for all such advances which advances will bear interest at the Default Rate.

(C) Subject to Section 2.6, Borrower shall pay any and all taxes, charges, filing, registration and recording fees, excises and levies imposed upon Lender by reason of its interests in, or measured by amounts payable under, the Note, this Agreement, the Mortgage or any other Loan Document (other than income, franchise and doing business taxes), and shall pay all stamp taxes and other taxes required to be paid on the Note or any of the other Loan Documents. If Borrower fails to make such payment within five (5) days after notice thereof from Lender, Lender may (but shall not be obligated to) pay the amount due, and Borrower shall reimburse Lender within five (5) Business Days of written notice by Lender for all such advances which will bear interest at the Default Rate. If applicable law prohibits Borrower from paying such taxes, charges, filing, registration and recording fees, excises, levies, stamp taxes or other taxes, then Lender may declare Borrower's Obligations to be immediately due and payable, upon ninety (90) days' prior written notice.

5.4 INSURANCE.

(A) Borrower shall at all times provide, maintain and keep in force or cause to be provided, maintained and kept in force, at no expense to Lender, the following policies of insurance with respect to the Mortgaged Property and Borrower, as applicable:

(i) Property insurance on an "all risk" and "special perils" basis (special form cause of loss) for one hundred percent (100%) of the replacement value of the Mortgaged Property with customary deductibles as approved by Lender. The policy should contain the following endorsements: (a) Replacement Cost (without any deduction made for depreciation), (b) Agreed Amount (waiving co-insurance penalties), (c) Building Ordinance and Law coverage and (d) a standard mortgagee clause acceptable to Lender. Such policy will also include the following coverage: (i) comprehensive boiler and machinery coverage in amounts as reasonably determined by Lender; (ii) earthquake and earth movement coverage with a $2,500,000 limit; however if in Lender's reasonable judgment, the risks associated with such coverage have increased whereby additional coverage would be maintained by a prudent operator of property similar in use and locale, in sufficient amount as reasonably determined by Lender; and (iii) flood insurance coverage with a $2,500,000 limit; however, if the Improvements are located in a special flood hazard area as designated by the Director of the Federal Emergency Management Agency, in sufficient amount as reasonably determined by Lender.

(ii) Insurance against rent loss for not less than eighteen months gross rent or gross income from the Mortgaged Property including stabilized management fees and applicable reserve deposits plus debt service. The perils covered by this policy shall be the same as those accepted on the Mortgaged Property including flood, earthquake and earth movement.

(iii) Commercial general liability insurance covering bodily injury and property damage occurring on, in or about the Mortgaged Property and any adjoining streets, sidewalks, and passageways arising out of or connected with the possession, use, leasing, operation, or condition of the Mortgaged Property. Policy limits will be not less than $1,000,000 per occurrence, $2,000,000 per location in the aggregate with respect to the Mortgaged Property and $1,000,000 per occurrence, $2,000,000 per location in the

aggregate with respect to Borrower. Such coverage shall include but not be limited to premises/ operations, personal injury and liquor liability (if applicable).

(iv) Umbrella excess liability insurance for not less than $10,000,000 in the aggregate with respect to the Mortgaged Property and Borrower.

(v) During the course of construction of Improvements, Borrower will obtain (1) commercial general liability insurance including contractual liability, in the amount of $1,000,000 primary and $10,000,000 excess liability in the aggregate (the policy shall provide coverage on an occurrence basis against claims for personal injury, bodily injury and death or property damage occurring on, in or about the Mortgaged Property and the adjoining streets, sidewalks and passageways). In addition, Borrower shall require all contractors and subcontractors, architects and engineers to provide appropriate insurance coverage); and (2) Builder's risk completed value form insurance against "all risks" of physical loss, including collapse, water damage, flood, earthquake and transit coverage (coverage should be on a non-reporting form, covering the total value of work performed and equipment, supplies and materials furnished (with an appropriate limit for soft costs in the case of construction) with deductibles approved by Lender). Borrower agrees to consult with Lender prior to commencing the construction of any Improvements and to comply with all reasonable special insurance requirements of Lender pertaining to any construction.

(B) No policies shall contain any exclusion for terrorism, terrorist activities or similar activities defined under the Terrorism Risk Insurance Act of 2002 ("TRIA") and will be endorsed to insure such risks. Notwithstanding the foregoing, should the cost of TRIA coverage and/or endorsements for the full replacement cost of the Mortgaged Property be greater than 10% of the premium for the applicable all risk property policy, then Borrower shall purchase the maximum terrorism insurance available for 10% of the then applicable all risk property insurance premium.

(C) All insurance policies required pursuant to this Agreement shall be endorsed to provide that: (i) Lender, its successors, and/or assigns, is named as mortgagee with respect to the all risk property; as a loss payee with respect to all rent loss coverage; as additional named insured on all liability coverage, with the understanding that any obligation imposed upon the insureds (including the liability to pay premiums) shall be the sole obligation of Borrower and not of any other insured; (ii) the interests of Lender shall not be invalidated by any action or inaction of Borrower or any other Person, and such policies shall insure Lender regardless of any breach or violation by Borrower or any other Person of any warranties, declaration or conditions in such policies; (iii) the insurer under each such policy shall waive all rights of subrogation against Lender, any right to set-off and counterclaim and any other right to deduction, whether by attachment or otherwise; (iv) such insurance shall be primary and without right of contribution of any other insurance carried by or on behalf of Lender with respect to its interest in the Mortgaged Property; (v) if such insurance is canceled for any reason whatsoever, including nonpayment of premium or, if any substantial modification, change or reduction is made in the coverage which affects the interests of Lender, such cancellation, modification, change or reduction in coverage shall not be effective as to Lender until thirty (30) days after receipt by Lender of written notice sent by registered mail from such insurer; (vi) any such

insurance shall be endorsed to provide in as much as the policy is written to cover more than one insured, all terms, conditions, insuring agreements and endorsements with the exception of limits of liability, shall operate in the same manner as if there were a separate policy covering each insured; and (vii) if required by Lender, such insurance shall contain "cut-through" endorsements providing Lender with direct access to any re-insurers.

(D) Borrower shall deliver to Lender a copy of each insurance policy with further evidence of such insurance acceptable to Lender, together with a copy of the declaration page for each such policy. Renewal certificates should be provided no later than five (5) days prior to the expiration of each policy. Upon request of Lender, Borrower shall deliver a renewed policy or policies, or duplicate original or originals thereof, marked "premium paid," or accompanied by such other evidence of payment satisfactory to Lender with standard non-contributory mortgagee clause in favor of and acceptable to Lender. Borrower shall comply promptly with and conform to (i) all provisions of each such insurance policy and (ii) all requirements of the insurers applicable to Borrower as respects use, occupancy, possession, operation, maintenance, alteration or repair of the Mortgaged Property. Borrower shall not use or permit the use of the Mortgaged Property in any manner that would permit any insurer to cancel any insurance policy or void coverage required to be maintained by this Agreement. No insurance policy may provide for assessments to be made against Lender or Lender's servicer, if any. The insurance coverage required under this Section 5.4 may be effected under a blanket policy or policies covering the Mortgaged Property and other properties and assets not constituting a part of the Mortgaged Property; provided that any such blanket policy shall specify the portion of the total coverage of such policy that is allocated to the Mortgaged Property, and any sublimits in such blanket policy applicable to the Mortgaged Property, which amounts shall not be less than the amounts required pursuant to this Section 5.4 and which shall in any case comply in all other respects with all of the requirements of this Section 5.4. Borrower shall comply with all insurance requirements and shall not bring or keep or permit to be brought or kept any article upon the Mortgaged Property or cause or permit any condition to exist thereon which would be prohibited by any insurance requirement, or would invalidate insurance coverage required hereunder to be maintained by Borrower on or with respect to any part of the Mortgaged Property pursuant to this Section 5.4. Notwithstanding anything to the contrary contained herein, it is expressly understood and agreed that any insurance which Borrower shall cause any tenant to provide that shall otherwise be in compliance with all of the terms and conditions of this Section 5.4 shall satisfy Borrower's obligations with respect thereto hereunder. Borrower shall cause each tenant to provide business interruption, products/completed operations and workers compensation coverage in amounts reasonably acceptable to Borrower to insure risks of each tenant's business. Borrower will not take out separate insurance contributing in the event of loss with that required to be maintained pursuant to this Section 5.4 unless such insurance complies with this Section 5.4. All insurance policies shall be in form, with endorsements, risk coverage, deductibles and amounts and maintained with companies approved by Lender, such approval not to be unreasonably withheld, conditioned or delayed. Without limiting Lender's ability to approve the aforementioned, an insurance company shall not be reasonably satisfactory unless such insurance company (a) has a rating of a least A with financial size of Class X or better as specified in Best's Key Rating Guide, (b) is licensed or authorized to do business, as required under applicable law, in the State where the Mortgaged Property is located and (c) a claims-paying ability rating by S&P of not less than "A" and an equivalent rating by another Rating Agency. All insurance policies insuring against casualty, rent loss and other appropriate policies shall provide that no claims be paid

thereunder without twenty (20) days' advance written notice to Lender. Such notice may be given by Borrower. Lender shall not, by the fact of approving, disapproving, accepting, preventing, obtaining or failing to obtain any insurance, incur any liability for or with respect to the amount of insurance carried, the form or legal sufficiency of insurance contracts, solvency of insurance companies, or payment or defense of lawsuits, and Borrower hereby expressly assumes full responsibility therefore and all liability, if any, with respect thereto. If Borrower fails to provide to Lender the policies of insurance required by this Section 5.4 or any other Loan Documents, Lender may (but shall have no obligation to) procure such insurance or single-interest insurance for such risks covering Lender's interest and Borrower will pay all premiums thereon within five (5) Business Days of written notice by Lender, and until such payment is made by Borrower, the amount of all such premiums shall bear interest at the Default Rate and shall constitute additions to the Obligations.

5.5 TAX RESERVE AND INSURANCE RESERVE. Borrower shall deposit (or cause to be deposited) with Lender (or such agent of Lender as Lender may designate in writing to Borrower from time to time), monthly, on each Payment Date, 1/12th of the annual charges (as estimated by Lender) for all Impositions relating to the Mortgaged Property and all insurance premiums with respect to the insurance required pursuant to Section 5.4(A)(i)-(iv). Borrower shall also deposit with Lender, simultaneously with such monthly deposits and/or on the Closing Date, a sum of money which, together with such monthly deposits, will be sufficient to make the payment of each such charge at least thirty (30) days prior to the date finally delinquent. Should such charges not be ascertainable at the time any deposit is required to be made, the deposit shall be made on the basis of Lender's reasonable estimate. When the charges are fixed for the then current year or period, Borrower shall deposit any deficiency within fifteen (15) days following Lender's written demand. Should an Event of Default occur and be continuing, the funds so deposited may be applied in payment of the charges for which such funds shall have been deposited or to the payment of the Obligations or any other charges affecting the Mortgaged Property as Lender in its sole and absolute discretion may determine, but no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided. Borrower shall provide Lender with bills and all other documents necessary for the payment of the foregoing charges at least ten (10) days prior to the date on which each payment thereof shall first become delinquent. So long as (i) no Event of Default exists, (ii) Borrower has provided Lender with the foregoing bills and other documents in a timely manner, and (iii) sufficient funds are held by Lender for the payment of the Impositions and insurance premiums relating to the Mortgaged Property, as applicable, Lender shall pay said items or allow such funds to be used to pay said items or to reimburse Borrower for such items upon Lender's receipt of reasonable evidence documenting Borrower's payment of such items. All refunds of Impositions and insurance premiums shall be deposited into the applicable of the Tax Reserve Account or the Insurance Reserve Account.

5.6 MAINTENANCE OF MORTGAGED PROPERTY. Borrower will maintain or cause the Mortgaged Property to be maintained in compliance with all Legal Requirements and in good repair, working order and condition and will make or cause to be made all appropriate repairs, renewals and replacements thereof. Without regard as to whether Proceeds are made available to Borrower for such purposes, Borrower will promptly restore and repair all loss or damage occasioned by (i) any casualty which has occurred to at least the condition existing prior to any such casualty or (ii) any condemnation to an economically and structurally integrated unit.

Borrower will prevent any act or thing which might materially impair the value or usefulness of the Mortgaged Property. Borrower will not commit or permit any waste of the Mortgaged Property or any part thereof.

5.7 INSPECTION; LENDER MEETING. Borrower shall, upon request from Lender, permit (and cause to be permitted) Lender's designated representatives to (a) visit, examine, audit, and inspect the Mortgaged Property, (b) examine, audit, inspect, copy, duplicate and abstract Borrower's financial, accounting and other books and records, and (c) discuss Borrower's and the Mortgaged Property's affairs, finances and business with Borrower Representative's officers, representatives, independent public accountants and agents (including the Manager). Lender acknowledges and agrees that any inspection or entry to the Mortgaged Property by Lender or Lender's designated representatives shall be conducted (i) during Borrower's normal business hours, (ii) in accordance with Borrower's safety and security procedures then applicable to the Mortgaged Property in general and to the Secure Areas in particular that are, in each instance, in effect from time to time, (iii) at Borrower's option, accompanied by an employee or representative of Borrower and/or Guarantor, (iv) in accordance with the confidentiality requirements of Section 11.12 and (v) in such a manner so as to minimize any disruption or interference with Borrower's use or operation of the Mortgaged Property. Borrower shall cause its books and records to be maintained at Borrower's principal offices located at c/o Lexicon Genetics Incorporated, 8800 Technology Forest Place, The Woodlands, Texas 77381-1160. Borrower will not change its principal offices or the location where its books and records are kept without giving at least thirty (30) days' advance notice to Lender. Borrower shall pay Lender's costs and expenses incurred in connection with such audit if an Event of Default has occurred and is continuing or if any audit reveals any material discrepancy, in Lender's reasonable judgment, in the financial information provided by Borrower. All audits, inspections and reports shall be made for the sole benefit of Lender. Neither Lender nor Lender's auditors, inspectors, representatives, agents or contractors assumes any responsibility or liability (except to Lender) by reason of such audits, inspections or reports. Borrower will not rely upon any of such audits, inspections or reports. The performance of such audits, inspections and reports will not constitute a waiver of any of the provisions of the Loan Documents. Neither Lender nor any other of Lender's inspectors, representatives, agents or contractors, shall be responsible for any matters related to design or construction of the Improvements or any Construction. Borrower shall cooperate, from time to time, with Lender and use reasonable efforts to assist Lender in obtaining an appraisal of the Mortgaged Property. Such cooperation and assistance from Borrower shall include reasonable access to the Mortgaged Property and books and records pertaining to the Mortgaged Property for Lender and its appraiser. The appraiser performing any such appraisal shall be engaged by Lender. Borrower shall not be responsible for the expenses of any such appraisal, provided, however, Borrower shall pay the fees of such appraiser in connection with one appraisal of the Mortgaged Property during the term of the Loan and any such appraisal when conducted following the occurrence and during the continuation of an Event of Default. Borrower shall cooperate with Lender with respect to any proceedings before any Governmental Authority which may in any way affect the rights of Lender under any of the Loan Documents and, in connection therewith, not prohibit Lender, at its election, from participating in any such proceedings.

5.8 ENVIRONMENTAL COMPLIANCE. Borrower shall: (a) comply (or cause compliance) at all times with all applicable Environmental Laws, and (b) promptly take, or cause to be taken, any

and all necessary remedial actions upon obtaining knowledge of the presence, storage, use, disposal, transportation, release or discharge of any Hazardous Materials on, under or about the Mortgaged Property which has a Material Adverse Effect or is in violation of any Environmental Laws. Borrower shall cause all remedial action with respect to Hazardous Material on, under or about the Mortgaged Property, to comply with all applicable Environmental Laws and the applicable policies, orders and directives of all federal, state and local Governmental Authorities. If Lender at any time has a reasonable basis to believe that there may be a violation of any Environmental Law by, or any liability arising thereunder of, Borrower or related to the Mortgaged Property, Borrower shall, upon request from Lender, provide Lender with such reports, certificates, engineering studies and other written material or data as Lender may reasonably require to confirm compliance by Borrower and the Mortgaged Property with all applicable Environmental Laws. Borrower shall permit Lender, its authorized representatives, consultants or other Persons retained by Lender to enter upon, examine, test and inspect the Mortgaged Property with regard to compliance with Environmental Laws, the presence of Hazardous Materials and the environmental condition of the Mortgaged Property and properties adjacent to the Land. Such entry, examination, testing and inspecting and reporting shall be at the expense of Borrower if (x) an Event of Default has occurred or (y) Lender has reasonably determined that there may be a violation of Environmental Law or any liability arising under Environmental Law, which expense shall be paid by Borrower to Lender within five (5) Business Days of written notice by Lender.

5.9 ENVIRONMENTAL DISCLOSURE. Borrower shall immediately upon becoming aware thereof advise Lender in writing and in reasonable detail of: (1) any release, disposal or discharge of any Hazardous Material at the Mortgaged Property required to be reported to any federal, state or local governmental or regulatory agency under all applicable Environmental Laws; (2) any and all written communications sent or received by Borrower or its agents with respect to any Environmental Claims or any release, disposal or discharge of Hazardous Material required to be reported to any federal, state or local governmental or regulatory agency; (3) any remedial action taken by Borrower or any other Person in response to any Hazardous Material on, under or about any real property owned, leased or operated by Borrower or the Mortgaged Property or its agents, the existence of which could result in an Environmental Claim; (4) the discovery by Borrower or its agents of any occurrence or condition on any real property adjoining or in the vicinity of the Mortgaged Property that could cause such real property or any part thereof to be classified as "border-zone property" or to be otherwise subject to any restrictions on the ownership, occupancy, transferability or use thereof under any Environmental Laws; and (5) any request for information from any Governmental Authority that indicates such Governmental Authority is investigating whether Borrower or another present or former occupant of the Mortgaged Property may be potentially responsible for a release, disposal or discharge of Hazardous Materials from any of the Mortgaged Property. Borrower shall promptly notify Lender of any proposed action to be taken by Borrower to commence any operations that could reasonably be expected to subject Borrower to additional laws, rules or regulations, including laws, rules and regulations requiring additional or amended environmental permits or licenses. Borrower shall, at its own expense, provide copies of such documents or information as Lender may reasonably request in relation to any matters disclosed pursuant to this Section 5.9.

5.10 COMPLIANCE WITH LAWS, EMPLOYEE BENEFIT PLANS AND CONTRACTUAL OBLIGATIONS. Borrower will promptly and faithfully (A) comply and cause the Mortgaged Property to comply,

in all material respects, with the requirements of all Legal Requirements and the orders and requirements of any Governmental Authority in all jurisdictions in which it is now doing business or may hereafter be doing business and of every board of fire underwriters or similar body exercising similar functions, (B) maintain all licenses, certificates of occupancy, permits and Proprietary Rights now held or hereafter acquired by it or with respect to which a Material Adverse Effect will result if same are not existing and held by Borrower and (C) perform, observe, comply and fulfill all of its obligations, covenants and conditions contained in the Loan Documents and the Material Contracts. Borrower shall: (i) promptly notify Lender of any claim made against Borrower that Borrower is in default under any Material Contract or that any other party is in default under any Material Contract; (ii) not terminate, or permit termination of, any Material Contract, and (iii) not enter into, amend or modify any Material Contract without first obtaining the prior written approval of Lender. Except for the plans described in Schedule 4.10, Borrower is not a party to, and will not establish, any Employee Benefit Plan. Except for the plans described in Schedule 4.10, Borrower will not commence making contributions to (or obligate itself to make contributions to) any Employee Benefit Plan.

5.11 FURTHER ASSURANCES. Borrower shall, from time to time, at its sole cost and expense, execute and/or deliver, or cause execution and/or delivery of, such documents, agreements and reports, and perform such acts as Lender at any time may reasonably request to carry out the purposes and otherwise implement the terms and provisions provided for in the Loan Documents. Borrower shall execute any documents and take any other actions necessary to provide Lender with a first priority, perfected security interest in the Reserves and the other Collateral. Borrower shall, at Borrower's sole cost and expense: (i) upon Lender's request therefore given from time to time (but not more frequently than once per calendar year unless an Event of Default then exists) pay for (a) current reports of Uniform Commercial Code, federal tax lien, state tax lien, judgment and pending litigation searches with respect to Borrower and Borrower Representative, (b) current good standing and existence certificates with respect to Borrower and Borrower Representative and (c) current searches of title to the Mortgaged Property, each such search to be conducted by search firms reasonably designated by Lender in each of the locations reasonably designated by Lender; and (ii) execute and deliver to Lender such documents, instruments, certificates, assignments and other writings, and do such other acts necessary, to evidence, preserve and/or protect the Reserve Account Collateral and the other Collateral at any time securing or intended to secure the Obligations, as Lender may require in Lender's reasonable discretion. Borrower shall promptly execute, acknowledge, deliver, file or do, at its sole cost and expense, all acts, assignments, notices, agreements or other instruments as Lender may require in order to effectuate, assure, convey, secure, assign, transfer and convey unto Lender any of the rights granted by this Agreement and to more fully perfect and protect any assignment, pledge, lien and security interest confirmed or purported to be created under the Loan Documents or to enable Lender to exercise and enforce their rights and remedies hereunder, in respect of the Collateral.

5.12 REQUIRED CAPITAL IMPROVEMENTS. Each of the capital improvement items listed on Exhibit E hereto ("REQUIRED CAPITAL IMPROVEMENTS") shall be completed by the applicable Required Completion Date .

5.13 [Intentionally Omitted.]

5.14 [Intentionally Omitted.]

5.15 [Intentionally Omitted.]

5.16 [Intentionally Omitted.]

5.17 [Intentionally Omitted.]

5.18 MANAGEMENT. Borrower shall provide competent, responsible management for the Mortgaged Property, which management, Lender acknowledges, is currently being provided, at no expense or cost to Borrower, by employees of Guarantor. In the event Borrower enters into a Management Agreement subsequent to the date hereof, the Manager and such Management Agreement must contain subordination and termination provisions and must be otherwise satisfactory to Lender. Borrower shall not enter into any management agreement or arrangement with any Person with respect to the management of the Mortgaged Property without Lender's prior written consent. Borrower shall cause management subordination agreements in form and substance satisfactory to Lender to be executed by the Manager. Borrower shall not modify, amend or terminate any approved management agreement without Lender's prior written consent. Borrower shall provide Lender with written notice of the occurrence of any event of default or condition which with the giving of notice or passage of time, or both, would constitute an event of default under any Management Agreement or which would entitle the Manager to terminate the Management Agreement. Any Management Agreement entered into by Borrower shall be terminated by Borrower, at Lender's request, upon thirty (30) days' prior notice to Borrower (i) upon the occurrence of an Event of Default or (ii) if such Manager commits any act which would permit termination by Borrower under such Management Agreement. If a Manager is terminated pursuant hereto, Borrower shall immediately seek to appoint a replacement manager which is a Qualified Manager, and Borrower's failure to appoint an acceptable Manager within thirty (30) days after Lender's request of such Borrower to terminate the Management Agreement shall constitute an immediate Event of Default.

5.19 CONSTRUCTION MATTERS. Without limitation of Lender's rights and Borrower's Obligations set forth elsewhere in the Loan Documents, Borrower shall: (1) cause the Restoration and all other Construction to proceed with reasonable diligence and continuously, with sufficient workers employed and sufficient materials supplied for that purpose so that the applicable Construction is substantially completed by the applicable Required Completion Date, or, if no Required Completion Date is applicable, as promptly as reasonably practicable or, in the case of Restoration, the Restoration is Substantially Completed prior to the Required Restoration Date; (2) cause all Construction to be performed in accordance with the applicable Plans and Specifications or plans and specifications for the work in question, in substantial conformity with the Legal Requirements, the requirements of all insurers and fire underwriters, and with the requirements set forth herein and in the other Loan Documents, in compliance with the Material Contracts and in a good, safe and workmanlike manner; (3) cause all materials acquired or furnished in connection with the Construction and Restoration to be new and stored under adequate safeguards to minimize the possibility of loss, theft, damage or commingling with other materials or projects; (4) utilize, or permit utilization of, only contractors approved by Lender (such approval not to be unreasonably withheld, conditioned or delayed); (5) not permit the revision of Plans and Specifications without consent of Lender (not to be unreasonably withheld,

conditioned or delayed); and (6) from time to time upon the reasonable request of Lender deliver to Lender such certificates and other documentation confirming the matters set forth in the preceding clauses (1) through (5). Promptly upon the giving or receipt of such notice, Borrower shall forward to Lender copies of all material written notices given or received by, or on behalf of, Borrower with respect to the Construction to or from: (x) Contractor or any subcontractor or material supplier, or any of the design professionals (including notices relating to any nonconforming construction, any refusal or inability to pay or perform pursuant to the terms of any contract or other agreement or any delay, default or change order) or (y) any claim of default, or relating to any work stoppage, notice of violation or cease and desist order, stop order, construction liens, strike, claim, litigation, damage, loss or any other materially adverse condition, circumstance or event. Borrower shall pay and discharge or cause to be paid and discharged promptly all payments due for labor, materials and supplies unless the same shall be contested by Borrower in accordance with Section 5.3(B). Borrower shall make available for inspection at all times by Lender and its representatives copies of all contracts for Construction and, to the extent available to or reasonably obtained by Borrower, entered into by Contractor and design professionals relating to the Construction. Within ninety (90) days after Substantial Completion of applicable Construction activities, Borrower shall (i) complete, or cause to be completed, all Punch-List Items, (ii) deliver to Lender two (2) copies of the as-built Plans and Specifications and such other as-built surveys and plans and specifications as Lender may reasonably require and (iii) obtain all final permits and approvals required for the normal use and occupancy of the Improvements in question (including a permanent certificate of occupancy if required for occupancy under applicable laws or its equivalent for the Improvements in question, to the extent available) provided, however, to the extent that applicable Legal Requirements require satisfaction of items (i), (ii) or (iii) prior to the expiration of such ninety (90)-day period, the date such items must be satisfied prior to the date satisfaction is required pursuant to the applicable Legal Requirements.

SECTION 6
ACCOUNTS/CASH MANAGEMENT

6.1 ESTABLISHMENT OF ACCOUNTS.

(A) Accounts. Borrower and Lender confirm that Lender has established, and agrees that Borrower and Lender shall maintain at Bank, the following segregated securities accounts (each a "RESERVE ACCOUNT" and, collective the "RESERVE ACCOUNTS") shall be maintained by Borrower with Bank:

(i) Account No. _____, captioned "Lex-Gen Woodlands, L.P./iStar Financial Inc./Tax Reserve" for the retention of collateral in respect of insurance premiums for the Mortgaged Property as provided in Section 5.5 (the "INSURANCE RESERVE ACCOUNT"); and

(ii) Account No. ____, captioned "Lex-Gen Woodlands, L.P./iStar Financial Inc./Tax Reserve" for the retention of collateral for the payment of Impositions for the Mortgaged Property as provided in Section 5.5 ("TAX RESERVE ACCOUNT").

(B) Type and Control of Accounts. Borrower represents, warrants, covenants and agrees that (A) each of the Reserve Accounts are and shall be maintained as a "securities

account" (as in Section 8-501(a) of the UCC); (B) Lender is entitled to exercise the rights that comprise any financial asset credited to such Reserve Accounts; (C) Borrower shall have no right to give entitlement orders with respect to such Reserve Accounts and, except as provided in this Agreement, no Reserve Account Collateral shall be released to Borrower from such Reserve Accounts; and (D) all securities or other property underlying any financial assets credited to the Reserve Accounts shall be registered in the name of Bank or indorsed to Bank or in blank and in no case will any financial asset credited to the Reserve Accounts be registered in the name of Borrower, payable to the order of Borrower or specially indorsed to Borrower.

(C) Eligible Accounts. Each of the Reserve Accounts shall be an Eligible Account.

(D) Cash Management Agreement. Borrower agrees that: (i) the Reserve Accounts shall be maintained in accordance with the terms hereof and of the Cash Management Agreement; and (ii) prior to the indefeasible re-payment in full of the Loan and indefeasible satisfaction of the Obligations, the Cash Management Agreement shall not be amended, supplemented or modified without the prior written consent of Lender, which consent Lender may grant or withhold in its sole and absolute discretion.

(E) No Other Accounts. Borrower represents and warrants that there are no deposit, securities or similar Accounts other than the Reserve Accounts maintained by Borrower or any other Person with respect to the collection of Gross Revenues. Borrower agrees that, until the Loan is indefeasibly re-paid in full and the indefeasible satisfaction of the Obligations neither Borrower nor any other Person shall open any Accounts for the collection or holding of Gross Revenues, except for the Reserve Accounts. The foregoing shall not prohibit Borrower from (i) utilizing one or more separate accounts for the disbursement or retention of funds that have been transferred to Borrower pursuant to Section 6.3 of this Agreement or (ii) maintaining a separate bank account for the collection of Rents under the Guarantor Lease. Borrower covenants and agrees that it will not pledge, or create or permit to exist any security interest in, the foregoing accounts.

(F) Miscellaneous Account Provisions. The Reserve Accounts shall be subject to such applicable laws, and such applicable regulations of the Board of Governors of the Federal Reserve System and of any other banking or governmental authority, as may now or hereafter be in effect. Interest accruing on the Reserve Accounts, if any, shall be periodically added to the principal amount of the applicable Reserve Account and shall be held, disbursed and applied in accordance with the provisions of this Agreement. All statements relating to the Reserve Accounts shall be issued simultaneously by Bank to Lender and Borrower. Borrower shall be the beneficial owner of the Reserve Accounts for federal and state income tax purposes and shall report all income on the Reserve Accounts.

6.2 DEPOSITS INTO ACCOUNTS.

(A) Initial Deposits. On the Closing Date, Borrower agrees, represents and warrants that it has deposited or caused to be deposited the following amounts into the Accounts: (i) $156,000 into the Insurance Reserve Account; and (ii) $590,000.00 into the Tax Reserve Account.

(B) Continuing Deposits. Borrower agrees to deposit on each Payment Date funds in the following amounts:

(i) funds in an amount equal to the deposit for insurance premiums due under Section 5.5 on the applicable Payment Date shall be deposited into the Insurance Reserve Account; and

(ii) funds in an amount equal to the deposit for Impositions due under Section 5.5 on the applicable Payment Date shall be deposited into the Tax Reserve Account.

6.3 PAYMENTS FROM RESERVE ACCOUNTS.

(A) No Event of Default. Borrower hereby irrevocably authorizes Lender to withdraw, and, Lender shall withdraw or re-allocate, the following payments or allocations, as applicable, from the applicable Reserve Accounts to the extent of the monies on deposit in the applicable Reserve Account if no Event of Default exists:

(i) funds from the Tax Reserve Account and Insurance Reserve Account sufficient to pay (A) Impositions and (B) insurance premiums for the insurance required to be maintained pursuant to the terms of the Agreement, on the due date therefore, and pay such funds to the Governmental Authority or insurance company having the right to receive such funds, provided, that Lender shall only be required to make such payments if Borrower has delivered to Lender an Officer's Certificate identifying (1) the amount of such required payments, (2) the due date of such payments and (3) the person entitled to receive such payments, at least five (5) Business Days prior to the due date thereof, provided further, if Borrower shall have paid Impositions or insurance proceeds directly, the funds will be paid to Borrower in reimbursement thereof provided no Event of Default exists and Borrower provides evidence reasonably satisfactory to Lender of payment of the item in question.

(B) Event of Default Exists. If an Event of Default exists, Borrower hereby irrevocably authorizes Lender to make any and all withdrawals from and transfers between any Reserve Account, as Lender shall determine in Lender's sole and absolute discretion.

6.4 ACCOUNTS. Borrower shall not, without the prior written consent of Lender, change the account location of any Reserve Account and, as a condition precedent to any such change, the bank to which Borrower proposes to relocate such Reserve Account shall have executed an appropriate acknowledgment letter, in accordance with the provisions set forth above. With respect to the Reserve Account Collateral, Lender shall not be liable for any acts, omissions, errors in judgment or mistakes of fact or law, except for those arising as a result of Lender's investment of such Reserve Account Collateral in other than Permitted Investments or from gross negligence or willful misconduct. Funds in the Borrower Account shall (a) be used only to pay Expenses related to the Mortgaged Property prior to any distributions by Borrower and (b) not be disbursed in violation of any provision of this Agreement.

6.5 CREATION OF SECURITY INTEREST IN ACCOUNTS. Borrower hereby pledges, transfers and assigns to Lender, and grants to Lender, as additional security for the Obligations, a continuing

perfected first priority security interest in and to, and a first lien upon: (i) the Reserve Accounts and all amounts which may from time to time be on deposit in each of the Reserve Accounts; (ii) all of Borrower's right, title and interest in and to all cash, property or rights transferred to or deposited in each of the Reserve Accounts from time to time; (iii) all certificates and instruments, if any, from time to time representing or evidencing any such Reserve Account or any amount on deposit in any thereof, or any value received as a consequence of possession thereof, including all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of, or in exchange for, any or all of the Reserve Accounts; (iv) all monies, chattel paper, checks, notes, bills of exchange, negotiable instruments, documents of title, money orders, commercial paper, and other security instruments, documents, deposits and credits from time to time in the possession of Lender representing or evidencing such Reserve Accounts; (v) all other property, held in, credited to, or constituting part of any of the Reserve Accounts; (vi) all earnings and investments held in any Reserve Account in accordance with this Agreement; and (vii) to the extent not described above, any and all proceeds of the foregoing, (collectively, the "RESERVE ACCOUNT COLLATERAL"). This Agreement and the pledge, assignment and grant of security interest made hereby secures payment of all Obligations in accordance with the provisions set forth herein. This Agreement shall be deemed a security agreement within the meaning of the Uniform Commercial Code.

6.6 CERTAIN MATTERS REGARDING LENDER FOLLOWING AN EVENT OF DEFAULT. Borrower agrees that the Bank shall pay over to Lender all amounts deposited in the Reserve Accounts on demand, without notice to Borrower, if, in making such demand, Lender shall give notice, in writing, signed by Lender or an authorized agent thereof, that an Event of Default exists. Lender may exercise in respect of the Reserve Account Collateral all rights and remedies available to Lender hereunder or under the other Loan Documents, or otherwise available at law or in equity. If an Event of Default exists, Lender may exercise in respect of the Reserve Account Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all of the rights and remedies of a secured party upon default under the Uniform Commercial Code then in effect in the applicable jurisdiction. Without limiting the generality of the foregoing, Borrower agree(s) that, upon the occurrence and during the continuance of an Event of Default, it will have no further right to request or otherwise require Lender to disburse funds from any Account in accordance with the terms of this Agreement, it being agreed that Lender may, at its option, (i) direct the Bank to continue to hold the funds in the Reserve Accounts, (ii) continue, from time to time, to apply all or any portion of the funds held in the Reserve Accounts to any payment(s) which such funds could have been applied to prior to such Event of Default (or to pay Expenses directly), to the extent and in such order and manner as Lender in its sole discretion may determine, and/or (iii) direct the Bank to disburse all or any portion of the funds held in the Reserve Accounts or other Reserve Account Collateral then or thereafter held by the Bank to Lender, in which event Lender may apply the funds held in the Reserve Accounts or other Reserve Account Collateral to the Obligations, in any order and in such manner as Lender may determine in its sole discretion. If an Event of Default exists, Lender may, at any time or from time to time: (1) collect, appropriate, redeem, realize upon or otherwise enforce its rights with respect to the Reserve Account Collateral, or any part thereof, without notice to any Borrower and without the need to institute any legal action, make demand to or upon any Borrower or any other Person, exhaust any other remedies or otherwise proceed to enforce its rights; (2) execute (in the name, place and stead of Borrower) any endorsements, assignments or other instruments of conveyance which may be required for the withdrawal and negotiation of the Reserve Account

Collateral; and/or (3) exercise all other rights and remedies available to Lender hereunder and under any of the other Loan Documents. Notwithstanding anything to the contrary contained herein: (w) Borrower shall remain liable under the Loan Documents to the extent set forth herein and therein to perform all of its respective obligations thereunder, to the same extent as if this Agreement had not been executed; (x) the exercise by Lender of any of its rights hereunder shall not release Borrower from its obligations under any of the Loan Documents, nor shall it constitute an election of remedies by Lender or a waiver by Lender of any of its rights and remedies under the Loan Documents; (y) except as expressly set forth in this Agreement or in any of the other Loan Documents, Lender shall not have any obligation or liability by reason of this Agreement, nor shall Lender be obligated to perform any of the obligations or duties of Borrower hereunder or to take any action, in each case, to collect or enforce any claim for payment assigned hereunder; and (z) Lender shall not have to resort to using the Reserve Account Collateral before making demand upon or bringing an action against Borrower under any Loan Document under any guaranty given in connection with the Loan. No failure on the part of Lender to exercise, and no delay in exercising, any right under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right under this Agreement or the other Loan Documents. The remedies provided in this Agreement, the Note and the other Loan Documents are cumulative and not exclusive of any remedies provided at law or in equity.

6.7 REPRESENTATIONS AND WARRANTIES REGARDING RESERVE ACCOUNT COLLATERAL. In addition to any representations or warranties contained in this Agreement, Borrower represents and warrants as follows: (a) Borrower is the legal and beneficial owner of the Reserve Account Collateral, respectively, free and clear of any Liens, except for the Liens in favor of Lender created by this Agreement and the other Loan Documents; (b) upon execution by Borrower of this Agreement, the pledge and assignment of the Reserve Account Collateral pursuant to this Agreement will create a valid, first priority security interest in the such Reserve Account Collateral, securing the payment and performance of the Obligations; and (c) Borrower is not a party to any credit agreement or other borrowing facility including, but not limited to, a line of credit or overdraft line, with the Bank.

6.8 COVENANTS REGARDING RESERVE ACCOUNT COLLATERAL. Borrower will not, without the prior consent of Lender, (a) sell, assign (by operation of law or otherwise), pledge, or grant any option with respect to, any of the Gross Revenues or any interest in the Reserve Account Collateral or (b) create or permit to exist any assignment, lien, security interest, option or other charge or encumbrance upon or with respect to any Gross Revenues or any Reserve Account Collateral, except for the Liens in favor of Lender under this Agreement and the other Loan Documents. Borrower will give Lender not less than thirty (30) days' prior written notice of any change in the address of its chief executive office or its principal office. Borrower agrees that all records of Borrower with respect to the Reserve Account Collateral will be kept at Borrower's principal office and will not be removed from such addresses without the prior written consent of Lender. Borrower will not make or consent to any amendment or other modification or waiver with respect to any Reserve Account Collateral, or enter into any agreement, or permit to exist any restriction, with respect to any Reserve Account Collateral. Borrower will, at its expense, defend Lender's right, title and security interest in and to the Reserve Account Collateral against the claims of any Person. Borrower will not take any action which would in any manner impair the enforceability of this Agreement or the security interests created hereby. Borrower will not

enter into any credit agreement or other borrowing facility including a line of credit or overdraft line, with Bank. Nothing contained in this Section 6 shall impair or otherwise limit Borrower's obligations to timely make the payments (including interest and principal) required by the Note and the other Loan Documents, it being understood that such payments shall be so timely made in accordance with the Loan Documents, regardless of the amounts on deposit in any Account. Lender may, from time to time, at its sole option, perform any act which Borrower agrees hereunder to perform which Borrower shall fail to perform after being requested in writing to so perform and Lender may from time to time take any other action which Lender deems necessary for the maintenance, preservation or protection of any of the rights granted to Lender hereunder. With respect to the powers conferred on Lender hereunder, Lender shall not have any duty as to the Accounts or the other Reserve Account Collateral, or any responsibility for (i) ascertaining or taking action with respect to any matters relative to the Accounts or the other Reserve Account Collateral, whether or not Lender has or is deemed to have knowledge of such matters or (ii) taking any necessary steps to preserve rights against prior parties or any other rights pertaining to the Accounts or the other Reserve Account Collateral.

6.9 CASH MANAGEMENT FEES. All fees, costs and expenses associated with the Cash Management Agreement and Reserve Account Collateral shall be paid by Borrower when due.

SECTION 7
NEGATIVE COVENANTS

Borrower covenants and agrees that from the date hereof and so long as this Agreement shall remain in effect or the Note remains outstanding, Borrower shall comply with all covenants and agreements in this Section 7.

7.1 INDEBTEDNESS. Borrower will not directly or indirectly create, incur, assume, guaranty, or otherwise become or remain directly or indirectly liable with respect to any Indebtedness except Permitted Indebtedness.

7.2 LIENS AND RELATED MATTERS. Borrower will not directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to the Mortgaged Property or other Collateral whether now owned or hereafter acquired, or any income or profits therefrom, except the Liens in favor of Lender under this Agreement and the Permitted Encumbrances. Borrower shall have the right to contest any such Lien securing Claims in accordance with Section 5.3(B), except by their own terms or in accordance with a specific termination right granted thereunder.

7.3 MATERIAL RIGHTS. Without Lender's consent, which consent shall not be unreasonably withheld, conditioned or delayed, Borrower shall not (a) amend, modify or waive the performance of material obligations with regard to the Material Contracts or Proprietary Rights, (b) request a waiver or consent from, any party to, or issuer of any of the Material Contracts or Proprietary Rights or (c) terminate or permit termination of any Material Contracts or Proprietary Rights.

7.4 RESTRICTION ON FUNDAMENTAL CHANGES. Neither Borrower nor Borrower Representative will: (1) amend, modify or waive in any material respect any term or provision of its Organizational Documents, (2) liquidate, wind-up or dissolve itself (or suffer any liquidation or

dissolution); or (3) acquire by purchase or otherwise all or any part of the business or assets of, or stock or other evidence of beneficial ownership of, any Person. Neither Borrower nor Borrower Representative will issue, sell, assign, pledge, convey, dispose or otherwise encumber any partnership, stock, membership, beneficial or other ownership interests or grant any options, warrants, purchase rights or other similar agreements or understandings with respect thereto. Borrower will not establish any Subsidiaries. Borrower will not make any Investments in any other Person.

7.5 RESTRICTION ON LEASES. Except for the Guarantor Lease and as set forth below, Borrower shall not hereafter enter into any Lease or other rental or occupancy arrangement or concession agreement with respect to the Mortgaged Property or any portion thereof or otherwise permit any occupancy of the Mortgaged Property other than by Guarantor. Borrower shall not modify, amend or terminate any Lease, give any consents, waive any obligations under any leases or release any tenant of any Lease, without, in each instance, Lender's consent, such consent not to be unreasonably withheld, conditioned or delayed. Borrower shall perform and comply, in all material respects, with all of the landlord's obligations under each Lease and shall not suffer or permit any material breach or default on the part of the landlord to occur thereunder. In addition to the Guarantor Lease, Guarantor shall have the right to enter into subleases with third parties for occupancy of the Improvements without Lender's consent, provided that (i) any such sublease shall be subject and subordinate to the Liens in favor of Lender under this Agreement and (ii) all subleases, in the aggregate, shall be for (1) less than 50% of the leasable space of any single building and (2) less than 30% of the aggregate leasable improved space for the Mortgaged Property. Borrower shall provide Lender with written notice of any such permitted sublease prior to Guarantor entering into any such sublease. In no event will Borrower enter into any Capital Leases.

7.6 TRANSACTIONS WITH AFFILIATES. Except for the Guarantor Lease, Borrower shall not directly or indirectly enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any director, officer, employee or Affiliate of Borrower, Borrower Representative or Guarantor, except transactions in the ordinary course of and pursuant to the reasonable requirements of the business of Borrower and upon fair and reasonable terms which are fully disclosed to Lender and are no less favorable to Borrower than would be obtained in a comparable arm's length transaction with a Person that is not an Affiliate, director, officer or employee of Borrower. Each such agreement with any Affiliate, director, officer or employee of Borrower shall provide that the same may be terminated by Lender at its option if an Event of Default exists. Other than pursuant to the Management Agreement approved by Lender, Borrower shall not pay any management, consulting, director or similar fees to any director, officer, employee or Affiliate of Borrower or Guarantor.

7.7 MANAGEMENT FEES AND COMPENSATION; CONTRACTS. Borrower will not enter into or become obligated under any management (property and asset), brokerage or other such similar agreement, whether with an Affiliate or any other Person, with respect to the Mortgaged Property, without Lender's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed, and unless the same may be terminated, without cause and without payment of a penalty or fee, on not more than thirty (30) days' prior written notice. In no event will Borrower pay a management fee in excess of the then prevailing market rates.

7.8 CONDUCT OF BUSINESS. From and after the Closing Date, Borrower will not engage in any business other than the ownership and operation of the Mortgaged Property. Borrower shall not use the Mortgaged Property or any part thereof, or allow the same to be used or occupied, for any purpose other than for the purposes of an office, laboratory, vivarium or other facility for similar use and related amenities, or for any unlawful purpose, or in violation of any Legal Requirement. Borrower will not suffer any act to be done or any condition to exist on the Mortgaged Property or any part thereof or any article to be brought thereon, which may be dangerous (unless safeguarded as required by Legal Requirement) or which may constitute a nuisance, public or private, or which may void or make voidable any insurance then in force with respect thereto. No tract map, parcel map, condominium plan, condominium declaration, or plat of subdivision (or analogous document) will be recorded with respect to the Mortgaged Property without Lender's consent, which consent shall not be unreasonably withheld, conditioned or delayed. The Mortgaged Property shall not be converted to the condominium or "cooperative" form of ownership. Borrower will not initiate or consent to any change in the zoning of the Mortgaged Property. Borrower shall at all times maintain good and indefeasible fee title to the Mortgaged Property free and clear of any encumbrances other than the Liens in favor of Lender under the Loan Documents and the Permitted Encumbrances. Borrower shall not change its fiscal year without giving advance notice thereof to Lender.

7.9 USE OF LENDER'S NAME. Borrower shall not use the names of Lender or any of Lender's Subsidiaries or Affiliates in connection with the development, marketing, leasing, use and operation of the Mortgaged Property. Borrower shall not disclose or permit any Subsidiary of Guarantor or Borrower, or any officer, director, partner, manager, member or employee of Borrower to disclose any of the terms and conditions of the Loan to any Person except (a) to the extent disclosed in the Mortgage and the Financing Statements, (b) to the extent such disclosure is required pursuant to the Loan Documents or applicable legal process, (c) to the extent, and only to the extent, such disclosure is required pursuant to Guarantor's reporting requirements under the Exchange Act, (d) to the extent the content of such disclosure is already generally available to the public, or (e) to the extent Lender consents to such disclosure.

7.10 COMPLIANCE WITH ERISA. Borrower shall not adopt, modify or terminate any Employee Benefit Plans except as described in Schedule 4.10. Borrower shall not fail to maintain and operate each existing Employee Benefit Plan in compliance in all material respects with the provisions of ERISA, the Code and all other applicable laws and the regulations and interpretations thereof. Borrower shall not engage in any transaction which would cause the Obligations or any action taken or to be taken under this Agreement or the other Loan Documents or otherwise (or the exercise by Lender of any of its rights under the Loan Documents) to be a non-exempt prohibited transaction under ERISA. Borrower shall not become an "employee benefit plan" (within the meaning of Section 3(3) of ERISA) to which ERISA applies and Borrower shall not permit its assets to be plan assets.

7.11 DUE ON SALE OR ENCUMBRANCE. Without Lender's consent, which consent may be given or withheld in the sole discretion of Lender, neither Borrower nor any other Person directly or indirectly holding any direct or indirect legal, beneficial, equitable or other interest in Borrower (at each and every tier or level of ownership) shall, or permit other Persons to, Transfer (whether or not for consideration or of record) all or any portion of the Mortgaged Property or any direct or indirect legal, equitable, beneficial or other interest (1) in all or any portion of the Mortgaged

Property; (2) in Borrower; or (3) at each and every tier or level of ownership, in Borrower's direct or indirect partners, members, shareholders, beneficial or constituent owners including Guarantor, Borrower Representative, any owners of Borrower Representative (or the direct or indirect owners of any direct or indirect interests in any such constituent owners), including (a) an installment sales agreement for a price to be paid in installments; (b) except as otherwise permitted pursuant to Section 7.5, any Leases or a sale, assignment or other transfer of, or the grant of a security interest in, Borrower's right, title and interest in and to any Leases or any Rents; (c) any direct or indirect voluntary or involuntary sale of any ownership interest in Borrower or other Person directly or indirectly owning any direct or indirect interest in Borrower; (d) the creation, issuance or redemption of direct or indirect ownership interests by Borrower or any Person owning a direct or indirect interest in Borrower (at each every tier or level of ownership); (e) any merger, consolidation, dissolution or liquidation; and (f) without limitation of any of the foregoing, any direct or indirect voluntary or involuntary Transfer by any Person which indirectly controls Borrower (by operation of law or otherwise) of its direct or indirect controlling interests in Borrower. Notwithstanding the foregoing, the following shall not be deemed to be prohibited under this Section 7.11: (i) a Transfer of an indirect ownership interest in Borrower, by the current owner thereof to a wholly-owned subsidiary of Guarantor and (ii) Transfers of ownership interests in a Person whose stock is publicly traded, so long as (x) no such transfers described in parts (i) and (ii) of this sentence result in any Person or Group acquiring, directly or indirectly, more than a forty-nine percent (49%) direct or indirect interest in Borrower (if such Person or Group did not prior to the Transfer, own at least forty-nine percent (49%) of the direct or indirect ownership interests in Borrower), unless such Person or Group acquiring, directly or indirectly, more than a forty-nine percent (49%) direct or indirect interest in Borrower has a Credit Rating of "Baa2" or higher from Moody's or "BBB" or higher from S&P, or, as applicable, an equivalent rating from another Rating Agency, or, if such Person or Group is not rated by a Rating Agency, has (A) a Net Worth of $1,000,000,000 or more, (B) an EBITDA Interest Coverage of 6.0 or greater and (C) a Total Debt/Capitalization no greater than 40%, and (y) no Change in Control occurs by virtue of such Transfers (other than pursuant to clause (ii) of the definition of "Change of Control"). Notwithstanding the foregoing, Borrower may sell Inventory in the ordinary course of business and transfer or dispose of tangible personal property to Persons that are not Borrower's Affiliates, which tangible personal property is immediately replaced by an article of equivalent suitability and value or which is no longer necessary in connection with the operation of the Mortgaged Property provided that such transfer or disposal will (i) not have a Material Adverse Effect; (ii) not materially impair the utility of the Mortgaged Property, and (iii) not result in a reduction or abatement of, or right of offset against, the Gross Revenues payable under any Lease or otherwise, and provided that any tangible personal property acquired by Borrower (and not so disposed of) shall be subject to the Lien of the Mortgage. Borrower acknowledges that Lender has examined and relied on the experience of Borrower and Guarantor in owning and operating properties such as the Mortgaged Property in agreeing to make the Loan and will continue to rely on such ownership of the Mortgaged Property and Borrower and Guarantor as a means of maintaining the value of the Mortgaged Property as security for repayment of the Loan and the performance of the other Obligations. Borrower acknowledges that Lender has a valid interest in maintaining the value of the Mortgaged Property so as to ensure that, should Borrower default in the repayment of the Loan or the performance of the other Obligations, Lender can recover the Loan by a sale of the Mortgaged Property. Lender shall not be required to demonstrate any actual impairment of its

security or any increased risk of default hereunder in order to declare the Loan immediately due and payable upon any Default under this Section 7.11.

7.12 PAYMENTS; DISTRIBUTIONS. Except for payments of management fees otherwise permitted to be paid to Manager under this Agreement pursuant to a Management Agreement approved by Lender at a time when no Event of Default exists, Borrower shall not pay any distributions, dividends or other payments or return any capital to any of its respective partners, members, owners or shareholders or any other Affiliate or make any distribution of assets, rights, options, obligations or securities to any of its respective partners, members, shareholders or owners or any other Affiliate (individually, or collectively, a "DISTRIBUTION") unless (a) on the date of the proposed Distribution, and after giving effect to the subsequent Distribution, no Default or Event of Default exists; (b) funds are not then required to be deposited into any Reserves; (c) Borrower is not "insolvent" (as defined in the Bankruptcy Code) and will not be rendered insolvent by virtue of such Distribution; (d) Borrower shall deliver, at least ten (10) days in advance of the proposed Distribution, to Lender, an Officer's Certificate executed by the chief financial officer or similar officer of Borrower, stating that the foregoing conditions (a), (b) and (c) have been satisfied.

7.13 SINGLE PURPOSE BANKRUPTCY REMOTE ENTITIES. Borrower hereby represents, warrants, agrees and covenants that Borrower and Borrower Representative have, at all times, from their formation, been, and, at all times will be, a Special Purpose Bankruptcy Remote Entity. Neither Borrower nor Borrower Representative will, directly or indirectly, make any change, amendment or modification to its Organizational Documents or otherwise take any action which could result in Borrower or Borrower Representative not being a Special Purpose Bankruptcy Remote Entity.

7.14 ALTERATIONS. Borrower shall not alter, remove or demolish or permit the alteration, removal or demolition of, any Improvement except as the same may be necessary in connection with (i) a Restoration in connection with a taking or casualty in accordance with the terms and conditions of the Agreement, (ii) Required Capital Improvements in accordance with the terms and conditions of the Agreement and (iii) other Alterations permitted in accordance with the terms and conditions of this Section 7.14. If no Event of Default exists, Borrower may undertake any alteration, improvement, demolition or removal of Improvements or any portion thereof (any such alteration, improvement, demolition or removal, an "ALTERATION") so long as (1) Borrower provides Lender with at least thirty (30) days' prior notice of any such Alteration, (2) such Alteration is undertaken in accordance with the applicable provisions of this Agreement, is not prohibited by, and is in full compliance with, and does not violate, any Material Contracts or Legal Requirements and does not, during Construction and upon completion, have a Material Adverse Effect, (3) Borrower provides Lender with evidence, satisfactory to Lender, that Borrower has sufficient funds to complete and pay all of the costs of the Alterations, (4) such Alteration does not eliminate or materially modify any amenity (e.g., health club) available to tenants and their employees or customers, (5) such Alteration is in the nature of (x) Required Capital Improvements permitted under this Agreement, (y) a Restoration required or permitted under the Agreement or (z) if not in the nature of the Alterations contemplated by (x) or (y), such Alteration has been consented to by Lender (such consent will not be unreasonably withheld, conditioned or delayed in the case of Alterations the cost of which, as estimated by Lender, does not exceed $50,000) and (6) prior to commencement and from time to time upon request from Lender, Borrower delivers an Officer's Certificate certifying that conditions (1)-(5), inclusive,

have been satisfied. Any Alteration shall, unless Lender otherwise approves or the Agreement otherwise provides, be conducted under the supervision of an independent architect approved by Lender (an "INDEPENDENT ARCHITECT"). No Alteration shall be undertaken until Lender has approved plans and specifications and cost estimates for the Alterations, prepared by such Independent Architect or another Person approved by Lender, such approvals not to be unreasonably withheld, conditioned or delayed. Notwithstanding anything contained in this Section 7.14 to the contrary, Borrower shall have the right to make non-structural Alterations to the Improvements, the cost of which does not exceed $500,000 per Alteration, without Lender's consent and without complying with clauses (3)-(5) set forth above; provided, however, that Borrower shall provide Lender with prior written notice at least ten (10) days prior to commencing such Alteration and prior to commencing any permitted Alteration, Borrower shall have delivered to Lender a copy of the proposed plans and specifications for such Alteration.

SECTION 8
CASUALTY AND CONDEMNATION

8.1 RESTORATION FOLLOWING CASUALTY OR CONDEMNATION. After the happening of any casualty or condemnation to the Mortgaged Property or any part thereof, Borrower shall give prompt notice thereof to Lender.

(a) In the event of any damage or destruction of all or any part of the Mortgaged Property, all Proceeds shall be payable to Lender. Borrower hereby authorizes and directs any affected insurance company or condemning Governmental Authority or other Persons to make payment of such proceeds directly to Lender. Borrower shall obtain Lender's approval prior to any settlement, adjustment or compromise of any claims for loss, damage or destruction under any policy or policies of insurance or with respect to any condemnation, and Lender shall have the right to participate with Borrower in negotiation of any such settlement, adjustment or compromise provided, however, Borrower shall be permitted, so long as no Event of Default exists, to settle insurance claims of $250,000 or less without Lender's approval (but with reasonable advance notice to Lender) and utilize any such funds for Restoration. Lender shall also have the right to appear with Borrower in any action against an insurer based on a claim for loss, damage or destruction under any policy or policies of insurance.

(b) All compensation, proceeds, damages, claims, insurance recoveries, rights of action and payments which Borrower may receive or to which Borrower may become entitled with respect to the Mortgaged Property or any part thereof as a result of any casualty or condemnation, except as set forth below in this Section 8.1 (the "PROCEEDS"), shall be paid over to Lender and shall be held in an escrow account with an Acceptable Financial Institution. The Proceeds shall be applied first toward reimbursement of all costs and expenses of Lender in connection with recovery of the same, and then, except as set forth below in this Section 8.1, shall be applied in the sole and absolute discretion of Lender, without regard to the adequacy of Lender's security hereunder, to the payment or prepayment of the Obligations in such order as Lender may determine, and any amounts so applied shall reduce the Obligations pro tanto (without any Prepayment Premium due in connection therewith). Any application of the Proceeds or any portion

thereof to the Obligations shall not be construed to cure or waive any Default or Event of Default or invalidate any act done pursuant to any such Default or Event of Default.

(c) Subject to the other provisions of this Section 8.1, and provided that (i) all Proceeds have been deposited with an Acceptable Financial Institution; (ii) no Event of Default shall exist; (iii) a Total Loss with respect to the Property shall not have occurred; (iv) the Restoration is capable, as reasonably determined by Lender, of being completed before the earlier (the "REQUIRED RESTORATION DATE") to occur of (x) the date which is six (6) months prior to the Maturity Date, (y) the date on which the insurance carried by Borrower pursuant to Section 5.4(a)(ii), with respect to the Mortgaged Property shall expire and (z) eighteen (18) months after the occurrence of the casualty or condemnation in question; (v) Lender shall have been furnished with an estimate of the cost of restoration accompanied by an architect's certificate as to such costs and appropriate final plans and specifications for reconstruction of the Improvements, all of which shall be approved by Lender, which approval shall not be unreasonably withheld, conditioned or delayed; (vi) the Improvements so restored or rebuilt shall be of at least equal value and substantially the same character as prior to the damage or destruction and appropriate for the purposes for which they were originally erected (and, if requested by Lender, Borrower will furnish, at its expense, an appraisal confirming such valuation); (vii) Borrower shall have furnished Lender with evidence reasonably satisfactory to Lender that all Improvements so restored and/or reconstructed and their use fully comply with all applicable zoning, building laws, ordinances and regulations and other Legal Requirements and that all required licenses and approvals required for use, operation and occupancy of the Improvements can be obtained, to the extent available; (viii) if the estimated cost of restoration exceeds the Proceeds available, Borrower shall have deposited with Lender such sums or other security as may be necessary, in Lender's reasonable judgment, to pay such excess costs and (ix) Lender shall have received notice within thirty (30) days of the fire or other hazard or of the condemnation proceedings specifying the date of such fire or other hazard or the date the notice of condemnation proceedings was received and the request to Lender to make said Proceeds available to Borrower; then the Proceeds, less the actual costs, fees and expenses, if any, incurred in connection with adjustment of loss and Lender's reasonable administrative expenses relating to such loss and the disbursement of the Proceeds shall be made available by Lender to the payment of all the costs of the aforesaid restoration, repairs, replacement, rebuilding or alterations, including the cost of temporary repairs or for the protection of property pending the completion of permanent restoration, repairs, replacements, rebuilding or alterations (all of which temporary repairs, protection of property and permanent restoration, repairs, replacement, rebuilding or alterations are hereinafter collectively referred to as the "RESTORATION"), and shall be paid out from time to time as such Restoration progresses upon the request of Borrower if the work for which payment is requested has been done in a good and workmanlike manner, in compliance with applicable Legal Requirements and substantially in accordance with the plans and specifications therefor. Each request by Borrower for disbursement of Proceeds shall (unless Lender otherwise elects, in its sole discretion, with respect to a Restoration estimated by Lender to cost $100,000 or less to complete, to waive any of the following requirements) be accompanied by the required Lien Waivers, a Request for Release, and, to the extent not subsumed within a Request for Release, the following:

(1) A certificate signed by Borrower, dated not more than thirty (30) days prior to such request, setting forth the following: (A) That the sum then requested either has been paid, or is justly due to contractors, subcontractors, materialmen, engineers, architects or other persons who have rendered services or furnished materials for the restoration therein specified or have paid for the same, the names and addresses of such persons, a brief description of such services and materials, the several amounts so paid or due to each of said persons in respect thereof (together with supporting statements and invoices for the same), that no part of such expenditures has been or is being made the basis of any previous or then pending request for the withdrawal of Proceeds or has been made out of any of the Proceeds received by Borrower, and that the sum then requested does not exceed the value of the services and materials described in the certificate; and (B) That the costs, as estimated by the persons signing such certificate, of the Restoration required to be done subsequent to the date of such certificate in order to complete and pay for the same, do not exceed the Proceeds, plus any amount or security approved by Lender and deposited with such Acceptable Financial Institution by Borrower to defray such costs and remaining in the hands of Lender after payment of the sum requested in such certificate.

(2) A title insurance report or other evidence satisfactory to Lender to the effect that there has not been filed with respect to the Mortgaged Property, or any part thereof, any vendor's, contractor's, mechanics', laborer's, materialmen's or other Lien which has not been discharged of record or bonded or insured over, except such as will be disbursed by payment of the amount then requested.

(3) A certificate signed by the Independent Architect and/or engineer in charge of the Restoration, who shall be selected by Borrower and approved in writing by Lender, certifying that the Restoration is proceeding in accordance with the plans and specifications approved by Lender and in accordance with all zoning, subdivision and other Legal Requirements. Upon compliance with the foregoing provisions, Lender shall, out of Proceeds (and the amount of security approved by Lender, if any, deposited by Borrower to defray the costs of the Restoration), pay or cause to be paid to Borrower or the Persons named (pursuant to clause (1)(A) above) in such certificate the respective amounts stated therein to have been paid by Borrower or to be due to them, as the case may be.

(d) If the Proceeds at the time held by the Acceptable Financial Institution, less the actual costs, fees and expenses, if any, incurred in connection with the adjustment of the loss and Lender's administrative expenses relating to such loss and the disbursement of the Proceeds, shall be, in Lender's reasonable judgment, insufficient to pay the entire cost of the Restoration, Borrower shall deposit with such Acceptable Financial Institution any such deficiency prior to disbursement of any additional portion of the Proceeds. Lender shall at all times have a perfected security interest on all Proceeds and other amounts held by such Acceptable Financial Institution pursuant to this Section 8. No payment made prior to the final completion of the Restoration shall exceed ninety percent (90%) of the value of the work performed from time to time (provided that, notwithstanding the foregoing, subcontractors who have completed their

work may be paid in full), and at all times the undisbursed balance of said Proceeds remaining in the hands of Lender shall be at least sufficient to pay for the cost of completion of the Restoration free and clear of liens. In addition to the requirements and conditions set forth in Section 5.19, final payment shall be upon an architect's certificate of completion in accordance with the final plans and specifications and compliance with all applicable zoning, building, subdivision and other governmental laws, ordinances, rules, and regulations, the filing of a notice of completion and the expiration of the period provided under applicable law for the filing of mechanic's and materialmen's liens and delivery to Lender of a certified copy of a final unconditional permanent (i) certificate of occupancy regarding the Restoration, to the extent available, and (ii) certificate of compliance from The Woodlands Community Association and The Woodlands Community Owners Association (or their successor entities). To the extent available, Lender may, at its option, require an endorsement to the Title Policy insuring the continued priority of the lien of the Mortgage as to all sums advanced hereunder, such endorsement to be paid for by Borrower. Upon completion of the Restoration in a good and workmanlike manner in accordance herewith, and provided that Lender has received satisfactory evidence that the Restoration has been paid for in full and the Mortgaged Property is free and clear of all Liens, other than the Liens created in favor of Lender by the Loan Documents and the Permitted Encumbrances (including signed lien waivers from all contractors and subcontractors conditioned only on payment of amounts specified therein), any balance of the Proceeds at the time held by Lender (after reimbursement to Lender of all costs and expenses of Lender, including administrative expenses, in connection with recovery of the same and disbursement of such Proceeds for the Restoration), if any, shall be applied as follows: (i) to the extent that such balance of the Proceeds is equal to or less than the amount, if any, by which the value of the Mortgaged Property prior to such damage or destruction exceeds the value of the Mortgaged Property after such Restoration (for these purposes, the value of the Mortgaged Property shall be determined by Lender in its discretion), then the portion of the balance of the Proceeds equal to such excess amount shall be applied to the payment or prepayment of the principal balance of the Obligations in such order as Lender may determine, and any amounts so applied shall reduce the Obligations pro tanto (without any Prepayment Premium due in connection therewith); and (ii) to the extent that the balance of the Proceeds exceeds such excess amount, such portion of the balance of the Proceeds shall be paid to Borrower.

(e) Nothing herein contained shall be deemed to excuse Borrower from repairing or maintaining the Mortgaged Property as provided in the Agreement hereof or restoring all damage or destruction to the Mortgaged Property, regardless of whether or not there are insurance proceeds available or whether any such Proceeds are sufficient in amount, and the application or release by Lender of any Proceeds shall not cure or waive any Default or Event of Default or invalidate any other act done by Lender to exercise its remedies under this Agreement or the other Loan Documents; provided, however, if, prior to the last two (2) years of the term of the Loan, Lender elects not to make such Proceeds available to Borrower for restoration, then Borrower may prepay the Loan without payment of the Prepayment Premium, so long as an Event of Default is not then in existence.

SECTION 9
DEFAULT, RIGHTS AND REMEDIES

9.1 EVENT OF DEFAULT. "EVENT OF DEFAULT" means the occurrence or existence of any one or more of the following:

(A) PAYMENT. Failure of Borrower to pay (i) on the Maturity Date, the outstanding principal of, accrued interest in, and other Indebtedness owing pursuant to the Agreement, the Note and the other Loan Documents, (ii) within five (5) days after the due date, any installment of principal or interest due under the Note; provided, however, the aforesaid five (5) day grace period may be utilized by Borrower no more than once in any consecutive twelve (12) Loan Month period, or (iii) within five (5) days after the respective due date, any other amount due under the other Loan Documents, provided, however, the aforesaid five (5)-day grace period may e utilized by Borrower no more than once in any consecutive twelve (12) Loan Month period.

(B) BREACH OF CERTAIN PROVISIONS.

(i) Failure of Borrower to perform or comply with any term, agreement, covenant, representation, warranty or condition contained in Sections 5.1(E), 5.1(F), 5.1(G), 5.1(H), 5.13, 6.2, 7.2, 7.5, 7.9, 7.12, 7.13, 7.14, 8.1(a), 8.1(b) or 10 and such failure is not remedied or waived within five (5) Business Days after receipt by Borrower of notice from Lender of such failure.

(ii) Failure of Borrower to perform or comply with any term, agreement, covenant, representation, warranty or condition contained in Sections 5.4 (except any such failure which does not result in any insurance coverage required by Section 5.4 not in fact being in place), 7.1, 7.3, 7.4, 7.10 or 7.11.

(C) BREACH OF REPRESENTATION AND WARRANTY. Any representation, warranty, certification or other statement made by Borrower or Guarantor in any Loan Document or in any statement or certificate at any time given in writing pursuant or in connection with any Loan Document (other than occurrences described in other provisions of this Section 9.1 for which a different grace or cure period is specified or which constitute immediate Events of Default) is false in any material respect on the date made which remains uncured for five (5) Business Days after notice, but no grace or curative period will apply if the representation, warranty, certification or other statement was known by Borrower or Guarantor to be false when made or deemed made.

(D) OTHER DEFAULTS UNDER LOAN DOCUMENTS. A default by Borrower shall occur in the performance of or compliance with any term contained in this Agreement or the other Loan Documents and such default is not remedied or waived within thirty (30) days after receipt by Borrower of notice from Lender of such default (other than occurrences described in other provisions of this Section 9.1 for which a different grace or cure period is specified or which constitute immediate Events of Default); provided, however, that (i) if such default cannot be remedied with reasonably diligent effort within a period of thirty (30) days, but is susceptible to cure within a period of one hundred twenty (120) days and (ii) the continued default in performance will not have a Material Adverse Effect, such longer period, not to exceed ninety

(90) additional days, as Borrower may need to remedy such default, if Borrower is proceeding with diligent effort to remedy such default throughout said one hundred twenty (120)-day period; provided, further, however, that (A) if Borrower has been, and will continue to be, diligent in its efforts to cure such default, and (B) the continued default has not, and will not, have a Material Adverse Effect, Borrower shall have such longer period, not to exceed an additional sixty (60) days (for a total of one hundred eighty (180) days), as Borrower may need to remedy such default. The rights to notice and cure periods granted herein shall not be cumulative with any other rights to notice or a cure period in any other Loan Document and the giving of notice or a cure period pursuant to this section shall satisfy any and all obligations of Lender to grant any such notice or cure period pursuant to any of the Loan Documents.

(E) INVOLUNTARY BANKRUPTCY; APPOINTMENT OF RECEIVER, ETC. (1) A court enters a decree or order for relief with respect to Borrower, Guarantor or Borrower Representative in an involuntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, which decree or order is not stayed or other similar relief is not granted under any applicable federal or state law; or (2) the continuance of any of the following events for ninety (90) days unless dismissed, bonded or discharged: (a) an involuntary case is commenced against any Borrower, Borrower Representative or Guarantor under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect; or (b) a decree or order of a court for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over Borrower, Borrower Representative or Guarantor or over all or a substantial part of its property, is entered; or (c) an interim receiver, trustee or other custodian is appointed without the consent of Borrower, Borrower Representative or Guarantor for all or a substantial part of the property of Borrower, Borrower Representative or Guarantor; or

(F) VOLUNTARY BANKRUPTCY; APPOINTMENT OF RECEIVER, ETC. (1) An order for relief is entered with respect to Borrower, Borrower Representative or Guarantor or Borrower, Borrower Representative or Guarantor commences a voluntary case under the Bankruptcy Code or any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case under any such law or consents to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or (2) Borrower, Borrower Representative or Guarantor makes any assignment for the benefit of creditors; or (3) partners, shareholders, or members in Borrower, Borrower Representative or Guarantor adopts any resolution or otherwise authorizes action to approve any of the actions referred to in this Section 9.1(F); or

(G) GOVERNMENTAL LIENS. Any lien, levy or assessment is filed or recorded with respect to or otherwise imposed upon all or any part of the Mortgaged Property by the United States or any department or instrumentality thereof or by any state, county, municipality or other governmental agency (other than Permitted Encumbrances) and such lien, levy or assessment is not stayed, vacated, paid, discharged or insured or bonded over within thirty (30) days;

(H) JUDGMENT AND ATTACHMENTS. Any money judgment, writ or warrant of attachment, or similar process (other than those described in Section 9.1(G)) involving (1) an

amount in any individual case in excess of $100,000 or (2) an amount in the aggregate at any time in excess of $250,000 (in either case not adequately covered by insurance as to which the insurance company has acknowledged coverage) is entered or filed against Borrower, Borrower Representative or Guarantor and remains undischarged, unvacated, unbonded, uninsured or unstayed for a period of thirty (30) days or in any event later than five (5) days prior to the date of any proposed sale thereunder;

(I) DISSOLUTION. Any order, judgment or decree is entered against Borrower, Borrower Representative or Guarantor decreeing the dissolution or split up of Borrower, Borrower Representative or Guarantor and such order remains undischarged or unstayed for a period in excess of twenty (20) days; or

(J) INJUNCTION. Either (i) Borrower, Borrower Representative or any Guarantor is enjoined, restrained or in any way prevented by the order of any court or any administrative or regulatory agency from conducting all or any material part of its business relating to the any Mortgaged Property and such order continues for more than thirty (30) days; or (ii) any order or decree is entered by any court of competent jurisdiction directly or indirectly enjoining or prohibiting Lender, Borrower, Borrower Representative or Guarantor from performing any of their obligations under this Agreement or any of the other Loan Documents; or

(K) INVALIDITY OF LOAN DOCUMENTS. Any of the Loan Documents for any reason, other than a partial or full release in accordance with the terms of the Loan Documents, ceases to be in full force and effect or is declared to be null and void by a court of competent jurisdiction, or any of Borrower, Borrower Representative or Guarantor denies that it has any further liability under any Loan Documents to which it is party, or gives notice to such effect; or

(L) EVENT OF DEFAULT. The occurrence of an Event of Default specified elsewhere in this Agreement or in any of the other Loan Documents or the occurrence of an Event of Default by Guarantor under the Guaranty; or

(M) CROSS-DEFAULT. The occurrence of any of the following with respect to Guarantor: (i) the acceleration of any Indebtedness in the aggregate amount of $10,000,000 or more; (ii) the occurrence of a default under any Indebtedness in the aggregate amount of $10,000,000 or more not cured within the grace or curative period applicable to such Indebtedness, (iii) the occurrence of a default or breach under any Material Contracts not cured within any applicable grace period or notice and cure period, which, in Lender's reasonable judgment, could have a Material Adverse Effect, or (iv) the loss or termination of any Proprietary Rights which, in Lender's reasonable judgment, could have a Material Adverse Effect.

(N) DEATH, ETC. Dissolution, cessation of existence or felony or other criminal conviction or indictment of Borrower, Borrower Representative and/or Guarantor, a punishment for which could result in forfeiture of any assets of the Borrower, Guarantor or any direct or indirect equity interest to Borrower or loss of eligibility for any material Proprietary Rights, which in Lender's reasonable judgment could have a Material Adverse Effect; or

(O) INDEPENDENT PERSON. Borrower or Borrower Representative shall at any time cease to have at least one (1) Independent Person or, if requested by Lender in writing in connection with a contemplated Securitization, two (2) Independent Persons for more than ten (10) consecutive Business Days; or

(P) ZONING. The Land and Improvements or any portion thereof are zoned either voluntarily or involuntarily, such that the zoning or other applicable land use restriction prohibits the Borrower from operating the Land and Improvements or any portion thereof as an office, laboratory, vivarium, life sciences facility or other facility for similar use;

(Q) TENANT IMPAIRMENT EVENT. The occurrence of a Tenant Impairment Event;

(R) CHANGE IN CONTROL. The occurrence of any direct or indirect Change in Control with respect to Borrower or Guarantor, except as permitted pursuant to Section 7.11; or

(S) LEASE. The occurrence of any default by Borrower in any of its obligations under the Guarantor Lease.

9.2 ACCELERATION AND REMEDIES. Upon the occurrence of any Event of Default specified in Sections 9.1(E) and 9.1(F), payment of all Obligations shall be accelerated without notice, presentment, demand, protest or notice of protest and shall be immediately due and payable and, in addition, Lender may in addition to any other rights and remedies available to Lender at law or in equity or under any other Loan Documents, exercise one of more of the following rights and remedies as it, in its sole discretion, deems necessary or advisable. Upon the occurrence of any Event of Default (other than Events of Default specified in Sections 9.1(E) and 9.1(F)), Lender, in addition to any other rights or remedies available to Lender at law or in equity, or under any of the other Loan Documents, may exercise any one or more of the following rights and remedies as it, in its sole discretion, deems necessary or desirable:

(a) ACCELERATION. Declare immediately due and payable, without further notice, protest, presentment, notice of protest or demand, all Obligations including all monies advanced under this Agreement, the Note, the Mortgage and/or any of the Loan Documents which are then unpaid, together with all interest then accrued thereon and all other amounts then owing (including any Default Interest, or prepayment premium owed as a result of such acceleration). If payment of the Obligations is accelerated, Lender may, in its sole discretion, exercise all rights and remedies hereunder and under the Note, the Mortgage and/or any of the other Loan Documents at law, in equity or otherwise.

(b) POSSESSION. Enter upon and take possession of the Mortgaged Property and proceed in the name of Lender or Borrower as the attorney-in-fact of Borrower (which authority, to the extent permitted by law, is hereby granted by Borrower, is coupled with an interest, and is irrevocable), as Lender shall elect. If Lender elects to so enter upon and take possession of the Mortgaged Property, Lender (i) may enforce or cancel all contracts entered into by Borrower or make other contracts which are in Lender's sole opinion advisable, and (iii) shall be reimbursed by Borrower upon demand any reasonable amount or amounts expended by Lender for such performance together with any reasonable costs, charges, or expenses incident thereto or otherwise incurred or expended by Lender or its representatives (including an appraisal) on

behalf of Borrower in connection with the Mortgaged Property, and the amounts so expended shall be considered part of the Loan evidenced by the Note and secured by the Loan Documents and shall bear interest at the Default Rate.

(c) INJUNCTIVE RELIEF. Institute appropriate proceedings for injunctive relief (including specific performance of the obligations of Borrower).

(d) ACCOUNTS. Release all funds contained in the Reserve Accounts to be applied to Borrower's Obligations.

9.3 REMEDIES CUMULATIVE; WAIVERS; REASONABLE CHARGES. All of the remedies given to Lender in the Loan Documents or otherwise available at law or in equity to Lender shall be cumulative and may be exercised separately, successively or concurrently. Failure to exercise any one of the remedies herein provided shall not constitute a waiver thereof by Lender, nor shall the use of any such remedies prevent the subsequent or concurrent resort to any other remedy or remedies vested in Lender by the Loan Documents or at law or in equity. To be effective, any waiver by Lender must be in writing and such waiver shall be limited in its effect to the condition or default specified therein, and no such waiver shall extend to any subsequent condition or default. It is agreed that (i) the actual costs and damages that Lender would suffer by reason of an Event of Default (exclusive of the attorneys' fees and other costs incurred in connection with enforcement of Lender's rights under the Loan Documents) or a prepayment would be difficult and needlessly expensive to calculate and establish, and (ii) the amounts of the Default Rate, the Late Charge, payments to be made pursuant to Section 2.4(c)(ii) and the Prepayment Premium are reasonable, taking into consideration the circumstances known to the parties at this time, and (iii) the Default Rate, the Late Charges and Lender's reasonable attorneys' fees and other costs and expenses incurred in connection with enforcement of Lender's rights under the Loan Documents shall be due and payable as provided herein, and (iv) the Default Rate, Late Charges, Prepayment Premium, the payments to be made pursuant to Section 2.4(c)(ii) and the obligation to pay Lender's reasonable attorneys' fees and other enforcement costs do not, individually or collectively, constitute a penalty.

SECTION 10
SECONDARY MARKET TRANSACTION

10.1 SECONDARY MARKET TRANSACTION. Borrower agrees that Lender has the absolute right to securitize, syndicate, grant participations in, or otherwise Transfer all or any portion of the Loan (each such transaction, a "SECURITIZATION"). Lender may determine to Transfer some or all of the Loan or retain title to some or all of the Loan as part of a Securitization. Borrower further agrees that Lender may delegate any or all of Lender's rights, powers and privileges to a servicer ("SERVICER") and Borrower shall, upon notice from Lender, recognize the Servicer as the agent of Lender. In the event this Loan becomes or is designated by Lender to become an asset of a Securitization, upon Lender's request, Borrower shall meet, from time to time, with representatives of the Rating Agencies in connection with such a Securitization to discuss the business and operations of the Mortgaged Property and, in that regard, agrees to cooperate with the reasonable requests of the Rating Agencies. Lender may retain the Rating Agencies to provide rating surveillance services on any certificates issued in a Securitization. In no event shall Borrower be required to pay any servicer fees, Securitization trustee fees or other

Securitization administrative expenses except as may be expressly provided in this Agreement. Borrower shall, upon request from Lender, from time to time, cooperate, and Borrower shall, cause Guarantor and Borrower's partners and/or members to cooperate, in all reasonable respects in connection with a Securitization. Such cooperation may, in Lender's discretion, include documentation changes, changes in organizational documents, changes in Accounts, Reserves, Payment Dates, Interest Periods, insurance endorsement changes, tenant payment direction changes, site inspections, updated appraisals, preparation and delivery of financial information or other diligence requested by Lender and/or any Rating Agency; provided, however, any third party costs incurred by Borrower related to such changes shall be reimbursed by Lender and such changes shall not materially and adversely diminish Borrower's rights under the Loan Documents nor increase Borrower's burdens and obligations under the Loan Documents. Such cooperation may include, in Lender's discretion, execution of one or more promissory notes and the creation of Liens securing such notes of differing priority and/or the creation of mezzanine debt secured by pledges of all of the membership interests in the Borrower so long as the principal amount, interest rate, payment terms and other monetary terms of the Loan do not, in the aggregate change. Borrower will not be required to incur any expenses or costs pursuant to this Section 10.1. Borrower will, upon request from Lender, in connection with a Securitization, enter into such acknowledgments and confirmations of the applicable assignments as Lender may request. Borrower shall, subject to the terms and provisions of this Section 10.1, use reasonable efforts to satisfy the market standards which Lender determines are reasonably required in the marketplace or by the Rating Agencies in connection with a Securitization. Notwithstanding anything else contained to the contrary herein, Borrower will not, pursuant to any of the provisions of this Section 10.1, incur, suffer or accept (i) any lesser rights or greater obligations as are currently set forth in the Loan Documents or Borrower's Organizational Documents (unless Borrower is made whole by the holder of the Note) or (ii) subject to Section 11.13 hereof, any personal liability other than as set forth in the Loan Documents. Borrower will also, if requested by Lender, cause independent counsel to render opinions customary in securitization transactions with respect to the Mortgaged Property and Borrower and Borrower's and Guarantor's Subsidiaries (but not a true sale, 10b-5 opinion or nonconsolidation opinion), which counsel and opinions shall be reasonably satisfactory to Lender and the Rating Agencies and which shall be addressed to such Persons as shall be reasonably designated by the holder of the Note. Borrower's failure to deliver the opinions required hereby within ten (10) Business Days after written request therefore shall constitute an Event of Default hereunder. If requested by Lender, Borrower's cooperation will also include (but subject to Section 11.3) certifications and agreements pursuant to which Borrower will certify that it has examined the portion of applicable preliminary and final private placement memorandum or preliminary, final and supplement or prospectus specified by Lender as pertaining to Borrower, the Loan, Guarantor, the Mortgaged Property and the Manager, and that each such designated portion, as it relates to Borrower, Guarantor, the Mortgaged Property, Manager and all other aspects of the Loan, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading. All reasonable costs of Borrower's cooperation as described in this Section 10.1 shall be at the expense of Lender, except (a) any costs and expenses for the appointment of a second Independent Person for Borrower and Borrower Representative, which costs shall be paid by Borrower, and (b) any reasonable fees and expenses of the Servicer which

Borrower may be obligated to pay based upon actions, consents or waivers requested by Borrower.

SECTION 11
MISCELLANEOUS

11.1 EXPENSES AND ATTORNEYS' FEES. Whether or not the transactions contemplated hereby shall be consummated, Borrower agrees to promptly pay all fees, costs and expenses (including reasonable attorneys' fees, court costs, cost of appeal and the reasonable fees, costs and expenses of other professionals retained by Lender) incurred by Lender in connection with the following, and all such fees, costs and expenses shall be part of the Obligations, payable on five (5) Business Days written notice: (A) the examination, review, due diligence investigation, documentation and closing of the financing arrangements evidenced by the Loan Documents; (B) the giving or withholding of any consents, approvals, or permissions, administration of the Loan, disbursements of the Loan and disbursements from the Accounts and in connection with any amendments, modifications and waivers relating to the Loan Documents requested by Borrower; (C) the review, documentation, negotiation and closing of any subordination or intercreditor agreements, Lease reviews, and subordination, nondisturbance and attornment agreements; (D) Lender's Representative; and (E) enforcement of this Agreement or the other Loan Documents, the collection of any payments due from Borrower or Guarantor under the Loan Documents or any refinancing or restructuring of the credit arrangements provided under the Loan Document, whether in the nature of a "workout" or in connection with any insolvency or bankruptcy proceedings or otherwise; provided, however, in no event shall Borrower be liable for any fees incurred by Lender in connection with a Securitization.

11.2 CERTAIN LENDER MATTERS. Lender may, in accordance with Lender' customary practices, destroy or otherwise dispose of all documents, schedules, invoices or other papers, delivered by Borrower to Lender unless Borrower requests, at the time of delivery, in writing that same be returned. Borrower and Lender intend that the relationships created hereunder and under the other Loan Documents be solely that of borrower and lender. Nothing herein or therein is intended to create a joint venture, partnership, tenancy-in-common, or joint tenancy relationship between Borrower and Lender nor to grant Lender any interest in the Mortgaged Property other than that of mortgagee, beneficiary or lender. No provision in this Agreement or in any of the other Loan Documents and no course of dealing between the parties shall be deemed to create any fiduciary duty by Lender to Borrower or any other Person. All attorneys, accountants, appraisers, and other professional Persons and consultants retained by Lender shall have the right to act exclusively in the interest of Lender and shall have no duty of loyalty, duty of care or any other duty to Borrower or any of Borrower's partners, shareholders, members, managers, Affiliates or any other Person. By accepting or approving anything required to be observed, performed or fulfilled or to be given to Lender pursuant to the Loan Documents, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not be or constitute any warranty or representation with respect hereto or thereto by Lender. Borrower shall rely solely on its own judgment and advisors in entering into the Loan without relying in any manner on any statements, representations or recommendations of Lender or any parent, subsidiary or Affiliate of Lender or their respective attorneys, advisors,

accountants, officers, representatives, directors, employees, partners, shareholders, trustees, members or managers. Lender shall not be subject to any limitation whatsoever in the exercise of any rights or remedies available to it under any of the Loan Documents or any other agreements or instruments which govern the Loan by virtue of the ownership by it or any parent, subsidiary or Affiliate of Lender of any equity interest any of them may acquire in Borrower, and Borrower hereby irrevocably waives the right to raise any defense or take any action, in either case, on the basis of the foregoing with respect to Lender's exercise of any such rights or remedies. Borrower acknowledges that Lender engages in the business of real estate financings and other real estate transactions and investments which may be viewed as adverse to or competitive with the business of Borrower or its Affiliates. LENDER SHALL HAVE NO LIABILITY HEREUNDER FOR ANY CONSEQUENTIAL, SPECIAL, PUNITIVE OR INDIRECT DAMAGES. In the case of any receivership, insolvency, bankruptcy, reorganization, arrangement, adjustment, composition or other proceedings affecting Borrower or Borrower Representative or Guarantor, or their respective creditors or property, Lender, to the extent permitted by law, shall be entitled to file such proofs of claim and other documents as may be necessary or advisable in order to have the claims of Lender allowed in such proceedings for the entire secured Obligations at the date of the institution of such proceedings and for any additional amount which may become due and payable by Borrower after such date. Lender shall have the right from time to time to designate, appoint and replace one or more servicers and to allow servicer to exercise any and all rights of Lender under the Loan Documents. All documents and other matters required by any of the provisions of this Agreement to be submitted or provided to Lender shall be in form and substance satisfactory to Lender. Borrower shall not be entitled to (and does hereby waive any and all rights to receive) any notices of any nature whatsoever from Lender except with respect to matters for which the Loan Documents expressly provide for the giving of notice by Lender to Borrower. In any action or proceeding brought by Borrower against Lender claiming or based upon an allegation that Lender unreasonably withheld its consent to or approval of a proposed act by Borrower which requires Lender's consent hereunder, Borrower's sole and exclusive remedy in said action or proceeding shall be injunctive relief or specific performance requiring Lender to grant such consent or approval.

11.3 INDEMNITY. In addition to the payment of expenses pursuant to Section 11.1 and the indemnification obligations set forth in other portions of this Agreement, the Environmental Indemnification Agreement or the other Loan Documents, whether or not the transactions contemplated hereby shall be consummated, Borrower agrees to indemnify, pay, defend and hold Lender, its officers, directors, members, partners, shareholders, participants, beneficiaries, trustees, employees, agents, successors and assigns, any subsequent holder of the Note, any trustee, fiscal agent, servicer, underwriter and placement agent, (collectively, the "Indemnitees") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, causes of action, suits, claims, tax liabilities, broker's or finders fees, costs, expenses and disbursements of any kind or nature whatsoever (including the fees and disbursements of counsel for such Indemnitees in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not such Indemnitee shall be designated a party thereto) that may be imposed on, incurred by, or asserted against that Indemnitee, based upon any third party claims against such Indemnitees in any manner related to or arising out of (A) any breach by Borrower or Guarantor of any representation, warranty, covenant, or other agreement contained in any of the Loan Documents, (B) the actual or threatened presence, release, disposal, spill, escape, leakage, transportation, migration, seepage, discharge, removal,

or cleanup of any Hazardous Material located on, about, within, under, affecting, from or onto the Mortgaged Property or any violation of any applicable Environmental Law by Borrower or the Mortgaged Property, or (C) the use or intended use of the proceeds of any of the Loan (the foregoing liabilities herein collectively referred to as the "INDEMNIFIED LIABILITIES"); provided that Borrower shall have no obligation to an Indemnitee hereunder with respect to Indemnified Liabilities arising from the gross negligence or willful misconduct of that Indemnitee as determined in a final order by a court of competent jurisdiction. Borrower shall be relieved of its obligation under clause (B) of this Section 11.3 with respect to Hazardous Materials first introduced to the Land and Improvements after either (1) the foreclosure of the Mortgage or (2) the delivery by Borrower to, and acceptance by, Lender or its designee of a deed-in-lieu of foreclosure with respect to the Mortgaged Property. To the extent that the undertaking to indemnify, pay, defend and hold harmless set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, Borrower shall contribute the maximum portion that it is permitted to pay and satisfy under applicable law to the payment and satisfaction of all Indemnified Liabilities incurred by the Indemnitees or any of them. If any such action or other proceeding shall be brought against Lender, upon written notice from Borrower to Lender (given reasonably promptly following Lender's notice to Borrower of such action or proceeding), Borrower shall be entitled to assume the defense thereof, at Borrower's expense, with counsel reasonably acceptable to Lender; provided, however, Lender may, at its own expense, retain separate counsel to participate in such defense, but such participation shall not be deemed to give Lender a right to control such defense, which right Borrower expressly retains. Notwithstanding the foregoing, each Indemnitee shall, following notice to and consultation with Borrower, have the right to employ separate counsel at Borrower's expense if, in the reasonable opinion of legal counsel, a conflict or potential conflict exists between the Indemnitee and Borrower that would make such separate representation advisable. Borrower shall have no obligation to indemnify an Indemnitee for damage or loss resulting from such Indemnitee's gross negligence or willful misconduct.

11.4 AMENDMENTS AND WAIVERS. Except as otherwise provided herein, no amendment, modification, termination or waiver of any provision of this Agreement, the Note or any other Loan Document, or consent to any departure therefrom, shall in any event be effective unless the same shall be in writing and signed by Lender (and, with respect to any amendment or modification, unless also signed by Borrower). Each amendment, modification, termination or waiver shall be effective only in the specific instance and for the specific purpose for which it was given. No notice to or demand on Borrower in any case shall entitle Borrower, or any other Person to any other or further notice or demand in similar or other circumstances. To the fullest extent permitted by law, Borrower, for itself and its successors and assigns, waives all rights to a marshalling of the assets of Borrower, Borrower's partners or members and others with interests in Borrower, and of the Mortgaged Property, or to a sale in inverse order of alienation in the event of foreclosure of all or any of the Mortgage, and agrees not to assert any right under any laws pertaining to the marshalling of assets, the sale in inverse order of alienation, homestead exemption, the administration of estates of decedents, or any other matters whatsoever to defeat, reduce or affect the right of Lender under the Loan Documents to a sale of the Mortgaged Property for the collection of the obligations without any prior or different resort for collection or of the right of Lender to the payment of the obligations owing Lender on account of the Loan Documents out of the net proceeds of the Mortgaged Property in preference to every other claimant whatsoever. In addition, Borrower, for itself and its successors and assigns, waives in

the event of foreclosure of the Mortgage, any equitable right otherwise available to Borrower which would require the separate sale of any of any portion of the Mortgaged Property or require Lender to exhaust its remedies against any portion of the Mortgaged Property or any combination of the Mortgaged Property before proceeding against any other portion; and further in the event of such foreclosure, Borrower expressly consents to and authorizes, at the option of Lender, the foreclosure and sale either separately of all or any portion of the Mortgaged Property. Borrower hereby waives the right to assert a counterclaim, other than a compulsory counterclaim or defense of performance, in any action or proceeding brought against it by Lender or its agents. Subject to the remaining terms of the Loan Documents, Borrower shall have the right to bring a separate action against Lender for breaches of Lender's obligations under the Loan Documents. No failure or delay on the part of Lender or any holder of any Note in the exercise of any power, right or privilege hereunder or under the Note or any other Loan Document shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege. All rights and remedies existing under this Agreement, the Note and the other Loan Documents are cumulative to, and not exclusive of, any rights or remedies otherwise available. Lender shall not be under any obligation to marshal any assets in favor of any Person or against or in payment of any or all of the Obligations. To the extent that any Person makes a payment or payments to Lender, or Lender enforces its remedies or exercise its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the Obligations or part thereof originally intended to be satisfied, and all Liens, if any, rights and remedies therefore, shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred. Borrower agrees (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury or other law wherever enacted, now or at any time hereafter in force, which would prohibit or forgive Borrower from paying all or any portion of the principal of, premium, if any, or interest on Loan contemplated herein or in any of the other Loan Documents or which may affect the covenants or the performance of this Agreement; and Borrower (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the holders, but will suffer and permit the execution of every such power as though no such law had been enacted.

11.5 NOTICES. Unless otherwise specifically provided herein, any notice or other communication required or permitted to be given shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied (with request for confirmation) or sent by overnight courier service or United States registered mail return receipt requested, postage prepaid. Any notice so given shall be deemed effective upon delivery or on refusal or failure of delivery during normal business hours. Notices shall be addressed to the parties at the addresses specified on Schedule 11.5 or to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this Section 11.5.

11.6 SURVIVAL OF WARRANTIES AND CERTAIN AGREEMENTS. All agreements, representations and warranties made herein shall survive the execution and delivery of this Agreement, the making of the Loan hereunder and the execution and delivery of the Notes. Notwithstanding anything in this Agreement or implied by law to the contrary, the provisions of Sections 2.6, 5.8, 11.1, 11.2, 11.3, 11.12, 11.13 and 11.15 shall survive the payment of the Loan and the termination of this Agreement. Subject to this Section 11.6, all other representations, warranties and agreements of Borrower and Lender set forth in this Agreement shall terminate upon indefeasible payment in full of the Loan and the termination of this Agreement.

11.7 MISCELLANEOUS. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect. All covenants and agreements hereunder shall be given in any jurisdiction independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists. The invalidity, illegality or unenforceability in any jurisdiction of any provision in or obligation under this Agreement, the Note or other Loan Documents shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Agreement, the Note or other Loan Documents or of such provision or obligation in any other jurisdiction. This Agreement is made for the sole benefit of Borrower and Lender, and no other Person shall be deemed to have any privity of contract hereunder nor any right to rely hereon to any extent or for any purpose whatsoever, nor shall any other person have any right of action of any kind hereon or be deemed to be a third party beneficiary hereunder. This Agreement, the Note, and the other Loan Documents referred to herein embody the final, entire agreement among the parties hereto and supersede any and all prior commitments, agreements, representations, and understandings, whether written or oral, relating to the subject matter hereof and may not be contradicted or varied by evidence of prior, contemporaneous, or subsequent oral agreements or discussions of the parties hereto. There are no oral agreements among the parties hereto. Borrower and Lender acknowledge that each of them has had the benefit of legal counsel of its own choice and has been afforded an opportunity to review this Agreement and the other Loan Documents with its legal counsel and that this Agreement and the other Loan Documents shall be construed as if jointly drafted by Borrower and Lender. If any term, condition or provision of this Agreement shall be inconsistent with any term, condition or provision of any other Loan Document, this Agreement shall control. This Agreement and any amendments, waivers, consents, or supplements may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one and the same instrument. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

11.8 APPLICABLE LAW. THE PARTIES ACKNOWLEDGE AND AGREE THAT THE LOAN AND LOAN DOCUMENTS HAVE A SUBSTANTIAL NEXUS TO THE STATE OF NEW YORK AND AGREE THAT THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK.

11.9 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns except that Borrower may not assign its rights or obligations hereunder or under any of the other Loan Documents without the written consent of Lender. Any assignee of Lender's interest in the Loan Documents shall take the same free and clear of all offsets, counterclaims or defenses which are unrelated to the Loan Documents which Borrower may otherwise have against any assignor of the Loan Documents.

11.10 CONSENT TO JURISDICTION AND SERVICE OF PROCESS. BORROWER HEREBY CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF NEW YORK, STATE OF NEW YORK AND IRREVOCABLY AGREES THAT, SUBJECT TO LENDER'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS SHALL BE LITIGATED IN SUCH COURTS. BORROWER ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS MORTGAGED PROPERTY, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT, THE NOTE, SUCH OTHER LOAN DOCUMENTS OR SUCH OBLIGATION. BORROWER DESIGNATES AND APPOINTS CT CORPORATION SYSTEM AND SUCH OTHER PERSONS AS MAY HEREAFTER BE SELECTED BY BORROWER WITH LENDER'S APPROVAL WHICH IRREVOCABLY AGREE IN WRITING TO SO SERVE AS ITS AGENT TO RECEIVE ON ITS BEHALF SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDINGS IN ANY SUCH COURT, SUCH SERVICE BEING HEREBY ACKNOWLEDGED BY BORROWER TO BE EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT. A COPY OF ANY SUCH PROCESS SO SERVED SHALL BE MAILED BY REGISTERED MAIL TO BORROWER AT ITS ADDRESS PROVIDED IN SUBSECTION 11.5 EXCEPT THAT UNLESS OTHERWISE PROVIDED BY APPLICABLE LAW, ANY FAILURE TO MAIL SUCH COPY SHALL NOT AFFECT THE VALIDITY OF SERVICE OF PROCESS. IF ANY AGENT APPOINTED BY BORROWER AS ITS AGENT FOR SERVICE OF PROCESS REFUSES TO ACCEPT SERVICE OF PROCESS, BORROWER HEREBY AGREES THAT SERVICE UPON IT BY MAIL SHALL CONSTITUTE SUFFICIENT SERVICE. NOTHING HEREIN SHALL AFFECT THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF LENDER TO BRING PROCEEDINGS AGAINST BORROWER IN THE COURTS OF ANY OTHER JURISDICTION.

11.11 WAIVER OF JURY TRIAL. BORROWER AND LENDER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, ANY OF THE LOAN DOCUMENTS, OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS LOAN TRANSACTION AND LENDER/BORROWER RELATIONSHIP THAT IS BEING ESTABLISHED. BORROWER AND LENDER ALSO WAIVE ANY BOND OR SURETY OR SECURITY UPON SUCH BOND WHICH MIGHT, BUT FOR THIS WAIVER, BE REQUIRED OF BORROWER OR LENDER.

THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. BORROWER AND LENDER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. BORROWER AND LENDER FURTHER WARRANT AND REPRESENT THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT, THE LOAN DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE LOAN. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

11.12 PUBLICITY. Lender (and Lender's Affiliates) may, subject to the applicable limitations on distribution of Confidential Information set forth in this Section 11.12 and subject to the approval of Guarantor, such approval not to be unreasonably withheld, and Borrower does hereby authorize Lender (and its Affiliates) to, refer, in its sole discretion, to the Loan in tombstone advertisements, offering memoranda in connection with Securitizations and reports to investors, which references, may include use of photographs, drawings and other depictions, images of the Land and Improvements (provided that such photographs, drawings and other depictions, and/or images shall not include floor plans of the area behind the barrier or other trade secrets), a description of the Loan, use of Borrower's name, the address of the Mortgaged Property and the logo of Borrower and/or Guarantor. Borrower shall cause the owner of such "logo" rights to consent to such use upon request from Lender at the Closing. Lender hereby agrees that (i) any written information, data, documents, etc. delivered in connection with the making of the Loan which has been expressly designated as such by notice to Lender from Borrower, (ii) any information contained in the books and records of Borrower, Guarantor or Borrower Representative which is either confidential, proprietary, or otherwise not generally available to the public (but excluding information Lender has obtained independently from third-party sources without Lender's knowledge that the source has violated any fiduciary or other duty not to disclose such information) and which has been expressly designated as such by notice to Lender from Borrower, (iii) any financial statements of Borrower provided pursuant to this Agreement which are not publicly available and which has been expressly designated as confidential by notice to Lender from Borrower, and (iv) any other information, data, documents, etc. which are delivered to or received by Lender and which are conspicuously stamped or marked "CONFIDENTIAL", or, if delivered or received pursuant to an oral communication, such communication is subsequently referred to in a writing memorializing such communication delivered to Lender within thirty (30) days of such communication and marked as "CONFIDENTIAL" (collectively, the "CONFIDENTIAL INFORMATION"), will be kept confidential by

Lender, using the same standard of care in safeguarding the Confidential Information as Lender employs in protecting its own proprietary information which Lender desires not to disseminate or publish. Notwithstanding the foregoing, Confidential Information may be disseminated (a) pursuant to the requirements of applicable law, (b) pursuant to judicial process, administrative agency process or order of Governmental Authority, (c) in connection with litigation, arbitration proceedings or administrative proceedings before or by any Governmental Authority or stock exchange, (d) to Lender's attorneys, accountants, advisors and actual or prospective financing sources who will be instructed to comply with this Section 11.12, (e) to the Rating Agencies, (f) to actual or prospective trustees, assignees, pledgees, participants, agents, servicers, or securities holders in a Securitization, and (g) pursuant to the requirements or rules of a stock exchange or stock trading system on which the Securities of Lender or its Affiliates may be listed or traded. In addition, notwithstanding any other provision, any party (and its employee, representative or other agent) may disclose to any and all persons, without limitation of any kind, any information with respect to the tax treatment and tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to such party relating to such tax treatment and tax structure, if required by applicable law. For purposes of this Section 11.12, Confidential Information will not be deemed to include the Loan amount and the other terms, conditions and provisions of the Loan Documents, the street address and common name, if any, of the Land and Improvements and the name of Borrower and Guarantor, the logo of Borrower and /or Guarantor and photographs or other depictions of the Mortgaged Property (provided that such photographs or other depictions shall not include floor plans of the area behind the barrier or other trade secrets). Notwithstanding the foregoing, in the event Borrower or Guarantor conspicuously marks specific information, data, documents, etc. or with respect to an oral communication, in a subsequent writing memorializing such communication delivered to Lender within thirty (30) days of such communication marked as, "CONFIDENTIAL: FOR LENDER'S INTERNAL USE ONLY; NOT FOR DISTRIBUTION," then Lender may only disseminate such information, data, documents, etc. pursuant to the requirements of applicable law (including pursuant to an order of a Governmental Authority) or pursuant to the written consent of Borrower or Guarantor.

11.13 RECOURSE LOAN. Borrower shall have full personal recourse liability for the Obligations incurred under this Agreement, this Note or any of the other Loan Documents.

11.14 PERFORMANCE BY LENDER/ATTORNEY-IN-FACT. In the event that Borrower shall at any time fail to duly and punctually pay, perform, observe or comply with any of its covenants and agreements hereunder or under the other Loan Documents or if any Event of Default hereunder shall exist, then Lender may (but shall in no event be required to) make any such payment or perform any such term, provision, condition, covenant or agreement or cure any such Event of Default. Lender shall not take action under this Section 11.14 prior to the occurrence of an Event of Default unless in Lender's good faith judgment reasonably exercised, such action is necessary or appropriate in order to preserve the value of the Collateral, to protect Persons or property, or Borrower has abandoned the Mortgaged Property or any portion thereof. Lender shall not be obligated to continue any such action having commenced the same and may cease the same without notice to Borrower. Any amounts expended by Lender in connection with such action shall constitute additional advances hereunder, the payment of which is additional Indebtedness, secured by the Loan Documents and shall become due and payable within five (5) Business Days of written notice by Lender upon demand by Lender, with interest at the Default

Rate from the date of disbursement thereof until fully paid. No further direction or authorization from Borrower shall be necessary for such disbursements. The execution of this Agreement by Borrower shall and hereby does constitute an irrevocable direction and authorization to Lender to so disburse such funds. To the extent permitted by law, Borrower hereby irrevocably appoints Lender, as its attorney-in-fact, coupled with an interest, with full authority in the place and stead of Borrower and in the name of Borrower or otherwise (A) during the existence of an Event of Default in the discretion of Lender, to take any action and to execute any instrument which Lender may deem necessary to accomplish the purpose of this Agreement or any other Loan Document, including the following: (i) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for monies due and to become due under or in respect of the Accounts and/or any of the Reserve Account Collateral; (ii) to receive, endorse, and collect (x) any Gross Revenues, (y) any instruments made payable to any Borrower representing any dividend, payment of principal, interest, redemption price, purchase price or other distribution or payment in respect of any Reserve Account Collateral, or (z) any other instruments, documents and chattel paper received in connection with this Agreement or any other Loan Document; and (iii) to file any claims, or take any action or institute any proceedings which Lender shall deem necessary or desirable for the collection of any Gross Revenues in the event Borrower shall fail to do so, or to otherwise enforce the rights of Lender with respect to this Agreement; (B) to execute and/or file, without the signature of Borrower any Uniform Commercial Code financing statements, continuation statements, or other filing, and any amendment thereof, relating to the Reserve Account Collateral; (C) to give notice to any third parties which may be required to perfect Lender's security interest in the Reserve Account Collateral; and (D) during the existence of an Event of Default, to register, purchase, sell, assign, transfer, pledge or take any other action with respect to any Reserve Account Collateral in accordance with this Agreement or any Loan Document. Lender shall notify Borrower of Lender's taking of any action as attorney-in-fact, or otherwise in Borrower's name, pursuant to the provisions of this Section.

11.15 BROKERAGE CLAIMS. Borrower shall protect, defend, indemnify and hold Lender harmless from and against all loss, cost, liability and expense incurred as a result of any claim for a broker's or finder's fee against Lender or any Person, in connection with the transaction herein contemplated, provided such claim is made by or arises through or under Borrower or is based in whole or in part upon alleged acts or omissions of Borrower. Lender shall protect, defend, indemnify and hold Borrower harmless from and against all loss, cost, liability and expense incurred as a result of any claim for a broker's or finder's fee against Borrower or any other Person in connection with the transaction herein contemplated, provided such claim is made by or arises through or under Lender or is based in whole or in part upon alleged acts or omissions of Lender.

11.16 AGREEMENT. THE RIGHTS AND OBLIGATIONS OF BORROWER AND LENDER SHALL BE DETERMINED SOLELY FROM THIS WRITTEN LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS, AND ANY PRIOR ORAL OR WRITTEN AGREEMENTS BETWEEN LENDER AND BORROWER CONCERNING THE SUBJECT MATTER HEREOF AND OF THE OTHER LOAN DOCUMENTS ARE SUPERSEDED BY AND MERGED INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY NOT BE VARIED BY ANY ORAL AGREEMENTS OR DISCUSSIONS THAT

OCCUR BEFORE, CONTEMPORANEOUSLY WITH, OR SUBSEQUENT TO THE EXECUTION OF THIS LOAN AGREEMENT OR THE LOAN DOCUMENTS. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENTS BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

11.17 RELEASE OF EXCESS LAND. In the event that Borrower wishes to develop an additional building on a portion of the Excess Land containing not more than 91,000 rentable square feet (the "ADDITIONAL DEVELOPMENT") at any time prior to the Maturity Date, then Borrower shall deliver written notice (the "ADDITIONAL DEVELOPMENT NOTICE") to Lender which shall include the following: (i) a statement of Borrower's intent to construct the Additional Development, (ii) a statement of Borrower's belief that the Release Conditions (defined below) have been satisfied, and (iii) a copy of the Appraisal (defined below). During the thirty (30)-day period following Lender's receipt of the Additional Development Notice, Lender and Borrower shall negotiate in good faith to arrange construction and/or permanent financing with respect to the Additional Development. During such thirty (30)-day period, Borrower shall negotiate exclusively and in good faith with Lender with respect to said financing. If Borrower and Lender are unable to agree upon terms with respect to such construction and/or permanent financing within the aforementioned thirty (30)-day period, then upon written notice to Lender, Borrower may pursue the arrangement of construction and/or permanent financing with respect to the Additional Development from a third party lender.

Simultaneously with the closing for the construction and/or permanent financing with respect to the Additional Development, provided that the Release Conditions have been satisfied and Lender has received the Excess Land Principal Reduction Amount (defined below), Lender shall release the Excess Land from the Liens created in favor of Lender pursuant to the Loan Documents and amend the Loan Documents to exclude the Excess Land from the Mortgaged Property. Simultaneously with, and in consideration of, Lender's release of the Excess Land from the Liens created in favor of Lender pursuant to the Loan Documents, Borrower shall pay to Lender an amount equal to the sum of (A) the Fair Market Value (as defined below) of the Excess Land ("EXCESS LAND PRINCIPAL REDUCTION AMOUNT"), which payment shall be used to reduce the then outstanding principal balance of the Loan, and (B) the Prepayment Premium payable as a result of the partial prepayment of the Loan by Borrower's delivery of the Excess Land Principal Reduction Amount to Lender.

In connection with the Additional Development, Lender hereby agrees that if same is required by Borrower or Borrower's Mortgagee (defined below), Lender shall enter into reciprocal easement agreements, temporary construction easements, and/or other easement agreements reasonably acceptable to Borrower, Lender and Borrower's mortgagee with respect to the Excess Land (if such mortgagee is other than Lender ("BORROWER'S MORTGAGEE")), providing for (1) mutual restrictive covenants regarding the use of each of the Excess Land and the remaining Mortgaged Property in a manner that does not adversely affect the operation of the remaining Mortgaged Property and that does not violate any Permitted Encumbrance; and (2) appropriate rights with respect to access, egress, utilities and parking, and for the maintenance of

access roads, curb cuts, utilities and common facilities (including parking facilities) to be shared by each of the Excess Land and the remaining Mortgaged Property.

Lender hereby acknowledges and agrees that Section 2.4(C) of the Loan Agreement pertaining to the restriction imposed against Borrower making non-scheduled principal payments prior to the Lockout Expiration Date shall not apply to the payment of the Excess Land Principal Reduction Amount by Borrower prior to said Lockout Expiration Date, nor shall the restriction set forth in Section 2.4(C) of the Loan Agreement pertaining to partial prepayments of the Loan apply to the payment of the Excess Land Principal Reduction Amount by Borrower to Lender. Any and all reasonable costs and expenses approved in advance by Borrower that are incurred by, or on behalf of Lender in connection with releasing the Excess Land from the Liens created in favor of Lender under the Loan Documents or the attempt by Lender to arrange financing with respect to the Additional Development, shall be reimbursed by Borrower within ten (10) Business Days following Lender's written request therefore.

For purposes hereof, "EXCESS LAND" shall mean the portion of the Land marked as "Excess Land" on Exhibit G hereto.

For purposes hereof, the following shall constitute the "RELEASE CONDITIONS" that must be satisfied prior to Borrower having the right to cause Lender to release the Excess Land from the Liens created in favor of Lender pursuant to the Loan Documents:

(i) at the time of Borrower's request for the release of the Excess Land, no Event of Default must then exist or be continuing;

(ii) at the time of Borrower's request for release of the Excess Land, Borrower shall have obtained an appraisal of the Excess Land performed by an MAI certified appraiser selected by Borrower, and approved by Lender, said approval not to be unreasonably withheld, conditioned or delayed, which appraisal shall be in a form reasonably acceptable to Lender (the "APPRAISAL"), and

(iii) neither the release of the Excess Land from the Liens created by the Loan Documents nor Borrower's development of the Additional Development shall result in a Material Adverse Effect.

For purposes hereof, the "FAIR MARKET VALUE" shall be the fair market value of the Excess Land as agreed upon by the Borrower and Lender; provided that if Borrower and Lender are unable to reach an agreement on the fair market value after reasonable negotiations, the fair market value of the Excess Land shall be determined by the agreement of two (2) appraisers (each, an "INITIAL APPRAISER"), one of which shall be selected by Borrower and the other of which shall be selected by Lender. Each of Borrower and Lender shall direct, in writing with a copy to the other party, its Initial Appraiser to work with the other party's Initial Appraiser to endeavor to determine and reach agreement upon the fair market value of the Excess Land, and thereafter to deliver in writing to Borrower and Landlord within thirty (30) days (such thirty (30)-day period, the "VALUATION PERIOD") the agreed-upon fair market value (the "VALUATION NOTICE"). The costs and expenses of each Initial Appraiser shall be paid by Borrower.

If the Initial Appraisers are not able to reach agreement upon the fair market value within the Valuation Period, within ten (10) days after the end of the Valuation Period each Initial Appraiser shall deliver a written notice to Borrower, Lender, and the other Initial Appraiser setting forth (i) such Initial Appraiser's valuation of the fair market value (each, an "INITIAL VALUATION") and (ii) the name, address and qualifications of a third appraiser selected jointly by the Initial Appraisers (the "THIRD APPRAISER"); provided that if the higher of the valuations of the two Initial Appraisers is within ten percent (10%) of the lower valuation, then the arithmetic average of the valuations of the Initial Appraisers shall be the "Fair Market Value" for the Excess Land and the parties shall not be required to engage the Third Appraiser. The Initial Appraisers shall, in writing with a copy to Borrower and Lender, direct the Third Appraiser (or substitute Third Appraiser) to determine a valuation of the fair market value of the Excess Land, and to deliver in writing to Borrower, Lender and the Initial Appraisers such valuation (the "THIRD VALUATION") within twenty (20) days of the date of the written direction retaining such Third Appraiser. The fair market value shall be the arithmetic mean of (A) the Third Valuation and (B) the Initial Valuation closer to the Third Valuation. If the Third Valuation is exactly between the two Initial Valuations, then the fair market value shall be the Third Valuation. If the Initial Appraisers are unable to agree upon the designation of a Third Appraiser within the requisite time period or if the Third Appraiser selected does not make a valuation of the fair market value within twenty (20) calendar days after being directed by the Initial Appraisers, then such Third Appraiser or a substitute Third Appraiser, as applicable, shall, at the request of Lender, be appointed by the President or Chairman of the American Arbitration Association in the area in which the Excess Land is located. The costs and expenses of the Third Appraiser (and substitute Third Appraiser and the American Arbitration Association, if applicable) shall be paid by Borrower.

All appraisers selected or appointed pursuant to this Section 11.17 shall be independent qualified appraisers. Such appraisers shall have no right, power or authority to alter or modify the provisions of this Agreement, and such appraisers shall determine the fair market value of the Excess Land.

Witness the due execution hereof by the undersigned as of the date first written above.

BORROWER:

LEX-GEN WOODLANDS, L.P.,
a Delaware limited partnership

By: Lex-Gen Woodlands GP, LLC,
a Delaware limited liability
company, its sole general partner

By:

Julia P. Gregory, Vice President

LENDER:

iSTAR FINANCIAL INC.,
a Maryland corporation

By:

Name:

Its:

Exhibit A

Legal Description

1

Exhibit B

List of Equipment and Personalty

- - Fisher Hamilton modular lab casework and lab furniture

- - Teknion Altos modular wall system

- - Environmental cold and warm rooms

- - Getinge Castle tunnel cage washers

- - Getinge Castle cage rack washers

- - Getinge Castle bedding disposal and dispensing/filling systems

- - Getinge Castle bulk steam sterilizers/autoclaves

- - AVAYA Definity phone switch

- - Voice and data patch bays

- - Dumpster containers, to the extent owned by Borrower

- - CO(2) distribution piping and regulators at the source

- - Reverse osmosis / de-ionized water systems

- - All fixed mechanical, electrical and plumbing systems, active or redundant, including emergency generators, server room AC and UPS units and air compressors. - Kitchen and food service equipment, to the extent owned by Borrower and affixed to the Improvements, whose removal would require material repairs to be made

- - CCTV monitors, multiplexers, recorders, security badge station with printer, camera, etc., to the extent required to operate the security software system

- - A workstation or server with all peripherals, if and to the extent necessary to operate the software systems listed in Exhibit C.

- - All red-line, and/or as-built system and facility drawings

- - All facility and equipment installation and operation and maintenance books, drawings, special tools and materials

- - Biological materials digester and Bio-hazard dumpster disposal unit

Exhibit C

List of General Intangibles

- - Edstrom vivarium environmental monitoring software and installed database

- - Teletrol HVAC controls software and installed database

- - CCure 800 security software, including ID, NETVUE, etc (if installed) and installed database

- - Micromain work order software and installed database

Exhibit D

Permitted Encumbrances

a. Restrictions as set out under File Nos. 8624668, 8647645, 2000-084612, 9353446, 9886434, 2000-090175, 9357930, 2000-090176 and 2000-090177 in the Official Public Records of Real Property of Montgomery County, Texas, and Cabinet O, Sheet 180, Cabinet E, Sheet 193A and Cabinet G, Sheet 68B of the Map Records of Montgomery County, Texas

b. Restrictions as set out under File Nos 8610313, 8620448, 9429755, 9445768 and 2000-104003 of the Real Property of Montgomery County, Texas, and in Cabinet E, Sheet 163B and 164A of the Map Records of Montgomery County, Texas.

c. Restrictions as set out under File Nos 8807519, 9429754, 9445769 and 9445792 of the real Property of Montgomery County, Texas, and in Cabinet F, Sheet 24 of the Map Records of Montgomery County, Texas.

Deleting from each of a, b and c above any covenant or restriction based on race, color, religion, sex, handicap, familial status, or national origin.

d. Easements and Building lines as shown on maps filed of record in Cabinet E, Sheet 193, Cabinet O, Sheet 180 and Cabinet G, Sheet 68B all of the Map Records of Montgomery County, Texas.

e. Easement 10 feet wide along the front and rear property line and 5 feet wide along the side property lines of the property as reserved by instrument recorded under County Clerk's File No. 8624668 of the Real Property Records of Montgomery County, Texas. Partial Release as to strip 10 feet wide along the northeast boundary line of subject property recorded under Clerk's File No. 2000-086442 of the Real Property Records of Montgomery County, Texas. (Applies to 6.1797 acres of Tract I)

f. Forest preserves and Pathway easements as imposed by instrument recorded under Clerk's File Nos. 2000-090175 and 2000-09177 of the Real Property Records of Montgomery County, Texas.

g. Easement 10 feet wide along the front and rear property lines and 5 feet wide along the side property lines of the subject property as reserved for public utilities by instrument recorded under Clerk's File No. 9357930, annexed by File No. 2000-090176 of the Real Property Records of Montgomery County, Texas. Partial Release as to strip of land 10 feet wide running along and adjacent to the southwest boundary line of subject property as recorded under Clerk's File No. 2000-090190 of the Real Property Records of Montgomery County, Texas. (As to 5.5921 acres of Tract I)

h. Easement 5 feet wide along the southeast property line of the property, as reserved for public utilities by instrument recorded under County Clerk's File No. 9353446 and annexed by County Clerk's File No. 9886434 of the Real Property Records of

Montgomery County, Texas. Partial release as to 10 foot wide strip along the southwest and northeast boundary lines of subject property and 5 foot wide strip along the northwest boundary line of subject property as recorded under Clerk's File No. 2000-086441 of the Real Property Records of Montgomery County, Texas. (As to a 0.588 acre portion of Tract I)

i. Utility easement Ten (10) feet in width along the Southeasterly property line granted to Entergy Gulf States, Inc. recorded under Montgomery County Clerk's File No. 2001-081155.

j. An undivided 8.74098% interest of the oil, gas and other minerals, as conveyed to Gloria Harris and Faye M. Monroe by Mineral Deed recorded under Clerk's File No. 8011718 of the Real Property Records of Montgomery County, Texas. Title to said interest has not been investigated subsequent to the date of the aforesaid instrument. (As to that portion of the property lying in the Henry Applewhite Survey, A-51)

k. All of the oil, gas and other minerals, the royalties, bonuses, rentals and all other rights in connection with same, and all subterranean waters including without limitation all percolating waters and underground reservoirs are expressly excepted here from as the same are reserved by The Woodlands Commercial Properties Company, L.P., by instrument recorded under File Nos. 2000-090175 and 2000-090177 of the Real Property Records of Montgomery County, Texas. Surface rights waived therein. Title to said interests have not been investigated subsequent to the execution date of cited instrument.

l. Annual Maintenance Charge payable to The Woodlands Community Association, Inc., secured by a Vendor's Lien retained in instrument(s) filed for record under Montgomery County Clerk's File No(s) 8624668 and 9353446, annexed under Clerk's File No. 9886434. Said maintenance assessments are subordinated to first liens and improvement liens.

m. Terms, conditions and stipulations in that certain Non-Exclusive Reciprocal Access Easement., as described by instrument filed for record under Montgomery County Clerk's File No(s). 8647647, amended under Clerk's File No. 8713940.

n. Easement for utility purposes 10 feet wide adjacent to, parallel with, and extending the full length of the northwest, southeast, northeast and southwest boundary lines of the property as imposed by instrument recorded under Clerk's File No. 2000-090177 of the Real Property Records of Montgomery County, Texas. (As to 5.5921 acres of Tract I)

o. Terms, conditions and stipulations in that certain Non-Exclusive Reciprocal Access Easement., as described by instrument filed for record under Montgomery County Clerk's File No(s). 8647647, amended under Clerk's File No. 8713940.

p. Terms, conditions and stipulations in that certain Reciprocal Easement Agreement dated December 8, 2000, recorded under Clerk's File No. 2000-104008 of the Real Property Records of Montgomery County, Texas, by and between Woodlands Office Equities-'95

Limited and First Security Bank, National Association, not individually, but solely as Owner Trustee under the Lexi Trust 2000-1.

q. All of the oil, gas and other minerals, the royalties, bonuses, rentals and all other rights in connection with same, and all subterranean waters including without limitation all percolating waters and underground reservoirs are expressly excepted here from as the same are reserved by instrument recorded under File Nos. 9445792 and 2000-104003 of the Real Property Records of Montgomery County, Texas. Surface rights waived therein. Title to said interests have not been investigated subsequent to the execution date of cited instruments.

r. Building lines and easements as shown on map recorded in Cabinet E, Sheet 164-A of the Map Records of Montgomery County, Texas.

s. Forest preserves and Pathway easement as reserved by instrument recorded under County Clerk's File No. 9445792 and 2000-104003 of the Real Property Records of Montgomery County, Texas.

t. Easement 10 feet wide along the front and rear property lines and 5 feet wide along the side property lines as reserved for public utilities by instruments recorded under County Clerk's File Nos. 8610313 and 8620448 of the Real Property Records of Montgomery County, Texas.

u. Utility Easement 10 feet wide adjacent to, parallel with, and extending the full length of each boundary line as reserved by instrument recorded under County Clerk's File Nos. 9445792 and 2000-104003 of the Real Property Records of Montgomery County, Texas.

v. Annual Maintenance Charge payable to The Woodlands Community Association, Inc., secured by a Vendor's Lien retained in instrument(s) filed for record under Montgomery County Clerk's File No. 8610313. Said maintenance assessments are subordinated to first liens and improvement liens.

w. Terms, conditions and stipulations in that certain Reciprocal Easement Agreement dated December 8, 2000, recorded under Clerk's File No. 2000-104008 of the Real Property Records of Montgomery County, Texas, by and between Woodlands Office Equities-'95 Limited and First Security Bank, National Association, not individually, but solely as Owner Trustee under the Lexi Trust 2000-1.

x. Building set-back lines as reflected by Cabinet F, Sheet 24A of the Map Records of Montgomery County, Texas.

y. Forest preserve and Pathway easement as reserved by instrument recorded under County Clerk's File No. 9445792 of the Real Property Records of Montgomery County, Texas.

z. Easement 10 feet wide along the southwesterly property line and 5 feet wide along the side property lines as reserved for public utilities by instruments recorded under County

Clerk's File No. 8807519 of the Real Property Records of Montgomery County, Texas.

aa. Utility Easement 10 feet wide adjacent to, parallel with, and extending the full length of each boundary line as reserved by instrument recorded under County Clerk's File No. 9445792 of the Real Property Records of Montgomery County, Texas.

bb. All oil, gas and other minerals, the royalties, bonuses, rentals and all other rights in connection with same and all subterranean waters including without limitation all percolating waters and underground reservoirs and all other rights in connection with same are reserved by The Woodlands Corporation by instrument filed for record under Montgomery County Clerk's File No.9445792. Surface rights waived therein.

cc. Maintenance assessment payable to the Woodlands Community Association, Inc. as set forth in instrument recorded under County Clerk's File No. 8807519 of the Real Property Records of Montgomery County, Texas.

Exhibit E

Required Capital Improvement

Required Capital Improvement	Required Completion Date
Replace Roof at Building 1	April 21, 2009
Replace HVAC units at Building 3	April 21, 2009

PROMISSORY NOTE

$34,000,000 April 21, 2004

FOR VALUE RECEIVED, LEX-GEN WOODLANDS, L.P., a Delaware limited partnership ("Borrower"), promises to pay to iSTAR FINANCIAL, INC., a Maryland corporation ("Holder"), or order, at 1114 Avenue of the Americas, 27th Floor, New York, New York 10036, or at such other place as Holder may from time to time in writing designate, in lawful money of the United States of America, the principal sum of THIRTY FOUR MILLION AND NO/100 DOLLARS ($34,000,000.00) or such other sum as may be the total amount outstanding pursuant to this Note (the "Loan"), payable at such rates and at such times as are provided in the "Loan Agreement" (as hereinafter defined).

Payments of both principal and interest are to be made in lawful money of the United States of America.

This Promissory Note (this "Note") evidences Indebtedness incurred under, and is subject to the terms and provisions of, that certain Loan and Security Agreement of even date herewith, by and among the Borrower and the Holder (herein, as the same may be further amended, modified or supplemented from time to time, called the "Loan Agreement"). The Loan Agreement, to which reference is hereby made, sets forth said terms and provisions, including those under which this Note may or must be paid prior to its due date or may have its due date accelerated or extended. The Loan Agreement also contains provisions for the payment of late charges and interest at the Default Rate, all as more specifically set forth therein. Repayment of the Indebtedness evidenced by this Note is secured by the Mortgage and the other Loan Documents referred to in the Loan Agreement, and reference is made thereto for a statement of terms and provisions.

Terms used but not otherwise defined herein are used herein as defined in the Loan Agreement.

This Note may only be prepaid in whole or in part in accordance with the terms of Section 2.4 of the Loan Agreement (or as otherwise expressly provided elsewhere in the Loan Agreement or the other Loan Documents). Any payments of the outstanding principal balance of the Loan evidenced by this Note, whether voluntary or involuntary, shall be accompanied by interest accrued to the date of prepayment and the Prepayment Premium, to the extent, if any, provided in Section 2.4 of the Loan Agreement (except to the extent any other provision of the Loan Agreement expressly provides otherwise, including, without limitation, Section 2.2(C) of the Loan Agreement).

EXCEPT AS OTHERWISE EXPRESSLY PERMITTED IN THIS NOTE OR THE OTHER LOAN DOCUMENTS, BORROWER HEREBY EXPRESSLY (i) WAIVES ANY RIGHTS IT MAY HAVE UNDER LAW TO PREPAY THIS NOTE, IN WHOLE OR IN PART, WITHOUT PENALTY, UPON ACCELERATION OF THE MATURITY DATE, AND (ii) AGREES THAT IF, FOR ANY REASON, A PREPAYMENT OF ALL OR ANY PORTION OF THE PRINCIPAL AMOUNT OF THIS NOTE IS MADE, INCLUDING, WITHOUT LIMITATION, UPON OR FOLLOWING ANY ACCELERATION OF THE

MATURITY DATE BY HOLDER ON ACCOUNT OF THE OCCURRENCE OF ANY EVENT OF DEFAULT, INCLUDING, WITHOUT LIMITATION, ANY TRANSFER, DISPOSITION, OR FURTHER ENCUMBRANCE PROHIBITED OR RESTRICTED BY THE LOAN AGREEMENT, THEN BORROWER SHALL BE OBLIGATED TO PAY CONCURRENTLY WITH SUCH PREPAYMENT THE PREPAYMENT PREMIUM TO THE EXTENT REQUIRED UNDER SECTION 2.4 OF THE LOAN AGREEMENT. BY INITIALING THIS PROVISION IN THE SPACE PROVIDED BELOW, BORROWER HEREBY DECLARES THAT (1) EACH OF THE MATTERS SET FORTH IN THIS PARAGRAPH IS TRUE AND CORRECT, (2) HOLDER'S AGREEMENT TO MAKE THE LOAN EVIDENCED BY THIS NOTE AT THE INTEREST RATES SET FORTH IN THE LOAN AGREEMENT AND FOR THE TERM SET FORTH IN THIS NOTE CONSTITUTES ADEQUATE CONSIDERATION FOR THIS WAIVER AND AGREEMENT, AND HAS BEEN GIVEN INDIVIDUAL WEIGHT BY BORROWER AND HOLDER, (3) BORROWER IS A SOPHISTICATED AND KNOWLEDGEABLE REAL ESTATE INVESTOR WITH COMPETENT AND INDEPENDENT LEGAL COUNSEL, AND (4) BORROWER FULLY UNDERSTANDS THE EFFECT OF THIS WAIVER AND AGREEMENT.

On behalf of the Borrower

The remedies of Holder, as provided in this Note, the Loan Agreement and the other Loan Documents, shall be cumulative and concurrent and may be pursued singularly, successively or together, at the sole discretion of Holder, and may be exercised as often as occasion therefor shall occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof. In any action, sale of collateral, or other proceedings to enforce this Note, the Loan Agreement or any other Loan Document, Holder need not file or produce the original of this Note, but only need file or produce a photocopy of this Note certified by Holder to be a true and correct copy of this Note.

In the event of any dispute, action or lawsuit regarding the terms hereof, subject to the provisions of the Loan Agreement, the prevailing party will have the right to recover from the other party all court costs and reasonable attorneys' fees and disbursements incurred with respect thereto, in addition to all other applicable damages and costs.

BORROWER WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, DILIGENCE, PRESENTMENT FOR PAYMENT, DEMAND, NOTICE OF DEMAND, NOTICE OF PROTEST, NOTICE OF NONPAYMENT OR DISHONOR, NOTICE OF INTENTION TO ACCELERATE, NOTICE OF ACCELERATION, PROTEST AND NOTICE OF PROTEST OF THIS NOTE, AND ALL OTHER NOTICES (OTHER THAN AS EXPRESSLY PROVIDED IN THE LOAN AGREEMENT OR OTHER LOAN DOCUMENTS) IN CONNECTION WITH THE DELIVERY, ACCEPTANCE, PERFORMANCE, DEFAULT OR ENFORCEMENT OF THE PAYMENT OF THIS NOTE. BORROWER FURTHER WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ALL VALUATION AND APPRAISEMENT PRIVILEGES, CLAIMS OF LACK OF DILIGENCE OR DELAYS IN COLLECTION OR ENFORCEMENT OF THIS NOTE, THE RELEASE OF ANY PARTY LIABLE, THE RELEASE OF ANY SECURITY FOR THE DEBT, THE TAKING OF ANY ADDITIONAL SECURITY AND ANY OTHER INDULGENCE OF FORBEARANCE.

Holder shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by Holder, and then only to the extent specifically set forth in the writing. The acceptance by Holder of any payment hereunder which is less than payment in full of all amounts due and payable at the time of such payment shall not constitute a waiver of the right to exercise any of the foregoing options at that time or at any subsequent time or nullify any prior exercise of any such option without the express consent of Holder, except as and to the extent otherwise provided by law. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event.

PURSUANT TO SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK, BORROWER AND ANY GUARANTOR OF THIS NOTE AGREE THAT THIS NOTE AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE UNITED STATES OF AMERICA AND THE LAWS OF THE STATE OF NEW YORK.

Whenever used, the singular number shall include the plural, the plural shall include the singular, and the words "Holder" and "Borrower" shall be deemed to include their respective heirs, executors, successors and assigns.

All notices which Holder or Borrower may be required or permitted to give hereunder shall be made in the same manner as set forth in Section 11.5 of the Loan Agreement.

In the event any one or more of the provisions hereof shall be invalid, illegal or unenforceable in any respect, the validity of the remaining provisions hereof shall be in no way affected, prejudiced or disturbed thereby.

Borrower acknowledges that Holder may, in its sole discretion, sell all or any part of its interest in the Loan evidenced by this Note, including, without limitation, for purposes of effecting a Securitization.

Notwithstanding anything to the contrary contained in this Note or any other Loan Documents, to the fullest extent permitted by applicable law, the Holder's rights hereunder shall be reinstated and revived, and the enforceability of this Note and the other Loan Documents shall continue, with respect to any amount at any time paid on account of the Loan which thereafter shall be required to be restored by Holder pursuant to a court order or judgment (whether or not final or non-appealable), as though such amount had not been paid. The rights of Holder created or granted herein and the enforceability of the Loan Documents at all times shall, to the fullest extent permitted by applicable law, remain effective to cover the full amount of the Loan even though the Loan, including any part thereof or any other security or guaranty therefor, may be or hereafter may become invalid or otherwise unenforceable as against any other party and whether or not any other party shall have any personal liability with respect thereto.

Borrower and Holder, by acceptance of this Note, hereby agree that the Loan Documents supersede any prior oral or written agreements of the parties; without limiting the generality of

the foregoing, in the event of conflict between the terms of this Note and the terms of the Loan Agreement, the terms of the Loan Agreement shall prevail.

Time is of the essence for the performance of each and every covenant of the parties hereunder or under the other Loan Documents. No excuse, delay, act of God, or other reason, whether or not within the control of Borrower or Holder (as the case may be), shall operate to defer, reduce or waive Borrower's or Holder's (as the case may be) performance of any such covenant or obligation.

(END OF PAGE)

IN WITNESS WHEREOF, Borrower, intending to be legally bound hereby, has duly executed this Note the day and year first above written.

BORROWER:

LEX-GEN WOODLANDS, L.P., a
Delaware limited partnership

By: Lex-Gen Woodlands GP, LLC, a
Delaware limited liability company
and its sole general partner

By:

Julia P. Gregory, Vice President

GUARANTY

THIS GUARANTY (this "GUARANTY"), dated as of April 21, 2004, is made and entered into by LEXICON GENETICS INCORPORATED, a Delaware corporation ("GUARANTOR"), in favor of iSTAR FINANCIAL INC., a Maryland corporation ("LENDER"), with an address for notice hereunder of 1114 Avenue of the Americas, 27th Floor, New York, New York 10036.

WHEREAS, Lex-Gen Woodlands, L.P., a Delaware limited partnership ("BORROWER"), and Lender have entered into a certain Loan and Security Agreement of even date herewith (as the same may be amended, modified, supplemented or restated from time to time, the "LOAN AGREEMENT").

WHEREAS, Lender has required, as a condition to making the Loan and entering into and executing the Loan Agreement and the other Loan Documents, that Guarantor enter into this Guaranty.

WHEREAS, Guarantor directly or indirectly owns all of the ownership interests in the Borrower and will benefit from the making of the Loan and the financial accommodations extended to Borrower pursuant to the Loan Agreement and the other Loan Documents.

NOW, THEREFORE, in consideration for the extension of credit and other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, and to induce Lender to extend credit to Borrower, Guarantor does hereby unconditionally, absolutely and irrevocably guarantee to Lender, its successors and assigns, the due payment, fulfillment and performance of the "GUARANTEED OBLIGATIONS" (as hereinafter defined). Guarantor, hereby irrevocably and unconditionally covenants and agrees that it is liable for and shall pay, the Guaranteed Obligations as primary obligor, this Guaranty being upon the following terms and conditions:

1. Definitions. All capitalized terms used but not otherwise defined herein shall have the meanings ascribed thereto in the Loan Agreement. As used herein, the term "GUARANTEED OBLIGATIONS" means the full, complete and punctual observance, performance, payment and satisfaction of all of the Borrower's Obligations. The failure by Guarantor to pay or perform any Guaranteed Obligations, after expiration of any applicable notice and cure periods provided to Borrower, without duplication thereof, or any other covenant, agreement or obligation of Guarantor under this Guaranty or the inaccuracy when made, or deemed made, of any representations, certifications and warranties of Guarantor in this Guaranty or in any certificate, agreement or document provided by, or on behalf of Guarantor, pursuant to this Guaranty or any of the other Loan Documents shall constitute an "Event of Default" for purposes of this Guaranty and the Loan Agreement.

2. Continuing Guaranty. This is an irrevocable, absolute, continuing guaranty of payment and performance. This Guaranty may not be revoked by Guarantor and shall continue to be effective with respect to the Guaranteed Obligations arising or created after any attempted revocation by Guarantor and after Guarantor's dissolution (in which event this Guaranty shall be binding upon Guarantor's successors and assigns). It is the intent of Guarantor that the

obligations and liabilities of Guarantor hereunder are absolute and unconditional under any and all circumstances and that until the Guaranteed Obligations are fully, finally and indefeasibly satisfied, such obligations and liabilities shall not be discharged or released in whole or in part, by any act or occurrence which might, but for the provisions of this Guaranty, be deemed a legal or equitable discharge or release of Guarantor. Each and every default in payment of any amounts due or performance of any obligation required under this Guaranty shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises, or, in the discretion of Lender, may be brought as a consolidated suit or suits.

3. Waivers.

(a) Guarantor hereby assents to all terms and agreements heretofore or hereafter made by Borrower with Lender, and, to the fullest extent permitted by applicable law, waives notice of:

(i) Any loans or advances made by Lender to Borrower under the Loan Documents;

(ii) The present existence or future incurring of any of the indebtedness pursuant to the Note or any future modifications thereof or any terms or amounts thereof or any Guaranteed Obligations or any terms or amounts thereof;

(iii) The obtaining or release of any guaranty or surety agreement (in addition to this Guaranty), pledge, assignment, or other security for any of the indebtedness evidenced by the Note, or any Guaranteed Obligations; and

(iv) Notice of protest, default, notice of intent to accelerate and notice of acceleration in relation to any instrument relating to the indebtedness evidenced by the Note or any Guaranteed Obligations.

(b) Guarantor hereby waives, to the fullest extent permitted by applicable law, any rights and defenses which such Guarantor might have as a result of any representation, warranty or statement made by Lender or its agents to such Guarantor in order to induce Guarantor to execute this Guaranty.

(c) Regardless of whether Guarantor may have made any payments to Lender, until the Loan is indefeasibly paid in full and except as set forth in Section 10 hereof, Guarantor hereby waives, to the fullest extent permitted by applicable law: (i) all rights of subrogation, indemnification, contribution and any other rights to collect reimbursement from Borrower or any other party for any sums paid to Lender, whether contractual or arising by operation of law (including the United States Bankruptcy Code or any successor or similar statute) or otherwise, (ii) all rights to enforce any remedy that Lender may have against Borrower, and (iii) all rights to participate in any security now or later to be held by Lender for the Loan.

(d) Guarantor further waives, to the fullest extent permitted by applicable law, any defense to the recovery by Lender against Guarantor of any deficiency or otherwise to the enforcement of this Guaranty or any security for this Guaranty based upon Lender's election of any remedy against Guarantor or Borrower, including the defense to enforcement of this Guaranty by virtue of any "anti-deficiency" statutes and their application following a non-judicial foreclosure sale.

4. Events and Circumstances Not Reducing or Discharging Guarantor's Obligations. Guarantor hereby consents and agrees to each of the following, and agrees that Guarantor's obligations under this Guaranty shall not be released, diminished, impaired, reduced or adversely affected by any of the following, and waives, to the fullest extent permitted by applicable law, any rights and defenses (excluding the rights to notice, if any, as herein provided or as required by law) which Guarantor might have otherwise as a result of or in connection with any of the following:

(a) any and all extensions, modifications, adjustments, indulgences, forbearances or compromises that might be granted or given by Lender to Borrower, including, without limitation, any and all amendments, modifications, supplements, extensions or restatements of any of the Loan Documents;

(b) the insolvency, bankruptcy, rearrangement, adjustment, composition, liquidation, disability, dissolution or lack of power of Borrower or any other party at any time liable for the payment of all or part of the indebtedness evidenced by the Note or any Guaranteed Obligations; or any dissolution, consolidation or merger of Borrower or Guarantor, or any sale, lease or transfer of any or all of the assets of Borrower or Guarantor, or any changes in the ownership, partners or members of Borrower or Guarantor;

(c) the invalidity, illegality or unenforceability of all or any part of the indebtedness evidenced by the Note or any Guaranteed Obligations, or any document or agreement executed in connection with the indebtedness evidenced by the Note or any Guaranteed Obligations, for any reason whatsoever, including, without limitation, the fact that the indebtedness evidenced by the Note, or any part thereof exceeds the amount permitted by law, the act of creating the indebtedness evidenced by the Note or any Guaranteed Obligations or any part thereof is ultra vires, the representatives executing the Note or the other Loan Documents or otherwise creating the indebtedness evidenced by the Note or any Guaranteed Obligations acted in excess of their authority, the indebtedness evidenced by the Note violates applicable usury laws, Borrower has valid defenses, claims or offsets (whether at law, in equity or by agreement) which render the indebtedness evidenced by the Note or any Guaranteed Obligations wholly or partially uncollectible from Borrower, the creation, performance or repayment of the indebtedness evidenced by the Note or any Guaranteed Obligations is illegal, uncollectible, legally impossible or unenforceable, or any of the other Loan Documents pertaining to the indebtedness evidenced by the Note or any Guaranteed Obligations are irregular or not genuine or authentic; provided, however, the foregoing shall not prohibit Guarantor from (i) asserting a defense of performance, (ii) asserting a compulsory counterclaim on an action

brought under this Guaranty, or (iii) subject to the remaining terms of the Loan Documents, bringing a separate action against Lender for breaches of Lender's obligations under the Loan Documents;

(d) the taking or accepting of any other security, collateral or guaranty, or other assurance of the payment, for all or any of the indebtedness evidenced by the Note or any Guaranteed Obligations;

(e) any release, surrender or exchange of any collateral, property or security, at any time existing in connection with, or assuring or securing payment of, all or any part of the indebtedness evidenced by the Note or the Guaranteed Obligations;

(f) the failure of Lender or any other party to exercise diligence or reasonable care in the preservation, protection, enforcement, sale or other handling or treatment of all or any part of such collateral, property or security;

(g) the fact that any collateral, security, security interest or lien contemplated or intended to be given, created or granted as security for the repayment of the indebtedness evidenced by the Note or Guaranteed Obligations shall not be properly perfected or created, or shall prove to be unenforceable or subordinate to any other security interest or lien, it being recognized and agreed by Guarantor that Guarantor is not entering into this Guaranty in reliance on, or in contemplation of the benefits of, the validity, enforceability, collectibility or value of any of the collateral for the indebtedness evidenced by the Note or the Guaranteed Obligations; or

(h) any payment by Borrower to Lender is held to constitute a preference under the Bankruptcy Code, or for any reason Lender is required to refund such payment or pay such amounts to such Borrower, or any other Person.

It is the unambiguous and unequivocal intention of Guarantor that Guarantor shall be obligated to pay and perform the Guaranteed Obligations when due, notwithstanding any occurrence, circumstance, event, action or omission whatsoever, whether contemplated or uncontemplated, and whether or not otherwise or particularly described herein, except for the full and final payment and satisfaction of all Guaranteed Obligations.

5. Payment by Guarantor. If the Guaranteed Obligations, or any part thereof, are not punctually paid or performed (following the expiration of any applicable notice and cure periods), as the case may be, Guarantor shall, immediately on demand and without protest or notice of protest, pay the amount due thereon to Lender, at its address set forth above or as otherwise designated by Lender. Such demand(s) may be made at any time coincident with or after the time for payment or performance of all or part of the Guaranteed Obligations. Such demand shall be deemed made if given in accordance with Section 18 hereof. It shall not be necessary for Lender, in order to enforce such payment or performance by Guarantor, first to institute suit or exhaust its remedies against Borrower, or others liable to pay or perform such Guaranteed Obligations, or to enforce its rights against any security which shall ever have been

given to secure the Guaranteed Obligations. Lender shall not be required to mitigate damages or take any other action to reduce, collect or enforce the indebtedness evidenced by the Note or Guaranteed Obligations.

6. Indebtedness or Other Obligations of Guarantor. If Guarantor is or becomes liable for any indebtedness owed by Borrower to Lender by endorsement or otherwise than under this Guaranty, such liability shall not be in any manner impaired or affected by this Guaranty, and the rights of Lender hereunder shall be cumulative of any and all other rights that Lender may ever have against Guarantor. The exercise by Lender of any right or remedy hereunder or under any other instrument or at law or in equity shall not preclude the concurrent or subsequent exercise of any other instrument or remedy at law or in equity and shall not preclude the concurrent or subsequent exercise of any other right or remedy. Further, without in any way diminishing or limiting the generality of the foregoing, it is specifically understood and agreed that this Guaranty is given by Guarantor as an additional guaranty to any and all guarantees hereafter executed and delivered to Lender by Guarantor in favor of Lender relating to the indebtedness and obligations of Borrower to Lender, and nothing herein shall ever be deemed to replace or be in lieu of any other of such previous or subsequent guarantees.

7. Application of Payments. If, at any time, there is any indebtedness or obligations (or any portion thereof) of Borrower to Lender which is not guaranteed by Guarantor, Lender, without in any manner impairing its rights hereunder, may, at its option, apply all amounts realized by Lender from collateral or security held by Lender first to the payment of such unguaranteed indebtedness or obligations, with the remaining amounts, if any, to then be applied to the payment of the indebtedness or obligations guaranteed by Guarantor.

8. Suits, Releases of Settlements with Others. Guarantor agrees that Lender, in its sole discretion, may bring suit against any other guarantor without impairing the rights of Lender or its successors and assigns against Guarantor or any other guarantor of the Guaranteed Obligations; and Lender may settle or compromise with such other guarantor for such sum or sums as Lender may see fit and release such other guarantor from all further liability to Lender, all without impairing its rights against Guarantor.

9. Warranties, Representations and Covenants.

(a) Guarantor warrants and represents, as follows:

(i) Guarantor has received, or will receive, direct or indirect benefit from the making of this Guaranty, the making of the Loan and the entering into and execution of the Loan Agreement and the Loan Documents in connection therewith;

(ii) Guarantor is familiar with, and has independently reviewed the financial condition of the Borrower and is familiar with the value of any and all collateral intended to be created as security for the payment and performance of the indebtedness evidenced by the Note and the Guaranteed Obligations, and Guarantor assumes full responsibility for keeping fully informed as to such matters in the future; however, Guarantor is

not relying on such financial condition or the collateral as an inducement to enter into this Guaranty; and

(iii) All financial statements concerning Guarantor which have been or will hereafter be furnished by Guarantor or Borrower to Lender pursuant to the Loan Documents, have been or will be prepared in accordance with GAAP consistently applied (except as disclosed therein, to the extent Lender approves such disclosure; provided that Lender's approval shall not be required so long as (a) Guarantor is a reporting company under the Exchange Act, and (b) Guarantor's financial statements are audited by a so-called "Big-4" accounting firm) and, in all material respects, present fairly the financial condition of the Persons covered thereby as at the dates thereof and the results of their operations for the periods then ended.

(iv) No ERISA Affiliate of Guarantor maintains or contributes to, or has any obligation under, any Employee Benefit Plans. Guarantor is not an "employee benefit plan" (within the meaning of section 3(3) of ERISA) to which ERISA applies and Guarantor's assets do not constitute plan assets. No actions, suits or claims under any laws and regulations promulgated pursuant to ERISA are pending or, to Guarantor's knowledge, threatened against Guarantor. Guarantor has no knowledge of any material liability incurred by Guarantor which remains unsatisfied for any taxes or penalties with respect to any employee benefit plan or any Multiemployer Plan, or of any lien which has been imposed on Guarantor's assets pursuant to section 412 of the Code or sections 302 or 4068 of ERISA. The Loan, the execution, delivery and performance of the Loan Documents and the transactions contemplated by this Guaranty do not constitute a non-exempt prohibited transaction under ERISA or the Code. Guarantor is an "operating company" as defined in ERISA.

(v) As of the date hereof, and after giving effect to this Guaranty and the contingent obligations evidenced hereby, Guarantor is and expects to be solvent at all times, and has and expects to have assets at all times which, fairly valued, exceed his or its obligations, liabilities and debts, and has and expects to have property and assets at all times sufficient to satisfy and repay its obligations and liabilities.

(b) Guarantor covenants and agrees that, for so long as this Guaranty remains in effect, Guarantor shall not liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution).

10. Subordination. If, for any reason Borrower is now or hereafter becomes indebted to Guarantor (such indebtedness and all interest thereon being referred to as the "AFFILIATED DEBT"), such Affiliated Debt shall, at all times, be subordinate in all respects to the full payment and performance of the obligations evidenced by the Note, and Guarantor shall not be entitled to enforce or receive payment thereof until all of the obligations evidenced by the Note have been fully paid. Guarantor agrees that any liens, mortgages, deeds of trust, security interests, judgment liens, charges or other encumbrances upon Borrower's assets securing payment of the Affiliated Debt shall be and remain subordinate and inferior to any liens, security interests, judgment liens, charge or other encumbrances upon Borrower's assets securing the payment of

the obligations evidenced by the Note and Guaranteed Obligations, and without the prior written consent of Lender, Guarantor shall not exercise or enforce any creditor's rights of any nature against Borrower to collect the Affiliated Debt (other than demand payment therefor). In the event of the receivership, bankruptcy, reorganization, arrangement, debtor's relief or other insolvency proceedings involving Borrower as a debtor, to the fullest extent permitted by law, Lender shall have the right and authority, either in its own name or as attorney-in-fact for Guarantor, to file such proof of debt claim, petition or other documents and to take such other steps as are necessary to prove its rights hereunder.

11. Waiver of Subrogation. Notwithstanding any other provision of this Guaranty to the contrary, until the Loan is indefeasibly paid in full, Guarantor hereby waives any claim or other rights which Guarantor may now have or hereafter acquire against Borrower or any other guarantor of all or any of the obligations that arise from the existence or performance of Guarantor's obligations under this Guaranty (all such claims and rights are referred to as "GUARANTOR'S CONDITIONAL RIGHTS"), including, without limitation, any right of subrogation, reimbursement, exoneration, contribution, or indemnification, any right to participate in any claim or remedy of Lender against Borrower or any security or collateral which Lender now has or hereafter acquires, whether or not such claim, remedy or right arises in equity or under contract, statute (including the Bankruptcy Code or any successor or similar statute) or common law, by any payment made hereunder or otherwise, including without limitation, the right to take or receive from Borrower, directly or indirectly, in cash or other property or by setoff or in any other manner, payment or security on account of such claim or other rights. If, notwithstanding the foregoing provisions, any amount shall be paid to Guarantor on account of Guarantor's Conditional Rights and either (i) such amount is paid to Guarantor at any time when the Guaranteed Obligations shall not have been paid or performed in full, or (ii) regardless of when such amount is paid to Guarantor, any payment made by Borrower to Lender is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by Lender or paid over to a trustee, receiver or any other entity, whether under any bankruptcy act or otherwise (such payment, a "PREFERENTIAL PAYMENT"), then such amount paid to Guarantor shall be held in trust for the benefit of Lender and shall forthwith be paid to Lender to be credited and applied upon the Guaranteed Obligations, whether matured or unmatured, in such order as Lender, in its sole and absolute discretion, shall determine. The foregoing waivers shall be effective until the Guaranteed Obligations have been paid and performed in full.

12. Impairment of Subrogation Rights; Waivers of Rights Under the Anti-Deficiency Rules.

(a) Guarantor agrees that upon the occurrence and during the continuance of an Event of Default under the Loan Documents, Lender in its sole discretion, without prior notice to or consent of Guarantor, may elect to (i) foreclose either nonjudicially or judicially against any real or personal property security (including, without limitation, the Mortgaged Property) it holds for the obligations evidenced by the Note or any Guaranteed Obligations, or any part thereof, (ii) accept any transfer or assignment of any such security in lieu of foreclosure, (iii) compromise or adjust any part of such obligations, or (iv) make any other accommodation

with Borrower or Guarantor, or exercise any other remedy against Borrower or any collateral or security. No such action by Lender will release or limit the liability of Guarantor to Lender, who shall remain liable under this Guaranty after the action, even if the effect of that action is to deprive Guarantor of the right to collect reimbursement from Borrower or any other person for any sums paid to Lender or Guarantor's rights of subrogation, contribution, or indemnity against Borrower or any other person. Without limiting the foregoing, it is understood and agreed that on any foreclosure or assignment in lieu of foreclosure of any collateral or security held by Lender, such security will no longer exist and that any right that Guarantor might otherwise have, on full payment of the Guaranteed Obligations by Guarantor to Lender, to participate in any such security or to be subrogated to any rights of Lender with respect to any such security will be nonexistent; nor shall Guarantor be deemed to have any right, title, interest or claim under any circumstances in or to any real or personal property held by Lender or any third party following any foreclosure or assignment in lieu of foreclosure of any such security.

(b) Guarantor understands and acknowledges that if Lender forecloses judicially or nonjudicially against any real property security for Borrower's obligations, such foreclosure could impair or destroy any right or ability that Guarantor may have to seek reimbursement, contribution, or indemnification for any amounts paid by Guarantor under this Guaranty.

(c) Without limiting the foregoing, Guarantor waives, to the fullest extent permitted by applicable law, all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as nonjudicial foreclosure with respect to security for a guaranteed obligation, may adversely affect Guarantor's rights of subrogation and reimbursement against Borrower.

(d) Guarantor intentionally, freely, irrevocably and unconditionally waives and relinquishes, to the fullest extent permitted by applicable law, all rights which may be available to it under any provision of applicable law to limit the amount of any deficiency judgment or other judgment which may be obtained against Guarantor under this Guaranty to not more than the amount by which the unpaid Guaranteed Obligations plus all other indebtedness due from Borrower under the Loan Documents exceeds the fair market value or fair value of any real or personal property securing said obligations and any other indebtedness due from Borrower under the Loan Documents, including, without limitation, all rights to an appraisement of, judicial or other hearing on, or other determination of the value of said property. Guarantor acknowledges and agrees that, as a result of the foregoing waiver, Lender may be entitled to recover from Guarantor an amount which, when combined with the value of any real or personal property foreclosed upon by Lender (or the proceeds of the sale of which have been received by Lender) and any sums collected by Lender from Borrower or other Persons, might exceed the amount of the Guaranteed Obligations plus all other indebtedness due from Borrower under the Loan Documents.

(e) Guarantor understands and agrees that Lender may have the ability to pursue Guarantor for a judgment on the Guaranteed Obligations without having first foreclosed

on the real property security for such Guaranteed Obligations, that Lender may have the ability to sue Guarantor for a deficiency judgment on the Guaranteed Obligations after a non-judicial foreclosure sale or, regardless of any election of remedies by Lender, if the Guaranteed Obligations or any of the other indebtedness of Borrower to Lender under the Loan Documents is considered to have been provided by a vendor to a buyer and to evidence part of the purchase price for the real property security, and that Lender may be able to recover from Borrower an amount which, when combined with the fair market value of the property acquired by Lender in a foreclosure sale or the proceeds of the foreclosure sale received by Lender, might exceed the amount of the Guaranteed Obligations due and owing by Guarantor and the amounts payable under the Loan Documents.

(f) Without limiting any of the other waivers and provisions set forth in this Guaranty, Guarantor waives all rights and defenses that Guarantor may have because Borrower's debt is secured by real property; this means, among other things: (a) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower; (b) the amount of the Guaranteed Obligations may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price; (c) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because the indebtedness evidenced by the Note is secured by real property.

Notwithstanding the foregoing or any provisions of Section 12(a) hereof, nothing contained in this Guaranty shall in any way be deemed to imply that any other state's law other than the law of the State of New York shall govern this Guaranty or any of the Loan Documents in any respect, except as expressly set forth therein, including with respect to the exercise of Lender's remedies under the Loan Documents.

Notwithstanding any other provision herein to the contrary, upon the indefeasible payment in full of the Note, Guarantor shall have all rights of subrogation available at law or in equity.

13. Benefit. This Guaranty is for the benefit of Lender, its successors and assigns, and in the event of an assignment by Lender, its successors and assigns, of the obligations evidenced by the Note, or any part or parts thereof, the rights and benefits hereunder, to the extent applicable to the obligations so assigned, shall be transferred with such obligations.

14. No Release if Preference, Refund, Etc. In the event any payment by Borrower to Lender is determined to be a preferential payment under any applicable bankruptcy or insolvency laws, or if for any reason Lender is required to refund part or all of any payment or pay the amount thereof to any other party, such repayment by Lender to Borrower shall not constitute a release of Guarantor from any liability hereunder, and Guarantor agrees to pay such amount to Lender upon demand to the extent such amount constitutes a Guaranteed Obligation.

15. Right of Set-Off. In addition to any other rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon Guarantor's failure to pay the Guaranteed Obligations, after demand by Lender, Lender is hereby authorized at any time and from time to time, without notice to Guarantor or to any other person, to set off and to appropriate and to apply any and all deposits (general or special) and any other indebtedness at any time held or owing by Lender to or for the credit or the account of Guarantor against or on account of the obligations evidenced by the Note.

16. Consent to Use of Logo. Guarantor hereby consents to the use by Lender of Guarantor's logo, solely for the purpose specified, and in accordance with the terms and conditions set forth, in Section 11.12 of the Loan Agreement.

17. GOVERNING LAW. PURSUANT TO SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK, GUARANTOR AGREES THAT THIS GUARANTY AND ALL RIGHTS, OBLIGATIONS AND LIABILITIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

18. Notices. Unless otherwise specifically provided herein, any notice or other communication required or permitted to be given shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied (with request for confirmation) or sent by overnight courier service or United States registered mail return receipt requested, postage prepaid. Any notice so given shall be deemed effective upon delivery or on refusal or failure of delivery during normal business hours. Notices shall be addressed to the parties at the following addresses or to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this Section 18.

If to Guarantor: Lexicon Genetics Incorporated
8800 Technology Forest Place
The Woodlands, Texas 77381-1160
Attn: General Counsel
Telephone: 281-863-3000
Facsimile: 281-863-8010

With a copy to: Andrews Kurth LLP
600 Travis, Suite 4200
Houston, Texas 77002
Attn: Michael A. Boyd, Esq.
Telephone: 713-220-3921
Facsimile: 713-238-7138

If to Lender: iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, New York 10036

Attn: Chief Operating Officer
Telephone: 212-930-9400
Facsimile: 212-930-9494

With a copy to: iStar Financial Inc.
1114 Avenue of the Americas, 27th Floor
New York, New York 10036
Attn: Nina B. Matis, Esq./General Counsel
Telephone: 212-930-9406
Facsimile: 212-930-9492

With a copy to: iStar Asset Services Inc.
180 Glastonbury Boulevard, Suite 201
Glastonbury, Connecticut 06033
Attn: President
Telephone: 860-815-5900
Facsimile: 860-815-5901

With a copy to: Katten Muchin Zavis Rosenman
525 West Monroe Street, Suite 1600
Chicago, Illinois 60661-3693
Attn: Gregory P.L. Pierce, Esq.
208972-002289
Telephone: 312-902-5541
Facsimile: 312-902-1061

19. Consent of Jurisdiction/Service of Process. IN ACCORDANCE WITH SECTION 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK, GUARANTOR HEREBY CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF NEW YORK, STATE OF NEW YORK AND IRREVOCABLY AGREES THAT, SUBJECT TO LENDER'S ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS GUARANTY OR THE OTHER LOAN DOCUMENTS SHALL BE LITIGATED IN SUCH COURTS. GUARANTOR ACCEPTS FOR ITSELF AND IN CONNECTION WITH THIS GUARANTY AND THE OTHER LOAN DOCUMENTS, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS GUARANTY, THE NOTE, SUCH OTHER LOAN DOCUMENTS OR SUCH OBLIGATION. GUARANTOR ACKNOWLEDGES AND AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION, SUIT OR PROCEEDING WILL BE DEEMED EFFECTIVE. SERVICE OF PROCESS ON GUARANTOR IF PERSONALLY SERVED OR SERVED IN ACCORDANCE WITH SECTION 17 ABOVE OR AT SUCH OTHER ADDRESS AS SUCH GUARANTOR

MAY HAVE FURNISHED AS TO ITSELF TO THE SERVING PARTY BY LIKE NOTICE, OR TO THE LAST KNOWN ADDRESS OF SUCH GUARANTOR PROVIDED THEREUNDER.

20. WAIVER OF JURY TRIAL. GUARANTOR AND LENDER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS GUARANTY, ANY OF THE LOAN DOCUMENTS, OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION AND THE RELATIONSHIP THAT IS BEING ESTABLISHED. GUARANTOR AND LENDER ALSO WAIVE ANY BOND OR SURETY OR SECURITY UPON SUCH BOND WHICH MIGHT, BUT FOR THIS WAIVER, BE REQUIRED OF GUARANTOR OR LENDER. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. GUARANTOR AND LENDER ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS ALREADY RELIED ON THE WAIVER IN ENTERING INTO THIS GUARANTY AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. GUARANTOR AND LENDER FURTHER WARRANT AND REPRESENT THAT EACH HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS GUARANTY, THE LOAN DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE LOAN. IN THE EVENT OF LITIGATION, THIS GUARANTY MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

21. Expenses. Guarantor agrees to fully and punctually pay all costs and expenses, including, without limitation, reasonable attorneys' fees, court costs and costs of appeal, which Lender may incur in enforcing and collecting the Guaranteed Obligations.

[Remainder of Page Intentionally Left Blank;
Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has executed this Guaranty as of the day and year first above written.

GUARANTOR:

LEXICON GENETICS INCORPORATED, a Delaware corporation

By:

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

EXHIBIT 21.1

SUBSIDIARIES OF LEXICON GENETICS INCORPORATED

The subsidiaries of Lexicon Genetics Incorporated set forth below each do business under the name stated.

Name of Subsidiary	State of Incorporation or Formation
Lexicon Pharmaceuticals (New Jersey), Inc.	Delaware
Lex-Gen Woodlands GP, LLC	Delaware
Lex-Gen (Delaware), LLC	Delaware
Lex-Gen Woodlands, L.P.	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the previously filed Registration Statements on Form S-8 (Registration Nos. 333-41532 and 333-66380) pertaining to the 2000 Equity Incentive Plan, the 2000 Non-Employee Directors' Stock Option Plan and the Coelacanth Corporation 1999 Stock Option Plan and on Form S-3 (Registration Nos. 333-67294, 333-101549, 333-108855, 333-111821 and 333-122214) of Lexicon Genetics Incorporated, and in the related prospectus, of our reports dated February 25, 2005, with respect to the consolidated financial statements of Lexicon Genetics Incorporated, management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Lexicon Genetics Incorporated, included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ ERNST & YOUNG LLP

Houston, Texas
March 8, 2005

EXHIBIT 31.1

CERTIFICATIONS

I, Arthur T. Sands, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lexicon Genetics Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2005

/s/ Arthur T. Sands

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

EXHIBIT 31.2

CERTIFICATIONS

I, Julia P. Gregory, certify that:

1. I have reviewed this Annual Report on Form 10-K of Lexicon Genetics Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2005

/s/ Julia P. Gregory

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

EXHIBIT 32.1

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350, as adopted), Arthur T. Sands, M.D., Ph.D., Chief Executive Officer of Lexicon Genetics Incorporated ("Lexicon"), and Julia P. Gregory, Chief Financial Officer of Lexicon, each hereby certify that:

1. Lexicon's Annual Report on Form 10-K for the year ended December 31, 2004, and to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934, and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Lexicon.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 11th day of March, 2005.

By: /s/ Arthur T. Sands

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

By: /s/ Julia P. Gregory

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