



Other assets	730,613	803,300
TOTAL ASSETS	\$61,651,257	\$53,921,710

LIABILITIES & EQUITY

Trade accounts payable	\$ 2,492,694	\$ 1,609,362
Salary and related accruals	1,719,824	1,790,035
Other payables	262,665	498,873
Income taxes payable	1,084,174	1,000,096
Total current liabilities	5,559,357	4,898,366

Deferred rent	1,298,700	942,300
---------------	-----------	---------

Common stock, par value \$.01 per share; authorized 50,000,000; issued and outstanding 18,918,878 and 18,875,456,

respectively	189,189	188,755
Additional paid-in capital	13,391,481	12,653,449
Retained earnings	40,792,964	34,808,768

Accumulated foreign currency translation adjustments	419,566	430,072
--	---------	---------

Total stockholders' equity	54,793,200	48,081,044
----------------------------	------------	------------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$61,651,257	\$53,921,710
--	--------------	--------------

</TABLE>

See notes to unaudited Consolidated Financial Statements.

TECHNE CORPORATION & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
(Unaudited)

<TABLE>

<CAPTION>

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/97	12/31/96	12/31/97	12/31/96
SALES	\$15,472,857	\$14,409,294	\$31,010,000	\$28,436,272
Cost of sales	4,885,856	4,571,712	9,431,762	9,349,842
Gross margin	10,587,001	9,837,582	21,578,238	19,086,430

Operating expenses  
(income):

Selling, general and administrative	3,850,195	3,657,534	7,853,599	6,974,769
Research and development	2,515,658	2,947,251	4,981,506	5,830,095
Amortization expense	9,663	58,877	52,134	117,754
Interest expense	-	441	-	28,524
Interest income	(286,499)	(164,012)	(530,367)	(322,472)
	6,089,017	6,500,091	12,356,872	12,628,670

Earnings before

income taxes	4,497,984	3,337,491	9,221,366	6,457,760
Income taxes	1,370,000	1,060,000	2,831,000	2,005,000

NET EARNINGS	\$ 3,127,984	\$ 2,277,491	\$ 6,390,366	\$ 4,452,760
--------------	--------------	--------------	--------------	--------------

BASIC EARNINGS PER SHARE	\$ 0.17	\$ 0.12	\$ 0.34	\$ 0.23
--------------------------	---------	---------	---------	---------

DILUTED EARNINGS PER SHARE	\$ 0.16	\$ 0.12	\$ 0.33	\$ 0.23
----------------------------	---------	---------	---------	---------

</TABLE>

See notes to unaudited Consolidated Financial Statements.

TECHNE CORPORATION & SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<TABLE>

<CAPTION>

	SIX MONTHS ENDED	
	12/31/97	12/31/96
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 6,390,366	\$ 4,452,760
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,121,240	1,100,230
Deferred income taxes	(273,000)	(483,000)
Deferred rent	356,400	159,000
Tax benefit from exercise of options	44,000	-
Other	273,187	79,200
Change in current assets and current liabilities:		
(Increase) decrease in:		
Accounts receivable	322,086	1,014,934
Inventories	61,271	(335,828)
Other current assets	(41,986)	149,967
Increase (decrease) in:		
Trade account/other payables	650,478	(204,516)
Salary and related accruals	(68,409)	(167,767)
Income taxes payable	91,008	251,793
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,926,641	6,016,773
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of short-term investments	(14,547,334)	(8,385,000)
Proceeds from sale of short-term investments	8,206,450	7,350,000
Additions to fixed assets	(1,648,881)	(3,418,612)
Proceeds from sale of fixed assets	246,728	-
Increase in other long term assets	-	(250,000)
NET CASH USED BY INVESTING ACTIVITIES	(7,743,037)	(4,703,612)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	367,796	25,189
Repurchase of common stock	(280,000)	(1,870,827)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	87,796	(1,845,638)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	30,400	64,274
NET CHANGE IN CASH AND EQUIVALENTS	1,301,800	(468,203)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	8,598,367	7,422,084
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 9,900,167	\$ 6,953,881

</TABLE>

See notes to unaudited Consolidated Financial Statements.

TECHNE CORPORATION & SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

A. BASIS OF PRESENTATION:

The unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles and with instructions to Form 10-Q and Article 10 of Regulation S-X. The accompanying unaudited Consolidated Financial Statements reflect all adjustments which are, in the opinion of management, necessary to a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

A summary of significant accounting policies followed by the Company is detailed in the Annual Report to Shareholders for Fiscal 1997. The Company follows these policies in preparation of the interim Financial Statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that the Consolidated Financial Statements be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto for the fiscal year ended June 30, 1997 included in the Company's Annual Report to Shareholders for Fiscal 1997.

Certain Consolidated Balance Sheet captions appearing in this interim report are as follows:

<TABLE>  
<CAPTION>

	12/31/97	6/30/97
	-----	-----
<S>	<C>	<C>
<b>ACCOUNTS RECEIVABLE</b>		
Accounts receivable	\$ 8,813,316	\$ 9,166,447
Less reserve for bad debts	47,000	52,000
	-----	-----
<b>NET ACCOUNTS RECEIVABLE</b>	<b>\$ 8,766,316</b>	<b>\$ 9,114,447</b>
	=====	=====

<b>INVENTORIES</b>		
Raw materials	\$ 2,086,806	\$ 2,105,836
Work in process	-	89,100
Supplies	135,328	121,483
Finished goods	1,791,734	1,770,742
	-----	-----
<b>TOTAL INVENTORIES</b>	<b>\$ 4,013,868</b>	<b>\$ 4,087,161</b>
	=====	=====

<b>FIXED ASSETS</b>		
Laboratory equipment	\$ 9,529,426	\$ 9,513,329
Office equipment	2,807,903	2,671,947
Leasehold improvements	9,782,277	9,063,354
	-----	-----
	22,119,606	21,248,630
Less accumulated depreciation and amortization	10,538,982	9,995,889
	-----	-----
<b>NET FIXED ASSETS</b>	<b>\$ 11,580,624</b>	<b>\$ 11,252,741</b>
	=====	=====

<b>INTANGIBLE ASSETS</b>		
Customer list	\$ 1,010,000	\$ 1,010,000
Technology licensing agreements	500,000	500,000
Goodwill	1,225,547	1,225,547
	-----	-----
	2,735,547	2,735,547
Less accumulated amortization	2,422,370	2,370,236
	-----	-----
<b>NET INTANGIBLE ASSETS</b>	<b>\$ 313,177</b>	<b>\$ 365,311</b>
	=====	=====

</TABLE>

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which will be effective for the Company beginning July 1, 1998. SFAS No. 131 redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. The Company believes that this statement will not have a material impact on results reported in its financial statements.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income," which will be effective for the Company beginning July 1, 1998. SFAS No. 130 requires the disclosure of comprehensive income and its components in the Company's financial statements. The Company anticipates the effect of SFAS No. 130 will result in disclosure of unearned compensation on stock options and foreign currency translation adjustments on the face of the comprehensive income statement.

#### B. STOCK SPLIT:

On October 23, 1997, the Company declared a two-for-one stock split in the form of a 100% stock dividend payable to shareholders of record on November 10, 1997. The payment date for the stock split was November 17, 1997. All earnings per share and share amounts included in these financial statements have been restated to reflect the stock split.

#### C. EARNINGS PER SHARE:

Shares used in the earnings per share computations are as follows:

<TABLE>

<CAPTION>

	QUARTER ENDED		SIX MONTHS ENDED	
	12/31/97	12/31/96	12/31/97	12/31/96
<S>	<C>	<C>	<C>	<C>
Weighted average common shares	18,898,817	18,910,196	18,883,475	18,956,764
Dilutive effect of stock options and warrants	726,937	532,450	684,750	553,196
Average common and common equivalent shares outstanding	19,625,754	19,442,646	19,568,225	19,509,960

</TABLE>

Effective for the quarter ended December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings Per Share". All prior period earnings per share amounts have been restated to conform to the new standard.

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

Results of Operations Quarter and Six Months Ended December 31, 1997  
vs. Quarter and Six Months Ended December 31, 1996

Techne Corporation has two operating subsidiaries: Research and Diagnostic Systems, Inc. (R&D Systems) located in Minneapolis, Minnesota and R&D Systems Europe Ltd. (R&D Europe) located in Abingdon, England. R&D Systems has two divisions: Biotechnology and Hematology. The Biotechnology Division manufactures purified cytokines (proteins), antibodies and assay kits which are sold primarily to biomedical researchers and clinical research laboratories. The Hematology Division develops and manufactures whole blood hematology controls and calibrators which are sold to hospital and clinical laboratories to check the performance of their hematology instruments to assure the accuracy of hematology test results. R&D Europe sells R&D Systems' biotechnology products in Europe, both directly and

through a sales subsidiary in Germany. The Company has a foreign sales corporation, Techne Export Inc.

In November 1997, Techne purchased \$1 million of preferred stock of ChemoCentryx, Inc. (CCX), representing approximately 16% of issued and outstanding voting shares. In addition, Techne is obligated to purchase a projected \$4 million of preferred stock over the next two years upon CCX's achievement of certain milestones. After purchase of the additional preferred shares, Techne will own approximately 49% of the issued and outstanding voting shares (assuming no investment by other parties). Techne has consolidated CCX into its financial statements due to the limited amount of cash consideration provided by the holders of the common shares of CCX. CCX is a new technology and drug development company working in the area of chemokines. Chemokines are cytokines which regulate the trafficking patterns of leukocytes, the effector cells of the human immune system. In conjunction with the equity investment and joint research efforts, Techne obtains exclusive worldwide research and diagnostic marketing rights to chemokine proteins, antibodies and receptors discovered or developed by CCX or R&D Systems.

#### Net Sales

Net sales for the quarter ended December 31, 1997 were \$15,472,857, an increase of \$1,063,563 (7%) from the quarter ended December 31, 1996. Sales for the six months ended December 31, 1997 increased \$2,573,728 (9%) from \$28,436,272 to \$31,010,000. R&D Systems sales increased \$1,414,750 (15%) and \$3,191,037 (16%) for the quarter and six months ended December 31, 1997, respectively. R&D Europe sales decreased \$351,187 (7%) and \$617,309 (7%) for the quarter and six months ended December 31, 1997, respectively. The decrease in R&D Europe sales was not unexpected due to the discontinuance of the molecular biology product line. R&D Europe sales of continuing product lines increased 25% and 22% from the second quarter and first six months of last year.

The increase in consolidated sales for the quarter and six months was due, in part, to increased sales of R&D Systems' cytokines and antibodies. Sales of cytokines and antibodies by R&D Systems and R&D Europe for the quarter and six months ended December 31, 1997 were \$5,344,896 and \$10,847,122 compared to \$4,454,473 and \$8,552,995 for the quarter and six months ended December 31, 1996.

In addition, sales of hematology products increased \$335,050 and \$840,385 for the quarter and six months ended December 31, 1997, due largely to increased sales to an OEM customer and the addition of two OEM customers in fiscal 1998.

#### Gross Margins

Gross margins, as a percentage of sales, increased from the prior year. Margins for the second quarter of fiscal 1998 were 68.4% compared to 68.3% for the same quarter in fiscal 1997. Margins for the six months ended December 31, 1997 were 69.6% compared to 67.1% for the same period in fiscal 1997.

R&D Europe gross margins decreased from 54.0% to 48.6% for the quarter and from 52.9% to 50.6% for the six months ended December 31, 1997 as a result of changes in product mix and exchange rates. Hematology Division gross margins increased from 41.6% to 42.2% for the quarter and from 40.8% to 45.5% for the six months ended December 31, 1997, also as a result of changes in product mix. Biotechnology Division gross margins decreased slightly from 71.3% to 70.9% for the quarter, but increased from 70.0% to 72.0% for the six months ended December 31, 1997.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$192,661 (5%) from the second quarter of fiscal 1997 to the second quarter of fiscal 1998. These expenses also increased \$878,830 (13%) for the first six months of fiscal 1998. The majority of the increase was due to additional occupancy costs at R&D Systems, plus increased advertising and promotion costs by

both R&D Systems and R&D Europe. These increased costs were partially offset by decreased personnel costs at R&D Europe as a result of the restructuring in the third quarter of fiscal 1997.

#### Research and Development Expenses

Research and development expenses decreased \$431,593 (15%) and \$848,589 (15%) for the quarter and six months ended December 31, 1997, respectively. R&D Europe research and development expenses decreased \$706,444 and \$1,338,106 for the quarter and six months, respectively, as a result of a decrease in payments under the Joint Biological Research Agreement with British Bio-technology Group, plc. and a decrease in personnel as a result of the restructuring and the transfer of the majority of research and development activities to R&D Systems. R&D Systems' research and development expenses increased \$274,851 and \$489,517 for the quarter and six months ended December 31, 1997, respectively. The increase related to products currently under development, many of which have been or will be released in fiscal 1998. Products currently under development include both biotechnology and hematology products.

#### Net Earnings

Earnings before income taxes increased \$1,160,493 from \$3,337,491 in the second quarter of fiscal 1997 to \$4,497,984 in the second quarter of fiscal 1998. Earnings before taxes for the six months increased \$2,763,606 from \$6,457,760 to \$9,221,366. The increase in earnings before income taxes was due mainly to an increase in Biotechnology Division earnings of \$746,924 and \$1,565,946 and an increase in Hematology Division earnings of \$137,322 and \$531,511 for the quarter and six months ended December 31, 1997, as a result of increased sales and gross margins. In addition R&D Europe's earnings before taxes increased \$440,000 and \$914,292 for the quarter and six months as a result of the decrease in research and development expenses.

Income taxes for the quarters and six months ended December 31, 1997 were provided at a rate of approximately 30% and 31% of consolidated pretax earnings compared to 32% and 31% for the prior year. U.S. federal taxes have been reduced by the credit for research and development expenditures and the benefit of the foreign sales corporation. Foreign income taxes have been provided at rates which approximate the tax rates in the United Kingdom and Germany.

#### Liquidity and Capital Resources

At December 31, 1997, cash and cash equivalents and short-term investments were \$32,394,941 compared to \$24,752,257 at June 30, 1997. The Company has been accumulating cash and short-term investments for future expansion purposes. The Company believes it can meet its future cash, working capital and capital addition requirements through currently available funds, cash generated from operations and maturities of short-term investments. The Company has an unsecured line of credit of \$750,000. The interest rate on the line of credit is at prime. There were no borrowings on the line in the prior or current fiscal years.

#### Cash Flows From Operating Activities

The Company generated cash of \$8,926,641 from operating activities in the first six months of fiscal 1998 compared to \$6,016,773 for the first six months of fiscal 1997. The increase was mainly the result of increased net earnings and increased current liabilities.

#### Cash Flows From Investing Activities

During the six months ended December 31, 1997 and 1996, the Company increased short-term investments \$6,340,884 and \$1,035,000, respectively. The Company's investment policy is to place excess cash in short-term tax-exempt bonds. The objective of this policy is to obtain the highest possible return with the lowest risk, while keeping the funds accessible.

Capital additions were \$1,648,881 for the first six months of fiscal 1998, compared to \$3,418,612 for the first six months of fiscal 1997. Included in the fiscal 1998 and 1997 additions were \$721,000 and \$2,684,000 for leasehold improvements related to expansion and remodeling of facilities by R&D Systems. The remaining additions in fiscal 1998 and 1997 were for laboratory and computer equipment. Total expenditures for capital additions planned for the remainder of fiscal 1998 are expected to cost approximately \$1.4 million and are expected to be financed through currently available funds and cash generated from operating activities.

#### Cash Flows From Financing Activities

Cash of \$367,796 and \$25,189 was received during the six months ended December 31, 1997 and 1996, respectively, for the exercise of options for 46,540 and 4,000 shares of common stock. During the first six months of fiscal 1998, options for 24,506 shares of common stock were exercised by the surrender of 7,624 shares of the Company's common stock with a fair market value of \$126,194.

During the first six months of fiscal 1998 and 1997, the Company purchased and retired 20,000 and 144,600 shares, respectively, of Company common stock at market values of \$280,000 and \$1,870,827. In May 1995, the Company announced a plan to purchase and retire up to \$5,000,000 of its common stock. Through February 1, 1997, 437,000 shares have been purchased at a market value of \$4,812,164. Subject to market conditions and share price, the Company has extended its stock repurchase program and plans to purchase and retire up to an additional \$5,000,000 of common stock.

During the first six months of fiscal 1998, the Company granted stock options with a fair value of \$200,500 to a non-employee for services rendered to the Company.

The Company has never paid cash dividends and has no plans to do so in fiscal 1998.

### ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

## PART II - OTHER INFORMATION

### ITEM 1 - LEGAL PROCEEDINGS

The Company was sued by Streck Laboratories, Inc. ("Streck") in the United States District Court for the District of Nebraska in Omaha on November 5, 1997. Streck alleges in its complaint that the Company infringes three patents Streck has obtained on white blood cell hematology controls, one of which was issued in November, 1993, and the other two in the fall of 1997. Streck seeks an unspecified amount of damages, an injunction prohibiting further infringement, reasonable attorneys' fees, and costs. The Company has answered the complaint, denied infringement and asserted counterclaims against Streck seeking to have the patents declared invalid and/or not infringed. The case has not entered the formal discovery phase, and it is unlikely it will go to trial before 1999.

### ITEM 2 - CHANGES IN SECURITIES

None

### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES



None

#### ITEM 4 - SUBMISSION OF MATTERS TO VOTE OF SHAREHOLDERS

Information relating to the Company's Annual Meeting of Shareholders, held on October 23, 1997, is contained in the Company's Form 10-Q for the quarter ended September 30, 1997, which is incorporated herein by reference.

#### ITEM 5 - OTHER INFORMATION

Forward Looking Information and Cautionary Statements: Statements in this filing, and elsewhere, which look forward in time involve risks and uncertainties which may affect the actual results of operations. The following important factors, among others, have affected and, in the future, could affect the Company's actual results: the introduction and acceptance of new biotechnology and hematology products, the levels and particular directions of research into cytokines by the Company's customers, the impact of the growing number of producers of cytokine research products and related price competition, the retention of hematology OEM and proficiency survey business, the Company's expansion of marketing efforts in Europe, and the costs and results of research and product development efforts of the Company and of companies in which the Company has invested or with which it has formed strategic relationships.

#### ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

##### A. EXHIBITS

See exhibit index immediately following signature page.

##### B. REPORTS ON FORM 8-K

None

#### SIGNATURE

Pursuant to the requirements 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.

TECHNE CORPORATION  
(Company)

Date: February 13, 1998    Thomas E. Oland

-----  
Thomas E. Oland  
President, Chief Executive and  
Financial Officer

EXHIBIT INDEX  
TO  
FORM 10-Q

TECHNE CORPORATION

Exhibit #	Description
10.1	Investment Agreement between ChemoCentryx, Inc. and Techne Corporation dated November 18, 1997
27	Financial Data Schedule

CHEMOCENTRYX, INC.  
TECHNE CORPORATION  
INVESTMENT AGREEMENT

November 18, 1997

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#### Exhibits

- - - - -

- Exhibit 1A - Amended and Restated Certificate of Incorporation
- Exhibit 1B - Bylaws
- Exhibit 2 - Form of Warrant
- Exhibit 3 - Exceptions
- Exhibit 4 - Vesting Agreement
- Exhibit 5 - Employment Agreement
- Exhibit 6 - Proprietary Information and Inventions Agreement
- Exhibit 7 - Co-Sale Agreement
- Exhibit 8 - Research and License Agreement

#### Schedules

- - - - -

- Schedule A - Subscription/Warrant Obligation
- Schedule B - Patent Applications

## INVESTMENT AGREEMENT

THIS INVESTMENT AGREEMENT is made and entered into as of the 18th day of November 1997, by and between ChemoCentryx, Inc., a Delaware corporation (the "Company") and Techne Corporation, a Minnesota corporation (the "Investor").

### 1. Definitions.

1.1 Specific Definitions. As used in this Agreement, the following terms shall have the meanings set forth or as referenced below:

"Additional Securities" is defined in Section 6.16.

"Amendment" is defined in Section 2.1.

"Additional Shares of Common Stock" shall mean all shares of Common Stock of the Company issued by the Company on or after the Closing Date, except the Conversion Stock.

"Closing" is defined in Section 2.2.

"Closing Date" is defined in Section 2.2.

"Commission" shall mean the U.S. Securities and Exchange Commission.

"Common Stock" shall mean the Company's authorized common stock, par value \$0.001 per share, any additional common shares which may be authorized in the future by the Company, and any stock into which such common shares may hereafter be changed, and shall also include stock of the Company of any other class which is not preferred as to dividends or as to distributions of assets on liquidation, dissolution or winding up of the Company over any other class of stock of the Company, and which is not subject to redemption.

"Company" shall mean ChemoCentryx, Inc., a Delaware corporation.

"Conversion Price" shall mean such price at which the Preferred Shares are convertible into Common Stock pursuant to Section 11 hereof and the Amendment.

"Convertible Securities" shall mean evidences of indebtedness, shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Additional Shares of Common Stock.

"GAAP" shall mean United States generally accepted accounting principles, applied on a consistent basis.

"Indebtedness for Borrowed Money" shall include only indebtedness of the Company and its Subsidiaries incurred as the result of a direct borrowing of money and shall not include any other indebtedness including, but not limited to, indebtedness incurred with respect to trade accounts.

"Investor" shall mean Techne Corporation, a Minnesota corporation.

"Permitted Liens" shall mean (a) liens for taxes and assessments or governmental charges or levies not at the time due or in respect of which the validity thereof shall currently be contested in good faith by appropriate proceedings; and (b) liens in respect of pledges or deposits under worker's compensation laws or similar legislation, carriers', warehousemen's, mechanics', laborers' and materialmen's, landlord's and statutory and similar liens, if the obligations secured by such liens are not then delinquent or are being contested in good faith, and liens and encumbrances incidental to the conduct of the business of the Company or any Subsidiary which were not incurred in connection with the borrowing of money or the obtaining of advances or credits and which do not in the aggregate materially detract from the value of its property or materially impair the use thereof in the operation of its business.

"Preferred Shares" is defined in Section 2.1.

"Public Offering" shall mean a firm underwritten public offering of the Company's Common Stock pursuant to a registration filed under the Securities Act and through NASD member firms.

"Purchased Stock" shall mean the Preferred Shares, the Conversion Stock, the Warrant Stock and the stock or other securities of the Company issued in a stock split or reclassification of, or a stock dividend or other distribution on or in substitution or exchange for, or otherwise in connection with, any of the foregoing securities, or in a merger or consolidation involving the Company or a sale of all or substantially all of the Company's assets.

"R&D Systems" shall mean Research & Diagnostic Systems, Inc., a subsidiary of the Investor.

"Schall" shall mean Dr. Thomas J. Schall.

"Securities" shall mean the Preferred Shares, Warrants, Conversion Stock and Warrant Stock.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Senior Indebtedness" shall mean (a) the principal of all Indebtedness for Borrowed Money of the Company and its Subsidiaries to banks, insurance companies or other financial institutions, (b) the present value of net minimum lease payments of all leases under which the Company or any of its Subsidiaries is the lessee and which are required to be capitalized under generally accepted accounting principles, (c) the principal of all indebtedness of the Company or any of its Subsidiaries under installment purchase agreements, and (d) the principal of all indebtedness of the Company or any of its Subsidiaries to the owners of any real property leased by the Company for leasehold improvements financed by such owners.

"Series A Preferred Stock" shall collectively mean the Company's authorized Series A-1, Series A-2, and Series A-3 Preferred Stock, par value \$0.001 per share, and any stock into which such preferred shares may hereafter be changed.

"Subsidiary" shall mean any corporation, association or other business entity more than a majority (by number of votes) of the voting stock of which is owned or controlled, directly or indirectly, by the Company or by one or more of its Subsidiaries or both.

"Warrants" are defined in Section 2.1.

"Warrant Stock" shall mean the shares of Series A Preferred Stock issuable upon exercise of the Warrants and all shares of Series A Preferred Stock or Common Stock issued in exchange or substitution therefor.

## 1.2 Definitional Provisions.

(a) The words "hereof," "herein," and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provisions of this Agreement.

(b) Terms defined in the singular shall have a comparable meaning when used in the plural, and vice-versa.

(c) References to an "Exhibit" or to a "Schedule" are, unless otherwise specified, to one of the Exhibits or Schedules attached to or referenced in this Agreement, and references to a "Section" or "paragraph" are, unless otherwise specified, to one of the Sections or paragraphs of this Agreement.

(d) All accounting terms defined below shall, except as otherwise expressly provided, be determined by reference to the Company's books of account and in conformity with generally accepted accounting principles as applied to such books of account in the opinion of the independent certified public accountants selected by the Board of Directors of the Company as required under the provisions of Section 6.3(b) hereof.

(e) The term "person" includes any individual, partnership, joint venture, corporation, trust, unincorporated organization or government or any department or agency thereof.

## 2. Purchase and Sale of Stock.

2.1 Sale and Purchase of Shares; Grant of Warrants. Subject to the terms and conditions hereof, the Company agrees to sell to the Investor, and the Investor agrees to purchase from the Company, Series A Preferred

Stock pursuant to and in accordance with the terms of Schedule A to this Agreement. The term "Preferred Shares" as used herein shall mean the up to 5,000,000 shares of Series A Stock purchased in accordance with Schedule A and all shares of the Company issued in a stock split or reclassification of, or a stock dividend or other distribution on, such Preferred Shares or in exchange, conversion or substitution therefor. Furthermore, the Company agrees to issue to Investor Warrants pursuant to and in accordance with the terms of Schedule A to this Agreement in the form attached hereto as Exhibit 2. The term "Warrants" as used herein shall mean the warrants so issued.

2.2 Closings. The closing of the sales to, and purchases by, the Investor of the Preferred Shares (the "Closing") and the issuances of the Warrants shall occur at the offices of Fredrikson & Byron, P.A., 1100 International Centre, 900 Second Avenue South, Minneapolis, Minnesota, at 10:00 A.M., Minneapolis time, within five business days of the later to occur of the applicable date or attainment of the applicable milestone as set forth on Schedule A hereto, or on such other day or at such other time or place as the Investor and the Company shall agree upon (the "Closing Date").

At the Closing, the Company will deliver to the Investor certificates representing the Preferred Shares being purchased by the Investor and the Warrants to be granted to the Investor, registered in its name, against delivery to the Company of a check or wire transfer in the amount of the cash consideration as set forth on Schedule A hereto, in payment of the total purchase price of the Preferred Shares being purchased by the Investor.

3. Representations and Warranties by Company. Except as discloses in Exhibit 3 hereto (specifying the Section or Sections making reference to certain disclosures), the Company represents and warrants to the Investor that:

3.1 Organization, Standing, etc. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, and has the requisite corporate power and authority to own its properties and to carry on its business in all material respects as it is now being conducted. The Company has the requisite corporate power and authority to issue the Preferred Shares, the Warrants, the Conversion Stock and the Warrant Stock, and to otherwise perform its obligations under this Agreement. The certified copies of the Amended and Restated Certificate of Incorporation and Bylaws of the Company, attached as Exhibits 1A and 1B, respectively, hereto, are true and complete copies of the duly authorized Amended and Restated Certificate of Incorporation and Bylaws of the Company in effect as of the date of this Agreement. The Company does not have any direct or indirect equity interest in any other firm, corporation, partnership, joint venture association or other business organization except as set forth in Exhibit 3 hereto. If the Company has any Subsidiary, the representations and warranties set forth in this Section 3 are being hereby restated with respect to such Subsidiary.

3.2 Qualification. The Company is duly qualified or licensed as a foreign corporation in good standing in each jurisdiction wherein the nature of its activities or of its properties owned or leased makes such qualification or licensing necessary and failure to be so qualified or licensed would have a material adverse impact on its business.

3.3 Capital Stock. The authorized capital stock of the Company consists of 20,000,000 shares of Common Stock (of which 5,143,750 shares are issued and outstanding as of the date hereof) and 6,666,666 Series A Preferred Stock (of which no shares are issued and outstanding as of the date hereof) of which 4,000,000 are designated as Series A-1 Preferred, 1,333,333 are designated as Series A-2 Preferred and 1,333,333 are designated as Series A-2 Preferred. The rights and preferences of the Company's Common Stock and Series A Preferred Stock are as provided in the Company's Amended and Restated Certificate of Incorporation, a copy of which is attached hereto as Exhibit 1A (the "Certificate of Incorporation"). All of the Company's outstanding shares of capital stock were duly authorized and validly issued and are fully paid and nonassessable. There are no outstanding subscriptions, options, warrants, calls, contracts, demands, commitments, Convertible Securities or other agreements or arrangements of any character or nature whatever, except as disclosed in Exhibit 3 hereto or

as contemplated by this Agreement, under which the Company is or may be obligated to issue capital stock or other securities of any kind representing an ownership interest or contingent ownership interest in the Company. Except as otherwise disclosed in Exhibit 3 hereto, neither the offer nor the issuance or sale of the Securities, constitutes an event, under any anti-dilution provisions of any securities issued or issuable by the Company or any agreements with respect to the issuance of securities by the Company, which will either increase the number of shares issuable pursuant to such provisions or decrease the consideration per share to be received by the Company pursuant to such provisions. No holder of any security of the Company is entitled to any preemptive or similar rights to purchase securities from the Company which has not been irrevocably waived, in writing, a copy of which waiver has been delivered to the Investor; provided, however, that nothing in this Section 3. shall affect, alter or diminish any right granted to the Investor in this Agreement. All outstanding securities of the Company have been issued in full compliance with an exemption or exemptions from the registration and prospectus delivery requirements of the Securities Act and from the registration and qualification requirements of all applicable state securities laws.

3.4 Financial Statements. The Company has delivered to the Investor an unaudited balance sheet as at October 31, 1997 and a statement of operations for the period of inception through such date. Such financial statements and notes thereto fairly present the financial condition and the results of operations of the Company, all in accordance with GAAP.

3.5 Title to Properties and Encumbrances. The Company has good and marketable title to all its owned properties and assets, and the properties and assets used in the conduct of its business, which properties and assets are not subject to any mortgage, pledge, lease, lien, charge, security interest, encumbrance or restriction, except (a) those which are shown and described in Exhibit 4 hereto or the notes thereto, and (b) Permitted Liens.

3.6 Litigation; Governmental Proceedings. There are no legal actions, suits, arbitrations or other legal, administrative or governmental proceedings or investigations pending or, to the knowledge of the Company, threatened against the Company, its properties, assets or business, and the Company is not aware of any facts which are likely to result in or form the basis for any such action, suit or other proceeding. The Company is not in default with respect to any judgment, order or decree of any court or any governmental agency or instrumentality.

3.7 Compliance with Applicable Laws and Other Instruments. The business and operations of the Company have been and are being conducted in accordance with all applicable laws, rules and regulations of all governmental authorities, the violation of which could reasonably be expected to have a material adverse impact on the Company. Neither the execution nor delivery of, nor the performance of or compliance with, this Agreement nor the consummation of the transactions contemplated hereby will conflict with, or, with or without the giving of notice or passage of time, result in any breach of, or constitute a default under, or result in the imposition of any lien or encumbrance upon any asset or property of the Company pursuant to, any applicable law, administrative regulation or judgment, order or decree of any court or governmental body, any material agreement or other instrument to which the Company is a party or by which it or any of its properties, assets or rights is bound or affected, and will not violate the Company's Certificate of Incorporation or Bylaws. The Company is not in violation of its Certificate of Incorporation or its Bylaws nor in violation of, or in default under, any lien, indenture, mortgage, lease, material agreement, instrument, commitment or arrangement in any material respect. There are no consents required to consummate the transactions contemplated hereby, which have not been obtained, under any lien, indenture, mortgage, lease, material agreement, instrument, commitment or arrangement to which the Company is a party.

3.8 Preferred Shares, Warrants, Conversion Stock and Warrant Stock. The Preferred Shares, when issued and paid for pursuant to the terms of this Agreement, will be duly authorized, validly issued and outstanding, fully paid and non-assessable, free and clear of all pledges, liens and encumbrances; the Warrants, when issued and delivered pursuant to this Agreement, will constitute valid and binding obligations of the Company in accordance with their terms; the Conversion Stock and the Warrant Stock have been reserved for issuance based upon the initial Conversion Price and



initial Warrant Exercise Price and when issued upon conversion or exercise thereof in accordance with the Certificate of Incorporation and the terms of the Warrants will be duly authorized, validly issued and outstanding, fully paid, nonassessable and free and clear of all pledges, liens and encumbrances. The certificates representing the Preferred Shares and Warrants to be delivered by the Company hereunder, and the certificates representing the Conversion Stock to be delivered upon the conversion of the Preferred Shares and the certificates representing the Warrant Stock to be delivered upon exercise of the Warrants, will be genuine, and the Company has no knowledge of any fact which would impair the validity thereof.

3.9 Securities Laws. Based in part upon the representations and warranties contained in Section 4 hereof, no consent, authorization, approval, permit or order of or filing with any governmental or regulatory authority is required under current laws and regulations in connection with the execution and delivery of this Agreement or the offer, issuance, sale or delivery of the Securities other than the qualification thereof, if required, under applicable state securities laws, which qualification has been or will be effected as a condition of this sale. The Company has not, directly or through an agent, offered the Securities, or any similar securities for sale to, or solicited any offers to acquire such securities from, persons other than the Investor and other accredited investors. Under the circumstances contemplated hereby, the offer, issuance, sale and delivery of the Preferred Shares, the issuance of the Warrants, the offer of the Conversion Stock and Warrant Stock will not under current laws and regulations require compliance with the prospectus delivery or registration requirements of the Securities Act.

3.10 Patents and Other Intangible Rights. Except as otherwise set forth in Exhibit 3 hereto, the Company (a) owns or has the exclusive right to use, free and clear of all material liens, claims and restrictions, all of the right, title and interest in the intellectual property acquired from Schall in the exchange for Common Stock described in Section 5.8 below and all patents, trademarks, service marks, trade names, copyrights, licenses and rights with respect to the foregoing, (b) is not obligated or under any liability to make any payments of a material nature by way of royalties, fees or otherwise to any owner of, licensor of, or other claimant to, any patent, trademark, trade name, copyright or other intangible asset, with respect to the use thereof or in connection with the conduct of its business or otherwise, (c) owns or has the unrestricted right to use all trade secrets, including know-how, inventions, designs, processes, computer programs and technical data necessary to the development, operation and sale of all products and services sold or proposed to be sold by it, free and clear of any rights, liens or claims of others, and (d) is not using any confidential information or trade secrets of others. To the best of its knowledge, the Company is not, nor has it received actual notice that it is, infringing upon or otherwise acting adversely to any known right or claimed right of any person under or with respect to any patents, trademarks, service marks, trade names, copyrights, licenses or rights with respect to the foregoing.

3.11 Outstanding Debt. The Company has no Indebtedness for Borrowed Money except as set forth in Exhibit 3 hereto. The Company is not in default in the payment of the principal of or interest or premium on any such Indebtedness for Borrowed Money, and no event has occurred or is continuing under the provisions of any instrument, document or agreement evidencing or relating to any such Indebtedness for Borrowed Money which with the lapse of time or the giving of notice, or both, would constitute an event of default thereunder.

3.12 Corporate Acts and Proceedings. This Agreement has been duly authorized by all necessary corporate action on behalf of the Company and has been duly executed and delivered by authorized officers of the Company. All corporate action necessary to the authorization, creation, issuance and delivery of the Securities, has been taken on the part of the Company, or will be taken by the Company on or prior to the Closing Dates. This Agreement is a valid and binding agreement of the Company enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting the enforcement of creditors' rights generally, and except for judicial limitations on the enforcement of the remedy of specific enforcement and other equitable remedies.

3.13 No Brokers or Finders. No person, firm or corporation has or will have, as a result of any act or omission of the Company, any right, interest or valid claim against or upon the Company or any Investor for any commission, fee or other compensation as a finder or broker, or in any similar capacity, in connection with the transactions contemplated by this Agreement. The Company will indemnify and hold the Investor harmless against any and all liability with respect to any such commission, fee or other compensation which may be payable or determined to be payable in connection with the transactions contemplated by this Agreement.

3.14 Conflicts of Interest. Except as disclosed on Exhibit 3 hereto, no officer, director or stockholder of the Company or any affiliate (as such term is defined in Rule 405 under the Securities Act) of any such person has any direct or indirect interest (a) in any entity which does business with the Company, or (b) in any property, asset or right which is used by the Company in the conduct of its business, or (c) in any contractual relationship with the Company other than as an employee.

3.15 Licenses. The Company possesses from the appropriate agency, commission, board and government body and authority, whether state, local or federal, all licenses, permits, authorizations, approvals, franchises and rights which (a) are necessary for it to engage in the business currently conducted by it, and (b) if not possessed by the Company, would have a material adverse impact on the Company's business. The Company has no knowledge that would lead it to believe that it will not be able to obtain all material licenses, permits, authorizations, approvals, franchises and rights that may be required for any business the Company proposes to conduct.

3.16 Registration Rights. Except as disclosed on Exhibit 3 hereto, the Company has not granted any registration rights under the Securities Act relating to any of its authorized or outstanding securities which are superior or preferential to those granted to the Investor pursuant to this Agreement.

3.17 Retirement Plans. The Company does not have any retirement plan in which any employees of the Company participate that is subject to any provisions of the Employee Retirement Income Security Act of 1974, as amended, and of the regulations adopted pursuant thereto ("ERISA").

3.18 Application of Proceeds. The proceeds from the issue and sale of the Preferred Shares pursuant to this Agreement will be used to fund working capital and other general corporate purposes.

3.19 Disclosure. The Company has not knowingly withheld from the Investor any material facts relating to the assets, business, operations, financial condition or prospects of the Company. No representation or warranty in this Agreement or in any certificate, schedule, statement, exhibit, annex or other document furnished or to be furnished to any Investor pursuant hereto or in connection with the transactions contemplated hereby contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact required to be stated herein or therein or necessary to make the statements herein or therein not misleading.

4. Representations and Warranties of Investor. The Investor hereby represents and warrants that:

4.1 Investment Intent. The Securities being acquired by the Investor hereunder or that will be acquired upon conversion of the Preferred Shares or exercise of the Warrants are being or will be acquired, for the Investor's own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act and that the Investor has no present intention of selling, granting, any participation in, or otherwise distributing the same. By executing this Agreement, such Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities. The Investor understands that the Securities have not been registered under the Securities Act or any applicable state laws by reason of their issuance or contemplated issuance in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act and such laws, and that the reliance of the Company and others upon this

exemption is predicated in part upon this representation and warranty. The Investor further understands that the Securities may not be transferred or resold without (a) registration under the Securities Act and any applicable state securities laws, or (b) an exemption from the requirements of the Securities Act and applicable state securities laws.

4.2 Location of Principal Office and Qualification as Accredited Investor. The Investor's principal office is located in the state of Minnesota. The Investor qualifies as an accredited investor within the meaning of Rule 501 under the Securities Act. The Investor has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the investment to be made hereunder. The Investor has, and has had, access to all of the Company's material books and records and access to the Company's executive officers has been provided to the Investor or to the Investor's qualified agents. The Investor has received all information with respect to the Company it deems necessary in order to make its investment decision regarding the Preferred Shares and the Warrants.

4.3 Acts and Proceedings. Investor has full power and authority to enter into this Agreement, and this Agreement has been duly authorized by all necessary corporate action on the part of Investor, has been duly executed and delivered by the Investor and is a valid and binding agreement upon the Investor.

4.4 No Brokers or Finders. No person, firm or corporation has or will have, as a result of any act or omission by the Investor, any right, interest or valid claim against the Company for any commission, fee or other compensation as a finder or broker, or in any similar capacity, in connection with the transactions contemplated by this Agreement.

4.5 Disclosure of Information. Such Investor believes it has received all the information it considers necessary or appropriate for deciding whether to purchase the Series A Preferred Stock. Such Investor further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Series A Preferred Stock and the business, properties, prospects and financial condition of the Company. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investors to rely thereon.

4.6 Investment Experience. Such Investor is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its investment, and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Series A Preferred Stock. Investor also represents it has not been organized for the purpose of acquiring the Series A Preferred Stock.

4.7 Restricted Securities. Such Investor understands that the Securities it is purchasing are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Act, only in certain limited circumstances. In this connection, such Investor represents that it is familiar with SEC Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

4.8 Further Limitations on Disposition. Without in any way limiting the representations set forth above, Investor further agrees not to make any disposition of all or any portion of the Securities unless and until the transferee has agreed in writing for the benefit of the Company to be bound by this Section 3, and:

(a) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) (i) Such Investor shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (ii) if reasonably requested by the Company, such Investor shall have

furnished the Company with an opinion of counsel, reasonably satisfactory to the Company that such disposition will not require registration of such shares under the Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances.

4.9 Legends. It is understood that the certificates evidencing the Securities may bear one or all of the following legends:

(a) "These securities have not been registered under the Securities Act of 1933, as amended. They may not be sold, offered for sale, pledged or hypothecated in the absence of a registration statement in effect with respect to the securities under such Act or an opinion of counsel satisfactory to the Company that such registration is not required or unless sold pursuant to Rule 144 of such Act."

(b) Any legend required by state securities laws.

5. Conditions of Investor's Obligation. The obligation to purchase and pay for the Preferred Shares which the Investor has agreed to purchase on the Closing Dates is subject to the fulfillment prior to or on each Closing Date of the following conditions:

5.1 Representations and Warranties. The representations and warranties of the Company under this Agreement shall be true in all material respects as of each Closing Date with the same effect as though made on and as of each Closing Date except the following changes which shall be permitted at each Closing subsequent to the date of this Agreement:

(a) 3.3: exceptions created by issuances of securities duly authorized by formal written resolution of the Board of Directors of the Company and not inconsistent with the terms of this Agreement;

(b) 3.5: exceptions created by any mortgage, pledge, lease, lien, charge, securities interest, encumbrance or restriction created in the normal course of the Company's business or approved by the Board of Directors of the Company;

(c) 3.6: exceptions created by matters of the nature referred to in Section 3.6 which are disclosed to the Investor in writing prior to the Closing Date and which if determined adversely to the Company, would not have a material adverse effect on the business, operations, assets, condition or prospects of the Company.

(d) 3.9: exceptions created by agreements duly authorized by formal written resolution of the Board of Directors of the Company;

(e) 3.11: exceptions for the incurrence of Indebtedness for Borrowed Money duly authorized by formal written resolution of the Board of Directors of the Company but not for any default thereunder;

(f) 3.14: exceptions for conflicts of interest arising from transactions duly authorized by formal resolution adopted by a majority of the disinterested members of the Board of Directors of the Company; and

(g) 3.17: exceptions created by plans duly authorized by formal resolution of the Board of Directors of the Company.

5.2 Compliance with Agreement. The Company shall have performed and complied with all agreements, covenants and conditions required by this Agreement and by the Research and License Agreement attached hereto as Exhibit 7 to be performed and complied with by it prior to or as of each Closing Date.

5.3 Additional Financial Statements. The Company shall have delivered to the Investor the financial statements and information required by Section 6.3.

5.4 Certificate of Officers. The Company shall have delivered to the Investor a certificate, dated each Closing Date, executed by the President and the senior financial officer of the Company and certifying to the satisfaction of the conditions specified in this Section 5.

5.5 Opinion of Company's Counsel. On the Closing Date coincident with the date of this Agreement only, the Company shall have delivered to the Investor an opinion of Brobeck, Phleger & Harrison LLP, counsel for the Company, dated the Closing Date, to the effect that:

(a) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware; has the corporate power and authority to enter into this Agreement, to issue and sell the Securities as contemplated by this Agreement, and to carry out the provisions of this Agreement; has the corporate power and authority to own and hold its properties owned and leased and to carry on the business in which it is engaged; and has not failed to qualify to do business as a foreign corporation in good standing in any state or jurisdiction wherein the nature of its activities or of its properties owned or leased makes such qualification necessary and failure to be so qualified would have a material adverse effect upon the Company.

(b) This Agreement has been duly authorized, executed and delivered by the Company, and constitutes a legal, valid and binding agreement of the Company enforceable in accordance with its terms.

(c) The Proprietary Information and Inventions Agreement and Vesting Agreement, each dated November 18, 1997 of and between the Company and Schall, are legal, valid and binding agreements of the Company and Schall enforceable in accordance with their terms.

(d) The Amendment, substantially in the form set forth as Exhibit 1 hereto, has been duly adopted by all necessary corporate action, and has been duly filed with the Secretary of State of the State of Delaware (no other or additional filing or recording being necessary in order for the holders of the Preferred Shares to obtain the rights and privileges of the Preferred Shares provided in the Amendment).

(e) The Company is authorized by its Certificate of Incorporation to issue 20,000,000 shares of Common Stock and 6,666,666 Shares of Series A Preferred Stock. Other than the Series A Preferred Stock to be issued pursuant to this Agreement, there are no shares of Series A Preferred Stock issued and outstanding. There are 5,143,750 shares of Common Stock duly issued and outstanding, all of which are, to our knowledge, fully paid and nonassessable. The issuance and sale of such outstanding shares of Common Stock were exempt from registration under the Securities Act and such shares were issued in conformity with the permit or qualification requirements of all applicable state securities laws. Except for such preferred shares and such common shares, the Company has no other authorized or outstanding series or class of capital stock. Except for (i) the conversion privileges of the Series A Preferred Stock, (ii) the Warrants and the 1,666,666 shares of Series A Preferred Stock reserved for issuance pursuant to the exercise of the Warrants to be issued pursuant to this Agreement, (iii) 500,000 shares of Common Stock reserved for issuance pursuant to the Company's 1997 Stock Option/Stock Issuance Plan, and (iv) the rights set forth in Section 6.13 of the Investment Agreement, there are no preemptive rights or, to our knowledge, options, warrants, conversion privileges or other rights (or agreements for any such rights) outstanding to purchase or otherwise obtain from the Company any of the Company's equity securities. To the knowledge of such counsel, except as set forth on Exhibit 3 hereto, there are no agreements or understandings on the part of the Company with respect to the registration of any securities of the Company under the Securities Act, other than those granted under this Agreement, and there are no obligations on the part of the Company to purchase or redeem any outstanding shares of capital stock of the Company, other than as set forth in the Amendment.

(f) The respective rights, privileges, restrictions and preferences of the Series A Preferred Stock are as stated in the Amendment.

(g) The Preferred Shares to be purchased at the Closing have been duly authorized and, upon payment for and delivery of such securities in accordance with the terms of this Agreement, will be validly issued, fully paid and nonassessable. The certificates for

the Preferred Shares when issued, will be in valid and sufficient form, and the Preferred Shares are entitled to the benefits of this Agreement applicable thereto. The Conversion Stock has been duly authorized and reserved for issuance upon conversion of the Preferred Shares and when issued upon such conversion in accordance with the terms and conditions of the Preferred Shares and those of this Agreement, the Conversion Stock will be duly authorized and issued and will be fully paid and nonassessable.

(h) The Warrants have been duly authorized and, when issued in accordance with the terms and conditions of this Agreement, will be duly authorized and issued. The Warrant Stock has been duly authorized and reserved for issuance upon exercise of the Warrants and when issued upon such exercise in accordance with the terms and conditions of the Warrants and those of this Agreement, the Warrant Stock will be duly authorized and issued and will be fully paid and nonassessable.

(i) All corporate proceedings required by law or by the provisions of this Agreement to be taken by the Board of Directors and the stockholders of the Company on or prior to the Closing Date in connection with the execution and delivery of this Agreement, the offer, issuance and sale of the Securities, and in connection with the consummation of the transactions contemplated by this Agreement, have been duly and validly taken.

(j) All consents, approvals, permits, orders or authorizations of, and all qualifications, registrations, designations or declarations with, any federal or Delaware corporate authority on the part of the Company required in connection with the execution and delivery of the Investment Agreement and consummation at the Closings of the transactions contemplated by the Investment Agreement have been obtained, and are effective, and we are not aware of any proceedings, or written threat of any proceedings, that question the validity thereof.

(k) The Company's execution and delivery of, and its performance and compliance as of the date hereof with the terms of, the Investment Agreement do not violate any provision of any federal, or Delaware corporate law, rule or regulation applicable to the Company or any provision of the Company's Amended and Restated Certificate of Incorporation or Bylaws and do not conflict with or constitute a default under the provisions of any judgment, writ, decree or order specifically identified in the Schedule of Exceptions or the material provisions of any material agreement specifically identified in the Schedule of Exceptions.

(l) Assuming the accuracy of the representations of the Investor set forth in Section 4. hereof, the offer, sale, issuance and delivery of the Preferred Shares, the grant and issuance of the Warrants and the offer of the Conversion Stock and Warrant Stock to the Investor through conversion by it of the Preferred Shares or exercise by it of the Warrants under the circumstances contemplated by the Amendment, the Warrants and this Agreement are exempt from the registration and prospectus delivery requirements of the Securities Act, and all registrations, qualifications, permits and approvals required under applicable state securities laws for the lawful offer, sale, issuance and delivery of the Preferred Shares, the grant and issuance of the Warrants and the offer of the Conversion Stock and Warrant Stock shall have been obtained.

(m) Such counsel has no knowledge of any litigation, proceeding or governmental investigation pending or threatened against the Company, its key management employees, properties or business which, if determined adversely to the Company, would have a material adverse effect upon the financial condition, operations, results of operations or business of the Company.

5.6 Qualification Under State Securities Laws. All registrations, qualifications, permits and approvals required under applicable state securities laws for the lawful execution and delivery of this Agreement and the offer, sale, issuance and delivery of the Preferred Shares, the grant and issuance of the Warrants and the offer of the Conversion Stock and Warrant Stock shall have been obtained.

5.7 Proceedings and Documents. All corporate and other proceedings and actions taken in connection with the transactions contemplated hereby and all certificates, opinions, agreements, instruments and documents mentioned herein or incident to any such transaction shall be satisfactory in form and substance to the Investor and its counsel.

5.8 Issuance of Shares in Exchange for Intellectual Property; Reservation of Shares. The Company, pursuant to an agreement with Schall, a copy of which has been previously delivered to the Investor, shall have issued 5,000,000 shares of Common Stock to Schall in exchange for Schall's transfer to the Company of all of his right, title and interest in his intellectual property related to the field of chemokines and chemokine receptors, including, but not limited to, patent applications and disclosure documents identified on Schedule B hereto and material related to patent applications currently in preparation. Of such 5,000,000 shares, 2,000,000 shares shall be fully vested and the remaining 3,000,000 shall vest (i.e., the Company's right to repurchase such shares at cost shall lapse) ratably over the four-year period commencing on the date hereof in accordance with the terms of a Vesting Agreement in the form of Exhibit 4 hereto. In addition to the shares issued to Schall, the Company shall have caused the 143,750 shares of Common Stock previously purchased by employees and/or consultants of the Company to become subject to a standard four-year vesting arrangement, and 2,356,250 shares of Common Stock shall be available for issuance to other key officers, employees and consultants pursuant to option or benefit plans or other agreements established for the benefit of officers, employees, consultants and directors of the Company.

5.9 Employment Agreement and Proprietary Information and Inventions Agreement. The Company and Schall shall have entered into an Employment Agreement substantially in the form of Exhibit 5 hereto and a Proprietary Information and Inventions Agreement substantially in the form of Exhibit 6 hereto.

5.10 Co-Sale Agreement. Schall and all holders of at least 500,000 shares (appropriately adjusted to reflect stock splits, stock dividends, reorganizations, consolidations and similar changes effected after the Closing Dates) of the Company's capital stock shall have entered into a Co-Sale Agreement with the Investor substantially in the form of Exhibit 7 hereto.

5.11 Research and License Agreement. R&D Systems and the Company shall have entered into a Research Agreement substantially in the form of Exhibit 8 hereto.

5.12 Directors. The Company shall have disclosed to the Investor in writing the identity of and biographical data regarding each of the members of its Board of Directors as of each Closing Date and each person currently intended to be nominated for election as a director.

6. Affirmative Covenants. Subject to the provisions of Section 9 hereof, the Company covenants and agrees that:

6.1 Corporate Existence. The Company will maintain its corporate existence in good standing and comply with all applicable laws and regulations of the United States or of any state or states thereof or of any political subdivision thereof and of any governmental authority where failure to so comply would have a material adverse impact on the Company or its business or operations.

6.2 Books of Account and Reserves. The Company will keep books of record and account in which full, true and correct entries are made of all of its and their respective dealings, business and affairs, in accordance with generally accepted accounting principles. The Company will employ certified public accountants selected by the Board of Directors of the Company who are "independent" within the meaning of the accounting regulations of the Commission and have annual audits made by such independent public accountants in the course of which such accountants shall make such examinations, in accordance with generally accepted auditing standards, as will enable them to give such reports or opinions with respect to the financial statements of the Company and its Subsidiaries as will satisfy the requirements of the Commission in effect at such time with respect to certificates and opinions of accountants.

6.3 Furnishing of Financial Statements and Information. The Company will deliver to Investor:

(a) as soon as practicable, but in any event within 30 days after the close of each month, unaudited balance sheets of the Company as of the end of such month, together with the related statements of operations for such month, setting forth the budgeted figures for such month prepared and submitted in connection with the Company's annual plan as required under Section 6.5 hereof and in comparative form figures for the corresponding month of the previous fiscal year, all in reasonable detail and certified by an authorized officer of the Company, subject to year-end adjustments;

(b) as soon as practicable, but in any event within 90 days after the end of each fiscal year, a balance sheet of the Company, as of the end of such fiscal year, together with the related statements of operations, stockholders' equity and cash flow for such fiscal year, setting forth in comparative form figures for the previous fiscal year, all in reasonable detail and duly certified independent public accountants selected by the Board of Directors of the Company, which accountants shall have given the Company an opinion, unqualified as to the scope of the audit, regarding such statements;

(c) concurrently with the delivery of any financial statements referred to in paragraphs (a) and (b) of this Section 6.3, current schedules of Indebtedness for Borrowed Money and Senior Indebtedness together with a certificate of the President and the principal accounting officer of the Company to the effect that such schedules are accurate and correct and that there exists no condition or event which constitutes an event of default with respect to any indebtedness of the Company, or, if any such condition or event exists, specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(d) within 90 days after the end of each fiscal year, written notice of the current Conversion Price and Warrant Exercise Price, including a brief statement indicating any adjustments reasonably anticipated;

(e) promptly after the submission thereof to the Company, copies of all reports and recommendations submitted by independent public accountants in connection with any annual or interim audit of the accounts of the Company or any of its Subsidiaries made by such accountants;

(f) promptly upon transmission thereof, copies of all reports, proxy statements, registration statements and notifications filed by it with the Commission pursuant to any act administered by the Commission or furnished to stockholders of the Company or to any national securities exchange;

(g) with reasonable promptness, such other financial data relating to the business, affairs and financial condition of the Company as is available to the Company and as from time to time the Investor may reasonably request;

(h) promptly following the issuance of any Additional Shares of Common Stock or of any Convertible Securities, or any options, warrants or other rights to purchase Additional Shares of Common Stock or Convertible Securities written notice of the amount of securities so issued and the total consideration received therefor;

(i) at least 20 days prior to the earlier of the holding of any meeting of the stockholders of the Company for the purpose of approving such action, written notice of the terms and conditions of such proposed merger, consolidation, plan of exchange, sale, transfer or other disposition;

(j) within 15 days after the Company learns in writing of the commencement or threatened commencement of any material suit, legal or equitable, or of any claim or assertion that the Company or any of its products infringes on the patent rights or other intellectual property rights of any person or party, or of any material administrative,



arbitration or other proceeding against the Company, any of its Subsidiaries or their respective businesses, assets or properties, written notice of the nature and extent of such suit or proceeding;

Notwithstanding anything in this Section 6.3 to the contrary, so long as the Investor has a representative on the Board of Directors of the Company, the Company shall not be required to deliver to such Investor the items contained in paragraphs (h) and (i) above.

The financial statements which the Company will deliver to the Investor in accordance with provisions of Section 5.3 hereof shall fairly present the financial condition and the results of operations, and as to audited statements, changes in stockholder's equity and cash flow of the Company as at the respective dates and for the periods referred to in such financial statements, all in accordance with GAAP, subject in the case of interim financial statements, to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be materially adverse) and the absence of notes (that, if presented, would not differ materially from those included in previously delivered audited balance sheets); such financial statements will reflect the consistent application of such accounting principles throughout the periods involved, except as disclosed in the notes to such financial statements.

6.4 Inspection. The Company will permit the Investor and any representatives of the Investor to visit and inspect at the Investor's expense any of the properties of the Company, including its books and records (and to make photocopies thereof or make extracts therefrom), and to discuss its affairs, finances, and accounts with its officers, lawyers and accountants, all to such reasonable extent and at such reasonable times and intervals as such Investor may reasonably request. Except as otherwise required by applicable laws or regulations, the Investor shall maintain, and shall require its representatives to maintain, all information confidential to the Company obtained pursuant to Section 6.3 hereof, this Section 6.4 and Section 6.5 hereof on a confidential basis.

6.5 Preparation and Approval of Budgets. At least one month prior to the beginning of each fiscal year of the Company, the Company shall prepare and submit to its Board of Directors, for its review and approval, an annual plan for such year, which shall include monthly capital and operating expense budgets, cash flow statements and profit and loss projections itemized in such detail as the Board of Directors may reasonably request. Each annual plan shall be modified as often as is necessary in the judgment of the Board of Directors to reflect changes required as a result of operating results and other events that occur, or may be reasonably expected to occur, during the year covered by the annual plan, and copies of each such modification shall be submitted to the Board of Directors. The Company will, simultaneously with the submission thereof to the Board of Directors, deliver a copy of each such annual plan and modification thereof to the Investor.

6.6 Payment of Taxes and Maintenance of Properties. The Company will:

(a) pay and discharge promptly, or cause to be paid and discharged promptly when due and payable, all taxes, assessments and governmental charges or levies imposed upon it or upon its income or upon any of its properties, as well as all material claims of any kind (including claims for labor, material and supplies) which, if unpaid, might by law become a lien or charge upon its property; provided, however, that neither the Company nor any Subsidiary shall be required to pay any such tax, assessment, charge, levy or claim if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and if the Company shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) deemed adequate by it with respect thereto; and

(b) maintain and keep, or cause to be maintained and kept, its properties in good repair, working order and condition, and from time to time make, or cause to be made, all repairs and renewals and replacements which in the opinion of the Company are necessary and proper so that the business carried on in connection therewith may be properly and advantageously conducted at all times; the Company will maintain or cause to be maintained back-up copies of all valuable papers and software.

6.7 Insurance. The Company will obtain and maintain in force such property damage, public liability, business interruption, worker's compensation, indemnity bonds and other types of insurance as the Company's executive officers, after consultation with an accredited insurance broker, shall determine to be necessary or appropriate to protect the Company from the insurable hazards or risks associated with the conduct of the Company's business. The Company's executive officers shall periodically report to the Board of Directors on the status of such insurance coverage. In addition the Company will obtain and maintain in force life insurance on the life of Schall, naming the Company as the primary beneficiary thereof, in the amount of \$1,000,000.

All insurance shall be maintained in at least such amounts and to such extent as shall be determined to be reasonable by the Board of Directors; and all such insurance shall be effected and maintained in force under a policy or policies issued by insurers of recognized responsibility, except that the Company may effect worker's compensation or similar insurance in respect of operations in any state or other jurisdiction either through an insurance fund operated by such state or other jurisdiction or by causing to be maintained a system or systems of self-insurance which is in accord with applicable laws.

6.8 Scientific Advisory Committee. The Company shall establish a scientific advisory committee to which the Investor shall have the right to designate one member. The Company shall reimburse such member for the member's reasonable out-of-pocket expenses incurred with attending meetings of the committee and shall pay such member the same compensation paid to other non-employee members of the committee.

6.9 Directors' and Stockholders' Meetings. The holders of the Preferred Shares shall have the right to elect one director of the Company as set forth in the Amendment. In addition, the holders of the Preferred Shares shall have the right to have two additional representatives designated by it receive timely notice of and attend all meetings of the Board of Directors of the Company.

The Company shall reimburse the reasonable out-of-pocket expenses incurred by the director elected and one of the representatives designated by the holders of Preferred Shares pursuant to the Amendment in connection with the attending of meetings by their director designee or carrying out any other duties by such director designee and representative that may be specified by the Board of Directors or any committee thereof; shall pay such director designee the same directors' fees paid to the other non-employee directors of the Company and shall maintain as part of its Certificate of Incorporation or Bylaws a provision for the indemnification of its directors to the full extent permitted by law.

The Company agrees, as a general practice, to hold a meeting of its Board of Directors at least once every three months, and during each year to hold its annual meeting of stockholders on or approximately on the date provided in its Bylaws.

6.10 Replacement of Certificates. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of the certificates representing any Securities, and, in the case of any such loss, theft or destruction, upon delivery of a bond of indemnity satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of such certificates, the Company will issue new certificates representing such Securities of like tenor, in lieu of such lost, stolen, destroyed or mutilated certificates.

6.11 Application of Proceeds. Unless otherwise approved by the Investor, the net proceeds received by the Company from the sale of the Preferred Shares shall be used for working capital purposes. Pending use of the proceeds in the business, they shall be deposited in a bank or banks having deposits of \$150,000,000 or more, invested in money market mutual funds having assets of \$500,000,000 or more, or invested in securities issued or guaranteed by the United States Government.

6.12 Patents and Other Intangible Rights. The Company will apply for, or obtain assignments of, or licenses to use, all patents, trademarks, trademark rights, trade names, trade name rights and copyrights which in the

opinion of a prudent and experienced businessperson operating in the industry in which the Company is operating are desirable or necessary for the conduct and protection of the business of the Company.

6.13 Rights to Purchase Additional Securities. If (A) the Company should decide to issue and sell additional shares of any of its capital stock or any of its warrants, securities convertible into capital stock or other rights to subscribe for or to purchase any of its capital stock, other than (a) shares of Common Stock sold in a Public Offering, (b) shares of Common Stock issued or reserved for issuance to key officers, employees and consultants pursuant to option or benefit plans adopted by the Company or other agreements established for the benefit of officers, employees, consultants and directors of the Company, and the grant of such options themselves, provided that the aggregate number of shares thus awarded and issued and issuable pursuant to the exercise of all such options shall not be in excess of 2,356,250 (appropriately adjusted to reflect stock splits, stock dividends, reorganizations, consolidations and similar changes effected after the Closing Date), (c) shares of Common Stock issued upon conversion of the Preferred Shares, (d) shares of Series A Preferred Stock issued upon exercise of the Warrants and shares of Common Stock issuable upon conversion thereof, and (e) shares of Common Stock issued to strategic partners (all such capital stock, warrants, options and other rights, other than securities referred to in (a), (b), (c), (d) and (e) above, being hereinafter sometimes collectively referred to as "Additional Securities"), and (B) at the time of such decision the Investor owns less than 30% of the Company's Fully Paid Securities (as defined below) or would own less than 30% of the Company's Fully Paid Securities if the contemplated issuance and sale were to close, then the Company shall first offer to sell to the Investor, upon the same terms and conditions as the Company is proposing to issue and sell such Additional Securities to others, the Investor's pro rata share (as defined below) of such Additional Securities. Such offer shall be made by written notice given to such Investor and specifying therein the amount of the Additional Securities being offered, the purchase price and other terms of such offer. The Investor shall have a period of 30 days from and after the date of receipt by it of such notice within which to accept such offer. If the Investor elects to accept such offer in whole or in part, the Investor shall so accept by written notice to the Company given within such 30-day period. If the Investor fails to accept such offer in whole or in part within such 30-day period, any of such Additional Securities not purchased by the Investor pursuant to such offer may be offered for sale to others by the Company for a period of 90 days from the last day of such 30-day period, but only on the same terms and conditions as set forth in the initial offer to such Purchaser, free and clear of the restrictions imposed by this Section 6.13.

For purposes of the previous paragraph, the Investor's "pro rata share" is the number of shares of Additional Securities (rounded to the nearest whole share) as is equal to the product of (a)(i) the number of shares of Common Stock issued, or issuable upon the exercise or conversion of rights, options, warrants or Convertible Securities without the payment of any additional cash consideration or with the payment of a nominal cash consideration, as the case may be (collectively, "Fully Paid Securities"), to such Investor immediately prior to the issuance of the Additional Securities being offered divided by (ii) the total number of Fully Paid Securities issued or issuable by the Company immediately prior to the issuance of the Additional Securities, multiplied by (b) the entire offering of Additional Securities.

6.14 Confidentiality Agreements. The Company will require each of its officers, employees and consultants to enter into confidential agreements with it in a form approved by its Board of Directors.

7. Negative Covenants. Subject to the provisions of Section 9 hereof, the Company will be limited and restricted as follows:

7.1 Future Registration Rights. Except for any registration expressly permitted by Section 8 hereof, the Company will not, without the prior approval of the Investor, agree with the holders of any securities issued or to be issued by the Company to register such securities under the Securities Act nor will it grant any incidental registration rights which are superior or preferred to those granted to the Investor by this Agreement.

7.2 Other Restrictions. The Company will not without the prior

written consent of the Investor, which consent shall not be unreasonably withheld:

(a) authorize or issue any shares of preferred stock or other securities with preferences superior to those of the Series A Preferred Stock issued to the Investor pursuant to this Agreement, provided that preferences which are pro rata on a purchase price per share basis with the Investor's Series A Preferred Stock shall not constitute "superior" preferences; or

(b) enter into any agreement, grant any right or take any action which would impair or dilute the rights of the Investor's subsidiary, Research & Diagnostic Systems, Inc., under the Research and License Agreement attached hereto as Exhibit 7.

## 8. Registration Rights.

8.1 Required Registration. If at any time after the earlier to occur of October 1, 2002 or the six-month anniversary of the Company's initial Public Offering, the Company shall receive a written request therefor from the Investor, the Company shall prepare and file a registration statement under the Securities Act covering the shares of Purchased Stock which are the subject of such request and shall use its best efforts to cause such registration statement to become effective. The Company shall be obligated to prepare, file and cause to become effective only two registration statements (other than on Form S-3 or any successor form promulgated by the Commission ("Form S-3")) pursuant to this Section 8.1, and to pay the expenses associated with such registration statements; notwithstanding the foregoing, the Investor may require, pursuant to this Section 8.1, the Company to file, and to pay the expenses associated with, any number of registration statements on Form S-3, if such form is then available for use by the Company. In the event that the Investor determines for any reason not to proceed with a registration at any time before a registration statement has been declared effective by the Commission, and such registration statement, if theretofore filed with the Commission, is withdrawn with respect to the Purchased Stock covered thereby, and the Investor agrees to bear its own expenses incurred in connection therewith and to reimburse the Company for the expenses incurred by it attributable to the registration of such Purchased Stock, then the Investor shall not be deemed to have exercised its right to require the Company to register Purchased Stock pursuant to this Section 8.1.

If, at the time any written request for registration is received by the Company pursuant to this Section 8.1, the Company has determined to proceed with the actual preparation and filing of a registration statement under the Securities Act in connection with the proposed offer and sale for cash of any of its securities by it or any of its security holders, such written request shall be deemed to have been given pursuant to Section 8.2 hereof rather than this Section 8.1, and the rights of Investor covered by such written request shall be governed by Section 8.2 hereof.

Without the written consent of the Investor, neither the Company nor any other holder of securities of the Company may include securities in such registration if in the good faith judgment of the managing underwriter of such public offering the inclusion of such securities would interfere with the successful marketing of the Purchased Stock or require the exclusion of any portion of the Purchased Stock to be registered.

8.2 Incidental Registration. Each time the Company shall determine to proceed with the actual preparation and filing of a registration statement under the Securities Act in connection with the proposed offer and sale for cash of any of its securities by it or any of its security holders (other than a registration statement on Form S-4, Form S-8 or any other form that does not permit the inclusion of shares by its security holders), the Company will give written notice of its determination to the Investor. Upon the written request of the Investor given within 30 days after receipt of any such notice from the Company, the Company will, except as herein provided, cause all such shares of Purchased Stock requested by Investor to be registered to be included in such registration statement, all to the extent requisite to permit the sale or other disposition by the Investor to be so registered; provided, however, that nothing herein shall prevent the Company from, at any time, abandoning or delaying any such registration initiated by it; provided, further, however, that if the

Company determines not to proceed with a registration after the registration statement has been filed with the Commission and the Company's decision not to proceed is primarily based upon the anticipated public offering price of the securities to be sold by the Company, the Company shall promptly complete the registration if the Investor wishes to proceed with a public offering of its Purchased Stock and will bear all expenses in excess of \$100,000 incurred by the Company as the result of such registration after the Company has decided not to proceed. If the total amount of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the amount of securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters determine in their sole discretion will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling stockholders according to the total amount of securities entitled to be included therein owned by each selling stockholder or in such other proportions as shall mutually be agreed to by such selling stockholders) but in no event shall the amount of securities of the selling Holders included in the offering be reduced below 20% of the total amount of securities included in such offering, unless such offering is the initial public offering of the Company's securities, in which case the selling stockholders may be excluded completely if the underwriters make the determination described above and no other stockholder's securities are included. For purposes of the preceding parenthetical concerning apportionment, for any selling stockholder which is a holder of Registrable Securities and which is a partnership or corporation, the partners, retired partners and stockholders of such holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling stockholder", and any pro-rata reduction with respect to such "selling stockholder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "selling stockholder", as defined in this sentence.

If any registration pursuant to this Section 8.2 shall be underwritten in whole or in part, the Company may require that the Purchased Stock requested for inclusion pursuant to this Section 8.2 be included in the underwriting on the same terms and conditions as the securities otherwise being sold through the underwriters. If, in the good faith judgment of the managing underwriter of such public offering, marketing factors require a limitation of the number of shares of Purchased Stock to be included in such public offering, the managing underwriter may limit the number of shares of Purchased Stock to be so included; provided, however, that any such limitation shall be pro rata based on the relation that the number of shares of Purchased Stock requested for inclusion in such public offering bear to the total number of shares of common stock (including shares of Purchased Stock) requested for such inclusion by the Investor and by other persons proposing to sell common stock pursuant to registration rights granted them by the Company.

8.3 Registration Procedures. If and whenever the Company is required by the provisions of Section 8.1 or 8.2 hereof to effect the registration of shares of Purchased Stock under the Securities Act, the Company will:

(a) prepare and file with the Commission a registration statement with respect to such securities, and use its best efforts to cause such registration statement to become and remain effective for such period as may be reasonably necessary to effect the sale of such securities, not to exceed three months;

(b) prepare and file with the Commission such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective for such period as may be reasonably necessary to effect the sale of such securities, not to exceed two years;

(c) furnish to the Investor and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such underwriters may reasonably request in order to facilitate the public offering of such securities;

(d) use its best efforts to register or qualify the securities covered by such registration statement under such state securities or blue sky laws of such jurisdictions as the Investor may reasonably request in writing within 30 days following the original filing of such registration statement;

(e) notify the Investor, promptly after it shall receive notice thereof, of the time when such registration statement has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(f) notify the Investor promptly of any request by the Commission for the amending or supplementing of such registration statement or prospectus or for additional information;

(g) prepare and file with the Commission, promptly upon the request of the Investor, any amendments or supplements to such registration statement or prospectus which, in the opinion of counsel for such holders (and concurred in by counsel for the Company), is required under the Securities Act or the rules and regulations thereunder in connection with the distribution of the Purchased Stock by such holder;

(h) prepare and promptly file with the Commission and promptly notify the Investor of the filing of such amendment or supplement to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event shall have occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading;

(i) advise the Investor, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Commission suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued;

(j) not file any amendment or supplement to such registration statement or prospectus to which the Investor shall have reasonably objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or the rules and regulations thereunder, after having been furnished with a copy thereof at least five business days prior to the filing thereof, unless in the opinion of counsel for the Company the filing of such amendment or supplement is reasonably necessary to protect the Company from any liabilities under any applicable federal or state law and such filing will not violate applicable law; and

(k) at the request of the Investor, furnish an opinion, dated as of the closing date, of the counsel representing the Company for the purposes of such registration, addressed to the underwriters, if any, and to the Investor making such request, in form and substance as is customarily given to underwriters in an underwritten public offering.

8.4 Expenses. With respect to each registration, including registrations pursuant to Form S-3, requested pursuant to Section 8.1 hereof (except as otherwise provided in such Section with respect to registrations voluntarily terminated at the request of the requesting security holders) and with respect to each inclusion of shares of Purchased Stock in a registration statement pursuant to Section 8.2 hereof (except as otherwise provided in Section 8.2 with respect to registrations initiated by the Company but with respect to which the Company has determined not to proceed), the Company shall bear the following fees, costs and expenses: all registration, filing and NASD fees, printing expenses, fees and disbursements of counsel and accountants for the Company, fees and disbursements of counsel for the underwriter or underwriters of such securities (if the Company and/or selling security holders are required to bear such fees and disbursements), all internal Company expenses, all legal fees and disbursements and other expenses of complying with state securities

or blue sky laws of any jurisdictions in which the securities to be offered are to be registered or qualified, and the premiums and other costs of policies of insurance against liability (if any) arising out of such public offering. Fees and disbursements of counsel and accountants for the selling security holders, underwriting discounts and commissions and transfer taxes relating to the shares included in the offering by the selling security holders, and any other expenses incurred by the selling security holders not expressly included above, shall be borne by the selling security holders.

8.5 Indemnification. In the event that any Purchased Stock is included in a registration statement under Section 8.1 or 8.2 hereof:

(a) The Company will indemnify and hold harmless the Investor, its directors and officers, and any underwriter (as defined in the Securities Act) for the Investor and each person, if any, who controls the Investor or such underwriter within the meaning of the Securities Act, from and against, and will reimburse the Investor and each such underwriter and controlling person with respect to, any and all loss, damage, liability, cost and expense to which such holder or any such underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that the Company will not be liable in any such case to the extent that any such loss, damage, liability, cost or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by such holder, such underwriter or such controlling person in writing specifically for use in the preparation thereof.

(b) The Investor will indemnify and hold harmless the Company, its directors and officers, any controlling person and any underwriter from and against, and will reimburse the Company, its directors and officers, any controlling person and any underwriter with respect to, any and all loss, damage, liability, cost or expense to which the Company or any controlling person and/or any underwriter may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was so made in reliance upon and in strict conformity with written information furnished by such holder specifically for use in the preparation thereof.

(c) Promptly after receipt by an indemnified party pursuant to the provisions of paragraph (a) or (b) of this Section 8.5 of notice of the commencement of any action involving the subject matter of the foregoing indemnity provisions, such indemnified party will, if a claim thereof is to be made against the indemnifying party pursuant to the provisions of said paragraph (a) or (b), promptly notify the indemnifying party of the commencement thereof; but the omission to so notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than hereunder. In case such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party shall have the right to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party, provided, however, if the defendants in any action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably

concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, or if there is a conflict of interest which would prevent counsel for the indemnifying party from also representing the indemnified party, the indemnified party or parties shall have the right to select separate counsel to participate in the defense of such action on behalf of such indemnified party or parties. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party pursuant to the provisions of said paragraph (a) or (b) for any legal or other expense subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation, unless (i) the indemnified party shall have employed counsel in accordance with the proviso of the preceding sentence, (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after the notice of the commencement of the action, or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party.

9. Termination of Certain Covenants. The obligations of the Company and rights of the Investor under Sections 6.8 and 6.9 hereof shall, notwithstanding any provisions hereof apparently to the contrary, terminate and shall be of no further force or effect from and after the date on which the Company completes a Public Offering in a gross aggregate amount of at least \$10,000,000.

10. Miscellaneous.

10.1 Changes, Waivers, etc. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated orally, but only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

10.2 Payment of Fees and Expenses. The Company and the Investor will each pay its own expenses incurred in connection with entering into this Agreement. Payment of expenses related to disputes arising out of or related to this Agreement shall be determined in accordance with Section 10.7 below.

10.3 Notices. All notices, requests, consents and other communications required or permitted hereunder shall be in writing and shall be delivered, or mailed first-class postage prepaid, registered or certified mail,

(a) if to Investor, 614 McKinley Place, N.E., Minneapolis, Minnesota 55413, Attention: Thomas E. Oland, President, with a copy to Timothy M. Heaney, Fredrikson & Byron, P.A., 1100 International Centre, 900 Second Avenue South, Minneapolis, Minnesota 55402 or

(b) if to the Company, c/o MMRI, 325 East Middlefield Road, Mountain View, California 94043, Attention: Dr. Thomas J. Schall, or to such other address as the Company may specify by written notice to the Investor, with a copy to J. Stephan Dolezalek, Esq., Brobeck, Phleger & Harrison LLP, Two Embarcadero Place, 2200 Geng Road, Palo Alto, California 94303

and such notices and other communications shall for all purposes of this Agreement be treated as being effective or having been given if delivered personally, or, if sent by mail, when received.

10.4 Survival of Representations and Warranties, etc. All representations and warranties contained herein shall survive the execution and delivery of this Agreement, any investigation at any time made by the Investor or on their behalf, and the sales and purchases of the Preferred Shares and payment therefor. All statements contained in any certificate, instrument or other writing delivered by or on behalf of the Company pursuant hereto or in connection with or contemplation of the transactions herein contemplated (other than legal opinions) shall constitute representations and warranties by the Company hereunder.

10.5 Parties in Interest. All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto, whether so expressed



or not, and, in particular, shall inure to the benefit of and be enforceable by the holder or holders at the time of any of the Purchased Stock.

10.6 Headings. The headings of the Sections and paragraphs of this Agreement have been inserted for convenience of reference only and do not constitute a part of this Agreement.

10.7 Arbitration. Any dispute arising out of or relating to this Agreement or the alleged breach of it, or the making of this Agreement or the agreements referenced herein, including claims of fraud in the inducement, shall be discussed between the disputing parties in a good faith effort to arrive at a mutual settlement of any such controversy. If, notwithstanding, such dispute cannot be resolved, such dispute shall be settled by binding arbitration. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitrator shall be a retired state or federal judge or an attorney who has practiced in substantive areas similar to the issues under dispute for at least 10 years. If the parties cannot agree on an arbitrator within 20 days, any party may request that the chief judge of the District Court for Hennepin County, Minnesota, select an arbitrator. Arbitration will be conducted pursuant to the provisions of this Agreement, and the commercial arbitration rules of the America Arbitration Association, unless such rules are inconsistent with the provisions of this Agreement, but without submission of the dispute to such Association. Limited civil discovery shall be permitted for the production of documents and taking of depositions. Unresolved discovery disputes may be brought to the attention of the arbitrator who may dispose of such dispute. The arbitrator shall have the authority to award any remedy or relief that a court of this state could order or grant; provided, however, that punitive or exemplary damages shall not be awarded. The arbitrator may award to the prevailing party, if any, as determined by the arbitrator, all of its costs and fees, including the arbitrator's fees. Unless otherwise agreed by the parties, the place of any arbitration proceedings shall be Hennepin County, Minnesota.

10.8 Choice of Law. It is the intention of the parties that the laws of the State of Minnesota (other than its law with respect to conflicts of law) shall govern the validity of this Agreement, the construction of its terms and the interpretation of the rights and duties of the parties.

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

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

CHEMOCENTRYX, INC.

By: Thomas J. Schall

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Thomas J. Schall  
President and Chief Executive Officer

TECHNE CORPORATION

By: Thomas E. Oland

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Thomas E. Oland  
President and Chief Executive Officer

Schedule A

The following table sets forth the amount, price per share and timing of the Investor's right and obligation to purchase the Preferred Shares. The timing shall be the later to occur of the specified date or attainment of the specified milestone.

<TABLE>

<CAPTION>

Dollar Amount	Price Per Share*	Series	Date	Milestone
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\$50,000	\$1.00	A-1	9/3/97	(3)
\$950,000	\$1.00	A-1	10/1/97(est.)	(4)
\$1,000,000	\$1.00	A-1	1/1/98(2)	(5)
\$1,000,000	\$1.00	A-1	7/1/98(2)	(6)
\$1,000,000	\$1.00(1)	A-2	1/1/99(2)	(7)
\$1,000,000	\$1.00(1)	A-3	7/1/99(2)	(8)

(1)The price per share for these investments shall be \$1.00 per share\* unless an independent third party, within ninety (90) days of 1/1/99 and 7/1/99, respectively, has made an equivalent share purchase or has made a binding commitment for an equivalent share purchase, in which case the price per share shall be the same as that of the independent third party and provided, however, that if such price per share is increased to more than \$2.00 per share, the Investor shall have the right but not the obligation to effect such purchase. In the event the independent third party is acquiring consideration in addition to equity securities, an allocation shall be made for purposes of determining equivalence to the price to Investor.

(2)Or later as requested by the Company upon completion of the applicable milestone, subject to (reasonable limit to be defined).

(3)Signing of Letter of Intent for the transaction depicted in this Agreement which occurred on September 3, 1997.

(4)Execution of this Agreement and the Research and License Agreement required by Section 5.10 hereof.

(5)Completion of the Company's detailed budget, research and staffing plan for 1998.

(6)Progress against the Company's 1998 budget, research and staffing plan reasonably satisfactory to the Investor.

(7)Completion of the Company's detailed budget, research and staffing plan for 1999.

(8)Progress against the Company's budget, research and staffing plan for 1999 reasonably satisfactory to the Investor.

\*Appropriately adjusted to reflect stock splits, stock dividends, reorganizations, consolidations and similar changes effected after the date hereof.

The Investor shall be issued at the time of each closing\*\* Warrants in the form attached hereto as Exhibit 2 to purchase a number of shares of the applicable series of Series A Preferred Stock of the Company equal to one-third of the number of Series A Preferred Stock purchased by the Investor at such closing. Each Warrant shall expire five years from the date of issuance. Warrants shall become exercisable one year after the date of issuance and be exercisable during a four year period at the following prices:

Year of Exercisability	Price
First	\$2.00
Second	\$3.00
Third	\$4.00
Fourth	\$5.00

\*\* Such closing shall not include any closing that occurs pursuant to Investor's election to participate in a future financing under its right of first refusal.

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