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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2019

or

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

For the Transition Period from _____________ to _____________

Commission File Number: 000-30111

Lexicon Pharmaceuticals, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

8800 Technology Forest Place
The Woodlands, Texas 77381
(Address of Principal Executive Offices and Zip Code)

(281) 863-3000
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001	LXRX	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ____

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☑ No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ____ Accelerated filer ☑ Non-accelerated filer ____
Smaller reporting company ____ Emerging growth company ____

If an emerging growth company, indicate by check mark if the registration has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ____ No ☑

As of November 4, 2019, 106,271,927 shares of the registrant's common stock, par value $0.001 per share, were outstanding.

Lexicon Pharmaceuticals, Inc.

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The Lexicon name and logo and XERMELO® are registered trademarks of Lexicon Pharmaceuticals, Inc.

Factors Affecting Forward Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under "Part II, Item 1A. - Risk Factors" and in our annual report on Form 10-K for the year ended December 31, 2018, that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, future results, levels of activity, performance or achievements may vary materially from our expectations. We are not undertaking any duty to update any of the forward-looking statements after the date of this quarterly report on Form 10-Q to conform these statements to actual results, unless required by law.

Part I – Financial Information

Item 1. Financial Statements

Lexicon Pharmaceuticals, Inc.

Condensed Consolidated Balance Sheets
(In thousands, except par value)

	As of September 30, 2019	As of December 31, 2018
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 170,203	$ 80,386
Short-term investments	126,101	79,666
Accounts receivable, net of allowances of $4	56,841	5,924
Inventory	4,476	4,680
Prepaid expenses and other current assets	5,973	2,668
Total current assets	363,594	173,324
Property and equipment, net of accumulated depreciation and amortization of $61,257 and $60,006, respectively	14,540	15,865
Goodwill	44,543	44,543
Other intangible assets, net of accumulated amortization of $4,561 and $3,237, respectively	20,157	50,119
Other assets	1,754	285
Total assets	$ 444,588	$ 284,136
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 20,907	$ 17,759
Accrued liabilities	11,511	14,482
Current portion of deferred revenue	1,117	3,395
Current portion of long-term debt, net of deferred issuance costs	11,289	1,115
Total current liabilities	44,824	36,751
Deferred revenue, net of current portion	—	23,651
Long-term debt, net of deferred issuance costs	233,837	243,887
Deferred tax liabilities	—	6,014
Other long-term liabilities	1,215	238
Total liabilities	279,876	310,541
Commitments and contingencies		
Stockholders’ Equity (Deficit):		
Preferred stock, $.01 par value; 5,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $.001 par value; 225,000 shares authorized; 106,679 and 106,162 shares issued, respectively	106	106
Additional paid-in capital	1,458,693	1,447,954
Accumulated deficit	(1,290,306)	(1,471,577)
Accumulated other comprehensive income (loss)	36	(12)
Treasury stock, at cost, 407 and 236 shares, respectively	(3,817)	(2,876)
Total stockholders’ equity (deficit)	164,712	(26,405)
Total liabilities and equity (deficit)	$ 444,588	$ 284,136

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

Lexicon Pharmaceuticals, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenues:				
Net product revenue	$ 8,351	$ 6,286	$ 23,763	$ 19,062
Collaborative agreements	285,910	556	289,209	26,792
Royalties and other revenue	187	124	374	284
Total revenues	294,448	6,966	313,346	46,138
Operating expenses:				
Cost of sales (including finite-lived intangible asset amortization)	577	551	2,457	1,922
Research and development, including stock-based compensation of $1,698, $1,472, $5,369 and $4,522, respectively	26,659	13,763	51,318	87,936
Selling, general and administrative, including stock-based compensation of $1,864, $1,405, $5,370 and $4,327, respectively	13,898	15,579	42,271	47,191
Impairment loss on intangible asset	28,638	—	28,638	—
Total operating expenses	69,772	29,893	124,684	137,049
Income (loss) from operations	224,676	(22,927)	188,662	(90,911)
Interest expense	(5,204)	(5,252)	(15,485)	(15,552)
Interest and other income, net	600	783	2,080	2,698
Net income (loss) before taxes	220,072	(27,396)	175,257	(103,765)
Income tax benefit	6,014	—	6,014	—
Net income (loss)	$ 226,086	$ (27,396)	$ 181,271	$ (103,765)
Net income (loss) per common share, basic	$ 2.13	$ (0.26)	$ 1.71	$ (0.98)
Net income (loss) per common share, diluted	$ 1.95	$ (0.26)	$ 1.59	$ (0.98)
Shares used in computing net income (loss) per common share, basic	106,272	105,881	106,200	105,800
Shares used in computing net income (loss) per common share, diluted	116,640	105,881	116,742	105,800
Other comprehensive income (loss):				
Unrealized gain (loss) on investments	(50)	147	48	151
Comprehensive income (loss)	$ 226,036	$ (27,249)	$ 181,319	$ (103,614)

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

Lexicon Pharmaceuticals, Inc.

Condensed Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands)
(Unaudited)

	Common Stock		Additional		Accumulated Other		
	Shares	Par Value	Paid-In Capital	Accumulated Deficit	Comprehensive Gain (Loss)	Treasury Stock	Total
Balance at December 31, 2018	106,162	$ 106	$ 1,447,954	$ (1,471,577)	$ (12)	$ (2,876)	$ (26,405)
Stock-based compensation	—	—	3,411	—	—	—	3,411
Issuance of common stock under Equity Incentive Plans	517	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	(941)	(941)
Net loss	—	—	—	(21,797)	—	—	(21,797)
Unrealized gain on investments	—	—	—	—	45	—	45
Balance at March 31, 2019	106,679	106	1,451,365	(1,493,374)	33	(3,817)	(45,687)
Stock-based compensation	—	—	3,766	—	—	—	3,766
Net loss	—	—	—	(23,018)	—	—	(23,018)
Unrealized gain on investments	—	—	—	—	53	—	53
Balance at June 30, 2019	106,679	106	1,455,131	(1,516,392)	86	(3,817)	(64,886)
Stock-based compensation	—	—	3,562	—	—	—	3,562
Net income	—	—	—	226,086	—	—	226,086
Unrealized loss on investments	—	—	—	—	(50)	—	(50)
Balance at September 30, 2019	106,679	$ 106	$ 1,458,693	$ (1,290,306)	$ 36	$ (3,817)	$ 164,712

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

Lexicon Pharmaceuticals, Inc.

Condensed Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands)
(Unaudited)

	Common Stock		Additional		Accumulated Other		
	Shares	Par Value	Paid-In Capital	Accumulated Deficit	Comprehensive Gain (Loss)	Treasury Stock	Total
Balance at December 31, 2017	105,711	$ 106	$1,435,526	$ (1,365,241)	$ (222)	$ (1,904)	$ 68,265
Cumulative effect of change in accounting principle	—	—	—	14,212	—	—	14,212
Stock-based compensation	—	—	3,074	—	—	—	3,074
Issuance of common stock under Equity Incentive Plans	337	—	25	—	—	—	25
Repurchase of common stock	—	—	—	—	—	(972)	(972)
Net loss	—	—	—	(41,820)	—	—	(41,820)
Unrealized loss on investments	—	—	—	—	(172)	—	(172)
Balance at March 31, 2018	106,048	106	1,438,625	(1,392,849)	(394)	(2,876)	42,612
Stock-based compensation	—	—	2,898	—	—	—	2,898
Issuance of common stock under Equity Incentive Plans	67	—	367	—	—	—	367
Net loss	—	—	—	(34,549)	—	—	(34,549)
Unrealized gain on investments	—	—	—	—	176	—	176
Balance at June 30, 2018	106,115	106	1,441,890	(1,427,398)	(218)	(2,876)	11,504
Stock-based compensation	—	—	2,877	—	—	—	2,877
Issuance of common stock under Equity Incentive Plans	19	—	158	—	—	—	158
Net loss	—	—	—	(27,396)	—	—	(27,396)
Unrealized gain on investments	—	—	—	—	147	—	147
Balance at September 30, 2018	106,134	$ 106	$1,444,925	$ (1,454,794)	$ (71)	$ (2,876)	$ (12,710)

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

Lexicon Pharmaceuticals, Inc.

Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2019	**2018**
Cash flows from operating activities:		
Net income (loss)	$ 181,271	$ (103,765)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	2,719	2,771
Stock-based compensation	10,739	8,849
Amortization of debt issuance costs	1,087	957
Deferred tax benefit	(6,014)	—
Impairment loss on intangible asset	28,638	—
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(50,917)	1,912
(Increase) decrease in inventory	204	(2,807)
(Increase) decrease in prepaid expenses and other current assets	(3,305)	1,039
Decrease in other assets	330	—
Decrease in accounts payable and other liabilities	(645)	(4,906)
Decrease in deferred revenue	(25,929)	(25,529)
Net cash provided by (used in) operating activities	138,178	(121,479)
Cash flows from investing activities:		
Purchases of property and equipment	(70)	(58)
Purchases of investments	(176,987)	(84,475)
Maturities of investments	130,600	195,358
Net cash (used in) provided by investing activities	(46,457)	110,825
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	550
Repurchase of common stock	(941)	(972)
Proceeds from debt borrowings, net of fees	—	12,529
Repayment of debt borrowings	(963)	(14,212)
Net cash used in financing activities	(1,904)	(2,105)
Net increase (decrease) in cash and cash equivalents	89,817	(12,759)
Cash and cash equivalents at beginning of period	80,386	61,661
Cash and cash equivalents at end of period	$ 170,203	$ 48,902
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 13,243	$ 10,470
Supplemental disclosure of non-cash activities:		
Unrealized gain on investments	$ 48	$ 151

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

1. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited condensed consolidated financial statements of Lexicon Pharmaceuticals, Inc. ("Lexicon" or the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ended December 31, 2019.

The accompanying condensed consolidated financial statements include the accounts of Lexicon and its wholly-owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

For further information, refer to the financial statements and footnotes thereto included in Lexicon's annual report on Form 10-K for the year ended December 31, 2018, as filed with the SEC.

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

Cash, Cash Equivalents and Short-Term Investments: Lexicon considers all highly-liquid investments with original maturities of three months or less to be cash equivalents. As of September 30, 2019, short-term investments consisted of U.S. treasury bills. As of December 31, 2018, short-term investments consisted of U.S. treasury bills and corporate debt securities. The Company's short-term investments are classified as available-for-sale securities and are carried at fair value, based on quoted market prices of the securities. The Company views its available-for-sale securities as available for use in current operations regardless of the stated maturity date of the security. Unrealized gains and losses on such securities are reported as a separate component of stockholders' equity. Net realized gains and losses, interest and dividends are included in interest income. The cost of securities sold is based on the specific identification method.

Accounts Receivable: Lexicon records trade accounts receivable in the normal course of business related to the sale of products or services. Write-offs are evaluated on a case by case basis.

Inventory: Inventory is comprised of the Company's approved product it is commercializing in the United States, XERMELO® (telotristat ethyl). Inventories are determined at the lower of cost or market value with cost determined under the specific identification method and may consist of raw materials, work in process and finished goods. Inventory consisted of the following:

	As of September 30, 2019	As of December 31, 2018
	(in thousands)	
Raw materials	$ 3,228	$ 3,564
Work-in-process	153	232
Finished goods	1,095	884
Total inventory	$ 4,476	$ 4,680

Concentration of Credit Risk: Lexicon's cash equivalents, short-term investments and accounts receivable represent potential concentrations of credit risk. The Company attempts to minimize potential concentrations of risk in cash equivalents and short-term investments by placing investments in high-quality financial instruments. The Company's accounts receivable are unsecured and are concentrated in pharmaceutical and biotechnology companies located in Europe and the United States. The Company has not experienced any significant credit losses to date.

Segment Information and Significant Customers: Lexicon operates in one business segment, which primarily focuses on the discovery, development and commercialization of pharmaceutical products for the treatment of human disease. Substantially all of the Company's revenues have been derived from drug discovery alliances, target validation collaborations for the development and, in some cases, analysis of the physiological effects of genes altered in knockout mice, technology licenses, subscriptions to its databases, product sales, government grants and contracts and compound library sales.

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

Other Intangible Assets: Other intangible assets, net consist of in-process research and development acquired in business combinations, which are reported at fair value, less accumulated amortization. Intangible assets with finite lives are amortized using the straight-line method over their estimated useful lives. The Company recorded $1.3 million in amortization expense related to intangible assets for each of the nine months ended September 30, 2019 and 2018, respectively.

Leases: Lexicon leases certain office space and equipment for use in operations. Lease expense is recognized on a straight-line basis over the lease term. Right-of-use assets and lease liabilities are recorded on the condensed consolidated balance sheet for leases with a term greater than one year and are recognized based on the present value of the lease payments over the lease term.

Impairment of Long-Lived Assets: Long-lived assets, right-of-use assets for leases and finite lived intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount that the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment of long-lived assets, including finite lived assets, in the nine months ended September 30, 2019 and 2018.

Indefinite lived intangible assets are also tested annually for impairment and whenever indicators of impairment are present. When performing the impairment assessment, the Company first assesses qualitative factors to determine whether it is necessary to recalculate the fair value of its intangible assets. If management believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the intangible assets is less than its carrying amount, the Company calculates the asset's fair value. If the carrying value of the asset exceeds its fair value, then the intangible asset is written down to its fair value. See Note 9, Impairment of Intangible Asset, for additional information.

Goodwill Impairment: Goodwill is not amortized, but is tested at least annually for impairment at the reporting unit level. The Company has determined that the reporting unit is the single operating segment disclosed in its current financial statements. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The first step in the impairment process is to determine the fair value of the reporting unit and then compare it to the carrying value, including goodwill. If the fair value exceeds the carrying value, no further action is required and no impairment loss is recognized. Additional impairment assessments may be performed on an interim basis if the Company encounters events or changes in circumstances that would indicate that, more likely than not, the carrying value of goodwill has been impaired. There was no impairment of goodwill in the nine months ended September 30, 2019 and 2018.

Revenue Recognition:

Product Revenues

Product revenues consist of commercial sales of XERMELO in the United States and sales of bulk tablets of XERMELO to Ipsen Pharma SAS ("Ipsen"). Product revenues are recognized when the customer obtains control of the Company's product, which occurs upon delivery to the customer. The Company recognizes product revenue net of applicable reserves for variable consideration, including allowances for customer credits, estimated rebates, chargebacks, discounts, returns, distribution service fees, and government rebates, such as Medicare Part D coverage gap reimbursements in the U.S. These estimates are based on the most likely amount method for relevant factors such as current contractual and statutory requirements, industry data and forecasted customer buying and payment patterns. The Company's net product revenues reflect the Company's best estimates of the amounts of consideration to which it is entitled based on the terms of the respective underlying contracts. Product shipping and handling costs are considered a fulfillment activity when control transfers to the Company's customers and such costs are included in cost of sales.

Collaborative Agreements

Revenues under collaborative agreements include both license revenue and contract research revenue. The Company performs the following five steps in determining the amount of revenue to recognize as it fulfills its performance obligations under each of its agreements: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation. The Company applies this five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, the Company assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. The Company develops assumptions that require judgment to determine the stand-alone selling price for each performance obligation identified in the contract.

At contract inception, the Company evaluates whether development milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal will not occur, the associated development milestone value is included in the transaction price. Development milestones that are not within the control of the Company or the licensee, including those requiring regulatory approval, are not considered probable of being achieved until those approvals are received. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue when (or as) the performance obligation is satisfied. At the end of each reporting period, the Company re-evaluates the probability of achievement of the development milestones and any related constraint, and if necessary, adjusts its estimates of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect collaboration revenues in the period of adjustment.

In agreements in which a license to the Company's intellectual property is determined distinct from other performance obligations identified in the agreement, the Company recognizes revenue when the license is transferred to the licensee and the licensee is able to use and benefit from the license.

For agreements that include sales-based royalties, including milestones based on a level of sales, the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

The Company may receive payments from its licensees based on billing schedules established in each contract. Up-front payments and fees are recorded as deferred revenue upon receipt or when due, and may require deferral of revenue recognition to a future period until the Company performs its obligations under these agreements. Amounts are recorded as accounts receivable when the Company's right to consideration is unconditional.

Cost of Sales: Cost of sales consists of third-party manufacturing costs, freight and indirect overhead costs associated with sales of XERMELO. Product shipping and handling costs are included in cost of sales. Cost of sales also includes the amortization of the in-process research and development intangible asset for XERMELO using the straight-line method over the estimated useful life of 14 years.

Research and Development Expenses: Research and development expenses consist of costs incurred for company-sponsored as well as collaborative research and development activities. These costs include direct and research-related overhead expenses and are expensed as incurred. Technology license fees for technologies that are utilized in research and development and have no alternative future use are expensed when incurred. Substantial portions of the Company's preclinical and clinical trials are performed by third-party laboratories, medical centers, contract research organizations and other vendors. For preclinical studies, the Company accrues expenses based upon estimated percentage of work completed and the contract milestones remaining. For clinical studies, expenses are accrued based upon the number of patients enrolled and the duration of the study. The Company monitors patient enrollment, the progress of clinical studies and related activities to the extent possible through internal reviews of data reported to the Company by the vendors and clinical site visits. The Company's estimates depend on the timeliness and accuracy of the data provided by the vendors regarding the status of each program and total program spending. The Company periodically evaluates the estimates to determine if adjustments are necessary or appropriate based on information it receives.

Stock-Based Compensation: The Company recognizes compensation expense in its condensed consolidated statements of comprehensive income (loss) for share-based payments, including stock options and restricted stock units issued to employees, based on their fair values on the date of the grant, with the compensation expense recognized over the period in which an employee is required to provide service in exchange for the stock award. Stock-based compensation expense for awards without performance conditions is recognized on a straight-line basis. Stock-based compensation expense for awards with performance conditions is recognized over the period from the date the performance condition is determined to be probable of occurring through the time the applicable condition is met.

The fair value of stock options is estimated at the date of grant using the Black-Scholes method. The Black-Scholes option-pricing model requires the input of subjective assumptions. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. For purposes of determining the fair value of stock options, the Company segregates its options into two homogeneous groups, based on exercise and post-vesting employment termination behaviors, resulting in a change in the assumptions used for expected option lives. Historical data is used to estimate the expected option life for each group. Expected volatility is based on the historical volatility in the Company's stock price. The Company utilized the Black-Scholes valuation model for estimating the fair value of the stock option compensation granted, with the following weighted-average assumptions for options granted in the nine months ended September 30, 2019 and 2018:

	Expected Volatility	**Risk-free Interest Rate**	**Expected Term**	**Dividend Rate**
September 30, 2019:				
Employees	88%	2.2%	4	—%
Officers and non-employee directors	78%	2.6%	8	—%
September 30, 2018:				
Employees	58%	2.6%	4	—%
Officers and non-employee directors	63%	2.8%	8	—%

The following is a summary of stock option activity under Lexicon's stock-based compensation plans for the nine months ended September 30, 2019:

	Options	**Weighted Average Exercise Price**
	(in thousands)	
Outstanding at December 31, 2018	6,152	$ 10.68
Granted	2,360	5.10
Expired	(211)	9.95
Forfeited	(475)	10.28
Outstanding at September 30, 2019	7,826	9.04
Exercisable at September 30, 2019	4,181	$ 10.62

During the nine months ended September 30, 2019, Lexicon granted its employees and non-employee directors annual restricted stock units. Outstanding employee restricted stock units vest in three to four annual installments. Outstanding non-employee director restricted stock units vest fully on the first anniversary of the grant. The following is a summary of restricted stock units activity under Lexicon's stock-based compensation plans for the nine months ended September 30, 2019:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at December 31, 2018	1,286	$ 10.17
Granted	2,285	5.14
Vested	(517)	9.60
Forfeited	(279)	6.52
Outstanding at September 30, 2019	2,775	$ 6.51

Net Income (Loss) per Common Share: Net income (loss) per common share is computed using the weighted average number of shares of common stock outstanding. Shares associated with convertible debt, stock options and restricted stock units that could potentially dilute earnings per share in the future are not included in the computation of diluted earnings per share because they are antidilutive.

2. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842). ASU 2016-02 requires companies that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The pronouncement also requires additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. This ASU is required to be adopted using a modified retrospective approach. Management adopted ASU 2016-02 on January 1, 2019 and elected the practical expedient that allows entities to not apply the new guidance in the comparative periods they present in their financial statements in the year of adoption. Consequently, prior year financial information has not been updated and the disclosures required under the new standard have not been provided for periods prior to January 1, 2019. Upon adoption, the Company recognized $2.1 million for right-of-use assets and corresponding liabilities on the condensed consolidated balance sheet, primarily related to lease of office space. The adoption of this ASU on January 1, 2019 did not have a material impact on Lexicon's condensed consolidated financial statements.

Pronouncements Not Yet Adopted. In November 2018, the FASB issued ASU No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606. This targeted amendment to Topic 808 clarifies that certain transactions resulting from a collaborative agreement should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer for a good or service that is a distinct unit-of-account. This amendment is effective for fiscal years, and interim periods within years presented, beginning after December 15, 2019, and should be applied retrospectively to the date of initial application of Topic 606. The Company has applied the provisions of Topic 606 to account for its transactions for collaboration arrangements, including recognition, measurement, presentation and disclosure requirement, and does not expect adoption of this ASU to have a material impact on its condensed consolidated financial statements.

3. Cash and Cash Equivalents and Investments

The fair value of cash and cash equivalents and investments held at September 30, 2019 and December 31, 2018 are as follows:

	As of September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents	$ 170,203	$ —	$ —	$ 170,203
Securities maturing within one year:				
U.S. treasury securities	126,065	44	(8)	126,101
Total short-term investments	$ 126,065	$ 44	$ (8)	$ 126,101
Total cash and cash equivalents and investments	$ 296,268	$ 44	$ (8)	$ 296,304

	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents	$ 80,386	$ —	$ —	$ 80,386
Securities maturing within one year:				
U.S. treasury securities	73,983	—	(9)	73,974
Corporate debt securities	5,695	—	(3)	5,692
Total short-term investments	$ 79,678	$ —	$ (12)	$ 79,666
Total cash and cash equivalents and investments	$ 160,064	$ —	$ (12)	$ 160,052

There were no realized losses during either of the nine months ended September 30, 2019 and 2018, respectively. The cost of securities sold is based on the specific identification method.

4. Fair Value Measurements

The Company uses various inputs in determining the fair value of its investments and measures these assets on a recurring basis. Assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized by the level of objectivity associated with the inputs used to measure their fair value. The following levels are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities:

- Level 1 - quoted prices in active markets for identical investments, which include U.S. treasury securities
- Level 2 - other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.), which includes corporate debt securities
- Level 3 - significant unobservable inputs

The inputs or methodology used for valuing securities are not necessarily an indication of the credit risk associated with investing in those securities. The following table provides the fair value measurements of applicable Company assets that are measured at fair value on a recurring basis according to the fair value levels described above as of September 30, 2019 and December 31, 2018:

	Assets and Liabilities at Fair Value as of September 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Assets				
Cash and cash equivalents	$ 170,203	$ —	$ —	$ 170,203
Short-term investments	126,101	—	—	126,101
Total cash and cash equivalents and investments	$ 296,304	$ —	$ —	$ 296,304

	Assets and Liabilities at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	(in thousands)			
Assets				
Cash and cash equivalents	$ 80,386	$ —	$ —	$ 80,386
Short-term investments	73,974	5,692	—	79,666
Total cash and cash equivalents and investments	$ 154,360	$ 5,692	$ —	$ 160,052

The Company did not have any Level 3 assets or liabilities as of September 30, 2019 or December 31, 2018.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include goodwill associated with the acquisitions of Coelacanth Corporation in 2001 and Symphony Icon in 2010, and intangible assets associated with the acquisition of Symphony Icon in 2010. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if one or more is determined to be impaired. See Note 9, Impairment of Intangible Asset, for additional information.

5. Debt Obligations

Convertible Debt. In November 2014, Lexicon completed an offering of $87.5 million in aggregate principal amount of its 5.25% Convertible Senior Notes due 2021 (the “Convertible Notes”). The conversion feature did not meet the criteria for bifurcation as required by generally accepted accounting principles and the entire principal amount was recorded as long-term debt on the Company’s condensed consolidated balance sheets.

The Convertible Notes are governed by an indenture (the “Indenture”), dated as of November 26, 2014, between the Company and Wells Fargo Bank, N.A., as trustee. The Convertible Notes bear interest at a rate of 5.25% per year, payable semiannually in arrears on June 1 and December 1 of each year, beginning on June 1, 2015. The Convertible Notes mature on December 1, 2021. The Company may not redeem the Convertible Notes prior to the maturity date, and no sinking fund is provided for the Convertible Notes.

Holders of the Convertible Notes may convert their Convertible Notes at their option at any time prior to the close of business on the business day immediately preceding the maturity date. Upon conversion, the Company will deliver for each $1,000 principal amount of converted Convertible Notes a number of shares of its common stock equal to the conversion rate, as described in the Indenture. The conversion rate is initially 118.4553 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of $8.442 per share of common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate for a holder who elects to convert its Convertible Notes in connection with such a corporate event in certain circumstances.

If the Company undergoes a fundamental change, holders may require the Company to repurchase for cash all or any portion of their Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

In connection with the issuance of the Convertible Notes, the Company incurred $3.4 million of debt issuance costs. The debt issuance costs are amortized as interest expense over the expected life of the Convertible Notes using the effective interest method. The Company determined the expected life of the debt was equal to the seven-year term of the Convertible Notes. As of September 30, 2019, the balance of unamortized debt issuance costs was $1.0 million, which offsets long-term debt on the condensed consolidated balance sheets.

The fair value of the Convertible Notes was $76.0 million as of September 30, 2019 and was determined using Level 2 inputs based on the indicative pricing published by certain investment banks or trading levels of the Convertible Notes, which are not listed on any securities exchange or quoted on an inter-dealer automated quotation system.

Mortgage Loan. In August 2018, a wholly owned subsidiary of Lexicon entered into a term loan and security agreement, refinancing the previously existing mortgage on its facilities in The Woodlands, Texas (the "Property"). The Company recorded the refinancing as a debt extinguishment, with no recognition of gain or loss on the transaction. The loan agreement provides for a $12.9 million mortgage on the Property and has a two-year term with a 10-year amortization. The mortgage loan bears interest at a rate per annum equal to the greater of (a) the 30-day LIBOR rate plus 5.5% and (b) 7.5% and provides for a balloon payment of $10.3 million due in August 2020. Lexicon incurred $0.4 million of debt issuance costs in connection with the mortgage loan, which offsets debt on the condensed consolidated balance sheets and are amortized as interest expense over the two-year term of the loan agreement. As of September 30, 2019, the balance of unamortized debt issuance costs was $0.2 million. The condensed consolidated balance sheet includes mortgage debt of $11.3 million as of September 30, 2019 and is included in current portion of long-term debt. The buildings and land that serve as collateral for the mortgage loan are included in property and equipment at $59.2 million and $2.7 million, respectively, before accumulated depreciation, as of September 30, 2019. The fair value of the loan agreement approximates its carrying value. The fair value of the loan agreement was determined using Level 2 inputs using discounted cash flow analysis, based on the Company's estimated current incremental borrowing rate.

BioPharma Term Loan. In December 2017, Lexicon entered into a loan agreement with BioPharma Credit PLC and BioPharma Credit Investments IV Sub LP under which $150.0 million was funded in December 2017 (the "BioPharma Term Loan"). The BioPharma Term Loan matures in December 2022, bears interest at 9% per year, subject to additional interest if an event of default occurs and is continuing, and is payable quarterly.

The BioPharma Term Loan is subject to mandatory prepayment provisions that require prepayment upon a change of control or receipt of proceeds from certain non-ordinary course transfers of assets. The Company may prepay the BioPharma Term Loan in whole at its option at any time. Any prepayment of the BioPharma Term Loan is subject to customary make-whole premiums and prepayment premiums.

The Company's obligations under the BioPharma Term Loan are secured by a first lien security interest in substantially all of the assets of the Company and certain of its subsidiaries, other than its facilities in The Woodlands, Texas. The loan agreement contains certain customary representations and warranties, affirmative and negative covenants and events of default applicable to the Company and certain of its subsidiaries, including among other things, covenants restricting dispositions, fundamental changes in the business, mergers or acquisitions, indebtedness, encumbrances, distributions, investments, transactions with affiliates and subordinated debt. If an event of default occurs and is continuing, all amounts outstanding under the BioPharma Term Loan may be declared immediately due and payable.

In connection with the BioPharma Term Loan, the Company incurred $4.1 million of debt issuance costs. The debt issuance costs are amortized as interest expense over the expected life of the BioPharma Term Loan using the effective interest method. The Company determined the expected life of the debt was equal to the five-year term of the BioPharma Term Loan. As of September 30, 2019, the balance of unamortized debt issuance costs was $2.6 million, which offsets long-term debt on the condensed consolidated balance sheets.

The fair value of the BioPharma Term Loan approximates its carrying value. The fair value of the BioPharma Term Loan was determined using Level 2 inputs using discounted cash flow analysis, based on the Company's estimated current incremental borrowing rate.

6. Commitments and Contingencies

Operating Lease Obligations: A Lexicon subsidiary leases office space in Basking Ridge, New Jersey under an operating lease agreement, the term of which began in June 2015 and terminates in December 2022. As disclosed in Note 2, the Company adopted ASU 2016-02, Leases (Topic 842), on January 1, 2019. As of September 30, 2019, the office space lease right-of-use (ROU) asset had a balance of $1.8 million, which is included in other assets in the condensed consolidated balance sheet, and current and non-current liabilities relating to the ROU asset were $0.6 million and $1.2 million, respectively, which are included in accrued liabilities and other long-term liabilities in the condensed consolidated balance sheet, respectively. The discount rate used to record the office space lease was the Company's estimated borrowing rate of 9%. Additionally, Lexicon leases certain office equipment under operating leases. The Company elected to apply the short-term lease exception to all leases one year or less.

The following table reconciles the undiscounted cash flows of the operating lease liability to the recorded lease liability at September 30, 2019:

		(in thousands)
2019	$	152
2020		620
2021		632
2022		645
2023		—
Total undiscounted operating lease liability		2,049
Less: amount of lease payments representing interest		(281)
Present value of future lease payments		1,768
Less: short-term operating lease liability		(553)
Long-term operating lease liability	$	1,215

Legal Proceedings. On January 28, 2019, a purported securities class action complaint captioned Daniel Manopla v. Lexicon Pharmaceuticals, Inc., Lonnel Coats, Jeffrey L. Wade and Pablo Lapuerta, M.D. was filed against the Company and certain of its officers in the U.S. District Court for the Southern District of Texas, Houston Division. A first amended complaint was filed on July 30, 2019 and Lexicon filed a motion to dismiss such first amended complaint on September 30, 2019. The lawsuit purports to be a class action brought on behalf of purchasers of the Company's securities during the period from March 11, 2016 through July 29, 2019. The complaint alleges that the defendants violated federal securities laws by making materially false and misleading statements and/or omissions concerning data from its Phase 3 clinical trials of sotagliflozin in type 1 diabetes patients and the prospects of FDA approval of sotagliflozin for the treatment of type 1 diabetes. The complaint purports to assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint seeks, on behalf of the purported class, an unspecified amount of monetary damages, interest, fees and expenses of attorneys and experts, and other relief.

In addition, Lexicon is from time to time party to claims and legal proceedings that arise in the normal course of its business and that it believes will not have, individually or in the aggregate, a material adverse effect on its results of operations, financial condition or liquidity.

7. Collaboration and License Agreements

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

Sanofi. In November 2015, Lexicon entered into a Collaboration and License Agreement, which was subsequently amended in July 2017 (collectively, the "Sanofi Agreement"), with Sanofi for the worldwide development of Lexicon's diabetes drug candidate sotagliflozin. In December 2016, Sanofi terminated its rights under the Sanofi Agreement with respect to Japan.

On July 25, 2019, Sanofi delivered to Lexicon a notice purporting to terminate the Sanofi Agreement. Lexicon notified Sanofi that it considered such notice invalid and the Sanofi Agreement to remain in full force and effect.

Effective as of September 9, 2019 (the "Settlement Date"), Lexicon entered into a Termination and Settlement Agreement and Mutual Releases (the "Termination Agreement") with Sanofi, pursuant to which the Sanofi Agreement was terminated and such associated disputes between Lexicon and Sanofi were settled.

Under the terms of the Termination Agreement, Lexicon regained all rights to sotagliflozin and assumes full responsibility for the worldwide development and commercialization of sotagliflozin in both type 1 and type 2 diabetes. Sanofi paid Lexicon $208 million in September 2019 and is obligated to pay $52 million within twelve months of the Settlement Date, and neither party will owe any additional payments pursuant to the Sanofi Agreement. The parties will cooperate in the transition of responsibility for ongoing clinical studies and other activities, and each party is responsible for its own expenses associated with such transition, subject to certain exceptions. The following is a summary description of the Sanofi Agreement without giving effect to the Termination Agreement.

Under the Sanofi Agreement, Lexicon had granted Sanofi an exclusive, worldwide (excluding Japan), royalty-bearing right and license under its patent rights and know-how to develop, manufacture and commercialize sotagliflozin. Subject to specified exceptions, neither party could (a) perform clinical development activities relating to any other compound which inhibits sodium-glucose cotransporters type 1 or type 2 or (b) commercialize any such compounds in the United States, countries of the European Union and certain other specified countries, in each case during the royalty terms applicable in such countries. Among the specified exceptions was a right Lexicon retained to pursue the development of LX2761, with respect to which Lexicon granted Sanofi certain rights of first negotiation specified in the Sanofi Agreement.

Under the Sanofi Agreement, Sanofi paid Lexicon an upfront payment of $300 million. In addition, Lexicon was eligible to receive from Sanofi (a) up to an aggregate of $110 million upon the achievement of four development milestones relating to the results of certain Phase 3 clinical trials of sotagliflozin in type 2 diabetes patients, (b) up to an aggregate of $220 million upon the achievement of four regulatory milestones relating to the first commercial sale following regulatory approval of sotagliflozin for type 1 and type 2 diabetes, respectively, in each of the United States and Europe, of which two milestones representing the substantial majority of such aggregate amount relate to type 2 diabetes and the remaining two milestones relate to type 1 diabetes, (c) $100 million upon the achievement of a milestone based on the results of either of two outcomes studies in type 2 diabetes patients, the completion of which would likely occur after initial regulatory approval of sotagliflozin in type 2 diabetes, and (d) up to an aggregate of $990 million upon the achievement of six commercial milestones that will be achieved upon reaching specified levels of sales. The Company believed that each of the development and regulatory milestones under the Sanofi Agreement was substantive. Due to the uncertainty surrounding the achievement of the development and regulatory milestones, these payments were deemed constrained and were not recognized as revenue. Commercial milestones would have been accounted for as royalties and recorded as revenue upon achievement of the milestone, assuming all other revenue recognition criteria were met. Lexicon was also entitled to tiered, escalating royalties ranging from low double digit percentages to forty percent of net sales of sotagliflozin, based on indication and territory, with royalties for the higher band of such range attributable to net sales for type 1 diabetes in the United States, and subject in each case to customary royalty reduction provisions.

Lexicon continued to be responsible for all clinical development activities relating to type 1 diabetes and exercised an exclusive option to co-promote and have a significant role, in collaboration with Sanofi, in the commercialization of sotagliflozin for the treatment of type 1 diabetes in the United States. Under the terms of its co-promotion option, Lexicon would have funded forty percent of the commercialization costs relating to such co-promotion activities. Sanofi was responsible for all clinical development and commercialization of sotagliflozin for the treatment of type 2 diabetes worldwide and would have been solely responsible for the commercialization of sotagliflozin for the treatment of type 1 diabetes outside the United States. Lexicon shared in the funding of a portion of the planned type 2 diabetes development costs over the first three years of the collaboration, up to an aggregate of $100 million, which was satisfied in 2018. Sanofi would have booked sales worldwide in all indications.

The parties were responsible for using commercially reasonable efforts to perform their development and commercialization obligations pursuant to mutually approved development and commercialization plans.

The parties' activities under the Sanofi Agreement were governed by a joint steering committee and certain other governance committees which reflected equal or other appropriate representation from both parties. If the applicable governance committee was not able to make a decision by consensus and the parties were not able to resolve the issue through escalation to specified senior executive officers of the parties, then Sanofi would have final decision-making authority, subject to limitations specified in the Sanofi Agreement.

The Sanofi Agreement would have expired upon the expiration of all applicable royalty terms for all licensed products in all countries. The royalty term for each licensed product in each country was the period commencing on the effective date of the Sanofi Agreement and ending on the latest of expiration of specified patent coverage, expiration of specified regulatory exclusivity and 10 years following the first commercial sale in the applicable country. Either party could terminate the Sanofi Agreement in the event of an uncured material breach by the other party. Prior to completion of the core development activities for type 2 diabetes specified in the development plan, Sanofi could terminate the Sanofi Agreement on a country-by-country and licensed product-by-licensed product basis, in the event of (a) notification of a material safety issue relating to the licensed product or the class of sodium-glucose cotransporters type 1 or type 2 inhibitors resulting in a recommendation or requirement that Lexicon or Sanofi cease development, (b) failure to achieve positive results with respect to certain clinical trial results, (c) the occurrence of specified fundamental adverse events or (d) the exploitation of the licensed product infringing third party intellectual property rights in specified major markets and Sanofi is unable to obtain a license to such third party intellectual property rights.

The Company considered the following as its performance obligations with respect to the revenue recognition of the $300 million upfront payment:

• The exclusive worldwide license granted to Sanofi to develop and commercialize sotagliflozin;
• The development services Lexicon performed for sotagliflozin relating to type 1 diabetes; and
• The funding Lexicon provided for development relating to type 2 diabetes.

The Company determined that the license had stand-alone value because it was an exclusive license that gave Sanofi the right to develop and commercialize sotagliflozin or to sublicense its rights. In addition, sotagliflozin is currently in development and it was possible that Sanofi or another third party could conduct clinical trials without assistance from Lexicon. As a result, the Company considered the license and the development services under the Sanofi Agreement to be separate performance obligations. The Company recognized the portion of the transaction price allocated to the license immediately because Lexicon delivered the license and earned the revenue at the inception of the arrangement. The Company was recognizing as revenue the amount allocated to the development services for type 1 diabetes over the period of time Lexicon performed services, which was expected to be through 2027, and recognized as revenue the obligation to provide funding for development services for type 2 diabetes over the period of time Lexicon provided the funding, which was completed in 2018.

The Company determined that the initial transaction price was the $300 million upfront payment because it was the only payment that was fixed and determinable at the inception of the arrangement. There was considerable uncertainty at the date of the agreement as to whether Lexicon would earn milestone payments or royalty payments. As such, the Company did not include those payments in the transaction price. The Company allocated the transaction price based on the relative best estimate of selling price of each performance obligation. The Company estimated the selling price of the license deliverable by applying a probability-based income approach utilizing an appropriate discount rate. The significant inputs the Company used to determine the projected income of the license included: exercising the option to co-promote, estimated future product sales, estimated cost of goods sold, estimated operating expenses, income taxes, and an appropriate discount rate. The Company estimated the selling price of the development services for type 1 diabetes by using internal estimates of the cost to hire third parties to perform the services over the expected period to perform the development. The Company estimated the obligation to provide funding for type 2 diabetes by using internal estimates of the expected cash flows and timing for $100 million in funding.

As a result of the allocation of the Sanofi Agreement, the Company recognized $126.8 million of the $300 million upfront payment for the license in 2015. The Company was recognizing the $113.8 million allocated to the development services performance obligation and the $59.4 million allocated to the funding performance obligation over the estimated period of performance as the development and funding occurred. Upon execution of the Termination Agreement in September 2019, the Company recognized the remaining amount of $23.5 million allocated to Lexicon’s performance obligations as revenue. In addition, the Company recognized revenue of $260 million, representing the full consideration from the Termination Agreement. The Company has no remaining performance obligations to Sanofi and there are no constraints to the revenue recognized. Revenue recognized under collaboration agreements with Sanofi was $286.0 million and $25.6 million, respectively, for the nine months ended September 30, 2019 and 2018.

Ipsen. In October 2014, Lexicon entered into a License and Collaboration Agreement, which was subsequently amended in March 2015 (collectively, the “Ipsen Agreement”), with Ipsen for the development and commercialization of XERMELO outside of the United States and Japan (the “Licensed Territory”).

Under the Ipsen Agreement, Lexicon granted Ipsen an exclusive, royalty-bearing right and license under its patent rights and know-how to commercialize XERMELO in the Licensed Territory. Ipsen is responsible for using diligent efforts to commercialize XERMELO in the Licensed Territory pursuant to a mutually approved commercialization plan. Subject to certain exceptions, Lexicon was responsible for conducting clinical trials required to obtain regulatory approval for XERMELO for carcinoid syndrome in the European Union, including those contemplated by a mutually approved initial development plan, and has the first right to conduct most other clinical trials of XERMELO. Lexicon was responsible for the costs of all clinical trials contemplated by the initial development plan. The costs of additional clinical trials will be allocated between the parties based on the nature of such clinical trials. Under the Ipsen Agreement, Ipsen has paid Lexicon an aggregate of $47.2 million through September 30, 2019, consisting of $24.5 million in upfront payments and a $6.4 million milestone payment upon the acceptance of the filing submitted by Ipsen to the European Medicines Agency for XERMELO as an adjunct to somatostatin analog therapy for the long-term treatment of carcinoid syndrome, a $5.1 million milestone upon Ipsen's receipt of approval from the European Commission for the marketing of XERMELO in all member states of the European Union, Norway and Iceland, a $3.84 million milestone upon Ipsen's first commercial sale in Germany, a $3.84 million milestone upon Ipsen's first commercial sale in the United Kingdom, a $1.25 million million milestone upon Ipsen's receipt of approval from Health Canada and a $2.25 million milestone upon Ipsen's first commercial sale in Canada. In addition, Lexicon is eligible to receive from Ipsen (a) up to an aggregate of approximately $9.6 million upon the achievement of specified regulatory and commercial launch milestones and (b) up to an aggregate of €72 million upon the achievement of specified sales milestones. Milestone payments that are contingent upon the achievement of a substantive milestone are deemed constrained. Lexicon is also entitled to tiered, escalating royalties ranging from low twenties to mid-thirties percentages of net sales of XERMELO in the Licensed Territory, subject to a credit for amounts previously paid to Lexicon by Ipsen for the manufacture and supply of such units of XERMELO. Lexicon and Ipsen have entered into a commercial supply agreement pursuant to which Lexicon will supply Ipsen's commercial requirements of XERMELO, and Ipsen pays an agreed upon transfer price for such commercial supply.

The Company considered the following as its performance obligations with respect to the revenue recognition of the $24.5 million upfront payments:

- The exclusive license granted to Ipsen to develop and commercialize XERMELO in the Licensed Territory;
- The development services Lexicon is performing for XERMELO;
- The obligation to participate in committees which govern the development of XERMELO until commercialization; and
- The obligation to supply commercial supply of XERMELO, under a commercial supply agreement.

The Company determined that the license had stand-alone value because it is an exclusive license that gives Ipsen the right to develop and commercialize XERMELO or to sublicense its rights. In addition, at the time of the agreement, it would have been possible for Ipsen or another third party to conduct clinical trials without assistance from Lexicon. As a result, the Company considers the license and the development services under the Ipsen Agreement to be separate performance obligations. The Company recognized the portion of the transaction price allocated to the license immediately because Lexicon delivered the license and earned the revenue at the inception of the arrangement. The Company recognized as revenue the amount allocated to the development services and the obligation to participate in committees over the period of time Lexicon performed the services, which was completed in 2018.

The Company determined the commercial supply agreement is a contingent deliverable at the onset of the Agreement. There was inherent uncertainty in obtaining regulatory approval at the time of the agreement, thus, making the applicability of the commercial supply agreement outside the control of Lexicon and Ipsen. As a result, the Company has determined the commercial supply agreement does not meet the definition of a performance obligation that needs to be accounted for at the inception of the arrangement. The Company has also determined that there is no significant and incremental discount related to the commercial supply agreement that should be accounted for at the inception of the arrangement.

The Company determined that the initial transaction price was the $24.5 million upfront payments because they were the only payments that were fixed and determinable at the inception of the arrangement. There was considerable uncertainty at the date of the agreement as to whether Lexicon would earn milestone payments, royalty payments or payments for finished drug product. As such, the Company did not include those payments in the transaction price. The Company allocated the transaction price based on the relative best estimate of selling price of each performance obligation. The Company estimated the selling price of the license deliverable by applying a probability-based income approach utilizing an appropriate discount rate. The significant inputs the Company used to determine the projected income of the license included: estimated future product sales, estimated cost of goods sold, estimated operating expenses, income taxes, and an appropriate discount rate. The Company estimated the selling price of the development services by using internal estimates of the cost to hire third parties to perform the services over the expected period to perform the development. The Company estimated the selling price of the obligation to participate in committees by using internal estimates of the number of internal hours and salary and benefits costs to perform these services.

As a result of the allocation, the Company recognized $21.2 million of the $24.5 million upfront payments for the license in 2014, and an additional $1.4 million in 2015 upon entering into the amendment. The Company recognized the $1.7 million allocated to the development services performance obligation over the period of performance as development occurred, and recognized the $0.1 million allocated to the committee participation performance obligation ratably over the period of performance. Milestone payments that are contingent upon the achievement of a substantive milestone are deemed constrained. If or when the constraint is determined to be resolved, the Company will re-evaluate the overall transaction price and recognize an adjustment on a cumulative catch-up basis in the period that the adjustment was evaluated. During the nine months ended September 30, 2019, the milestone earned when Ipsen made its first commercial sale in Canada was determined to be a distinct performance obligation relating to the development activities and accordingly, was recognized as revenue without further allocation to the remaining performance obligations. Revenue recognized under the Agreement was $3.5 million and $1.1 million for the nine months ended September 30, 2019 and 2018, respectively. Royalty revenue of $0.3 million and $0.2 million was recognized for the nine months ended September 30, 2019 and 2018, respectively. Net product revenue for the nine months ended September 30, 2019 and 2018 included $1.3 million and $1.4 million, respectively, from sales of bulk tablets of XERMELO to Ipsen.

8. Earnings (Loss) Per Share

The following is a summary of Lexicon's earnings (loss) per share calculations and reconciliations of basic to diluted earnings (loss) per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	**2019**	**2018**	**2019**	**2018**
Numerator:				
Net income (loss)	$ 226,086	$ (27,396)	$ 181,271	$ (103,765)
Add interest expense on Convertible Notes	1,277	—	3,790	—
Adjusted net income (loss)	$ 227,363	$ (27,396)	$ 185,061	$ (103,765)
Denominator:				
Shares used in computing net income (loss) per common share, basic	106,272	105,881	106,200	105,800
Add effect of potential dilutive securities:				
Share based awards	3	—	177	—
Convertible Notes	10,365	—	10,365	—
Shares used in computing net income (loss) per common share, diluted	116,640	105,881	116,742	105,800
Net income (loss) per share - basic	$ 2.13	$ (0.26)	$ 1.71	$ (0.98)
Net income (loss) per share - diluted	$ 1.95	$ (0.26)	$ 1.59	$ (0.98)

For periods presented with a net loss, the weighted average number of shares outstanding are the same for both basic and diluted net loss per common share. The average number of shares associated with stock options and restricted stock units that were excluded from diluted earnings per share that would potentially dilute earnings per share in the future was 10,576 and 7,501, respectively, for the three months ended September 30, 2019, and 2018, and 8,452 and 7,501, respectively, for the nine months ended September 30, 2019 and 2018. For periods presented with a net loss, the shares associated with the Convertible Notes are not included in the computation of diluted earnings per share because they are antidilutive.

9. Impairment of Intangible Asset

In 2007, Lexicon entered into a series of related agreements providing for the financing of the clinical development of certain of its drug candidates (the "Programs"), including LX1031 and LX1033. Under the financing arrangement, Lexicon licensed to Symphony Icon, Inc. ("Symphony Icon") the Company's intellectual property rights relating to the Programs. In 2010, Lexicon exercised an exclusive purchase option to acquire all of the equity of Symphony Icon, thereby reacquiring the Programs.

Intangible assets which were included in the Programs and related to in-process research and development ("IPR&D") were recognized and considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. These indefinite-lived assets are not amortized, but are tested for impairment on an annual basis, as well as between annual tests if there are changes in circumstances that would indicate a reduction in the fair value of the IPR&D projects to less than their respective carrying amounts. A deferred tax liability was recognized related to the tax impact of future amortization or possible impairments associated with the identified intangible assets, which are not deductible for tax purposes.

The Company determined that a triggering event occurred upon execution of the Termination Agreement with Sanofi and the Company's resulting decision to substantially reallocate resources from the development of certain programs, including LX1031 and LX1033 for irritable bowel syndrome, to the development of sotagliflozin. In connection with such triggering event, the Company determined that its LX1031 and LX1033 programs for irritable bowel syndrome, collectively an intangible asset, were considered to be impaired and recorded an impairment charge of $28.6 million to IPR&D and a related income tax benefit of $6.0 million in the condensed consolidated statements of comprehensive income (loss) during the three months ended September 30, 2019. The impairment reduced the remaining book value to zero.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a biopharmaceutical company with a mission of pioneering medicines that transform patients' lives. We are devoting most of our resources to the commercialization or development of our three most advanced drug programs:

- We are commercializing XERMELO® (telotristat ethyl), an orally-delivered small molecule drug, in the United States for the treatment of carcinoid syndrome diarrhea in combination with somatostatin analog, or SSA, therapy in adults inadequately controlled by SSA therapy. We have granted Ipsen Pharma SAS an exclusive, royalty-bearing right to commercialize XERMELO outside of the United States and Japan. Ipsen is commercializing XERMELO in multiple countries, including the United Kingdom and Germany, and is preparing to commercialize XERMELO in certain additional countries. We are also developing telotristat ethyl as a treatment for biliary tract cancer and are currently conducting a Phase 2a clinical trial of telotristat ethyl in biliary tract cancer patients.

- We are developing Zynquista™ (sotagliflozin), an orally-delivered small molecule drug candidate, as a treatment for type 1 and type 2 diabetes. Zynquista has been approved in the European Union for use as an adjunct to insulin therapy to improve glycemic control in adults with type 1 diabetes and a body mass index ≥ 27 kg/m^2, who could not achieve adequate glycemic control despite optimal insulin therapy. The U.S. Food and Drug Administration has issued a complete response letter regarding the application for regulatory approval to market sotagliflozin for type 1 diabetes in the United States.

  We had previously granted Sanofi-Aventis Deutschland GmbH, or Sanofi, an exclusive, worldwide (excluding Japan), royalty-bearing right to develop, manufacture and commercialize sotagliflozin. We and Sanofi have agreed to terminate our collaboration, pursuant to which we have regained all rights to sotagliflozin and are assuming full responsibility for the worldwide development and commercialization of sotagliflozin in both type 1 and type 2 diabetes. We and Sanofi are currently cooperating in the transition of responsibility for ongoing clinical studies and other activities relating to sotagliflozin, including the comprehensive Phase 3 development program for sotagliflozin in type 2 diabetes which Sanofi was previously conducting. We have reported preliminary top-line results from the first three Phase 3 clinical trials of sotagliflozin in adults living with type 2 diabetes.

- We are developing LX9211, an orally-delivered small molecule drug candidate, as a treatment for neuropathic pain. We are currently conducting a Phase 1 clinical trial of LX9211 and are preparing to initiate a Phase 2 clinical trial of LX9211.

Compounds from our most advanced drug programs, as well as compounds from a number of additional drug discovery and development programs that we have advanced into various stages of clinical and preclinical development, originated from our own internal drug discovery efforts. These efforts were driven by a systematic, target biology-driven approach in which we used gene knockout technologies and an integrated platform of advanced medical technologies to systematically study the physiological and behavioral functions of almost 5,000 genes in mice and assessed the utility of the proteins encoded by the corresponding human genes as potential drug targets. We have identified and validated in living animals, or *in vivo*, more than 100 targets with promising profiles for drug discovery.

We are working both independently and through strategic collaborations and alliances with third parties to capitalize on our drug target discoveries and drug discovery and development programs. We seek to retain exclusive or co-exclusive rights to the benefits of certain drug discovery and development programs by developing and commercializing drug candidates from those programs internally, particularly in the United States for indications treated by specialist physicians. We seek to collaborate with other pharmaceutical and biotechnology companies, such as Ipsen, with respect to drug discovery or the development and commercialization of certain of our drug candidates, particularly with respect to commercialization in territories outside the United States, commercialization in the United States for indications treated by primary care physicians, or when the collaboration may otherwise provide us with access to expertise and resources that we do not possess internally or are complementary to our own.

We commercially launched XERMELO following regulatory approval in the United States in February 2017 for the treatment of carcinoid syndrome diarrhea in combination with SSA therapy in adults inadequately controlled by SSA therapy. Prior to the launch of XERMELO, we derived substantially all of our revenues from strategic collaborations and other research and development collaborations and technology licenses. To date, we have generated a substantial portion of our revenues from a limited number of sources.

Our operating results and, in particular, our ability to generate additional revenues are dependent on many factors, including our ability to successfully commercialize XERMELO in the United States and the amount of revenues generated from such commercialization efforts; our ability to obtain regulatory approval for the marketing and sale of sotagliflozin for type 1 and type 2 diabetes in countries where such regulatory approval has not yet been obtained; the success of our ongoing nonclinical and clinical development efforts and ability to obtain necessary regulatory approvals of the drug candidates which are the subject of such efforts; our success in establishing new collaborations and licenses, including with respect to the development and commercialization of sotagliflozin; the success of Ipsen and any new collaborators in commercializing XERMELO and other products and receipt of any resulting milestone payments and royalties; and general and industry-specific economic conditions which may affect research and development expenditures.

Future revenues from our commercialization of XERMELO are uncertain because they depend on a number of factors, including market acceptance of XERMELO, the success of our sales, marketing, distribution and other commercialization activities and the cost and availability of reimbursement for XERMELO.

Future revenues from our collaboration with Ipsen are uncertain because they depend, to a large degree, on the achievement of milestones and payment of royalties we earn from Ipsen's commercialization of XERMELO. Our ability to secure future revenue-generating agreements will depend upon our ability to address the needs of our potential future collaborators and licensees, and to negotiate agreements that we believe are in our long-term best interests. We may determine, as we have with certain of our drug candidates, including XERMELO in the United States and Japan, that our interests are better served by retaining rights to our discoveries and advancing our therapeutic programs to a later stage, which could limit our near-term revenues and increase expenses. Because of these and other factors, our operating results have fluctuated in the past and are likely to do so in the future, and we do not believe that period-to-period comparisons of our operating results are a good indication of our future performance.

Since our inception, we have incurred significant losses and, as of September 30, 2019, we had an accumulated deficit of $1.3 billion. Our losses have resulted principally from costs incurred in research and development, selling, general and administrative costs associated with our operations, and non-cash stock-based compensation expenses associated with stock options and restricted stock granted to employees and consultants. Research and development expenses consist primarily of salaries and related personnel costs, external research costs related to our nonclinical and clinical efforts, material costs, facility costs, depreciation on property and equipment, and other expenses related to our drug discovery and development programs. Selling, general and administrative expenses consist primarily of salaries and related expenses for executive, sales and marketing, and administrative personnel, professional fees and other corporate expenses, including information technology, facilities costs and general legal activities. We expect to continue to incur significant research and development costs in connection with the continuing development of our drug candidates. As a result, we will need to generate significantly higher revenues to achieve profitability.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make judgments, estimates and assumptions in the preparation of our condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. We believe there have been no significant changes in our critical accounting policies as discussed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Accounting Pronouncements

See Note 2, Recent Accounting Pronouncements, of the Notes to Condensed Consolidated Financial Statements (unaudited), for a discussion of the impact of the new accounting standards on our condensed consolidated financial statements (unaudited).

Results of Operations

Revenues

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Total revenues	$ 294.4	$ 7.0	$ 313.3	$ 46.1
Dollar increase	$ 287.5		$ 267.2	
Percentage increase	4,127%		579%	

- *Net product revenue* – Net product revenue for the three months ended September 30, 2019 increased 33% to $8.4 million, and for the nine months ended September 30, 2019 increased 25% to $23.8 million as compared to the corresponding periods in 2018 from revenues recognized from the sale of XERMELO in the United States and sales of bulk tablets of XERMELO to Ipsen. Product revenues are recorded net of estimated product returns, pricing discounts including rebates offered pursuant to mandatory federal and state government programs and chargebacks, prompt pay discounts and distribution fees and co-pay assistance. Revenue recognition policies require estimates of the aforementioned sales allowances each period.
- *Collaborative agreements* – Revenue from collaborative agreements for the three months ended September 30, 2019 increased to $285.9 million from $0.6 million, and for the nine months ended September 30, 2019 increased to $289.2 million from $26.8 million, as compared to the corresponding periods in 2018. Revenue from collaborative agreements for the three and nine months ended September 30, 2019 includes $260 million from the Termination Agreement with Sanofi and recognition of amounts allocated to the performance obligation for development activities of sotagliflozin in the Sanofi Agreement.

Cost of Sales

Total cost of sales and dollar and percentage changes as compared to the corresponding periods in the prior year are as follows (dollar amounts are presented in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Total cost of sales	$ 0.6	$ 0.6	$ 2.5	$ 1.9
Dollar increase	$ 0.0		$ 0.6	
Percentage increase	5%		28%	

Cost of sales consists of third-party manufacturing costs, freight and indirect overhead costs associated with sales of XERMELO. The pre-commercialization inventory is expected to be sold over approximately the next fifteen months. As a result, cost of sales for the next fifteen months will reflect a lower average per unit cost of materials. Cost of sales for the three and nine months ended September 30, 2019 and 2018 includes $0.4 million and $1.3 million, respectively, of amortization of intangible assets relating to XERMELO.

Research and Development Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Total research and development expense	$ 26.7	$ 13.8	$ 51.3	$ 87.9
Dollar increase/(decrease)	$ 12.9		$ (36.6)	
Percentage increase/(decrease)	94%		(42)%	

Research and development expenses consist primarily of third-party and other services principally related to nonclinical and clinical development activities, salaries and other personnel-related expenses, stock-based compensation expense, and facility and equipment costs.

- *Third-party and other services* – Third-party and other services for the three months ended September 30, 2019 increased 219% to $18.5 million as compared to the corresponding period in 2018 due to an increase in external clinical development costs related to sotagliflozin subsequent to the Termination Agreement, in which we regained the rights from Sanofi to sotagliflozin and the responsibilities for development and commercialization. Third-party and other services for the nine months ended September 30, 2019 decreased 60% to $24.0 million as compared to the corresponding period in 2018 primarily due to decreases in external clinical development costs relating to sotagliflozin and professional and consulting fees. Third-party and other services relate principally to our clinical trial and related development activities, such as nonclinical and clinical studies and contract manufacturing.

- *Personnel* – Personnel costs for the three months ended September 30, 2019 increased 9% to $4.7 million, and for the nine months ended September 30, 2019 increased 2% to $16.0 million as compared to the corresponding periods in 2018, primarily due to higher incentive compensation. Salaries, bonuses, employee benefits, payroll taxes, recruiting and relocation costs are included in personnel costs.

- *Stock-based compensation* – Stock-based compensation expense for the three months ended September 30, 2019 increased 15% to $1.7 million, and for the nine months ended September 30, 2019 increased 19% to $5.4 million as compared to the corresponding periods in 2018, primarily due to a shorter vesting period of the annual restricted stock unit awards granted in 2018 and 2019.

- *Facilities and equipment* – Facilities and equipment costs for the three and nine months ended September 30, 2019 were $0.7 million and $2.0 million, respectively, and were comparable to the corresponding periods in 2018.

- *Other* – Other costs for the three months ended September 30, 2019 decreased 26% to $1.1 million, and for the nine months ended September 30, 2019 decreased 25% to $3.8 million, as compared to the corresponding periods in 2018, primarily due to lower funding of continuing medical education grants.

Selling, General and Administrative Expenses

Selling, general and administrative expenses and dollar and percentage changes as compared to the corresponding periods in the prior year are as follows (dollar amounts are presented in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Total selling, general and administrative expense	$ 13.9	$ 15.6	$ 42.3	$ 47.2
Dollar decrease	$ 1.7		$ 4.9	
Percentage decrease	11%		10%	

Selling, general and administrative expenses consist primarily of personnel costs to sell XERMELO and to support our research and development activities, professional and consulting fees, stock-based compensation expense, and facility and equipment costs.

- *Personnel* – Personnel costs for the three and nine months ended September 30, 2019 were $6.6 million and $21.5 million, respectively, and were comparable to the corresponding periods in 2018. Salaries, bonuses, employee benefits, payroll taxes, recruiting and relocation costs are included in personnel costs.

- *Professional and consulting fees* – Professional and consulting fees for the three months ended September 30, 2019 decreased 35% to $3.3 million, and for the nine months ended September 30, 2019 decreased 39% to $8.8 million as compared to the corresponding periods in 2018, primarily due to changes in marketing costs.

- *Stock-based compensation* – Stock-based compensation expense for the three months ended September 30, 2019 increased 33% to $1.9 million, and for the nine months ended September 30, 2019 increased 24% to $5.4 million as compared to the corresponding periods in 2018, primarily due to a shorter vesting period of the annual restricted stock unit awards granted in 2018 and 2019.

- *Facilities and equipment* – Facilities and equipment costs for the three and nine months ended September 30, 2019 were $0.5 million and $1.4 million, respectively, and were comparable to the corresponding periods in 2018.

- *Other* – Other costs for the three months ended September 30, 2019 decreased 15% to $1.7 million, and for the nine months ended September 30, 2019 decreased 14% to $5.3 million as compared to the corresponding periods in 2018, primarily due to a decrease in contributions to charitable foundations.

Impairment of Intangible Asset

An impairment loss for the three and nine months ended September 30, 2019 of $28.6 million was recognized to an indefinite lived intangible asset associated with the 2010 acquisition of Symphony Icon, due to the decision to terminate research and development activities related to a program for irritable bowel syndrome that was among the assets acquired.

Interest Expense and Interest and Other Income, Net

Interest Expense. Interest expense for the three months ended September 30, 2019 and 2018 was $5.2 million and $5.3 million, respectively, and for the nine months ended September 30, 2019 and 2018 was $15.5 million and $15.6 million, respectively.

Interest and Other Income, Net. Interest and other income, net for the three months ended September 30, 2019 and 2018 was $0.6 million and $0.8 million, respectively, and for the nine months ended September 30, 2019 and 2018 was $2.1 million and $2.7 million, respectively.

Income Tax Benefit

The income tax benefit for the three and nine months ended September 30, 2019 was $6.0 million, due to release of the deferred tax liability related to the impairment of the indefinite lived intangible asset.

Net income (loss) and Net income (loss) per Common Share

Net income (loss) and Net income (loss) per Common Share. Net income was $226.1 million, or $1.95 per diluted share, in the three months ended September 30, 2019 as compared to a net loss of $27.4 million, or loss of $0.26 per share in the corresponding period in 2018. Net income was $181.3 million, or $1.59 per diluted share, in the nine months ended September 30, 2019 as compared to a net loss of $103.8 million, or loss of $0.98 per share, in the corresponding period in 2018.

Our quarterly operating results have fluctuated in the past and are likely to do so in the future, and we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance.

Liquidity and Capital Resources

We have financed our operations from inception primarily through sales of common and preferred stock, contract and milestone payments we received under our strategic and other collaborations, target validation, database subscription and technology license agreements, product sales, government grants and contracts, and financing under debt and lease arrangements. We have also financed certain of our research and development activities under our agreements with Symphony Icon, Inc. From our inception through September 30, 2019, we had received net proceeds of $1.5 billion from issuances of common and preferred stock and convertible and term debt. In addition, from our inception through September 30, 2019, we received $1.1 billion in cash payments from strategic and other collaborations, target validation, database subscription and technology license agreements, product sales, sales of compound libraries and reagents, and government grants and contracts, of which $1.1 billion had been recognized as revenues through September 30, 2019.

As of September 30, 2019, we had $296.3 million in cash, cash equivalents and short-term investments. As of December 31, 2018, we had $160.1 million in cash, cash equivalents and investments. We generated cash of $138.2 million from operations in the nine months ended September 30, 2019. This consisted primarily of the net income for the period of $181.3 million and non-cash charges of $28.6 million related to impairment of intangible assets, $10.7 million related to stock-based compensation expense and $3.8 million related to depreciation and amortization expense, including amortization of debt issuance costs. Partially offsetting this was a net increase in operating assets, net of liabilities of $80.3 million. Investing activities used cash of $46.5 million in the nine months ended September 30, 2019, primarily due to net purchases of investments of $46.4 million. Financing activities used cash of $1.9 million, primarily to repay $1.0 million of debt borrowings and to repurchase $0.9 million of common stock.

Other commitments. In April 2019, Zynquista was approved in the European Union for use as an adjunct to insulin therapy to improve glycemic control in adults with type 1 diabetes and a body mass index ≥ 27 kg/m^2, who could not achieve adequate glycemic control despite optimal insulin therapy. Following this approval and the achievement of certain marketing conditions, we will be required to make certain royalty payments, totaling $4.5 million, in three equal annual installments of $1.5 million.

Texas Institute for Genomic Medicine. In July 2005, we received an award from the Texas Enterprise Fund for the creation of a knockout mouse embryonic stem cell library containing 350,000 cell lines for the Texas Institute for Genomic Medicine, or TIGM, using our proprietary gene trapping technology, which we completed in 2007. We also equipped TIGM with the bioinformatics software required for the management and analysis of data relating to the library. The Texas Enterprise Fund made an additional award to the Texas A&M University System for the creation of facilities and infrastructure to house the library.

Under the terms of our award, we were responsible for the creation of a specified number of jobs. We receive credits against this job obligation based on funding received by TIGM and certain related parties from sources other than the State of Texas. Subject to these credits, the State may require us to repay $2,415 for each job we fall short. We have evaluated our performance obligation and have concluded that such credits are sufficient to fully offset our job obligation; however, our maximum aggregate exposure for such payments is approximately $14.2 million, without giving effect to any credits to which we may be entitled.

Facilities. In August 2018, our subsidiary Lex-Gen Woodlands, L.P. entered into a term loan and security agreement, refinancing the previously existing mortgage on our facilities in The Woodlands, Texas. The loan agreement provides for a

$12.9 million mortgage on the property and has a two-year term with a 10-year amortization. The mortgage loan bears interest at a rate per annum equal to the greater of (a) the 30-day LIBOR rate plus 5.5% and (b) 7.5% and provides for a balloon payment of $10.3 million due in August 2020.

In March 2015, our subsidiary Lexicon Pharmaceuticals (New Jersey), Inc. leased a 25,000 square-foot office space in Basking Ridge, New Jersey. The term of the lease extends from June 1, 2015 through December 31, 2022, and provides for escalating yearly base rent payments starting at $482,000 and increasing to $646,000 in the final year of the lease.

Our future capital requirements will be substantial and will depend on many factors, including the success of our sales, marketing, distribution and other commercialization activities for XERMELO in the United States and the revenues we generate from that approved product; the success of Ipsen's sales, marketing, distribution and other commercialization activities for XERMELO outside of the United States and Japan; our success in obtaining regulatory approval for the marketing and sales of sotagliflozin for type 1 diabetes in the United States and in commercializing Zynquista for type 1 diabetes in the European Union and any other countries for which regulatory approval is obtained; our ability to successfully transition from Sanofi responsibility for ongoing clinical studies and other activities relating to sotagliflozin, including the comprehensive Phase 3 development program for sotagliflozin in type 2 diabetes which Sanofi was previously conducting; our ability to successfully enter into a new strategic collaboration for the development and commercialization of sotagliflozin; the progress, scope and results of the development activities with respect to sotagliflozin in type 2 diabetes patients and our success in commercializing sotagliflozin for type 2 diabetes in any countries for which regulatory approval is obtained; the timing, progress and results of our ongoing clinical trials of telotristat ethyl and LX9211; the amount and timing of our research, development and commercialization expenditures; the resources we devote to developing and supporting our products and other factors. Our capital requirements will also be affected by any expenditures we make in connection with license agreements and acquisitions of and investments in complementary technologies and businesses. We expect to continue to devote substantial capital resources to commercialize XERMELO; to seek regulatory approval in the United States for sotagliflozin in type 1 diabetes; to commercialize sotagliflozin for type 1 diabetes in the United States, if approved; to successfully transition and complete the ongoing comprehensive Phase 3 development program for sotagliflozin in type 2 diabetes and seek regulatory approvals for sotagliflozin in type 2 diabetes; to successfully complete our nonclinical and clinical development efforts with respect to telotristat ethyl and LX9211; and for other general corporate activities. We believe that our current unrestricted cash and investment balances and cash and revenues we expect to derive from strategic and other collaborations and other sources will be sufficient to fund our operations for at least the next 12 months. During or after this period, if cash generated by operations is insufficient to satisfy our liquidity requirements, we will need to sell additional equity or debt securities or obtain additional credit arrangements. Additional financing may not be available on terms acceptable to us or at all. The sale of additional equity or convertible debt securities may result in additional dilution to our stockholders.

From time to time, our board of directors may authorize us to repurchase shares of our common stock, repurchase, in cash or common stock, our outstanding convertible notes, or make a cash payment to holders of our convertible notes to induce conversion pursuant to the terms of the convertible notes, in each case, in privately negotiated transactions, publicly announced programs or otherwise. If and when our board of directors should determine to authorize any such action, it would be on terms and under market conditions that our board of directors determines are in the best interest of us and our stockholders. Any such actions could deplete significant amounts of our cash resources and/or result in additional dilution to our stockholders.

Disclosure about Market Risk

We are exposed to limited market and credit risk on our cash equivalents which have maturities of three months or less at the time of purchase. We maintain a short-term investment portfolio which consists of U.S. Treasury bills and corporate debt securities that mature three to 12 months from the time of purchase, which we believe are subject to limited market and credit risk. We currently do not hedge interest rate exposure or hold any derivative financial instruments in our investment portfolio.

We had approximately $296.3 million in cash and cash equivalents and short-term investments as of September 30, 2019. We believe that the working capital available to us will be sufficient to meet our cash requirements for at least the next 12 months.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See “Disclosure about Market Risk” under “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for quantitative and qualitative disclosures about market risk.

Item 4. Controls and Procedures

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

of the end of the period covered by this report. There were no changes in our internal control over financial reporting during the three months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II -- Other Information

Item 1. Legal Proceedings

Securities Class Action Litigation. On January 28, 2019, a purported securities class action complaint captioned Daniel Manopla v. Lexicon Pharmaceuticals, Inc., Lonnel Coats, Jeffrey L. Wade and Pablo Lapuerta, M.D. was filed against us and certain of our officers in the U.S. District Court for the Southern District of Texas, Houston Division. A first amended complaint was filed on July 30, 2019 and we filed a motion to dismiss such first amended complaint on September 30, 2019. The lawsuit purports to be a class action brought on behalf of purchasers of our securities during the period from March 11, 2016 through July 29, 2019. The complaint alleges that the defendants violated federal securities laws by making materially false and misleading statements and/or omissions concerning data from our Phase 3 clinical trials of sotagliflozin in type 1 diabetes patients and the prospects of FDA approval of sotagliflozin for the treatment of type 1 diabetes. The complaint purports to assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint seeks, on behalf of the purported class, an unspecified amount of monetary damages, interest, fees and expenses of attorneys and experts, and other relief.

Sanofi Disputes. On July 25, 2019, we received written notice from Sanofi informing us of Sanofi's purported termination of our collaboration and license agreement, dated November 5, 2015, entered into by us and Sanofi for the worldwide development and commercialization of sotagliflozin. The notice purported to terminate the collaboration agreement for a failure to achieve positive results in two Phase 3 clinical studies of sotagliflozin in type 2 diabetes. We disagreed that Sanofi had the right to so terminate the collaboration agreement and considered Sanofi's notice to such effect to be invalid and such purported termination and public announcement thereof to constitute a breach of the collaboration agreement and a breach of Sanofi's implied duty and covenant of good faith and fair dealing. In addition, we believed that Sanofi breached the collaboration agreement and Sanofi's implied duty and covenant of good faith and fair dealing by (a) not conducting its development activities for type 2 diabetes in accordance with the development plan, (b) not using commercially reasonable efforts to obtain regulatory approval for sotagliflozin in major markets in the licensed territory following completion of the type 1 diabetes development activities and (c) not using commercially reasonable efforts to commercialize sotagliflozin in major markets in the licensed territory for type 1 diabetes following receipt of regulatory approval.

In the event of a valid termination of the collaboration agreement, Sanofi had certain obligations including, at our request, transferring to us control of all clinical studies involving sotagliflozin being conducted by Sanofi as of the effective date of termination; provided that in such case Sanofi would remain obligated to continue to fund, to the extent of Sanofi's funding obligations under the collaboration agreement, the costs of such clinical studies then being conducted by Sanofi for development costs incurred twelve (12) months after the effective date of termination.

Effective as of September 9, 2019, we entered into a confidential termination and settlement agreement and mutual releases with Sanofi, pursuant to which the collaboration agreement was terminated and these disputes were settled. Under the terms of the termination agreement, we regained all rights to sotagliflozin and assumed full responsibility for the worldwide development and commercialization of sotagliflozin in both type 1 and type 2 diabetes. Sanofi agreed to pay us $260 million, of which 80% was payable upfront and 10% is payable within each of six and twelve months of the settlement date, and neither party will owe any additional payments pursuant to the collaboration agreement. The parties will cooperate in the transition of responsibility for ongoing clinical studies and other activities, and each party is responsible for its own expenses associated with such transition, subject to certain exceptions. Certain core Phase 3 clinical studies transition to us immediately and certain other non-core clinical studies, including the SCORED Phase 3 cardiovascular outcomes study and the SOLOIST worsening heart failure study, or the Non-Core Studies, will transition to us as of 120 days following the settlement date; provided, that we are responsible for payment under third party contracts associated with the Non-Core Studies during such 120-day period. We and Sanofi also agreed to a mutual release of all claims relating to the above disputes.

Normal Course Legal Proceedings. In addition, we are from time to time party to claims and legal proceedings that arise in the normal course of our business and that we believe will not have, individually or in the aggregate, a material adverse effect on our results of operations, financial condition or liquidity.

Item 1A. Risk Factors

The following risks and uncertainties are important factors that could cause actual results or events to differ materially from those indicated by forward-looking statements. The factors described below are not the only ones we face and additional

risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

Risks Related to Our Business and Industry

- If we are unable to successfully and timely transition from Sanofi responsibility for ongoing clinical studies and other activities relating to sotagliflozin, including the ongoing comprehensive Phase 3 development program for sotagliflozin in type 2 diabetes, the sotagliflozin program will be significantly and negatively impacted. In such case, our business will suffer and our stock price will likely decline.

- We depend heavily on entering into a new strategic collaboration for the development and commercialization of sotagliflozin. If we are unable to enter into such a strategic collaboration on commercially reasonable terms, or at all, we may not successfully complete ongoing Phase 3 clinical development, obtain regulatory approvals or successfully commercialize sotagliflozin in type 2 diabetes. In such case, our business will suffer and our stock price will likely decline.

- We depend heavily on obtaining regulatory approval in the United States for sotagliflozin in type 1 diabetes. If we or a new collaborator fail to obtain such regulatory approval or fail to successfully commercialize sotagliflozin for type 1 diabetes in the United States upon regulatory approval, our business will suffer and our stock price will likely decline.

- We depend heavily on the commercial success of XERMELO. If we do not achieve commercial success with XERMELO, our business will suffer and our stock price will likely decline.

- Clinical testing of our drug candidates in humans is an inherently risky and time-consuming process that may fail to demonstrate safety and efficacy, which could result in the delay, limitation or prevention of regulatory approval.

- Our drug candidates are subject to a lengthy and uncertain regulatory process that may not result in the necessary regulatory approvals, which could adversely affect our and our collaborators' ability to commercialize products.

- The commercial success of XERMELO and any other products that we or our collaborators may develop will depend upon the degree of market acceptance among physicians, patients, health care payers and the medical community.

- If we are unable to maintain an effective and specialized sales force, marketing infrastructure and distribution capabilities, we will not be able to successfully commercialize XERMELO or any other products that we or our collaborators may develop.

- If we are unable to obtain adequate coverage and reimbursement from third-party payers for XERMELO and any other products that we or our collaborators may develop, our revenues and prospects for profitability will suffer.

- We may not be able to manufacture XERMELO and any other products that we or our collaborators may develop in commercial quantities, which would impair our ability to commercialize such products.

- We and our collaborators are subject to extensive and rigorous ongoing regulation relating to XERMELO and any other products that we or our collaborators may develop.

- We are subject to certain healthcare laws, regulation and enforcement; our failure to comply with those laws could have a material adverse effect on our results of operations and financial condition.

- Current healthcare laws and regulations and future legislative or regulatory reforms to the healthcare system may negatively affect our revenues and prospects for profitability.

- Pricing for pharmaceutical products has come under increasing scrutiny by governments, legislative bodies and enforcement agencies. These activities may result in actions that have the effect of reducing our revenue or harming our business or reputation.

- Our competitors may develop products that impair the value of XERMELO or any other products that we or our collaborators may develop.

Risks Related to Our Capital Requirements and Financial Results

- We will need additional capital in the future and, if it is unavailable, we will be forced to delay, reduce or eliminate our commercialization efforts or product development programs, including the ongoing Phase 3 development program for sotagliflozin in type 2 diabetes. If additional capital is not available on reasonable terms, we will be forced to obtain funds, if at all, by entering into financing agreements on unattractive terms.

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

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

- We have substantial indebtedness that may limit cash flow available to invest in the ongoing needs of our business.

- If we do not effectively manage our affirmative and restrictive covenants under the BioPharma Term Loan, our financial condition and results of operations could be negatively affected.

Risks Related to Our Relationships with Third Parties

- We are significantly dependent upon our collaborations with Ipsen and other pharmaceutical and biotechnology companies. If pharmaceutical products are not successfully and timely developed and commercialized under our collaborations, our opportunities to generate revenues from milestones and royalties will be greatly reduced.

- Conflicts with our collaborators could jeopardize the success of our collaborative agreements and harm our product development and commercialization efforts.

- We depend on third-party manufacturers, including sole source suppliers, to manufacture commercial quantities of XERMELO. We may not be able to maintain these relationships and could experience supply disruptions outside of our control.

- We rely on a single third-party logistics provider and two independent specialty pharmacies for distribution of XERMELO in the United States, and their failure to distribute XERMELO effectively would adversely affect sales of XERMELO.

- We rely on third parties to carry out drug development activities.

- We lack the capability to manufacture materials for nonclinical studies, clinical trials or commercial sales and rely on third parties to manufacture sotagliflozin, LX9211 and our other drug candidates, which may harm or delay our product development and commercialization efforts.

Risks Related to Our Intellectual Property

- If we are unable to adequately protect our intellectual property, third parties may be able to use our products and technologies, which could adversely affect our ability to compete in the market.

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

- Data breaches and cyber-attacks could compromise our intellectual property or other sensitive information and cause significant damage to our business and reputation.

- We may be subject to damages resulting from claims that we, our employees or independent contractors have wrongfully used or disclosed alleged trade secrets of their former employers.

Risks Related to Employees and Facilities Operations

- If we are unable to manage our growth, our business, financial condition, results of operations and prospects may be adversely affected.

- The loss of key personnel or the inability to attract and retain additional personnel could impair our ability to operate and expand our operations.

- Facility security breaches may disrupt our operations, subject us to liability and harm our operating results.

- Our facilities are located near coastal zones, and the occurrence of a hurricane or other disaster could damage our facilities and equipment, which could harm our operations.

Risks Related to Environmental and Product Liability

- We have used hazardous chemicals and radioactive and biological materials in our business. Any claims relating to improper handling, storage or disposal of these materials could be time consuming and costly.

- Our business has a substantial risk of product liability and we face potential product liability exposure far in excess of our limited insurance coverage.

Risks Related to Our Common Stock

- Invus, L.P., Invus C.V. and their affiliates own a controlling interest in our outstanding common stock and may have interests which conflict with those of our other stockholders.

- Invus has additional rights under our stockholders' agreement with Invus, L.P. relating to the membership of our board of directors, which provides Invus with substantial influence over significant corporate matters.

- Our stock price may be extremely volatile.

- We are subject to securities litigation, which is expensive and could divert management attention.

- Future sales of our common stock, or the perception that such sales may occur, may depress our stock price.

- Conversion of our 5.25% Convertible Senior Notes due 2021 may dilute the ownership interest of our existing stockholders, including holders who had previously converted their notes, or may otherwise depress the price of our common stock.

- If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

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

For additional discussion of the risks and uncertainties that affect our business, see "Item 1A. Risk Factors" included in our annual report on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission.

Item 6. Exhibits

Exhibit No.		Description
†*10.1	—	Confidential Termination and Settlement Agreement and Mutual Releases, dated September 9, 2019, with Sanofi-Aventis Deutschland GmbH
*31.1	—	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	—	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	—	Certification of Principal Executive and Principal Financial Officers Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	—	XBRL Instance Document
101.SCH	—	XBRL Taxonomy Extension Schema Document
101.CAL	—	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	—	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	—	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	—	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith.

† Portions of the exhibit have been omitted.

Signatures

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.

			Lexicon Pharmaceuticals, Inc.
Date:	November 7, 2019	By:	/s/ Lonnel Coats
			Lonnel Coats
			President and Chief Executive Officer
Date:	November 7, 2019	By:	/s/ Jeffrey L. Wade
			Jeffrey L. Wade
			Executive Vice President, Corporate and Administrative Affairs and Chief Financial Officer

Index to Exhibits

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Exhibit 10.1

[**] **Certain information has been omitted from this exhibit because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.**

CONFIDENTIAL TERMINATION AND
SETTLEMENT AGREEMENT AND MUTUAL RELEASES

THIS CONFIDENTIAL TERMINATION AND SETTLEMENT AGREEMENT AND MUTUAL RELEASES ("Termination Agreement") is entered into as of September 10, 2019 and effective as of September 9, 2019 (the "Settlement Date"), by and between Lexicon Pharmaceuticals, Inc. ("Lexicon"), a Delaware corporation, on the one hand, and Sanofi-Aventis Deutschland GmbH ("Sanofi-Aventis"), a limited liability company formed under the laws of Germany, on the other hand. Each of Lexicon and Sanofi-Aventis is a "Party" to this Termination Agreement, and, collectively, they are the "Parties." All capitalized terms used herein but not otherwise defined herein shall have the meaning ascribed to such terms in the certain Collaboration and License Agreement, dated November 5, 2015, as amended, between Sanofi and Lexicon (the "License Agreement").

RECITALS

WHEREAS, Sanofi and Lexicon entered into the License Agreement, which License Agreement was later assigned by Sanofi to Sanofi-Aventis, under which Lexicon granted Sanofi-Aventis an exclusive license for the development, manufacture and commercialization of certain Licensed Products, and under which both Sanofi-Aventis and Lexicon committed to conduct certain developmental and commercialization activities, including undertaking certain clinical studies for the purpose of obtaining regulatory approval for the sale of Licensed Products in defined Territories;

WHEREAS, on July 25, 2019, Sanofi-Aventis provided Lexicon with a notice of its termination of the License Agreement, to be effective August 24, 2019, pursuant to Section 12.3 of the License Agreement;

WHEREAS, Lexicon has disputed the validity of Sanofi-Aventis' July 25, 2019 notice of termination and has alleged breach of contract and other liability arising from such purported termination and certain related matters, as described in letters from Lexicon to Sanofi-Aventis dated July 25, 26 and 29, 2019, and discussed by representatives of the Parties in various teleconferences and meetings (collectively, the "Disputes");

WHEREAS, Sanofi-Aventis has denied all allegations of breach and liability as set forth by Lexicon in the Disputes;

WHEREAS, on August 19, 2019, Sanofi-Aventis, pursuant to Section 13.5 of the License Agreement, served a notice of arbitration upon Lexicon and initiated binding arbitration through JAMS (New York) (the "Arbitration Demand");

WHEREAS, on August 22, 2019, the Parties agreed to extend the effective date of Sanofi-Aventis' purported termination from August 24, 2019 to September 7, 2019, for the express purpose of allowing additional time for the Parties to negotiate a settlement resolving the Disputes, while reserving all rights and remedies with respect thereto;

WHEREAS, on September 5, 2019, the Parties agreed to further extend the effective date of Sanofi-Aventis' purported termination from September 7, 2019 to September 13, 2019, for the express purpose of allowing additional time for the Parties to negotiate a settlement resolving the Disputes, while reserving all rights and remedies with respect thereto;

WHEREAS, the Parties desire to resolve the Disputes in an effort to avoid the cost and expense of arbitration and litigation, including filing and arbitration costs, and attorney’s fees.

NOW, THEREFORE, in consideration of the foregoing mutual covenants and agreements contained in this Termination Agreement and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Parties, intending to be legally bound, agree as follows:

1. TERMINATION OF LICENSE AGREEMENT. The Parties agree that the License Agreement is hereby terminated in its entirety as of the Settlement Date and that, as of the Settlement Date, the Licensed Product (which as used in this Termination Agreement shall encompass all Licensed Products that are the subject of the License Agreement as of the Settlement Date) shall be deemed a Terminated Product and the entire Territory shall be deemed Terminated Territory.

2. CONSEQUENCES OF TERMINATION. The Parties agree that all rights and obligations set forth in Section 12.5 (“Consequences of Termination”) and Section 12.7 (“Accrued Rights; Surviving Obligations”) of the License Agreement remain enforceable and survive the termination as intended in the License Agreement (subject to the terms and conditions therein), except to the extent any of those rights and obligations in Sections 12.5 and 12.7 are extinguished or directly modified in this Termination Agreement. To the extent any terms and conditions of this Termination Agreement modify, contradict or are inconsistent with the License Agreement, the Parties agree that this Termination Agreement shall control and govern.

3. PAYMENT BY SANOFI-AVENTIS TO LEXICON. Sanofi-Aventis shall pay Lexicon $260,000,000 USD (Two-Hundred and Sixty Million U.S. Dollars). Such payment shall be made by Sanofi-Aventis to Lexicon as follows:

a. 80% ($208,000,000) within ten (10) Business Days of the Settlement Date;

b. 10% ($26,000,000) within 180 days following the Settlement Date; and

c. 10% ($26,000,000) within 365 days following the Settlement Date.

The Parties agree that Sanofi-Aventis has the right to offset from any such settlement payments amounts of monies that are then due and outstanding from Lexicon to Sanofi-Aventis under this Termination Agreement until such time as any disputes regarding Sanofi’s claims are resolved by the Parties pursuant to this Termination Agreement. In the event that Sanofi-Aventis fails to timely pay any amounts due to Lexicon under this Termination Agreement, including as a consequence of offsetting monies not due and outstanding from Lexicon to Sanofi-Aventis at the time of offset, then without limiting any remedies that may otherwise be available to Lexicon with respect to such failure under this Termination Agreement, such amounts due from Sanofi-Aventis to Lexicon but not timely paid shall be subject to late payment interest in accordance with Paragraph 31 below.

4. MUTUAL RELEASES. The Parties, on behalf of themselves, their predecessors, successors, direct and indirect parent companies, direct and indirect subsidiary companies, companies under common control with any of the foregoing, affiliates and assigns, and its and their past, present, and future officers, directors, shareholders, interest holders, members, partners, attorneys, agents, employees, managers, representatives, assigns, and successors-in-interest, and all persons acting by, through, under, or in concert with them, and each of them, hereby release and discharge the other Parties, together with their predecessors, successors, direct and indirect parent companies, direct and indirect subsidiary companies, companies under common control with any of the foregoing, affiliates and assigns and its and their past, present, and future officers, directors, shareholders, interest holders, members, partners, attorneys, agents, employees, managers, representatives, assigns and successors-in-interest, and all persons acting by, through, under or in concert with them, and each of them, from all known and unknown charges, complaints, claims, grievances, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts, penalties, fees, wages, medical costs, pain and suffering, mental anguish, emotional distress, expenses (including attorneys' fees and costs actually incurred), and punitive damages, of any nature whatsoever, known or unknown, which any Party has, or may have had, against any other Party, whether or not apparent or yet to be discovered, for (i) any acts or omissions related to or arising from the License Agreement or (ii) the Disputes. This Termination Agreement resolves any released claim for relief that is, or could have been alleged, no matter how characterized, including, without limitation, compensatory damages, damages for breach of contract, bad faith damages, reliance damages, liquidated damages, damages for humiliation and embarrassment, punitive damages, costs, and attorneys' fees. The released claims shall not include any claims relating to a breach of this Termination Agreement or a breach of provisions in the License Agreement that survive termination.

5. SANOFI-AVENTIS' CESSATION OF FURTHER DEVELOPMENT. The Parties agree that, from and after the Settlement Date, Sanofi-Aventis has the right and hereby invokes its right to cease conducting any further activities under the License Agreement in connection with Development, save and except for the obligations expressly set forth in this Termination Agreement.

6. LEXICON'S ASSUMPTION OF CLINICAL STUDIES. The Parties agree that Lexicon shall assume control of the clinical studies involving the Terminated Product set forth in Schedule A ("Assumed Studies") in accordance with the transfer dates and other terms and conditions set forth in this Paragraph 6 and Paragraph 7. The Parties agree that except for Sanofi-Aventis' Development and associated obligations set forth in this Paragraph 6 and Paragraph 7, all other ongoing obligations of Sanofi-Aventis to conduct or continue to fund the Assumed Studies (or any other studies) under Section 12.5.1(iv) of the License Agreement, or otherwise, are hereby terminated, including any obligation by Sanofi-Aventis to continue to fund the costs of Assumed Studies for twelve (12) months following termination.

a. **CORE PHASE 3 STUDIES.** Lexicon hereby assumes control of all studies set forth in Schedule A-1 (collectively, the "Core Phase 3 Studies") as of the Settlement Date. Sanofi-Aventis agrees that for a period of [**] days following the Settlement Date, it will provide a reasonable level of assistance in support of the transition of such control, including responding to Lexicon's reasonable requests for information and making knowledgeable Sanofi-Aventis employees reasonably available to respond to Lexicon's questions. Lexicon will assume, and Sanofi-Aventis will undertake Commercially Reasonable Efforts to immediately assign or otherwise transfer the related clinical study contracts identified in Paragraph 7 of this Termination Agreement, including the existing [**] related to the Core Phase 3 Studies, in each case at no cost or liability to Lexicon beyond the remaining contracted budget as of the Settlement Date.

b. **NON-CORE STUDIES.** Lexicon will assume control of the studies set forth in Schedule A-2, including the "SCORED," "SOLOIST," and "China Studies" (collectively, the "Non-Core Studies") as of the date which is 120 days following the Settlement Date (the "Non-Core Study Transition Date"). Sanofi-Aventis will use Commercially Reasonable Efforts and work with Lexicon and its designee in good faith to transition the Non-Core Studies to Lexicon or its designee as of the Non-Core Study Transition Date. Lexicon will assume, and Sanofi-Aventis will undertake Commercially Reasonable

Efforts to assign or otherwise transfer the related clinical study contracts identified in Paragraph 7 of this Termination Agreement prior to the Non-Core Study Transition Date, in each case at no cost or liability to Lexicon beyond the remaining contracted budget as of the Settlement Date. Sanofi-Aventis will maintain control and continue its conduct of the Non-Core Studies using Commercially Reasonable Efforts until the Non-Core Study Transition Date.

c. In the event the assignment, transfer and transition of the Assumed Studies is not complete within the relevant time periods set forth above, Sanofi-Aventis will continue providing support for the Assumed Studies as Lexicon may reasonably request after such timelines until [**] days after the Settlement Date, and Lexicon will reimburse Sanofi-Aventis for its internal costs directly relating to such support at the FTE Rate; *provided*, the foregoing [**]-day limitation on Sanofi-Aventis' obligation to provide support for the Assumed Studies and the foregoing obligation of Lexicon to reimburse Sanofi-Aventis' internal costs relating to such support are subject to Sanofi's exercise of Commercially Reasonable Efforts to promptly carry out its obligations with respect to the assignment, transfer and transition of the Assumed Studies within the relevant time periods set forth above.

7. LEXICON'S ASSUMPTION OF CLINICAL STUDY-RELATED CONTRACTS AND COSTS. Sanofi-Aventis agrees to assign or transfer to Lexicon third party vendor and service contracts relating to the Assumed Studies and Lexicon agrees to make all third party vendor payments and assume such contractual obligations through direct assignment or novation of vendor and service contracts related to the Assumed Studies as set forth below.

a. Sanofi-Aventis represents that all third party contracts relating to the Assumed Studies are identified in Schedule B ("Assumed Study Contracts"), with the exception of investigator contracts or agreements, which the Parties agree are similarly subject to assumption under this paragraph. Sanofi-Aventis further represents that Schedule B also identifies all known change orders to such contracts or statements of work. Sanofi-Aventis reserves the right to amend Schedule B to add additional contracts to the extent they are discovered, in good faith, following the date of execution of this Termination Agreement, unless the total liability of the added contracts exceeds $[**] (USD), in which case Lexicon will have the right to reject and not assume such added contracts. The Parties agree that investigator contracts or agreements shall not be counted for purposes of calculating total liability of the added contracts under this Paragraph.

b. To the extent any Assumed Study Contracts are not permitted to be assigned, Sanofi-Aventis shall negotiate with the vendor or subcontractor in good faith to seek a reasonable termination of such contract and formation of a new contract between Lexicon and the respective vendor or service provider, if possible. If termination is not possible with respect to any such Assumed Study Contract, then Sanofi-Aventis will undertake performance under such non-terminable contract, and Lexicon agrees to reimburse Sanofi-Aventis for any out-of-pocket payments associated with Sanofi-Aventis' continued performance of such non-terminable contract, provided that Lexicon shall not be required to reimburse Sanofi-Aventis for its internal costs of administering such non-terminable contracts.

c. Pending any such assignment or novation of an Assumed Study Contract, Sanofi-Aventis will maintain such Assumed Study Contract with the applicable third party for Lexicon's benefit unless and until notified by Lexicon that such third party's services under such Assumed Study Contract is no longer needed.

d. Sanofi-Aventis will pay and take responsibility for payment under Assumed Study Contracts for all work done by vendors, service providers or subcontractors (including, without limitation, clinical sites and investigators) and any liability incurred on or before the Settlement Date, and Lexicon will pay and take responsibility for payment under Assumed Study Contracts for all work done by vendors, service providers or subcontractors (including, without limitation, clinical sites and investigators) and any liability incurred after the Settlement Date, in each case irrespective of when invoices for such work or services are issued by the vendors, service providers or subcontractors, or received by either Party. For clarity, Sanofi-Aventis will indemnify Lexicon and will not assert liability against Lexicon or seek contribution from Lexicon relating to [**]. The Parties will jointly draft and send notices to vendors, service providers and subcontractors subject to Assumed Study Contracts to communicate this arrangement for allocation of payments within [**] Business Days following the Settlement Date.

e. Notwithstanding the foregoing, Lexicon will have the right to select its own vendors and service providers, and decline any assignment or novation of an Assumed Study Contract, in which case Lexicon will have no obligation to the Sanofi-Aventis vendor, service provider or subcontractor for which it declines such assignment or novation, and Sanofi-Aventis will have no obligation to maintain such contract following the Settlement Date for the Core Phase 3 Studies and the Non-Core Study Transition Date for the Non-Core Studies. In the event Lexicon so declines assignment or novation of any Assumed Study Contract under this provision, Lexicon will reimburse Sanofi-Aventis for any continued out-of-pocket costs under the contract incurred by Sanofi-Aventis until such contract expires and Sanofi-Aventis shall use Commercially Reasonable Efforts to terminate such Assumed Study Contract declined by Lexicon as soon as practicable.

8. MANUFACTURING AND SUPPLY. The Parties agree that notwithstanding Section 12.5.1(vi) of the License Agreement, Sanofi-Aventis is not required to continue to perform and will cease performing all Manufacturing and supply obligations and efforts with respect to the Licensed Compound and Terminated Product, except as set forth in this Termination Agreement as follows:

a. Sanofi-Aventis agrees to transfer ownership and deliver to Lexicon or its designee Sanofi-Aventis' existing inventory of Terminated Product, active pharmaceutical ingredient, intermediates and other compounds, packaging, labeling and other materials and associated documentation relating to or otherwise useful for the Manufacture of the Licensed Compound and Terminated Product identified in Schedule C ("Inventory"), in each case at no cost to Lexicon and in accordance with cGMP shipping standards. Within [**] days of the Settlement Date, Lexicon will provide notice to Sanofi-Aventis of its desired destination for delivery of such Inventory, and Sanofi-Aventis will ship such Inventory in accordance with such notice as soon as practicable. Sanofi-Aventis is obligated to ship Inventory at its cost only to the extent such Inventory is stored at Sanofi-Aventis-owned sites. Sanofi-Aventis is not obligated to ship Inventory at its cost if stored by its vendors, manufacturers or suppliers. Notwithstanding the foregoing, Sanofi is not obligated to pay and Lexicon agrees to pay all taxes and duties associated with any shipping undertaken by Sanofi pursuant to this

Paragraph. The Parties agree that Sanofi-Aventis represents and covenants that all such Inventory stored at Sanofi-Aventis-owned sites was Manufactured and will be maintained through delivery to Lexicon in accordance with Applicable Law and the applicable specifications therefor, including, to the extent required by Applicable Law, cGMP; provided, however, if the Inventory at Sanofi-Aventis-owned sites is damaged or does not meet applicable specifications due to Sanofi-Aventis' gross negligence or willful misconduct, Sanofi-Aventis shall pay the reasonable replacement cost of such Inventory to Lexicon. Sanofi further represents that all Inventory Manufactured by third party vendors, manufacturers and suppliers was so Manufactured pursuant to contracts identified in Schedule D and subject to assignment to Lexicon hereunder.

b. Sanofi-Aventis agrees, at its sole expense, to transfer to Lexicon or its designee all technology, know-how documentation, and other written information in its possession or control which is necessary or used by Sanofi-Aventis to perform the Manufacturing Process, including, without limitation, with respect to any formulation development activities (the "Technology Transfer"). Sanofi shall use Commercially Reasonable Efforts to ensure the Technology Transfer occurs as soon as practicable.

c. At Lexicon's request, it may assume all contractual rights and obligations through direct assignment by Sanofi-Aventis of existing vendor and service contracts related to Manufacturing and supply of the Licensed Compound and Terminated Product; *provided*, that Sanofi-Aventis will remain responsible for all financial obligations thereunder until such assignment to Lexicon. Sanofi-Aventis represents that all such contracts are identified in Schedule D (the "Manufacturing Contracts") and that there are no amounts due and owing under those contracts at the time of assignment to Lexicon and that all payments have been made for Manufacturing performed and Manufacturing obligations incurred prior to the time of assignment. Subject to Lexicon's prior written consent, at Sanofi-Aventis' request the Parties may amend Schedule D to add additional contracts to the extent they are discovered, in good faith, following the Settlement Date.

d. To the extent Lexicon requests the assignment of any Manufacturing Contracts which are not permitted to be assigned, Sanofi-Aventis shall negotiate with the vendor, service provider or subcontractor in good faith to a seek a reasonable termination of such contract and formation of a new contract between Lexicon and the respective vendor, service provider or subcontractor, if possible. If termination is not possible with respect to any such Manufacturing Contract, then Sanofi-Aventis will undertake performance under such non-terminable contract, and Lexicon agrees to reimburse Sanofi-Aventis for any out-of-pocket payments associated with Sanofi-Aventis' continued performance of such non-terminable contract; *provided* that Lexicon shall not be required to reimburse Sanofi-Aventis for its internal costs of administering such non-terminable contracts.

e. The Parties shall use Commercially Reasonable Efforts to complete such transfer of Inventory, the Technology Transfer and the assignment of requested Manufacturing and supply contracts as soon as practicable and no later than [**] days after Settlement Date.

f. Sanofi-Aventis will retain responsibility for the supply and shipping of the Licensed Compound and Terminated Product (including clinical supply, distribution, returns and reconciliations, which may include the use of clinical supply depots, for the Assumed Studies) at its expense until [**] days following the Settlement Date. If such transfers and assignments are not completed, or to the extent Lexicon reasonably needs further Manufacturing and supply and shipping of the Licensed Compound or Terminated Product (including clinical supply and distribution), following the completion of such transfer and assignments and prior to expiration of [**] days following the Settlement Date, Sanofi-Aventis shall continue responsibility for, or assume responsibility for as the case may be, such Manufacturing and supply of Licensed Compound or Terminated Products, to the extent Sanofi-Aventis would have been obligated to do so under the License Agreement pursuant to Section 12.5.1(vi) thereof, but all such limitations contained therein, including the transfer pricing (Sanofi-Aventis' Manufacturing Cost plus five percent (5%)), shall apply. For purposes of further clarity, the Parties agree that clinical supplies and related manufacturing control costs (CMC costs) shall be included in Sanofi-Aventis' Manufacturing Cost for such purpose, and subject to payment by Lexicon through the transfer cost (Sanofi-Aventis' Manufacturing Cost, plus five percent (5%)).

g. Subject to Paragraph 8(a), Sanofi-Aventis will be under no obligation to provide Manufacturing and supply after the expiration of [**] days following the Settlement Date.

9. LEXICON'S ASSUMPTION OF ONGOING STABILITY STUDIES. To the extent not covered by Paragraphs 6-8 above, Lexicon also agrees to immediately assume, and Sanofi-Aventis shall assign, responsibility for all ongoing stability studies and contracts for the same, subject to the same assignment terms set forth in Paragraph 8(a)-(f). To the extent such ongoing stability studies are being conducted directly by Sanofi-Aventis, Sanofi-Aventis will continue to undertake such activities consistent with this Termination Agreement for [**] days following the Settlement Date, at its own costs. To the extent Lexicon requests that Sanofi-Aventis continue such internal ongoing stability studies after [**] days following the Effective Date, Lexicon will reimburse Sanofi-Aventis for all such costs, including reasonable costs for internal full-time employees (FTE) costs at the FTE Rate.

10. REGULATORY.

a. **Regulatory Matters**. Sanofi-Aventis and Lexicon will use Commercially Reasonable Efforts to transfer control and ownership of all Regulatory Documentation to Lexicon within [**] days of the Settlement Date. Without limiting the foregoing, Sanofi-Aventis shall (i) transfer or assign sponsorship of the INDs and Drug Approval Application in the United States, and Regulatory Approval for T1DM in the European Union, and other regulatory filings, relating to Terminated Product, and (ii) provide copies of other regulatory documents that are necessary for Lexicon to assume control and sponsorship, and maintain the regulatory files. All Regulatory Documentation constituting INDs or Drug Approval Applications (either finalized, or if in draft form, the most recent version of the draft) shall be provided in native format documents, if applicable. Pending and after such transfer, Sanofi-Aventis will cooperate with Lexicon in such transition and other activities as may be reasonably necessary to enable Lexicon to communicate and make submissions to regulatory authorities related to the Terminated Product in the United States and European Union, and will make appropriate personnel reasonably available to assist Lexicon in such activities.

b. **PV Quality System and Database.** Sanofi-Aventis and Lexicon will use Commercially Reasonable Efforts and work together in good faith to transfer the global safety database, and related patient safety oversight and governance files, to Lexicon within [**] days following the Settlement Date; *provided*, that if the Parties are unable to complete such transfer within such [**]-day period, Sanofi-Aventis will continue to retain responsibility for maintaining the global safety database and related files for up to an additional [**] days, subject to the cost-transfer provision of sub-Paragraph (g) of this Section. Sanofi-Aventis will provide Lexicon with information reasonably necessary for Lexicon to comply with its pharmacovigilance responsibilities, including, as applicable, any Adverse Events or other adverse drug experiences, in each case in the form reasonably requested by Lexicon. Subject to all other terms in this Paragraph, Sanofi-Aventis will retain responsibility for maintaining the global safety database and related files until such transfer is complete, but in no event beyond [**] days following the Settlement Date. For clarity, following transfer of the global safety database, Sanofi-Aventis shall have no further obligations relating to pharmacovigilance responsibilities.

c. **Regulatory Authority Inspections.** Pending and after the transfer of regulatory documentation contemplated above, at Lexicon's request, Sanofi-Aventis will reasonably assist Lexicon with respect to any Regulatory Authority inspection that relates to any Development or Manufacturing activity conducted by or on behalf of Sanofi-Aventis under the License Agreement and will permit a reasonable number of Lexicon representatives to be present during such inspection. Lexicon will reimburse Sanofi-Aventis for all reasonable costs with respect to all such requested assistance, including reasonable costs for internal full-time employees (FTE) costs at the FTE Rate.

d. **Simultaneous Transfer.** The Parties agree that for purposes of continuity and to ensure regulatory compliance, Sanofi-Aventis, to the extent practicable, will transfer information set forth in the "Regulatory Matters" and "PV Quality System and Database" paragraphs above simultaneously to Lexicon, and Lexicon will undertake reasonable efforts to accommodate the simultaneous transfer.

e. **No Launch Before Transfer.** Lexicon represents that it does not intend to, and hereby agrees that it will not commercially launch the Terminated Products before the completion of transfers contemplated in the "Regulatory Matters" and "PV Quality System and Database" paragraphs above.

f. **Mutual Cooperation.** Lexicon and Sanofi-Aventis will use Commercially Reasonable Efforts to complete and execute all documentation and respond to regulator inquiries in order to effect the transfer of the Regulatory Documentation and patient safety databases under this provision. Pending and after such transfer, Sanofi-Aventis will cooperate with Lexicon in such transition and other activities and shall provide such regulatory support as may be reasonably necessary to assist Lexicon to prepare and submit initial filings for the regulatory approval of the Terminated Product for T2DM in the United States and European Union currently planned for the first half of 2020 and to respond to inquiries or information requests from Regulatory Authorities with respect thereto, and will make appropriate personnel reasonably available to assist Lexicon in such activities; *provided*, that Sanofi shall not be obligated to provide such regulatory assistance or cooperation beyond [**] days following the Settlement Date except to the extent Lexicon is not reasonably able to appropriately respond to such Regulatory Authority inquiries or information requests without such assistance or cooperation from Sanofi-Aventis, in which case, the Parties agree that Sanofi-Aventis's obligation to cooperate after [**] days following the Settlement Date shall be limited to answering specific questions via teleconference.

g. **Ongoing Regulatory and Ethical Responsibility Costs**. To the extent Sanofi-Aventis continues maintenance of regulatory files (including activities as may be reasonably necessary to assist Lexicon to communicate and make submissions to regulatory authorities related to the Terminated Product in the United States and European Union) after [**] days following the Settlement Date, Lexicon will reimburse Sanofi-Aventis for all reasonable costs relating to such continued maintenance, including reasonable costs for internal full-time employees (FTE) costs at the FTE Rate; *provided*, that the foregoing obligation is subject to Sanofi-Aventis' exercise of Commercially Reasonable Efforts to promptly carry out its obligations with respect to the transfer of control and ownership of such regulatory files.

11. QUALITY. Sanofi-Aventis will use Commercially Reasonable Efforts to transfer to Lexicon quality assurance ("QA") information including copies of audit plans and audit certificates, comprehensive information relating to product specific observations and remediation efforts, and lists of all Regulatory Authority inspections relating to its QA activities with respect to Terminated Product within [**] days of the Settlement Date. Lexicon may request additional QA information and Sanofi-Aventis agrees to cooperate and provide additional QA information that is reasonably requested and necessary for the purpose of Lexicon's assumption of responsibilities for the Terminated Product. Pending and after such transfer, Sanofi-Aventis will reasonably cooperate with Lexicon representatives and any Lexicon request for additional information concerning Sanofi-Aventis' activities relating to the Terminated Product for the purpose of identifying and understanding any areas of non-compliance with cGCP, cGMP, cGLP and other similar requirements promulgated by Regulatory Authorities, including making appropriate personnel from its QA group (and other functions as necessary) reasonably available to assist Lexicon in such activities. In the event the transition of QA activities is not complete within [**] days of Settlement Date and Sanofi-Aventis provides support for QA activities after such time period, Lexicon will reimburse Sanofi-Aventis for internal costs at the FTE Rate; *provided*, that the foregoing obligation is subject to Sanofi-Aventis' exercise of Commercially Reasonable Efforts to promptly carry out its obligations with respect to the transition to Lexicon of QA activities. Notwithstanding the foregoing, Sanofi-Aventis agrees that it will use Commercially Reasonable Efforts to complete all QA activities relating to [**] at its sole expense and will promptly transfer to Lexicon all QA information relating to such [**] following its completion, including relevant reports and data.

12. INTELLECTUAL PROPERTY. Sanofi-Aventis hereby assigns to Lexicon all intellectual property rights solely relating to the Terminated Product, including without limitation any Patents, Trademarks, know-how, Information and Inventions and clinical study and other data, all of which Patents and Trademarks are set forth in Schedule E. Sanofi-Aventis agrees to take all reasonable actions and execute such agreements, instruments and documents as may be necessary or reasonably requested by Lexicon to confirm and perfect Lexicon's intellectual property rights in accordance with the foregoing sentence.

13. EXPENSES; NO FURTHER PAYMENTS. Except to the extent expressly provided in this Termination Agreement, the Parties agree that each Party will bear its own expenses incurred in connection with the matters contemplated by this Termination Agreement and that neither Party will owe any additional payment to the other Party pursuant to the License Agreement.

14. INDEMNITY. The Parties agree that Article 11 of the License Agreement survives termination pursuant to Section 12.7 of the License Agreement and is enforceable, and shall be expanded following the Settlement Date to include indemnification for Third Party Claims arising from breaches of the obligations of this Termination Agreement.

15. NOTICE REQUIREMENTS. Any notice, request, demand, waiver, consent, approval or other communication permitted or required under the License Agreement or this Termination Agreement shall be in writing, shall refer specifically to the License Agreement or this Termination Agreement and shall be deemed given only if delivered by hand or by facsimile (with transmission confirmed) or by internationally recognized overnight delivery service that maintains records of delivery, addressed to the Parties at their respective addresses specified in this Paragraph or to such other address as the Party to whom notice is to be given may have provided to the other Party in accordance with this Paragraph 14. Such notice shall be deemed to have been given as of the date delivered by hand or transmitted by facsimile (with transmission confirmed) or on the second Business Day (at the place of delivery) after deposit with an internationally recognized overnight delivery service. Any notice delivered by facsimile shall be confirmed by a hard copy delivered as soon as practicable thereafter. This Paragraph is not intended to govern the day-to-day business communications necessary between the Parties in performing their obligations under the terms of this Termination Agreement.

If to Sanofi-Aventis, to:
54 Rue La Boetie, 75008
Paris, France
Attention: Dieter Weinand

with copies (which shall not constitute notice) to:

54 Rue La Boetie, 75008
Paris, France
Tel. +331 5377 4664
Attention: VP, Legal Operations
Facsimile +331 5377 4453

DLA Piper LLP (US)
1251 Avenue of the Americas
New York, New York 10020
USA
Attention: Christopher M. Strongosky
Facsimile: +1(212)884-8543

If to Lexicon, to:

Lexicon Pharmaceuticals, Inc.
8800 Technology Forest Place
The Woodlands, Texas 77381
USA
Attention: President

with copies (which shall not constitute notice) to:

Lexicon Pharmaceuticals, Inc.
8800 Technology Forest Place
The Woodlands, Texas 77381
USA
Attention: General Counsel

and

Wilmer Cutler Pickering Hale and Dorr LLP
60 State Street
Boston, Massachusetts 02109
USA
Attention: Steven D. Barrett, Esq.
Facsimile: +1 (617) 526-5000

16. LIMITATION ON LIABILITY. The Parties agree that the limitation of liability provision contained in Section 11.4 of the License Agreement shall apply to any claim arising out of or related to this Termination Agreement.

17. CONSENT TO WITHDRAWAL AND DISMISSAL OF PENDING JAMS ARBITRATION. Upon execution of this Termination Agreement, Sanofi-Aventis and Lexicon will consent to the withdrawal of the Arbitration Demand, with prejudice.

18. DISPUTE RESOLUTION. To the extent either Party disputes the sufficiency of the other Party's performance under this Termination Agreement, including but not limited to claims of breach of this Termination Agreement (but expressly excluding claims of breach of the License Agreement, which are otherwise released by the Parties in this Termination Agreement), the dispute shall be subject to the dispute resolution procedures applicable to Legal Disputes set forth in Sections 13.5 and 13.6 of the License Agreement, which are incorporated by reference.

19. COMPROMISE OF DISPUTED CLAIMS. This Agreement is a compromise and settlement of the Disputes (disputed claims) and is entered into in order to avoid the expense and uncertainty of arbitration or additional litigation. No action taken by Lexicon or Sanofi-Aventis, either previously or in connection with this Termination Agreement, shall be deemed or construed to be: (1) an admission of the truth or falsity of any claims made by one Party against any other Party; or (2) an acknowledgement or admission by any Party of any fault or liability whatsoever to any other Party, or to any third party.

20. CONFIDENTIALITY. The Parties agree that the terms of this Termination Agreement (including, but not limited to, the fact of payment and the amounts to be paid hereunder), are confidential and shall not be disclosed by any Party or by its representatives, except (1) as required by law, subpoena or government order, including in order to comply with applicable securities laws or regulations or the rules or regulations of any stock exchange on which securities of the Party making such disclosure are traded, (2) to the Parties' respective counsel, accountants, financial advisors, and tax professionals retained by them, or (3) to any federal, state, or local governmental taxing or regulatory authority. The Parties agree to use reasonable efforts to ensure that any person identified in the preceding sentence to whom information concerning this Termination Agreement is disclosed maintains the confidentiality outlined by this provision. Nothing contained in this paragraph shall prevent any Party from stating that the Parties have "amicably resolved all differences."

21. NON-DISPARAGEMENT. The Parties agree that, unless required by legal process, its corporate officers, employees and directors shall not make any disparaging statements or representations, either directly or indirectly, whether orally or in writing, by word or gesture, to any person whatsoever, about the other Party or its attorneys, or representatives/affiliates, or any of its directors, officers, employees, attorneys, agents, or representatives, and in the case of Sanofi-Aventis shall not make any such disparaging statements or representations about the Terminated Product. For purposes of this paragraph, a disparaging statement or representation is any communication which, if publicized to another, would cause or tend to cause the recipient of the communication to question the business condition, integrity, competence, or good character of the person or entity to whom the communication relates, and in the case of the Terminated Product, the development results and commercial potential of the Terminated Product. Notwithstanding the foregoing, the Parties agree that Sanofi-Aventis may repeat its prior public statements concerning the Terminated Product and each Party may repeat its prior public statements concerning the Disputes or make similar statements without violating the terms of this Paragraph.

22. MEDIA/PRESS RELEASES. Upon the execution of this Termination Agreement, Lexicon may issue the press release attached as Exhibit F. If either Party seeks to issue any other press release related to this Termination Agreement, it will provide the other Party an advance copy of the press release related to this Termination Agreement, at least 24 hours before it is released and consider in good faith any edits or modifications requested by the other Party.

23. GOVERNING LAW AND FORUM SELECTION. This Termination Agreement and all related documents, including all schedules attached hereto, and all matters arising out of or relating to this Termination Agreement, whether sounding in contract, tort, or statute, are governed by, and construed in accordance with, the laws of the State of New York, United States, without giving effect to the conflict of law provisions thereof to the extent such principles or rules would require or permit the application of the laws of any jurisdiction other than those of the State of New York. Each Party irrevocably and unconditionally agrees that it will not commence any action, litigation, or proceeding of any kind whatsoever against any other Party in any way arising from or relating to this Termination Agreement and all contemplated transactions, including, but not limited to, contract, equity, tort, fraud, and statutory claims, in any forum other than through arbitration pursuant to Section 13.5 of the License Agreement or through the state or federal courts of New York, New York County. Each Party irrevocably and unconditionally submits to the jurisdiction of such fora for such express purposes, and subject to the dispute resolution process set forth herein. Each Party agrees that a final judgment in any such arbitration, action, litigation, or proceeding is conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. In addition, each Party agrees to accept service of any legal process sent in accordance with the notice provision of Paragraph 14 of this Termination Agreement.

24. ENTIRE AGREEMENT. This Termination Agreement, including the attachment(s), contains the entire understanding of the Parties with respect to the subject matter contained herein, and supersedes all prior written or oral communications. This Termination Agreement may not be modified or amended except by an instrument in writing signed by all Parties. No other representation has induced the Parties to execute this Termination Agreement, and there are no representations, inducements, promises or agreements, oral or otherwise, between the Parties not embodied in this Termination Agreement, which are of any force or effect with reference to this Termination Agreement or otherwise. This Termination Agreement shall inure to the benefit of, and be binding upon, the Parties hereto, and their respective affiliated entities, trusts, successors-in-interest, assigns, representatives, directors, officers, employees, stockholders, and members.

25. NON-WAIVER. No delay or failure by a party to exercise any right under this Termination Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any other right, unless otherwise expressly provided herein.

26. REPRESENTATION BY COUNSEL. Each Party hereby acknowledges that it has been represented by counsel of its choosing in connection with the execution and delivery of this Termination Agreement, that the Parties and their counsel have reviewed this Termination Agreement prior to execution and that any ambiguity in or dispute about the meaning of any term or provision of this Termination Agreement shall not be construed against any Party, but shall be construed as if this Termination Agreement were jointly drafted.

27. ATTORNEY'S FEES. Each Party is responsible for its own legal fees and costs in connection with the preparation, negotiation and consideration of this Termination Agreement. The prevailing Party in any arbitration or litigation regarding this Termination Agreement shall be entitled to recover its reasonable attorneys' fees and costs.

28. CONSTRUCTION. Except where the context otherwise requires, wherever used, the singular shall include the plural, the plural the singular, the use of any gender shall be applicable to all genders and the word "or" is used in the inclusive sense (and/or). Whenever this Agreement refers to a number of days, unless otherwise specified, such number refers to calendar days. The captions of this Agreement are for convenience of reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision contained in this Agreement. The term “including,” “include,” or “includes” as used herein shall mean including, without limiting the generality of any description preceding such term. The language of this Agreement shall be deemed to be the language mutually chosen by the Parties and no rule of strict construction shall be applied against either Party hereto.

29. SEVERABILITY. In the event any part of this Termination Agreement is held by a court of law to be unenforceable, the remaining parts of this Termination Agreement shall remain in full force and effect.

30. COUNTERPARTS. This Termination Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument. The Parties hereto agree that facsimile transmission or PDF of original signatures shall constitute and be accepted as original signatures.

31. LATE PAYMENTS. Should any amount payable from one Party to the other Party under this Termination Agreement not be paid on or before the date such payment is due, then, without limiting any other remedies the payment-receiving Party may have with respect to such non-payment, late payment interest shall be payable on such amount as set forth in Section 7.12 of the License Agreement, which shall survive termination of the License Agreement for such purpose.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties hereto have caused this Termination Agreement to be executed by their duly authorized representatives and effective as of the Settlement Date.

Lexicon Pharmaceuticals, Inc.

By:______________________________

Name:______________________________

Title:______________________________

Dated: September __, 2019

Sanofi-Aventis Deutschland GmbH

By:______________________________

Name:______________________________

Dated: September __, 2019

Title:______________________________

SCHEDULE A-1

ASSUMED CORE PHASE 3 STUDIES

CORE PHASE 3 STUDIES		
No.	***Study Name***	***Study ID***
1.	Efficacy and Safety of Sotagliflozin Versus Placebo in Patients With Type 2 Diabetes Mellitus Not Currently Treated With Antidiabetic Therapy	EFC14833
2.	Efficacy and Safety of Sotagliflozin Versus Placebo in Patients With Type 2 Diabetes Mellitus on Background of Metformin	EFC14834
3.	Efficacy and Safety of Sotagliflozin Versus Placebo in Patients With Type 2 Diabetes Mellitus on Background of Sulfonylurea Alone or With Metformin	EFC14835
4.	Safety and Efficacy Study of Sotagliflozin on Glucose Control in Patients With Type 2 Diabetes, Moderate Impairment of Kidney Function, and Inadequate Blood Sugar Control (SOTA-CKD3)	EFC14837
5.	Efficacy and Safety of Sotagliflozin Versus Glimepiride and Placebo in Subjects With Type 2 Diabetes Mellitus That Are Taking Metformin Monotherapy (SOTA-GLIM)	EFC14838
6.	Efficacy and Safety of Sotagliflozin Versus Placebo and Empagliflozin in Subjects With Type 2 Diabetes Mellitus Who Have Inadequate Glycemic Control While Taking a DPP4 Inhibitor Alone or With Metformin (SOTA-EMPA)	EFC14867
7.	Efficacy and Safety of Sotagliflozin Versus Placebo in Subjects With Type 2 Diabetes Mellitus Who Have Inadequate Glycemic Control While Taking Insulin Alone or With Other Oral Antidiabetic Agents (SOTA-INS)	EFC14868
8.	A Study to Evaluate Safety and Effects of Sotagliflozin Dose 1 and Dose 2 on Glucose Control in Patients With Type 2 Diabetes, Severe Impairment of Kidney Function and Inadequate Blood Sugar Control (SOTA-CKD4)	EFC15166
9.	Efficacy and Bone Safety of Sotagliflozin Dose 1 and Dose 2 Versus Placebo in Subjects With Type 2 Diabetes Mellitus Who Have Inadequate Glycemic Control (SOTA-BONE)	EFC15294

SCHEDULE A-2

ASSUMED NON-CORE STUDIES

NON-CORE STUDIES		
No.	***Study Name***	***Study ID***
10.	Effect of Sotagliflozin on Cardiovascular and Renal Events in Patients With Type 2 Diabetes and Moderate Renal Impairment Who Are at Cardiovascular Risk (SCORED)	EFC14875
11.	Effect of Sotagliflozin on Cardiovascular Events in Patients With Type 2 Diabetes Post Worsening Heart Failure (SOLOIST-WHF Trial)	EFC15156
12.	Safety, Tolerability and Pharmacodynamic Activity of Sotagliflozin in Hemodynamically Stable Patients With Worsening Heart Failure	PDY15079
13.	Sotagliflozin Multiple-dose Study in Healthy Chinese Subjects	TDR15349
14.	Efficacy and Safety of Sotagliflozin Versus Placebo in Chinese Patients With Type 2 Diabetes Mellitus Not Adequately Controlled by Metformin With or Without Sulfonylurea	EFC15193
15.	Efficacy and Safety of Sotagliflozin Versus Placebo in Chinese Patients With Type 2 Diabetes Mellitus Not Adequately Controlled by Diet and Exercise	EFC15194
16.	Efficacy and Safety of Sotagliflozin in Asian Patients with Type 2 Diabetes Mellitus Who Have Inadequate Glycemic Control on basal insulin alone or basal insulin with oral anti-diabetic drugs (OADs) Note: Does not have patients screened yet.	EFC15253
17.	Study To Determine Bioavailability of Sotagliflozin in Healthy Male and Female Subjects	PKM15402
18.	A Bioequivalence Study Testing Two Formulations of Sotagliflozin in Healthy Male and Female Subjects Under Fasted Conditions	BEQ14993
19.	Comparison of Pharmacodynamic Effects of Sotagliflozin and Empagliflozin in T2DM Patients With Mild to Moderate Hypertension	PDY15010
20.	Pre-clinical study ongoing in Germany: The role of combined SGLT-1 and SGLT-2 inhibition in the heart- rat model of diabetic cardiomyopathy	EC000412

SCHEDULE B

ASSUMED STUDY CONTRACTS*

*This list tracks the file structure and organization of Assumed Study Contracts as provided and disclosed to Lexicon in the *SharePoint* document sharing platform. To the extent this Schedule varies in contract name, party name or date, Sanofi refers Lexicon to the *SharePoint* site for the specific details.

No.	***Contract***	***Party(ies)***	***Date***
[**]	[**]	[**]	[**]

[Fifteen (15) pages redacted]

SCHEDULE C

INVENTORY TO BE TRANSFERRED

	Quantity	**Use by date**	**Location**
[**]	[**]	[**]	[**]

SCHEDULE D

ASSUMED MANUFACTURING AND SUPPLY CONTRACTS

No.	***Contract***	***Party(ies)***	***Date***
[**]	[**]	[**]	[**]

[Two (2) pages redacted]

SCHEDULE E

PATENTS AND TRADEMARKS TO BE ASSIGNED

PATENTS:

Patents	**Agency**	**Date Filed**	**Summary**
[**]	[**]	[**]	[**]

TRADEMARKS:

[**]

[Five (5) pages redacted]

EXHIBIT F

PRESS RELEASE

LEXICON PHARMACEUTICALS announces termination of alliance AND SETTLEMENT with sanofi

Conference Call and Webcast Today at 5:00 pm EDT / 4:00 pm CDT

The Woodlands, Texas, September 10, 2019 - Lexicon Pharmaceuticals, Inc. (Nasdaq: LXRX), today announced the termination of its alliance with Sanofi for the development and commercialization of Zynquista™ (sotagliflozin) and the settlement of its related disputes with Sanofi, each effective September 9, 2019. In connection with the termination, Lexicon will regain all rights to Zynquista and assume full responsibility for the worldwide development and commercialization of Zynquista in both type 1 and type 2 diabetes. Under the terms of the settlement, Sanofi will pay Lexicon $260 million, of which $208 million is payable upfront and the remainder is payable within twelve months, and coordinate with Lexicon in the transition of responsibility for ongoing clinical studies and other activities.

"Our four-year alliance with Sanofi has been a productive one, with Zynquista receiving marketing approval in Europe in type 1 diabetes and advancing into late-stage studies in type 2 diabetes," said Lonnel Coats, president and chief executive officer of Lexicon. "Regaining worldwide rights allows us to advance our efforts to realize the full value of the Zynquista program as we prepare for regulatory filings in the U.S. and in Europe in type 2 diabetes, with data coming over the next few months from the remainder of the core Phase 3 studies and over the longer term from two outcomes studies with potential for demonstrating cardiovascular and renal benefits. We believe that this potential, along with a European approval in type 1 diabetes, offer an attractive opportunity for potential collaborators as we work to maximize the global potential for Zynquista and to achieve greater operational flexibility."

Conference Call and Webcast Information

Lexicon management will hold a live conference call and webcast today at 5:00 pm EDT / 4:00 pm CDT to discuss today's announcement. The dial-in number for the conference call is 888-645-5785 (U.S./Canada) or 970-300-1531 (international). The conference ID for all callers is 7376526. The live webcast and replay may be accessed by visiting Lexicon's website at www.lexpharma.com/investors. An archived version of the webcast will be available on the website for 14 days.

About Zynquista (sotagliflozin)

Discovered using Lexicon's unique approach to gene science, Zynquista is an oral dual inhibitor of two proteins responsible for glucose regulation known as sodium-glucose co-transporter types 1 and 2 (SGLT1 and SGLT2). SGLT1 is responsible for glucose absorption in the gastrointestinal tract, and SGLT2 is responsible for glucose reabsorption by the kidney. Zynquista is approved in the European Union (EU) for use as an adjunct to insulin therapy to improve blood sugar (glycemic) control in adults with type 1 diabetes with a body mass index ≥ 27 kg/m2, who could not achieve adequate glycemic control despite optimal insulin therapy. Outside of such approval, Zynquista is investigational and has not been approved by any other regulatory authority for type 1 or type 2 diabetes.

About Lexicon Pharmaceuticals

Lexicon is a fully integrated biopharmaceutical company with a mission of pioneering medicines that transform patients' lives. Through its Genome5000™ program, Lexicon scientists studied the role and function of nearly 5,000 genes and identified more than 100 protein targets with significant therapeutic potential in a range of diseases. Through the precise targeting of these proteins, Lexicon is pioneering the discovery and development of innovative medicines to safely and effectively treat disease. In addition to its first commercial product, XERMELO, Lexicon has a pipeline of promising drug candidates in clinical and preclinical development in diabetes and metabolism, oncology and neuropathic pain. For additional information, please visit www.lexpharma.com.

Safe Harbor Statement

This press release contains "forward-looking statements," including statements relating to Lexicon's long-term outlook on its business, the commercialization of XERMELO (telotristat ethyl) and Zynquista (sotagliflozin), and the clinical development of, the regulatory filings for, and the potential therapeutic and commercial potential of telotristat ethyl, sotagliflozin, LX2761 and LX9211. In addition, this press release also contains forward looking statements relating to Lexicon's growth and future operating results, discovery, development and commercialization of products, strategic alliances and intellectual property, as well as other matters that are not historical facts or information. All forward-looking statements are based on management's current assumptions and expectations and involve risks, uncertainties and other important factors, specifically including Lexicon's ability to meet its capital requirements, successfully commercialize XERMELO, successfully conduct preclinical and clinical development and obtain necessary regulatory approvals of telotristat ethyl, sotagliflozin, LX2761, LX9211 and its other potential drug candidates on its anticipated timelines, achieve its operational objectives, obtain patent protection for its discoveries and establish strategic alliances, as well as additional factors relating to manufacturing, intellectual property rights, and the therapeutic or commercial value of its drug candidates. Any of these risks, uncertainties and other factors may cause Lexicon's actual results to be materially different from any future results expressed or implied by such forward-looking statements. Information identifying such important factors is contained under "Risk Factors" in Lexicon's annual report on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission. Lexicon undertakes no obligation to update or revise any such forward-looking statements, whether as a result of new information, future events or otherwise.

For Investor Inquiries:

Kimberly Lee, D.O.

Head of Investor Relations and Corporate Strategy

Lexicon Pharmaceuticals

(281) 863-3383

klee@lexpharma.com

For Media Inquiries:

Chas Schultz

Executive Director, Corporate Communications and Patient Advocacy

Lexicon Pharmaceuticals

(281) 863-3421

cschultz@lexpharma.com

Exhibit 31.1

CERTIFICATIONS

I, Lonnel Coats, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lexicon Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Lonnel Coats

Lonnel Coats

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jeffrey L. Wade, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lexicon Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Jeffrey L. Wade

Jeffrey L. Wade

Executive Vice President, Corporate and Administrative Affairs and Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350, as adopted), Lonnel Coats, Principal Executive Officer of Lexicon Pharmaceuticals, Inc. (“Lexicon”), and Jeffrey L. Wade, Principal Financial Officer of Lexicon, each hereby certify that:

1. Lexicon's Quarterly Report on Form 10-Q for the period ended September 30, 2019, and to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934, and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Lexicon.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 7th day of November, 2019.

By: /s/ Lonnel Coats
Lonnel Coats
President and Chief Executive Officer

By: /s/ Jeffrey L. Wade
Jeffrey L. Wade
Executive Vice President, Corporate and Administrative Affairs and Chief Financial Officer