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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

OR

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

FOR THE TRANSITION PERIOD FROM _____________ TO _____________

COMMISSION FILE NUMBER: 000-30111

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

DELAWARE	76-0474169
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

4000 RESEARCH FOREST DRIVE
THE WOODLANDS, TEXAS 77381
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES AND ZIP CODE)

(281) 364-0100
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

Yes __X__ No _____

As of October 26, 2000, 48,117,925 shares of the registrant's common stock, par value $0.001 per share, were outstanding.

LEXICON GENETICS INCORPORATED

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Lexicon Genetics Incorporated
Balance Sheets

Assets

	As of September 30, 2000 (unaudited)	As of December 31, 1999
Current assets:		
Cash and cash equivalents	$ 23,941,651	$ 2,025,585
Marketable securities	182,380,882	7,130,848
Accounts receivable	2,363,648	3,391,648
Prepaid expenses and other	49,401	76,257
Total current assets	208,735,582	12,624,338
Property, plant and equipment	16,641,569	12,476,021
Accumulated depreciation	(4,941,844)	(3,087,397)
	11,699,725	9,388,624
Other assets, net	675,732	281,605
Total assets	$221,111,039	$ 22,294,567

Liabilities, Redeemable Convertible Series A Preferred Stock, and Stockholders' Equity (Deficit)

	As of September 30, 2000 (unaudited)	As of December 31, 1999
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,328,395	$ 1,192,276
Current portion of related party note payable	--	200,004
Current portion of long-term debt	874,119	874,174
Current portion of capital lease obligations	--	127,119
Deferred revenue	3,506,339	8,209,574
Total current liabilities	6,708,853	10,603,147
Capital lease obligations, net of current portion	--	6,279
Related party note payable, net of current portion	--	716,663
Long-term debt, net of current portion	2,209,705	2,854,365
Total liabilities	8,918,558	14,180,454
Commitments and contingencies		
Redeemable convertible Series A preferred stock, $.01 par value, 10,000,000 shares authorized, none and 4,244,664 shares issued and outstanding, respectively	--	30,050,236
Stockholders' equity (deficit):		
Common stock, $.001 par value, 120,000,000 shares authorized, 47,937,974 and 24,540,201 shares issued and outstanding, respectively	47,938	24,540
Additional paid-in capital	295,999,945	7,863,392
Deferred stock compensation	(36,472,086)	(915,422)
Accumulated deficit	(47,383,316)	(28,908,633)
Total stockholders' equity (deficit)	212,192,481	(21,936,123)
Total liabilities and stockholders' equity (deficit)	$221,111,039	$ 22,294,567

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

Lexicon Genetics Incorporated
Statements of Operations
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenues:				
Subscription and technology license fees	$ 435,419	$ 224,823	$ 2,493,471	$ 761,126
Collaborative research	5,117,862	432,248	8,751,919	1,469,565
Reagents	60,879	52,241	191,718	177,050
Grants	--	--	98,581	190,024
Total revenues	5,614,160	709,312	11,535,689	2,597,765
Operating expenses:				
Research and development	5,521,112	3,897,399	13,218,863	10,543,909
General and administrative	1,934,284	681,524	4,761,350	2,227,097
Stock based compensation	3,049,299	--	18,191,912	--
Total operating expenses	10,504,695	4,578,923	36,172,125	12,771,006
Loss from operations	(4,890,535)	(3,869,611)	(24,636,436)	(10,173,241)
Interest income	3,450,352	159,830	6,500,510	531,491
Interest expense	99,697	120,139	338,757	181,097
Net loss	$(1,539,880)	$(3,829,920)	$(18,474,683)	$(9,822,847)
Net loss per common share, basic and diluted	$ (0.03)	$ (0.10)	$ (0.42)	$ (0.26)
Shares used in computing net loss per common share, basic and diluted	47,780,441	37,238,440	43,988,414	37,237,483

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

Lexicon Genetics Incorporated
Statements of Cash Flows
(unaudited)

	For the Nine Months Ended September 30, 2000	1999
Cash flows from operating activities:		
Net loss	$ (18,474,683)	$ (9,822,847)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,854,447	1,364,161
Amortization of deferred stock compensation	18,191,912	--
Changes in operating assets and liabilities:		
Decrease in accounts receivable	1,028,000	633,226
(Increase) decrease in prepaid expenses	26,856	(77,577)
(Increase) decrease in other assets	(394,127)	50,474
Increase (decrease) in accounts payable and accrued liabilities	1,136,119	(273,792)
Decrease in deferred revenue	(4,703,235)	(485,209)
Net cash used in operating activities	(1,334,711)	(8,611,564)
Cash flows from investing activities:		
Purchases of property and equipment	(4,165,548)	(3,838,969)
Purchase of marketable securities	(305,533,921)	(8,929,552)
Maturities of marketable securities	130,283,887	16,400,158
Net cash provided by (used in) investing activities	(179,415,582)	3,631,637
Cash flows from financing activities:		
Principal payments of capital lease obligations	(133,398)	(150,324)
Proceeds from issuance of common stock	204,023,639	--
Proceeds from debt borrowings	--	3,568,446
Repayment of debt borrowings	(1,223,882)	(246,687)
Net cash provided by financing activities	202,666,359	3,171,435
Net increase (decrease) in cash and cash equivalents	21,916,066	(1,808,492)
Cash and cash equivalents at beginning of period	2,025,585	3,022,201
Cash and cash equivalents at end of period	$ 23,941,651	$ 1,213,709
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 338,757	$ 181,097
Supplemental disclosure of non-cash financing activities:		
Conversion of redeemable convertible preferred stock into common stock	$ 30,184,090	$ --
Conversion of related party note payable into common stock	$ 337,500	$ --

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

LEXICON GENETICS INCORPORATED

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements 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 three-month and nine-month periods ended September 30, 2000 are not necessarily indicative of the results that may be expected for the year ended December 31, 2000.

For further information, refer to the financial statements and footnotes thereto for the year ended December 31, 1999 included in Lexicon's Registration Statement on Form S-1 (Registration No. 333-96469) as filed with the SEC and the prospectus dated April 7, 2000 included therein.

2. NET LOSS PER SHARE

Net loss per share is computed using the weighted average number of shares of common stock outstanding during the applicable period. Shares associated with stock options and warrants are not included because they are antidilutive. There are no differences between basic and diluted net loss per share for all periods presented.

3. DEFERRED STOCK COMPENSATION

During January and February 2000, Lexicon issued options to purchase an aggregate of 3,495,900 shares of common stock to certain employees and consultants. Lexicon recorded deferred compensation totaling approximately $60.5 million for options granted in the first quarter of 2000. Deferred stock compensation and related amortization represents the difference between the exercise price of stock options and the fair value of Lexicon's common stock at the date of grant. Deferred stock compensation is amortized over the vesting periods of the individual stock options for which it was recorded. During the three months ended September 30, 2000, Lexicon reversed $6.7 million of deferred compensation and additional paid-in capital for unamortized deferred compensation related to the forfeiture of unvested options by terminated employees and consultants. For the nine months ended September 30, 2000, Lexicon amortized $18.2 million of deferred stock compensation. If vesting continues in accordance with the outstanding individual stock options, Lexicon expects to record amortization expense for deferred stock compensation as follows: $2.7 million during the last three months of 2000, $11.0 million during 2001, $11.0 million during 2002, $10.9 million during 2003 and $0.9 million during 2004. The amount of stock based compensation expense to be recorded in future periods may decrease if unvested options for which deferred stock compensation expense has been recorded are subsequently canceled or forfeited.

4. INITIAL PUBLIC OFFERING AND CONVERSION OF PREFERRED STOCK

In April 2000, Lexicon completed an initial public offering of 10,000,000 newly-issued shares of its common stock at a price of $22.00 per share. Lexicon received $203.2 million in cash, net of underwriting discounts, commissions and other offering costs.

Simultaneously with the closing of the initial public offering, the 4,244,664 shares of Redeemable Convertible Series A Preferred Stock then outstanding were automatically converted into 12,733,992 shares of common stock.

5. COLLABORATION AND LICENSE AGREEMENTS

In September 2000, Lexicon entered into an agreement with Bristol-Myers Squibb Company, under which Bristol-Myers Squibb will have access to Lexicon's LexVision(TM) program and OmniBank(R) database and library, and Lexicon concluded its 1997 agreement with the Merck Genome Research Institute, or MGRI. In connection with the conclusion of the MGRI agreement, Lexicon recognized $3.1 million of deferred revenues remaining from the $4.0 million cash payment made by MGRI when the agreement was signed and an additional $1.0 million of revenue related to a final, non-refundable cash payment that Lexicon received from MGRI. Lexicon has not yet recognized any revenues under the September 2000 LexVision agreement with Bristol-Myers Squibb.

6. SUBSEQUENT EVENT

In October 2000, Lexicon entered into a synthetic lease agreement under which the lessor purchased Lexicon's current laboratory and office space and vivarium and agreed to fund the construction of additional laboratory and office space and a second vivarium. Including the purchase price for Lexicon's existing facilities, the synthetic lease provides for funding of up to $45.0 million in property and improvements. The term of the agreement is six years, which includes the construction period and a lease period. Lease payments for Lexicon's existing facilities are approximately $1.5 million per year. Lease payments for the new facilities will begin upon completion of construction, which is expected in the fourth quarter of 2001. When the new facilities are completed, Lexicon's total lease payments for the existing facilities and the new facilities are expected to be $3.2 million per year. At the end of the lease term, the lease may be extended for one-year terms, up to seven additional terms, or Lexicon may purchase the properties for a price including the outstanding lease balance. If Lexicon elects not to renew the lease or purchase the properties, Lexicon must arrange the sale of the properties to a third party. Under the sale option, Lexicon has guaranteed a percentage of the total original cost as the residual fair value of the properties.

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

OVERVIEW

We are defining the functions of genes for drug discovery using mice whose DNA has been altered to disrupt, or "knock out," the function of the altered gene. Our proprietary gene trapping and gene targeting technologies enable us to rapidly generate these knockout mice by altering the DNA of genes in a special variety of mouse cells, called embryonic stem (ES) cells, which can be cloned and used to generate mice with the altered gene. We employ an integrated platform of advanced medical technologies to systematically analyze the functions and pharmaceutical relevance of the genes we have knocked out. Our LexVision(TM) program captures the information resulting from this analysis for our use, and use by our collaborators, to discover pharmaceutical products based on genomics - the study of genes and their function.

We derive substantially all of our revenues from subscriptions to our databases and functional genomics collaborations for the development and analysis of knockout mice. To date, we have generated a substantial portion of our revenues from a limited number of sources.

Since our inception, we have incurred significant losses and, as of September 30, 2000, we had an accumulated deficit of $47.4 million. Our losses have resulted principally from costs incurred in research and development, general and administrative costs associated with our operations, and non-cash stock based compensation expenses associated with stock options granted to employees and consultants prior to our April 2000 initial public offering. Research and development expenses consist primarily of salaries and related personnel costs, material costs, legal expenses resulting from intellectual property prosecution and other expenses related to our LexVision program, the generation of our human gene sequence databases and our OmniBank(R) database and mouse clone library, the development and analysis of knockout mice and our other functional genomics research efforts. We expense our research and development costs as they are incurred. General and administrative expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, professional fees and other corporate expenses including business development and general legal activities. Deferred stock compensation and related amortization represents the difference between the exercise price of stock options issued prior to our April 2000 initial public offering and the fair value of our common stock at the date of grant. Deferred stock compensation is amortized over the vesting periods of the individual stock options for which it was recorded. The amount of stock based compensation expense to be recorded in future periods may decrease if unvested options for which deferred stock compensation expense has been recorded are subsequently canceled or forfeited. In connection with the expansion of our LexVision program, our human gene sequence databases, our OmniBank database and library and our functional genomics research efforts, we expect to incur increasing research and development and general and administrative costs. As a result, we will need to generate significantly higher revenues to achieve profitability.

Our quarterly operating results will depend upon many factors, including our success in establishing new database subscription and research contracts with collaborators, expirations of such contracts, the success rate of our discovery efforts leading to milestones and royalties, the timing and willingness of collaborators to commercialize products which may result in royalties, and general and industry-specific economic conditions which may affect research and development expenditures. As a consequence, our quarterly operating results have fluctuated in the past and are likely to do so in the future.

RESULTS OF OPERATIONS

Three Months Ended September 30, 1999 and 2000

Revenues. Total revenues increased 691% to $5.6 million in the three months ended September 30, 2000 from $709,000 in the corresponding period in 1999. Of the $4.9 million increase, $211,000 was derived from increased database subscription and technology license fees and $4.7 million was derived from increased revenues from functional genomics collaborations for the development and analysis of knockout mice.

In September 2000, we entered into an agreement with Bristol-Myers Squibb Company, under which Bristol-Myers Squibb will have access to our LexVision program and OmniBank database and library, and we concluded our 1997 agreement with the Merck Genome Research Institute, or MGRI. In October 2000, we entered into a functional genomics agreement with Tularik Inc. and a separate sublicense agreement with Bristol-Myers Squibb. In connection with the conclusion of the MGRI agreement, we recognized $3.1 million of deferred revenues remaining from the $4.0 million cash payment made to us by MGRI when the agreement was signed and an additional $1.0 million of revenue related to a final, non-refundable cash payment that we received from MGRI. As a result of these arrangements with MGRI, our revenues for the third quarter of 2000 are substantially greater than our revenues in prior quarters, and are likely to be significantly greater than our revenues for the fourth quarter of 2000. We have not yet recognized any revenues under our September 2000 LexVision agreement with Bristol-Myers Squibb or our October 2000 agreements with Tularik and Bristol-Myers Squibb. As a result of these and other factors, 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.

Research and Development Expenses. Research and development expenses increased 42% to $5.5 million in the three months ended September 30, 2000 from $3.9 million in the corresponding period in 1999. The increase of $1.6 million was attributable to continued growth of research and development activities, primarily related to increased personnel costs to support the expansion of our LexVision program, the generation of our human gene sequence databases and our OmniBank database and library, the development and analysis of knockout mice and our other functional genomics research efforts.

General and Administrative Expenses. General and administrative expenses increased 184% to $1.9 million in the three months ended September 30, 2000 from $682,000 in the corresponding period in 1999. The increase of $1.3 million was due primarily to additional personnel costs for business development and finance and administration, as well as expenses associated with our patent infringement litigation against Deltagen, Inc.

Stock Based Compensation Expense. For the three months ended September 30, 2000, we amortized $3.0 million of deferred compensation related to options granted to employees and certain consultants. We did not record any stock based compensation expense in the corresponding period in 1999.

Interest Income and Interest Expense. Interest income increased to $3.5 million in the three months ended September 30, 2000 from $160,000 in the corresponding period in 1999. This increase resulted from an increased cash and investment balance as a result of our initial public offering. Interest expense decreased 17% to $100,000 in the three months ended September 30, 2000 from $120,000 in the corresponding period in 1999.

Net Loss and Net Loss Per Common Share. Net loss decreased to $1.5 million in the three months ended September 30, 2000 from $3.8 million in the corresponding period in 1999. Net loss per share decreased to $0.03 in the three months ended September 30, 2000 from $0.10 in the corresponding period in 1999. The net loss for the three months ended September 30, 2000, was primarily attributable to stock based compensation expense. Excluding stock based compensation expense, we would have had net income and net income per share of $1.5 million and $0.03, respectively, for the three months ended September 30, 2000.

Nine Months Ended September 30, 1999 and 2000

Revenues. Total revenues increased 344% to $11.5 million in the nine months ended September 30, 2000 from $2.6 million in the corresponding period in 1999. Of the $8.9 million increase, $1.7 million was derived from increased database subscription and technology license fees and $7.3 million was derived from increased revenues from functional genomics collaborations for the development and analysis of knockout mice. The $7.3 million increase includes $4.1 million related to the conclusion of our 1997 agreement with MGRI.

Research and Development Expenses. Research and development expenses increased 25% to $13.2 million in the nine months ended September 30, 2000 from $10.5 million in the corresponding period in 1999. The increase of $2.7 million was attributable to continued growth of research and development activities, primarily related to increased personnel costs to support the expansion of our LexVision program, the generation of our human gene sequence databases and our OmniBank database and library, the development and analysis of knockout mice and our other functional genomics research efforts.

General and Administrative Expenses. General and administrative expenses increased 114% to $4.8 million in the nine months ended September 30, 2000 from $2.2 million in the corresponding period in 1999. The increase of $2.5 million was due primarily to additional personnel costs for business development and finance and administration, as well as expenses associated with our patent infringement litigation against Deltagen, Inc.

Stock Based Compensation Expense. For the nine months ended September 30, 2000, we amortized $18.2 million of deferred compensation related to options granted to employees and certain consultants. We did not record any stock based compensation expense in the corresponding period in 1999.

Interest Income and Interest Expense. Interest income increased to $6.5 million in the nine months ended September 30, 2000 from $531,000 in the corresponding period in 1999. This increase resulted from an increased cash and investment balance as a result of our initial public offering. Interest expense increased 87% to $339,000 in the nine months ended September 30, 2000 from $181,000 in the corresponding period in 1999. This increase resulted from higher average debt obligation balances in the nine months ended September 30, 2000 as compared to the corresponding period in 1999.

Net Loss and Net Loss Per Common Share. Net loss increased to $18.5 million in the nine months ended September 30, 2000 from $9.8 million in the corresponding period in 1999. Net loss per share increased to $0.42 in the nine months ended September 30, 2000 from $0.26 in the corresponding period in 1999. These increases resulted primarily from an $18.2 million charge for stock based compensation in the nine months ended September 30, 2000. Excluding the stock based compensation expense, our net loss and the net loss per share would have been $283,000 and $0.01, respectively, for the nine months ended September 30, 2000.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations from inception primarily through sales of common and preferred stock, contract and milestone payments to us under our database subscription and collaboration agreements and equipment financing arrangements. As of September 30, 2000, we had received net proceeds of $241.0 million from issuances of common and preferred stock, including $203.2 million of net proceeds from the initial public offering of our common stock in April 2000. In addition, from our inception through September 30, 2000, we received $21.0 million in cash payments from database subscription and technology license fees, functional genomics collaborations for the development and analysis of knockout mice, sales of reagents and government grants, of which $19.8 million had been recognized as revenues through September 30, 2000.

As of September 30, 2000, we had $206.3 million in cash, cash equivalents and marketable securities, as compared to $9.2 million as of December 31, 1999. We used $1.3 million in operations in the nine months ended September 30, 2000. This consisted of the net loss for the period of $18.5 million offset by non-cash charges of $18.2 million related to compensation expense and $1.9 million related to depreciation expense offset partially by a net decrease in other working capital accounts of $2.9 million. We used $179.4 million in investing activities for the nine months ended September 30, 2000, principally as a result of the net purchase of marketable securities with the net proceeds of our initial public offering in April 2000, and purchases of property and equipment.

In June 1999, we entered into a $5.0 million financing arrangement for the purchase of property and equipment which is secured by the equipment financed. As of September 30, 2000, we had drawn down approximately $4.2 million and had $832,000 remaining available under this arrangement. As of September 30, 2000, $3.1 million of the borrowings remained outstanding under this arrangement. This facility accrues interest at a weighted-average rate of approximately 11.7% and is due in monthly installments through 2003. This debt may be retired through payment at the end of the second quarter of 2001.

In October 2000, we entered into a synthetic lease agreement under which the lessor purchased our current laboratory and office space and vivarium and agreed to fund the construction of additional laboratory and office space and a second vivarium. Including the purchase price for our existing facilities, the synthetic lease provides for funding of up to $45.0 million in property and improvements. The term of the agreement is six years, which includes the construction period and a lease period. Lease payments for our existing facilities are approximately $1.5 million per year. Lease payments for the new facilities will begin upon completion of construction, which is expected in the fourth quarter of 2001. When the new facilities are completed, our total lease payments for our existing facilities and the new facilities are expected to be $3.2 million per year. At the end of the lease term, the lease may be extended for one-year terms, up to seven additional terms, or we may purchase the properties for a price including the outstanding lease balance. If we elect not to renew the lease or purchase the properties, we must arrange the sale of the properties to a third party. Under the sale option, we have guaranteed a percentage of the total original cost as the residual fair value of the properties.

Our capital requirements depend on numerous factors, including our ability to obtain database subscription and collaboration agreements, the amount and timing of payments under such agreements, the level and timing of our research and development expenditures, market acceptance of our products, the resources we devote to developing and supporting our products and other factors. We expect to devote substantial capital resources to continue our research and development efforts, to expand our support and product development activities, and for other general corporate activities. We believe that our current cash balances, together with the net proceeds of our April 2000 initial public offering and revenues to be derived from subscriptions to our databases, functional genomics collaborations for the research, development and analysis of knockout mice, will be sufficient to fund our operations for at least the next several years. During or after this period, if cash generated by operations is insufficient to satisfy our liquidity requirements, we may 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.

IMPACT OF INFLATION

The effect of inflation and changing prices on our operations was not significant during the periods presented.

DISCLOSURE ABOUT MARKET RISK

Our exposure to market risk is confined to our cash and cash equivalents which have maturities of less than three months. We maintain an investment portfolio which consists of U.S. Government debt obligations and investment grade commercial paper that mature one to twelve months after September 30, 2000, which we believe are subject to limited credit risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that an increase in market rates would have any negative impact on the realized value of our investment portfolio.

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

FACTORS AFFECTING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1993, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "anticipate," "believe," "expect," "estimate," "project" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including the following:

Risks Related to Our Business

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

- we are an early-stage company with an unproven business strategy

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

- we rely heavily on collaborators to develop and commercialize products based on genes that we identify as promising candidates for development as drug targets

- any cancellation by or conflicts with our collaborators could harm our business

- we have no experience in developing and commercializing products on our own

- we may engage in future acquisitions, which could be expensive and time consuming, and from which we may not realize the intended benefits

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

- we may encounter difficulties in managing our growth, which could increase our losses

- because our entire OmniBank mouse clone library is located at a single facility, the occurrence of a disaster could significantly disrupt our business

- we can provide no assurance that we will prevail in our claims against Deltagen, Inc. or that, if we prevail, any damages or equitable remedies awarded will be commercially valuable

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

Risks Related to Our Industry

- our ability to patent our discoveries is uncertain because patent laws and their interpretation are highly uncertain and subject to change

- our patent applications may not result in enforceable patent rights

- if other companies and institutions obtain patents claiming the functional uses of genes and gene products based upon gene sequence information and predictions of gene function, we may be unable to obtain patents for our discoveries of biological function in knockout mice

- if our potential products conflict with patents that competitors, universities or others have obtained, then we may be unable to commercialize those products

- issued patents may not fully protect our discoveries, and our competitors may be able to commercialize products similar to those covered by our issued patents

- our rights to the use of technologies licensed by third parties are not within our control

- we may be unable to protect our trade secrets

- we may become subject to regulation under the Animal Welfare Act, which could subject us to additional costs and permit requirements

- we and our collaborators are subject to extensive and uncertain government regulatory requirements, which could increase our operating costs or adversely affect our ability to obtain government approval of products based on genes that we identify in a timely manner or at all

- security risks in electronic commerce or unfavorable internet regulation may deter future use of our products and services

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

- we may be sued for product liability

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

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, believed, expected, estimated or projected. For additional discussion of these risks, uncertainties and assumptions, see "Risk Factors" included in the our initial public offering prospectus dated April 7, 2000 and contained in our Registration Statement on Form S-1 (Registration No. 333-96469) filed under the Securities Act of 1933, as amended.

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.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 24, 2000, we filed a complaint against Deltagen, Inc. in U.S. District Court for the District of Delaware alleging that Deltagen is willfully infringing the claims of United States Patent No. 5,789,215, under which we hold an exclusive license from GenPharm International, Inc. This patent covers methods of engineering the animal genome, including methods for the production of knockout mice by homologous recombination, using isogenic DNA technology. In the complaint, we are seeking unspecified damages from Deltagen, as well as injunctive relief. Deltagen has counterclaimed for a declaratory judgment that the patent is invalid, unenforceable and is not infringed by Deltagen.

On October 13, 2000, we filed a second complaint against Deltagen, Inc. in U.S. District Court for the Northern District of California alleging that Deltagen is willfully infringing the claims of United States Patents Nos. 5,464,764, 5,487,992, 5,627,059, and 5,631,153, under which also we hold exclusive licenses from GenPharm International. These patents cover methods and vectors for using positive-negative selection for producing gene targeted, or "knockout," cells and animals, including the production of knockout mice by homologous recombination. In the complaint, we are seeking unspecified damages from Deltagen, as well as injunctive relief.

While we believe that our complaints against Deltagen are meritorious, we can provide no assurance that we will prevail in our claims against Deltagen or that, if we prevail, any damages or equitable remedies awarded will be commercially valuable. Furthermore, we are likely to incur substantial costs and expend substantial personnel time in pursuing our claims against Deltagen.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The effective date of the Registration Statement on Form S-1 (Registration No. 333-96469) filed under the Securities Act of 1933, as amended, relating to the initial public offering of our common stock was April 6, 2000. On the same date, we signed an underwriting agreement with J.P. Morgan Securities, Inc., Credit Suisse First Boston Corporation, CIBC World Markets Corp. and Punk, Ziegel & Company, L.P., the managing underwriters for the initial public offering and the representatives of the underwriters named in the underwriting agreement, for the initial public offering of 10,000,000 shares of our common stock at an initial public offering price of $22.00 per share. The offering commenced on April 7, 2000 and was closed on April 12, 2000. The initial public offering resulted in gross proceeds of $220.0 million. We received net proceeds of $203.2 million after deducting underwriting discounts of $15.4 million and estimated offering expenses of $1.4 million.

Concurrently with the closing of the initial public offering, the 4,244,664 outstanding shares of our Series A Preferred Stock were automatically converted into 12,733,992 shares of common stock. As a result, we no longer have any outstanding preferred stock.

From the time of receipt through September 30, 2000, the net proceeds of our initial public offering were applied toward:

o purchases and installation of equipment and build-out of facilities:	$3,715,000
o repayment of indebtedness:	$ 1,382,000
o working capital:	$ 2,155,000
o short-term investments in U.S. Government debt obligations and investment grade commercial paper:	$ 195,948,000

Except for the repayment of $917,000 of indebtedness to a director in the second quarter of 2000, we have made no payments to our directors or officers or their associates, holders of 10% or more of any class of our equity securities or to our affiliates, other than payments to officers for salaries in the ordinary course of business.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.		Description
+10.1	--	LexVision(TM) Database and Collaboration Agreement, dated September 26, 2000, between Lexicon Genetics Incorporated and Bristol-Myers Squibb Company (filed as Exhibit 10.1 to the company's Current Report on Form 8-K dated September 26, 2000 and incorporated by +10.1 reference herein).
27.1	--	Financial Data Schedule.

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

(b) Reports on Form 8-K:

On October 10, 2000, we filed a Current Report on Form 8-K dated September 26, 2000 relating to the establishment of our LexVision(TM) Database and Collaboration Agreement with Bristol-Myers Squibb Company.

Signatures

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Lexicon Genetics Incorporated

Date: November 2, 2000 By: /s/ ARTHUR T. SANDS

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

Date: November 2, 2000 By: /s/ JULIA P. GREGORY

Julia P. Gregory
Executive Vice President and
Chief Financial Officer

INDEX TO EXHIBITS

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