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 MARCH 31, 2001

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 May 9, 2001, 48,849,679 shares of the registrant's common stock, par value $0.001 per share, were outstanding.

LEXICON GENETICS INCORPORATED

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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 "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors," that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels 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, we cannot guarantee future results, levels of activity, performance or achievements. We are not under any duty to update any of the forward-looking statements after the date of this 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 GENETICS INCORPORATED

BALANCE SHEETS

	AS OF DECEMBER 31, 2000	AS OF MARCH 31, 2001 (UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash	$ 37,811,039	$ 79,219,332
Marketable securities	164,869,291	112,934,723
Accounts receivable, net of allowance for doubtful accounts of $100,000	2,814,707	3,747,604
Prepaid expenses and other current assets	536,480	2,444,568
Total current assets	206,031,517	198,346,227
Property and equipment, net of accumulated depreciation of $5,708,366 and $6,662,491, respectively	14,477,235	16,019,449
Other assets	184,200	527,253
Total assets	$ 220,692,952	$ 214,892,929
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,522,722	$ 3,136,278
Accrued liabilities	3,023,725	1,762,849
Deferred revenue	4,671,818	4,843,939
Current portion of long-term debt	1,012,246	1,029,935
Total current liabilities	11,230,511	10,773,001
Long-term debt, net of current portion	1,833,982	1,579,146
Total liabilities	13,064,493	12,352,147
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.001 par value; 120,000,000 shares authorized, 48,271,735 and 48,805,876 shares issued and outstanding	48,272	48,806
Additional paid-in capital	296,119,625	295,967,974
Deferred stock compensation	(33,636,725)	(30,565,636)
Accumulated deficit	(54,902,713)	(62,910,362)
Total stockholders' equity	207,628,459	202,540,782
Total liabilities and stockholders' equity	$ 220,692,952	$ 214,892,929

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

LEXICON GENETICS INCORPORATED

STATEMENTS OF OPERATIONS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	2001
Revenues:		
Subscription and license fees	$ 1,623,478	$ 1,747,454
Collaborative research	1,644,758	1,523,584
Reagents	70,673	39,919
Total revenues	3,338,909	3,310,957
Operating expenses:		
Research and development, including stock-based compensation of $6,700,392 and $1,396,530, respectively	10,268,328	9,862,342
General and administrative, including stock-based compensation of $5,207,916 and $1,341,784, respectively	6,506,773	4,271,140
Total operating expenses	16,775,101	14,133,482
Loss from operations	(13,436,192)	(10,822,525)
Interest income	127,842	2,895,891
Interest expense	109,749	81,015
Net loss	(13,418,099)	(8,007,649)
Accretion on redeemable convertible preferred stock	(133,854)	--
Net loss attributable to common stockholders	$(13,551,953)	$ (8,007,649)
Net loss per common share, basic and diluted	$(0.55)	$(0.17)
Shares used in computing net loss per common share, basic and diluted	24,613,012	48,343,297

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

LEXICON GENETICS INCORPORATED

STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	2001
Cash flows from operating activities:		
Net loss	$ (13,418,099)	$ (8,007,649)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	552,817	954,125
Amortization of deferred stock compensation	11,908,308	2,738,314
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	1,838,107	(932,897)
(Increase) decrease in prepaid expenses and other current assets	16,982	(1,908,088)
(Increase) decrease in other assets	(6,129)	(343,053)
Increase (decrease) in accounts payable and accrued liabilities	777,946	(647,320)
Increase (decrease) in deferred revenue	(552,906)	172,121
Net cash provided by (used) in operating activities	1,117,026	(7,974,447)
Cash flows from investing activities:		
Purchases of property and equipment	(450,863)	(2,496,339)
Purchases of marketable securities	(3,403,902)	(52,841,722)
Maturities of marketable securities	3,608,133	104,776,290
Net cash provided by (used in) investing activities	(246,632)	49,438,229
Cash flows from financing activities:		
Principal payments on capital lease obligations	(51,206)	--
Repayment of debt borrowings	(261,145)	(237,147)
Proceeds from issuance of common stock	222,366	181,658
Deferred offering costs	(1,102,779)	--
Net cash provided by (used in) financing activities	(1,192,764)	(55,489)
Net increase (decrease) in cash and cash equivalents	(322,370)	41,408,293
Cash and cash equivalents at beginning of period	2,025,585	37,811,039
Cash and cash equivalents at end of period	$ 1,703,215	$ 79,219,332
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 109,749	$ 81,015

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 period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001.

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, 2000, as filed with the SEC.

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

Deferred stock compensation 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, generally four years. For the three months ended March 31, 2000 and 2001, Lexicon amortized $11.9 million and $2.7 million, respectively, 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: $8.1 million during the last nine months of 2001, $10.8 million during 2002, $10.8 million during 2003 and $900,000 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 or may increase if additional options are granted to individuals other than employees or directors.

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. RESTRICTED CASH

Lexicon is required to maintain restricted cash or investments to the extent of borrowings made under the synthetic lease agreement. As of March 31, 2001, borrowings were $14.5 million as compared to $13.4 million as of December 31, 2000.

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 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, functional genomics collaborations for the development and, in some cases, analysis of the physiological effects of genes altered in knockout mice, and technology licenses. To date, we have generated a substantial portion of our revenues from a limited number of sources.

Since our inception, we have incurred significant losses and, as of March 31, 2001, we had an accumulated deficit of $62.9 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 expense 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 drug discovery and LexVision programs, the expansion of our OmniBank 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, as well as expenses related to our patent infringement litigation against Deltagen, Inc. In connection with the expansion of our drug discovery and LexVision programs, 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.

Deferred stock-based compensation represents the difference between the exercise price of stock options granted and the fair value of our common stock at the applicable date of grant. Stock-based compensation is amortized over the vesting period of the individual stock options for which it was recorded, generally four years. Assuming continued vesting of all outstanding stock options in accordance with their terms, we expect to record amortization expense for deferred stock-based compensation as follows: $8.1 million during the last nine months of 2001, $10.8 million during 2002, $10.8 million during 2003 and $900,000 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 or may increase if additional options are granted to non-employee consultants or advisors.

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 March 31, 2000 and 2001

Revenues. Total revenues were $3.3 million in the three months ended March 31, 2001, unchanged from the corresponding period in 2000. Subscription and license fees in the three months ended March 31, 2001 were $1.7 million, which included access fees under our LexVision collaboration with Bristol-Myers Squibb Company. This compares to subscription and license fees in the three months ended March 31, 2000 of $1.6 million, consisting primarily of subscription fees from Millennium Pharmaceuticals, Inc. under a human gene sequence database agreement that expired in April 2000. Revenue from collaborative research was $1.5 million in the three months ended March 31, 2001, as compared to $1.6 million in the corresponding period in 2000.

Research and Development Expenses. Research and development expenses, including stock-based compensation expense, decreased 4% to $9.9 million in the three months ended March 31, 2001 from $10.3 million in the corresponding period in 2000. Research and development expenses for the three months ended March 31, 2001 and 2000 included $1.4 million and $6.7 million, respectively, of stock-based compensation primarily relating to option grants made prior to our April 2000 initial public offering. The increase of $4.9 million in research and development expenses exclusive of stock-based compensation was primarily attributable to increased personnel costs to support the expansion of our drug discovery and LexVision programs, 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, including stock-based compensation expense, decreased 34% to $4.3 million in the three months ended March 31, 2001 from $6.5 million in the corresponding period in 2000. General and administrative expenses for the three months ended March 31, 2001 and 2000 included $1.3 million and $5.2 million, respectively, of stock-based compensation primarily relating to option grants made prior to our April 2000 initial public offering. The increase of $1.6 million in general and administrative expenses exclusive of stock-based compensation 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.

Interest Income and Interest Expense. Interest income increased to $2.9 million in the three months ended March 31, 2001 from $128,000 in the corresponding period in 2000. This increase resulted from an increased cash and investment balance as a result of our initial public offering in April 2000. Interest expense decreased to $81,000 in the three months ended March 31, 2001 from $110,000 in the corresponding period in 2000.

Net Loss and Net Loss Per Common Share. Net loss attributable to common stockholders decreased to $8.0 million in the three months ended March 31, 2001 from $13.6 million in the corresponding period in 2000. Net loss per common share decreased to $0.17 in the three months ended March 31, 2001 from $0.55 in the corresponding period of 2000. A portion of the net loss for the three months ended March 31, 2001 and most of the net loss for the corresponding period in 2000 were attributable to stock-based compensation expense. Excluding stock-based compensation expense, and

assuming the conversion of the redeemable convertible preferred stock into common stock occurred on the date of original issuance (May 1998), we would have had a net loss of $5.3 million and $1.5 million in the three months ended March 31, 2001 and 2000, respectively, and net loss per common share of $0.11 and $0.04 in the three months ended March 31, 2001 and 2000, respectively.

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. From our inception through March 31, 2001, we had received net proceeds of $241.6 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 March 31, 2001, we received $27.0 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, and have recognized revenues of $26.0 million through March 31, 2001.

As of March 31, 2001, we had $192.2 million in cash, cash equivalents and marketable securities, as compared to $202.7 million as of December 31, 2000. We used $8.0 million in operations in the three months ended March 31, 2001. This consisted of the net loss for the three months ended March 31, 2001 of $8.0 million offset by non-cash charges of $2.7 million related to stock-based compensation expense and $1.0 million related to depreciation expense, which in turn was offset by a net decrease in other working capital accounts of $3.7 million. Investing activities provided $49.4 million in the three months ended March 31, 2001, principally as a result of maturities of marketable securities.

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 March 31, 2001, we had borrowed a total of approximately $4.2 million under this arrangement, of which $2.6 million remained outstanding. This facility accrues interest at a weighted-average rate of approximately 11.7%, and principal and interest is due in monthly installments through 2003. The debt may be retired through prepayment beginning in 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 animal facility and agreed to fund the construction of additional laboratory and office space and a second animal facility. 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 the new facilities will begin upon completion of construction, which is expected in the fourth quarter of 2001. Lease payments are subject to fluctuation based on LIBOR rates. Based on a December 31, 2000 LIBOR rate of 6.4%, our lease payments for our existing facilities would be approximately $795,000 and total lease payments including the new facilities would be approximately $3.0 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 for 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. The Company is required to maintain restricted cash or investments to the extent of borrowings made under the synthetic lease agreement. As of March 31, 2001, borrowings were $14.5 million as compared to $13.4 million as of December 31, 2000.

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 and revenues to be derived from subscriptions to our databases, functional genomics collaborations for the research, development and analysis of the physiological effects of genes altered in 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 March 31, 2001, 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.

RISK FACTORS

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

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

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

- 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 may be expensive and time consuming and from which we may not realize anticipated 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 may 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

- we are presently involved in patent litigation and may be involved in future patent litigation and other disputes regarding intellectual property rights, and can give no assurance that we will prevail in any such litigation or other dispute

- 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

For additional discussion of the risks and uncertainties that affect our business, see "Item 1. Business - Risk Factors" included in our annual report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission.

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 and unenforceable and is not infringed by Deltagen. On November 14, 2000, Deltagen filed an amended counterclaim alleging antitrust claims against us and GenPharm, for which Deltagen is seeking unspecified damages.

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. Deltagen has counterclaimed for a declaratory judgment that the patents are invalid and unenforceable and are not infringed by Deltagen.

While we believe that our complaints against Deltagen are meritorious and that Deltagen's counterclaims against us are without merit, we can provide no assurance that we will prevail in our litigation against Deltagen or that, if we prevail, any damages or equitable remedies awarded will be commercially valuable. If Deltagen prevails in declaring our patents invalid or on its antitrust claim against us, our business and financial position could be adversely affected. Furthermore, we are likely to incur substantial costs and expend substantial personnel time in pursuing our litigation against Deltagen.

We are not a party to any material legal proceedings other than the Deltagen litigation.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K:

None.

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: May 14, 2001

By: /s/ ARTHUR T. SANDS

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

Date: May 14, 2001

By: /s/ JULIA P. GREGORY

Julia P. Gregory
Executive Vice President and
Chief Financial Officer