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 June 30, 2021

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 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)**

2445 Technology Forest Blvd.
11th Floor
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. ☐

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 August 3, 2021, 144,474,452 shares of the registrant's common stock, par value $0.001 per share, were outstanding.

Lexicon Pharmaceuticals, Inc.

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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 "Part II, Item 1A. - Risk Factors" and in our annual report on Form 10-K for the year ended December 31, 2020, 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 June 30, 2021	As of December 31, 2020
Assets	**(unaudited)**	
Current assets:		
Cash and cash equivalents	$ 89,887	$ 126,263
Short-term investments	28,614	26,012
Accounts receivable	159	395
Prepaid expenses and other current assets	4,598	5,049
Total current assets	123,258	157,719
Property and equipment, net of accumulated depreciation and amortization of $4,746 and $5,815, respectively	1,201	295
Goodwill	44,543	44,543
Other assets	2,670	1,231
Total assets	$ 171,672	$ 203,788
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 8,545	$ 5,469
Accrued liabilities	12,595	29,691
Current portion of long-term debt, net of deferred issuance costs	11,675	11,646
Total current liabilities	32,815	46,806
Other long-term liabilities	1,624	611
Total liabilities	34,439	47,417
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value; 5,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.001 par value; 225,000 shares authorized; 145,640 and 142,289 shares issued, respectively	146	142
Additional paid-in capital	1,583,653	1,561,096
Accumulated deficit	(1,439,043)	(1,400,018)
Accumulated other comprehensive loss	(5)	(6)
Treasury stock, at cost, 1,165 and 793 shares, respectively	(7,518)	(4,843)
Total stockholders' equity	137,233	156,371
Total liabilities and equity	$ 171,672	$ 203,788

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

Lexicon Pharmaceuticals, Inc.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenues:				
Net product revenue	$ —	$ 8,985	$ —	$ 16,862
Collaborative agreements	—	25	—	33
Royalties and other revenue	234	153	261	267
Total revenues	234	9,163	261	17,162
Operating expenses:				
Cost of sales (including finite-lived intangible asset amortization)	—	728	—	1,296
Research and development, including stock-based compensation of $1,184, $1,949, $2,470 and $4,125, respectively	10,257	57,301	22,866	112,482
Selling, general and administrative, including stock-based compensation of $1,602, $2,309, $3,167 and $4,565, respectively	7,936	14,113	16,193	28,801
Impairment loss on buildings	—	1,600	—	1,600
Total operating expenses	18,193	73,742	39,059	144,179
Loss from operations	(17,959)	(64,579)	(38,798)	(127,017)
Interest expense	(169)	(5,125)	(336)	(10,256)
Interest and other income, net	61	633	109	1,591
Net loss	$ (18,067)	$ (69,071)	$ (39,025)	$ (135,682)
Net loss per common share, basic and diluted	$ (0.13)	$ (0.65)	$ (0.27)	$ (1.27)
Shares used in computing net loss per common share, basic and diluted	144,451	107,073	143,917	106,804
Other comprehensive loss:				
Unrealized gain (loss) on investments	(10)	(548)	1	228
Comprehensive loss	$ (18,077)	$ (69,619)	$ (39,024)	$ (135,454)

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

Lexicon Pharmaceuticals, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(In thousands)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Gain (Loss)	Treasury Stock	Total
	Shares	Par Value					
Balance at December 31, 2019	106,679	$ 106	$1,462,172	$ (1,341,444)	$ 84	$ (3,817)	$ 117,101
Stock-based compensation	—	—	4,432	—	—	—	4,432
Issuance of common stock under Equity Incentive Plans	1,032	2	—	—	—	—	2
Repurchase of common stock	—	—	—	—	—	(923)	(923)
Net loss	—	—	—	(66,611)	—	—	(66,611)
Unrealized gain on investments	—	—	—	—	776	—	776
Balance at March 31, 2020	107,711	108	1,466,604	(1,408,055)	860	(4,740)	54,777
Stock-based compensation	—	—	4,258	—	—	—	4,258
Issuance of common stock under Equity Incentive Plans	187	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	(103)	(103)
Net loss	—	—	—	(69,071)	—	—	(69,071)
Unrealized loss on investments	—	—	—	—	(548)	—	(548)
Balance at June 30, 2020	107,898	$ 108	$1,470,862	$ (1,477,126)	$ 312	$ (4,843)	$ (10,687)
Balance at December 31, 2020	142,289	$ 142	$1,561,096	$ (1,400,018)	$ (6)	$ (4,843)	$ 156,371
Stock-based compensation	—	—	2,851	—	—	—	2,851
Issuance of common stock under Equity Incentive Plans	1,263	1	547	—	—	—	548
Issuance of common stock under an Open Market Sale Agreement, net of issuance fees	2,000	2	16,397	—	—	—	16,399
Repurchase of common stock	—	—	—	—	—	(2,675)	(2,675)
Net loss	—	—	—	(20,958)	—	—	(20,958)
Unrealized gain on investments	—	—	—	—	11	—	11
Balance at March 31, 2021	145,552	$ 145	$1,580,891	$ (1,420,976)	$ 5	$ (7,518)	$ 152,547
Stock-based compensation	—	—	2,786	—	—	—	2,786
Issuance of common stock under Equity Incentive Plans	88	1	7	—	—	—	8
Issuance fees related to Open Market Sale Agreement	—	—	(31)	—	—	—	(31)
Net loss	—	—	—	(18,067)	—	—	(18,067)
Unrealized loss on investments	—	—	—	—	(10)	—	(10)
Balance at June 30, 2021	145,640	146	1,583,653	(1,439,043)	(5)	(7,518)	137,233

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)

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (39,025)	$ (135,682)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	79	1,806
Stock-based compensation	5,637	8,690
Amortization of debt issuance costs	29	726
Impairment loss on buildings	—	1,600
Changes in operating assets and liabilities:		
Decrease in accounts receivable	236	25,656
Decrease in inventory	—	254
Decrease (increase) in prepaid expenses and other current assets	451	(4,141)
Decrease in other assets	261	207
(Decrease) increase in accounts payable and other liabilities	(14,707)	32,532
Net cash used in operating activities	(47,039)	(68,352)
Cash flows from investing activities:		
Purchases of property and equipment	(985)	—
Purchases of investments	(24,373)	(37,148)
Maturities of investments	21,772	158,000
Net cash (used in) provided by investing activities	(3,586)	120,852
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of fees	16,924	—
Repurchase of common stock	(2,675)	(1,026)
Repayment of debt borrowings	—	(643)
Net cash provided by (used in) financing activities	14,249	(1,669)
Net (decrease) increase in cash and cash equivalents	(36,376)	50,831
Cash and cash equivalents at beginning of period	126,263	36,112
Cash and cash equivalents at end of period	$ 89,887	$ 86,943
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 307	$ 9,569
Supplemental disclosure of non-cash activities:		
Right-of-use asset	$ 1,704	$ —

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 six-month period ended June 30, 2021 are not necessarily indicative of the results that may be expected for the year ended December 31, 2021.

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, 2020, 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 June 30, 2021, short-term investments consisted of U.S. treasury bills and corporate debt securities. As of December 31, 2020, short-term investments consisted of 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.

Accrued liabilities: Accrued liabilities consisted of the following:

	As of June 30, 2021	As of December 31, 2020
	(in thousands)	
Accrued research and development services	$ 6,869	$ 21,962
Accrued compensation and benefits	3,544	6,200
Short term lease liability	1,027	553
Other	1,155	976
Total accrued liabilities	$ 12,595	$ 29,691

Leases: Lexicon determines if a contract is or contains a lease at inception or upon modification of the contract. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period in exchange for consideration. Control over the use of the identified asset means the lessee has both (a) the right to obtain substantially all of the economic benefits from the use of the asset and (b) the right to direct the use of the asset. Lexicon does not apply this accounting to those leases with terms of twelve (12) months or less.

Operating lease right-of-use assets and associated lease liabilities are recorded in the balance sheet at the lease commencement date based on the present value of future minimum lease payments to be made over the expected lease term. As the implicit rate is not determinable in its leases, Lexicon uses its incremental borrowing rate of 9% at the commencement date in determining the present value of future payments.

Revenue Recognition:

Product Revenues

Prior to the Company's sale of XERMELO and related assets to TerSera Therapeutics LLC ("TerSera") in September 2020, product revenues consisted of commercial sales of XERMELO in the United States and sales of bulk tablets of XERMELO to Ipsen Pharma SAS ("Ipsen"). Product revenues were recognized when the customer obtained control of XERMELO, which occurred upon delivery to the customer. The Company recognized 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 were 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 reflected the Company's best estimates of the amounts of consideration to which it was entitled based on the terms of the respective underlying contracts. Product shipping and handling costs were considered a fulfillment activity when control transferred to the Company's customers and such costs were 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, 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 milestones are achieved. 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 and 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. Upfront 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 the relevant agreement. Amounts are recorded as accounts receivable when the Company's right to consideration is unconditional.

Cost of Sales: Cost of sales consisted of third-party manufacturing costs, freight and indirect overhead costs associated with sales of XERMELO. Product shipping and handling costs were included in cost of sales. Cost of sales also included the amortization of the 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's estimates of the clinical study costs and costs to transition activities from Sanofi for the development of sotagliflozin for type 2 diabetes and heart failure, as well as the wind down of those activities, were based on estimates of the services to be received and efforts to be expended pursuant to contracts with multiple vendors and the CRO that conducted and managed the clinical studies on its behalf. 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 loss for share-based payments, including stock options and restricted stock units granted 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 stock options granted in the six months ended June 30, 2021 and 2020:

	Expected Volatility		Risk-free Interest Rate		Expected Term	Dividend Rate	
June 30, 2021:							
Employees	101	%	0.6	%	4	—	%
Officers and non-employee directors	90	%	1.1	%	7	—	%
June 30, 2020:							
Employees	90	%	1.3	%	4	—	%
Officers and non-employee directors	78	%	1.4	%	8	—	%

The following is a summary of stock option activity under Lexicon's stock-based compensation plans for the six months ended June 30, 2021:

	Options		Weighted Average Exercise Price
	(in thousands)		
Outstanding at December 31, 2020	8,397	$	7.12
Granted	1,109		7.87
Exercised	(111)		5.01
Expired	(191)		12.50
Forfeited	(56)		8.52
Outstanding at June 30, 2021	9,148		7.12
Exercisable at June 30, 2021	5,527	$	8.36

During the six months ended June 30, 2021, Lexicon also granted its employees and non-employee directors annual restricted stock units. Outstanding employee restricted stock units vest in three 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 six months ended June 30, 2021:

	Shares		Weighted Average Grant Date Fair Value
	(in thousands)		
Outstanding at December 31, 2020	2,769	$	4.35
Granted	663		8.22
Vested	(1,239)		5.04
Forfeited	(134)		5.16
Outstanding at June 30, 2021	2,059	$	5.13

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

2. Recent Accounting Pronouncements

In December 2019, the FASB issued Accounting Standards Update ("ASU") No. 2019-12, Income Taxes (Topic 740) Simplifying Accounting for Income Taxes, as part of its initiative to reduce complexity in the accounting standards. The guidance amended certain disclosure requirements that had become redundant, outdated or superseded. Additionally, this guidance amends accounting for the interim period effects of changes in tax laws or rates, and simplifies aspects of the accounting for franchise taxes. The guidance is effective for annual periods beginning after December 15, 2020, including interim periods therein. The adoption of ASU 2019-12 in the first quarter of 2021 did not have a material impact on the Company's condensed consolidated financial statements.

3. Cash and Cash Equivalents and Investments

The fair value of cash and cash equivalents and investments held at June 30, 2021 and December 31, 2020 are as follows:

	As of June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents	$ 89,887	$ —	$ —	$ 89,887
Securities maturing within one year:				
U.S. treasury securities	15,182	1	—	15,183
Corporate debt securities	13,437	5	(11)	13,431
Total short-term investments	$ 28,619	$ 6	$ (11)	$ 28,614
Total cash and cash equivalents and investments	$ 118,506	$ 6	$ (11)	$ 118,501

	As of December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents	$ 126,263	$ —	$ —	$ 126,263
Securities maturing within one year:				
Corporate debt securities	26,018	5	(11)	26,012
Total short-term investments	$ 26,018	$ 5	$ (11)	$ 26,012
Total cash and cash equivalents and investments	$ 152,281	$ 5	$ (11)	$ 152,275

There were no realized losses during either of the six months ended June 30, 2021 and 2020, 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 defined above as of June 30, 2021 and December 31, 2020.

	Assets and Liabilities at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Cash and cash equivalents	$ 89,887	$ —	$ —	$ 89,887
Short-term investments	15,183	13,431	—	28,614
Total cash and cash equivalents and investments	$ 105,070	$ 13,431	$ —	$ 118,501

	Assets and Liabilities at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Cash and cash equivalents	$ 126,263	$ —	$ —	$ 126,263
Short-term investments	—	26,012	—	26,012
Total cash and cash equivalents and investments	$ 126,263	$ 26,012	$ —	$ 152,275

The Company did not have any Level 3 assets or liabilities as of June 30, 2021 or December 31, 2020. Transfers between levels are recognized at the actual date of the circumstance that caused the transfer. There were no transfers between Level 1 and Level 2 during the periods presented.

Refer to Note 6, Debt Obligations, for fair value measurements of debt obligations.

5. Property and Equipment

Property and equipment was comprised of the following:

	Estimated Useful Lives	As of	
	In Years	June 30, 2021	December 31, 2020
		(in thousands)	
Computers and software	3-5	$ 3,176	$ 3,826
Furniture and fixtures	5-7	1,719	1,867
Leasehold improvements	3-7	1,052	417
Total property and equipment		5,947	6,110
Less: Accumulated depreciation and amortization		(4,746)	(5,815)
Net property and equipment		$ 1,201	$ 295

During the three months ended June 30, 2021, the Company retired $1.1 million of computers and software and furniture and fixtures, which had been fully depreciated, and purchased $1.0 million of assets comprised of leasehold improvements, computers and software and furniture. The leasehold improvements are being amortized over the lease term.

In 2020, the Company recorded an impairment loss of $1.6 million to reduce the carrying value of the assets comprising its campus in The Woodlands, Texas, which were sold in December 2020, to its estimated fair value, less estimated selling costs. Concurrent with the sale, the Company entered into a leaseback agreement with the purchaser with respect to a portion of the facilities for a period of up to six months and in June 2021, the Company relocated its corporate offices to another facility.

6. 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.

In 2020, the Company entered into separate, privately negotiated exchange agreements to exchange $75.8 million aggregate principal amount of the Convertible Notes for consideration valued at 85% of the principal amount of the Convertible Notes. As of June 30, 2021, the carrying value of the remaining Convertible Notes was $11.7 million and is included in the current portion of long-term debt, net of deferred issuance costs in the accompanying condensed consolidated balance sheet.

The remaining 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.

The fair value of the remaining Convertible Notes was $12.1 million as of June 30, 2021 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.

7. Commitments and Contingencies

Operating Lease Obligations: Lexicon's operating leases include office space in The Woodlands, Texas and Basking Ridge, New Jersey and will expire in August 2025 and December 2022, respectively. Under its lease agreements, Lexicon is obligated to pay property taxes, insurance, and maintenance costs.

As of June 30, 2021, the right-of-use assets for the office space leases had a balance of $2.7 million, which is included in other assets in the condensed consolidated balance sheet. Current and non-current liabilities relating to the leases were $1.0 million and $1.6 million, respectively, which are included in accrued liabilities and other long-term liabilities in the condensed consolidated balance sheet, respectively.

The following table reconciles the undiscounted cash flows of the operating lease liability to the recorded lease liability at June 30, 2021:

	(in thousands)
2021	$ 486
2022	1,163
2023	531
2024	544
2025	370
Thereafter	—
Total undiscounted operating lease liability	3,094
Less: amount of lease payments representing interest	(444)
Present value of future lease payments	2,650
Less: short-term operating lease liability	(1,027)
Long-term operating lease liability	$ 1,623

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. The Company's motion to dismiss was granted and the action was dismissed with prejudice by the District Court on August 14, 2020. The lead plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Fifth Circuit on September 11, 2020 and a brief in support of its appeal on December 17, 2020. The Company filed a response brief on February 18, 2021 and the lead plaintiffs filed a reply brief on March 11, 2021. Oral arguments were held on June 9, 2021. 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 the Company's 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 Arbitration. On October 16, 2020, the Company initiated arbitration proceedings against Sanofi-Aventis Deutschland GmbH ("Sanofi") seeking to recover damages for breach of contract relating to the Termination and Settlement Agreement and Mutual Releases with Sanofi, dated September 9, 2019 (the "Termination Agreement"). In September 2020, Sanofi withheld approximately $23.2 million from the final $26 million payment due to the Company under the Termination Agreement, offsetting certain third party costs and internal costs incurred by Sanofi and asserted by Sanofi to be payable by the Company under the terms of the Termination Agreement. The Company disputes that at least a significant portion of such costs are properly reimbursable by the Company under the terms of the Termination Agreement and asserts that, in any event, Sanofi was not permitted to withhold any of such costs under the terms of the Termination Agreement. The Company is seeking payment of up to $23.2 million in such disputed costs, together with late interest and attorneys' fees and costs. Sanofi is seeking declaratory judgment that the Company is liable for all disputed costs previously withheld and damages for any additional costs properly reimburseable under the terms of the Termination Agreement in excess of those previously withheld, together with late interest and attorneys' fees.

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.

8. 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.

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"). The Ipsen Agreement was assigned to TerSera in September 2020 in connection with the XERMELO sale.

Prior to the XERMELO sale, Lexicon had earned certain milestone payments and royalties from Ipsen. Revenue, including royalty revenue, recognized under the Ipsen Agreement was $0.2 million for the six months ended June 30, 2020.

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 drug candidate sotagliflozin. In December 2016, Sanofi terminated its rights under the Sanofi Agreement with respect to Japan.

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

Under the terms of the Termination Agreement, Lexicon regained all rights to sotagliflozin and assumed full responsibility for the worldwide development and commercialization of sotagliflozin in all indications. Sanofi paid Lexicon $208 million in September 2019 and $26 million in each of March and September 2020 (less amounts withheld by Sanofi offsetting certain third party costs and internal costs incurred by Sanofi and asserted by Sanofi to be payable by Lexicon under the terms of the Termination Agreement), and neither party owes any additional payments pursuant to the Sanofi Agreement. The parties have cooperated 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. See Note 7, Commitments and Contingencies, for additional information. Beginning in March 2020, Lexicon closed out early the clinical studies related to the Phase 3 development program for sotagliflozin in type 2 diabetes, heart failure and chronic kidney disease. Subsequent to the Termination Agreement, Lexicon has no remaining performance obligations to Sanofi.

9. Other Capital Agreements

Common Stock: In 2020, Lexicon entered into an Open Market Sale Agreement℠ (the "Sales Agreement") with Jefferies LLC ("Jefferies") relating to the shares of its common stock. Lexicon may offer and sell common stock having an aggregate sales price of up to $50.0 million from time to time through Jefferies acting as its sales agent. In 2020, Lexicon sold 3,709,233 shares of its common stock at a price of $1.992 per share pursuant to the Sales Agreement, resulting in net proceeds of $7.0 million. In January 2021, Lexicon sold 2,000,000 shares of its common stock at a price of $8.463 per share pursuant to the Sales Agreement, resulting in net proceeds of $16.4 million. The net proceeds are reflected as issuance of common stock in the accompanying condensed consolidated financial statements.

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 research and development of our most advanced drug candidates:

- We are developing LX9211, an orally-delivered small molecule drug candidate, as a treatment for neuropathic pain. We have reported results from two Phase 1 clinical trials of LX9211 and are now conducting a Phase 2 clinical trial of LX9211 in diabetic peripheral neuropathic pain and a second Phase 2 clinical trial of LX9211 in post-herpetic neuralgia. LX9211 has received Fast Track designation from the FDA for development in diabetic peripheral neuropathic pain.

- We are developing sotagliflozin, an orally-delivered small molecule drug candidate, as a treatment for heart failure and type 1 diabetes. We have reported positive results from two Phase 3 clinical trials evaluating the effect of sotagliflozin on long-term outcomes related to cardiovascular death and heart failure in approximately 10,500 and 1,200 patients, respectively. We are now preparing an application for regulatory approval to market sotagliflozin for heart failure in the United States and, if approved, for the commercial launch of sotagliflozin in the United States.

  We have reported positive results from three Phase 3 clinical trials evaluating the effect of sotagliflozin on type 1 diabetes in approximately 800, 800 and 1,400 patients, respectively. The FDA issued a complete response letter regarding our application for regulatory approval to market sotagliflozin for type 1 diabetes in the United States and, at our request, has issued a public Notice of Opportunity for Hearing on whether there are grounds for denying approval of our application. Sotagliflozin has been approved in the European Union for use as an adjunct to insulin therapy in the treatment of type 1 diabetes, but has not yet been commercially launched.

- We are conducting preclinical research and development and preparing to conduct clinical development of compounds from a number of additional drug programs originating from our internal drug discovery efforts.

LX9211 originated from our collaborative neuroscience drug discovery efforts with Bristol-Myers Squibb, and sotagliflozin and compounds from a number of additional drug programs originated from our own internal drug discovery efforts. Those 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 collaborations and strategic 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 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 or 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. Our collaborations and strategic alliances include arrangements with TerSera Therapeutics LLC, under which we are eligible to receive milestone and royalty payments relating to XERMELO in biliary tract cancer, and with Genentech, Inc., under which we are eligible to receive milestone and royalty payments relating to its UTTR1147a (IL-22 Fc) biotherapeutic drug candidate.

We have derived substantially all of our revenues from strategic collaborations and other research and development collaborations and technology licenses, as well as from commercial sales of XERMELO following our commercial launch of the product in February 2017 until our sale of XERMELO and related assets to TerSera in September 2020. 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 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; the ability of our collaborators and licensees to successfully develop and commercialize products and our receipt of milestone payments and royalties from such efforts; our success in establishing new collaborations and licenses, particularly for the commercialization of sotagliflozin for heart failure; and general and industry-specific economic conditions which may affect research and development expenditures.

Future revenues from our collaborations and strategic licenses are uncertain because they depend on the achievement of milestones and payment of royalties we earn from the development and commercialization efforts of our collaborators and licensees. 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, 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 June 30, 2021, we had an accumulated deficit of $1.4 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 units 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, 2020.

Recent Accounting Pronouncements

There are no recent accounting pronouncements that could have a material impact to our condensed consolidated financial statements.

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Total revenues	$ 0.2	$ 9.2	$ 0.3	$ 17.2
Dollar decrease	$ (9.0)		$ (16.9)	
Percentage decrease	(97) %		(98) %	

- *Net product revenue* – Net product revenue for the three months ended June 30, 2020 was $9.0 million, and for the six months ended June 30, 2020 was $16.9 million. We sold XERMELO and related assets to TerSera on September 8, 2020. Product revenues were 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.

- *Royalties and other revenue* – Royalties and other revenues for the three months ended June 30, 2021 increased 31% to $0.2 million, and for the six months ended June 30, 2021 decreased 13% to $0.26 million as compared to the corresponding periods in 2020 primarily due to milestone payments from a licensing agreement. Royalties and other revenues for the three months ended June 30, 2020 were $0.2 million, and for the six months ended June 30, 2020 were $0.3 million, primarily from royalties of product sales of XERMELO by Ipsen in countries outside the United States.

Cost of Sales

Cost of sales consists of third-party manufacturing costs, freight and indirect overhead costs associated with sales of XERMELO. Cost of sales was $0.7 million for the three months ended June 30, 2020, and was $1.3 million for the six months ended June 30, 2020, and included $0.4 million and $0.9 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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Total research and development expense	$ 10.3	$ 57.3	$ 22.9	$ 112.5
Dollar decrease	$ (47.0)		$ (89.6)	
Percentage decrease	(82) %		(80) %	

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 June 30, 2021 decreased 89% to $5.5 million, and for the six months ended June 30, 2021 decreased 87% to $12.7 million, as compared to the corresponding periods in 2020 primarily due to decreases in external clinical development costs relating to sotagliflozin subsequent to the wind down of the activities beginning in March 2020. 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 June 30, 2021 decreased 51% to $2.2 million, and for the six months ended June 30, 2021 decreased 49% to $5.1 million, as compared to the corresponding periods in 2020, primarily due to lower employee salaries and benefit costs as a result of the reduction in force of our personnel in September 2020. Salaries, bonuses, employee benefits, payroll taxes, recruiting and relocation costs are included in personnel costs.

- *Stock-based compensation* – Stock-based compensation expenses for the three months ended June 30, 2021 decreased 39% to $1.2 million, and for the six months ended June 30, 2021 decreased 40% to $2.5 million, as compared to the corresponding periods in 2020, primarily due to cancellation of unvested share-based awards as a result of the reduction in force of our personnel in September 2020.

- *Facilities and equipment* – Facilities and equipment costs for the three months ended June 30, 2021 decreased 39% to $0.4 million, and for the six months ended June 30, 2021 decreased 45% to $0.7 million, as compared to the corresponding periods in 2020, primarily due to lower depreciation expense subsequent to the sale of our facilities in December 2020.

- *Other* – Other costs for the three months ended June 30, 2021 decreased 27% to $1.0 million, and for the six months ended June 30, 2021 decreased 33% to $1.9 million, as compared to the corresponding periods in 2020, primarily due to lower costs of insurance and travel.

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 June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Total selling, general and administrative expense	$ 7.9	$ 14.1	$ 16.2	$ 28.8
Dollar decrease	$ (6.2)		$ (12.6)	
Percentage decrease	(44) %		(44) %	

Selling, general and administrative expenses consist primarily of personnel costs 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 months ended June 30, 2021 decreased 65% to $2.4 million, and for the six months ended June 30, 2021 decreased 61% to $5.5 million, as compared to the corresponding periods in 2020, primarily due to lower employee salaries and benefit costs as a result of the reduction in force of our personnel in September 2020. 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 June 30, 2021 decreased 13% to $2.8 million, and for the six months ended June 30, 2021 decreased 14% to $5.2 million, as compared to the corresponding periods in 2020, primarily due to lower marketing expenses, partially offset by higher legal fees.

- *Stock-based compensation* – Stock-based compensation expenses for the three months ended June 30, 2021 decreased 31% to $1.6 million, and for the six months ended June 30, 2021 decreased 31% to $3.2 million, as compared to the corresponding periods in 2020, primarily due to cancellation of unvested share-based awards as a result of the reduction in force of our personnel in September 2020.

- *Facilities and equipment* – Facilities and equipment costs for the three months ended June 30, 2021 decreased 19% to $0.4 million, and for the six months ended June 30, 2021 decreased 26% to $0.7 million, as compared to the corresponding periods in 2020, primarily due to lower property taxes and depreciation expense subsequent to the sale of our facilities in December 2020.

- *Other* – Other costs for the three months ended June 30, 2021 decreased 41% to $0.8 million, and for the six months ended June 30, 2021 decreased 46% to $1.6 million, as compared to the corresponding periods in 2020, primarily due to decreases in travel and training expenses due to the COVID-19 pandemic.

Impairment Loss on Buildings

In July 2020, our subsidiary, Lex-Gen Woodlands, L.P., entered into a real estate purchase and sale agreement to sell our facilities in the Woodlands, Texas. We recognized an impairment loss of $1.6 million as a result of writing down the buildings to the estimated net selling price.

Interest Expense and Interest and Other Income, Net

Interest Expense. Interest expense for the three and six months ended June 30, 2021 decreased 97% to $0.2 million, and $0.3 million, respectively, as compared to the corresponding periods in 2020, primarily due to our repayment of our $150 million BioPharma term loan in September 2020 and our exchange of $75.8 million in aggregate principal amount of Convertible Notes in September and October 2020.

Interest and Other Income, Net. Interest and other income, net for each of the three and six months ended June 30, 2021 was $0.1 million, and for the three and six months ended June 30, 2020 was $0.6 million and $1.6 million, respectively.

Net Loss and Net Loss per Common Share

Net loss and Net loss per Common Share. Net loss was $18.1 million, or $0.13 per share, in the three months ended June 30, 2021 as compared to $69.1 million, or $0.65 per share, in the corresponding period in 2020. Net loss was $39.0 million, or $0.27 per share, in the six months ended June 30, 2021 as compared to $135.7 million, or $1.27 per share, in the corresponding period in 2020.

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 collaborations and strategic licenses, 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 financing arrangements with Symphony Icon, Inc.

As of June 30, 2021, we had $118.5 million in cash, cash equivalents and short-term investments. As of December 31, 2020, we had $152.3 million in cash, cash equivalents and short-term investments. We used cash of $47.0 million from operations in the six months ended June 30, 2021. This consisted primarily of the net loss for the period of $39.0 million and a net decrease in operating liabilities net of assets of $13.8 million, partially offset by non-cash charges of $5.6 million related to stock-based compensation expense. Investing activities used cash of $3.6 million in the six months ended June 30, 2021, primarily due to net purchases of investments and $1.0 million of asset purchases. Financing activities provided cash of $14.2 million, primarily as a result of $16.9 million net proceeds from the sale of common stock under our Open Market Sale Agreement^{SM} with Jefferies LLC which was partially offset by $2.7 million used to repurchase common stock.

Other commitments. In April 2019, sotagliflozin 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 $\geq 27\ kg/m^2$, who could not achieve adequate glycemic control despite optimal insulin therapy. Upon the achievement of certain European regulatory pricing approvals, we will be required to make certain royalty payments, totaling $4.5 million, in three equal annual installments of $1.5 million.

Facilities. In December 2020, our subsidiary, Lex-Gen Woodlands, L.P., sold our facilities in The Woodlands, Texas for $11.9 million. Concurrent with such sale, we entered into a leaseback agreement with respect to 38,000 square feet of such facilities for a period of up to six months, with monthly gross rent payments of $101,000, which ended on June 15, 2021. In February 2021, we leased a 25,000 square-foot office space in The Woodlands, Texas and in June 2021, we relocated our corporate offices. The term of the sublease extends from March 1, 2021 through August 31, 2025, and provides for escalating yearly base rent payments starting at $506,000 and increasing to $557,000 in the final year of the lease.

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 ongoing nonclinical and clinical development efforts and the ability to obtain necessary regulatory approvals of the drug candidates which are the subject of such efforts; the ability of our collaborators and licensees to successfully develop and commercialize products and our receipt of milestone payments and royalties from such efforts; our success in establishing new collaborations and licenses, particularly for the commercialization of sotagliflozin for heart failure; 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 successfully complete our nonclinical and clinical development efforts with respect to LX9211, sotagliflozin and our other drug candidates; 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 $118.5 million in cash and cash equivalents and short-term investments as of June 30, 2021. 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 are not subject to interest rate sensitivity on our outstanding Convertible Notes as they generally have a fixed rate of 5.25% per annum. The Convertible Notes interest is payable in cash semi-annually in arrears and matures in December 2021, unless earlier converted or repurchased in accordance with their terms.

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 June 30, 2021 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. Our motion to dismiss was granted and the action was dismissed with prejudice by the District Court on August 14, 2020. The lead plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Fifth Circuit on September 11, 2020 and a brief in support of its appeal on December 17, 2020. We filed a response brief on February 18, 2021 and the lead plaintiffs filed a reply brief on March 11, 2021. Oral arguments were held on June 9, 2021. 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 Arbitration. On October 16, 2020, we initiated arbitration proceedings against Sanofi seeking to recover damages for breach of contract relating to the Termination and Settlement Agreement and Mutual Releases with Sanofi, dated September 9, 2019. In September 2020, Sanofi withheld approximately $23.2 million from the final $26 million payment due to us under the termination and settlement agreement, offsetting certain third party costs and internal costs incurred by Sanofi and asserted by Sanofi to be payable by us under the terms of the termination and settlement agreement. We dispute that at least a significant portion of such costs are properly reimbursable by us under the terms of the termination and settlement agreement and assert that, in any event, Sanofi was not permitted to withhold any of such costs under the terms of the termination and settlement agreement. We are seeking payment of up to $23.2 million in such disputed costs, together with late interest and attorneys' fees and costs. Sanofi is seeking a declaratory judgment that we are liable for all disputed costs previously withheld and damages for any additional costs properly reimbursable under the terms of the termination and settlement agreement in excess of those previously withheld, together with late interest and attorneys' fees.

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

- 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.

- We depend on our ability to gain alignment with certain regulatory authorities on our regulatory strategy for sotagliflozin in heart failure and obtain regulatory approval to market sotagliflozin for heart failure in the United States. If we fail to effectively gain such alignment or obtain such regulatory approval, our business will suffer and our stock price will likely decline.

- The commercial success of any 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 reestablish an effective sales force, marketing infrastructure and distribution capabilities, we will not be able to successfully commercialize any products that we or our collaborators may develop.

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

- We may not be able to manufacture 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 any 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.

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

- We face business disruption and related risks resulting from the outbreak of the novel coronavirus, or COVID-19, including delays in the enrollment of ongoing clinical trials and other operational impacts, each of which could have a material adverse effect on our business.

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 research and development programs and our planned commercial launch, if approved, of sotagliflozin for heart failure in the United States. 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 fluctuated 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 indebtedness that may limit cash flow available to invest in the ongoing needs of our business.

Risks Related to Our Relationships with Third Parties

- We depend on our ability to establish collaborations with pharmaceutical and biotechnology companies for the development and commercialization of our other drug candidates. If we are unable to establish such collaborations, or if pharmaceutical products are not successfully and timely developed and commercialized under such collaborations, our opportunities to generate revenues from our other drug candidates will be greatly reduced.

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

- We rely on third parties to carry out our nonclinical studies and clinical trials, which may harm or delay our research and development efforts.

- We lack the capability to manufacture materials for nonclinical studies, clinical trials and rely on third parties to manufacture our drug candidates, which may harm or delay our research and development 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, reputational harm and financial loss.

- 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 Our Employees and Facilities

- 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.

- 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 substances in our business. Any claims relating to improper handling, storage or disposal of these substances 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. and its 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 its stockholders' agreement 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 issuances or sales of our common stock, or the perception that such issuances or sales may occur, may depress our stock price.

- 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.

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, 2020 as filed with the Securities and Exchange Commission.

Item 6. Exhibits

Exhibit No.		Description
*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
104	—	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

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: August 6, 2021

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

Date: August 6, 2021

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

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: August 6, 2021

/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: August 6, 2021

/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 June 30, 2021, 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 6th day of August, 2021.

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