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, 2019

or

q **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from _____ to _____

Commission File Number: 000-30111

Lexicon Pharmaceuticals, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

Yes ☑ No _____

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

Yes ☑ No _____

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

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

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

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

Yes _____ No ☑

As of July 29, 2019, 106,271,927 shares of the registrant's common stock, par value $0.001 per share, were outstanding.

Lexicon Pharmaceuticals, Inc.

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Factors Affecting Forward Looking Statements

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

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

Part I – Financial Information

Item 1. Financial Statements

Lexicon Pharmaceuticals, Inc.

Consolidated Balance Sheets
(In thousands, except par value)

	As of June 30, 2019	As of December 31, 2018
Assets	**(unaudited)**	
Current assets:		
Cash and cash equivalents	$ 11,106	$ 80,386
Short-term investments	94,871	79,666
Accounts receivable, net of allowances of $4	5,580	5,924
Inventory	4,277	4,680
Prepaid expenses and other current assets	6,625	2,668
Total current assets	122,459	173,324
Property and equipment, net of accumulated depreciation and amortization of $60,791 and $60,006, respectively	15,007	15,865
Goodwill	44,543	44,543
Other intangible assets, net of accumulated amortization of $4,120 and $3,237, respectively	49,236	50,119
Other assets	1,898	285
Total assets	$ 233,143	$ 284,136
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 10,028	$ 17,759
Accrued liabilities	9,083	14,482
Current portion of deferred revenue	2,243	3,395
Current portion of long-term debt, net of deferred issuance costs	1,115	1,115
Total current liabilities	22,469	36,751
Deferred revenue, net of current portion	24,268	23,651
Long-term debt, net of deferred issuance costs	243,953	243,887
Deferred tax liabilities	6,014	6,014
Other long-term liabilities	1,325	238
Total liabilities	298,029	310,541
Commitments and contingencies		
Equity (Deficit):		
Preferred stock, $.01 par value; 5,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $.001 par value; 225,000 shares authorized; 106,679 and 106,162 shares issued, respectively	106	106
Additional paid-in capital	1,455,131	1,447,954
Accumulated deficit	(1,516,392)	(1,471,577)
Accumulated other comprehensive income (loss)	86	(12)
Treasury stock, at cost, 407 and 236 shares, respectively	(3,817)	(2,876)
Total deficit	(64,886)	(26,405)
Total liabilities and equity (deficit)	$ 233,143	$ 284,136

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

Lexicon Pharmaceuticals, Inc.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenues:				
Net product revenue	$ 8,672	$ 7,316	$ 15,412	$ 12,776
Collaborative agreements	860	6,404	3,299	26,236
Royalties and other revenue	150	78	187	160
Total revenues	9,682	13,798	18,898	39,172
Operating expenses:				
Cost of sales (including finite-lived intangible asset amortization)	1,327	838	1,880	1,371
Research and development, including stock-based compensation of $1,903, $1,395, $3,671 and $3,050, respectively	12,637	26,477	24,659	74,173
Selling, general and administrative, including stock-based compensation of $1,863, $1,503, $3,506 and $2,922, respectively	14,263	16,755	28,373	31,612
Total operating expenses	28,227	44,070	54,912	107,156
Loss from operations	(18,545)	(30,272)	(36,014)	(67,984)
Interest expense	(5,164)	(5,187)	(10,281)	(10,300)
Interest and other income, net	691	910	1,480	1,915
Net loss	$ (23,018)	$ (34,549)	$ (44,815)	$ (76,369)
Net loss per common share, basic and diluted	$ (0.22)	$ (0.33)	$ (0.42)	$ (0.72)
Shares used in computing net loss per common share, basic and diluted	106,272	105,848	106,164	105,758
Other comprehensive income (loss):				
Unrealized gain on investments	53	176	98	4
Comprehensive loss	$ (22,965)	$ (34,373)	$ (44,717)	$ (76,365)

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

Lexicon Pharmaceuticals, Inc.

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

	Common Stock		Additional		Accumulated Other		
	Shares	Par Value	Paid-In Capital	Accumulated Deficit	Comprehensive Gain (Loss)	Treasury Stock	Total
Balance at December 31, 2017	105,711	$ 106	$ 1,435,526	$ (1,365,241)	$ (222)	$ (1,904)	$ 68,265
Cumulative effect of change in accounting principle	—	—	—	14,212	—	—	14,212
Stock-based compensation	—	—	3,074	—	—	—	3,074
Issuance of common stock under Equity Incentive Plans	337	—	25	—	—	—	25
Repurchase of common stock	—	—	—	—	—	(972)	(972)
Net loss	—	—	—	(41,820)	—	—	(41,820)
Unrealized loss on investments	—	—	—	—	(172)	—	(172)
Balance at March 31, 2018	106,048	106	1,438,625	(1,392,849)	(394)	(2,876)	42,612
Stock-based compensation	—	—	2,898	—	—	—	2,898
Issuance of common stock under Equity Incentive Plans	67	—	367	—	—	—	367
Net loss	—	—	—	(34,549)	—	—	(34,549)
Unrealized loss on investments	—	—	—	—	176	—	176
Balance at June 30, 2018	106,115	$ 106	$ 1,441,890	$ (1,427,398)	$ (218)	$ (2,876)	$ 11,504
Balance at December 31, 2018	106,162	$ 106	$ 1,447,954	$ (1,471,577)	$ (12)	$ (2,876)	$ (26,405)
Stock-based compensation	—	—	3,411	—	—	—	3,411
Issuance of common stock under Equity Incentive Plans	517	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	(941)	(941)
Net loss	—	—	—	(21,797)	—	—	(21,797)
Unrealized gain on investments	—	—	—	—	45	—	45
Balance at March 31, 2019	106,679	106	1,451,365	(1,493,374)	33	(3,817)	(45,687)
Stock-based compensation	—	—	3,766	—	—	—	3,766
Net loss	—	—	—	(23,018)	—	—	(23,018)
Unrealized gain on investments	—	—	—	—	53	—	53
Balance at June 30, 2019	106,679	$ 106	$ 1,455,131	$ (1,516,392)	$ 86	$ (3,817)	$ (64,886)

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

Lexicon Pharmaceuticals, Inc.

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

	Six Months Ended June 30,	
	2019	**2018**
Cash flows from operating activities:		
Net loss	$ (44,815)	$ (76,369)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,811	1,853
Stock-based compensation	7,177	5,972
Amortization of debt issuance costs	708	592
Changes in operating assets and liabilities:		
Decrease in accounts receivable	344	419
(Increase) decrease in inventory	403	(194)
(Increase) decrease in prepaid expenses and other current assets	(3,957)	481
Decrease in other assets	186	—
Decrease in accounts payable and other liabilities	(13,842)	(6,844)
Decrease in deferred revenue	(535)	(25,208)
Net cash used in operating activities	(52,520)	(99,298)
Cash flows from investing activities:		
Purchases of property and equipment	(70)	(55)
Purchases of investments	(106,706)	(49,638)
Maturities of investments	91,600	104,123
Net cash (used in) provided by investing activities	(15,176)	54,430
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	392
Repurchase of common stock	(941)	(972)
Repayment of debt borrowings	(643)	(1,169)
Net cash used in financing activities	(1,584)	(1,749)
Net decrease in cash and cash equivalents	(69,280)	(46,617)
Cash and cash equivalents at beginning of period	80,386	61,661
Cash and cash equivalents at end of period	$ 11,106	$ 15,044
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 9,610	$ 6,726
Supplemental disclosure of non-cash activities:		
Unrealized gain on investments	$ 98	$ 4

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

1. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited 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, 2019 are not necessarily indicative of the results that may be expected for the year ended December 31, 2019.

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

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

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

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

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

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

	As of June 30, 2019	As of December 31, 2018
	(in thousands)	
Raw materials	$ 3,529	$ 3,564
Work-in-process	424	232
Finished goods	324	884
Total inventory	$ 4,277	$ 4,680

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

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

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

Other Intangible Assets: Other intangible assets, net consist of in-process research and development acquired in business combinations, which are reported at fair value, less accumulated amortization. Intangible assets with finite lives are amortized using the straight-line method over their estimated useful lives. The Company recorded $0.9 million in amortization expense related to intangible assets for each of the six months ended June 30, 2019 and 2018, respectively.

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

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

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

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

Revenue Recognition:

Product Revenues

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

Collaborative Agreements

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

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

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

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

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

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

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

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

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

	Expected Volatility	Risk-free Interest Rate	Expected Term	Dividend Rate
June 30, 2019:				
Employees	63%	2.4%	4	—%
Officers and non-employee directors	63%	2.6%	8	—%
June 30, 2018:				
Employees	59%	2.5%	4	—%
Officers and non-employee directors	63%	2.8%	8	—%

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

	Options	Weighted Average Exercise Price
	(in thousands)	
Outstanding at December 31, 2018	6,152	$ 10.68
Granted	2,196	5.19
Expired	(210)	9.95
Forfeited	(183)	10.28
Outstanding at June 30, 2019	7,955	9.20
Exercisable at June 30, 2019	4,093	$ 10.64

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

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Outstanding at December 31, 2018	1,286	$ 10.17
Granted	2,285	5.14
Vested	(517)	9.60
Forfeited	(158)	6.77
Outstanding at June 30, 2019	2,896	$ 6.49

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

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

3. Cash and Cash Equivalents and Investments

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

	As of June 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Cash and cash equivalents	$ 11,106	$ —	$ —	$ 11,106
Securities maturing within one year:				
U.S. treasury securities	94,785	89	(3)	94,871
Corporate debt securities	—	—	—	—
Total short-term investments	$ 94,785	$ 89	$ (3)	$ 94,871
Total cash and cash equivalents and investments	$ 105,891	$ 89	$ (3)	$ 105,977

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

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

4. Fair Value Measurements

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

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

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

	Assets and Liabilities at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Cash and cash equivalents	$ 11,106	$ —	$ —	$ 11,106
Short-term investments	94,871	—	—	94,871
Total cash and cash equivalents and investments	$ 105,977	$ —	$ —	$ 105,977

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

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

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

5. Debt Obligations

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

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

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

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

In connection with the issuance of the Convertible Notes, the Company incurred $3.4 million of debt issuance costs. The debt issuance costs are amortized as interest expense over the expected life of the Convertible Notes using the effective interest method. The Company determined the expected life of the debt was equal to the seven-year term of the Convertible Notes. As of June 30, 2019, the balance of unamortized debt issuance costs was $1.2 million, which offsets long-term debt on the consolidated balance sheets.

The fair value of the Convertible Notes was $95.6 million as of June 30, 2019 and was determined using Level 2 inputs based on the indicative pricing published by certain investment banks or trading levels of the Convertible Notes, which are not listed on any securities exchange or quoted on an inter-dealer automated quotation system.

Mortgage Loan. In August 2018, a wholly owned subsidiary of Lexicon entered into a term loan and security agreement, refinancing the previously existing mortgage on its facilities in The Woodlands, Texas (the "Property"). The Company recorded the refinancing as a debt extinguishment, with no recognition of gain or loss on the transaction. The loan agreement provides for a $12.9 million mortgage on the Property and has a two-year term with a 10-year amortization. The mortgage loan bears interest at a rate per annum equal to the greater of (a) the 30-day LIBOR rate plus 5.5% and (b) 7.5% and provides for a balloon payment of $10.3 million due in August 2020. Lexicon incurred $0.4 million of debt issuance costs in connection with the mortgage loan, which offsets long-term debt on the consolidated balance sheets and are amortized as interest expense over the two-year term of the loan agreement. As of June 30, 2019, the balance of unamortized debt issuance costs was $0.2 million. The consolidated balance sheet includes mortgage debt of $11.6 million as of June 30, 2019. The buildings and land that serve as collateral for the mortgage loan are included in property and equipment at $59.2 million and $2.7 million, respectively, before accumulated depreciation, as of June 30, 2019. The fair value of the loan agreement approximates its carrying value. The fair value of the loan agreement was determined using Level 2 inputs using discounted cash flow analysis, based on the Company's estimated current incremental borrowing rate.

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

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

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

In connection with the BioPharma Term Loan, the Company incurred $4.1 million of debt issuance costs. The debt issuance costs are amortized as interest expense over the expected life of the BioPharma Term Loan using the effective interest method. The Company determined the expected life of the debt was equal to the five-year term of the BioPharma Term Loan. As of June 30, 2019, the balance of unamortized debt issuance costs was $2.8 million, which offsets long-term debt on the consolidated balance sheets.

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

6. Commitments and Contingencies

Operating Lease Obligations: A Lexicon subsidiary leases office space in Basking Ridge, New Jersey under an operating lease agreement, the term of which began in June 2015 and terminates in December 2022. As disclosed in Note 2, the Company adopted ASU 2016-02, Leases (Topic 842), on January 1, 2019. As of June 30, 2019, the office space lease right-of-use (ROU) asset had a balance of $1.9 million, which is included in other assets in the consolidated balance sheet, and

current and non-current liabilities relating to the ROU asset were $0.6 million and $1.3 million, respectively, which are included in accrued liabilities and other long-term liabilities in the consolidated balance sheet, respectively. The discount rate used to record the office space lease was the Company's estimated borrowing rate of 9%. Additionally, Lexicon leases certain office equipment under operating leases. The Company elected to apply the short-term lease exception to all leases one year or less.

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

	(in thousands)
2019	$ 304
2020	620
2021	632
2022	645
2023	—
Total undiscounted operating lease liability	2,200
Less: amount of lease payments representing interest	(322)
Present value of future lease payments	1,878
Less: short-term operating lease liability	(553)
Long-term operating lease liability	$ 1,325

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. An amended complaint was filed on July 30, 2019. The lawsuit purports to be a class action brought on behalf of purchasers of the Company's securities during the period from March 11, 2016 through July 29, 2019. The complaint alleges that the defendants violated federal securities laws by making materially false and misleading statements and/or omissions concerning data from its Phase 3 clinical trials of sotagliflozin in type 1 diabetes patients and the prospects of FDA approval of sotagliflozin for the treatment of type 1 diabetes. The complaint purports to assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The complaint seeks, on behalf of the purported class, an unspecified amount of monetary damages, interest, fees and expenses of attorneys and experts, and other relief.

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

7. Collaboration and License Agreements

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

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

On July 25, 2019, Sanofi delivered to Lexicon a notice purporting to terminate the Sanofi Agreement. Lexicon has notified Sanofi that it considers such notice invalid and the Sanofi Agreement to remain in full force and effect. See "Part II, Item 1. Legal Proceedings" for more information regarding Sanofi's purported termination and associated disputes. The following is a summary description of the Sanofi Agreement without reference to Sanofi's purported termination or associated disputes.

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

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

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

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

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

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

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

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

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

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

As a result of the allocation, the Company recognized $126.8 million of the $300 million upfront payment for the license in 2015. The Company is recognizing the $113.8 million allocated to the development services performance obligation and the $59.4 million allocated to the funding performance obligation over the estimated period of performance as the development and funding occurs. Milestone payments that are contingent upon the achievement of a substantive milestone are deemed constrained. If or when the constraint is determined to be resolved, the Company will re-evaluate the overall transaction price and recognize an adjustment on a cumulative catch-up basis in the period that the adjustment was evaluated. During the six months ended June 30, 2019, there has not been an adjustment to the transaction price. Revenue recognized under the Sanofi Agreement was $0.3 million and $25.3 million for the six months ended June 30, 2019 and 2018, respectively.

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

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

XERMELO. Lexicon and Ipsen have entered into a commercial supply agreement pursuant to which Lexicon will supply Ipsen's commercial requirements of XERMELO, and Ipsen pays an agreed upon transfer price for such commercial supply.

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

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

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

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

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

As a result of the allocation, the Company recognized $21.2 million of the $24.5 million upfront payments for the license in 2014, and an additional $1.4 million in 2015 upon entering into the amendment. The Company recognized the $1.7 million allocated to the development services performance obligation over the period of performance as development occurred, and recognized the $0.1 million allocated to the committee participation performance obligation ratably over the period of performance. Milestone payments that are contingent upon the achievement of a substantive milestone are deemed constrained. If or when the constraint is determined to be resolved, the Company will re-evaluate the overall transaction price and recognize an adjustment on a cumulative catch-up basis in the period that the adjustment was evaluated. During the six months ended June 30, 2019, the milestone earned when Ipsen made its first commercial sale in Canada was determined to be a distinct performance obligation relating to the development activities and accordingly, was recognized as revenue without further allocation to the remaining performance obligations. Revenue recognized under the Agreement was $3.1 million and $0.7 million for the six months ended June 30, 2019 and 2018, respectively. Royalty revenue of $0.1 million was recognized for each of the six months ended June 30, 2019 and 2018, respectively. Net product revenue for the six months ended June 30, 2019 and 2018 included $1.3 million and $1.4 million, respectively, from sales of bulk tablets of XERMELO to Ipsen.

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

Overview

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

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

- We are developing Zynquista™ (sotagliflozin), an orally-delivered small molecule drug candidate, as a treatment for type 1 and type 2 diabetes. We have granted Sanofi an exclusive, worldwide (excluding Japan), royalty-bearing right to develop, manufacture and commercialize sotagliflozin. Sanofi has delivered to us a notice purporting to terminate the collaboration. We have notified Sanofi that we consider such notice invalid and the collaboration agreement to remain in full force and effect. See "Part II, Item 1. Legal Proceedings" for more information regarding Sanofi's purported termination and associated disputes.

  Zynquista has been approved in the European Union for use as an adjunct to insulin therapy to improve glycemic control in adults with type 1 diabetes and a body mass index $\geq 27\ kg/m^2$, who could not achieve adequate glycemic control despite optimal insulin therapy. The U.S. Food and Drug Administration has issued a complete response letter regarding the application for regulatory approval to market sotagliflozin for type 1 diabetes in the United States. Applications for regulatory approval to market sotagliflozin for type 1 diabetes in certain additional countries remain under regulatory review. Sanofi has also been conducting a comprehensive Phase 3 development program for sotagliflozin in type 2 diabetes and we have reported preliminary top-line results from the first three Phase 3 clinical trials of sotagliflozin in adults living with type 2 diabetes.

- We are developing LX9211, an orally-delivered small molecule drug candidate, as a treatment for neuropathic pain. We have reported positive top-line data from an initial Phase 1a clinical trial of LX9211 and are conducting a Phase 1b clinical trial of LX9211.

- We are developing LX2761, an orally-delivered small molecule drug candidate, as a treatment for diabetes. We have reported top-line data from two Phase 1 clinical trials of LX2761 and are presently evaluating the further clinical development of LX2761. We have granted Sanofi certain rights of first negotiation with respect to the future development and commercialization of LX2761.

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

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

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

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

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

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

Since our inception, we have incurred significant losses and, as of June 30, 2019, we had an accumulated deficit of $1.5 billion. Our losses have resulted principally from costs incurred in research and development, selling, general and administrative costs associated with our operations, and non-cash stock-based compensation expenses associated with stock options and restricted stock granted to employees and consultants. Research and development expenses consist primarily of salaries and related personnel costs, external research costs related to our nonclinical and clinical efforts, material costs, facility costs, depreciation on property and equipment, and other expenses related to our drug discovery and development programs. Selling, general and administrative expenses consist primarily of salaries and related expenses for executive, sales and marketing, and administrative personnel, professional fees and other corporate expenses, including information technology, facilities costs and general legal activities. We expect to continue to incur significant research and development costs in connection with the continuing development of our drug candidates. As a result, we will need to generate significantly higher revenues to achieve profitability.

Critical Accounting Policies

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

Recent Accounting Pronouncements

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

Results of Operations

Revenues

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total revenues	$ 9.7	$ 13.8	$ 18.9	$ 39.2
Dollar decrease	$ 4.1		$ 20.3	
Percentage decrease	30%		52%	

- *Net product revenue* – Net product revenue for the three months ended June 30, 2019 increased 19% to $8.7 million, and for the six months ended June 30, 2019 increased 21% to $15.4 million as compared to the corresponding periods in 2018 from revenues recognized from the sale of XERMELO in the United States and sales of bulk tablets of XERMELO to Ipsen. Product revenues are recorded net of estimated product returns, pricing discounts including rebates offered pursuant to mandatory federal and state government programs and chargebacks, prompt pay discounts and distribution fees and co-pay assistance. Revenue recognition policies require estimates of the aforementioned sales allowances each period.
- *Collaborative agreements* – Revenue from collaborative agreements for the three and six months ended June 30, 2019 decreased 87% to $0.9 million and $3.3 million, respectively, as compared to the corresponding periods in 2018, primarily due to revenues recognized in the prior year as a result of clinical trial activities under the collaboration and license agreement with Sanofi.

Cost of Sales

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total cost of sales	$ 1.3	$ 0.8	$ 1.9	$ 1.4
Dollar increase	$ 0.5		$ 0.5	
Percentage increase	58%		37%	

Cost of sales consists of third-party manufacturing costs, freight and indirect overhead costs associated with sales of XERMELO. The pre-commercialization inventory is expected to be sold over approximately the next eighteen months. As a result, cost of sales for the next eighteen months will reflect a lower average per unit cost of materials. Cost of sales for the three and six months ended June 30, 2019 and 2018 includes $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,	
	2019	2018	2019	2018
Total research and development expense	$ 12.6	$ 26.5	$ 24.7	$ 74.2
Dollar decrease	$ 13.8		$ 49.5	
Percentage decrease	52%		67%	

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, 2019 decreased 81% to $3.2 million, and for the six months ended June 30, 2019 decreased 90% to $5.6 million as compared to the corresponding periods in 2018 primarily due to decreases in external clinical development costs relating to sotagliflozin and professional and consulting fees. Third-party and other services relate principally to our clinical trial and related development activities, such as nonclinical and clinical studies and contract manufacturing.

- *Personnel* – Personnel costs for the three and six months ended June 30, 2019 were $5.4 million and $11.3 million, respectively, and were comparable to the corresponding periods in 2018. Salaries, bonuses, employee benefits, payroll taxes, recruiting and relocation costs are included in personnel costs.

- *Stock-based compensation* – Stock-based compensation expense for the three months ended June 30, 2019 increased 36% to $1.9 million, and for the six months ended June 30, 2019 increased 20% to $3.7 million as compared to the corresponding periods in 2018, primarily due to a shorter vesting period of the annual restricted stock unit awards granted in 2018 and 2019.

- *Facilities and equipment* – Facilities and equipment costs for the three and six months ended June 30, 2019 were $0.7 million and $1.3 million, respectively, and were comparable to the corresponding periods in 2018.

- *Other* – Other costs for the three months ended June 30, 2019 decreased 30% to $1.5 million, and for the six months ended June 30, 2019 decreased 24% to $2.8 million, as compared to the corresponding periods in 2018, primarily due to lower funding of continuing medical education grants.

Selling, General and Administrative Expenses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Total selling, general and administrative expense	$ 14.3	$ 16.8	$ 28.4	$ 31.6
Dollar decrease	$ 2.5		$ 3.2	
Percentage decrease	15%		10%	

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

- *Personnel* – Personnel costs for the three months ended June 30, 2019 were $7.1 million and were comparable to the corresponding period in 2018. Personnel costs for the six months ended June 30, 2019 increased 4% to $15 million as compared to the corresponding period in 2018, primarily due to an increase in headcount. 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, 2019 decreased 50% to $2.9 million, and for the six months ended June 30, 2019 decreased 41% to $5.5 million as compared to the corresponding periods in 2018, primarily due to changes in marketing costs.

- *Stock-based compensation* – Stock-based compensation expense for the three months ended June 30, 2019 increased 24% to $1.9 million, and for the six months ended June 30, 2019 increased 20% to $3.5 million as compared to the corresponding periods in 2018, primarily due to a shorter vesting period of the annual restricted stock unit awards granted in 2018 and 2019.

- *Facilities and equipment* – Facilities and equipment costs for the three and six months ended June 30, 2019 were $0.4 million and $0.9 million, respectively, and were comparable to the corresponding periods in 2018.

- *Other* – Other costs for the three months ended June 30, 2019 were $2.0 million, and were comparable to the corresponding period in 2018. Other costs for the six months ended June 30, 2019 decreased 14% to $3.6 million as compared to the corresponding period in 2018, primarily due to a decrease in contributions to charitable foundations.

Interest Expense and Interest and Other Income, Net

Interest Expense. Interest expense for each of the three months ended June 30, 2019 and 2018 was $5.2 million, and for each of the six months ended June 30, 2019 and 2018 was $10.3 million.

Interest and Other Income, Net. Interest and other income, net for the three months ended June 30, 2019 and 2018 was $0.7 million and $0.9 million, respectively, and for the six months ended June 30, 2019 and 2018 was $1.5 million and $1.9 million, respectively.

Net Loss and Net Loss per Common Share

Net Loss and Net Loss per Common Share. Net loss decreased to $23.0 million in the three months ended June 30, 2019 from $34.5 million in the corresponding period in 2018. Net loss per common share decreased to $0.22 in the three months ended June 30, 2019 from $0.33 in the corresponding period in 2018. Net loss decreased to $44.8 million in the six months ended June 30, 2019 from $76.4 million in the corresponding period in 2018. Net loss per common share decreased to $0.42 in the six months ended June 30, 2019 from $0.72 in the corresponding period in 2018.

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

Liquidity and Capital Resources

We have financed our operations from inception primarily through sales of common and preferred stock, contract and milestone payments we received under our strategic and other collaborations, target validation, database subscription and technology license agreements, product sales, government grants and contracts, and financing under debt and lease arrangements. We have also financed certain of our research and development activities under our agreements with Symphony Icon, Inc. From our inception through June 30, 2019, we had received net proceeds of $1.5 billion from issuances of common and preferred stock and convertible and term debt. In addition, from our inception through June 30, 2019, we received $885.6 million in cash payments from strategic and other collaborations, target validation, database subscription and technology license agreements, product sales, sales of compound libraries and reagents, and government grants and contracts, of which $850.7 million had been recognized as revenues through June 30, 2019.

As of June 30, 2019, we had $106.0 million in cash, cash equivalents and short-term investments. As of December 31, 2018, we had $160.1 million in cash, cash equivalents and investments. We used cash of $52.5 million in operations in the six months ended June 30, 2019. This consisted primarily of the net loss for the period of $44.8 million and a net decrease in operating liabilities net of assets of $17.4 million, partially offset by non-cash charges of $7.2 million related to stock-based compensation expense and $2.5 million related to depreciation and amortization expense, including amortization of debt issuance costs. Investing activities used cash of $15.2 million in the six months ended June 30, 2019, primarily due to net purchases of investments of $15.1 million. Financing activities used cash of $1.6 million, primarily to repurchase $0.9 million of common stock and to repay $0.6 million of debt borrowings.

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

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

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

Facilities. In August 2018, our subsidiary Lex-Gen Woodlands, L.P. entered into a term loan and security agreement, refinancing the previously existing mortgage on our facilities in The Woodlands, Texas. The loan agreement provides for a $12.9 million mortgage on the property and has a two-year term with a 10-year amortization. The mortgage loan bears interest at a rate per annum equal to the greater of (a) the 30-day LIBOR rate plus 5.5% and (b) 7.5% and provides for a balloon payment of $10.3 million due in August 2020.

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

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

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

Disclosure about Market Risk

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

We had approximately $106.0 million in cash and cash equivalents and short-term investments as of June 30, 2019. We believe that the working capital available to us will be sufficient to meet our cash requirements for at least the next 12 months.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by us in the reports we file under the Securities Exchange Act is gathered, analyzed and disclosed with adequate timeliness, accuracy and completeness, based on an evaluation of such controls and procedures as of the end of the period covered by this report. In connection with the audit of our consolidated financial statements for the year ended December 31, 2018, we identified a material weakness in our internal control over financial reporting related to the design of controls to prevent overstatement of estimated pass-through costs recorded in our clinical trial expense accruals. During the six months ended June 30, 2019, we designed and implemented processes and internal controls to prevent such overstatement. There were no other changes in our internal control over financial reporting during the three months ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II -- Other Information

Item 1. Legal Proceedings

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

Sanofi Disputes. On July 25, 2019, we received written notice from Sanofi informing us of Sanofi's purported termination of our collaboration and license agreement, dated November 5, 2015, entered into by us and Sanofi for the worldwide development and commercialization of sotagliflozin. The notice purports to terminate the collaboration agreement for a failure to achieve positive results in two Phase 3 clinical studies of sotagliflozin in type 2 diabetes. We disagree that Sanofi has the right to so terminate the collaboration agreement and consider Sanofi's notice to such effect to be invalid and such purported termination and public announcement thereof to constitute a breach of the collaboration agreement and a breach of Sanofi's implied duty and covenant of good faith and fair dealing.

The collaboration agreement provides that Sanofi may terminate the collaboration agreement upon thirty (30) days' written notice if, with respect to any specified decision point, positive results are not achieved in all material respects, as determined by the joint steering committee established under the governance provisions of the collaboration agreement. The timing of that determination is to be "within thirty (30) days after the earlier of (i) completion of the final study report for the applicable clinical study and, if applicable, delivery of such report to Sanofi and (ii) one hundred twenty (120) days after the first database lock for the applicable clinical study." In the event that the joint steering committee is unable to agree, the determination of positive results is subject to the dispute resolution procedures specified in the collaboration agreement. In no case is Sanofi entitled to unilaterally make a positive results determination.

Sanofi first provided Lexicon with preliminary top-line results from the two Phase 3 clinical trials on July 23, 2019. Sanofi did not provide the clinical data underlying Sanofi's preliminary top-line results. Having not received that clinical data, the Lexicon members of the joint steering committee did not have a reasonable opportunity to evaluate the clinical data and the statistical analysis thereof. The earliest date under the collaboration agreement for a joint steering committee determination of positive results for the two Phase 3 clinical trials is in October 2019. Contrary to these terms of the collaboration agreement, Sanofi claims to have taken upon itself, bypassing the joint steering committee, without providing access to the underlying clinical data, ignoring contractually-specified timelines, and disregarding the dispute resolution provisions of the collaboration agreement, the right to unilaterally determine positive results so that it declare them not to have been achieved (which we dispute and/or are not yet in a position to assess) and report at its previously scheduled earnings call on July 29, 2019 that it had "terminated" the collaboration agreement.

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

In addition, we believe that Sanofi has breached the collaboration agreement and Sanofi's implied duty and covenant of good faith and fair dealing by (a) not conducting its development activities for type 2 diabetes in accordance with the development plan, (b) not using commercially reasonable efforts to obtain regulatory approval for sotagliflozin in major markets in the licensed territory following completion of the type 1 diabetes development activities and (c) not using commercially reasonable efforts to commercialize sotagliflozin in major markets in the licensed territory for type 1 diabetes following receipt of regulatory approval.

On July 26, 2019, we provided Sanofi with written notice of the referral of these disputes to specified senior officers of the parties for attempted resolution by good faith negotiations, as required by the dispute resolution provisions of the collaboration agreement as a prerequisite to the institution of binding arbitration.

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

Item 1A. Risk Factors

The following risks and uncertainties are important factors that could cause actual results or events to differ materially from those indicated by forward-looking statements. The factors described below are not the only ones we face and additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

Risks Related to Our Business and Industry

- If we are unable to successfully and timely resolve our disputes with Sanofi relating to Sanofi's purported termination of our collaboration agreement and associated matters, the sotagliflozin program will be significantly and negatively impacted. Among other things, we, Sanofi or a different collaborator may not successfully commercialize sotagliflozin in the European Union for type 1 diabetes, obtain regulatory approval in the United States for sotagliflozin in type 1 diabetes or successfully complete Phase 3 clinical development and obtain regulatory approvals for sotagliflozin in type 2 diabetes. In such case, our business will suffer and our stock price will likely decline.

- We depend heavily on the commercialization of Zynquista in the European Union for type 1 diabetes. If we, Sanofi or a different collaborator fails to successfully commercialize Zynquista for type 1 diabetes in the European Union, our business will suffer and our stock price will likely decline.

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

- We depend heavily on the successful completion of Phase 3 clinical development and obtaining regulatory approvals for sotagliflozin in type 2 diabetes. If we, Sanofi or a different collaborator fails to successfully complete such Phase 3 clinical development and obtain such regulatory approvals, or fails to successfully commercialize sotagliflozin for type 2 diabetes upon such regulatory approvals, our business will suffer and our stock price will likely decline.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Capital Requirements and Financial Results

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

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

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

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

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

Risks Related to Our Relationships with Third Parties

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

- Conflicts with our collaborators, such as our disputes with Sanofi relating to Sanofi's purported termination of our collaboration agreement and associated matters, could jeopardize the success of our collaborative agreements and harm our product development and commercialization efforts.

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

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

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

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

Risks Related to Our Intellectual Property

- If we are unable to adequately protect our intellectual property, third parties may be able to use our products and technologies, which could adversely affect our ability to compete in the market.
- We may be involved in patent litigation and other disputes regarding intellectual property rights and may require licenses from third parties for our planned nonclinical and clinical development and commercialization activities. We may not prevail in any such litigation or other dispute or be able to obtain required licenses.
- Data breaches and cyber-attacks could compromise our intellectual property or other sensitive information and cause significant damage to our business and reputation.
- We may be subject to damages resulting from claims that we, our employees or independent contractors have wrongfully used or disclosed alleged trade secrets of their former employers.

Risks Related to Employees and Facilities Operations

- If we are unable to manage our growth, our business, financial condition, results of operations and prospects may be adversely affected.
- The loss of key personnel or the inability to attract and retain additional personnel could impair our ability to operate and expand our operations.
- Facility security breaches may disrupt our operations, subject us to liability and harm our operating results.
- Our facilities are located near coastal zones, and the occurrence of a hurricane or other disaster could damage our facilities and equipment, which could harm our operations.

Risks Related to Environmental and Product Liability

- We have used hazardous chemicals and radioactive and biological materials in our business. Any claims relating to improper handling, storage or disposal of these materials could be time consuming and costly.
- Our business has a substantial risk of product liability and we face potential product liability exposure far in excess of our limited insurance coverage.

Risks Related to Our Common Stock

- Invus, L.P., Invus C.V. and their affiliates own a controlling interest in our outstanding common stock and may have interests which conflict with those of our other stockholders.
- Invus has additional rights under our stockholders' agreement with Invus, L.P. relating to the membership of our board of directors, which provides Invus with substantial influence over significant corporate matters.
- Our stock price may be extremely volatile.
- We are subject to securities litigation, which is expensive and could divert management attention.
- Future sales of our common stock, or the perception that such sales may occur, may depress our stock price.
- Conversion of our 5.25% Convertible Senior Notes due 2021 may dilute the ownership interest of our existing stockholders, including holders who had previously converted their notes, or may otherwise depress the price of our common stock.
- If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.
- We may engage in future acquisitions, which may be expensive and time consuming and from which we may not realize anticipated benefits.

- We previously identified a material weakness in our internal control over financial reporting that, if not properly remediated, could result in us being unable to provide required financial information in a timely and reliable manner.

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

Item 6. Exhibits

Exhibit No.		Description
*31.1	—	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	—	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	—	Certification of Principal Executive and Principal Financial Officers Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	—	XBRL Instance Document
101.SCH	—	XBRL Taxonomy Extension Schema Document
101.CAL	—	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	—	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	—	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	—	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith.

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 1, 2019

By: /s/ Lonnel Coats

Lonnel Coats

President and Chief Executive Officer

Date: August 1, 2019

By: /s/ Jeffrey L. Wade

Jeffrey L. Wade

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

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* Filed herewith.

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 1, 2019

/s/ Lonnel Coats

Lonnel Coats

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Jeffrey L. Wade, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 1, 2019

/s/ Jeffrey L. Wade

Jeffrey L. Wade

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

Exhibit 32.1

CERTIFICATION

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

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

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

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 1st day of August, 2019.

By: /s/ Lonnel Coats

Lonnel Coats

President and Chief Executive Officer

By: /s/ Jeffrey L. Wade

Jeffrey L. Wade

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