LIGAND PHARMACEUTICALS INC
Form 10-K/A
November 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 2

Mark One

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

For the Fiscal Year Ended December 31, 2011

OR

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

For the transition period from to .

Commission File No. 001-33093

LIGAND PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**77-0160744**

(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
11119 North Torrey Pines Rd., Suite 200 La Jolla, CA	**92037**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (858) 550-7500

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.001 per share	The NASDAQ Global Market of The NASDAQ Stock Market LLC
Preferred Share Purchase Rights	The NASDAQ Global Market of The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨	Accelerated Filer x (Do not check if a smaller reporting company)	Non-accelerated Filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the Registrant s voting and non-voting stock held by non-affiliates was approximately $206.6 million based on the last sales price of the Registrant s Common Stock on the NASDAQ Global Market of the NASDAQ Stock Market LLC on June 30, 2011. For purposes of this calculation, shares of Common Stock held by directors, officers and 10% stockholders known to the Registrant have been deemed to be owned by affiliates which should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Registrant or that such person is controlled by or under common control with the Registrant.

As of February 1, 2012, the Registrant had 19,683,235 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant s 2011 Annual Meeting of Stockholders to be filed with the Commission on or before April 30, 2012 are incorporated by reference in Part III of this Annual Report on Form 10-K. With the exception of those portions that are specifically incorporated by reference in this Annual Report on Form 10-K, such Proxy Statement shall not be deemed filed as part of this Report or incorporated by reference herein.

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EXPLANATORY NOTE

Ligand Pharmaceuticals Incorporated (the Company) is filing this Amendment No. 2 on Form 10-K/A (Amended Form 10-K) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the Original Form 10-K), which was originally filed with the Securities and Exchange Commission (SEC) on February 23, 2012 (the Original Filing Date) and amended on Form 10-K/A (Amended Form 10-K) on May 16, 2012, to restate the Company s consolidated financial statements for the year ended December 31, 2011 and amend related disclosures in Management s Discussion and Analysis.

During the Company s quarter-end close procedures for the period ended September 30, 2012, the Company discovered spreadsheet formula and other errors in the calculation of the contingent liability related to the Company s acquisition of CyDex Pharmaceuticals, Inc. (CyDex) on January 24, 2011. The initial fair value of the contingent liability was overstated by $1.6 million resulting in an initial overstatement of goodwill by $2.7 million, an understatement of intangible assets of $0.9 million, an overstatement of deferred income tax liability of $0.3 million and an understatement of income tax benefit from continuing operations of $0.1 million.

As a result, the Company is filing this Amended Form 10-K to amend Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Consolidated Financial Statements and Supplementary Data, to reflect the following:

- Decrease (increase) in contingent liabilities for the year ended December 31, 2011 has been increased by $0.6 million to $(1.0) million from $(0.4) million;
- Income tax benefit from continuing operations has been increased by $0.1 million to $13.3 million from $13.1 million;
- Income from continuing operations for the year ended December 31, 2011 has been decreased by $0.5 million to $9.7 million, or $0.49 per share, from $10.2 million, or $0.52 per share;
- Goodwill at December 31, 2011 has been decreased by $2.7 million to $12.2 million from $14.9 million, intangible assets has been increased by $0.9 million to $58.3 million from $57.4 million, deferred income taxes have been decreased by $0.3 million to $2.2 million from $2.5 million and long-term portion of contingent liabilities at December 31, 2011 has decreased by $1.0 million to $10.4 million from $11.4 million; and
- Contingent liabilities now includes amounts relating to contingent value rights and other acquired contingent liabilities.

For the convenience of the reader, this Annual Report on Form 10-K/A sets forth the Original Filing, as amended in its entirety. This Amended Form 10-K/A also revises the Company s disclosure under the heading Management s Report on Internal Control over Financial Reporting in Item 9A for the material weaknesses relating to this restatement, includes the updated attestations of our independent registered public accounting firm and includes currently-dated certifications from the Company s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Amended Form 10-K has not modified or updated the information in the Original Form 10-K, except as necessary to reflect the effects of the restatement, which took into consideration subsequent information about conditions that existed at December 31, 2011. This Amended Form 10-K continues to speak as of the dates described herein, and the disclosures contained in the Original Form 10-K do not reflect any events that occurred subsequent to the Original Filing Date.

Information not affected by the restatement is unchanged and reflects the disclosures made as of the Original Filing Date. In particular, forward-looking statements included in this Amended Form 10-K that have not been affected by the restatement represent management s views as of the Original Filing Date. Such forward-looking statements should not be assumed to be accurate as of any future date. Accordingly, this Amended Form 10-K should be read in conjunction with our subsequent filings with the SEC, as information in such filings may update or supersede certain information contained in this Amended Form 10-K.

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The financial information previously disclosed in the Company s consolidated financial statements included in the Original Form 10-K (and other SEC filings in which such financial statements were included) and the Company s unaudited interim condensed consolidated financial statements previously included in the Company s Quarterly Reports on Form 10-Q for the quarterly and year to date periods ended March 31, June 30 and September 30, 2011 and March 31 and June 30, 2012 should not be relied upon. The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2011 and the related disclosures in Management s Discussion and analysis on financial condition and results of operations will not be restated on Form 10-Q/A but will be restated on Form 10-Q for the period ended September 30, 2012. The unaudited condensed consolidated financial statements for the three months ended March 31, 2012 and the three and six months ended June 30, 2012 and the related disclosures in Managements discussion and analysis of financial condition and results of operations will be restated on Forms 10-Q/A.

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AVAILABLE INFORMATION:

We file electronically with the Securities and Exchange Commission (or SEC) our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and, as necessary, amendments to these reports, pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. The public may read or copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports which are posted as soon as reasonably practicable after filing on our website at <http://www.ligand.com>, by contacting the Investor Relations Department at our corporate offices by calling (858) 550-7500 or by sending an e-mail message to investors@ligand.com. You may also request information via the Investor Relations page of our website.

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PART I

Item 1. Business

Caution: This discussion and analysis may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed in Item 1A. Risk Factors. This outlook represents our current judgment on the future direction of our business. These statements include those related to our royalty revenues, collaborative revenues and milestones, and product development. Actual events or results may differ materially from our expectations. For example, there can be no assurance that our revenues or expenses will meet any expectations or follow any trend(s), that we will be able to retain our key employees or that we will be able to enter into any strategic partnerships or other transactions. We cannot assure you that we will receive expected royalties or other revenues to support our ongoing business or that our internal or partnered pipeline products will progress in their development, gain marketing approval or achieve success in the market. In addition, future arbitration, litigation or disputes with third parties may have a material adverse effect on us. Such risks and uncertainties, and others, could cause actual results to differ materially from any future performance suggested. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date of this annual report. This caution is made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended.

References to Ligand Pharmaceuticals Incorporated , Ligand , the Company , we or our include our wholly owned subsidiaries - Ligand JVR, Allergan Ligand Retinoid Therapeutics, Seragen, Inc., or Seragen; Pharmacopeia, LLC; Neurogen Corporation, CyDex Pharmaceuticals, Inc., Metabasis Therapeutics, and Nexus Equity VI LLC, or Nexus.

We were incorporated in Delaware in 1987. Our principal executive offices are located at 11085 North Torrey Pines Road, Suite 100, La Jolla, California, 92037. Our telephone number is (858) 550-7500.

Overview

We are a biotechnology company that operates with a business model focused on developing or acquiring revenue generating assets and coupling them to a lean corporate cost structure. Our goal is to create a sustainably profitable business and generate meaningful value for our stockholders. Since a portion of our business model is based on the goal of partnering with other pharmaceutical companies to commercialize and market our assets, a significant amount of our revenue is based largely on payments made to us by partners for royalties, milestones and license fees. We recognized the important role of the drug reformulation segment in the pharmaceutical industry and in 2011 added CAPTISOL® to our technology portfolio. CAPTISOL is a powerful formulation technology that has enabled five FDA approved products, including Pfizer s VFEND® IV and Baxter International s Nexterone® and is currently being used in a number of clinical-stage partner programs. In comparison to our peers, we believe we have assembled one of the largest and most diversified asset portfolios in the industry with the potential to generate significant revenue in the future. The therapies in our portfolio in development address the unmet medical needs of patients for a broad spectrum of diseases including hepatitis, muscle wasting, Alzheimer s disease, dyslipidemia, diabetes, anemia, asthma, rheumatoid arthritis and osteoporosis. We have established multiple alliances with the world s leading pharmaceutical companies including GlaxoSmithKline, Merck, Pfizer, Baxter International, Bristol-Myers Squibb, Celgene, Onyx Pharmaceuticals, Lundbeck Inc., Eli Lilly and Co., and The Medicines Company.

Business Strategy

Our business model is designed to create value for stockholders by assembling a diversified portfolio of biotech and pharmaceutical revenue streams and operating that business with an efficient and low cost structure. Our goal is to become a sustainably profitable company that offers investors an opportunity to invest in the ever more complicated and unpredictable pharmaceutical industry. Our business model is based on the concept of

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doing what we do best; drug discovery, reformulation and partnering with other pharmaceutical companies to leverage what they do best (late stage development, regulatory management and commercialization) to ultimately generate our revenue. Our revenue consists mostly of license fees, milestones, and royalties from the partners that license our drugs and technologies, and CAPTISOL material sales. In addition to discovering our own proprietary drugs, we use an aggressive acquisition strategy to bring in new assets, pipelines, and technologies to aid in generating additional potential new revenue streams. The principal elements of our strategy are set forth below.

We are assembling a large portfolio of fully funded programs through acquisition and licensing to drive future profitability. We have assembled a portfolio of over 50 fully-funded partner programs that are in all stages of development, from awaiting commercialization to preclinical research. These assets represent the next wave of potential marketed drugs that could generate revenue for us. We assemble this portfolio by either licensing out our own proprietary drug development programs or acquiring in partnered programs from other companies. For our internal programs, we generally plan to advance drug candidates through early-stage drug development and/or clinical proof of concept. We believe partnerships are not only a source of research funding, license fees, future milestone payments and royalties, but they also deliver our assets into the hands of companies that have the expertise to obtain regulatory approval and successfully launch and commercialize these assets. We believe that focusing on discovery and early-stage drug development while benefiting from our partners proven development and commercialization expertise will reduce our internal expenses and allow us to have a larger number of drug candidates progress to later stages of drug development. We have multiple sources of potential license and royalty revenue from existing corporate agreements, and we may enter additional partnerships that will provide additional revenue opportunities. We have numerous collaborations that have the potential to generate future royalties for us. We believe the revenue generated from these and future potential collaborations will fund our business and potentially provide profits to our shareholders.

We are selling CAPTISOL material to various customers. We are the sole provider of a proprietary formulation reagent known as CAPTISOL. CAPTISOL is a well validated chemically-modified cyclodextrin molecule that improves the solubility, stability, and pharmicokinetics of many drugs. We receive revenue from the selling of CAPTISOL to our partners that have either licensed our proprietary CAPTISOL-enabled drugs or have taken a license to use CAPTISOL with their own internal programs.

We discover and develop compounds that are promising drug candidates. We discover, synthesize and test numerous compounds to identify those that are most promising for clinical development. We perform extensive target profiling and base our selection of promising development candidates on product characteristics such as initial indications of safety and efficacy. We believe that this focused strategy allows us to eliminate unpromising candidates from consideration sooner without incurring substantial clinical costs. Our goal is to partner our programs early in the development and regulatory life-cycle.

Our Asset Portfolio

We have a portfolio of over 60 current and future potential revenue generating programs, over 50 of which are fully funded by our partners. We expect to receive royalties from eight marketed products in 2012 and have multiple programs at Phase IIb through NDA submission which represent our future upcoming potential revenue generating programs. While many of these programs have been disclosed publicly, a significant number of our partners and their programs remain undisclosed to protect competitive and proprietary information about these programs.

PROMACTA (GSK)

GSK s PROMACTA® (Eltrombopag) is the first oral thrombopoietin (TPO) receptor agonist therapy for the treatment of adult patients with chronic ITP. In November 2008, the U.S. Food and Drug Administration, or FDA, granted accelerated approval of PROMACTA for the treatment of thrombocytopenia in patients with

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chronic immune (idiopathic) thrombocytopenic purpura, or ITP, who have had an insufficient response to corticosteroids, immunoglobulins or splenectomy. In February 2011, the FDA granted GSK full approval status for PROMACTA in the US following the submission of long term safety data from post-marketing clinical studies, as well as the completion of other commitments that verify the clinical benefit to patients. Additionally, it was reported in November 2011 that the Risk Evaluation and Mitgation Strategies (REMS) program that PROMACTA had been operating under in the US was being significantly reduced in scope by the FDA due to data that had been submitted by GSK demonstrating the long term safety of PROMACTA.

In March 2010, GSK received approval for REVOLADE® (eltrombopag/PROMACTA) from the European Medicines Agency s Committee for Medicinal Products for Human Use (CHMP) and in November 2010 from the Japanese Ministry of Health, Labour and Welfare for the oral treatment of thrombocytopenia (reduced platelet count) in adults with the blood disorder chronic ITP. Eltrombopag is also authorized for use in all 27 member states of the European Union, as well as India, Australia, Ireland, Japan, Taiwan, Turkey, Singapore, Kuwait, Chile, Russia and Bahrain under the trade name REVOLADE. In the EU and Japan, Eltrombopag is indicated for adult chronic ITP splenectomized patients who have not responded (are refractory) to other treatments, such as corticosteroids and immunoglobulins. Eltrombopag may also be considered as second-line treatment for adult non-splenectomized patients where surgery is contraindicated.

As a result of the regulatory approvals of PROMACTA, pursuant to the terms of a license agreement with GSK, we are entitled to receive tiered royalties on annual net sales of PROMACTA. GSK has listed a patent in the FDA s Orange Book for PROMACTA with an expiration date in 2024.

	PROMACTA Royalty*
Rate	**Tier**
4.7%	Less than $100M annual sales
6.6%	On portion of sales in range of $100M - $200M
7.5%	On portion of sales in range of $200M - $400M
9.4%	On portion of sales greater than $400M
9.3%	On portion of sales greater than $1.5B

* Net royalties due Ligand after payment to Rockefeller

AVINZA (Pfizer)

We currently receive royalty revenues from Pfizer, Inc. for sales from the pain therapeutic AVINZA®. In February 2007, we completed the sale of our AVINZA product line to King. As a result of the sale, we receive royalties on the net sales of AVINZA through 2017. Royalties are paid at a rate of 5% on sales up to $200 million and a higher rate above $200 million. In October 2010, Pfizer announced the acquisition of King Pharmaceuticals.

Viviant/Conbriza (Pfizer)

In October 2010, we announced that our partner Pfizer, Inc. launched VIVIANT® (bazedoxifene) in Japan for the treatment of postmenopausal osteoporosis. The drug is also marketed in Spain under the brand name CONBRIZA® through a co-promotion with Almirall, an international pharmaceutical company based in Spain. Pfizer received manufacturing and marketing approval for the product in Japan in July 2010. VIVIANT was approved in April 2009 by the European Commission (under the trade name CONBRIZA) for the treatment of postmenopausal osteoporosis in women at increased risk of fracture. VIVIANT, a selective estrogen receptor modulator (SERM), is a result of the successful research collaboration between Wyeth (now a subsidiary of Pfizer) and us that began in 1994. Pfizer is responsible for the registration and worldwide marketing of bazedoxifene, a synthetic drug specifically designed to reduce the risk of osteoporotic fractures while also

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protecting uterine tissue. We are entitled to receive tiered royalties on net sales of bazedoxifene. Any such royalties may be subject to reduction or offset for past milestone payments and/or may be subject to other terms and conditions set forth in our agreement.

Nexterone (Baxter International)

In 2006, CyDex outlicensed Nexterone®, an injectable formulation combining amiodarone and CAPTISOL®, to Baxter International Baxter (formerly Prism Pharmaceuticals, Inc.). Under the terms of the agreement, Baxter is responsible, under an exclusive worldwide license, for all development and commercialization of Nexterone at its sole expense. We are supplying CAPTISOL to Baxter for use in accordance with the terms of the license agreement under a separate supply agreement. Baxter has paid milestone payments and is obligated to pay royalties to us on sales of Nexterone through March 2029. On November 19, 2010, Prism, who was subsequently acquired by Baxter, received marketing approval from the FDA for Nexterone and launched Nexterone in the United States in 2011.

Select Late-Stage Development Programs

We have multiple partnered programs in our portfolio that are either in or nearing the regulatory approval process. These programs represent the next series of potential royalty generating assets in our portfolio.

PROMACTA (GSK, Phase III HepC-Related Thrombocytopenia and PII Oncology-Related Thrombocytopenia)

PROMACTA is approved for ITP and we receive royalties from GSK on world-wide sales. In an effort to expand PROMACTA s use, GSK has recently completed two large Phase III studies (ENABLE 1 and 2) designed to demonstrate PROMACTA s value in treatment of thrombocytopenia in patients with Hepatitis C. In November 2011, GSK presented data at the annual meeting of the American Association for the Study of Liver Disease (AASLD) where it was reported that both studies met their primary endpoint with high statistical significance. Full analysis of all safety data should be completed in the first half of 2012 and we expect an sNDA filing during 2012.

GSK is also conducting Phase II clinical studies for oncology-related thrombocytopenia in patients with solid tumors, sarcoma and advanced Myelodysplastic Syndrome (MDS) or Secondary Acute Myeloid Leukemia after MDS.

Carfilzomib (Onyx, Phase III/NDA, Multiple Myeloma)

CyDex and Onyx Pharmaceuticals (formerly Proteolix) entered into a collaboration in 2005 to develop the CAPTISOL-enabled IV formulation of carfilzomib for refractory multiple myeloma. Onyx completed filing of the NDA in 2011 and was granted a standard review by the FDA, with a Prescription Drug User Fee Act (PDUFA) date set as July 27, 2012. Onyx is continuing to run two large Phase III studies in support of this program, the ASPIRE and FOCUS trials, which should complete in 2013. We are eligible to receive milestones, royalties and CAPTISOL material sales revenue from this program.

Aprela (Pfizer, Phase III, Post-Menopausal Symptoms)

In October 2010, we announced that our partner Pfizer, Inc. launched VIVIANT (bazedoxifene) in Japan for the treatment of postmenopausal osteoporosis. Pfizer is now combining VIVIANT with Premarin to create a combination therapy called Aprela for the treatment of post-menopausal symptoms in women. Pfizer has completed PIII studies of Aprela and we expect an NDA filing in 2012. We are entitled to receive tiered royalties on all net sales of bazedoxifene, whether alone or in combination with other products. Any such royalties may be subject to reduction or offset against past milestone payments and/or may be subject to other terms and conditions set forth in our agreement.

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Merck CAPTISOL Program, Molecule Undisclosed(Merck, Phase III, Undisclosed Indication)

Ligand and Merck entered into a CAPTISOL supply agreement in June 2011 for an undisclosed Merck program. Merck is currently conducting a pivitol study for this program and we expect Merck to potentially file a 505(b)(2) in 2013 for approval to market this CAPTISOL program. Financial terms of the relationship remain undisclosed, but we expect to generate substantial material sales revenue through the supply of CAPTISOL for this program.

CAPTISOL-Enabled Clopidogrel (The Medicines Company, Phase III, Anti-coagulant)

We announced in June 2011 that we had licensed the full world-wide rights to our CAPTISOL®-enabled clopidogrel program to The Medicines Company. Clopidogrel is the active ingredient in PLAVIX®, the world s leading anti-platelet medication which is currently only available in an oral formulation. The CAPTISOL-enabled clopidogrel formulation is designed to provide an intravenous option in situations where the administration of oral platelet inhibitors is not feasible or desirable. We received an upfront payment of $1.8 million, and are eligible to receive up to $22 million in milestones and up to double digit royalties on annual worldwide net sales. In addition, we will also supply both the clinical and commercial requirements of CAPTISOL for this program, and if the intravenous formulation is approved for commercialization, we will be the exclusive supplier of the product. We recognized $0.9 million of the upfront payment as revenue and under the terms of our CyDex contingent value rights agreement, remitted $0.9 million to CyDex shareholders.

The Medicines Company is planning to initiate a pivotal study for the program in 2012 and we expect an NDA to be filed in 2013

DARA program (Retrophin, various stages and indications)

In February 2012, we announced that we had licensed the full world-wide rights to DARA (a Dual Acting Receptor Antagonist of Angiotension and Endothelin receptors). Retrophin intends to develop DARA for orphan indications of severe kidney diseases including Focal Segmental Glomerulosclerosis (FSGS) as well as conduct proof-of-concept studies in resistant hypertension and diabetic nephropathy. Certain patient groups with severely compromised renal function exhibit extreme proteinuria resulting in progression to dialysis and a high mortality rate. DARA, with its unique dual blockade of angiotensin and endothelin receptors, is expected to provide meaningful clinical benefits in mitigating proteinuria in indications where there are no approved therapies. We are entitled to receive a net up front payment of $1 million, and may receive, net of amounts owed to third parties, over $75 million in milestones as well as 9% in royalties on potential future worldwide sales by Retrophin.

Internal Product Development Programs

As summarized in the table below, we are developing several proprietary products for a variety of indications. These programs represent our future licensing opportunities to expand our partnered asset portfolio.

Program	Disease/Indication	Development Phase
CAPTISOL-Enabled Melphalan IV	Oncology	Pivotal
HepDirect HCV Inhibitor	Hepatitis C	Preclinical
IRAK4 Inhibitor	Inflammation	Preclinical
Glucagon Receptor Antagonist	Diabetes	Preclinical
CAPTISOL-Enabled Topiramate	Epilepsy	Phase II

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CAPTISOL-Enabled Melphalan IV

We are developing a proprietary CAPTISOL-enabled formulation of melphalan as an injectable, palliative treatment for patients with multiple myeloma. Melphalan, which is currently marketed by GSK under the name Alkeran®, is the standard of care for use in conditioning regimens prior to autologous stem cell transplant in patients with multiple myeloma. Our Captisol-enabled form of melphalan does not require a special non-aqueous dissolving solvent system - containing high levels of propylene glycol for reconstitution, and can be dissolved directly into saline. This allows for longer administration durations and slower infusion rates, enabling doctors to safely achieve a higher dose intensity of pre-transplant chemotherapy. The CAPTISOL-enabled melphalan program has also obtained orphan drug designation from the FDA. In December 2011, we reported final phase II bioequivalence data from this program and expect to initiate a pivotal study in 2012 to support a US 505(b)(2) filing with the FDA in 2013.

HepDirect HCV Inhibitor Program

We are developing novel small molecule inhibitors of the Hepatitis C virus using our HepDirect technology platform. Data from current lead molecules suggest that directing these molecules to the liver using the HepDirect technology produces fewer side effects and the potential for an overall superior risk-benefit ratio compared to non HepDirect therapies. We anticipate filing an IND for our lead program in 2013.

IRAK4 Inhibitor Program

We are developing small molecule Interleukin-1 Receptor Associated Kinase-4 (IRAK4) inhibitors for the treatment of inflammatory and immune disorders. IRAK4 plays an important role in the innate immune system and may also be important for cross-talk between the innate and adaptive immune systems. IRAK4 is a key signaling component downstream of both toll-like receptors and interleukin-1 receptors suggesting that it may have therapeutic value for a range of autoimmune and inflammatory conditions. Inhibition of IRAK4 activity has been implicated in multiple diseases including rheumatoid arthritis, systemic lupus erythematosus, gout, inflammatory bowel disease, asthma, and allergic rhinitis. Inhibitors of IRAK4 may also be useful for the treatment of certain leukemias and lymphomas. We have identified orally available small molecule inhibitors of IRAK4 which are under investigation for use in cancer and autoimmune diseases.

Glucagon Receptor Antagonist Research Program

We are developing small molecule glucagon receptor antagonists for the treatment of Type 2 diabetes mellitus. Compounds that block the action of glucagon may reduce the hyperglycemia that is characteristic of this disease. Glucagon stimulates the production of glucose by the liver and its release into the blood stream. In diabetic patients, glucagon secretion is abnormally elevated which contributes to hyperglycemia in these patients. Compounds have been discovered that block the action of glucagon on human hepatocytes *in vitro*. Our advanced glucagon antagonist compounds demonstrate oral bioavailability in rodents.

Other Internal Programs Awaiting Further Development Funding, Either Through Ligand or a Partner

Aplindore (Phase II, Restless Leg/Parkinson s)

Selective Androgen Receptor Modulator-SARM (Phase I, Muscle Wasting)

CAPTISOL-Enabled Nasal Budesonide (Phase I, Allergic Rhinitis)

Oral EPO-Receptor Agonist (Preclinical, Anemia)

GCSF-Receptor Agonist (Preclinical, Neutropenia)

Thyroid Receptor-beta Agonist (Preclinical, Dyslipidemia)

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Histamine H3 Receptor Antagonist (Preclinical, Cognitive Disorders)

Glucokinase Activator (Preclinical, Diabetes)

DGAT Inhibitor (Preclinical, Diabetes)

CCR1 Inhibitor (Preclinical, oncology)

CRTH2 Inhibitor (Preclinical, Inflammation)

Topical JAK3 (Preclinical, Inflammation)

Others

Recent Acquisitions and Other Transactions

CyDex Pharmaceuticals, Inc. Acquisition

On January 26, 2011, we completed the acquisition of CyDex Pharmaceuticals, Inc. or CyDex. As a result, we gained revenue from four currently marketed products and one currently approved product, a large portfolio of partnered drug development programs, an internal pipeline of proprietary drugs, and the CAPTISOL drug formulation platform technology. We paid $31.6 million in cash, of which $20.0 million was financed, with an additional $4.3 million paid on the one-year anniversary of the transaction. In addition, as previously disclosed, Cydex stockholders are entitled to contingent cash payments related to certain transactions and pursuant to a revenue share plan.

Strategic Alliance with Chiva Pharmaceuticals of China for HepDirect Drug Development

In January 2011, we entered into a strategic relationship with Chiva Pharmaceuticals, Inc., or Chiva, to develop several of our assets and technology in China and potentially worldwide. Chiva was granted licenses to begin immediate development in China of our two clinical-stage HepDirect programs, Pradefovir for hepatitis B and MB01733 for hepatocellular carcinoma. Additionally, we granted Chiva a non-exclusive HepDirect technology license for the discovery, development and worldwide commercialization of new compounds in hepatitis B (HepB), hepatitis C (HepC) and hepatocellular carcinoma (HCC).

Chiva is obligated to develop these programs to address the high unmet medical need in China s fast growing pharmaceutical market. The Chinese government is offering financial support to pharmaceutical companies like Chiva who can develop innovative therapies in China for public health needs such as infectious disease and oncology.

Under the terms of the agreement, we have the potential to earn over $100 million in milestones and royalties on potential sales related to our assets. In August 2011, the contract was amended to increase the royalty rates we are eligible to receive on licensed products in return for relinquishing rights to a 10% equity position in Chiva that we were entitled to under the original agreement.

CAPTISOL License and Supply Agreement with The Medicines Company to Develop CAPTISOL-Enabled Clopidogrel

In June 2011, we entered into a CAPTISOL License and Supply Agreement with The Medicines Company for development and commercialization of CAPTISOL-enabled clopidogrel for use as an intravenous drug. Under this License Agreement, we received a $1.8 million upfront payment, of which $0.9 million was remitted to the CyDex CVR holders. We are entitled to potentially receive up to $22 million of milestone payments.

We are also eligible to receive, under the License Agreement, a substantial royalty on worldwide net sales of The Medicines Company s intravenous clopidogrel formulated with CAPTISOL, and we also expect to manufacture and sell clinical and commercial supplies of

CAPTISOL to The Medicines Company.

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CAPTISOL Supply Agreement with Merck for Undisclosed Program

In June 2011, we entered into a commercial supply agreement to provide CAPTISOL® to Merck. Under the Supply Agreement, we exclusively licensed intellectual property rights related to CAPTISOL to commercialize the licensed product worldwide and non-exclusively licensed such intellectual property rights and data related to CAPTISOL to engage in activities related to regulatory approval for the licensed product worldwide. The companies also agreed to mutual exclusivity terms.

In consideration for the associated data package and intellectual property rights, Merck agreed to make milestone payments associated with specified regulatory events related to the licensed product. Merck also will pay an increased supply price in lieu of a royalty on net sales of the licensed product.

Fablyn License Agreement with Chiva Pharmaceuticals

In October 2011, we entered into a License Agreement with Chiva Pharmaceuticals, Inc. Under the License Agreement, we granted to Chiva an exclusive worldwide license, with sub-license rights, to our intellectual property rights related to Fablyn, a selective estrogen receptor modulator. Chiva is obligated to pay us a non-refundable license issuance fee of $4 million on or before June 1, 2012. We are also eligible to receive, under the License Agreement, both milestones and royalty payments on worldwide net sales of Fablyn.

CAPTISOL License and Supply Agreement with SAGE Therapeutics

In October 2011, we entered into a License Agreement with SAGE Therapeutics, Inc., or SAGE, granting SAGE an exclusive right to use CAPTISOL® in SAGE s development and commercialization of therapeutic drugs formulating certain allosteric receptor modulators with CAPTISOL against identified central nervous system disorders. Under the License Agreement, we will receive upfront and research support payments, and potentially can receive additional payments if SAGE exercises certain product commercialization options. Upon commercialization, we could potentially receive milestone payments for CAPTISOL-enabled programs, plus tiered royalties on net sales for products that use the CAPTISOL technology. We are also eligible to receive material sales revenue from the shipment of CAPTISOL to SAGE for clinical and commercial activities.

CAPTISOL License and Supply Agreement with Eli Lilly

In December 2011, we entered into a License and Supply Agreement with Eli Lilly (Lilly) and Company. Under the License Agreement, we granted to Lilly an exclusive, nontransferable license to such intellectual property rights that will enable Lilly to develop and potentially commercialize CAPTISOL-enabled® intravenous oncology therapeutics. Lilly paid us a non-refundable license issuance fee of $1 million. We are also eligible to receive royalty payments on worldwide net sales of any products that are successfully commercialized.

Under the Supply Agreement, Lilly agreed to purchase from us its CAPTISOL requirements for the development of the compounds contemplated by the License Agreement, as well as any CAPTISOL required for any product that is successfully commercialized.

CAPTISOL License and Supply Agreement with Hospira for Undisclosed Program

In December 2011, we entered into a License and Supply Agreement with Hospira, Inc. Under the Agreement, we granted a license in specified territories, with sub-license rights, to such intellectual property rights that will enable the manufacture and sale of certain finished drug products of which CAPTISOL® is a component. The terms of the Agreement call for us to receive a non-refundable license fee of $0.5 million. In addition, we received a pre-payment of $2.5 million, to be applied as a credit toward the first $2.5 million of CAPTISOL supplied under the Agreement. In the event of a termination prior to us supplying $2.5 million of CAPTISOL, we will refund the difference of the value of CAPTISOL supplied and the $2.5 million pre-payment. We are also eligible to receive milestone payments upon the occurrence of certain specified sales goals.

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Technology

We employ various research laboratory methods to discover and conduct preclinical development of new chemical entities. These methods are performed either in our own laboratories or in those of contract research organizations under our direction.

In our efforts to discover new and important medicines, we have concentrated on certain technologies and acquired special expertise related to intracellular receptors and the receptors for hematopoietic growth factors. Intracellular receptors are involved in the actions of non-peptide hormones and drugs such as selective estrogen receptor modulators, or SERMs, and SARMs. Hematopoietic growth factor receptors are involved in the differentiation and proliferation of blood cell progenitors, the formation of new blood cells, and the action of drugs such as PROMACTA, Epogen and Neumega. We use and have developed particular expertise in co-transfection assays, which measure gene transcription in response to the activation of a target receptor, and gene expression in cells selected for expression of particular receptors or transfected with cDNA for particular receptors. Some of these methods are covered by patents issued to or licensed by us, are trade secrets, or are methods that are in the public domain, but that we may use in novel ways to improve our efficiency in identifying promising leads and developing new chemical entities.

In connection with our merger with Metabasis, we acquired certain HepDirect Technology. HepDirect technology supplements our core drug discovery technology platform of ligand-dependent gene expression. HepDirect is a prodrug technology that targets delivery of certain drugs to the liver by using a proprietary chemical modification that renders a drug biologically inactive until cleaved by a liver-specific enzyme.

In connection with our acquisition of CyDex, we acquired the CAPTISOL drug formulation platform technology. We use this technology to improve the solubility, stability, and/or pharmacokinetics of drugs, whether in our own internal development pipeline or those of our partners.

In September 1993, CyDex obtained from the University of Kansas, or KU, an exclusive, worldwide license, with the right to sublicense, under the original CAPTISOL patents, as well as intellectual property covering the results generated during specified CyDex-sponsored research activities at KU. We are responsible for maintaining the Drug Master File (DMF) for CAPTISOL. KU retained a research license to the technology for noncommercial educational and research purposes, and agreed to assign to us its then-pending license agreements with Pfizer relating to CAPTISOL.

In August 2004, the KU license agreement was amended to replace all future payment terms under the agreement, including royalties, with a concurrent lump sum payment and issuance of CyDex stock to KU. KU also granted us a right of first refusal to acquire exclusive, worldwide rights to any future improvements to CAPTISOL, including any next generation formulations of CAPTISOL, that are developed by KU or by third parties pursuant to research sublicenses granted by KU. KU is obligated to disclose to us in writing any such improvement, and upon receipt of such information, we may exercise our right of first refusal to obtain such an exclusive license upon terms and conditions not materially different than those described in the original KU license agreement. To date, we have not exercised our right of first refusal to acquire any such improvements. The license agreement with KU will remain in force until the expiration of all licensed patents.

In December 1993, as contemplated by our license agreement with KU, KU entered into an option agreement with Pfizer, simultaneously transferring to us all of KU s rights and obligations under that agreement.

Manufacturing

We currently have no manufacturing facilities and, accordingly, rely on third parties, including our collaborative partners, for clinical production of any products or compounds.

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We currently outsource the production of CAPTISOL to Hovione FarmaCiencia SA, or Hovione, a major supplier of APIs and API intermediates located in Lisbon, Portugal. In December 2002, CyDex entered into a CAPTISOL supply agreement with Hovione, under which Hovione is our exclusive supplier of CAPTISOL and is restricted from supplying CAPTISOL to third parties, so long as specified conditions are met. In addition to its main manufacturing site in Loures, Portugal, Hovione will qualify a second site in Macau if our forecast requirements for CAPTISOL exceed the capabilities of the Loures site. We have ongoing minimum purchase commitments under the agreement and are required to pay Hovione an aggregate minimum amount during the agreement term. Hovione must supply amounts exceeding our forecasts by a fixed percent. In January 2008, we entered into an amendment to the supply agreement, under which we and Hovione agreed to reduce our minimum annual purchase requirement of CAPTISOL and to extend the term of the agreement.

We pay Hovione unit prices, in U.S. dollars, for all CAPTISOL supplied after the commercial production date, which prices may be adjusted based on the following:

- fluctuation in currency exchange rates;
- change in raw material prices;
- change in the Portuguese consumer price index; and
- our requested changes to the CAPTISOL manufacturing process or specifications.

In the event of a CAPTISOL supply interruption, we are permitted to designate and, with Hovione s assistance, qualify one or more alternate suppliers. If the supply interruption continues beyond a designated period, we may terminate the agreement. In addition, if Hovione cannot supply our requirements of CAPTISOL due to an uncured force majeure event or if the unit price of CAPTISOL exceeds a set figure, we may obtain CAPTISOL from a third party. In December 2011, the contract was amended to allow certain bulk quantities of CAPTISOL to be distributed directly from Hovione.

Unless terminated earlier, the agreement will continue until it expires in December 2019. The term will automatically continue after the initial term for successive two year renewal terms, unless either party gives written notice of its intention to terminate the agreement no less than two years prior to the expiration of the initial term or renewal term. In addition, either party may terminate the agreement for the uncured material breach or bankruptcy of the other party or an extended force majeure event. We may terminate the agreement for extended supply interruption, regulatory action related to CAPTISOL or other specified events.

For further discussion of these items, see below under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Research and Development Expenses

Research and development expenses from continuing operations were $10.3 million, $22.1 million, and $39.9 million in 2011, 2010, and 2009, respectively, of which 99%, 61%, and 47%, respectively, were sponsored by us.

There were no research and development expenses from discontinued operations in 2011, 2010, and 2009.

Competition

Some of the drugs we are developing may compete with existing therapies or other drugs in development by other companies. A number of pharmaceutical and biotechnology companies are pursuing intracellular receptor-related approaches to drug discovery and development. Furthermore, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection with respect to potentially competing products or technologies and may establish collaborative arrangements with our competitors.

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Many of our existing or potential competitors, particularly large pharmaceutical companies, have greater financial, technical and human resources than we do and may be better equipped to develop, manufacture and market products. Many of these companies also have extensive experience in preclinical testing and human clinical trials, obtaining FDA and other regulatory approvals and manufacturing and marketing pharmaceutical products.

Our competitive position also depends upon our ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary products or processes, and secure sufficient capital resources for the often substantial period between technological conception and commercial sales. For a discussion of the risks associated with competition, see below under Item 1A. Risk Factors.

Government Regulation

The manufacturing and marketing of our products, our ongoing research and development activities and products being developed by our collaborative partners are subject to regulation for safety and efficacy by numerous governmental authorities in the United States and other countries. In the United States, pharmaceuticals are subject to rigorous regulation by federal and various state authorities, including the FDA. The Federal Food, Drug and Cosmetic Act and the Public Health Service Act govern the testing, manufacture, safety, efficacy, labeling, storage, record keeping, approval, advertising and promotion of our products. There are often comparable regulations that apply at the state level. Product development and approval within this regulatory framework takes a number of years and involves the expenditure of substantial resources.

The steps required before a pharmaceutical agent may be marketed in the United States include (1) preclinical laboratory tests, (2) the submission to the FDA of an IND, which must become effective before human clinical trials may commence, (3) adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug, (4) the submission of an NDA to the FDA and (5) the FDA approval of the NDA prior to any commercial sale or shipment of the drug. In addition to obtaining FDA approval for each product, each domestic drug-manufacturing establishment must be registered with the FDA and, in California, with the Food and Drug Branch of California. Domestic manufacturing establishments are subject to pre-approval inspections by the FDA prior to marketing approval, then to biennial inspections, and must comply with current Good Manufacturing Practices (cGMP). To supply products for use in the United States, foreign manufacturing establishments must comply with cGMP and are subject to periodic inspection by the FDA or by regulatory authorities in such countries under reciprocal agreements with the FDA.

For both currently marketed and future products, failure to comply with applicable regulatory requirements after obtaining regulatory approval can, among other things, result in the suspension of regulatory approval, as well as possible civil and criminal sanctions. In addition, changes in existing regulations could have a material adverse effect to us.

For marketing outside the United States before FDA approval to market, we must submit an export permit application to the FDA. We also are subject to foreign regulatory requirements governing human clinical trials and marketing approval for drugs. The requirements relating to the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country and there can be no assurance that we or any of our partners will meet and sustain any such requirements.

We are also increasingly subject to regulation by the states. A number of states now regulate, for example, pharmaceutical marketing practices and the reporting of marketing activities, controlled substances, clinical trials and general commercial practices. We have developed and are developing a number of policies and procedures to ensure our compliance with these state laws, in addition to the federal regulations described above. Significant resources are now required on an ongoing basis to ensure such compliance. For a discussion of the risks associated with government regulations, see below under Item 1A. Risk Factors.

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Patents and Proprietary Rights

We believe that patents and other proprietary rights are important to our business. Our policy is to file patent applications to protect technology, inventions and improvements to our inventions that are considered important to the development of our business. We also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position.

Royalties we currently receive from Pfizer, as successor to King on AVINZA represent a portion of our ongoing revenue. The United States patent on AVINZA is not expected to expire until November 2017; however, applications for generic forms of AVINZA have been submitted to the FDA. The last to expire United States patents relating to PROMACTA is not expected to expire until December 2024. The last to expire United States patents related to CAPTISOL is not expected to expire until 2029. Subject to compliance with the terms of the respective agreements, our rights under our licenses with our exclusive licensors extend for the life of the patents covering such developments. For a discussion of the risks associated with patent and proprietary rights, see below under Item 1A. Risk Factors.

Human Resources

As of February 1, 2012, we had 21 full-time employees, of whom 7 are involved directly in scientific research and development activities. Of these employees, 6 hold Ph.D. or M.D. degrees.

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ITEM 1A. RISK FACTORS

The following is a summary description of some of the many risks we face in our business. You should carefully review these risks in evaluating our business, including the businesses of our subsidiaries. You should also consider the other information described in this report.

Risks Related To Us and Our Business.

Our business has recently undergone a significant change, and we may not be successful in integrating the CAPTISOL technology and CyDex s other development product candidates into our existing operations or in realizing the planned results from our recently expanded product portfolio and pipeline.

In January 2011, we completed our merger with CyDex, in which we obtained the CAPTISOL technology, in addition to other product candidates. We will need to overcome significant challenges in order to realize the benefits from this acquisition. These challenges will include the timely, efficient and successful execution of a number of tasks, including the following:

- integrating CyDex into our existing operations;
- integrating CyDex s developmental product candidates and successfully managing the development and regulatory processes; and
- coordinating with CyDex s and our collaborative partners concerning the development, manufacturing, regulatory and intellectual property protection strategies for CAPTISOL and new development product candidates.

In addition, we rely on our collaborative partners for many aspects of our developmental and commercialization activities, and we are subject to risks related to their financial stability and solvency. We may not succeed in addressing these risks or any other problems encountered in connection with the acquisition of CyDex.

Furthermore, all of CyDex s products and product candidates, as well as the technology that it outlicenses, are based on CAPTISOL. In addition, CyDex or its partners are attempting to develop some product candidates that may contain significantly higher levels of CAPTISOL than in any currently-approved product and has directed developers to demonstrate an adequate safety margin, and specifically acceptable renal safety. If products or product candidates incorporating CAPTISOL technology were to cause any unexpected adverse events, whether in preclinical studies, clinical trials or as commercialized products, whether as a result of CAPTISOL or otherwise, the perception of CAPTISOL safety could be seriously harmed. If this were to occur, we may not be able to market these products unless and until we are able to demonstrate that the adverse event was unrelated to CAPTISOL, which we may not be able to do. Further, whether or not the adverse event was a result of CAPTISOL, we could be required by the FDA to submit to additional regulatory reviews or approvals, including extensive safety testing or clinical testing of products using CAPTISOL, which would be expensive and, even if we were to demonstrate that the adverse event was unrelated to CAPTISOL, would delay our marketing of CAPTISOL-enabled products and receipt of revenue related to those products.

Royalties based on sales of AVINZA and PROMACTA represent a substantial portion of our revenues.

Pfizer, as successor to King is obligated to pay us royalties based on its sales of AVINZA and GSK is obligated to pay us royalties on its sales of PROMACTA. These royalties are expected to be a substantial portion of our ongoing revenues for some time. As a result, any setback that may occur with respect to AVINZA or PROMACTA could significantly impair our operating results and/or reduce the market price of our stock. Setbacks for AVINZA and PROMACTA could include problems with shipping, distribution, manufacturing, product safety, marketing, government regulation, licenses and approvals, intellectual property rights, competition with existing or new products and physician or patient acceptance of the products, as well as higher than expected total rebates, returns or discounts.

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AVINZA or PROMACTA could also face regulatory action and product safety issues. For example, the FDA previously requested expanded warnings on the AVINZA label to alert doctors and patients to the dangers of using AVINZA with alcohol. Changes were subsequently made to the label. The FDA also requested clinical studies to investigate the risks associated with taking AVINZA with alcohol. Any additional warnings, studies and any further regulatory action could have significant adverse effects on AVINZA sales.

In September 2007, King reported that Actavis, a manufacturer of generic pharmaceutical products headquartered in Iceland, had filed with the FDA an Abbreviated New Drug Application, or ANDA, with a Paragraph IV Certification pertaining to AVINZA, the rights to which were acquired by King from us in February 2007. According to the report, Actavis s Paragraph IV Certification sets forth allegations that U.S. Patent No. 6,066,339, or the 339 patent, which pertains to AVINZA, and which is listed in the FDA s Approved Drug Products With Therapeutic Equivalence Evaluations, will not be infringed by Actavis s manufacture, use, or sale of the product for which the ANDA was submitted. The expiration date for this patent is November 2017. King, King Pharmaceuticals Research and Development, Inc., Elan Corporation, plc, or Elan, and Elan Pharma International Ltd. jointly filed suit in federal district court in New Jersey on October 18, 2007 against Actavis, Inc. and Actavis Elizabeth LLC for patent infringement under the 339 patent. The lawsuit was settled and dismissed without prejudice in July 2011.

In July 2009, King, King Pharmaceuticals Research and Development, Inc., Elan and Elan Pharma International Ltd. jointly filed suit in federal district court in New Jersey against Sandoz Inc., or Sandoz, for patent infringement under the 339 patent. According to the complaint, Sandoz filed an ANDA for morphine sulfate extended release capsules and, in connection with the ANDA filing, Sandoz provided written certification to the FDA alleging that the claims of the 339 patent are invalid, unenforceable and/or will not be infringed by the manufacture, use or sale of Sandoz s proposed morphine product. Similar to the lawsuit against Actavis, this lawsuit seeks a judgment that would, among other things, prevent Sandoz from commercializing its proposed morphine product until after expiration of the 339 patent. Trial was previously expected to be set to start during the second half of 2011, but the court ordered a stay of proceedings starting on May 2, 2011. An adverse judgement on the patent could significantly impact our future revenues.

Our product candidates face significant development and regulatory hurdles prior to marketing which could delay or prevent sales and/or milestone revenue.

Before we or our partners obtain the approvals necessary to sell any of our potential products, we must show through preclinical studies and human testing that each product is safe and effective. We and our partners have a number of products moving toward or currently awaiting regulatory action. Failure to show any product s safety and effectiveness could delay or prevent regulatory approval of a product and could adversely affect our business. The clinical trials process is complex and uncertain. For example, the results of preclinical studies and initial clinical trials may not necessarily predict the results from later large-scale clinical trials. In addition, clinical trials may not demonstrate a product s safety and effectiveness to the satisfaction of the regulatory authorities. Recently, a number of companies have suffered significant setbacks in advanced clinical trials or in seeking regulatory approvals, despite promising results in earlier trials. The FDA may also require additional clinical trials after regulatory approvals are received. Such additional trials may be expensive and time-consuming, and failure to successfully conduct those trials could jeopardize continued commercialization of a product.

The rates at which we complete our clinical trials depends on many factors, including, but are not limited to, our ability to obtain adequate supplies of the products to be tested and patient enrollment. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites and the eligibility criteria for the trial. Delays in patient enrollment for our trials may result in increased costs and longer development times. For example, the trial entitled Eltrombopag To Reduce The Need For Platelet Transfusion In Subjects With Chronic Liver Disease And Thrombocytopenia Undergoing Elective Invasive Procedures (ELEVATE) was suspended in October 2009 in accordance with an IDMC Recommendation. GSK

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terminated the ELEVATE study and the program is under review. In addition, our collaborative partners have rights to control product development and clinical programs for products developed under the collaborations. As a result, these collaborative partners may conduct these programs more slowly or in a different manner than expected. Moreover, even if clinical trials are completed, we or our collaborative partners still may not apply for FDA approval in a timely manner or the FDA still may not grant approval.

We rely heavily on collaborative relationships, and any disputes or litigation with our collaborative partners or termination or breach of any of the related agreements could reduce the financial resources available to us, including milestone payments and future royalty revenues.

Our strategy for developing and commercializing many of our potential products, including products aimed at larger markets, includes entering into collaborations with corporate partners and others. These collaborations have provided us with funding and research and development resources for potential products for the treatment of a variety of diseases. However, the funding provided to us by our existing collaborative partners for ongoing research and development under our existing collaborative agreements has ceased. These agreements also give our collaborative partners significant discretion when deciding whether or not to pursue any development program. Our existing collaborations may not continue or be successful, and we may be unable to enter into future collaborative arrangements to develop and commercialize our product candidates.

In addition, our collaborators may develop drugs, either alone or with others that compete with the types of drugs they are developing with us. This would result in increased competition for our programs. If products are approved for marketing under our collaborative programs, revenues we receive will depend on the manufacturing, marketing and sales efforts of our collaborative partners, who generally retain commercialization rights under the collaborative agreements. Generally, our current collaborative partners also have the right to terminate their collaborations under specified circumstances. If any of our collaborative partners breach or terminate their agreements with us or otherwise fail to conduct their collaborative activities successfully, our product development under these agreements will be delayed or terminated. Disputes or litigation may also arise with our collaborators, including disputes or litigation over ownership rights to intellectual property, know-how or technologies developed with our collaborators. Such disputes or litigation could adversely affect our rights to one or more of our product candidates. Any such dispute or litigation could delay, interrupt or terminate the collaborative research, development and commercialization of certain potential products, create uncertainty as to ownership rights of intellectual property, or could result in litigation or arbitration. The occurrence of any of these problems could be time-consuming and expensive and could adversely affect our business.

We obtain CAPTISOL from a sole source supplier, and if this supplier were to cease to be able to supply CAPTISOL to us, or decline to supply CAPTISOL to us, we would be unable to continue to derive revenue or continue to develop our product candidates until we obtained an alternative source, which could take a considerable length of time.

We currently have one supplier of CAPTISOL, Hovione FarmaCiencia SA, or Hovione, through its agent Hovione LLC. Hovione is a major supplier of APIs and API intermediates located in Lisbon, Portugal. Hovione has other production sites in Cork, Ireland and Macau, China, but those sites are not yet qualified to make CAPTISOL. If a major disaster were to happen at Hovione or Hovione were to suffer major production problems or were to fail to deliver CAPTISOL to us for any other reason, there could be a significant interruption of our CAPTISOL supply. While we carry a significant inventory of CAPTISOL for this type of occurrence, which should permit us to satisfy our existing supply obligations through 2012 under current and anticipated demand conditions, an unusually large order or two could rapidly deplete that inventory and cause significant problems with our licensees and disrupt our business. In addition, if we fail to supply CAPTISOL under our supply agreements, our customers could obtain the right to have CAPTISOL manufactured by other suppliers, which would significantly harm our business.

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We rely on contract manufacturers for the manufacture of CAPTISOL and product candidates, and if these contract manufacturers fail to perform as we expect, we will incur delays in our ability to generate revenue and substantial additional expenses in obtaining new contract manufacturers.

We do not manufacture products or product candidates, but rather contract with contract manufacturers for the manufacture of products and product candidates. With respect to any specific product or product candidate, we only contract with one contract manufacturer due to the high cost of compliance with good manufacturing practices prior to the contract manufacturer being permitted to manufacture the product or product candidate for use in humans. If a contract manufacturer is unable or unwilling to continue to manufacture for us in the future, we would be required to contract with a new contract manufacturer for the specific product or product candidate. In the case of products, this would cause us to lose revenue during the qualification process, and in the case of product candidates, this could cause a delay in the commercialization of the product candidate. In addition, in either case we would incur substantial additional expenses as a result of the new contract manufacturer becoming qualified. Further, if a contract manufacturer were to experience a delay in producing products or product candidates due to a failure to meet strict FDA manufacturing requirements or otherwise, we would also experience a delay in development and commercialization of the product candidate or, in the case of products, sales of the product. This risk is exacerbated in the case of manufacture of injectables, which require heightened sterility and other conditions as well as specialized facilities for preparation.

If we consume cash more quickly than expected, and if we are unable to raise additional capital, we may be forced to curtail operations.

Our operations have consumed substantial amounts of cash since inception. As of December 31, 2011, we had a negative working capital of $11.4 million. Clinical and preclinical development of drug candidates is a long, expensive and uncertain process. Also, we may acquire companies, businesses or products and the consummation of such acquisitions may consume additional cash. For example, as part of the consideration for our recent acquisition of CyDex, we distributed approximately $12.0 million of our cash to CyDex stockholders. In connection with the acquisition, we entered into a $20 million Loan and Security Agreement, or the Loan Agreement, with a lender. Under the terms of the Loan Agreement, we will make interest only payments for one year at a fixed rate of 8.64%, with an option to extend the interest only payments for an additional year, which we intend to exercise. Subsequent to the interest only payments, the note will amortize with principal and interest payments due through the remaining term of the loan. The loan term, including interest only payments, is 42 months.

The Contingent Value Rights Agreement (CVR Agreement) that was part of the CyDex acquisition obligated us to pay $4.3 million in January 2012 to the CyDex stockholders. In addition, in the event of a Default (as defined in the CVR Agreement), we would be obligated to deliver to an escrow agent the future cash payments called for under the CVR Agreement. There can be no assurances that in the event of a Default that we would be able to deliver the lump sum payment to the escrow agent.

In March 2011, we borrowed $5.0 million from Square 1 Bank and April 2011 we borrowed an additional $5.0 million from Square 1. All outstanding amounts under the loan bear interest at a floating rate equal to 200 basis points above the prime rate and may become immediately due and payable if we fail to maintain a cash balance at Square 1 of at least $5.0 million. The maturity date of the revolving line of credit facility is March 29, 2012. We paid $4.5 million on our revolving credit facility in January 2012.

In October 2011, we filed a Registration Statement on Form S-3 with the Securities and Exchange Commission (SEC) for the issuance and sale of up to $30 million of equity or other securities, proceeds from which will be used for general corporate purposes. The Form S-3 provides additional financial flexibility for the Company to sell shares as needed at any time. To date, no securities have been issued under this registration statement.

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We believe that our capital resources, including our currently available cash, cash equivalents, and short-term investments as well as our current and future royalty revenues, will be adequate to fund our operations at their current levels at least for the next twelve months. However, changes may occur that would cause us to consume available capital resources before that time. Examples of relevant potential changes that could impact our capital resources include:

- the costs associated with our drug research and development activities, and additional costs we may incur if our development programs are delayed or are more expensive to implement than we currently anticipate;
- changes in collaborative relationships, including the funding we receive in connection with those relationships;
- the progress of our milestone and royalty producing activities;
- acquisitions of other businesses or technologies;
- the termination of our lease agreements;
- the costs of the closure of our operations at our Cranbury, New Jersey facility;
- the purchase of additional capital equipment;
- cash payments, including CVR payments, or refunds we may be required to make pursuant to certain agreements with third parties;
- competing technological and market developments; and
- the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights, and the outcome of related litigation.

Additional capital may not be available on favorable terms, or at all. If additional capital is not available, we may be required to curtail operations significantly, including but not limited to reducing our current headcount, or to obtain funds by entering into arrangements with partners or other third parties that may require us to relinquish rights to certain of our technologies, products or potential markets that we would not otherwise relinquish.

Our collaborative partners may change their strategy or the focus of their development and commercialization efforts with respect to our alliance products, the success of our alliance products could be adversely affected.

If our collaborative partners terminate their collaborations with us or do not commit sufficient resources to the development, manufacture, marketing or distribution of our alliance products, we could be required to devote additional resources to our alliance products, seek new collaborative partners or abandon such alliance products, all of which could have an adverse effect on our business.

In March 2011, Pfizer completed its acquisition of King, which had purchased the AVINZA product line from us. There can be no assurance of the impact that this acquisition will have on our relationship with Pfizer.

In September 2010, we received notice from GSK that it was exercising its right to terminate the Product Development and Commercialization Agreement, dated as of March 24, 2006 and as amended, among SmithKlineBeecham Corporation, doing business as GlaxoSmithKline, Glaxo Group Limited and Pharmacopeia, LLC, as successor to Pharmacopeia Drug Discovery, Inc. The termination became effective on October 7, 2010. Absent the termination by GSK, the research term under this agreement would have terminated on March 24, 2011. Following termination, we retained rights to the current programs under this agreement and may continue to develop the programs and commercialize any products resulting from the programs, or we may elect to cease progressing the programs and/or seek other partners for further development and commercialization.

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In September 2011, we received a notice from MedImmune (a subsidiary of AstraZeneca) that it was exercising its right to terminate the Collaboration and License Agreement, dated April 19, 2001. Upon termination, all materials and know-how related to the IL-9 antibody program by MedImmune was returned to us. MedImmune is required to discuss the granting of a royalty-bearing license to intellectual property with respect to the product licensed under the agreement. However, MedImmune has no obligation to grant such a license or retain the ability to grant such a license. The termination was effective on November 30, 2011.

In October 2011, we received notice from Merck that it was exercising its right to terminate the Collaboration and License Agreement, dated November 24, 2003. The collaboration and licensing program was related to the physiology, pharmacology, chemistry, and potential therapeutic applications and potential clinical utilities related to Vanilloid Receptors, subtype 1, also known as TRPV1. Upon termination, Merck is required to transfer and/or disclose specified materials and know-how to us (which is under an obligation to transfer certain specified materials to Merck). In addition, we will receive an exclusive, perpetual, irrevocable, royalty-free (but subject to any third party royalty obligations), fully-paid, worldwide license, with right to sub-license, under specified patents and technology for the research, development or commercialization of specified compounds and products in a limited field of use. We will also receive a non-exclusive license to all other know-how Merck deems necessary to sell the specified compounds or products. The termination will be effective on April 18, 2012.

We are currently dependent upon outlicensing business and we may not be successful in entering into additional out-license agreements on favorable terms, which may adversely affect our liquidity or require us to alter development plans on our products.

We have entered into several out-licensing agreements for the development and commercialization of our products. We currently depend on our arrangements with our outlicensees to sell products using our CAPTISOL technology. These agreements generally provide that outlicensees may terminate the agreements at will. If our outlicensees discontinue sales of products using our CAPTISOL technology, fail to obtain regulatory approval for their products using our CAPTISOL technology, fail to satisfy their obligations under their agreements with us, or otherwise choose to utilize a generic form of CAPTISOL should it become available, or if we are unable to establish new licensing and marketing relationships, our financial results and growth prospects would be materially affected. Further, under most of our CAPTISOL outlicenses, the amount of royalties we receive will be reduced or will cease when the relevant patent expires. While we have other more recent patents relating to CAPTISOL with later expiration dates (for example, our high purity patent, U.S. Patent No. 7,635,773 is not expected to expire until 2029 and our morphology patent, U.S. Patent No. 7,629,331 is not expected to expire until 2025), the initially filed patents relating to CAPTISOL expired in 2010 in the U.S. and are expected to expire between 2011 and 2016 in most countries outside the U.S. If our other intellectual property rights are not sufficient to prevent a generic form of CAPTISOL from coming to market and if in such case our outlicensees choose to terminate their agreements with us, the source of the vast majority of our CAPTISOL revenue may cease to exist.

Although we expend considerable resources on internal research and development for our proprietary programs, we may not be successful in entering into additional out-licensing agreements under favorable terms due to several factors including:

- the difficulty in creating valuable product candidates that target large market opportunities;
- research and spending priorities of potential licensing partners;
- willingness of and the resources available to pharmaceutical and biotechnology companies to in-license product candidates for their clinical pipelines; or
- differences of opinion with potential partners on the valuation of products we are seeking to out-license.

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The inability to enter into out-licensing agreements under favorable terms and to earn milestone payments, license fees and/or upfront fees may adversely affect our liquidity and may force us to curtail or delay development of some or all of our proprietary programs, which in turn may harm our business and the value of our stock.

Third party intellectual property may prevent us or our partners from developing our potential products and we may owe a portion of any payments we receive from our collaborative partners to one or more third parties.

Our success will depend on our ability and the ability of our collaborative partners to avoid infringing the proprietary rights of others, both in the United States and in foreign countries. In addition, disputes with licensors under our license agreements may arise which could result in additional financial liability or loss of important technology and potential products and related revenue, if any. Further, the manufacture, use or sale of our potential products or our collaborative partners products or potential products may infringe the patent rights of others. This could impact AVINZA, PROMACTA, VIVIANT and CONBRIZA (bazedoxifene), lasofoxifene, LGD-4665, and any other products or potential products.

Several drug companies and research and academic institutions have developed technologies, filed patent applications or received patents for technologies that may be related to our business. Others have filed patent applications and received patents that conflict with patents or patent applications we have licensed for our use, either by claiming the same methods or compounds or by claiming methods or compounds that could dominate those licensed to us. In addition, we may not be aware of all patents or patent applications that may impact our ability to make, use or sell any of our potential products. For example, US patent applications may be kept confidential while pending in the United States Patent and Trademark Office and patent applications filed in foreign countries are often first published six months or more after filing.

Disagreements or litigation with our collaborative partners could delay our ability and the ability of our collaborative partners to achieve milestones or our receipt of other payments. In addition, other possible disagreements or litigation could delay, interrupt or terminate the research, development and commercialization of certain potential products being developed by either our collaborative partners or by us. The occurrence of any of the foregoing problems could be time-consuming and expensive and could adversely affect our business.

Third parties have not directly threatened an action or claim against us, although we do periodically receive other communications or have other conversations with the owners of other patents or other intellectual property. If others obtain patents with conflicting claims, we may be required to obtain licenses to those patents or to develop or obtain alternative technology. We may not be able to obtain any such licenses on acceptable terms, or at all. Any failure to obtain such licenses could delay or prevent us from pursuing the development or commercialization of our potential products.

In general, litigation claims can be expensive and time consuming to bring or defend against and could result in settlements or damages that could significantly impact our results of operations and financial condition. We cannot predict or determine the outcome of these matters or reasonably estimate the amount or range of amounts of any fines or penalties that might result from a settlement or an adverse outcome. However, a settlement or an adverse outcome could have a material adverse effect on our financial position, liquidity and results of operations.

Expirations of, challenges to or failure to secure patents and other proprietary rights may significantly hurt our business.

The initially filed patents relating to CAPTISOL expired in 2010 in the U.S. and are expected to expire between 2011 and 2016 in most countries outside the U.S. We have also obtained patent protection in the U.S. through 2025 on Agglomerated form and through 2029 on High Purity form of CAPTISOL. We have obtained patent protection on a number of combinations of APIs and CAPTISOL through three combination patents in the

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U.S., and we have applied for six additional combination patents in the U.S. relating to the combination of CAPTISOL with specific APIs. Our U.S. combination patent relating to Fosphenytoin expires June 12, 2018 and our U.S. combination patent relating to Amiodarone expires May 4, 2022. Our U.S. combination patent relating to one of our early-stage product candidates expires March 19, 2022. There is no guarantee that these patents will be sufficient to prevent competitors from creating a generic form of CAPTISOL after 2010 and competing against us, or from developing combination patents for products that will prevent us from developing products using those APIs. In addition, most of the agreements in our CAPTISOL outlicensing business, including our agreements with Pfizer relating to Geodon IM, Vfend IV and Cerenia, provide that once the relevant patent expires, the amount of royalties we receive will be reduced or eliminated.

Generally, our success will depend on our ability and the ability of our licensors to obtain and maintain patents and proprietary rights for our potential products both in the United States and in foreign countries. Patents may not be issued from any of these applications currently on file, or, if issued, may not provide sufficient protection. Our patent position, like that of many biotechnology and pharmaceutical companies, is uncertain and involves complex legal and technical questions for which important legal principles are unresolved. We may not develop or obtain rights to products or processes that are patentable. Even if we do obtain patents, such patents may not adequately protect the technology we own or have licensed. In addition, others may challenge, seek to invalidate, infringe or circumvent any patents we own or license and rights we receive under those patents may not provide competitive advantages to us.

Any conflicts resulting from the patent rights of others could significantly reduce the coverage of our patents and limit our ability to obtain meaningful patent protection. We have had and will continue to have discussions with our current and potential collaborative partners regarding the scope and validity of our patents and other proprietary rights. If a collaborative partner or other party successfully establishes that our patent rights are invalid, we may not be able to continue our existing collaborations beyond their expiration. Any determination that our patent rights are invalid also could encourage our collaborative partners to seek early termination of our agreements. Such invalidation could adversely affect our ability to enter into new collaborations.

We may also need to initiate litigation, which could be time-consuming and expensive, to enforce our proprietary rights or to determine the scope and validity of others rights. If litigation occurs, a court may find our patents or those of our licensors invalid or may find that we have infringed on a competitor s rights. In addition, if any of our competitors have filed patent applications in the United States which claim technology we also have invented, the United States Patent and Trademark Office may require us to participate in expensive interference proceedings to determine who has the right to a patent for the technology.

We also rely on unpatented trade secrets and know-how to protect and maintain our competitive position. We require our employees, consultants, collaborative partners and others to sign confidentiality agreements when they begin their relationship with us. These agreements may be breached, and we may not have adequate remedies for any breach. In addition, our competitors may independently discover our trade secrets.

Our product development involves a number of uncertainties, and we may never generate sufficient collaborative payments and royalties from the development of products to become profitable.

We were founded in 1987. We have incurred significant losses since our inception. As of December 31, 2011, our accumulated deficit was $682.2 million.

Most of our products in development will require extensive additional development, including preclinical testing and human studies, as well as regulatory approvals, before they can be marketed. We cannot predict if or when any of the products we are developing or those being developed with our partners will be approved for marketing. There are many reasons why we or our collaborative partners may fail in our efforts to develop our potential products, including the possibility that: preclinical testing or human studies may show that our potential

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products are ineffective or cause harmful side effects; the products may fail to receive necessary regulatory approvals from the FDA or foreign authorities in a timely manner, or at all; the products, if approved, may not be produced in commercial quantities or at reasonable costs; the products, if approved, may not achieve commercial acceptance; regulatory or governmental authorities may apply restrictions to our products, which could adversely affect their commercial success; or the proprietary rights of other parties may prevent us or our partners from marketing the products.

Any product development failures for these or other reasons, whether with our products or our partners products, may reduce our expected revenues, profits, and stock price.

We may not be able to hire and/or retain key employees.

If we are unable to hire and/or retain key employees, we may not have sufficient resources to successfully manage our assets or our business, and we may not be able to perform our obligations under various contracts and commitments. Furthermore, there can be no assurance that we will be able to retain all of our key management and scientific personnel. If we fail to retain such key employees, we may not realize the anticipated benefits of our mergers. Either of these could have substantial negative impacts on our business and our stock price.

If plaintiffs bring product liability lawsuits against us or our partners, we or our partners may incur substantial liabilities and may be required to limit commercialization of our approved products and product candidates, and we may be subject to other liabilities related to the sale of our prior commercial product lines.

We and our partners face an inherent risk of product liability as a result of the clinical testing of our product candidates in clinical trials and face an even greater risk for commercialized products. Although we are not currently a party to product liability litigation, if we are sued, we may be held liable if any product or product candidate we develop causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. Regardless of merit or eventual outcome, liability claims may result in decreased demand for any product candidates or products that we may develop, injury to our reputation, discontinuation of clinical trials, costs to defend litigation, substantial monetary awards to clinical trial participants or patients, loss of revenue and the inability to commercialize any products that we develop. We have product liability insurance that covers our clinical trials up to a $5.0 million annual limit. We intend to expand product liability insurance coverage to include the sale of commercial products if we obtain marketing approval for any products that we may develop. However, this insurance may be prohibitively expensive, or may not fully cover our potential liabilities. Inability to obtain sufficient insurance coverage at an acceptable cost or otherwise to protect against potential product liability claims could prevent or delay the commercialization of our product candidates. If we are sued for any injury caused by our product candidates or any future products, our liability could exceed our total assets.

In addition, we agreed to indemnify Eisai and King under certain circumstances pursuant to the asset purchase agreements we entered into with Eisai and King in connection with the sale of our prior commercial product lines. Some of our indemnification obligations still remain and our potential liability in certain circumstances is not limited to specific dollar amounts. We cannot predict the liabilities that may arise as a result of these matters. Any claims related to our indemnification obligations to King or Eisai could materially and adversely affect our financial condition.

In addition, King assumed our obligation to make payments to Organon based on net sales of AVINZA (the fair value of which was $21.5 million as of December 31, 2011). We remain liable to Organon in the event King defaults on this obligation. Any requirement to pay a material amount to Organon, could adversely affect our business and the price of our securities.

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The sale of our prior commercial product lines does not relieve us of exposure to product liability risks on products we sold prior to divesting these product lines. A successful product liability claim or series of claims brought against us may not be insured and could result in payment of significant amounts of money and divert management s attention from running our business.

If our partners do not reach the market with our alliance products before our competitors offer products for the same or similar uses, or if our partners are not effective in marketing our alliance products, our revenues from product sales, if any, will be reduced.

We face intense competition in our development activities. Our competitors might succeed in obtaining regulatory approval for competitive products more rapidly than our partners can for our products. In addition, competitors might develop technologies and products that are less expensive and perceived to be safer or more effective than those being developed by us or our partners, which could impair our product development and render our technology obsolete.

We use hazardous materials, which may expose us to significant liability.

In connection with our research and development activities, we handle hazardous materials, chemicals and various radioactive compounds. To properly dispose of these hazardous materials in compliance with environmental regulations, we are required to contract with third parties. We believe that we carry reasonably adequate insurance for toxic tort claims. However, we cannot eliminate the risk or predict the exposure of accidental contamination or injury from the handling and disposing of hazardous materials, whether by us or our third-party contractors. Any accident in the handling and disposing of hazardous materials may expose us to significant liability.

Our shareholder rights plan and charter documents may hinder or prevent change of control transactions.

Our shareholder rights plan and provisions contained in our certificate of incorporation and bylaws may discourage transactions involving an actual or potential change in our ownership. In addition, our Board of Directors may issue shares of preferred stock without any further action by the stockholders. Such restrictions and issuances may have the effect of delaying or preventing a change in our ownership. If changes in our ownership are discouraged, delayed or prevented, it would be more difficult for our current Board of Directors to be removed and replaced, even if you or our other stockholders believe that such actions are in the best interests of us and our stockholders.

We may lose some or all of the value of some of our short-term investments.

We engage one or more third parties to manage some of our cash consistent with an investment policy that allows a range of investments and maturities. The investments are intended to maintain safety of principal while providing liquidity adequate to meet projected cash requirements. Risks of principal loss are to be minimized through diversified short and medium term investments of high quality, but the investments are not in every case guaranteed or fully insured. As a result of changes in the credit market, one of our short-term investments in commercial paper was in default. As a result, we were unable to recoup all of our investment in the commercial paper. In addition, from time to time we may suffer other losses on our short-term investment portfolio.

We may require additional funds to run our business and may be required to raise these funds on terms which are not favorable to us or which reduce our stock price.

We may need to complete additional equity or debt financings to fund our operations. Our inability to obtain additional financing could adversely affect our business. Financings may not be available at all or on terms favorable to us. In addition, these financings, if completed, may not meet our capital needs and could result in substantial dilution to our stockholders.

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In October 2011, we filed a Registration Statement on Form S-3 with the Securities and Exchange Commission (SEC) for the issuance and sale of up to $30 million of equity or other securities, proceeds from which will be used for general corporate purposes. The Form S-3 provides additional financial flexibility for the Company to sell shares as needed at any time. To date, no securities have been issued under this registration statement.

If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our research or drug development programs. We may also be required to liquidate our business or file for bankruptcy protection. Alternatively, we may be forced to attempt to continue development by entering into arrangements with collaborative partners or others that require us to relinquish some or all of our rights to technologies or drug candidates that we would not otherwise relinquish.

Our drug development programs will require substantial additional future funding which could hurt our operational and financial condition.

Our drug development programs require substantial additional capital to successfully complete them, arising from costs to: conduct research, preclinical testing and human studies; establish pilot scale and commercial scale manufacturing processes and facilities; and establish and develop quality control, regulatory, marketing, sales and administrative capabilities to support these programs.

Our future operating and capital needs will depend on many factors, including: the pace of scientific progress in our research and development programs and the magnitude of these programs; the scope and results of preclinical testing and human studies; the time and costs involved in obtaining regulatory approvals; the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims; competing technological and market developments; our ability to establish additional collaborations; changes in our existing collaborations; the cost of manufacturing scale-up; and the effectiveness of our commercialization activities.

We expect our research and development expenditures over the next three years to continue to be significant. However, we base our outlook regarding the need for funds on many uncertain variables. Such uncertainties include regulatory approvals, the timing of events outside our direct control such as product launches by partners and the success of such product launches, negotiations with potential strategic partners, possible sale of assets or other transactions and other factors. Any of these uncertain events can significantly change our cash requirements.

While we expect to fund our research and development activities from cash generated from royalties and royalties and milestones from our partners in various past and future collaborations to the extent possible, if we are unable to do so, we may need to complete additional equity or debt financings or seek other external means of financing. These financings could depress our stock price. If additional funds are required to support our operations and we are unable to obtain them on terms favorable to us, we may be required to cease or reduce further development or commercialization of our products, to sell some or all of our technology or assets or to merge with another entity.

Our results of operations and liquidity needs could be materially negatively affected by market fluctuations and economic downturn.

Our results of operations could be materially negatively affected by economic conditions generally, both in the U.S. and elsewhere around the world. Continuing concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining residential real estate market in the U.S. have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic recession and fears of a possible depression. Domestic and international equity markets continue to experience heightened volatility and turmoil. These events and the

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continuing market upheavals may have an adverse effect on us. In the event of a continuing market downturn, our results of operations could be adversely affected by those factors in many ways, including making it more difficult for us to raise funds if necessary, and our stock price may further decline.

Our investment securities consist primarily of money market funds, corporate debt obligations and U.S. government agency securities. We do not have any auction rate securities. Recently, there has been concern in the credit markets regarding the value of a variety of mortgage-backed securities and the resultant effects on various securities markets. We cannot provide assurance that our investments are not subject to adverse changes in market value. If our investments experience adverse changes in market value, we may have less capital to fund our operations.

Our stock price has been volatile and could experience a sudden decline in value.

Our common stock has experienced significant price and volume fluctuations and may continue to experience volatility in the future. As a result, you may not be able to sell your shares quickly or at the latest market price if trading in our stock is not active or the volume is low. In November 2010, we effected a 1-for-6 reverse stock split. We believe the reverse stock split will have the effect of increasing the per share trading price of our common stock. Many factors may have a significant impact on the market price of our common stock, including, but not limited to, the following factors: results of or delays in our preclinical studies and clinical trials; the success of our collaboration agreements; publicity regarding actual or potential medical results relating to products under development by us or others; announcements of technological innovations or new commercial products by us or others; developments in patent or other proprietary rights by us or others; comments or opinions by securities analysts or major stockholders; future sales of our common stock by existing stockholders; regulatory developments or changes in regulatory guidance; litigation or threats of litigation; economic and other external factors or other disaster or crises; the departure of any of our officers, directors or key employees; period-to-period fluctuations in financial results; and limited daily trading volume.

The Financial Industry Regulatory Authority, or FINRA, (formerly the National Association of Securities Dealers, Inc.) and the Securities and Exchange Commission, or SEC, have adopted certain new rules. If we were unable to continue to comply with the new rules, we could be delisted from trading on the NASDAQ Global Market, or Nasdaq, and thereafter trading in our common stock, if any, would be conducted through the over-the-counter market or on the Electronic Bulletin Board of FINRA. As a consequence of such delisting, an investor would likely find it more difficult to dispose of, or to obtain quotations as to the price of, our common stock. Delisting of our common stock could also result in lower prices per share of our common stock than would otherwise prevail.

Any future material weaknesses or deficiencies in our internal control over financial reporting could harm stockholder and business confidence on our financial reporting, our ability to obtain financing and other aspects of our business.

As described in Item 9A, we identified material weaknesses that resulted in improper accounting for significant non-routine transactions and the controls over the determination of fair value of contingent liabilities. Management has determined that the material weaknesses were a result of inadequate staffing and review processes. As a result of these material weaknesses associated with acquisition-related accounting, we have added a corporate controller to our finance and accounting staff. While we had processes to identify and apply accounting standards to complex transactions, we enhanced these processes with the addition of a resource with the ability to research and understand the nuances of complex accounting standards. Additionally, we plan to enhance our controls over the determination of the fair value of contingent liabilities by including a formal review of mathematical calculations and completeness of such calculations. Given these material weaknesses, management determined that we did not maintain effective internal control over financial reporting. The existence of one or more material weaknesses or significant deficiencies could result in future errors in our consolidated financial statements. Substantial costs and resources

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may be required to rectify any internal control deficiencies. If we fail to achieve and maintain the adequacy of our internal controls in accordance with applicable standards, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting. If we cannot produce reliable financial reports, our business and financial condition could be harmed, investors could lose confidence in our reported financial information, or the market price of our stock could decline significantly. In addition, our ability to obtain additional financing to operate and expand our business, or obtain additional financing on favorable terms, could be materially and adversely affected, which, in turn, could materially and adversely affect our business, our financial condition and the market value of our securities. Moreover, our reputation with customers, lenders, investors, securities analysts and others may be adversely affected.

Impairment charges pertaining to goodwill, identifiable intangible assets or other long-lived assets from our mergers could have an adverse impact on our results of operations and the market value of our common stock.

The total purchase price pertaining to our mergers with Pharmacopeia, Neurogen, Metabasis and CyDex have been allocated to net tangible assets, identifiable intangible assets, in process research and development and goodwill. To the extent the value of goodwill or identifiable intangible assets or other long-lived assets become impaired, we will be required to incur material charges relating to the impairment. Any impairment charges could have a material adverse impact on our results of operations and the market value of our common stock.

We may undertake strategic acquisitions in the future and any difficulties from integrating such acquisitions could adversely affect our stock price, operating results and results of operations.

We may acquire companies, businesses and products that complement or augment our existing business. We may not be able to integrate any acquired business successfully or operate any acquired business profitably. Integrating any newly acquired business could be expensive and time-consuming. Integration efforts often take a significant amount of time, place a significant strain on managerial, operational and financial resources and could prove to be more difficult or expensive than we predict. The diversion of our management s attention and any delay or difficulties encountered in connection with any future acquisitions we may consummate could result in the disruption of our on-going business or inconsistencies in standards and controls that could negatively affect our ability to maintain third-party relationships. Moreover, we may need to raise additional funds through public or private debt or equity financing, or issue additional shares, to acquire any businesses or products, which may result in dilution for stockholders or the incurrence of indebtedness.

As part of our efforts to acquire companies, business or product candidates or to enter into other significant transactions, we conduct business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in the transaction. Despite our efforts, we ultimately may be unsuccessful in ascertaining or evaluating all such risks and, as a result, might not realize the intended advantages of the transaction. If we fail to realize the expected benefits from acquisitions we may consummate in the future, whether as a result of unidentified risks, integration difficulties, regulatory setbacks and other events, our business, results of operations and financial condition could be adversely affected. If we acquire product candidates, we will also need to make certain assumptions about, among other things, development costs, the likelihood of receiving regulatory approval and the market for such product candidates. Our assumptions may prove to be incorrect, which could cause us to fail to realize the anticipated benefits of these transactions.

In addition, we will likely experience significant charges to earnings in connection with our efforts, if any, to consummate acquisitions. For transactions that are ultimately not consummated, these charges may include fees and expenses for investment bankers, attorneys, accountants and other advisors in connection with our efforts. Even if our efforts are successful, we may incur, as part of a transaction, substantial charges for closure costs associated with elimination of duplicate operations and facilities and acquired IPR&D charges. In either case, the incurrence of these charges could adversely affect our results of operations for particular quarterly or annual periods.

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Our CyDex facilities are located in a tornado zone, and the occurrence of a tornado or other catastrophic disaster could damage our facilities and equipment, which could cause us to curtail or cease local operations.

Our CyDex facilities are located outside of Kansas City, Kansas, which is in a tornado zone. We are therefore vulnerable to damage from tornados. We are also vulnerable to damage from other types of disasters, such as power loss, fire, floods and similar events. If any disaster were to occur, our ability to operate our business could be seriously impaired. We are insured against up to $2.6 million in damages resulting from natural disasters, including tornados. We currently may not have adequate insurance to cover our losses resulting from disasters or other similar significant business interruptions, and we do not plan to purchase additional insurance to cover such losses due to the cost of obtaining such coverage. Any significant losses that are not recoverable under our insurance policies could seriously impair our business, financial condition and prospects.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently occupy approximately 9,000 square feet of office facilities in San Diego, California leased through June 2012. We entered into a new lease for a period of 84 months commencing July 1, 2012, for premises consisting of approximately 16,500 square feet of office and laboratory space located in San Diego to serve as our new corporate headquarters. We believe this facility is adequate to meet our space requirements for the foreseeable future.

We lease approximately 1,500 square feet of laboratory space located at the Bioscience and Technology Business Center in Lawrence, Kansas leased through December 31, 2014.

We lease approximately 99,000 square feet in three facilities in Cranbury, New Jersey under leases that expire in 2016. We fully vacated these facilities in September 2010.

We also lease a 52,800 square foot facility in San Diego that is leased through July 2015. In January 2008, we began subleasing the 52,800 square foot facility under a sublease agreement through July 2015. We fully vacated this facility in February 2008.

When we acquired Neurogen Corporation in December 2009, they were conducting operations in laboratory and administrative facilities on a single site located in Branford, Connecticut. The total facilities, which were owned by Neurogen comprised approximately 142,000 square feet, of which approximately 21,000 square feet was leased by another company month to month. On February 2, 2010, we sold the facilities and the surrounding land for approximately $3.5 million in cash, less expenses.

Item 3. Legal Proceedings

From time to time we are subject to various lawsuits and claims with respect to matters arising out of the normal course of our business. Due to the uncertainty of the ultimate outcome of these matters, the impact on future financial results is not subject to reasonable estimates.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities
Market Information

Our common stock is traded on the NASDAQ Global Market (formerly NASDAQ National Market) under the symbol LGND . These numbers give affect to the 1-for-6 reverse split effected on November 19, 2010.

The following table sets forth the high and low intraday sales prices for our common stock on the NASDAQ Global Market for the periods indicated:

	Price Range	
	High	**Low**
Year Ended December 31, 2011:		
1st Quarter	$ 11.10	$ 8.64
2nd Quarter	12.06	9.39
3rd Quarter	16.24	10.16
4th Quarter	15.91	10.50
Year Ended December 31, 2010:		
1st Quarter	$ 13.80	$ 9.30
2nd Quarter	11.64	8.22
3rd Quarter	10.32	8.28
4th Quarter	14.80	8.14

As of February 1, 2012, the closing price of our common stock on the NASDAQ Global Market was $12.81.

Holders

As of February 1, 2012, there were approximately 1,465 holders of record of the common stock.

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Performance Graph

The graph below shows the five-year cumulative total stockholder return assuming the investment of $100 and the reinvestment of dividends (a one-time dividend of $2.50 was declared on the common stock in April 2007) and is based on the returns of the component companies weighted monthly according to their market capitalizations. The graph compares total stockholder returns of our common stock, of all companies traded on the NASDAQ Stock market, as represented by the NASDAQ Composite® Index, and of the NASDAQ Biotechnology Stock Index, as prepared by The NASDAQ Stock Market Inc. The NASDAQ Biotechnology Stock Index tracks approximately 168 domestic biotechnology stocks.

The stockholder return shown on the graph below is not necessarily indicative of future performance and we will not make or endorse any predictions as to future stockholder returns.

	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Ligand	100%	60%	34%	27%	19%	25%
NASDAQ Market (U.S. Companies) Index	100%	111%	66%	97%	114%	113%
NASDAQ Biotechnology Stocks	100%	105%	92%	106%	123%	137%

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Item 6. Selected Consolidated Financial Data

The following selected historical consolidated financial and other data are qualified by reference to, and should be read in conjunction with, our consolidated financial statements and the related notes thereto appearing elsewhere herein and Management s Discussion and Analysis of Financial Condition and Results of Operations. Our selected statement of operations data set forth below for each of the years ended December 31, 2011, 2010, 2009, 2008, and 2007 and the balance sheet data as of December 31, 2011, 2010, 2009, 2008, and 2007 are derived from our consolidated financial statements.

	Year Ended December 31, (in thousands, except share data)				
	2011 (Restated)	2010	2009	2008	2007
Consolidated Statement of Operations Data:					
Royalties	$ 9,213	$ 7,279	$ 8,334	$ 20,305	$ 11,409
Material sales	12,123				
Collaborative research and development and other revenues	8,701	16,259	30,606	7,000	1,485
Cost of material sales	4,909				
Research and development expenses	10,291	22,067	39,870	30,770	44,623
General and administrative expenses	14,977	12,829	15,211	23,785	30,410
Lease exit and termination costs	(22)	16,894	15,235		
Write-off of acquired in-process research and development	2,282	2,754	442	72,000	
Accretion of deferred gain on sale leaseback	1,702	1,702	21,851	1,964	1,964
Loss from operations	(698)	(29,304)	(9,967)	(97,286)	(60,175)
Income (loss) from continuing operations	9,712	(12,786)	(8,337)	(97,460)	(34,759)
Discontinued operations (1)	3	2,413	6,389	(654)	316,447
Net income (loss)	9,715	(10,373)	(1,948)	(98,114)	281,688
Basic per share amounts:					
Income (loss) from continuing operations	$ 0.49	($ 0.65)	($ 0.44)	($ 6.12)	($ 2.15)
Discontinued operations (1)		0.12	0.34	(0.04)	19.62
Net income (loss)	$ 0.49	($ 0.53)	($ 0.10)	($ 6.16)	$ 17.47
Weighted average number of common shares	19,655,632	19,613,201	18,862,751	15,917,570	16,124,731
Diluted per share amounts:					
Income (loss) from continuing operations	$ 0.49	($ 0.65)	($ 0.44)	($ 6.12)	($ 2.12)
Discontinued operations (1)		0.12	0.34	(0.04)	19.34
Net income (loss)	$ 0.49	($ 0.53)	($ 0.10)	($ 6.16)	$ 17.22
Weighted average number of common shares	19,713,320	19,613,201	18,862,751	15,917,570	16,354,121

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	2011 (Restated)	2010	December 31, 2009	2008	2007
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash, cash equivalents, short-term investments and restricted cash and investments	$ 18,382	$ 24,038	$ 54,694	$ 82,012	$ 95,819
Working capital (2)	(11,413)	3,531	15,994	23,315	58,975
Total assets	120,583	75,559	141,807	171,448	173,278
Current portion of deferred revenue, net	1,240		4,989	10,301	
Current portion of deferred gain		1,702	1,702	1,964	1,964
Long-term obligations (excludes long-term portions of deferred revenue, net and deferred gain)	56,945	36,030	72,350	58,743	53,048
Long-term portion of deferred revenue, net	3,466	2,546	3,495	16,819	2,546
Long-term portion of deferred gain			1,702	23,292	25,256
Common stock subject to conditional redemption	8,344	8,344	8,344	12,345	12,345
Accumulated deficit	(682,232)	(691,947)	(681,574)	(679,626)	(581,512)
Total stockholders equity (deficit)	8,185	(4,849)	3,744	(10,365)	29,115

(1) We sold our Oncology Product Line (Oncology) on October 25, 2006 and our AVINZA Product Line (AVINZA) on February 26, 2007. The operating results for Oncology and AVINZA have been presented in our consolidated statements of operations as Discontinued Operations.

(2) Working capital includes deferred product revenue recorded under the sell-through revenue recognition method.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Caution: This discussion and analysis may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed in Item 1A. Risk Factors. This outlook represents our current judgment on the future direction of our business. These statements include those related to our CAPTISOL related revenue, our AVINZA, PROMACTA and other product royalty revenues, product returns, and product development. Actual events or results may differ materially from our expectations. For example, there can be no assurance that our revenues or expenses will meet any expectations or follow any trend(s), that we will be able to retain our key employees or that we will be able to enter into any strategic partnerships or other transactions. We cannot assure you that we will receive expected AVINZA, PROMACTA, CAPTISOL and other product revenues to support our ongoing business or that our internal or partnered pipeline products will progress in their development, gain marketing approval or achieve success in the market. In addition, ongoing or future arbitration, or litigation or disputes with third parties may have a material adverse effect on us. Such risks and uncertainties, and others, could cause actual results to differ materially from any future performance suggested. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date of this annual report. This caution is made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended.

Our trademarks, trade names and service marks referenced herein include Ligand. Each other trademark, trade name or service mark appearing in this annual report belongs to its owner.

References to Ligand Pharmaceuticals Incorporated , Ligand , the Company , we or our include our wholly owned subsidiaries Ligand JVR, Allergan Ligand Retinoid Therapeutics, Seragen, Inc., or Seragen; Pharmacopeia, LLC; Neurogen Corporation, CyDex Pharmaceuticals, Inc., Metabasis Therapeutics, and Nexus Equity VI LLC, or Nexus.

Overview

We are a biotechnology company that operates with a business model focused on developing or acquiring revenue generating assets and coupling them to a lean corporate cost structure. Our goal is to create a sustainably profitable business and generate meaningful value for our stockholders. Since a portion of our business model is based on the goal of partnering with other pharmaceutical companies to commercialize and market our assets, a significant amount of our revenue is based largely on payments made to us by partners for royalties, milestones and license fees. We recognized the important role of the drug reformulation segment in the pharmaceutical industry and in 2011 added CAPTISOL® to our technology portfolio. CAPTISOL is a powerful formulation technology that has enabled five FDA approved products, including Pfizer s VFEND® IV and Baxter International s Nexterone® and is currently being used in a number of clinical-stage partner programs. In comparison to our peers, we believe we have assembled one of the largest and most diversified asset portfolios in the industry with the potential to generate significant revenue in the future. In addition, therapies in development address the unmet medical needs of patients for a broad spectrum of diseases including hepatitis, muscle wasting, Alzheimer s disease, dyslipidemia, diabetes, anemia, asthma, rheumatoid arthritis and osteoporosis. We have established multiple alliances with the world s leading pharmaceutical companies including GlaxoSmithKline, Merck, Pfizer, Baxter International, Bristol-Myers Squibb, Celgene, Onyx Pharmaceuticals, Lundbeck Inc., Eli Lilly & Co., and The Medicines Company.

In January 2011, we completed the acquisition of CyDex Pharmaceuticals, Inc., or CyDex. As a result, we gained revenue from four currently marketed products, a large portfolio of partnered drug development programs, an internal pipeline of proprietary drugs, and the CAPTISOL drug formulation platform technology. CyDex is now a wholly owned subsidiary of Ligand.

In July 2011, we executed a patent license agreement for the exclusive license to make, have made, import, use, sell or offer for sale the compound associated with Fablyn. Fablyn is a selective estrogen receptor modulator product candidate that resulted from a collaboration between Pfizer and us formed to develop therapies for

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osteoporosis. In February 2009, Pfizer received approval from the European Commission for Fablyn tablets. In October 2011, we entered into a license agreement with Chiva Pharmaceuticals, Inc. for Fablyn. Under the License Agreement, we granted Chiva an exclusive worldwide license, with sub-license rights, to our intellectual property rights related to Fablyn. Chiva is obligated to pay us a non-refundable license issuance fee of $4.0 million on or before June 1, 2012, of which $2.5 million was received in 2011. We are also eligible to receive, under the License Agreement, both milestones and royalty payments on worldwide net sales of Fablyn.

In October 2011, we entered into a License Agreement with privately-held SAGE Therapeutics, Inc. granting SAGE an exclusive right to use CAPTISOL® in SAGE s development and commercialization of therapeutic drugs formulating certain allosteric receptor modulators with CAPTISOL against identified central nervous system disorders. Under the License Agreement, we will receive upfront and research support payments, and potentially can receive additional payments if SAGE exercises certain product commercialization options. Upon commercialization, we could potentially receive milestone payments for CAPTISOL-enabled programs, plus tiered royalties on net sales for products that use the CAPTISOL technology. We are also eligible to receive commercial revenue from the shipment of CAPTISOL to SAGE for clinical and commercial activities.

In December 2011, we entered into a License and Supply Agreement with Eli Lilly (Lilly) and Company. Under the License Agreement, we granted to Lilly an exclusive, nontransferable license to such intellectual property rights that will enable Lilly to develop and potentially commercialize CAPTISOL-enabled® intravenous oncology therapeutics. Additionally, Lilly paid us a non-refundable license issuance fee of $1 million. We are also eligible to receive royalty payments on worldwide net sales of any products that are successfully commercialized.

Under the Supply Agreement, Lilly agreed to purchase from us its CAPTISOL requirements for the development of the compounds contemplated by the License Agreement, as well as any CAPTISOL required for any product that is successfully commercialized.

In December 2011, we entered into a License and Supply Agreement with Hospira, Inc. Under the Agreement, we granted a license in specified territories, with sub-license rights, to such intellectual property rights that will enable the manufacture and sale of certain finished drug products of which CAPTISOL® is a component. The terms of the Agreement call for us to receive a non-refundable license fee of $0.5 million. In addition, we received a pre-payment of $2.5 million, to be applied as a credit toward the first $2.5 million of CAPTISOL supplied under the Agreement. In the event of a termination prior to us supplying $2.5 million of CAPTISOL, we will refund the difference of the value of CAPTISOL supplied and the $2.5 million pre-payment. We are also eligible to receive milestone payments upon the occurrence of certain specified sales goals.

In December 2011, our partner Onyx Pharmaceuticals, Inc., or Onyx, announced that the U.S. Food and Drug Administration, or FDA, had granted Standard Review designation to the New Drug Application, or NDA, for carfilzomib for the potential treatment of patients with relapsed and refractory multiple myeloma. The Prescription Drug User Fee Act, or PDUFA, date for completion of review by the FDA of the NDA is July 27, 2012. Carfilzomib is also currently being evaluated in two Phase 3 clinical trials. Under our agreement with Onyx, we are entitled to milestones, royalties and revenue from CAPTISOL material sales.

Metabasis Contingent Value Rights

In January 2010, we completed our acquisition of Metabasis. In addition to cash consideration, we issued four tradable Contingent Value Rights (CVRs), one CVR from each of four respective series of CVRs, for each Metabasis share. The CVRs will entitle the holder to cash payments as frequently as every six months as cash is received by us from the sale or partnering of any of the Metabasis drug development programs, among other triggering events. We have also committed to spend at least $7 million within 30 months and $8 million within 42 months, in new research and development funding on the Metabasis programs. Through December 31, 2011, we estimate that we have spent approximately $5.1 million of the committed amount.

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In January 2011, we entered into a strategic relationship with Chiva Pharmaceuticals, Inc. to develop multiple assets and technology in China and potentially worldwide. Chiva was granted licenses to begin immediate development in China of two clinical-stage HepDirect programs, Pradefovir for hepatitis B and MB01733 for hepatocellular carcinoma. Additionally, we granted Chiva a non-exclusive HepDirect technology license for the discovery, development and worldwide commercialization of new compounds in hepatitis B (HepB), hepatitis C (HepC) and hepatocellular carcinoma (HCC). Under the terms of the agreement, we are entitled to milestones and royalties on potential sales. In addition, we are entitled to receive a portion of any sublicensing revenue generated from sublicensing of collaboration compounds to third parties in a major world market. We received a $0.5 million license payment in March 2011, of which $0.1 million was remitted to CVR holders.

In August 2011, we entered into an amendment to the license agreement which required that the second $0.5 million licensing fee be paid in September 2011. In addition, the amendment increased royalty rates which we may receive under the license agreement to 6% of net sales of products (other than Pradefovir) and 9% of net sales for Pradefovir. In addition, the amendment removed from the license agreement the provision that we could potentially earn a 10% equity position in Chiva as a milestone payment. The amendment s second $0.5 million licensing fee payment was received by us from Chiva in September 2011, of which $0.1 million was remitted to CVR holders.

Results of Operations

Total revenues for 2011 were $30.0 million, compared to $23.5 million in 2010 and $38.9 million in 2009. Our income from continuing operations for 2011 was $9.7 million, or $0.49 per share, compared to losses from continuing operations of $12.8 million, or $0.65 per share in 2010 and $8.3 million, or $0.44 per share, in 2009.

Royalty Revenue

Royalty revenues were $9.2 million in 2011 compared to $7.3 million in 2010 and $8.3 million in 2009. The increase in royalty revenue of $1.9 million for the year ended December 31, 2011 is primarily due to an increase in PROMACTA sales. The decrease in royalty revenue of $1.0 million for the year ended December 31, 2010 is primarily due to lower AVINZA sales, partially offset by an increase in PROMACTA sales.

Collaborative Research and Development and Other Revenue

Collaborative research and development and other revenues for 2011 were $8.7 million compared to $16.3 million in 2010 and $30.6 million in 2009. Collaborative research and development and other revenues include reimbursement for ongoing research activities, earned milestones, and recognition of prior years up-front fees previously deferred.

A comparison of collaborative research and development and other revenues is as follows (in thousands):

	Year Ended December 31,		
	2011	**2010**	**2009**
Collaborative research and development	$ 601	$ 7,734	$ 23,316
License fees	5,889	6,250	525
Milestones and other	2,211	2,275	6,765
	$ 8,701	$ 16,259	$ 30,606

Collaborative research and development. The decrease of $7.1 million for the year ended December 31, 2011 is due to the termination of research collaboration agreements. The decrease of $15.6 million for the year ended December 31, 2010 is primarily due to the termination of our research collaboration agreements throughout the year.

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License fees. License fees in 2011 reflect $2.5 million for the license of Fablyn to Chiva, $1.3 million related to a CAPTISOL platform license, and $2 million related to licenses for internally developed programs. License fees in 2010 reflect the licensing of several compounds upon the termination of research collaborations. License fees in 2009 reflect licenses for internally developed programs.

Milestones and Other. Milestones and other revenue in 2011 primarily reflect milestones earned from CAPTISOL related programs, as well as $1.2 million relating to the sale of future royalty rights which had previously been deferred. Milestones in 2010 reflect $2.3 million received from Roche related to the initiation of a Phase I clinical trial under an agreement acquired from Metabasis. Milestones in 2009 reflect $4.0 million received from Merck in connection with lead identification and transferred programs, $1.3 million received from GSK for lead identification and $1.5 million from Pfizer related to NDA filings.

Research and Development Expenses

Research and development expenses were $10.3 million in 2011 compared to $22.1 million in 2010 and $39.9 million in 2009. The major components of research and development expenses are as follows (in thousands):

	Years Ended December 31,		
	2011	2010	2009
Research performed under collaboration agreements	$ 0	$ 8,670	$ 21,194
Internal research programs	8,741	10,877	12,963
Total research	$ 8,741	$ 19,547	$ 34,157
Development costs	1,550	2,520	5,713
Total research and development	$ 10,291	$ 22,067	$ 39,870

The decrease in research and development expenses of $11.8 million for the year ended December 31, 2011 was primarily due to $8.7 million of costs associated with collaboration agreements that were terminated as well as $3.1 million of other costs associated with internal research programs. The decrease in research and development expenses of $17.8 million for the year ended December 31, 2010 was primarily due to $12.5 million of costs associated with collaboration agreements that were terminated, $3.2 million of costs associated with clinical trials and $1.8 million in reduced headcount related and other costs associated with internal research programs.

As summarized in the table below, we are developing several proprietary products for a variety of indications. These programs represent our future licensing opportunities to expand our partnered asset portfolio.

Program	Disease/Indication	Development Phase
Selective Androgen Receptor Modulators (SARMs) (agonists)	Muscle wasting and frailty	Phase I
CAPTISOL-Enabled Melphalan I	Oncology	Phase II
CAPTISOL-Enabled Topiramate IV	Epilepsy/Seizures	Preclinical
Glucagon receptor antagonists	Diabetes	Preclinical
IRAK4 inhibitor	Inflammation/Oncology	Research

We do not provide forward-looking estimates of costs and time to complete our ongoing research and development projects, as such estimates would involve a high degree of uncertainty. Uncertainties include our inability to predict the outcome of complex research, our inability to predict the results of clinical studies,

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regulatory requirements placed upon us by regulatory authorities such as the FDA and EMEA, our inability to predict the decisions of our collaborative partners, our ability to fund research and development programs, competition from other entities of which we may become aware of in future periods, predictions of market potential from products that may be derived from our research and development efforts, and our ability to recruit and retain personnel or third-party research organizations with the necessary knowledge and skills to perform certain research. Refer to Item 1A. Risks Factors for additional discussion of the uncertainties surrounding our research and development initiatives.

General and Administrative Expenses

General and administrative expenses were $15.0 million for 2011, compared to $12.8 million for 2010 and $15.2 million for 2009. The increase in general and administrative expenses in 2011 is primarily due to costs to operate the CyDex business and an increase in non-cash stock based compensation expenses.

The decrease in general and administrative expenses of $2.4 million for the year ended December 31, 2010 was primarily due to $0.9 million of lower headcount related costs as a result of staff reductions, $3.9 million of lower facilities costs as a result of our lease termination in 2009 and $1.4 million of lower legal costs, partially offset by lower allocations to research and development of $3.5 million.

Lease Exit and Termination Costs

In September 2010, we ceased use of our facility located in Cranbury, New Jersey. As a result, we recorded lease exit costs of $9.7 million for costs related to the difference between the remaining lease obligations of the abandoned operating leases, which run through August 2016, and management s estimate of potential future sublease income, discounted to present value. Actual future sublease income may differ materially from our estimate, which would result in us recording additional expense or reductions in expense. In addition, we wrote-off approximately $5.4 million of property and equipment related to the facility closure. We also recorded approximately $1.8 million of severance related costs.

In August 2009, we entered into a lease termination agreement for our corporate facility in San Diego. Under the terms of the agreement, we paid a termination fee of $14.3 million as follows: $4.5 million was paid upon signing, $4.5 million was paid in July 2010 and $5.3 million was paid in April 2011. As a result, during the year ended December 31, 2009, we recorded lease termination costs of $15.2 million, which includes the net present value of the lease termination payments of $14.3 million and $0.9 million of other costs associated with the lease termination.

Write-off of in-process research and development

In 2011, we recorded a non-cash impairment charge of $1.1 million for the write-off of intellectual property and interests in future milestones and royalties for MEDI-528, an IL-9 antibody program by AstraZeneca s subsidiary, MedImmune. The asset was impaired upon receipt of notice from MedImmune that it was exercising its right to terminate the collaboration and license agreement.

Additionally, in 2011, we recorded a non-cash impairment charge of $1.2 million for the write-off of interests in future milestones for TRPV1, a collaborative research and licensing program between us and Merck, related to the physiology, pharmacology, chemistry and potential therapeutic applications and potential clinical utilities related to Vanilloid Receptors, subtype 1. The asset was impaired upon receipt of notice from Merck in October 2011 that it was exercising its right to terminate the collaboration and license agreement.

In November 2010, Roche notified us that they were exercising their right to terminate the collaboration and license agreement with our subsidiary, Metabasis. As a result, we reviewed the carrying amount of the intangible asset related to this agreement. Based on our analysis of available information, we determined that the asset

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would not generate any future cash flow. Therefore, we wrote-off the $2.8 million of acquired in-process research and development associated with the agreement during the year ended December 31, 2010.

As a result of adjustments to our purchase price allocation related to our acquisition of Pharmacopeia in December 2008, we wrote-off an additional $0.4 million of acquired in-process research and development during the year ended December 31, 2009.

Accretion of Deferred Gain on Sale Leaseback

In October 2006, we entered into an agreement for the sale of our real property located in San Diego, California for a purchase price of $47.6 million. This property, with a net book value of $14.5 million, included one building totaling approximately 82,500 square feet, the land on which the building is situated, and two adjacent vacant lots. As part of the sale transaction, we agreed to lease back the building for a period of 15 years.

We recognized an immediate pre-tax gain on the sale transaction of $3.1 million in 2006 and deferred a gain of $29.5 million on the sale of the building. The deferred gain was being recognized as an offset to operating expense on a straight-line basis over the 15 year term of the lease at a rate of approximately $2.0 million per year.

In August 2009, we entered into a lease termination agreement for this building. As a result, we recognized an additional $20.4 million of accretion of deferred gain during the quarter ended September 30, 2009, and recognized the remaining balance of the deferred gain of $3.1 million through the term of our new building lease, which expired in December 2011. The amount of the deferred gain recognized for the years ended December 31, 2011, 2010 and 2009 was $1.7 million, $1.7 million and $21.9 million, respectively.

Interest Income

Interest income was $42,000 for 2011, compared to $0.4 million for 2010 and $0.6 million for 2009. The decreases from 2011 to 2010 and from 2010 to 2009 are due to lower invested balances and lower interest rates.

Change in Contingent Liabilities

We recorded an increase in contingent liabilities of $1.0 million for 2011, compared to a decrease of $9.1 million for 2010. The change relates to our liability for amounts potentially due to holders of CVRs and other former license holders associated with our Metabasis and CyDex acquisitions. The Metabasis CVR liability is marked-to-market at each reporting period based upon the quoted market prices of the underlying CVR. The CyDex contingent liabilities are marked-to-market at each reporting period based upon a discounted cash flow analysis. The change in fair value is recorded in our consolidated statements of operations. The carrying amount of the liability may fluctuate significantly based upon quoted market prices and actual amounts paid under the agreements may be materially different than the carrying amount of the liability.

Other, net

We recorded other income of $0.7 million for 2011, compared to other income of $4.4 million for 2010 and other expense of $0.2 million for 2009. Other income for 2011 primarily relates to income related to the gain on the sale of property and equipment. Other income for 2010 primarily relates to grants totaling $2.0 million in response to applications submitted for qualified investments in a qualifying therapeutic discovery project under section 48D of the Internal Revenue Code, $1.5 million in realized gains on investments, $0.5 million reduction in warrant liability and $0.4 million of gain on the sale of property and equipment. Other expense for 2009 relates to losses from abandoning property and equipment.

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Income Taxes

During 2011, we recorded an income tax benefit of $13.3 million related to the release of a portion of our valuation allowance against deferred tax assets which can be used to offset deferred tax liabilities recorded in connection with our acquisition of CyDex in January 2011.

During 2010, we recorded an income tax benefit of $2.6 million related to the reversal of estimated interest for a proposed substantial underpayment of tax in fiscal 2007. During 2009, the IRS issued to us a Notice of Proposed Adjustment, or NOPA, seeking an increase to our taxable income for the 2007 fiscal year of $71.5 million and a $4.1 million penalty for substantial underpayment of tax in fiscal 2007. We recorded a liability for uncertain tax positions of $25.1 million related to the income tax effect of the NOPA and $3.0 million related to estimated interest due on the proposed underpayment of tax. We also recorded deferred income tax assets of $25.1 million associated with the ability to carry back losses from 2008 and 2009 to offset the NOPA. In addition, we recorded an income tax receivable of $4.5 million associated with changes in income tax law in relation to prior AMT taxes paid on carry back periods. In November 2010, the IRS granted us an extension of time to make a closing-of-the-books election with respect to an ownership change, within the meaning of section 382 of the Internal Revenue Code, for the 2007 tax year. We filed an amended 2007 federal tax return in the fourth quarter of 2010. In addition, in January 2011, we were notified by the IRS that they had completed their examination resulting in no changes to the taxes for our 2007 tax year.

During 2009, we recorded an income tax benefit of $1.5 million as a result of the NOPA discussed above. We recorded an income tax receivable of $4.5 million associated with changes in income tax law in relation to prior AMT taxes paid on carry back periods partially offset by $3.0 million of interest for the proposed substantial underpayment of tax in fiscal 2007.

At December 31, 2011, we had federal net operating loss carryforwards set to expire through 2031 of $456.0 million and $165.9 million of state net operating loss carryforwards. We also had $16.4 million of federal research and development credit carryforwards, $1.2 million of which expired at the beginning of 2011, with the remainder expiring through 2027, leaving $15.2 million remaining going into 2012. We have $10.3 million of California and New Jersey research and development credit carryforwards that have no expiration date.

Pursuant to Internal Revenue Code Sections 382 and 383, use of net operating loss and credit carryforwards may be limited if there were changes in ownership of more than 50%. As a result of ownership changes, utilization of our net operating losses and credits are subject to limitations under Internal Revenue Code Sections 382 and 383.

Discontinued Operations

Oncology Product Line

In 2006, we sold our Oncology product line to Eisai, including, among other things, all related inventory, equipment, records and intellectual property, and assumed certain liabilities. For the years ended December 31, 2011, 2010 and 2009, we recognized pre-tax gains of $3,000, $0.2 million, and $1.0 million, respectively, due to subsequent changes in certain estimates of assets and liabilities recorded as of the sale date.

AVINZA Product Line

In 2007, we sold AVINZA purchase agreement pursuant to King, including, among other things, all AVINZA inventory, records and related intellectual property, and assume certain liabilities.

For the years ended December 31, 2011, 2010, and 2009, we recognized pre-tax gains of $0, $2.2 million and $5.4 million, respectively, due to subsequent changes in certain estimates of assets and liabilities recorded as of the sale date.

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Liquidity and Capital Resources

We have financed our operations through offerings of our equity securities, borrowings from long-term debt, issuance of convertible notes, product sales and the subsequent sales of our commercial assets, royalties, collaborative research and development and other revenues, capital and operating lease transactions.

We have incurred significant losses since inception. At December 31, 2011, our accumulated deficit was $682.2 million and we had negative working capital of $11.4 million. We believe that cash flows from operations will improve due to consistent CAPTISOL® sales, an increase in royalty revenues driven primarily from continued increases in PROMACTA sales, as well as anticipated new license and milestone revenues. In the event revenues and operating cash flows are not meeting expectations, management plans to reduce discretionary expenses. However, it is possible that we may be required to seek additional financing. There can be no assurance that additional financing will be available on terms acceptable to management, or at all. We believe our available cash, cash equivalents, and short-term investments as well as our current and future royalty, license and milestone revenues will be sufficient to satisfy our anticipated operating and capital requirements, through at least the next twelve months. Our future operating and capital requirements will depend on many factors, including, but not limited to: the pace of scientific progress in our research and development programs; the potential success of these programs; the scope and results of preclinical testing and clinical trials; the time and costs involved in obtaining regulatory approvals; the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims; competing technological and market developments; the amount of royalties on sales of the commercial products of our partners; the efforts of our collaborative partners; obligations under our operating lease agreements; and the capital requirements of any companies we acquire, including Pharmacopeia, Inc. (Pharmacopeia), Neurogen Corporation (Neurogen), Metabasis Therapeutics, Inc. (Metabasis) and CyDex Pharmaceuticals, Inc. (CyDex). Our ability to achieve our operational targets is dependent upon our ability to further implement our business plan and generate sufficient operating cash flow.

In August 2009, we entered into a lease termination agreement for our corporate facility in San Diego. Under the terms of the agreement, we paid a termination fee of $14.3 million as follows: $4.5 million was paid upon signing, $4.5 million was paid in July 2010 and $5.3 million was paid in April 2011. In addition, we entered into a new lease for a period of 27 months commencing October 2009, for premises consisting of office and lab space located in San Diego to serve as our new corporate headquarters.

In January 2011, we used $12.0 million of our existing cash, cash equivalents and short-term investments for the acquisition of CyDex. In connection with the acquisition, we entered into a $20 million Loan and Security Agreement, or the Loan Agreement, with Oxford Financial Group. Under the terms of the Loan Agreement, we made interest only payments for one year at a fixed rate of 8.64%, with an option to extend the interest only payments for an additional year, which we exercised on January 18, 2012. The interest only payments will continue through March 1, 2013. This election did not change the August 1, 2014 maturity date of the term loan.

In March 2011, we entered into a Loan and Security Agreement, or the Commercial Loan, with our commercial bank, Square 1 Bank, or Square 1. The Commercial Loan established a cash-collateralized revolving line of credit facility under which Square 1 agreed to loan up to $5.0 million to us. We immediately borrowed the full $5.0 million.

In April 2011, we entered into an amended Loan and Security Agreement (the Square 1 Amended Loan) with Square 1. The Square 1 Amended Loan increased a cash-collateralized revolving line of credit facility by $5.0 million under which Square 1 agreed to loan up to $10.0 million to the Company. We immediately borrowed the additional $5.0 million. All outstanding amounts under the Agreement bear interest at a floating rate equal to 200 basis points above the prime rate. Interest is payable on a monthly basis. The maturity date of the revolving line of credit facility is March 29, 2012.

In October 2011, we filed a Registration Statement on Form S-3 with the Securities and Exchange Commission (SEC) for the issuance and sale of up to $30 million of equity or other securities, proceeds from

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which will be used for general corporate purposes. The Form S-3 provides additional financial flexibility for the Company to sell shares or other securities as needed at any time. To date, no securities have been issued under this registration statement.

In January 2012, we entered into a Fourth Amendment to the Loan and Security Agreement with Oxford Financial Group. The Fourth Amendment to Loan and Security Agreement increased the Loan and Security Agreement s secured term loan credit facility from $20 million to up to $30 million; we immediately borrowed $7.5 million of the additionally-authorized $10 million against two Secured Promissory Notes. We have the right until April 30, 2012 to elect to borrow the remaining available $2.5 million. The additional $7.5 million loan bears interest at (and the additional $2.5 million loan would bear interest at) a fixed rate equal to the greater of (i) 8.81% per year and (ii) the sum of (a) 8.34% plus (b) the 3-month LIBOR rate reported in The Wall Street Journal three business days before the loan amounts are funded to us, which interest, along with amortized principal, is payable on a monthly basis. Amortization of the entire $27.5 million due to Oxford commences on March 1, 2013 and the maturity date of the term loan is August 1, 2014, and the other material terms of the Loan and Security Agreement remain unchanged. Following the borrowing, we immediately paid down $4.5 million on our revolving credit facility.

In connection with the acquisition of CyDex Pharmaceuticals, Inc. on January 24, 2011, we issued a series of Contingent Value Rights (CVR). We paid the CVR holders $4.3 million in January 2012 and may be required to pay up to an additional $7.5 million, net of amounts due to former license holders, upon achievement of certain clinical and regulatory milestones. In 2011, $0.9 million was paid to the CyDex Shareholders upon completion of a licensing agreement with The Medicines Company for the CAPTISOL enabled Intravenous formulation of Clopidogrel. An additional $2 million was paid to the CyDex Shareholders upon acceptance by the FDA of the New Drug Application submitted by Onyx. In addition, we will pay CyDex shareholders, for each respective year from 2011 through 2016, 20% of all CyDex-related revenue, but only to the extent that and beginning only when CyDex-related revenue for such year exceeds $15.0 million; plus an additional 10% of all CyDex-related revenue recognized during such year, but only to the extent that and beginning only when aggregate CyDex-related revenue for such year exceeds $35.0 million. Additionally we assumed certain contractual obligations for milestone payments potentially due in connection with CAPTISOL enabled Intravenous formulation of Clopidogrel. We may be required to pay up to $4 million upon achievement of certain milestones.

The CyDex CVR Agreement requires us to, in the event of a Default, deliver to an escrow agent the future cash payments described above, and such amounts would then be delivered by the escrow agent to the CyDex shareholders if, as and when they would have by the CVR Agreement been required to be delivered by us. Default includes the following, subject to certain cure rights: (a) we fail to pay to the Shareholders Account any amount as and when required under the CVR Agreement, (b) at any time we are obligated for more than $35.0 million of financial indebtedness (other than financial indebtedness which is expressly subordinated to all obligations of Ligand under the CVR Agreement pursuant to a written subordination agreement signed by and reasonably acceptable to the Shareholders Representative), (c) at any time after March 15, 2011 our cash, cash equivalents and short-term investments is less than $10.0 million, or (d) we commit any material breach of the CVR Agreement. Pursuant to the CVR Agreement, the shareholders representative on behalf of the former CyDex shareholders has recently filed a notice of objection with us regarding the calculation of payments due to the CyDex former shareholders for the first and second quarters of 2011. In addition, the shareholders representative has claimed that we exceeded the $35 million financial indebtedness limitation contained in the CVR Agreement. We disagree with these claims and intends to work with the shareholders representative to resolve the claims. If we and the shareholders representative fail to agree, the claims may be resolved through arbitration.

We are also required by the CyDex CVR Agreement to dedicate at least five experienced full-time employee equivalents per year to the acquired business and to invest at least $1.5 million per year, inclusive of such employee expenses, in the acquired business, through 2015. For 2011, we estimate that we have exceeded our committed amount.

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Based on management s plans, including increases in CAPTISOL® sales and royalty revenues, as well as anticipated new license revenue and expense reductions, if necessary, we believe our currently available cash, cash equivalents, and short-term investments as well as our current and future royalty, license and milestone revenues will be sufficient to satisfy our anticipated operating and capital requirements, through at least the next twelve months. Our future operating and capital requirements will depend on many factors, including, but not limited to: the pace of scientific progress in our research and development programs; the magnitude of these programs; the scope and results of preclinical testing and clinical trials; the time and costs involved in obtaining regulatory approvals; the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims; competing technological and market developments; the amount of royalties on sales of our partners commercial products; the efforts of our collaborative partners; obligations under our operating lease agreements and lease termination agreement; and the capital requirements of any companies we may acquire, including Neurogen, Metabasis and Cydex. We believe that the actions presently being taken to generate sufficient operating cash flow provide the opportunity for us to continue as a going concern. While we believe in the viability of our strategy to generate sufficient operating cash flow and in our ability to raise additional funds, there can be no assurances to that effect. Our ability to achieve our operational targets is dependent upon our ability to further implement our business plan and generate sufficient operating cash flow.

Operating Activities

Operating activities used cash of $1.2 million in 2011, $27.1 million in 2010, and $33.8 million in 2009.

The use of cash in 2011 reflects net income of $9.7 million, adjusted by $5.0 million of non-cash items to reconcile the net income to net cash used in operations. These reconciling items primarily reflect deferred income taxes of $13.4 million, accretion of deferred gain on sale leaseback transaction of $1.7 million and gain on asset write-offs of $0.5 million, partially offset by a non-cash change in estimated value of contingent liabilities of $1.9 million, write off of acquired in-process research and development of $2.3 million, depreciation and amortization of $2.8 million, and stock-based compensation of $3.4 million. The use of cash in 2011 is further impacted by changes in operating assets and liabilities due primarily to an increase in accounts receivable of $3.9 million and a decrease in accounts payable and accrued liabilities of $11.6 million, partially offset by an increase in other current assets of $5.5 million, an increase in inventory of $1.1 million, a decrease in deferred revenue of $2.2 million, and a decrease in other liabilities of $0.9 million.

The use of cash in 2010 reflects a net loss of $10.4 million, adjusted by $2.4 million of gain from discontinued operations and $10.2 million of non-cash items to reconcile the net loss to net cash used in operations. These reconciling items primarily reflect non-cash lease costs of $9.0 million, a write-off of acquired in-process research and development of $2.8 million, the recognition of $2.3 million of stock-based compensation expense, depreciation of assets of $2.2 million and the write-off of assets of $5.3 million, partially offset by the change in estimated fair value of contingent value rights of $9.1 million, accretion of deferred gain on the sale leaseback of the building of $1.7 million and gain on investments of $0.6 million. The use of cash in 2010 is further impacted by changes in operating assets and liabilities due primarily to decreases in accounts payable and accrued liabilities of $13.4 million, a decrease in deferred revenue of $5.9 million, an increase in other current assets of $3.9 million, a decrease in other liabilities of $0.7 million and an increase in accounts receivable, net of $0.4 million. Net cash provided by operating activities of discontinued operations was $0.2 million in 2010.

The use of cash in 2009 reflects a net loss of $1.9 million, adjusted by $7.9 million of gain from discontinued operations and $4.0 million of non-cash items to reconcile the net loss to net cash used in operations. These reconciling items primarily reflect the accretion of deferred gain on the sale leaseback of the building of $21.9 million, non-cash development milestone revenue of $0.9 million and gain on investments of $0.2 million, partially offset by non-cash lease costs of $9.8 million, a write-off of acquired in-process research and development of $0.4 million, non-cash exit and restructuring costs of $0.3 million, the recognition of $3.4 million of stock-based compensation expense, depreciation of assets of $3.1 million, impairment and amortization of acquired intangible

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assets of $1.5 million, and the write-off of assets of $0.5 million. The use of cash in 2009 is further impacted by changes in operating assets and liabilities due primarily to decreases in accounts payable and accrued liabilities of $11.0 million, a decrease in deferred revenue of $14.3 million, a decrease in other liabilities of $2.3 million and an increase in accounts receivable, net of $0.6 million. These increases were partially offset by decreases in other current assets of $1.1 million and the release of the restricted indemnity account of $10.3 million. Net cash used in operating activities of discontinued operations was $3.2 million in 2009.

Investing Activities

Investing activities used cash of $25.2 million in 2011, $14.5 million in 2010 and $24.8 million in 2009.

Cash used by investing activities in 2011 primarily reflects cash used for the acquisition of CyDex of $32.0 million, payments made to CyDex CVR holders of $2.9 million, and purchases of short term investments of $10.0 million, partially offset by proceeds from the sale of short-term investments of $19.3 million and proceeds from the sale of property and equipment of $0.5 million.

Cash provided by investing activities in 2010 primarily reflects the net sales of short-term investments of $18.5 million and $0.6 million of proceeds from sale of property and equipment, partially offset by $4.1 million of cash paid for acquisitions. None of the cash provided by investing activities for 2010 related to discontinued operations.

Cash provided by investing activities in 2009 primarily reflects the net sales of short-term investments of $15.0 million and $9.8 million of net cash acquired from our merger with Neurogen. None of the cash provided by investing activities for 2009 related to discontinued operations.

Financing Activities

Financing activities provided cash of $30.1 million in 2011, and used cash of $0.2 million in 2010 and $3.7 million in 2009.

Cash used in financing activities in 2011 primarily reflects $30.0 million of proceeds from the issuance of debt, partially offset by share repurchases of $0.1 million.

Cash used in financing activities in 2010 primarily reflects payments under equipment financing obligations of $0.1 million and repurchases of common stock of $0.1 million. None of the cash used in financing activities for 2010 related to discontinued operations.

Cash used in financing activities in 2009 primarily reflects payments under equipment financing obligations of $0.5 million and the repayment of debt of $3.4 million related to an equipment line of credit acquired from Pharmacopeia that was paid off in January 2009, partially offset by proceeds from the issuance of common stock of $0.2 million. None of the cash used in financing activities for 2009 related to discontinued operations.

Other

In July 2007, we purchased $5.0 million of commercial paper issued by Golden Key Ltd. The investment was highly-rated and within our investment policy at the time of purchase, but during the third quarter of 2007, large credit rating agencies downgraded the quality of this security. In addition, as a result of not meeting certain liquidity covenants, the assets of Golden Key Ltd. were assigned to a trustee who established a committee of the largest senior credit holders to determine the next steps. Subsequently, Golden Key Ltd. defaulted on its obligation to settle the security on the stated maturity date of October 10, 2007. During 2010, the assets of Golden Key Ltd. were sold through an auction process and, as a result, the Company received a final cash distribution of approximately $2.9 million, of which $1.4 million was recognized as a gain.

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In connection with the acquisition of Pharmacopeia on December 23, 2008, Pharmacopeia security holders received a contingent value right that entitled them to an aggregate cash payment of $15.0 million under certain circumstances. The contingent value right expired on December 31, 2011.

In connection with the acquisition of Neurogen Corporation on December 23, 2009, Neurogen security holders received CVRs under four CVR agreements. The CVRs entitle Neurogen shareholders to cash payments upon the sale or licensing of certain assets and upon the achievement of a specified clinical milestone. At December 31, 2011 and 2010, the aggregate fair values of the Aplindore, VR1 and H3 CVR s were $0.7 million and $0.7 million, respectively, and included in other long-term liabilities in the accompanying balance sheets as management is unable to estimate the timing of potential future payments.

In connection with the acquisition of Metabasis Therapeutics on January 27, 2010, Metabasis security holders received CVRs under four CVR agreements. The CVRs entitle the holders to cash payments upon the sale or licensing of certain assets and upon the achievement of specified milestones. The fair value of the liability at December 31, 2011 and 2010 was $1.1 million and $0, respectively.

In connection with the acquisition of CyDex Pharmaceuticals, Inc. on January 24, 2011, we issued a series of Contingent Value Rights. We paid a CVR of $4.3 million in January 2012 and may be required to pay up to an additional $7.5 million upon achievement of certain regulatory milestones to the CyDex CVR holders and other former license holders milestones. In 2011, $0.9 million was paid to the CyDex Shareholders upon completion of a licensing agreement with The Medicines Company for the CAPTISOL enabled Intravenous formulation of Clopidogrel. An additional $2 million was paid to the CyDex Shareholders upon acceptance by the FDA of Onyx s NDA. In addition, we will pay CyDex shareholders, for each respective year from 2011 through 2016, 20% of all CyDex-related revenue, but only to the extent that and beginning only when CyDex-related revenue for such year exceed $15.0 million; plus an additional 10% of all CyDex-related revenue recognized during such year, but only to the extent that and beginning only when aggregate CyDex-related revenue for such year exceeds $35.0 million. The fair value of the liability at December 31, 2011 was $14.2 million. Additionally, we assumed certain contractual obligations for milestone payments potentially due in connection with CAPTISOL enabled Intravenous formulation Clopidogrel. The fair value of the liability at December 31, 2011 was $1.3 million.

Leases and Off-Balance Sheet Arrangements

We lease our office and research facilities under operating lease arrangements with varying terms through November 2021. The agreements provide for increases in annual rents based on changes in the Consumer Price Index or fixed percentage increases ranging from 3% to 7%. Commencing January 2008, we also sublease a portion of our facilities through July 2015. The sublease agreement provides for a 3% increase in annual rents. We had no off-balance sheet arrangements at December 31, 2011 and 2010.

Contractual Obligations

As of December 31, 2011, future minimum payments due under our contractual obligations are as follows (in thousands):

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations (1)	$ 25,035	$ 5,603	$ 11,095	$ 7,061	$ 1,276
Total contractual obligations	$ 25,035	$ 5,603	$ 11,095	$ 7,061	$ 1,276

(1) We lease an office and research facility under an operating lease arrangement through July 2015. Commencing January 2008, we sublet this facility through July 2015. The sublease agreement provides for a 3% increase in annual rents. As of December 31, 2011, we expect to receive aggregate future minimum lease payments totaling $4.1 million (nondiscounted) over the duration of the sublease agreement as follows and not included in the table above: less than one year, $1 million; one to three years, $2.3 million; three to five years, $0.8 million; and more than five years, $0.

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We outsource the production of CAPTISOL to Hovione, LLC. Under the terms of the supply agreement with Hovione, the Company has ongoing minimum annual purchase commitments and is required to purchase a total of $15 million of CAPTISOL over the term of the supply agreement which expires in December 2019. Through December 31, 2011, we have spent approximately $12.9 million towards that commitment. Either party may terminate the Agreement for the uncured material breach or bankruptcy of the other party or an extended force majeure event. The Company may also terminate the supply agreement for extended supply interruption, regulatory action related to CAPTISOL or other specified events.

Under the terms of our merger with Metabasis, we are committed to spend at least $7 million within 30 months following the close of the transaction and $8.0 million within 42 months in new research and development funding on the Metabasis programs. Through December 31, 2011, we estimate that we have spent approximately $5.1 million of the committed amount. We are also required under our CyDex CVR Agreement to invest at least $1.5 million per year, inclusive of employee expenses, in the acquired business, through 2015. Through December 31, 2011, we estimate that we have exceeded our committed amount.

Critical Accounting Policies

Certain of our policies require the application of management judgment in making estimates and assumptions that affect the amounts reported in the consolidated financial statements and disclosures made in the accompanying notes. Those estimates and assumptions are based on historical experience and various other factors deemed to be applicable and reasonable under the circumstances. The use of judgment in determining such estimates and assumptions is by nature, subject to a degree of uncertainty. Accordingly, actual results could differ materially from the estimates made. Our critical accounting policies are as follows:

Revenue Recognition

Material sales revenue is recognized upon transfer of title, which normally passes to the buyer upon shipment to the customer.

Royalties on sales of products commercialized by our partners are recognized in the quarter reported by the respective partner.

Revenue from research funding under our collaboration agreements is earned and recognized on a percentage of completion basis as research hours are incurred in accordance with the provisions of each agreement.

Nonrefundable, up-front license fees and milestone payments with standalone value that are not dependent on any future performance by us under our collaboration agreements are recognized as revenue upon the earlier of when payments are received or collection is assured, but are deferred if we have continuing performance obligations. Amounts received under multiple-element arrangements requiring ongoing services or performance by us are recognized over the period of such services or performance.

Revenue from milestones is recognized when earned, as evidenced by written acknowledgement from the collaborator, provided that (i) the milestone event is substantive, its achievability was not reasonably assured at the inception of the agreement, and we have no further performance obligations relating to that event, and (ii) collectability is reasonably assured. If these criteria are not met, the milestone payment is recognized over the remaining period of our performance obligations under the arrangement.

Inventory

Inventory is stated at the lower of cost or market. The Company determines cost using the first-in, first-out method. The Company analyzes its inventory levels periodically and writes down inventory to its net realizable value if it has become obsolete, has a cost basis in excess of its expected net realizable value or is in excess of expected requirements.

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Co-Promote Termination Accounting

As part of the termination and return of co-promotion rights agreement that we entered into with Organon in January 2006, we agreed to make quarterly payments to Organon, effective for the fourth quarter of 2006, equal to 6.5% of AVINZA net sales through December 31, 2012 and thereafter 6% through patent expiration, currently anticipated to be November 2017. The estimated fair value of the amounts to be paid to Organon after the termination ($95.2 million as of January 2006), based on the future estimated net sales of the product, was recognized as a liability and expensed as a cost of the termination as of the effective date of the agreement, January 2006.

In connection with the AVINZA sale transaction, King assumed our obligation to make payments to Organon based on net sales of AVINZA (the fair value of which approximated $21.5 million as of December 31, 2011). As Organon has not consented to the legal assignment of the co-promote termination obligation from us to King, we remain liable to Organon in the event of King s default of this obligation. Therefore, we recorded an asset on February 26, 2007 to recognize King s assumption of the obligation, while continuing to carry the co-promote termination liability in our consolidated financial statements to recognize our legal obligation as primary obligor to Organon. This asset represents a non-interest bearing receivable for future payments to be made by King and is recorded at its fair value. As of December 31, 2011 and thereafter, the receivable and liability will remain equal and adjusted each quarter for changes in the fair value of the obligation. On a quarterly basis, management reviews the carrying value and assesses the co-promote termination receivable for impairment (e.g. in the event King defaults on the assumed obligation to pay Organon). Annually management also reviews the carrying value of the co-promote termination liability. Due to assumptions and judgments inherent in determining the estimates of future net AVINZA sales through November 2017, the actual amount of net AVINZA sales used to determine the amount of the asset and liability for a particular period may be materially different from current estimates. Any resulting changes to the co-promote termination liability will have a corresponding impact on the co-promote termination payments receivable. As of December 31, 2011 and 2010, the fair value of the co-promote termination liability (and the corresponding receivable) was determined using a discount rate of 15%.

Impairment of Long-Lived Assets

We review long-lived assets for impairment annually or whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. We measure the recoverability of assets to be held and used by comparing the carrying amount of an asset to future undiscounted 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 as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value of our long-lived assets is determined using the expected cash flows discounted at a rate commensurate with the risk involved. As of December 31, 2011, we believe that the future undiscounted cash flows to be received from our long-lived assets will exceed the assets carrying value.

Income Taxes

Income taxes are accounted for under the liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of differences between the tax basis of assets or liabilities and their carrying amounts in the consolidated financial statements. A valuation allowance is provided for deferred tax assets if it is more likely than not that these items will either expire before we are able to realize their benefit or if future deductibility is uncertain. During 2009, the IRS issued to us a Notice of Proposed Adjustment, or NOPA, seeking an increase to our taxable income for the 2007 fiscal year of $71.5 million and a $4.1 million penalty for substantial underpayment of tax in fiscal 2007. We recorded a liability for uncertain tax positions of $25.1 million related to the income tax effect of the NOPA and $3.0 million related to estimated interest due on the proposed underpayment of tax. We also recorded deferred income tax assets of $25.1 million associated with the ability to carry back losses from 2008 and 2009 to offset the NOPA. In addition, we recorded an income tax receivable of $4.5 million associated with changes in income tax law in relation to prior AMT taxes paid on carry back periods. In November 2010, the IRS granted us an extension of time to make a closing-of-the-books election with respect to an ownership change, within the meaning of section

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382 of the Internal Revenue Code, for the 2007 tax year. We filed an amended 2007 federal tax return in the fourth quarter of 2010. In January 2011, we were notified by the IRS that they had completed their examination resulting in no changes to the taxes for our 2007 tax year. As of December 31, 2011, we have provided a full valuation allowance against our deferred tax assets as recoverability was uncertain. Developing the provision for income taxes requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. Our judgments and tax strategies are subject to audit by various taxing authorities. While we believe we have provided adequately for our income tax liabilities in our consolidated financial statements, adverse determinations by these taxing authorities could have a material adverse effect on our consolidated financial condition and results of operations.

Stock-Based Compensation

Stock-based compensation cost for awards to employees and non-employee directors is recognized on a straight-line basis over the vesting period until the last tranche vests. Compensation cost for consultant awards is recognized over each separate tranche s vesting period. We recognized compensation expense of $3.4 million, $2.3 million and $3.4 million for 2011, 2010 and 2009, respectively, associated with option awards, restricted stock and our employee stock purchase plan.

The fair-value for options that were awarded to employees and directors was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Years Ended December 31,		
	2011	**2010**	**2009**
Risk-free interest rate	2.5%	2.7%	2.1%
Dividend yield			
Expected volatility	69%	72%	74%
Expected term	6 years	6 years	6 years

The expected term of the employee and non-employee director options is the estimated weighted-average period until exercise or cancellation of vested options (forfeited unvested options are not considered) based on historical experience. The expected term for consultant awards is the remaining period to contractual expiration.

Volatility is a measure of the expected amount of variability in the stock price over the expected life of an option expressed as a standard deviation. In selecting this assumption, we used the historical volatility of our stock price over a period equal to the expected term. Changes in the assumptions used to estimate the fair value of stock-based compensation would impact the amount of compensation expenses recognized during the period.

New Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, or ASU 2009-13, which amends existing revenue recognition accounting pronouncements that are currently within the scope of ASC 605. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management s estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. ASU 2009-13 is effective for us prospectively for revenue arrangements entered into or materially modified beginning January 1, 2011. Our adoption of this amendment had no material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU No. 2011-04, have resulted in common requirements for measuring

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fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. ASU No. 2011-04 amends ASC 820, *Fair Value Measurements and Disclosures* to provide guidance on how fair value measurement should be applied where existing U.S. GAAP already requires or permits fair value measurements. This ASU does not extend the use of fair value, but rather provides guidance on application. In addition, ASU No. 2011-04 requires expanded disclosures regarding fair value measurements. Our adoption of this standard had no impact on our consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. This ASU amends Topic 220, *Comprehensive Income*, to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders investment. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 which, for the Company, will be the beginning of fiscal year 2013. Early adoption is permitted. The Company is currently evaluating the impact of this new guidance, but does not expect the adoption of ASU No. 2011-05 to have a material impact on its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and other: testing for goodwill impairment*, which, among other things, amends *Accounting Standards Topic 350 Intangibles Goodwill and Other*, to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Our adoption of this standard had no impact on our consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in ASU 2011-12. The amendments in ASU 2011-12 defer the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments in this ASU are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. See above for the provisions of ASU 2011-05.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

At December 31, 2011, our investment portfolio included fixed-income securities of $10 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. However, due to the short duration of our investment portfolio, an immediate 10% change in interest rates would have no material impact on our financial condition, results of operations or cash flows. Declines in interest rates over time will, however, reduce our interest income.

We do not have a significant level of transactions denominated in currencies other than U.S. dollars and as a result we have very limited foreign currency exchange rate risk. The effect of an immediate 10% change in foreign exchange rates would have no material impact on our financial condition, results of operations or cash flows.

We are exposed to market risk involving rising interest rates. To the extent interest rates rise, our interest costs could increase. An increase in interest costs of 10% would have no material impact on our financial condition, results of operations or cash flows.

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Item 8. Consolidated Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Ligand Pharmaceuticals Incorporated

We have audited the accompanying consolidated balance sheets of Ligand Pharmaceuticals Incorporated (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders equity (deficit) and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ligand Pharmaceuticals Incorporated as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18, the 2011 financial statements have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 23, 2012 (except for paragraph 2 of Management s Report on Internal Control over Financial Reporting as to which the date is November 14, 2012) expressed an adverse opinion.

/s/ GRANT THORNTON LLP

San Diego, California

February 23, 2012 (except for Note 18 and the effects thereof, as to which the date is November 14, 2012)

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LIGAND PHARMACEUTICALS INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31,	
	2011 (Restated)	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,041	$ 3,346
Short-term investments	10,000	19,351
Accounts receivable, net	6,110	993
Inventory	1,301	
Deferred income taxes	237	
Other current assets	1,344	720
Income tax receivable		4,575
Current portion of co-promote termination payments receivable	6,197	8,034
Total current assets	32,230	37,019
Restricted cash and investments	1,341	1,341
Property and equipment, net	455	559
Intangible assets, net	58,326	12,251
Goodwill	12,238	700
Long-term portion of co-promote termination payments receivable	15,255	22,851
Other assets	738	838
Total assets	$ 120,583	$ 75,559
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 11,065	$ 8,597
Accrued liabilities	8,262	8,859
Accrued litigation settlement costs		1,000
Current portion of contingent liabilities	6,879	
Current portion of deferred gain		1,702
Bank line of credit	10,000	
Current portion of co-promote termination liability	6,197	8,034
Current portion of lease termination payments		5,296
Current portion of deferred revenue	1,240	
Total current liabilities	43,643	33,488
Long-term portion of note payable	20,286	
Long-term portion of co-promote termination liability	15,255	22,851
Long-term portion of deferred revenue, net	3,466	2,546
Long-term portion of lease exit obligations	8,367	11,118
Deferred income taxes	2,230	372
Long-term portion of contingent liabilities	10,419	700
Other long-term liabilities	388	989
Total liabilities	104,054	72,064
Commitments and contingencies		
Common stock subject to conditional redemption; 112,371 shares issued and outstanding at December 31, 2011 and 2010, respectively	8,344	8,344
Stockholders equity (deficit):		

Common stock, $0.001 par value; 33,333,333 shares authorized; 20,682,506 and 20,620,917 shares issued at December 31, 2011 and 2010, respectively	21	21
Additional paid-in capital	732,676	729,271
Accumulated other comprehensive income		31
Accumulated deficit	(682,232)	(691,947)
Treasury stock, at cost; 1,118,222 and 1,111,999 shares at December 31, 2011 and 2010, respectively	(42,280)	(42,225)
Total stockholders equity (deficit)	8,185	(4,849)
Total liabilities and stockholders equity (deficit)	$ 120,583	$ 75,559

See accompanying notes to these consolidated financial statements.

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LIGAND PHARMACEUTICALS INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share data)

	Year Ended December 31,		
	2011 (Restated)	2010	2009
Revenues:			
Royalties	$ 9,213	$ 7,279	$ 8,334
Material Sales	12,123		
Collaborative research and development and other revenues	8,701	16,259	30,606
Total revenues	30,037	23,538	38,940
Operating costs and expenses:			
Cost of material sales	4,909		
Research and development	10,291	22,067	39,870
General and administrative	14,977	12,829	15,211
Lease exit and termination costs	(22)	16,894	15,235
Write-off of acquired in-process research and development	2,282	2,754	442
Total operating costs and expenses	32,437	54,544	70,758
Accretion of deferred gain on sale leaseback	1,702	1,702	21,851
Loss from operations	(698)	(29,304)	(9,967)
Other income (expense):			
Interest income	31	440	586
Interest expense	(2,508)	(58)	(270)
Decrease (increase) in contingent liabilities	(1,013)	9,142	
Other, net	630	4,377	(221)
Total other income (expense), net	(2,860)	13,901	95
Loss from continuing operations before income tax benefit	(3,558)	(15,403)	(9,872)
Income tax benefit from continuing operations	13,270	2,617	1,535
Income (loss) from continuing operations	9,712	(12,786)	(8,337)
Discontinued operations:			
Gain on sale of AVINZA Product Line, net		2,212	5,434
Gain on sale of Oncology Product Line, net	3	201	955
Income from discontinued operations	3	2,413	6,389
Net income (loss)	$ 9,715	($10,373)	($1,948)
Basic and diluted per share amounts:			
Income (loss) from continuing operations	$ 0.49	($0.65)	($0.44)

Income from discontinued operations		0.12	0.34
Net income (loss)	$ 0.49	($0.53)	($0.10)
Weighted average number of common shares-basic	19,655,632	19,613,201	18,862,751
Weighted average number of common shares-diluted	19,713,320	19,613,201	18,862,751

See accompanying notes to these consolidated financial statements.

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LIGAND PHARMACEUTICALS INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) AND COMPREHENSIVE LOSS

(in thousands, except share data)

(Restated)

	Common Stock					Treasury stock			
	Shares	Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Shares	Amount	Total stockholders equity (deficit)	Comprehensive income (loss)
Balance at December 31, 2008	19,760,457	$ 20	$ 711,298	$ 81	$ (679,626)	(1,101,317)	$ (42,134)	$ (10,365)	$ (98,042)
Issuance of common stock under employee stock compensation plans	84,376		228					228	
Unrealized net gain on available-for-sale securities				432				432	432
Stock-based compensation			3,365					3,365	
Shares redeemed in lieu of cash payment for milestone achieved			3,086					3,086	
Issuance of common stock for acquisition of Neurogen	700,000	1	8,942					8,946	
Net loss					(1,948)			(1,948)	(1,948)
Balance at December 31, 2009	20,544,833	21	726,919	513	(681,574)	(1,101,317)	(42,134)	3,744	(1,516)
Issuance of common stock under employee stock compensation plans	76,084		27					27	
Unrealized net loss on available-for-sale securities				(482)				(482)	(482)
Repurchase of common stock						(10,682)	(91)	(91)	
Stock-based compensation			2,325					2,325	
Net loss					(10,373)			(10,373)	(10,373)
Balance at December 31, 2010	20,620,917	21	729,271	31	(691,947)	(1,111,999)	(42,225)	(4,850)	(10,855)
Issuance of common stock under employee stock compensation plans, net	61,589		54					54	
Unrealized net loss on available-for-sale securities				(31)				(31)	(31)
Repurchase of common stock						(6,223)	(55)	(55)	
Stock-based compensation			3,351					3,351	
Net income, restated					9,715			9,715	9,715
Balance at December 31, 2011, restated	20,682,506	$ 21	$ 732,676	$	$ (682,232)	(1,118,222)	$ (42,280)	$ 8,185	$ 9,684

See accompanying notes to these consolidated financial statements.

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LIGAND PHARMACEUTICALS INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2011 (Restated)	2010	2009
Operating activities			
Net income (loss)	$ 9,715	($10,373)	($1,948)
Less: gain from discontinued operations	3	2,413	6,389
Income (loss) from continuing operations	9,712	(12,786)	(8,337)
Adjustments to reconcile net income (loss) to net cash used in operating activities, including effects of business acquired:			
Write-off of acquired in-process research and development	2,282	2,754	442
Non-cash change in estimated fair value of contingent liabilities	1,888	(9,142)	0
Accretion of deferred gain on sale leaseback	(1,702)	(1,702)	(21,851)
Depreciation and amortization	2,790	2,212	4,634
Non-cash lease costs	(51)	9,042	10,102
Non-cash development milestone revenue			(915)
Loss (gain) on asset write-offs	(456)	5,303	500
Realized loss (gain) on investment	6	(607)	(232)
Stock-based compensation	3,351	2,325	3,365
Deferred income taxes	(13,402)		
Other	285	32	(18)
Changes in operating assets and liabilities, net of acquisition:			
Accounts receivable, net	(3,915)	(375)	(618)
Inventory	1,114		
Other current assets	4,864	(3,931)	(448)
Other long term assets	605	(332)	10,346
Accounts payable and accrued liabilities	(11,568)	(13,447)	(10,989)
Other liabilities	865	(715)	(2,318)
Deferred revenue	2,160	(5,938)	(14,302)
Net cash used in operating activities of continuing operations	(1,172)	(27,307)	(30,639)
Net cash provided by (used in) operating activities of discontinued operations		240	(3,162)
Net cash used in operating activities	(1,172)	(27,067)	(33,801)
Investing activities			
Acquisition of Metabasis, net of cash acquired		(2,834)	
Acquisition of CyDex, net of cash acquired	(32,024)		
Cash acquired from acquisition of Neurogen			9,796
Payments to CVR holders	(2,875)		
Acquisition of intellectual property		(1,247)	
Purchases of property, equipment and building	(78)	(70)	(522)
Proceeds from sale of property, and equipment and building	530	589	108
Purchases of short-term investments	(10,000)	(35,584)	(32,806)
Proceeds from sale of short-term investments	19,346	54,040	47,761
Other, net	(31)	(354)	431
Net cash provide by (used in) investing activities of continuing operations	(25,132)	14,540	24,768
Net cash provided by investing activities of discontinued operations			
Net cash provided by (used in) investing activities	(25,132)	14,540	24,768

Financing activities			
Principal payments on equipment financing obligations		(91)	(473)
Proceeds from issuance of debt	30,000		
Repayment of debt			(3,443)
Proceeds from issuance of common stock, net	54	23	228
Share repurchases	(55)	(91)	
Net cash provided by (used in) financing activities of continuing operations	29,999	(159)	(3,688)
Net cash provided by (used in) financing activities of discontinued operations			
Net cash provided by (used in) financing activities	29,999	(159)	(3,688)
Net increase (decrease) in cash and cash equivalents	3,695	(12,686)	(12,721)
Cash and cash equivalents at beginning of year	3,346	16,032	28,753
Cash and cash equivalents at end of year	$ 7,041	$ 3,346	$ 16,032
Supplemental disclosure of cash flow information			
Cash paid during the year:			
Interest paid	$ 2,463	$ 58	$ 270
Taxes paid	39	28	14
Proceeds received from sale of building and disbursed to Neurogen shareholders		3,170	
Supplemental schedule of non-cash investing and financing activities			
Issuance of common stock for acquisition			8,946

See accompanying notes to these consolidated financial statements.

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LIGAND PHARMACEUTICALS INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Its Business

Ligand Pharmaceuticals Incorporated, a Delaware corporation (the Company or Ligand) is a biopharmaceutical company with a business model that is based upon the concept of developing or acquiring royalty revenue generating assets and coupling them to a lean corporate cost structure. By diversifying the portfolio of assets across numerous technology types, therapeutic areas, drug targets, and industry partners, the Company offers investors an opportunity to invest in the increasingly complicated and unpredictable pharmaceutical industry. In comparison to its peers, the Company believes it has assembled one of the largest and most diversified asset portfolios in the industry with the potential to generate revenue in the future. These therapies address the unmet medical needs of patients for a broad spectrum of diseases including hepatitis, muscle wasting, Alzheimer s disease, dyslipidemia, diabetes, anemia, COPD, asthma, rheumatoid arthritis and osteoporosis. Ligand has established multiple alliances with the world s leading pharmaceutical companies including GlaxoSmithKline, Merck, Pfizer, Baxter International, Bristol-Myers Squibb, Celgene, Onyx Pharmaceuticals, Lundbeck Inc. and The Medicines Company. The Company s principle market is the United States. The Company sold its Oncology Product Line (Oncology) and AVINZA Product Line (AVINZA) on October 25, 2006 and February 26, 2007, respectively. The operating results for Oncology and AVINZA have been presented in the accompanying consolidated financial statements as Discontinued Operations .

The Company has incurred significant losses since its inception. At December 31, 2011, the Company s accumulated deficit was $682.2 million and the Company had negative working capital of $11.4 million. Management believes that cash flows from operations will improve due to consistent CAPTISOL® sales, an increase in royalty revenues driven primarily from continued increases in PROMACTA sales, as well as anticipated new license and milestone revenues. In the event revenues and operating cash flows are not meeting expectations, management plans to reduce discretionary expenses. However, it is possible that the Company may be required to seek additional financing. There can be no assurance that additional financing will be available on terms acceptable to management, or at all. Management believes its currently available cash, cash equivalents, and short-term investments as well as its current and future royalty, license and milestone revenues will be sufficient to satisfy its anticipated operating and capital requirements, through at least the next twelve months. The Company s future operating and capital requirements will depend on many factors, including, but not limited to: the pace of scientific progress in its research and development programs; the potential success of these programs; the scope and results of preclinical testing and clinical trials; the time and costs involved in obtaining regulatory approvals; the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims; competing technological and market developments; the amount of royalties on sales of the commercial products of its partners; the efforts of its collaborative partners; obligations under its operating lease agreements; and the capital requirements of any companies the Company acquires, including Pharmacopeia, Inc. (Pharmacopeia), Neurogen Corporation (Neurogen), Metabasis Therapeutics, Inc. (Metabasis) and CyDex Pharmaceuticals, Inc. (CyDex). The ability of the Company to achieve its operational targets is dependent upon the Company s ability to further implement its business plan and generate sufficient operating cash flow.

As discussed in Note 18, the Company has restated its previously issued consolidated financial statements as of December 31, 2011 and for the twelve months then ended.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the Company s wholly owned subsidiaries, Seragen, Inc. (Seragen), Nexus Equity VI LLC (Nexus), Pharmacopeia, Neurogen, Metabasis and CyDex. All significant intercompany accounts and transactions have been eliminated in consolidation.

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Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingent assets and contingent liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses, in-process research and development, goodwill, deferred revenue and income tax net operating losses during the reporting period. The Company s critical accounting policies are those that are both most important to the Company s consolidated financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may materially vary from these estimates.

Income (Loss) Per Share

Basic earnings per share is calculated by dividing net income or loss by the weighted average number of common shares and vested restricted stock units outstanding. Diluted earnings per share is computed by dividing net income or loss by the weighted average number of common shares and vested restricted stock units outstanding and the weighted average number of dilutive common stock equivalents, including stock options and non-vested restricted stock units. Common stock equivalents are only included in the diluted earnings per share calculation when their effect is dilutive. For the year ended December 31, 2010 and 2009, no potential common shares are included in the computation of any diluted per share amounts, including income (loss) per share from discontinued operations and net loss per share, as the Company reported a loss from continuing operations. Potential common shares, the shares that would be issued upon the exercise of outstanding stock options and warrants and the vesting of restricted shares that are excluded from the computation of diluted net income (loss) per share, were 1.6 million, 1.0 million and 1.1 million for the years ended December 31, 2011, 2010, and 2009 respectively.

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share amounts):

	Year Ended December 31,		
	2011 (Restated)	2010	2009
Net income (loss) from continuing operations	$ 9,712	$ (12,786)	$ (8,337)
Discontinued operations	3	2,413	6,389
Net income (loss)	$ 9,715	$ (10,373)	$ (1,948)
Shares used to compute basic income (loss) per share	19,655,632	19,613,201	18,862,751
Dilutive potential common shares:			
Restricted stock	57,688		
Shares used to compute diluted income (loss) per share	19,713,320	19,613,201	18,862,751
Basic and diluted per share amounts:			
Income (loss) from continuing operations	$ 0.49	$ (0.65)	$ (0.44)
Discontinued operations		0.12	0.34
Net income (loss)	$ 0.49	$ (0.53)	$ (0.10)

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Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of cash and highly liquid securities with maturities at the date of acquisition of three months or less. Non-restricted equity and debt security investments with a maturity of more than three months are considered short-term investments and have been classified by management as available-for-sale. Such investments are carried at fair value, with unrealized gains and losses included as a separate component of stockholders equity. The Company determines the cost of investments based on the specific identification method.

Restricted Cash and Investments

Restricted cash and investments consist of certificates of deposit held with a financial institution as collateral under a facility lease and third-party service provider arrangements. The certificates of deposit have been classified by management as held-to-maturity and are accounted for at amortized cost.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash equivalents and investments.

The Company invests its excess cash principally in United States government debt securities, investment grade corporate debt securities and certificates of deposit. The Company has established guidelines relative to diversification and maturities that maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. During 2011 the Company did not experience any significant losses on its cash equivalents, short-term investments or restricted investments. As of December 31, 2011, cash deposits held at financial institutions in excess of FDIC insured amounts of $250,000 were approximately $13.1 million.

Accounts receivable from two customers were 67% of total accounts receivable at December 31, 2011. Accounts receivable from one customer was 100% of total accounts receivable at December 31, 2010.

The Company obtains CAPTISOL® from a sole-source supplier. If this supplier were not able to supply the requested amounts of CAPTISOL, the Company would be unable to continue to derive revenues from the sale of CAPTISOL until it obtained an alternative source, which might take a considerable length of time.

Inventory

Inventory is stated at the lower of cost or market. The Company determines cost using the first-in, first-out method. The Company analyzes its inventory levels periodically and writes down inventory to its net realizable value if it has become obsolete, has a cost basis in excess of its expected net realizable value or is in excess of expected requirements.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts based on the best estimate of the amount of probable losses in the Company s existing accounts receivable. Accounts receivable that are outstanding longer than their contractual payment terms, ranging from 30 to 90 days, are considered past due. When determining the allowance for doubtful accounts, several factors are taken into consideration, including historical write-off experience and review of specific customer accounts for collectability. Account balances are charged off against the allowance after collection efforts have been exhausted and the potential for recovery is considered remote. There was no allowance for doubtful accounts recorded as of December 31, 2011 and 2010.

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Property and Equipment

Property and equipment is stated at cost and consists of the following (in thousands):

	December 31,	
	2011	2010
Lab and office equipment	$ 4,110	$ 5,676
Leasehold improvements	62	55
Computer equipment and software	1,054	3,996
	5,226	9,727
Less accumulated depreciation and amortization	(4,771)	(9,168)
	$ 455	$ 559

Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the assets which range from three to ten years. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or their related lease term, whichever is shorter. Depreciation expense of $0.5 million, $2.1 million and $3.1 million was recognized in 2011, 2010, and 2009, respectively,

In September 2010, the Company ceased use of its facility located in New Jersey. As a result, during the quarter ended September 30, 2010, the Company recorded lease exit costs of $9.7 million for costs related to the difference between the remaining lease obligations of the abandoned operating leases, which run through August 2016, and management s estimate of potential future sublease income, discounted to present value. In addition, the Company wrote-off property and equipment with a net book value of $5.4 million related to the facility closure.

Goodwill and Other Identifiable Intangible Assets

Goodwill and other identifiable intangible assets consist of the following (in thousands):

	December 31, 2011 (Restated)	December 31, 2010
Acquired in-process research and development	$ 13,036	$ 12,379
Complete technology	15,227	
Trade name	2,642	
Customer relationships	29,600	
Goodwill	12,238	700
	72,743	13,079
Accumulated amortization	(2,179)	(128)
	$ 70,564	$ 12,951

The Company accounts for goodwill in accordance with GAAP which, among other things, establishes standards for goodwill acquired in a business combination, eliminates the amortization of goodwill and requires the carrying value of goodwill and certain non-amortizing intangibles to be evaluated for impairment on an annual basis. The Company considers its market capitalization and the carrying value of its assets and liabilities, including goodwill, when performing its goodwill impairment test. If the carrying value of the assets and liabilities, including goodwill, were to exceed the Company s estimation of the fair value, the Company would record an impairment charge in an amount equal to the excess of the carrying value of goodwill over the implied fair value of the goodwill The Company performs an evaluation of goodwill as of December 31 of each year, absent any indicators of earlier impairment, to ensure that impairment charges, if applicable, are reflected in our financial results before December 31 of each year. When it is determined that impairment has occurred, a charge to operations is recorded. Goodwill and other intangible asset balances are included in the identifiable assets of

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the business segment to which they have been assigned. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective business segments operating income. To date, there has been no impairment of goodwill for continuing operations.

Amortization of definite lived intangibles is computed using the straight-line method over the estimated useful life of the asset of 20 years. Amortization expense of $2.3 million, $0.1 million and $0 was recognized in 2011, 2010, and 2009, respectively. Estimated amortization expense for the years ending December 31, 2012 through 2016 is $2.3 million per year.

In January 2011, the Company completed its acquisition of CyDex Pharmaceuticals, Inc. As a result of the transaction, the Company recorded $47.5 million of intangible assets with definite lives. The weighted-average amortization period for the identified intangible assets with definite lives is 20 years. In addition, the Company recorded $3.2 million of acquired In-Process Research and Development (IPR&D) and $11.5 million of goodwill.

In May 2010, the Company purchased from the Genaera Liquidating Trust certain intellectual property and interests in future milestones and royalties for MEDI-528, an IL-9 antibody program under development by AstraZeneca s subsidiary, MedImmune. MEDI-528 is currently in a 320-patient Phase II study for moderate-to-severe asthma. The Company paid $2.8 million to the Genaera Liquidating Trust in connection with the purchase. As part of the transaction, the Company also entered into a separate agreement with a shareholder of Ligand, whereby the shareholder and Ligand agreed to share the purchase price and any proceeds from the deal equally. Accordingly, the Company was reimbursed for $1.4 million of the purchase price. The Company recorded the net purchase price of $1.4 million as acquired In-Process Research and Development (IPR&D). As discussed below, the asset was subsequently impaired upon receipt of notice from MedImmune that it was exercising its right to terminate the collaboration and license agreement.

In January 2010, the Company completed its acquisition of Metabasis Therapeutics, Inc. (Metabasis). As a result, the Company recorded $12.0 million of the purchase price of Metabasis as IPR&D.

In December 2009, the Company completed its acquisition of Neurogen Corporation (Neurogen). As a result, the Company recorded $1.8 million of the purchase price of Neurogen as IPR&D.

Acquired in-process research and development

Intangible assets related to in-process research and development costs, or IPR&D, are considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. During the period the assets are considered to be indefinite-lived, they will not be amortized but will be tested for impairment on an annual basis and between annual tests if the Company becomes aware of any events occurring or changes in circumstances that would indicate a reduction in the fair value of the IPR&D projects below their respective carrying amounts. If and when development is complete, which generally occurs if and when regulatory approval to market a product is obtained, the associated assets would be deemed finite-lived and would then be amortized based on their respective estimated useful lives at that point in time.

Impairment of Long-Lived Assets

Management reviews long-lived assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted 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 as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value for the Company s long-lived assets is determined using the expected cash flows discounted at a rate commensurate with the risk involved.

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During 2011, the impairment analysis performed by management resulted in the write-off of certain acquired in process research and development assets. The Company recorded a non-cash impairment charge of $1.1 million for the write-off of IPR&D and interests in future milestones and royalties for MEDI-528, an IL-9 antibody program by AstraZeneca s subsidiary, MedImmune. The asset was impaired upon receipt of notice from MedImmune in September that it was exercising its right to terminate the collaboration and license agreement.

Additionally, in 2011, the Company recorded a non-cash impairment charge of $1.2 million for the write-off of IPR&D and interests in future milestones for TRPV1, a collaborative research and licensing program between the Company and Merck, related to the physiology, pharmacology, chemistry and potential therapeutic applications and potential clinical utilities related to Vanilloid Receptors, subtype 1. The asset was impaired upon receipt of notice from Merck in October 2011 that it was exercising its right to terminate the collaboration and license agreement. Subsequent to the termination of the agreement, the Company will receive an exclusive, perpetual, irrevocable, royalty-free (but subject to any third party royalty obligations), fully-paid world-wide license, with the right to sub- license, under specified patents and technology for the research, development, or commercialization of specified compounds and products in a limited field of use.

In November 2010, Roche notified the Company that it was exercising its right to terminate the collaboration and license agreement with the Company s subsidiary, Metabasis Therapeutics, Inc. As a result, the Company s management reviewed the carrying amount of the intangible asset related to this agreement. Based on an analysis of available information, management determined that the asset would not generate future cash flows. Therefore, the Company wrote-off the $2.8 million of acquired in-process research and development associated with the agreement during the year ended December 31, 2010.

As of December 31, 2011, management does not believe there have been any other events or circumstances indicating that the carrying amount of its remaining long-lived assets may not be recoverable.

Contingent Liabilities

In connection with the Company s acquisition of CyDex, the Company recorded a $17.6 million contingent liability, inclusive of the $4.3 million payment made in January 2012, for amounts potentially due to holders of the CyDex CVRs and other former license holders. The initial fair value of the liability was determined using a discounted cash flow analysis incorporating the estimated future cash flows from potential milestones and revenue sharing. These cash flows were then discounted to present value using a discount rate of 21.6%. The liability will be periodically assessed based on events and circumstances related to the underlying milestones, and the change in fair value will be recorded in the Company s consolidated statements of operations. The carrying amount of the liability may fluctuate significantly and actual amounts paid may be materially different than the carrying amount of the liability. The fair value of the liability at December 31, 2011 was $15.5 million. As a result, the Company recorded an increase in contingent liabilities of $1.0 million, net of cash paid for the year ended December 31, 2011.

In connection with the Company s acquisition of Metabasis in January 2010, the Company issued Metabasis stockholders four tradable contingent value rights, one contingent value right from each of four respective series of contingent value rights, for each Metabasis share. The contingent value rights will entitle Metabasis stockholders to cash payments as frequently as every six months as cash is received by the Company from proceeds from Metabasis partnership with Roche or the sale or partnering of any of the Metabasis drug development programs, among other triggering events. The acquisition-date fair value of the contingent value rights of $9.1 million was determined using quoted market prices of Metabasis common stock in active markets. The fair values of the contingent value rights are remeasured at each reporting date through the term of the related agreement. Changes in the fair values are reported in the statement of operations as income (decreases) or expense (increases). The carrying amount of the liability may fluctuate significantly based upon quoted market prices and actual amounts paid under the agreements may be materially different than the carrying amount of the liability. The fair value of the liability was $1.1 million and $0 as of December 31, 2011 and 2010, respectively. As a result, the Company recorded an increase in the liability for contingent value rights of $1.1 million during the year ended December 31, 2011 and a decrease of $9.1 million during the year ended December 31, 2010.

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In connection with the Company s acquisition of Neurogen in December 2009, the Company issued to Neurogen stockholders four contingent value rights; real estate, Aplindore, VR1 and H3, that entitle them to cash and/or shares of third-party stock under certain circumstances. The Company recorded the acquisition-date fair value of the contingent value rights as part of the purchase price. The acquisition-date fair value of the real estate contingent value right of $3.2 million was estimated using the net proceeds from a pending sale transaction and recorded as a payable to stockholders at December 31, 2009. In February 2010, the Company completed the sale of the real estate and subsequently distributed the proceeds to the holders of the real estate contingent value rights. As a result and after final settlement of all related expenses, the real estate contingent value right was terminated in August 2010. The acquisition-date fair value of the Aplindore, VR1 and H3 contingent value rights of $0, $0.2 million and $0.5 million, respectively, were estimated using the income method , which uses a discounted cash flow model and applies a probability weighting based on estimates of successful product development and commercialization to estimated future net cash flows resulting from projected revenues and related costs. The fair values of the contingent value rights are remeasured at each reporting date through the term of the related agreement. Changes in the fair values are reported in the statement of operations as income (decreases) or expense (increases). At December 31, 2011 and 2010, the aggregate fair values of the Aplindore, VR1 and H3 CVR s were $0.7 million and $0.7 million, respectively, and included in other long-term liabilities in the accompanying consolidated balance sheets as management is unable to estimate the timing of potential future payments.

In connection with the Company s acquisition of Pharmacopeia in December 2008, the Company issued to Pharmacopeia security holders a contingent value right that entitles each holder to receive a proportionate share of an aggregate of $15.0 million if the Company entered into a license, sale, development, marketing or option agreement with respect to any product candidate from Pharmacopeia s DARA program. The Company did not record a liability for contingent value rights at the time of the acquisition as the Company s management deemed, based on available information, that the likelihood of payment was not determinable beyond a reasonable doubt. The contingent value rights expired on December 31, 2011.

Fair Value of Financial Instruments

Fair value is defined as the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. The Company establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels are described in the table below with Level 1 having the highest priority and Level 3 having the lowest.

The following table provides a summary of the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2011 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total (Restated)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (Restated)
Assets:				
Short-term investments	$ 10,000	$ 10,000	$	$
Liabilities:				
Current portion of contingent liabilities CyDex	$ 6,879	$	$	$ 6,879
Liability for contingent value rights Metabasis	1,068	1,068		
Liability for contingent value rights Neurogen	700			700
Liability for contingent liabilities CyDex	8,651			8,651
Total liabilities	$ 17,298	$ 1,068	$	$ 16,230

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The following table provides a summary of the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010 (in thousands):

	Total	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	$ 19,351	$ 19,351	$	$
Liabilities:				
Liability for contingent value rights Metabasis				
Liability for contingent value rights Neurogen	700			700
	$ 700	$	$	$ 700

The Company s short-term investments are fixed income available-for-sale securities and include U.S. Government Notes and Corporate Discount Commercial Paper. The fair value of the Company s short-term investments is determined using quoted market prices in active markets. The Metabasis CVR liability is marked-to-market at each reporting period based upon the quoted market prices of the underlying CVR. The CyDex and Neurogen CVR liability is marked-to-market at each reporting period based upon a discounted cash flow analysis.

Revenue Recognition

Royalties on sales of products commercialized by the Company s partners are recognized in the quarter reported by the respective partner.

Revenue from material sales is recognized upon transfer of title, which normally passes to the buyer upon shipment to the customer. The Company s credit and exchange policy includes provisions for the return of product between 30 to 90 days, depending on the specific terms of the individual agreement, when that product (1) does not meet specifications, (2) is damaged in shipment (in limited circumstances where title does not transfer until delivery), or (3) is exchanged for an alternative grade of CAPTISOL.

Revenue from research funding under the Company s collaboration agreements is earned and recognized on a percentage-of-completion basis as research hours are incurred in accordance with the provisions of each agreement.

Nonrefundable, up-front license fees and milestone payments with standalone value that are not dependent on any future performance by the Company under the Company s collaboration agreements are recognized as revenue upon the earlier of when payments are received or collection is assured, but are deferred if the Company has continuing performance obligations. Amounts received under multiple-element arrangements requiring ongoing services or performance by the Company are recognized over the period of such services or performance.

Revenue from milestones is recognized when earned, as evidenced by written acknowledgement from the collaborator, provided that (i) the milestone event is substantive, its achievability was not reasonably assured at the inception of the agreement, and the Company has no further performance obligations relating to that event, and (ii) collectability is reasonably assured. If these criteria are not met, the milestone payment is recognized over the remaining period of the Company s performance obligations under the arrangement.

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The composition of collaborative research and development and other revenues is as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Collaborative research and development	$ 601	$ 7,734	$ 23,316
License fees	5,889	6,250	525
Development milestones and other	2,211	2,275	6,765
	$ 8,701	$ 16,259	$ 30,606

Preclinical Study and Clinical Trial Accruals

Substantial portions of the Company s preclinical studies and all of the Company s clinical trials have been performed by third-party laboratories, contract research organizations, or other vendors (collectively CROs). Some CROs bill monthly for services performed, while others bill based upon milestone achievement. The Company accrues for each of the significant agreements it has with CROs on a monthly basis. For preclinical studies, accruals are estimated based upon the percentage of work completed and the contract milestones achieved. For clinical studies, accruals are estimated based upon a percentage of work completed, 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 it by the CROs, correspondence with the CROs and clinical site visits. The Company s estimates are dependent upon the timelines and accuracy of the data provided by its CROs regarding the status of each program and total program spending. The Company periodically evaluates its estimates to determine if adjustments are necessary or appropriate based on information it receives concerning changing circumstances, and conditions or events that may affect such estimates. No material adjustments to preclinical study and clinical trial accrued expenses have been recognized to date.

Warrant Liability

To qualify as permanent equity, an equity derivative, including warrants, must permit the Company to settle in unregistered shares. Under securities law, if the warrants were issued in connection with a public offering and have a cash settlement feature at the holder s option, the Company does not have the ability to settle in unregistered shares. Therefore, the warrants cannot be classified as permanent equity and are instead classified as a liability. The warrants that the Company issued as part of its equity financing in October 2006 meet this criterion, and their fair value has been recorded as a liability in the accompanying consolidated balance sheets. The warrants expire in April 2012. Other warrants the Company had previously issued qualify as permanent equity and do not require remeasurement.

The Company records its warrant liabilities at fair value using a Black-Scholes option-pricing model and remeasures at each reporting date until the warrants are exercised or have expired. Changes in the fair value of the warrants are reported in the statements of operations as income or expense. The fair value of the warrants is subject to significant fluctuation based on changes in the Company s stock price, expected volatility, expected life, the risk-free interest rate and dividend yield. The market price for the Company s common stock has been and may continue to be volatile. Consequently, future fluctuations in the price of the Company s common stock may cause significant increases or decreases in the fair value of the warrants.

Sale of Royalty Rights

The Company previously sold to third parties the rights to future royalties of certain of its products. As part of the underlying royalty agreements, the partners have the right to offset a portion of any future royalty payments owed to the Company to the extent of previous milestone payments. Accordingly, the Company deferred a portion of the revenue associated with each tranche of royalty right sold, equal to the pro-rata share of

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the potential royalty offset. Such amounts associated with the offset rights against future royalty payments will be recognized as revenue upon receipt of future royalties from the respective partners. As of December 31, 2011 and December 31, 2010, the Company had deferred $1.3 and $2.5 million of revenue, respectively, which is included in long-term portion of deferred revenue.

Product Returns

In connection with the sale of the Company s product lines, the Company retained the obligation for returns of product that were shipped to wholesalers prior to the close of the transactions. The accruals for product returns, which were recorded as part of the accounting for the sales transactions, are based on historical experience. Any subsequent changes to the Company s estimate of product returns are accounted for as a component of discontinued operations.

Costs and Expenses

Collaborative research and development expense consists of the labor, material, equipment and allocated facilities cost of the Company s scientific staff who are working pursuant to the Company s collaborative agreements. From time to time, collaborative research and development expense includes costs related to research efforts in excess of those required under certain collaborative agreements. Management has the discretion to set the scope of such excess efforts and may increase or decrease the level of such efforts depending on the Company s strategic priorities.

Proprietary research and development expense consists of intellectual property in-licensing costs, labor, materials, contracted services, and allocated facility costs that are incurred in connection with internally funded drug discovery and development programs.

Research and development costs are expensed as incurred. Research and development expenses from continuing operations were $10.3 million, $22.1 million and $39.9 million in 2011, 2010, and 2009, respectively, of which 99%, 61% and 47%, respectively, were sponsored by Ligand, and the remainder of which was funded pursuant to collaborative research and development arrangements.

Income Taxes

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. These temporary differences will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. A valuation allowance is established when management determines that it is more likely than not that all or a portion of a deferred tax asset will not be realized. Management evaluates the realizability of its net deferred tax assets on a quarterly basis and valuation allowances are provided, as necessary. During this evaluation, management reviews its forecasts of income in conjunction with other positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is required. Adjustments to the valuation allowance will increase or decrease the Company s income tax provision or benefit. Management also applies the relevant guidance to determine the amount of income tax expense or benefit to be allocated among continuing operations, discontinued operations, and items charged or credited directly to stockholders equity (deficit).

A tax position must meet a minimum probability threshold before a financial statement benefit is recognized. The minimum threshold is a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

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Accounting for Stock-Based Compensation

The Company has employee compensation plans under which various types of stock-based instruments are granted. Share-based payments to employees, including grants of employee stock options, are recognized in the Consolidated Statements of Operations as compensation expense (based on their estimated fair values at grant date) generally over the vesting period of the awards using the straight-line method. Compensation expense for consultant awards is recognized over each separate tranche s vesting period.

Comprehensive Income (Loss)

Comprehensive income (loss) represents net income (loss) adjusted for the change during the periods presented in unrealized gains and losses on available-for-sale securities less reclassification adjustments for realized gains or losses included in net income (loss). The accumulated unrealized gains or losses are reported as accumulated other comprehensive income (loss) as a separate component of stockholders equity.

New Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, or ASU 2009-13, which amends existing revenue recognition accounting pronouncements that are currently within the scope of ASC 605. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management s estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. ASU 2009-13 is effective for us prospectively for revenue arrangements entered into or materially modified beginning January 1, 2011. Our adoption of this amendment had no material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU No. 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. ASU No. 2011-04 amends ASC 820, *Fair Value Measurements and Disclosures* to provide guidance on how fair value measurement should be applied where existing U.S. GAAP already requires or permits fair value measurements. This ASU does not extend the use of fair value, but rather provides guidance on application. In addition, ASU No. 2011-04 requires expanded disclosures regarding fair value measurements. Our adoption of this standard had no impact on our consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. This ASU amends Topic 220, *Comprehensive Income*, to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders investment. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 which, for the Company, will be the beginning of fiscal year 2013. Early adoption is permitted. The Company is currently evaluating the impact of this new guidance, but does not expect the adoption of ASU No. 2011-05 to have a material impact on its consolidated financial statements.

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In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and other: testing for goodwill impairment*, which, among other things, amends *Accounting Standards Topic 350 Intangibles Goodwill and Other*, to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Our adoption of this standard had no impact on our consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* in ASU 2011-12. The amendments in ASU 2011-12 defer the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments in this ASU are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. See above for the provisions of ASU 2011-05.

3. Segment Reporting

Under Accounting Standards Codification No. 280, Segment Reporting , or ASC 280, operating segments are defined as components of an enterprise about which separate financial information is available that is regularly evaluated by the entity s chief operating decision maker, in deciding how to allocate resources and in assessing performance. The Company has evaluated this Codification and has identified two reportable segments: the development and commercialization of drugs using CAPTISOL technology by the recently acquired CyDex Pharmaceuticals, Inc. and the biopharmaceutical company with a business model that is based upon the concept of developing or acquiring royalty revenue generating assets and coupling them to a lean corporate cost structure of Ligand Pharmaceuticals, Inc. The Company evaluates performance based on the operating profit (loss) of the respective business segments. The segment results may not represent actual results that would be expected if they were independent, stand-alone businesses. Segment information was as follows for the year ended December 31, 2011:

	Ligand (Restated)	CyDex (Restated)	Total (Restated)
For the Year Ending December 31, 2011:			
Net revenues from external customers	$ 13,790	$ 16,247	$ 30,037
Operating profit (loss)	(5,733)	5,035	(698)
Depreciation and amortization expense	486	2,304	2,790
Income tax expense (benefit)	13,270		13,270
Interest expense	2,508		2,508
Write-off of acquired in process research and development	2,282		2,282
Assets	111,431	9,152	120,583

4. Acquisition of CyDex

On January 24, 2011, the Company acquired CyDex Pharmaceuticals, Inc. (CyDex), a specialty pharmaceutical company developing products and licensing its CAPTISOL technology. CAPTISOL is currently incorporated in five FDA-approved medications and marketed by three of CyDex s licensees: Pfizer, Bristol-Myers Squibb and Baxter (formerly Prism Pharmaceuticals). In addition, CyDex is supporting drug development efforts with more than 40 companies worldwide.

Under the terms of the agreement, the Company paid $31.6 million, net of a working capital adjustment of $0.5 million, to the CyDex shareholders and issued a series of Contingent Value Rights (CVR). In 2011, $0.9 million was paid to the CyDex Shareholders upon completion of a licensing agreement with The Medicines Company for the CAPTISOL enabled Intravenous formulation of Clopidogrel. An additional $2 million was paid

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to the CyDex Shareholders upon acceptance by the FDA of the New Drug Application submitted by Onyx. In January 2012, the Company paid $4.3 million and may be required to pay up to an additional $11.5 million upon achievement of certain clinical and regulatory milestones to the CyDex CVR holders and other former license holders. In addition, the Company will pay CyDex shareholders, for each respective year from 2011 through 2016, 20% of all CyDex-related revenue, but only to the extent that and beginning only when CyDex-related revenue for such year exceeds $15.0 million; plus an additional 10% of all CyDex-related revenue recognized during such year, but only to the extent that and beginning only when aggregate CyDex-related revenue for such year exceeds $35.0 million.

The CyDex CVR Agreement requires the Company to, in the event of a Default, deliver to an escrow agent the future cash payments described above, and such amounts would then be delivered by the escrow agent to the CyDex shareholders if, as and when they would have by the CyDex CVR Agreement been required to be delivered to the CyDex shareholders by the Company. Default includes the following, subject to certain cure rights: (a) the Company fails to pay to the Shareholders Account any amount as and when required under the CyDex CVR Agreement, (b) at any time the Company is obligated for more than $35.0 million of financial indebtedness (other than financial indebtedness which is expressly subordinated to all obligations of Ligand under the CyDex CVR Agreement pursuant to a written subordination agreement signed by and reasonably acceptable to the Shareholders Representative), (c) at any time after March 15, 2011 the Company s cash, cash equivalents and short-term investments is less than $10.0 million, or (d) the Company commits any material breach of the CyDex CVR Agreement. Pursuant to the CVR Agreement, the shareholders representative on behalf of the former CyDex shareholders has recently filed a notice of objection with the Company regarding the calculation of payments due to the CyDex former shareholders for the first and second quarters of 2011. In addition, the shareholders representative has claimed that the Company exceeded the $35 million financial indebtedness limitation contained in the CVR Agreement. The Company disagrees with these claims and intends to work with the shareholders representative to resolve the claims. If the Company and the shareholders representative fail to agree, the claims may be resolved through arbitration.

The Company is required by the CyDex CVR Agreement to dedicate at least five experienced full-time employee equivalents per year to the acquired business and to invest at least $1.5 million per year, inclusive of such employee expenses, in the acquired business, through 2015, of which was achieved.

At the closing of the acquisition, the Company recorded a $17.6 million contingent liability, inclusive of the $4.3 million payment in January 2012, for amounts potentially due to holders of the CyDex CVRs and other former license holders. The initial fair value of the liability was determined using a discounted cash flow analysis incorporating the estimated future cash flows from potential milestones and revenue sharing. These cash flows were then discounted to present value using a discount rate of 21.6%. The liability will be periodically assessed based on events and circumstances related to the underlying milestones, and the change in fair value will be recorded in the Company s consolidated statements of operations. The carrying amount of the liability may fluctuate significantly and actual amounts paid may be materially different than the carrying amount of the liability. The fair value of the liability at December 31, 2011 was $15.5 million.

The components of the purchase price allocation for CyDex are as follows (in thousands):

	(Restated)
Purchase Consideration:	
Cash paid to CyDex shareholders	$ 31,572
Estimated fair value of contingent consideration	13,285
Cash payable to CyDex shareholders	4,300
Total purchase consideration	$ 49,157

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Allocation of Purchase Price:	
Cash	$ 85
Accounts receivable	1,202
Inventory	2,414
In-process research and development	3,200
Intangible assets with definite lives	47,469
Goodwill	11,538
Other assets	1,311
Liabilities assumed	(18,062)
	$ 49,157

The acquired identified intangible assets with definite lives from the acquisition with CyDex are as follows:

Acquired Intangible Assets	
(in thousands)	
Complete technology	$ 15,227
Trademark and trade name	2,642
Customer relationships	29,600
	$ 47,469

The weighted-average amortization period for the identified intangible assets with definite lives is 20 years.

The Company has allocated $3.2 million of the purchase price of CyDex to acquired In-Process Research and Development (IPR&D). This amount represents the estimated fair value of CyDex s two main proprietary products that have not yet reached technological feasibility and do not have future alternative use as of the date of the merger. The valuation was based on a probability-weighted present value of the expected upfront and milestone payments. The probability of success takes into account the stages of completion and the risks surrounding successful development and commercialization of the underlying product candidates. These cash flows were then discounted to present value using a discount rate of 21.5%. Management does not believe that any events have occurred that would impair the IPR&D at December 31, 2011.

The valuation of the complete technology, or CyDex s CAPTISOL technology, was based on a derivative of the discounted cash flow method that estimated the present value of a hypothetical royalty stream derived via the licensing of similar technology. These projected cash flows were then discounted to present value using a discount rate of 20.5%. The valuation of the trademark and trade name was based on the Relief from Royalty method using royalty rates paid in third-party licensing agreements involving similar trade names. These projected cash flows were then discounted to present value using a discount rate of 20.5%. The valuation of the customer relationships was based on a discounted cash flow analysis incorporating the estimated future cash flows from these relationships during their assumed life of 20 years. These cash flows were then discounted to present value using a discount rate of 21.5%.

Had the merger with CyDex been completed as of the beginning of 2011, the Company s pro forma results for the years ended December 31, 2011 and 2010 would have been as follows (unaudited):

(in thousands, except per share data)	**2011 (Restated)**	**2010**
Revenue	$ 30,226	$ 23,727
Operating loss	(1,591)	(32,403)
Net income (loss)	8,687	(15,480)
Basic and diluted earnings per share:		
Income (loss) from continuing operations	$ 0.44	$ (0.91)
Discontinued operations	$ 0.00	$ 0.12
Net income (loss)	$ 0.44	$ (0.79)

Basic and diluted weighted average shares	19,656	19,613

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The primary adjustments relate to interest expense on long-term debt, the loss of interest income due to the timing of transaction related payments and amortization of intangible assets. The above pro forma information was determined based on historical results adjusted for the purchase price allocation and estimated related changes in income associated with the merger of CyDex.

5. Acquisition of Metabasis

On January 27, 2010, the Company completed the acquisition of Metabasis. As a result, the Company gained a fully funded partnership with Roche, additional pipeline assets and drug discovery technologies and resources. The Company paid $1.8 million in cash, or approximately $0.046 per Metabasis share, to Metabasis stockholders. In addition, Metabasis stockholders received four tradable CVRs, one CVR from each of four respective series of CVRs, for each Metabasis share. The CVRs will entitle Metabasis stockholders to cash payments as frequently as every six months as cash is received by the Company from proceeds from Metabasis partnership with Roche or the sale or partnering of any of the Metabasis drug development programs, among other triggering events. The Company has also committed to spend at least $8.0 million in new research and development funding on the Metabasis programs within 42 months following the closing of the transaction.

The components of the purchase price allocation for Metabasis are as follows:

Purchase Consideration:	
(in thousands)	
Cash paid to Metabasis shareholders	$ 1,758
Fair value of contingent value rights	9,142
Total purchase consideration	$ 10,900

Allocation of Purchase Price:	
(in thousands)	
Cash acquired	$ 376
Other current assets	382
Acquired in-process research and development	11,975
Liabilities assumed	(1,833)
	$ 10,900

There were no acquired identified intangible assets with definite lives from the acquisition with Metabasis. The Company expensed approximately $0.3 million of transaction costs related to the acquisition.

The Company has allocated $12.0 million of the purchase price of Metabasis to IPR&D. This amount represents the estimated fair value of various acquired in-process projects that have not yet reached technological feasibility and do not have future alternative use as of the date of the merger. The amount is related to internal and partnered product candidates targeting a variety of indications and currently in the preclinical stage of development. Of the total amount, $2.8 million relates to a fully funded partnership with Roche for hepatitis C, $3.0 million relates to an internal program for glucagon antagonists to treat type 2 diabetes, $2.5 million relates to an internal liver-targeted thyroid receptor B agonist (TR Beta) program, and $3.7 million relates to various early stage programs. The estimated fair values of acquired IPR&D was based on the relative value of the grossed up trading price of each CVR that it is associated with the former Metabasis shareholders retaining 50% of the Glucagon, TR Beta and General CVR s and 66% of the Roche CVR. The total value of $12.0 million was allocated based on the following percentages; Roche CVR 23%, Glucagon CVR 25%, TR Beta CVR 21% and General CVR 31%.

In addition, at the closing of the acquisition, the Company recorded a $9.1 million contingent liability for amounts potentially due to holders of CVRs. The initial fair value of the liability was determined using quoted

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market prices of Metabasis common stock in active markets. The liability will continue to be marked-to-market at each reporting period based upon the quoted market prices of the underlying CVR, and the change in fair value is recorded in the Company s consolidated statements of operations. The carrying amount of the liability may fluctuate significantly based upon quoted market prices and actual amounts paid under the CVR agreements may be materially different than the carrying amount of the liability. The fair value of the liability was $1.1 million and $0 for the period ended December 31, 2011 and 2010, respectively. As a result, the Company recorded an increase in the liability for contingent value rights of $1.1 million for the year ended December 31, 2011 and a decrease in liability for contingent value rights of $9.1 million during the year ended December 31, 2010.

Had the merger with Metabasis been completed as of the beginning of 2009, the Company s pro forma results for 2010 and 2009 would have been as follows (unaudited):

(in thousands, except per share data)	2010	2009
Revenue	$ 23,538	$ 55,424
Operating loss	(30,308)	(15,821)
Net loss	(13,535)	(7,966)
Basic and diluted earnings per share:		
Continuing operations	$ (0.70)	$ (0.76)
Discontinued operations	$ 0.01	$ 0.34
Net income (loss)	$ (0.69)	$ (0.42)
Basic and diluted weighted average shares	19,613	18,863

The primary adjustments relate to the loss of interest income due to the timing of transaction related payments. The above pro forma information was determined based on historical results adjusted for the purchase price allocation and changes in income associated with the merger of Metabasis.

6. Discontinued Operations

Oncology Product Line

On September 7, 2006, the Company, Eisai Inc., a Delaware corporation and Eisai Co., Ltd., a Japanese company (together with Eisai Inc., Eisai), entered into a purchase agreement (the Oncology Purchase Agreement) pursuant to which Eisai agreed to acquire all of the Company s worldwide rights in and to the Company s oncology products, including, among other things, all related inventory, equipment, records and intellectual property, and assume certain liabilities as set forth in the Oncology Purchase Agreement. For the years ended December 31, 2011, 2010 and 2009, the Company recognized pre-tax gains of $3,000, $0.2 million and $1.0 million, respectively, due to subsequent changes in certain estimates of assets and liabilities recorded as of the sale date.

The Company agreed to indemnify Eisai, after the closing, for damages suffered by Eisai arising from any breach of any of the Company s representations, warranties, covenants or obligations in the Oncology Purchase Agreement. The Company s obligation to indemnify Eisai extends beyond the closing up to, in some cases, 18 months or 36 months and, in other cases, until the expiration of the applicable statute of limitations. In a few instances, the Company s obligation to indemnify Eisai survives in perpetuity. The Company s liability for any indemnification claim brought by Eisai is generally limited to $30.0 million. However, the Company s obligation to provide indemnification on certain matters is not subject to these indemnification limits. For example, the Company agreed to retain, and provide indemnification without limitation to Eisai for, all liabilities related to certain claims regarding promotional materials for the ONTAK and Targretin drug products. Management cannot estimate the liabilities that may arise as a result of these matters and, therefore, no accrual has been recorded at December 31, 2011 and 2010.

Upon the Oncology sale, the Company accrued for rebates, chargebacks, and other discounts related to Oncology products in the distribution channel which had not sold-through at the time of the Oncology sale and

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for which the Company retained the liability subsequent to the sale. These products expired at various dates through July 31, 2008. The Company s accruals for Oncology rebates, chargebacks, and other discounts total zero as of December 31, 2011 and 2010, respectively, and are included in accrued liabilities in the accompanying consolidated balance sheets.

Additionally, and pursuant to the terms of the Oncology Purchase Agreement, the Company retained the liability for returns of product from wholesalers that had been sold by the Company prior to the close of the transaction. Accordingly, as part of the accounting for the gain on the sale of the Oncology Product Line, the Company recorded a reserve for Oncology product returns. Oncology products sold by the Company may be returned through a specified period subsequent to the product expiration date, but no later than July 31, 2009. The Company s reserve for Oncology returns is zero as of December 31, 2011 and 2010.

AVINZA Product Line

In February 2007, Ligand and King Pharmaceuticals, Inc. (King), entered into a purchase agreement (the AVINZA Purchase Agreement), pursuant to which King agreed to acquire all of the Company s rights in and to AVINZA in the United States, its territories and Canada, including, among other things, all AVINZA inventory, records and related intellectual property, and assume certain liabilities as set forth in the AVINZA Purchase Agreement (collectively, the Transaction).

Pfizer, as successor to King also assumed Ligand s co-promote termination obligation to make payments to Organon based on net sales of AVINZA ($21.5 million and $30.9 million as of December 31, 2011 and 2010, respectively). As Organon has not consented to the legal assignment of the co-promote termination obligation from Ligand to Pfizer, as successor to King, Ligand remains liable to Organon in the event of default of this obligation. For the years ended December 31, 2011, 2010 and 2009, the Company recognized pre-tax gains of $0, $2.2 million and $5.4 million, respectively, due to subsequent changes in certain estimates of assets and liabilities recorded as of the sale date.

In addition to the assumption of existing royalty obligations, Pfizer, as successor to King is required to pay Ligand a royalty on AVINZA net sales. If calendar year net sales are less than $200 million, the royalty payment will be 5% of all net sales. If calendar year net sales are greater than $200 million, the royalty payment will be 10% of all net sales less than $250 million, plus 15% of net sales greater than $250 million. Royalty revenues were $4.2 million, $5.4 million, and $7.7 million in 2011, 2010 and 2009, respectively.

Upon the AVINZA sale, the Company accrued for rebates, chargebacks, and other discounts related to AVINZA products in the distribution channel which had not sold-through at the time of the AVINZA sale and for which the Company retained the liability subsequent to the sale. These products expired at various dates through June 30, 2009. The Company s accruals for AVINZA rebates, chargebacks, and other discounts total zero as of December 31, 2011 and 2010, respectively, and are included in accrued liabilities in the accompanying consolidated balance sheet.

Additionally, and pursuant to the terms of the AVINZA Purchase Agreement, the Company retained the liability for returns of product from wholesalers that had been sold by the Company prior to the close of the transaction. Accordingly, as part of the accounting for the gain on the sale of AVINZA, the Company recorded a reserve for AVINZA product returns. AVINZA products sold by the Company may be returned through a specified period subsequent to the product expiration date, but no later than December 31, 2009. The Company s reserve for AVINZA returns is zero as of December 31, 2011 and 2010, respectively, and is included in accrued liabilities in the accompanying consolidated balance sheet. Additionally, in February 2011, the Company agreed to terms with a third party wholesaler for previously recorded liabilities associated with AVINZA returns resulting in a reduction of accounts payable and corresponding gain on sale of AVINZA product line before income taxes of $2.1 million as of and for the year ended December 31, 2010.

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7. Investments

As of December 31, 2011 and 2010, all of the Company s investments have a contractual maturity of less than one year. The following table summarizes the various investment categories (in thousands):

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 31, 2011				
Certificates of deposit	$ 10,000	$	$	$ 10,000
Certificates of deposit restricted	1,341			1,341
Total debt securities	$ 11,341	$	$	$ 11,341
December 31, 2010				
U.S. government securities	$ 2,031	$ 9	($3)	$ 2,037
Certificates of deposit	5,062	98		5,160
Corporate obligations	12,164	104	(114)	12,154
	19,257	$ 211	($117)	19,351
Certificates of deposit restricted	1,341			1,341
Total debt securities	$ 20,598	$ 211	$ (117)	$ 20,692

In July 2007, the Company purchased $5.0 million of commercial paper issued by Golden Key Ltd. The investment was highly-rated and within the Company s investment policy at the time of purchase, but during the third quarter of 2007, large credit rating agencies downgraded the quality of this security. In addition, as a result of not meeting certain liquidity covenants, the assets of Golden Key Ltd. were assigned to a trustee who established a committee of the largest senior credit holders to determine the next steps. Subsequently, Golden Key Ltd. defaulted on its obligation to settle the security on the stated maturity date of October 10, 2007. During 2010, the assets of Golden Key Ltd. were sold through an auction process and, as a result, the Company received a final cash distribution of approximately $2.9 million resulting in a gain of $1.4 million, which is included in other income, net.

There were no other material realized gains or losses on sales of available-for-sale securities for the years ended December 31, 2011, 2010, and 2009.

8. Other Balance Sheet Details

Other current assets consist of the following (in thousands):

	December 31, 2011	2010
Prepaid expenses	$ 905	$ 578
Advanced manufacturing payments	312	
Other receivables	127	142
	$ 1,344	$ 720

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Accrued liabilities consist of the following (in thousands):

	December 31,	
	2011	2010
Compensation	$ 1,806	$ 2,201
Legal	355	330
Lease exit	2,026	2,076
Other	4,075	4,252
	$ 8,262	$ 8,859

Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	December 31,	
	2011	2010
Deferred rent	$	$ 601
Deposits	388	388
	$ 388	$ 989

9. AVINZA Co-Promotion

In February 2003, the Company and Organon Pharmaceuticals USA Inc. (Organon) announced that they had entered into an agreement for the co-promotion of AVINZA. Subsequently in January 2006, the Company signed an agreement with Organon that terminated the AVINZA co-promotion agreement between the two companies and returned AVINZA co-promotion rights to the Company. In consideration of the early termination, the Company agreed to make quarterly royalty payments to Organon equal to 6.5% of AVINZA net sales through December 31, 2012 and thereafter 6.0% through patent expiration, currently anticipated to be November of 2017.

In February 2007, the Company and King executed an agreement pursuant to which King acquired all of the Company s rights in and to AVINZA. King also assumed the Company s co-promote termination obligation to make royalty payments to Organon based on net sales of AVINZA. For the fourth quarter of 2006 and through the closing of the AVINZA sale transaction, amounts owed by the Company to Organon on net reported sales of AVINZA did not result in current period expense, but instead were charged against the co-promote termination liability. The liability was adjusted at each reporting period to fair value and was recognized, utilizing the interest method, as additional co-promote termination charges for that period at a rate of 15%, the discount rate used to initially value this component of the termination liability.

In connection with King s assumption of this obligation, Organon did not consent to the legal assignment of the co-promote termination obligation to King. Accordingly, the Company remains liable to Organon in the event of King s default of the obligation. Therefore, the Company recorded an asset as of February 26, 2007 to recognize King s assumption of the obligation, while continuing to carry the co-promote termination liability in the Company s consolidated financial statements to recognize its legal obligation as primary obligor to Organon. This asset represents a non-interest bearing receivable for future payments to be made by King and is recorded at its fair value. The receivable and liability will remain equal and adjusted each quarter for changes in the fair value of the obligation including for any changes in the estimate of future net AVINZA product sales. This receivable will be assessed on a quarterly basis for impairment (e.g. in the event King defaults on the assumed obligation to pay Organon).

On an annual basis, management reviews the carrying value of the co-promote termination liability. Due to assumptions and judgments inherent in determining the estimates of future net AVINZA sales through November 2017, the actual amount of net AVINZA sales used to determine the current fair value of the Company s co-promote termination asset and liability may be materially different from current estimates.

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A summary of the co-promote termination liability as of December 31, 2011 and 2010 is as follows (in thousands):

Net present value of payments based on estimated future net AVINZA product sales as of December 31, 2010	$ 40,775
Assumed payments made by King or assignee	(5,386)
Fair value adjustments due to passage of time	(4,504)
Total co-promote termination liability as of December 31, 2010	30,885
Assumed payments made by King or assignee	(4,155)
Fair value adjustments due to passage of time	(5,278)
Total co-promote termination liability as of December 31, 2011	21,452
Less: current portion of co-promote termination liability as of December 31, 2011	6,197
Long-term portion of co-promote termination liability as of December 31, 2011	$ 15,255

10. Commitments and Contingencies

Property Leases

In August 2009, the Company entered into a lease termination agreement for its 82,500 square foot office and laboratory facility in San Diego, California, which had a lease term through November 2021. Under the terms of the termination agreement, the Company paid a termination fee of $14.3 million as follows: $4.5 million was paid upon signing, $4.5 million was paid in July 2010 and $5.3 million was paid in April 2011. In addition, the Company entered into a lease for a period of 27 months commencing October 2009, for premises consisting of approximately 30,000 square feet of office and lab space located in San Diego to serve as its corporate headquarters. Under the terms of the lease, the Company pays a basic annual rent of $1.2 million (subject to an annual fixed percentage increase, as set forth in the agreement), plus other normal and necessary expenses associated with the lease. In October 2011, the Company entered into an extension of the lease through June 30, 2012, for a portion of the premises. Under the terms of the extension, beginning on January 1, 2012, the Company will pay monthly rent of $26,448, plus other normal and necessary expenses associated with the lease.

On September 5, 2011, the Company entered into a new lease for a period of 84 months commencing July 1, 2012, for premises consisting of approximately 16,500 square feet of office and laboratory space located in San Diego to serve as its new corporate headquarters. Pursuant to the terms of the lease, annual base rent will be approximately $0.5 million, subject to a 3% annual increase.

The Company leases approximately 1,500 square feet of laboratory space located at the Bioscience and Technology Business Center in Lawrence, Kansas leased through December 31, 2014. Pursuant to the terms of the lease, annual base rent will be approximately $0.1 million.

The Company also leases an office and research facility in San Diego, California under an operating lease arrangement through July 2015. The Company fully vacated this facility in February 2008. The lease agreement provides for increases in annual rents based on changes in the Consumer Price Index or fixed percentage increases ranging from 3% to 7%. Commencing January 2008, the Company sublet this facility through July 2015. The sublease agreement provides for a 3% increase in annual rents. As of December 31, 2011 and 2010, the lease exit obligation related to this lease was $2.8 million and $3.6 million, respectively.

The Company leases approximately 99,000 square feet in three facilities in Cranbury, New Jersey under leases that expire in 2016. The leases for the New Jersey facilities provide generally for scheduled rent increases, options to extend the leases with certain changes to the terms of the lease agreement, and refurbishment allowances. Commencing September 2009, the Company sublet 5,100 square feet of space through August 2014. As of December 31, 2011, the Company expects to receive $0.2 million in aggregate future lease payments over the duration of the sublease agreement.

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In September 2010, the Company ceased use of its facility located in New Jersey. As a result, during the quarter ended September 30, 2010, the Company recorded lease exit costs of $9.7 million for costs related to the difference between the remaining lease obligations of the abandoned operating leases, which run through August 2016, and management s estimate of potential future sublease income, discounted to present value. In addition, the Company wrote-off property and equipment with a net book value of approximately $5.4 million related to the facility closure.

As of December 31, 2011, annual minimum payments due under the Company s office lease obligations and annual minimum rentals expected to be received by the Company under subleases are as follows (in thousands):

Year ending December 31,	Operating leases	Sublease Income	Net Payments
2012	$ 5,603	$ 971	$ 4,632
2013	5,507	1,173	4,334
2014	5,588	1,170	4,418
2015	4,640	655	3,985
2016	2,421	117	2,304
Thereafter	1,276		1,276
	$ 25,035	$ 4,086	$ 20,949

Total rent expense under all office leases for 2011, 2010 and 2009 was $1.2 million, $2.8 million and $5.1 million, respectively. The Company recognizes rent expense on a straight-line basis. Deferred rent at December 31, 2011 and 2010 was $0 and $0.6 million, respectively, and is included in other long-term liabilities.

Product Liability

The Company s business exposes it to potential product liability risks. The Company s products also may need to be recalled to address regulatory issues. A successful product liability claim or series of claims brought against the Company could result in payment of significant amounts of money and divert management s attention from running the business. Some of the compounds the Company is investigating may be harmful to humans. For example, retinoids as a class are known to contain compounds which can cause birth defects. The Company may not be able to maintain insurance on acceptable terms, or the insurance may not provide adequate protection in the case of a product liability claim. To the extent that product liability insurance, if available, does not cover potential claims, the Company would be required to self-insure the risks associated with such claims. No claims existed at December 31, 2011 and 2010. No reserve for any potential losses under product liability claims has been recorded at December 31, 2011 and 2010.

Litigation

In February 2009, the Company reached a settlement with The Rockefeller University whereby the parties resolved all disputes that have arisen between them. As part of the settlement, the Company agreed to pay Rockefeller, $5.0 million immediately upon settlement, $1.0 million on or before February 10, 2010, $1.0 million on or before February 10, 2011, and 50% of any milestone payment received by the Company and 5.88% to 7.0% of certain royalties received by the Company, in each case pursuant to an agreement with SmithKline Beecham Corporation (now known as GlaxoSmithKline) entered into on December 29, 1994. The Company also agreed to pay Rockefeller 1.5% of world-wide net sales of LGD-4665 as certain payments are received by the Company pursuant to its agreement with SmithKline Beecham Corporation entered into on December 17, 2008. As of December 31, 2011 and 2010, the Company has recorded a liability of $0 and $1.0 million, respectively, related to the settlement, which is included in current portion of accrued litigation settlement costs in the accompanying balance sheets.

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In addition, from time to time the Company is subject to various lawsuits and claims with respect to matters arising out of the normal course of its business. If, based on the Company s assessment, it is probable that a liability has been incurred and can be reasonably estimated, then such loss is accrued and charged to operations. Management believes all costs that can be reasonably estimated will not exceed the related existing accruals.

11. Common Stock Subject to Conditional Redemption Pfizer Settlement Agreement

In April 1996, the Company and Pfizer entered into a settlement agreement with respect to a lawsuit filed in December 1994 by the Company against Pfizer. In connection with a collaborative research agreement the Company entered into with Pfizer in 1991, Pfizer purchased shares of the Company s common stock. Under the terms of the settlement agreement, at the option of either the Company or Pfizer, milestone and royalty payments owed to the Company can be satisfied by Pfizer by transferring to the Company shares of the Company s common stock at the exchange ratio of $74.25 per share. The remaining common stock issued and outstanding to Pfizer following the settlement was reclassified as common stock subject to conditional redemption (between liabilities and equity) since Pfizer has the option to settle milestone and royalties payments owed to the Company with the Company s shares, and such option is not within the Company s control. In March 2009, the Company earned a milestone from Pfizer, Inc. (Pfizer). In April 2009, pursuant to the Company s 1991 research agreement and 1996 settlement agreement with Pfizer, Pfizer elected to pay the milestone by returning 53,889 shares of stock it owns in the Company, which at the date the milestone was earned had a market value of $0.9 million. Ligand retired the tendered shares in May 2009. The difference between the fair value of the shares tendered and the carrying value of such shares based on the contractual exchange ratio, approximately $3.1 million, was credited to additional paid-in capital. The Company is entitled to royalties on future sales from Pfizer, which pursuant to the 1996 settlement agreement, Pfizer may elect to pay by returning shares of stock it owns in Ligand. At December 31, 2011 and 2010, the remaining shares of the Company s common stock that could be redeemed totaled approximately 112,371 and are reflected at the exchange ratio price of $74.25.

12. Stockholders Equity

Stock Plans

On May 29, 2009, the Company s stockholders approved the amendment and restatement of the Company s 2002 Stock Incentive Plan (the Amended 2002 Plan). The Company s 2002 Stock Incentive Plan was amended to (i) increase the number of shares available for issuance under the Amended 2002 Plan by 1,266,666 shares, (ii) revise the list of performance criteria that may be used by the compensation committee for purposes of granting awards under the Amended 2002 Plan that are intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code, as amended, and (iii) eliminate the automatic option grant program for non-employee directors, the director fee stock issuance program and the director fee option grant program, which programs have been superseded by the Company s amended and restated Director Compensation Policy. As of December 31, 2011, there were 0.7 million shares available for future option grants or direct issuance under the Amended 2002 Plan.

The Company grants options and awards to employees, non-employee consultants, and non-employee directors. Only new shares of common stock are issued upon the exercise of stock options. Non-employee directors are accounted for as employees. Options and restricted stock granted to certain directors vest in equal monthly installments over one year from the date of grant. Options granted to employees vest 1/8 on the six month anniversary of the date of grant, and 1/48 each month thereafter for forty-two months. All option awards generally expire ten years from the date of grant.

Stock-based compensation cost for awards to employees and non-employee directors is recognized on a straight-line basis over the vesting period until the last tranche vests. Compensation cost for consultant awards is recognized over each separate tranche s vesting period. The Company recognized compensation expense of $3.4 million, $2.3 million and $3.4 million for 2011, 2010 and 2000, respectively, associated with option awards,

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restricted stock and an equitable adjustment of employee stock options. The compensation expense related to share-based compensation arrangements is recorded as components of research and development expenses ($1.0 million, $1.2 million and $2.0 million) and general and administrative expenses ($2.4 million, $1.1 million and $1.4 million) for the years ended December 31, 2011, 2010 and 2009, respectively. There was no deferred tax benefit recognized in connection with these costs.

The fair-value for options that were awarded to employees and directors was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Year Ended December 31,		
	2011	2010	2009
Risk-free interest rate	2.5%	2.7%	2.1%
Dividend yield			
Expected volatility	69%	72%	74%
Expected term	6 years	6 years	6 years

The expected term of the employee and non-employee director options is the estimated weighted-average period until exercise or cancellation of vested options (forfeited unvested options are not considered) based on historical experience. The expected term for consultant awards is the remaining period to contractual expiration.

Volatility is a measure of the expected amount of variability in the stock price over the expected life of an option expressed as a standard deviation. In selecting this assumption, the Company used the historical volatility of the Company s stock price over a period equal to the expected term.

Following is a summary of the Company s stock option plan activity and related information:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (In thousands)
Balance at December 31, 2008	505,013	39.3	6.63	81
Granted	275,308	15.84		
Exercised	(3,541)	12.18		
Forfeited	(52,581)	24		
Cancelled	(55,752)	50.46		
Balance at December 31, 2009	668,447	30.1	6.88	31
Granted	248,202	9.87		
Forfeited	(130,183)	14.31		
Cancelled	(145,205)	48.26		
Balance at December 31, 2010	641,261	21.36	7	9
Granted	636,580	9.98		
Exercised	(6,072)	9.51		
Forfeited	(50,782)	11.95		
Cancelled	(74,941)	34.55		
Balance at December 31, 2011	1,146,046	25.77	7.96	1,489
Exercisable at December 31, 2011	487,012	20.23	6.78	339

Options vested and expected to vest as of December 31, 2011	1,086,693	14.62	7.97	1,489

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The weighted-average grant-date fair value of all stock options granted during 2011 was $6.34 per share. The total intrinsic value of all options exercised during 2011, 2010 and 2009 was approximately $10,000, $0 and $2,000, respectively. As of December 31, 2011, there was $3.4 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted average period of 1.97 years.

Cash received from options exercised in 2011, 2010 and 2009 was $58,000, $0 and $43,000, respectively. There is no current tax benefit related to options exercised because of Net Operating Losses (NOLs) for which a full valuation allowance has been established.

Following is a further breakdown of the options outstanding as of December 31, 2011:

Range of exercise prices	Options outstanding	Weighted average remaining life in years	Weighted average exercise price	Options exercisable	Weighted average exercise price
$0.01 $ 9.97	357,469	8.66	$ 9.79	104,943	$ 9.66
9.98 10.05	330,729	8.98	10.05	56,147	10.05
10.06 16.14	245,114	7.75	13.95	117,667	