LIGAND PHARMACEUTICALS INC
Form 10-Q
May 04, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

x **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2012

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Transition Period From _____ to _____ .

Commission File Number: 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)	**(I.R.S. Employer Identification No.)**
11085 North Torrey Pines Road	
La Jolla, CA	**92037**
(Address of principal executive offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (858) 550-7500

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 ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions 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 Non-Accelerated Filer ¨ Smaller Reporting Company ¨

(Do not check if a smaller reporting company)

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

As of April 30, 2012, the registrant had 19,734,419 shares of common stock outstanding.

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LIGAND PHARMACEUTICALS INCORPORATED

QUARTERLY REPORT

FORM 10-Q

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* No information provided due to inapplicability of item.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIGAND PHARMACEUTICALS INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,777	$ 7,041
Short-term investments	1,517	10,000
Accounts receivable	1,992	6,110
Inventory	1,345	1,301
Deferred income taxes	237	237
Other current assets	2,778	1,344
Current portion of co-promote termination payments receivable	5,898	6,197
Total current assets	23,544	32,230
Restricted cash and investments	1,341	1,341
Property and equipment, net	375	455
Intangible assets, net	56,855	57,437
Goodwill	14,894	14,894
Long-term portion of co-promote termination payments receivable	14,226	15,255
Other assets	563	738
Total assets	$ 111,798	$ 122,350
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 7,893	$ 11,065
Accrued liabilities	4,143	5,054
Current portion of liability for contingent value rights	2,449	6,879
Bank line of credit	1,500	10,000
Current portion of note payable	1,436	
Current portion of co-promote termination liability	5,898	6,197
Current portion of lease exit obligations	3,160	3,208
Current portion of deferred revenue	727	1,240
Total current liabilities	27,206	43,643
Long-term portion of note payable	26,435	20,286
Long-term portion of co-promote termination liability	14,226	15,255
Long-term portion of deferred revenue, net	3,370	3,466
Long-term portion of lease exit obligations	7,716	8,367
Deferred income taxes	2,664	2,522
Long-term portion of liability for contingent value rights	10,550	11,433
Other long-term liabilities	388	388

Total liabilities	92,555	105,360
Commitments and contingencies		
Common stock subject to conditional redemption; 0 and 112,371 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively		8,344
Stockholders equity (deficit):		
Common stock, $0.001 par value; 33,333,333 shares authorized; 20,852,523 and 20,682,506 shares issued at March 31, 2012 and December 31, 2011, respectively	21	21
Additional paid-in capital	741,889	732,676
Accumulated other comprehensive income		
Accumulated deficit	(680,387)	(681,771)
Treasury stock, at cost; 1,118,222 shares at March 31, 2012 and December 31, 2011	(42,280)	(42,280)
Total stockholders equity (deficit)	19,243	8,646
Total liabilities and stockholders equity (deficit)	$ 111,798	$ 122,350

See accompanying notes.

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LIGAND PHARMACEUTICALS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except share data)

	Three Months Ended March 31,	
	2012	2011
Revenues:		
Royalties	$ 3,060	$ 1,993
Material sales	667	1,019
Collaborative research and development and other revenues	1,909	884
Total revenues	5,636	3,896
Operating costs and expenses:		
Cost of sales	155	525
Research and development	2,817	1,986
General and administrative	3,503	3,445
Lease exit and termination costs	(74)	(151)
Total operating costs and expenses	6,401	5,805
Accretion of deferred gain on sale leaseback		426
Loss from operations	(765)	(1,483)
Other income (expense):		
Interest income	17	37
Interest expense	(792)	(423)
Decrease (increase) in liability for contingent value rights	764	(1,736)
Other, net	254	48
Total other income (expense), net	243	(2,074)
Loss before income taxes	(522)	(3,557)
Income tax benefit (expense)	35	13,585
Income (loss) from continuing operations	(487)	10,028
Discontinued operations:		
Gain on sale of AVINZA Product Line before income taxes	2,048	
Gain on sale of Oncology Product Line before income taxes		4
Income tax benefit (expense) on discontinued operations	(177)	
Discontinued operations	1,871	4
Net income:	$ 1,384	$ 10,032

Basic and diluted per share amounts:		
Income (Loss) from continuing operations	($ 0.03)	$ 0.51
Discontinued operations	0.10	0
Net income	$ 0.07	$ 0.51
Weighted average number of common shares-basic and diluted	19,709,078	19,623,249

See accompanying notes.

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LIGAND PHARMACEUTICALS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

	Three Months Ended March 31,	
	2012	**2011**
Net income	$ 1,384	$ 10,032
Unrealized net (loss) on available-for-sale securities		(26)
Comprehensive income	$ 1,384	$ 10,006

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LIGAND PHARMACEUTICALS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Three Months Ended March 31,	
	2012	2011
Operating activities		
Net income (loss)	$ 1,384	$ 10,032
Less: gain from discontinued operations	1,871	4
Income (loss) from continuing operations	(487)	10,028
Adjustments to reconcile net income (loss) to net cash used in operating activities, including effects of business acquired:		
Non-cash change in estimated fair value of contingent value rights	(764)	1,736
Accretion of deferred gain on sale leaseback		(426)
Depreciation and amortization	678	564
Non-cash lease costs		(90)
Loss (gain) on asset write-offs	(10)	
Realized loss (gain) on investment	(17)	(23)
Stock-based compensation	709	452
Deferred income taxes	(35)	(13,908)
Other	85	29
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	4,118	1,024
Inventory	(44)	(1,797)
Other current assets	(462)	4,605
Other long term assets	175	460
Accounts payable and accrued liabilities	(3,506)	(970)
Other liabilities		(800)
Deferred revenue	(609)	27
Net cash provided by (used in) operating activities of continuing operations	(169)	911
Net cash (used in) operating activities of discontinued operations	(200)	
Net cash provided by (used in) operating activities	(369)	911
Investing activities		
Acquisition of CyDex, net of cash acquired		(32,024)
Payments to CVR holders	(4,549)	
Purchases of property, equipment and building	(19)	(5)
Proceeds from sale of property, and equipment and building	13	
Purchases of short-term investments		(5,000)
Proceeds from sale of short-term investments	8,500	13,888
Other, net		(28)
Net cash provide by (used in) investing activities of continuing operations	3,945	(23,169)
Net cash provided by investing activities of discontinued operations		
Net cash provided by (used in) investing activities	3,945	(23,169)

Financing activities		
Proceeds from issuance of debt	7,500	25,000
Repayment of debt	(8,500)	
Proceeds from issuance of common stock, net	160	
Share repurchases		(55)
Net cash provided by (used in) financing activities of continuing operations	(840)	24,945
Net cash provided by (used in) financing activities	(840)	24,945
Net increase in cash and cash equivalents	2,736	2,687
Cash and cash equivalents at beginning of period	7,041	3,346
Cash and cash equivalents at end of period	$ 9,777	$ 6,033
Supplemental Disclosure of cash flow information		
Interest paid	$ 631	$ 321
Taxes paid	17	27

See accompanying notes.

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LIGAND PHARMACEUTICALS INCORPORATED

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Ligand Pharmaceuticals Incorporated, a Delaware corporation (the Company or Ligand), is a biotechnology company that focuses on drug discovery and early-stage development of pharmaceuticals that address critical unmet medical needs or that are more effective and/or safer than existing therapies, more convenient to administer and are cost effective. The Company s principal 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 March 31, 2012, the Company s accumulated deficit was $680.4 million and the Company had negative working capital of $3.7 million. Based on management s plans, including expense reductions, if necessary, the Company 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 previously acquired, including Pharmacopeia, Inc. (Pharmacopeia), Neurogen Corporation (Neurogen), Metabasis Therapeutics, Inc. (Metabasis) and CyDex Pharmaceuticals, Inc. (CyDex). Management s plans and efforts may not fully address any significant adverse impact from any or all of these factors and the Company may be required to obtain additional financing, which may not be available at acceptable terms, or at all.

Principles of Consolidation

The condensed 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.

Basis of Presentation

Our accompanying unaudited consolidated condensed financial statements as of March 31, 2012 and for the three months ended March 31, 2012 and 2011 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. Our consolidated condensed balance sheet at December 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations of Ligand Pharmaceuticals Incorporated, and our subsidiaries have been included. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These financial statements should be read in conjunction with the consolidated financial statements and notes therein included in our annual report on Form 10-K for the year ended December 31, 2011.

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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 liabilities, at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company s critical accounting policies are those that are both most important to the Company s 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 three months ended March 31, 2012 and 2011, 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 would be excluded from the computation of diluted loss per share, were 2.3 million and 1.3 million at March 31, 2012 and 2011, 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):

	Three Months Ended March 31,	
	2012	2011
Net income (loss) from continuing operations	$ (487)	$ 10,028
Net income from discontinued operations	1,871	4
Net income	1,384	10,032
Shares used to compute basic and diluted income per share	19,709,078	19,623,249
Basic and diluted per share amounts:		
Income (loss) from continuing operations	$ (0.03)	$ 0.51
Income from discontinued operations	0.10	
Net income	$ 0.07	$ 0.51

Revenue Recognition

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

Material sales revenue 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.

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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. If the Company is unable to determine the stand alone value under multiple-element arrangements, revenue is recognized over the period of services or performance. 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 are 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.

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. The Company recorded an income tax benefit of $ 35,000 and $13.6 million for the three months ended March 31, 2012 and 2011, respectively. The income tax benefit for the three months ended March 31, 2012 relates to losses from continuing operations which may be used to offset income from discontinued operations. Additionally, the Company recorded income tax expense from discontinued operations of $0.2 million. The income tax benefit for the three months ended March 31, 2011 relates to the Company s acquisition of CyDex in January 2011. For financial statement purposes, the Company recorded the acquired Cydex intangible assets of approximately $64.8 million. For tax purposes, the Company is required to carry over the historic tax basis of the assets and liabilities of Cydex. In accordance with ASC Topic 805, the Company established net deferred tax assets and liabilities of approximately $15 million. As a result of the ability to recognize deferred tax assets for these deferred tax liabilities, the Company released valuation allowances against its deferred tax assets resulting in an income tax benefit of $13.6 million for the three months ended March 31, 2011.

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

Stock-based compensation expense 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 $0.7 million and $0.5 million for the three months ended March 31, 2012 and 2011, respectively. The compensation expense related to share-based compensation arrangements is recorded as components of research and development expenses ($0.2 million and $0.1 million) and general and administrative expenses ($0.5 million and $0.4 million) for the three months ended March 31, 2012 and 2011, respectively.

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:

	Three Months Ended March 31,	
	2012	2011
Risk-free interest rate	1.1%	2.6%
Dividend yield		
Expected volatility	68%	70%
Expected term	6.0 years	6.0 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, management used the historical volatility of the Company s stock price over a period approximating the expected term.

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 securities with a maturity of more than three months are considered short term investments. Restricted cash and investments consist of certificates of deposit held with financial institutions as collateral under a facility lease and third-party service provider arrangement. The following table summarizes the various investment categories at March 31, 2012 and December 31, 2011 (in thousands):

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
March 31, 2012				
Certificates of deposit	$ 1,500	$	$	$ 1,500
Certificates of deposit restricted	1,341			1,341
	$ 2,841	$	$	$ 2,841
December 31, 2011				
Certificates of deposit	10,000			10,000
Certificates of deposit restricted	1,341			1,341
	$ 11,341	$	$	$ 11,341

Concentrations of Credit Risk

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

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. Except as described above, the Company has not experienced any significant losses on its cash equivalents, short-term investments or restricted investments.

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As of March 31, 2012 and December 31, 2011, cash deposits held at financial institutions in excess of FDIC insured amounts of $250,000 were approximately $10.5 million and $13.1 million, respectively.

Accounts receivable from one customer was 58% and 67% of total accounts receivable at March 31, 2012 and December 31, 2011.

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.

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 collectibility. 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 included in the balance sheets at March 31, 2012 and December 31, 2011.

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.

Other Current Assets

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

	March 31, 2012	December 31, 2011
Prepaid expenses	$ 769	$ 905
Advanced manufacturing payments	291	312
Other receivables	1,718	127
	$ 2,778	$ 1,344

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Property and Equipment

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

	March 31, 2012	December 31, 2011
Lab and office equipment	$ 4,119	$ 4,110
Leasehold improvements	57	62
Computer equipment and software	1,058	1,054
	5,234	5,226
Less accumulated depreciation and amortization	(4,859)	(4,771)
	$ 375	$ 455

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.

Goodwill and Other Identifiable Intangible Assets

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

	March 31, 2012	December 31, 2011
Acquired in-process research and development	$ 13,036	$ 13,036
Complete technology	14,643	14,643
Trade name	2,537	2,537
Customer relationships	29,400	29,400
Goodwill	14,894	14,894
	74,510	74,510
Accumulated amortization	(2,761)	(2,179)
	$ 71,749	$ 72,331

On January 24, 2011, the Company completed its acquisition of CyDex Pharmaceuticals, Inc. As a result of the transaction, the Company recorded $46.6 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 $15.0 million of goodwill.

Intangible assets related to 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. Amortization expense of $0.6 million and $0.4 million was recognized for the three months ended March 31, 2012 and 2011, respectively. Estimated amortization expense for the years ending December 31, 2012 through 2016 is $2.3 million per year.

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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. As of March 31, 2012, management does not believe there have been any events or circumstances indicating that the carrying amount of its long-lived assets may not be recoverable.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2012	December 31, 2011
Compensation	$ 604	$ 1,806
Legal	439	355
Other	3,100	2,893
	$ 4,143	$ 5,054

Other Long-Term Liabilities

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

	March 31, 2012	December 31, 2011
Deposits	388	388
	$ 388	$ 388

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 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 March 31, 2012 and December 31, 2011, the Company had deferred $1.2 million of revenue related to the sale of royalty rights, which is included in long-term portion of deferred revenue.

Recently Adopted Accounting Pronouncements

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 ASU was effective for fiscal years beginning

after December 15, 2011 for the Company. In 2012, the Company has adopted to present comprehensive income in a separate statement.

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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.

2. Acquisition of CyDex

On January 24, 2011, the Company acquired CyDex Pharmaceuticals, Inc., 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 International. In addition, CyDex is supporting drug development efforts with more than 40 companies worldwide.

Under the terms of the agreement, the Company paid $32.0 million to the CyDex shareholders and issued a series of Contingent Value Rights. The Company paid $4.3 million in January 2012 and may be required to pay up to an additional $9.5 million upon achievement of certain milestones. 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 Company paid $0.3 million to the CyDex shareholders in March 2012 for 20% of all 2011 CyDex-related revenue in excess of $15 million.

The CyDex Contingent Value Rights Agreement (CVR) 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.

Ligand 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. As of March 31, 2012, the Company estimates it has spent approximately $1.2 million for its commitment for the year ending December 31, 2012.

At the closing of the acquisition, the Company recorded a $19.2 million contingent liability for amounts potentially due to holders of the CyDex CVRs. 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 under the CVR agreements may be materially different than the carrying amount of the liability. The fair value of the liability at March 31, 2012 was $12.3 million.

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

Purchase Consideration:	
Cash paid to CyDex shareholders	$ 31,572
Estimated fair value of contingent consideration	14,905
Cash payable to CyDex shareholders	4,300
Total purchase consideration	$ 50,777
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	46,580
Goodwill	14,194
Other assets	1,311
Liabilities assumed	(18,209)
	$ 50,777

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

Acquired Intangible Assets (in thousands)	
Complete technology	$ 14,643
Trademark and trade name	2,537
Customer relationships	29,400
	$ 46,580

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 based on a recently signed letter of intent and term sheet. 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%.

The Company has allocated $46.6 million to identified intangible assets with definite lives as follows: complete technology $14.6 million, trademark and trade name $2.5 million and customer relationships $29.4 million. 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%.

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Had the merger with CyDex been completed as of the beginning of 2011, the Company s pro forma results for the three months ended March 31, 2011 would have been as follows:

(in thousands, except per share data)	2011
Revenue	$ 4,085
(Loss) from operations	(756)
Net income	10,430
Basic and diluted earnings per share:	
Continuing operations	$ 0.53
Discontinued operations	$ 0.00
Net income	$ 0.53
Basic and diluted weighted average shares	19,623

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.

3. Financial Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale fixed income and equity securities and other equity securities. The following table provides a summary of the assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2012 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total	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	$ 1,517	$ 1,517	$	$
Liabilities:				
Current portion of liability for contingent value rights - CyDex	$ 2,449	$	$	$ 2,449
Liability for contingent value rights - Metabasis				
Liability for contingent value rights Neurogen	700			700
Liability for contingent value rights - CyDex	9,850			9,850
Total liabilities	$ 12,999	$	$	$ 12,999

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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, 2011 (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	$ 10,000	$ 10,000	$	$
Liabilities:				
Current portion of liability for contingent value rights - 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 value rights - CyDex	9,665			9,665
Total liabilities	$ 18,312	$ 1,068	$	$ 17,244

The Company s short-term investments are fixed income available-for-sale securities and include Corporate Notes, Corporate Discount Commercial Paper and certificates of deposit. The fair value of the Company s short-term investments and liability for contingent value rights-Metabasis are determined using quoted market prices in active markets.

4. AVINZA Co-Promotion

In February 2003, Ligand and Organon Pharmaceuticals USA Inc. (Organon) announced that they had entered into an agreement for the co-promotion of AVINZA. Subsequently in January 2006, Ligand signed an agreement with Organon that terminated the AVINZA co-promotion agreement between the two companies and returned AVINZA co-promotion rights to Ligand. In consideration of the early termination, Ligand 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, Ligand and King Pharmaceuticals, Inc., or 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 Ligand 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, Ligand remains liable to Organon in the event of King s default of the obligation. Therefore, Ligand 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 Ligand s 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).

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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.

A summary of the co-promote termination liability as of March 31, 2012 is as follows (in thousands):

Net present value of payments based on estimated future net AVINZA product sales as of December 31, 2011	$ 21,452
Assumed payments made by King or assignee	(878)
Fair value adjustments due to passage of time	(450)
Total co-promote termination liability as of March 31, 2011	20,124
Less: current portion of co-promote termination liability as of December 31, 2011	5,898
Long-term portion of co-promote termination liability as of December 31, 2011	$ 14,226

5. Property Leases

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 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 March 31, 2012 and December 31, 2011, the lease exit obligation related to this lease was $3.8 million and $3.9 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 March 31, 2012, the Company expects to receive $0.2 million in aggregate future lease payments over the duration of the sublease agreement.

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. As of March 31, 2012 and December 31, 2011, the lease exit obligation related to this lease was $7.1 million and $7.6 million, respectively.

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6. 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 traditional biotech operations including drug discovery and development of Ligand Pharmaceuticals, Inc. We evaluate 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:

	Ligand	CyDex	Total
For the three months Ended March 31, 2012:			
Net revenues from external customers	$ 4,101	$ 1,535	$ 5,636
Operating profit (loss)	(314)	(451)	(765)
Depreciation and amortization expense	72	606	678
Income tax expense (benefit) from continuing operations	(35)		(35)
Income tax expense from discontinuing operations	177		177
Interest expense	792		792
Assets	79,112	32,686	111,798

7. Debt

In January 2011, in connection with the acquisition of CyDex, the Company entered into a $20 million Loan and Security Agreement (the Oxford Loan) with Oxford Finance Corporation (Oxford). Under the terms of the Oxford Loan agreement, the Company 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. 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.

Upon final repayment of the Oxford Loan on the maturity date, by prepayment, or upon acceleration of the Oxford Loan, the Company also must make an additional final payment of $1.2 million, which is being accreted over the term of the loan. To secure the Company s repayment obligations under the Oxford Loan, Oxford obtained a first priority security interest in all of the Company s assets, excluding intellectual property.

On January 23, 2012, the Company and Oxford Finance LLC amended the Loan and Security Agreement (the Amended Loan and Security Agreement). The Amended Loan and Security Agreement increased the secured term loan credit facility from $20 million up to $30 million; the Company immediately borrowed $7.5 million of the additionally-authorized $10 million against two Secured Promissory Notes. The Company did not 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 the Company, which interest, along with amortized principal, is payable on a monthly basis. The Company must also make an additional final payment at maturity equal to 6% of the total amount borrowed under the Amended Loan and Security Agreement. Amortization of the entire $27.5 million due to Oxford commences on March 1, 2013 and the maturity date of the term loans is August 1, 2014. The other material terms of the Loan and Security Agreement remain unchanged.

The Company also has a cash-collateralized revolving line of credit facility with its commercial bank, Square 1 Bank, or Square 1, to borrow up to $10 million. All outstanding amounts under the credit facility bear interest at a floating rate equal to 200 basis points above the prime rate and may become immediately due and payable if the

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Company fails to maintain a cash balance at Square 1 equal to the amount outstanding under the credit facility. Interest is payable on a monthly basis. The maturity date of the revolving line of credit facility is March 29, 2013. As of March 31, 2012 and December 31, 2011, the Company had an outstanding balance due under the credit facility of $1.5 million and $10.0 million, respectively.

8. Stockholders Equity

Stock Option Activity

The 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, 2011	1,146,046	$ 25.77	7.96	$ 1,489
Granted	595,500	14.44		
Exercised	(14,958)	10.27		
Forfeited	(55,344)	10.05		
Cancelled	(8,726)	46.78		
Balance at March 31, 2012	1,662,518	14.56		
Exercisable at March 31, 2012	566,578	18.38	7.01	1,473
Options vested and expected to vest as of March 31, 2012	1,662,518	14.56	8.54	5,160

The weighted-average grant date fair value of all stock options granted during the three months ended March 31, 2012 was $14.44 per share. The total intrinsic value of all options exercised during the three months ended March 31, 2012 and 2011 was approximately $0.1 million and $1,000, respectively. As of March 31, 2012, there was $6.6 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 3 years.

As of March 31, 2012, 0.1 million shares were available for future option grants or direct issuance under the Company s 2002 Stock Incentive Plan, as amended.

Restricted Stock Activity

Restricted stock activity for the three months ended March 31, 2012 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2011	115,506	$ 10.63
Granted	69,030	14.47
Vested	(30,807)	11.74
Forfeited	(1,326)	10.06
Nonvested at March 31, 2012	152,403	17.05

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The weighted-average grant-date fair value of restricted stock granted during the three months ended March 31, 2012 was $14.47 per share. As of March 31, 2012, there was $1.3 million of total unrecognized compensation cost related to nonvested restricted stock. That cost is expected to be recognized over a weighted-average period of 2 years.

Employee Stock Purchase Plan

The Company s Employee Stock Purchase Plan, as amended and restated (the Amended ESPP) allows participants to purchase up to 1,250 shares of Ligand common stock during each offering period, but in no event may a participant purchase more than 1,250 shares of common stock during any calendar year. The length of each offering period is six months, and employees are eligible to participate in the first offering period beginning after their hire date.

The Amended ESPP allows employees to purchase Ligand common stock at the end of each six month period at a price equal to 85% of the lesser of fair market value on either the start date of the period or the last trading day of the period (the Lookback Provision). The 15% discount and the Lookback Provision make the Amended ESPP compensatory. There were no shares of common stock issued under the Amended ESPP during the three months ended March 31, 2012 and 2011. The Company recorded compensation expense related to the ESPP of $6,000 and $1,000 for the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, 97,291 shares were available for future purchases under the Amended ESPP.

Warrants

As of March 31, 2012, warrants to purchase 144,606 shares of the Company s common stock were outstanding with an exercise price of $51.54 per share and an expiration date of April 2012. The warrants were assumed in the acquisition of Pharmacopeia, Inc.

As of March 31, 2012, 163,568 warrants with an exercise price of $179.40 per warrant and an expiration date of April 2013 were outstanding to purchase an aggregate of 129,360 shares of the Company s common stock. If exercised, these warrants are also entitled to receive $0.1 million in cash and 981,411 of each of the Company s four contingent value rights issued to Neurogen shareholders in December 2009. The series of warrants was assumed in the acquisition of Neurogen Corporation.

Share Repurchases

On June 15, 2010, the Company announced that its Board of Directors has authorized the Company to repurchase up to $10.0 million of its common stock from time to time in privately negotiated and open market transactions for a period of up to two years, subject to the Company s evaluation of market conditions, applicable legal requirements and other factors. The Company is not obligated to acquire common stock under this program and the program may be suspended at any time. Through March 31, 2012, the Company repurchased 16,905 shares of its common stock totaling $0.1 million.

9. Litigation

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.

10. 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 an exchange ratio of $74.25 per share, for revenue related to lasofoxifene and

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drolofoxifene. 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. The remaining shares of the Company s common stock that could be redeemed totaled 112,371 and are reflected at the exchange ratio price of $74.25. Pfizer has notified Ligand that the development of the two compounds covered under the 1996 settlement agreement have been terminated and thus the Company reclassified the shares and the current carrying amount of $8.3 million to permanent equity for the period ending March 31, 2012.

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ITEM 2. 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 Part II, 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, 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 royalties 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 quarterly 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 quarterly report belongs to its owner.

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

Overview

We are a biotechnology company that operates with a simple 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 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 & Company, and The Medicines Company.

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. Under the terms of the Agreement we received 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 Oncologic Drugs Advisory Committee (ODAC), which advises the FDA regarding the potential approval of new cancer drugs, will meet on June 20, 2012 to review the carfilzomib application. 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.

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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) to Retrophin, LLC (Retrophin). 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 received a net up front payment of approximately $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.

In April 2012, GSK announced that they are preparing to file a sNDA for PROMACTA. 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.

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 March 31, 2012, we estimate that we have spent approximately $5.9 million of the committed amount.

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 a 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 a provision that afforded us the potential to earn a 10% equity position in Chiva as a milestone payment. In September 2011, Chiva paid us the $0.5 million licensing fee called for by the amendment, of which $0.1 million was remitted to CVR holders.

Results of Operations

Three Months Ended March 31, 2012 and 2011

Total revenues for the three months ended March 31, 2012 were $5.6 million compared to $3.9 million for the same period in 2011. We reported a loss from continuing operations of $0.5 million compared to income from continuing operations of $10.0 million for the three months ended March 31, 2012 and 2011, respectively.

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Royalty Revenue

Royalty revenues were $3.1 million for the three months ended March 31, 2012, compared to $2.0 million for the same period in 2011. The increase in royalty revenues is due to an increase in PROMACTA royalties partially offset by a decrease in AVINZA royalties.

Material Sales

We recorded material sales of $0.7 million compared to $1.0 million for the three months ended March 31, 2012 and 2011, respectively. The decrease in material sales is due to the timing of customer purchases.

Collaborative Research and Development and Other Revenues

We recorded collaborative research and development and other revenues of $1.9 million and $0.9 million for the three months ended March 31, 2012 and 2011, respectively. Revenue for the three months ended March 31, 2012, consisted primarily of $1.0 million, net of amounts owed, for the licensing of the full world wide rights of DARA to Retrophin as well as up-front fees from CAPTISOL related programs. Revenue for the three months ended March 31, 2011 consisted of up-front fees from CAPTISOL related programs of $0.4 million and a net fee of $0.4 million from licenses granted to Chiva Pharmaceuticals, Inc. to begin development in China of two clinical-stage HepDirect programs.

Research and Development Expenses

The major components of research and development expenses are as follows (in thousands):

	Three Months Ended March 31,	
	2012	**2011**
Internal research programs	$ 2,565	$ 1,819
Development	252	167
Total research and development	$ 2,817	$ 1,986

Research and development expenses were $2.8 million compared to $2.0 million for the three months ended March 31, 2012 and 2011, respectively. The increase of $0.8 million for the three months ended March 31, 2012, compared to the same period in 2011, is primarily due to an increase in project spending of $0.7 million and an increase in amortization of intangible assets related to the CyDex acquisition of $0.1 million.

As summarized in the table below, we are developing several proprietary products for a variety of indications. Our programs are not limited to the following, but are representative of a range of future licensing opportunities to expand our partnered asset portfolio.

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

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, 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 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. Risk Factors for additional discussion of the uncertainties surrounding our research and development initiatives.

General and Administrative Expenses

General and administrative expenses were $3.5 million and $3.4 million for the three months ended March 31, 2012 and 2011, respectively.

Lease Exit and Termination Costs

In September 2010, we ceased use of our facility located in Cranbury, New Jersey. As a result, during the quarter ended September 30, 2010, 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 and recorded approximately $1.8 million of severance related costs. We recorded $0.1 million and $0.2 million as a reduction of lease exit and termination costs for the three months ending March 31, 2012 and 2011, respectively.

Accretion of Deferred Gain on Sale Leaseback

On November 9, 2006, we sold real property located in San Diego, California for a sale price of $47.6 million. This property included our corporate headquarter building totaling approximately 82,500 square feet, the land on which the building was situated, and two adjacent vacant lots. As part of the sale transaction, we agreed to leaseback the building for a period of 15 years. We recognized an immediate pre-tax gain on the sale transaction of $3.1 million and deferred a gain of $29.5 million on the sale of the building. The deferred gain was being recognized 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 $20.4 million of accretion of deferred gain during the quarter ended September 30, 2009, and recognized the remaining balance of the deferred gain through the term of our new building lease, which expired in December 2011. The amount of the deferred gain recognized for the three months ended March 31, 2011 was $0.4 million.

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Interest Income, net

Interest income was $17,000 compared to $37,000 for the three months ended March 31, 2012 and 2011, respectively. The decrease in interest income in 2012 was due to lower cash and investment balances.

Interest Expense

Interest expense was $0.8 million compared to $0.4 million for the three months ended March 31, 2012 and 2011, respectively. The increase in interest expense of $0.4 million was due to the increase in the outstanding balance of notes payable at March 31, 2012 compared to March 31, 2011. Additionally, the $20 million loan obtained to acquire CyDex was outstanding for a partial period for the three months ending March 31, 2011.

Change in liability for Contingent Value Rights

We recorded a decrease in liability for CVRs of $0.8 million for the three months ended March 31, 2012, compared to an increase in liability for CVRs of $1.7 million for the three months ended March 31, 2011. The decrease for the three months ended March 31, 2012 relates to a decrease in our liability for amounts potentially due to holders of CVRs associated with our Metabasis acquisition, partially offset by an increase in the liability for amounts due to holders of CVRs associated with our CyDex acquisition. The increase for the three months ending March 31, 2011 relates to our liability for amounts potentially due to holders of CVRs associated with our Metabasis acquisition. The initial fair value of the liability was determined using quoted market prices of Metabasis common stock in active markets. The liability is subsequently 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 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 CVR agreements may be materially different than the carrying amount of the liability.

Other, net

We recorded other income of $0.3 million compared to $48,000 for the three months ending March 31, 2012 and 2011, respectively. Other income for 2012 primarily relates to income related to the release of obligations previously recorded associated with the acquisition of CyDex.

Income Taxes

We recorded an income tax benefit of $35,000 and $13.6 million for the three months ended March 31, 2012 and 2011, respectively. The income tax benefit for the three months ended March 31, 2012 relates to losses from continuing operations which may be used to offset income from discontinued operations. The income tax benefit for the three months ended March 31, 2011 relates 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.

Discontinued Operations

Oncology Product Line

On September 7, 2006, we and Eisai Inc., a Delaware corporation, and Eisai Co., Ltd., a Japanese company (which we collectively refer to as Eisai), entered into a purchase agreement, or the Oncology Purchase Agreement, pursuant to which Eisai agreed to acquire all of our worldwide rights in and to our 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. The Oncology product line included our four marketed oncology drugs: ONTAK, TARGRETIN capsules, TARGRETIN gel and PANRETIN gel.

Pursuant to the terms of the Oncology Purchase Agreement, we retained the liability for returns of product from wholesalers that had been sold by us prior to the close of the transaction. Accordingly, as part of the accounting for the gain on the sale of the Oncology product line, we recorded a reserve for Oncology product returns.

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During the three months ended March 31, 2012 and 2011, we recognized $0 and $4,000, respectively, of pre-tax gains due to subsequent changes in certain estimates and liabilities recorded as of the sale date.

AVINZA Product Line

On September 6, 2006, we and King entered into a purchase agreement, or the AVINZA Purchase Agreement, pursuant to which King agreed to acquire all of our 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, which we collectively refer to as the Transaction.

Pursuant to the terms of the AVINZA Purchase Agreement, we retained the liability for returns of product from wholesalers that had been sold by us prior to the close of the Transaction. Accordingly, as part of the accounting for the gain on the sale of AVINZA, we recorded a reserve for AVINZA product returns.

During the three months ended March 31, 2012 and 2011, we recognized pre-tax gains of $2.0 million and $0, respectively, due to subsequent changes in certain estimates and liabilities recorded as of the sale date.

Income Taxes

We recorded an income tax expense of $0.2 million for income taxes related to discontinued operations for the three months ended March 31, 2012. The income tax expense relates to income recognized as a result of changes in certain estimates of liabilities. We did not record any provision for income taxes for the period ending March 31, 2011 as we did not realize any taxable income from discontinued operations.

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 March 31, 2012, our accumulated deficit was $680.4 million and we had negative working capital of $3.7 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 do not meet 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 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.

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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 us. 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 was March 29, 2012. On March 29, 2012, we entered into a Second Amendment to the Loan and Security Agreement (the Square 1 Second Amendment to Loan and Security Agreement). The Square 1 Second Amendment to Loan and Security Agreement changed the maturity date of the revolving line of credit facility to March 28, 2013. The Square 1 Second Amendment to Loan and Security Agreement did not change the interest rate and interest payment schedule established in the Loan and Security Agreement.

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 or other securties 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 did not elect to borrow the remaining available $2.5 million. The additional $7.5 million loan bears 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 addition, we paid down an additional $4.0 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 $9.5 million upon achievement of certain 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. The Company paid $0.3 million to the CyDex shareholders in March 2012 for 20% of all 2011 CyDex-related revenue in excess of $15 million.

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

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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. As of March 31, 2012, we estimate we have spent approximately $1.2 million of our commitment for the year ending December 31, 2012.

Based on management s plans, including projected 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 $0.4 million for the three months ended March 31, 2012, compared to $0.9 million of cash generated for the three months ended March 31, 2011.

The cash used for the three months ended March 31, 2012 reflects net income of $1.4 million, adjusted by $1.9 million of gain from discontinued operations, net of income tax expense and $0.7 million of non-cash items to reconcile the net income to net cash used in opearations. These reconciling items primarily reflect stock based compensation of $0.7 million and depreciation of $0.7 million offset by the change in estimated fair value of contingent value rights of $0.7 million. The cash used during the three months ended March 31, 2012 is further impacted by changes in operating assets and liabilities due primarily to a decrease in deferred revenue of $0.6 million, other liabilities $3.5 million, and other current assets $0.5 million, partially offset by a decrease in accounts receivable of $4.1 million. Cash used in operating activities for the three months ended March 31, 2012 of $0.2 million related to discontinued operations.

The cash generated for the three months ended March 31, 2011 reflects net income of $10.0 million, adjusted by $4,000 of gain from discontinued operations and $2.2 million of non-cash items to reconcile the net income to net cash used in operations. These reconciling items primarily reflect the change in estimated fair value of contingent value rights of $1.7 million, depreciation and amortization of $0.6 million and stock-based compensation of $0.5million, partially offset by accretion of deferred gain on the sale leaseback of the building of $0.4 million and non-cash lease costs of $0.1 million. The cash generated during the three months ended March 31, 2011 is further impacted by changes in operating assets and liabilities due primarily to deferred income taxes of $13.9 million, an increase in other liabilities of $0.8 million, an increase in inventory of $1.8 million and a decrease in accounts payable and accrued liabilities of $1.0 million, partially offset by decreases in other current assets of $4.6 million, accounts receivable of $1.0 million and other long term assets of $0.5 million. None of the cash provided by operating activities for the three months ended March 31, 2011 related to discontinued operations.

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Investing Activities

Investing activities provided cash of $3.9 million compared to cash used of $23.2 million for the three months ended March 31, 2012 and 2011, respectively.

Cash provided by investing activities during the three months ended March 31, 2012, primarily reflects $8.5 million of net proceeds from the sale of short-term investments, offset by $4.5 million paid to CyDex CVR holders.

Cash used by investing activities during the three months ended March 31, 2011 primarily reflects $32.0 million of cash paid for the acquisition of CyDex and $5.0 million for purchases of short-term investments, partially offset by $13.9 million of proceeds from the sale of short-term investments. None of the cash provided by investing activities for the three months ended March 31, 2011 related to discontinued operations.

Financing Activities

Financing activities used cash of $0.8 million for the three months ended March 31, 2012. Financing activities provided cash of $24.9 million for the three months ended March 31, 2011.

Cash used by financing activities for the three months ended March 31, 2012 primarily reflects $8.5 million for the repayment of debt, partially offset by $7.5 million of proceeds from the issuance of debt. Additionally, proceeds from the issuance of common stock resulted in $0.2 million of cash generated from financing activities.

Cash provided by financing activities for the three months ended March 31, 2011 primarily reflects $25.0 million of proceeds from the issuance of debt, partially offset by share repurchases of $0.1 million.

Other

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 March 31, 2012 and December 31, 2011, the aggregate fair values of the Aplindore, VR1 and H3 CVR s were $0.7 million, 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 March 31, 1012 and December 31, 2011 was $0 and $1.1 million, respectively.

In connection with the acquisition of CyDex Pharmaceuticals, Inc. on January 24, 2011, we issued a series of Contingent Value Rights. We paid the CVR holders $4.3 million in January 2012 and may be required to pay up to an additional $9.5 million upon achievement of certain 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. We paid $0.3 million to the CyDex shareholders in March 2012 related to 2011 CyDex-related revenue. The estimated fair value of the liability at March 31, 2012 was $12.3 million.

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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 March 31, 2012 and December 31, 2011.

Contractual Obligations

As of March 31, 2012, future minimum payments due under our contractual obligations are as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations (1)	$ 23,496	$ 5,529	$ 11,127	$ 5,826	$ 1,014

(1) We currently sublease two of our facilities through their respective lease terms of July 2015 and August 2016. As of March 31, 2012, we expect to receive aggregate future minimum lease payments totaling $4.4 million (nondiscounted) over the duration of the sublease agreements as follows: less than one year, $1.1 million; one to three years, $2.6 million; and three to five years, $0.7 million.

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 March 31, 2012 we have spent approximately $13.0 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 March 31, 2012, we estimate that we have spent approximately $5.9 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. As of March 31, 2012, we estimate we have spent approximately $1.2 million.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2012, our investment portfolio included fixed-income securities of $1.5 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. We purchase CAPTISOL from Hovione, located in Lisbon, Portugal. Payments to Hovione are denominated and paid in US dollars, however the unit price of CAPTISOL contains an adjustment factor which is based on the sharing of foreign currency risk between the two parties. 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 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report, which we refer to as the Evaluation Date.

As a result of a material weakness in our internal control over financial reporting relating to the accounting for significant non-routine transactions, our management has reassessed the effectiveness of our disclosure controls and procedures and have determined that our disclosure controls and procedures were not effective as of March 31, 2012. Despite the material weakness in our internal control, management believes no material inaccuracies or omissions of fact exist in this quarterly report.

Remediation Plan. Since the transaction date which resulted in this material weakness, we have added a corporate controller to our finance and accounting staff. While we had processes to identify and intelligently apply accounting standards to complex transactions, we did not have adequate numbers of highly skilled accountants to provide for a detail analysis, documentation and review of the acquisition of CyDex, which closed on January 24, 2011. This material weakness prevented us from properly reporting the financial information for previous interim periods, and we have filed restated 10-Q reports for the applicable periods. We enhanced our processes with the addition of a resource with the ability to research and understand the nuances of complex accounting standards. Management will continue to review and make necessary changes to the overall design of its internal control environment, as well as to policies and procedures to improve the overall effectiveness of internal control over financial reporting.

The material weakness will not be remediated until the applicable remedial procedures are tested and management has concluded that the procedures and controls are operating effectively.

Changes in Internal Controls. Except as described above, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. 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.

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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 productand 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 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 terminated the ELEVATE study and has made the decision not to progress with this indication. 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.

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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, Macau, China, and Zhejiang, China, but those sites are not yet fully 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.

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

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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 March 31, 2012, we had a negative working capital of $3.7 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 equal to the amount outstanding under the credit facility. We paid $4.5 million on our revolving credit facility in January 2012 and another $4.0 million in March 2012. On March 29, 2012, we entered into a Second Amendment to Loan and Security Agreement (the Square 1 Second Amendment to Loan and Security Agreement). The Square 1 Second Amendment to Loan and Security Agreement changed the maturity date of the revolving line of credit facility to March 28, 2013. The Square 1 Second Amendment to Loan and Security Agreement did not change the interest rate and interest payment schedule established in the Loan and Security Agreement.

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. In March 2012, we entered into a Controlled Equity Offering Sales Agreement with Cantor Fitzgerald & Co. (Cantor), as sales agent, to create an at-the-market equity program under which we may, from time to time, sell shares of common stock, par value $0.001 per share, up to an aggregate offering price of $30 million.

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;

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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 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.

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 became effective on November 30, 2011.

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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 became 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.

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 CAPTISOL, AVINZA, PROMACTA, VIVIANT and CONBRIZA (bazedoxifene), lasofoxifene, LGD-4665, and any other products or potential products.

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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 and 2011 in the U.S. and are expected to expire between 2012 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 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.

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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 March 31, 2012, our accumulated deficit was $680.4 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 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

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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 $20.1 million as of March 31, 2012). 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.

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.

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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.

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

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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 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.

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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 4, we identified a material weakness as a result of improper accounting for significant non-routine transactions. Management has determined that the material weakness was a result of inadequate staffing. Since the transaction date which resulted in this material weakness, 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. Given this material weakness, management determined that we did not maintain effective internal control over financial reporting. The existence of one or more material weakness or significant deficiency could result in future errors in our consolidated financial statements. Substantial costs and resources 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.

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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.

The occurrence of a catastrophic disaster could damage our facilities beyond insurance limits or we could lose key data which could cause us to curtail or cease operations.

We are vulnerable to damage and/or loss of vital data from natural disasters, such as earthquakes, tornadoes, power loss, fire, floods and similar events. If any disaster were to occur, our ability to operate our business could be seriously impaired. We have property, liability, and business interruption insurance which may not be adequate 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.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES
Not appicable

ITEM 5. OTHER INFORMATION
Not applicable.

ITEM 6. EXHIBITS
The Index to Exhibits on page 47 is incorporated herein by reference as the list of exhibits required as part of this Quarterly Report.

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LIGAND PHARMACEUTICALS INCORPORATED

SIGNATURE

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

Date: May 4, 2012

By: /s/ John P. Sharp
John P. Sharp
Vice President, Finance and Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit Number	Description
2.1(1)	Agreement and Plan of Merger, by and among the Company, Pharmacopeia, Inc., Margaux Acquisition Corp. and Latour Acquisition, LLC, dated as of September 24, 2008 (Filed as Exhibit 2.1).
2.2(2)	Agreement and Plan of Merger, by and among the Company, Neurogen Corporation and Neon Signal, LLC, dated as of August 23, 2009 (Filed as Exhibit 10.1).
2.3(3)	Amendment to Agreement and Plan of Merger, by and among the Company, Neurogen Corporation, and Neon Signal, LLC, dated September 18, 2009 (Filed as Exhibit 10.1).
2.4(3)	Amendment No. 2 to Agreement and Plan of Merger, by and among the Company, Neurogen Corporation, and Neon Signal, LLC, dated November 2, 2009 (Filed as Exhibit 10.2).
2.5(4)	Amendment No. 3 to Agreement and Plan of Merger, by and among the Company, Neurogen Corporation, and Neon Signal, LLC, dated December 17, 2009 (Filed as Exhibit 10.1).
2.6(5)	Certificate of Merger for acquisition of Neurogen Corporation (Filed as Exhibit 2.1).
2.7(6)	Agreement and Plan of Merger, dated as of October 26, 2009, by and among the Company, Metabasis Therapeutics, Inc., and Moonstone Acquisition, Inc (Filed as Exhibit 10.1).
2.8(7)	Amendment to Agreement and Plan of Merger, by and among the Company, Metabasis Therapeutics, Inc., Moonstone Acquisition, Inc., and David F. Hale as Stockholders Representative, dated November 25, 2009 (Filed as Exhibit 10.1).
2.9(8)	Certificate of Merger for acquisition of Metabasis Therapeutics, Inc. dated January 27, 2010 (Filed as Exhibit 2.1).
2.10(9)	Certificate of Merger, dated and filed January 24, 2011 (Filed as Exhibit 2.1).
2.11(9)	Agreement and Plan of Merger, by and among the Company, CyDex Pharmaceuticals, Inc., and Caymus Acquisition, Inc., dated January 14, 2011 (Filed as Exhibit 10.1).
3.1(10)	Amended and Restated Certificate of Incorporation of the Company (Filed as Exhibit 3.1).
3.2(10)	Bylaws of the Company, as amended (Filed as Exhibit 3.3).
3.3(11)	Amended Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Company (Filed as Exhibit 3.3).
3.4(12)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company dated June 14, 2000 (Filed as Exhibit 3.5).
3.5(13)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company dated September 30, 2004 (Filed as Exhibit 3.6).
3.6(14)	Amendment of the Bylaws of the Company dated November 8, 2005 (Filed as Exhibit 3.1).
3.7(15)	Amendment of Bylaws of the Company dated December 4, 2007 (Filed as Exhibit 3.1).
4.1(16)	Specimen stock certificate for shares of Common Stock of the Company.
4.4(17)	2006 Preferred Shares Rights Agreement, by and between the Company and Mellon Investor Services LLC, dated as of October 13, 2006 (Filed as Exhibit 4.1).
10.1	Sublicense Agreement between the Company, Pharmacopeia, Inc. and Retrophin LLC dated as of February 16, 2012.
31.1	Certification by Principal Executive Officer, Pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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Exhibit Number	Description
31.2	Certification by Principal Financial Officer, Pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification by Principal Executive Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification by Principal Financial Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1**	The following financial information from the Company s Quarterly Report on Form 10-Q, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from this quarterly report and submitted separately to the Securities and Exchange Commission

(1) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on September 26, 2008.

(2) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on August 24, 2009.

(3) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on November 6, 2009

(4) This exhibit was previously filed as part of, and is being incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on December 17, 2009.

(5) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on December 24, 2009.

(6) This exhibit was previously filed as part of, and is being incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on October 28, 2009.

(7) This exhibit was previously filed as part of, and is being incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on December 1, 2009.

(8) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on January 28, 2010.

(9) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on January 26, 2011.

(10) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Registration Statement on Form S-4 (No. 333-58823) filed on July 9, 1998.

(11) This exhibit was previously filed as part of and is hereby incorporated by reference to same numbered exhibit filed with the Company s Quarterly Report on Form 10-Q for the period ended March 31, 1999.

(12) This exhibit was previously filed as part of, and are hereby incorporated by reference to the numbered exhibit filed with the Company s Annual Report on Form 10-K for the year ended December 31, 2000.

(13) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2004.

(14) This exhibit was previously filed as part of, and is being incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on November 14, 2005.

(15) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on December 6, 2007.

(16) This exhibit was previously filed as part of, and is hereby incorporated by reference to the same numbered exhibit filed with the Company s Registration Statement on Form S-1 (No. 33-47257) filed on April 16, 1992 as amended.

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(17) This exhibit was previously filed as part of, and is being incorporated by reference to the numbered exhibit filed with the Company s Current Report on Form 8-K filed on October 17, 2006.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of Ligand Pharmaceuticals, Incorporated, whether made before or after the date hereof, regardless of any general incorporation language in such filing. Signed originals of these certifications have been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.