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 September 30, 2003 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 0-20720

LIGAND PHARMACEUTICALS INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiciton of Incorporation or Organization)

77-0160744
(I. R. S. Employer Identification No.)

10275 Science Center Drive San Diego, CA
(Address of Principal Executive Offices)

92121-1117
(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

As of October 31, 2003, the registrant had 73,088,843 shares of common stock outstanding.

LIGAND PHARMACEUTICALS INCORPORATED
QUARTERLY REPORT

FORM 10-Q

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*No information provided due to inapplicability of item.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

LIGAND PHARMACEUTICALS INCORPORATED
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	September 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,002	$ 42,423
Short-term investments; $9,333 and $8,998 restricted at September 30, 2003 and December 31, 2002, respectively	13,744	21,825
Accounts receivable, net (Note 2)	9,923	12,176
Inventories	6,005	4,841
Other current assets	3,188	7,308
Total current assets	105,862	88,573
Restricted investments	6,203	10,646
Property and equipment, net	9,072	9,672
Aquired technology and product rights, net	140,526	148,546
Other assets	11,134	17,992
Total assets	$ 272,797	$ 275,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,261	$ 11,979
Accrued liabilites	23,228	16,606
Current portion of deferred revenue	3,502	4,683
Current portion of equipment financing obligations	2,299	2,087
Total current liabilities	46,290	35,355
Long-term debt	155,250	155,250
Long-term portion of deferred revenue	2,352	3,014
Long-term portion of equipment financing obligations	2,682	4,095
Other long-term liabilities	3,627	3,700
Total liabilities	210,201	201,414
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; 5,000,000 shares authorized; none issued	—	—
Common stock, par value $0.001; 130,000,000 shares authorized, 73,054,591 shares and 71,522,156 shares issued at September 30, 2003 and December 31, 2002, respectively	73	72
Additional paid-in capital	725,244	693,213
Accumulated other comprehensive loss	(88)	(43)
Accumulated deficit	(661,722)	(618,316)
	63,507	74,926
Treasury stock, at cost; 73,842 shares	(911)	(911)
Total stockholders' equity	62,596	74,015
	$ 272,797	$ 275,429

See accompanying notes.

LIGAND PHARMACEUTICALS INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenues:				
Product sales	$ 28,123	$ 16,486	$ 72,238	$ 40,646
Collaborative research and development and other revenues	3,160	8,780	11,294	28,671
Total revenues	31,283	25,266	83,532	69,317
Operating costs and expenses:				
Cost of product sold	8,565	5,646	22,951	14,787
Research and development	17,696	15,641	51,196	42,437
Selling, general and administrative	13,216	10,766	39,213	30,702
Total operating costs and expenses	39,477	32,053	113,360	87,926
Loss from operations	(8,194)	(6,787)	(29,828)	(18,609)
Other income (expense):				
Interest income	136	177	519	840
Interest expense	(2,766)	(147)	(8,136)	(5,213)
Debt conversion expense	—	—	—	(2,015)
Other, net	(263)	(290)	(5,960)	(871)
Total other expense, net	(2,893)	(260)	(13,577)	(7,259)
Net loss	$ (11,087)	$ (7,047)	$ (43,405)	$ (25,868)
Basic and diluted per share amounts:				
Net loss	$ (0.16)	$ (0.10)	$ (0.62)	$ (0.38)
Weighted average number of common shares	70,100	71,358	69,871	68,347

See accompanying notes.

LIGAND PHARMACEUTICALS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2003	**2002**
Operating activities		
Net loss	$ (43,405)	$ (25,868)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of acquired technology and license rights	8,223	3,138
Depreciation and amortization of property and equipment	1,841	2,429
Amortization of debt discount and issuance costs	634	2,687
Write-off of X-Ceptor purchase right	5,000	—
Equity in loss of affiliate	857	844
Debt conversion expense	—	2,015
Other	575	746
Changes in operating assets and liabilities:		
Accounts receivable, net (Note 2)	2,253	1,408
Inventories	(1,164)	601
Other current assets	4,120	(503)
Accounts payable and accrued liabilities	14,007	(39)
Deferred revenue	(1,843)	(3,008)
Net cash used in operating activities	(8,902)	(15,550)
Investing activities		
Purchases of short-term investments	(877)	(9,756)
Proceeds from sale of short-term investments	9,293	14,604
Purchases of property and equipment	(1,241)	(2,880)
Payment for AVINZA® royalty rights	(4,133)	—
Other, net	106	(4,936)
Net cash provided by (used in) investing activities	3,148	(2,968)
Financing activities		
Principal payments on equipment financing obligations	(1,775)	(2,208)
Proceeds from equipment financing arrangements	574	2,061
Decrease in restricted investments	4,108	522
Repurchase of common stock	(15,867)	—
Proceeds from issuance of common stock	49,366	70,579
Decrease in other long-term liabilities	(73)	—
Repayment of long-term debt	—	(50,000)
Net cash provided by financing activities	36,333	20,954
Net increase in cash and cash equivalents	30,579	2,436
Cash and cash equivalents at beginning of period	42,423	20,741
Cash and cash equivalents at end of period	$ 73,002	$ 23,177
Supplemental disclosure of cash flow information		
Interest paid	$ 4,871	$ 3,967
Supplemental schedule of non-cash investing and financing activities		
Conversion of zero coupon convertible senior notes to common stock	$ —	$ 86,135
Issuance of common stock for acquired technology	—	5,000
Issuance of common stock for debt conversion incentive	—	2,015

See accompanying notes.

1. Basis of Presentation

The consolidated financial statements of Ligand Pharmaceuticals Incorporated ("Ligand" or the "Company") for the three and nine months ended September 30, 2003 and 2002 are unaudited. These financial statements reflect all adjustments, consisting of only normal recurring adjustments which, in the opinion of management, are necessary to fairly present the consolidated financial position as of September 30, 2003 and the consolidated results of operations for the three and nine months ended September 30, 2003 and 2002. The results of operations for the period ended September 30, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003. For more complete financial information, these financial statements, and the notes thereto, should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2002 included in the Company's Annual Report on Form 10-K filed with the SEC.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. Actual results could differ from those estimates.

New Accounting Pronouncements. In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 ("FIN 45"), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of* Others. FIN 45 requires that a liability be recorded for the fair value of the obligation in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires certain disclosures about each of the entity's guarantees. The Company does not have any guarantees outstanding.

In December 2002, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for those entities that elect to voluntarily adopt the fair value accounting provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 148 also requires more prominent disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation as well as pro forma disclosure of the effect in interim financial statements. The transition and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure requirements are effective for the first interim period ending after December 15, 2002. Ligand has not elected to adopt the fair value accounting provisions of SFAS No. 123 and therefore the adoption of SFAS No. 148 did not have a material effect on the Company's results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. FIN 46 requires the consolidation of certain variable interest entities by the primary beneficiary of the entity if the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or if the equity investors lack the characteristics of a controlling financial interest. FIN 46 is effective for variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied in the first interim or annual period ending after December 15, 2003. Implementation of FIN 46 was to have taken place during the current quarter, but was postponed by the FASB. The FASB plans to modify the Interpretation prior to December 2003. Refer to Note 6 for a discussion of the potential effect of adopting FIN 46 on the Company's results of operations and financial position.

Loss Per Share. Net loss per share is computed using the weighted average number of common shares outstanding. Basic and diluted net loss per share amounts are equivalent for the periods presented as the inclusion of potential common shares in the number of shares used for the diluted computation would be anti-dilutive.

Accounting for Stock-Based Compensation. The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation.*

Pro forma information regarding net loss and net loss per share is required by SFAS No. 123*, Accounting for Stock-based Compensation*, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows (in thousands, except for net loss per share information):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss as reported	$ (11,087)	$ (7,047)	$ (43,405)	$ (25,868)
Stock-based employee compensation expense included in reported net loss	—	—	405	—
Less total stock-based compensation expense determined under fair value based method for all awards	(1,608)	(1,695)	(5,063)	(4,823)
Net loss pro forma	$ (12,695)	$ (8,742)	$ (48,063)	$ (30,691)
Net loss per share pro forma	$ (0.18)	$ (0.12)	$ (0.69)	$ (0.45)

The fair value for these options was estimated at the dates of grant using the Black-Scholes option valuation model with the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Risk free interest rate	2.83%	2.80%	2.83%	2.80%
Dividend yield	—	—	—	—
Volatility	69%	77%	69%	77%
Weighted average expected life	5 years	5 years	5 years	5 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventories consist of the following (in thousands):

	September 30, 2003	December 31, 2002
Raw materials	$ 528	$ 65
Work-in-process	2,486	2,914
Finished goods	2,991	1,862
	$ 6,005	$ 4,841

Other Assets. Other assets consist of the following (in thousands):

	September 30, 2003	December 31, 2002
Debt issue costs, net	$ 4,439	$ 5,073
Payment to extend X-Ceptor purchase right (Note 5)	—	5,000
Prepaid royalty buyout, net	2,924	3,128
Deferred rent	2,727	2,966
Equity investment in X-Ceptor	408	1,265
Other	636	560
	$ 11,134	$ 17,992

Accrued Liabilities. Accrued liabilities consist of the following (in thousands):

	September 30, 2003	December 31, 2002
Allowances for product returns, sales incentives, rebates and chargebacks (1)	$ 11,124	$ 4,820
AVINZA® royalty rights	—	4,133
Royalties	3,722	2,505
Compensation	3,527	2,338
Interest	3,467	880
Other	1,388	1,930
	$ 23,228	$ 16,606

(1) Prior to 2003, "Allowances for product returns, sales incentives, rebates and chargebacks" was netted against "Accounts receivable" in the Company's Consolidated Balance Sheets. The 2002 balances have been appropriately reclassified to conform with current year presentation.

Comprehensive Loss. Comprehensive loss represents net loss adjusted for the change during the periods presented in unrealized gains and losses on available-for-sale securities less reclassification adjustments for realized gains or losses included in net loss, as well as foreign currency translation adjustments. The accumulated unrealized gains or losses and cumulative foreign currency translation adjustments are reported as accumulated other comprehensive loss as a separate component of stockholders' equity. Comprehensive loss is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Comprehensive loss	$ (11,129)	$ (7,035)	$ (43,449)	$ (25,941)

Reclassifications. Certain reclassifications have been made to amounts included in the prior period's financial statements to conform to the current period presentation.

2. Accounts Receivable Factoring Arrangement

During the second quarter of 2003, the Company entered into a one-year accounts receivable factoring arrangement under which eligible accounts receivable are sold without recourse to a financing company. Commissions on factored receivables are paid to the finance company based on the gross receivables sold, subject to a minimum annual commission. Additionally, the Company pays interest on the net outstanding balance of the uncollected factored accounts receivable at an interest rate equal to the JPMorgan Chase Bank prime rate. The Company continues to service the factored receivables. The expenses relating to the Company's servicing of the receivables are not material to the consolidated financial statements. The Company accounts for the sale of receivables under this arrangement in accordance with the requirements of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.* During the third quarter of 2003, cash in the amount of $23.4 million was received through the factoring arrangement.

Receivables due from the financing company under the accounts receivable factoring arrangement represent the Company's most significant credit risk. As of September 30, 2003, the gross amount due from the financing company was $10.6 million, which represents approximately 98% of the Company's accounts receivable.

3. Repurchase of Elan Shares

In connection with the November 2002 restructuring of the Company's AVINZA® license and supply agreement with Elan Corporation, plc ("Elan"), the Company agreed to repurchase approximately 2.2 million Ligand common shares held by an affiliate of Elan for $9.00 a share. The difference between the $9.00 purchase price and the public price of the shares at the time the agreement was signed, approximately $4.1 million, was treated as an additional component of the price paid for the reduced AVINZA® royalty rate under the restructured license and supply agreement. The shares were repurchased and retired in February 2003.

In addition, Elan agreed to a 6-month lock-up period on 11.8 million of its remaining 12.2 million Ligand shares. Ligand agreed to changes to Elan's registration rights to facilitate an orderly distribution of its shares after the lock-up period. In May and July 2003, Elan disclosed that it had sold the remaining 12.2 million Ligand shares to unrelated third parties. In July 2003, Ligand filed a resale registration statement on behalf of the unrelated third parties, registering the resale of the shares they had acquired from Elan.

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®. Under the terms of the agreement, Organon committed to a specified minimum number of primary and secondary product calls delivered to certain high prescribing physicians and hospitals beginning in March 2003. In exchange, Ligand will pay Organon a percentage of AVINZA® net sales based on the following schedule:

Annual Net Sales of AVINZA®	% of Incremental Net Sales Paid to Organon by Ligand
$0-35 million (2003 only)	0% (2003 only)
$0-150 million	30%
$150-300 million	40%
$300-425 million	50%
>$425 million	45%

Ligand will recognize the expense for amounts due Organon in the period in which the applicable net sales threshold is reached.

Additionally, Ligand and Organon agreed to equally share all costs for AVINZA® advertising and promotion, medical affairs and clinical trials. Each company is responsible for its own sales force costs and other expenses. The initial term of the co-promotion agreement is ten years. Organon has the option any time prior to the end of year five to extend the agreement to 2017 by making a $75.0 million payment to Ligand.

5. Option to Acquire X-Ceptor Therapeutics, Inc.

In connection with a 1999 investment in X-Ceptor Therapeutics, Inc. ("X-Ceptor"), Ligand maintained the right to acquire all of the outstanding stock of X-Ceptor not held by Ligand at June 30, 2002, or to extend the purchase right for 12 months by providing additional funding of $5.0 million. In April 2002, Ligand informed X-Ceptor that it was extending its purchase right. The $5.0 million paid to X-Ceptor in July 2002 was carried as an asset until March 2003, when Ligand informed X-Ceptor that it would not exercise the purchase right. The $5.0 million purchase right was written-off in March 2003 and is included in "Other, net" expense in the accompanying Consolidated Statements of Operations.

6. Commitments and Contingencies

Property Lease

The Company leases its corporate headquarters from a limited liability company (the "LLC") in which Ligand holds a 1% ownership interest. The lease agreement provides for increases in annual rent of 4% and terminates in 2014. Ligand also has an option to either purchase the LLC or the leased premises from the LLC at a purchase price equal to the outstanding debt on the property plus a calculated return on the investment made by the LLC's other shareholder.

In accordance with existing accounting standards, the lease is treated as an operating lease for financial reporting purposes. In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. FIN 46 requires the consolidation of certain variable interest entities by the primary beneficiary of the entity if the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or if the equity investors lack the characteristics of a controlling financial interest. For variable interest entities created prior to February 1, 2003, the consolidation requirements of FIN 46 initially were to have been applied in the Company's third quarter, but now must be applied in the Company's fourth quarter of 2003. However, the FASB plans to modify FIN 46 prior to December 2003. The Company is currently in the process of determining whether the LLC will have to be consolidated under FIN 46 as it is currently written. As FIN 46 is currently written, and after adjustments to conform the LLC's accounting policies to those of the Company's, we estimate that the Company's Consolidated Balance Sheets as of September 30, 2003 would reflect additional property and equipment of $13.7 million and additional debt of $12.5 million. The Company's Consolidated Statements of Operations would reflect a one time charge for the cumulative effect of a change in accounting principle, estimated at approximately $1.9 million, which represents the difference in timing of the LLC's revenue and expense recognition under FIN 46 and the existing accounting standards.

Litigation

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

7. Sale of Common Stock

In September 2003, the Company sold 3.48 million shares of its common stock at a price of $13.50 per share for gross proceeds of approximately $47.0 million through a private placement.

8. Subsequent Event

Royalty Pharma Agreement

In October 2003, the Company and Royalty Pharma amended their existing royalty agreement, and Royalty Pharma exercised an option for $12.5 million in exchange for 0.7% of potential future sales of three selective estrogen receptor modulator (SERM) products for 10 years. Under the revised agreement, Royalty Pharma has three additional options to purchase up to 1.3% of such product net sales for $39.0 million. Additionally, Royalty Pharma agreed to pay cumulative milestones of up to $2.5 million upon the launches of the SERM products (provided they are approved by September 30, 2005). The options are currently structured to expire in the fourth quarter of 2003 and as NDA acceptance and approval milestones or specified dates are achieved in 2004 and 2005. For the options that are currently structured to expire in 2004 and 2005, the royalty rates owed to Royalty Pharma will be reduced if certain events occur, and if sales of SERM products exceed certain thresholds. In addition, if Phase III data for at least one of the SERM products have not been published by March 31, 2004, these options will have no fixed expiration date. Instead, they must be exercised within 30 days of the applicable development milestone.

Litigation

On December 11, 2001, a lawsuit was filed in the United States District Court for the District of Massachusetts against the Company by the Trustees of Boston University and other former stakeholders of Seragen. The suit was subsequently transferred to federal district court in Delaware. The complaint alleges breach of contract, breach of the implied covenants of good faith and fair dealing and unfair and deceptive trade practices based on, among other things, allegations that the Company wrongfully withheld approximately $2.1 million in consideration due the plaintiffs under the Seragen acquisition agreement. This amount had been previously accrued for in the Company's financial statements. The complaint seeks payment of the withheld consideration and treble damages.

The court subsequently granted Ligand's motion to dismiss the unfair and deceptive trade practices claims (i.e. the treble damages claims), granted Boston University's motion for summary judgment and in November 2003 entered judgment for Boston University. Ligand intends to appeal the judgment.

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 at "Risks and Uncertainties". This outlook represents our current judgment on the future direction of our business. Such risks and uncertainties 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 the Private Securities Litigation Reform Act of 1995.

Our trademarks, trade names and service marks referenced herein include Ligand®, AVINZA®, ONTAK®, Panretin® and Targretin®. Each other trademark, trade name or service mark appearing in this quarterly report belongs to its owner.

Overview

We discover, develop and market drugs that address patients' critical unmet medical needs in the areas of cancer, pain, men's and women's health or hormone-related health issues, skin diseases, osteoporosis, blood disorders and metabolic, cardiovascular and inflammatory diseases. Our drug discovery and development programs are based on our proprietary gene transcription technology, primarily related to Intracellular Receptors, also known as IRs, a type of sensor or switch inside cells that turns genes on and off, and Signal Transducers and Activators of Transcription, also known as STATs, which are another type of gene switch.

We currently market five products in the United States: AVINZA®, for the relief of chronic, moderate to severe pain; ONTAK®, for the treatment of patients with persistent or recurrent cutaneous T-cell lymphoma (or CTCL); Targretin® capsules, for the treatment of CTCL in patients who are refractory to at least one prior systemic therapy; Targretin® gel, for the topical treatment of cutaneous lesions in patients with early stage CTCL; and Panretin® gel, for the treatment of Kaposi's sarcoma in AIDS patients. AVINZA® was approved by the Food and Drug Administration (or FDA) in March 2002 and subsequently launched in the U.S. in June 2002. In Europe, we have marketing authorizations for Panretin® gel and Targretin® capsules and are currently marketing these products under arrangements with local distributors. In April 2003, we withdrew our ONZAR™ (ONTAK® in the U.S.) marketing authorization application in Europe for our first generation product. It was our assessment that the cost of the additional clinical and technical information requested by the European Agency for the Evaluation of Medicinal Products (or EMEA) for the first generation product would be better spent on acceleration of the second generation ONTAK® development. We expect to resubmit the ONZAR™ application with the second generation product in 2004 or early 2005.

In February 2003, we announced that we had entered into an agreement for the co-promotion of AVINZA® with Organon Pharmaceuticals USA Inc. (or Organon). Under the terms of the agreement, Organon committed to specified numbers of primary and secondary product calls delivered to high prescribing physicians and hospitals beginning in March 2003. In exchange, we will pay Organon a percentage of AVINZA® net sales based on the following schedule:

Annual Net Sales of AVINZA®	% of Incremental Net Sales Paid to Organon by Ligand
$0-35 million (2003 only)	0% (2003 only)
$0-150 million	30%
$150-300 million	40%
$300-425 million	50%
>$425 million	45%

We will recognize the expense for the amounts due Organon in the period in which we reach the applicable net sales threshold, which we expect to be during the fourth quarter of 2003. Additionally, both companies agreed to share equally all costs for AVINZA® advertising and promotion, medical affairs and clinical trials. Each company is responsible for its own sales force costs and other expenses. The initial term of the co-promotion agreement is 10 years. Organon has the option any time prior to the end of year five to extend the agreement to 2017 by making a $75.0 million payment to us.

We are currently involved in the research phase of research and development collaborations with Eli Lilly and Company (or Lilly) and TAP Pharmaceutical Products Inc. (or TAP). Collaborations in the development phase are being pursued by GlaxoSmithKline, Lilly, Organon, Pfizer, TAP and Wyeth. We receive funding during the research phase of the arrangements and milestone and royalty payments as products are developed and marketed by our corporate partners. In addition, in connection with some of these collaborations, we received non-refundable up-front payments. As of September 30, 2003, we had deferred revenue of $0.7 million resulting from an up-front payment received under our collaboration agreement with TAP. This amount is being amortized as revenue over the service period of the agreement which runs from June 2001 to June 2004.

We have been unprofitable since our inception. We expect to incur additional operating losses until sales of our products generate sufficient revenues to cover our expenses. We expect that our operating results will fluctuate from period to period as a result of differences in the timing of expenses incurred, revenues earned from product sales, collaborative arrangements and other sources. Some of these fluctuations may be significant.

Recent Developments

In October 2003, we and Royalty Pharma amended our existing royalty agreement, and Royalty Pharma exercised an option for $12.5 million in exchange for 0.7% of potential future sales of three selective estrogen receptor modulator (SERM) products for 10 years. Under the revised agreement, Royalty Pharma has three additional options to purchase up to 1.3% of such product net sales for $39.0 million. Additionally, Royalty Pharma agreed to pay cumulative milestones of up to $2.5 million upon the launches of the SERM products (provided they are approved by September 30, 2005). The options are currently structured to expire in the fourth quarter of 2003 and as NDA acceptance and approval milestones or specified dates are achieved in 2004 and 2005. For the options that are currently structured to expire in 2004 and 2005, the royalty rates owed to Royalty Pharma will be reduced if certain events occur, and if sales of SERM products exceed certain thresholds. In addition, if Phase III data for at least one of the SERM products have not been published by March 31, 2004, these options will have no fixed expiration date. Instead, they must be exercised within 30 days of the applicable development milestone.

Results of Operations

Total revenues for the third quarter of 2003 were $31.3 million compared to $25.3 million for the third quarter of 2002. Loss from operations for the third quarter of 2003 of $8.2 million compares to $6.8 million for the 2002 period. Net loss for the third quarter of 2003 of $11.1 million, or $.16 per share, compares to net loss of $7.0 million, or $0.10 per share for the third quarter of 2002.

For the nine months ended September 30, 2003, total revenues were $83.5 million, compared to $69.3 million for 2002, an increase of 20.5%. Loss from operations for the nine months ended September 30, 2003 of $29.8 million compares to $18.6 million for 2002. Net loss for the same period in 2003 was $43.4 million or $.62 per share compared to a net loss of $25.9 million or $0.38 per share for the 2002 period.

Product Sales

Product sales for the third quarter of 2003 were $28.1 million compared to $16.5 million for the third quarter of 2002, an increase of 70.6%. Product sales for the nine months ended September 30, 2003 increased to $72.2 million compared to $40.6 million for the prior year period.

Product sales for the three months ended September 30, 2003 includes sales of $15.9 million for AVINZA®, which was launched in the U.S. in June 2002. The increase in third quarter 2003 AVINZA® sales relative to the prior quarters' sales is due to increasing prescriptions and additional retail and wholesaler stocking resulting from the increased level of sales and marketing activity in connection with the March 2003 start of the co-promotion arrangement with our co-promotion partner Organon. We expect AVINZA® prescriptions to continue to increase during the remainder of 2003 as a result of a higher level of AVINZA® - related marketing activity. During the fourth quarter, we expect to reach the $35 million threshold for net sales of AVINZA®. All sales of AVINZA® in excess of $35 million during the fourth quarter of 2003 will be subject to a 30% co-promotion fee to our partner Organon. Any resulting increases in shipments and sales to our wholesaler customers, however, may depend on the level and timing of any such increases in AVINZA® prescriptions and the further expansion of retail distribution.

Excluding AVINZA®, sales of our in-line products for the third quarter of 2003 were $12.2 million compared to $10.4 million in 2002. Sales of ONTAK® were $10.9 million in the third quarter of 2003 compared to $5.7 million in the third quarter of 2002. Sales of Targretin® capsules were $1.1 million in the third quarter of 2003 compared to $3.5 million in the third quarter of 2002. Sales of Targretin® gel and Panretin® gel decreased to $0.3 million in the third quarter of 2003 compared to $1.2 million in 2002. The increase in sales of ONTAK® is due to increasing patient demand relative to the prior year period. The decreases in sales of Targretin® capsules and Targretin® gel were attributable to the decision of management to better balance wholesale inventories through reductions at two major customers.

Our product sales for any individual quarter can be influenced by a number of factors including changes in demand for a particular product, the level and nature of promotional activity, the timing of announced price increases, and wholesaler inventory practices. We expect that total product sales will continue to increase in 2003 due primarily to higher sales of AVINZA®, which will further benefit from our co-promotion arrangement with Organon. We also continue to expect that demand for and sales of ONTAK® will increase when and as further data is obtained from ongoing expanded-use clinical trials and the initiation of new expanded-use trials. The level and timing of any such increases, however, are influenced by a number of factors outside our control, including the accrual of patients and overall progress of clinical trials that are managed by third parties.

Excluding AVINZA®, our products are small-volume specialty pharmaceutical products that address the needs of cancer patients in relatively small niche markets with substantial geographical fluctuations in demand. To ensure patient access to our drugs, we maintain broad distribution capabilities with inventories held at approximately 150 locations throughout the United States. Furthermore, the purchasing and stocking patterns of our wholesaler customers are influenced by a number of factors that vary with each product. These factors include, but are not limited to, overall level of demand, periodic promotions, required minimum shipping quantities and wholesaler competitive initiatives. As a result, the level of product in the distribution channel may average from two to six months' worth of projected inventory usage. If any or all of our major distributors decide to substantially reduce the inventory they carry in a given period, our sales for that period could be substantially lower than historical levels.

Collaborative Research and Development and Other Revenues

Collaborative research and development and other revenues for the quarter ended September 30, 2003 were $3.2 million compared to $8.8 million for the quarter ended September 30, 2002. For the nine months ended September 30, 2003, collaborative research and development and other revenues were $11.3 million compared to $28.7 million in the prior year period. A comparison of collaborative research and development and other revenues is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Collaborative research and development	$ 3,083	$ 4,999	$ 11,060	$ 15,735
Royalty sale	—	3,500	—	12,500
Other	77	281	234	436
	$ 3,160	$ 8,780	$ 11,294	$ 28,671

Collaborative research and development revenue includes reimbursement for ongoing research activities, earned development milestones and recognition of prior years' up-front fees previously deferred in accordance with Staff Accounting Bulletin ("SAB") No. 101, *Revenue Recognition in Financial Statements*. Royalty sale revenue represents the sale to third parties of rights and options to future royalties we may earn from the sale of products now in development with our collaborative partners.

The decrease in ongoing research activities reimbursement revenue for the three months ended September 30, 2003 compared to the corresponding quarter in 2002 is due to lower funding from our research arrangement with Lilly, which contributed $1.5 million to revenue in the third quarter of 2003 compared to $2.0 million in the third quarter of 2002. The initial research term of the Lilly collaboration was extended for one year in November 2002 at a lower level of ongoing research funding. In the second quarter of 2003, we agreed to extend the collaboration again, through November 2004. Additionally, the decrease is due to lower funding from our research arrangement with TAP, which contributed $0.8 million to revenue in the third quarter of 2003 versus $1.3 million in the third quarter of 2002.

The decrease in ongoing research activities reimbursement revenue for the nine months ended September 30, 2003 compared to the corresponding prior period is due to lower funding from our research arrangements with Lilly, which contributed $4.3 million in 2003 versus $6.5 million in 2002 and TAP, which contributed $3.4 million in 2003 versus $3.7 million in 2002. Additionally, the decrease is due to the conclusion of the research phase of our collaborative research arrangement with Organon, which drew to a close in February 2002.

These decreases were partially offset by net development milestones earned from Wyeth of $0.6 million in the third quarter of 2003. A development milestone of $0.5 million was earned from Wyeth in the third quarter of 2002. For the nine months ended September 30, 2003, we earned milestone revenues of $2.5 million, net of royalties owed, under our collaborative agreements with Eli Lilly, Wyeth, and GlaxoSmithKline, compared to $1.3 million in the prior year.

Revenues from royalty sales represents revenue earned from the sale to Royalty Pharma AG of rights to future royalties from certain collaborative partners' net sales of three selective estrogen receptor modulator (SERM) products. These products are currently in Phase III clinical development. We earned $6.0 million in the first quarter of 2002 when Royalty Pharma acquired the rights to 0.250% of such product net sales for a period of 10 years. We earned an additional $3.0 million in the second quarter of 2002 when Royalty Pharma exercised its first option to acquire an additional 0.125% of such product net sales. We earned $3.5 million in the third quarter of 2002 when Royalty Pharma exercised their second option to acquire an additional 0.125% of such product net sales. In October 2003, we and Royalty Pharma amended the royalty agreement. Refer to the discussion on Recent Developments in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Gross Margin

Gross margin on product sales was 69.5% for the third quarter of 2003 compared to 65.8% for the third quarter of 2002. Gross margin on product sales for the nine months ended September 30, 2003 was 68.2% compared to 63.6% for the prior year period. The increase in the margin in 2003 is due to the relative increases of sales of AVINZA® and ONTAK® compared to 2002. AVINZA® cost of product sold includes the amortization of license and royalty rights capitalized in connection with the restructuring of our AVINZA® license and supply agreement in November 2002. The total amount of capitalized license and royalty rights, $114.4 million, is being amortized to cost of product sold on a straight-line basis over 15 years. For ONTAK®, the total amount of acquired technology, $45.3 million, is being amortized to cost of product sold on a straight-line basis over 15 years. Given the fixed level of amortization of the capitalized AVINZA® license and royalty rights and the ONTAK® acquired technology, we expect the AVINZA® and ONTAK® gross margin percentages to continue to increase as sales of AVINZA® and ONTAK® increase.

Research and Development Expenses

Research and development expenses were $17.7 million in the third quarter of 2003 compared to $15.6 million for the third quarter of 2002. For the nine months ended September 30, 2003, research and development expenses were $51.2 million compared to $42.4 million in 2002. The major components of research and development expenses are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Research				
Research performed under collaboration agreements	$ 2,479	$ 3,706	$ 8,453	$ 11,954
Internal research programs	2,996	2,447	8,534	7,613
Total research	5,475	6,153	16,987	19,567
Development				
New product development	8,166	6,418	24,215	14,340
Existing product support (1)	4,055	3,070	9,994	8,530
Total development	12,221	9,488	34,209	22,870
Total research and development	$ 17,696	$ 15,641	$ 51,196	$ 42,437

(1) Includes costs incurred to comply with U.S. post-marketing regulatory commitments.

The decrease in expenditures for research performed under collaboration agreements is due to the lower level of research funding agreed to with Lilly in connection with the one-year extension of our collaboration arrangement effective November 2002. The decrease is also due to the lower level of research funding for our research collaboration with TAP. Spending for internal research programs remained relatively constant over the three- and nine-month periods ended September 30, 2003 and September 30, 2002. The increase in spending on new product development for the third quarter of 2003 compared to the third quarter of 2002 and for the first nine months of 2003 compared to the first nine months of 2002 is due to higher development funding of Phase III clinical trials for Targretin® capsules in non-small cell lung cancer (or NSCLC) as we completed enrollment on the trials during the quarter, and have incurred increased patient and milestone costs related to those trials. The increases in costs for existing product support in the same periods are due mainly to increased expenditures supporting the ONTAK® product.

We expect research and development expenses to continue to increase during 2003 as expenses for NSCLC Phase III clinical trials and other development programs will grow as milestones in the trials are reached and patient-related expenses are incurred.

A summary of our significant internal research and development programs is as follows:

Program	Disease/Indication	Development Phase
AVINZA®	Chronic, moderate-to-severe pain	Marketed in U.S. Phase IIIB/IV
ONTAK®	CTCL Chronic lymphocytic leukemia B-cell Non-Hodgkin's lymphoma Psoriasis (severe) Peripheral T-cell lymphoma	Marketed in U.S. Phase II Phase II Phase II Planned Phase II
Targretin® capsules	CTCL NSCLC first-line NSCLC second/third-line Advanced breast cancer Psoriasis (moderate to severe) Renal cell cancer	Marketed in U.S. and Europe Phase III Planned Phase II/III Phase II Phase II Phase II
Targretin® gel	CTCL Hand dermatitis (eczema) Psoriasis	Marketed in U.S. Phase II Phase II
Panretin® gel	Kaposi's sarcoma	Marketed in U.S. and Europe
LGD1550 (RAR agonist)	Advanced cancers Acne Psoriasis	Phase II Pre-clinical Pre-clinical
LGD1331 (Androgen antagonist)	Prostate cancer, hirsutism, acne, androgenetic alopecia	Pre-clinical
Glucocorticoid agonists	Inflammation, cancer	Pre-clinical
Mineralocorticoid receptor modulators	Congestive heart failure, hypertension	Research

We do not provide forward-looking estimates of costs and time to complete our ongoing research and development projects, as such estimates would involve a high degree of uncertainty. Uncertainties include, but are not limited to, our ability to predict the outcome of complex research, our ability to predict the results of clinical studies, regulatory requirements placed upon us by regulatory authorities such as the FDA and the EMEA, our ability 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 and development. Refer to the “Risks and Uncertainties” section for additional discussion of the uncertainties surrounding our research and development initiatives.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $13.2 million for the third quarter of 2003 compared to $10.8 million for the third quarter of 2002. Selling, general and administrative expenses for the nine months ended September 30, 2003 were $39.2 million compared to $30.7 million for the nine months ended September 30, 2002. The increase in 2003 is primarily due to costs associated with additional Ligand sales representatives hired to promote AVINZA® and higher advertising and promotion expenses for AVINZA® which was launched in June 2002. Additionally, marketing expenses increased in 2003 in conjunction with our increased emphasis on physician-attended product information and advisory meetings for our oncology products. Selling, general and administrative

expenses are expected to continue to increase throughout the remainder of 2003 as a result of increased selling and marketing activities for AVINZA® which is now promoted on a broader scale and by a significantly larger sales force as a result of our co-promotion agreement with Organon. Under the co-promotion agreement, we and Organon share equally all costs for AVINZA® advertising and promotion, medical affairs and clinical trials. Additionally, if sales of AVINZA® exceed $35.0 million in 2003, we are required to pay Organon 30% of the net sales in excess of $35.0 million. We expect to reach that threshold in the fourth quarter of 2003.

Other Expenses, Net

Interest expense increased to $2.8 million for the third quarter of 2003 compared to $0.1 million for the third quarter of 2002. Interest expense increased to $8.1 million for the nine months ended September 30, 2003, compared to $5.2 million for the nine months ended September 30, 2002. The 2003 expense primarily represents interest on the $155.3 million of 6% convertible subordinated notes that we issued in November 2002. The 2002 expense represents interest on the $20.0 million in issue price of zero coupon convertible senior notes that was converted into common stock in March 2002 and interest on our outstanding $50.0 million face value of convertible subordinated debentures that was redeemed in June 2002.

Other expenses, net were $0.3 million for the third quarters of 2003 and 2002. Other expenses, net were $6.0 million for the nine months ended September 30, 2003 compared to $0.9 million for the nine months ended September 30, 2002. The increase in the net expense for the nine months ended September 30, 2003 includes the March 2003 write-off of a $5.0 million one-time payment made in July 2002 to X-Ceptor Therapeutics, Inc. (or X-Ceptor) to extend Ligand's right to acquire the outstanding stock of X-Ceptor not already held by Ligand. In March 2003, we informed X-Ceptor that we would not exercise the purchase right. This increase is partially offset by the debt conversion expense of $2.0 million incurred in March 2002 in connection with the early conversion of $20.0 million in issue price of zero coupon convertible senior notes into common stock.

Liquidity and Capital Resources

We have financed our operations through private and public offerings of our equity securities, collaborative research and development and other revenues, issuance of convertible notes, product sales, capital and operating lease transactions, accounts receivable factoring and equipment financing arrangements and investment income.

At September 30, 2003, working capital was $59.6 million compared to working capital of $53.2 million at December 31, 2002. Cash, cash equivalents, short-term investments, and restricted investments totaled $92.9 million at September 30, 2003 compared to $74.9 million at December 31, 2002. We primarily invest our excess cash in United States government and investment grade corporate debt securities.

During the second quarter of 2003, we entered into a one-year accounts receivable factoring arrangement. We pay commissions to the finance company based on the gross receivables sold, subject to a minimum annual commission. Additionally, we pay interest on the net outstanding balance of the uncollected factored accounts receivable. During the third quarter of 2003, cash in the amount of $23.4 million was received through the factoring arrangement.

Operating activities used cash of $8.9 million for the nine months ended September 30, 2003 compared to $15.6 million for the nine months ended September 30, 2002. Operating cash flow in 2003 compared to the prior year period reflects increased product sales of AVINZA® and ONTAK®. Additionally, due to our factoring arrangement, net accounts receivable decreased $1.2 million from September 30, 2002 to September 30, 2003, increasing cash flow. The factoring arrangement has served to accelerate collection of accounts receivable in 2003, including $23.4 million received under the arrangement as of September 30, 2003. Operating cash was negatively impacted, however, by higher development expenses to fund clinical trials of our existing products in new indications including Phase III registration trial for Targretin® capsules in non-small cell lung cancer, and higher selling and marketing expenses for AVINZA®. This negative impact was mitigated by the timing of payment for clinical trial expenses for the nine months ended September 30, 2003.

Non-cash expenses for the nine months ended September 30, 2003 increased $5.3 million compared to the nine months ended September 30, 2002. This increase was due to first, the write-off of the X-Ceptor purchase right in March 2003, and second, to the relative increase during the periods in question in amortization of acquired technology and product rights, specifically the AVINZA® license and supply agreement rights amortization. Amortization of the license and supply agreement rights commenced when we launched AVINZA® in the second quarter of 2002. Net decreases in operating assets generated an additional $3.7 million during the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. This was due primarily to the collection of several non-trade accounts receivable during the nine months ended September 30, 2003. Additionally, net increases in operating liabilities over the nine months ended September 30, 2003 generated $15.2 million more than over the prior year period. This was primarily due to increases in our sales-related liability accounts including accruals for royalty payments and accrued interest on our convertible note offering.

Investing activities provided cash of $3.1 million for the nine months ended September 30, 2003, and used cash of $3.0 million for the nine months ended September 30, 2002. Cash provided in 2003 reflects net proceeds of $8.4 million from the sale of short-term investments, offset by a $4.1 million payment to Elan in connection with the November 2002 restructuring of the AVINZA ® license and supply agreement and by capital expenditures of $1.2 million. Cash used for investing activities in 2002 reflects the net proceeds of $4.8 million from the sale of short-term investments, offset by capital expenditures of $2.9 million, and a $5.0 million payment to X-Ceptor Therapeutics, Inc. Under a 1999 investment agreement with X-Ceptor, we maintained the right to acquire all of the outstanding stock of X-Ceptor not held by Ligand at June 30, 2002, or to extend the purchase right for 12 months by providing additional funding of $5.0 million. In April 2002, we elected to extend the purchase right and payment was subsequently made in July 2002.

Financing activities provided cash of $36.3 million and $21.0 million for the nine months ended September 30, 2003, and 2002 respectively. Cash provided by financing activities in 2003 includes proceeds of $49.3 million from the issuance of common stock, primarily through a private placement of 3,483,593 shares of our common stock, $4.1 million from the maturing of restricted investments which was subsequently used to pay interest on our 6% convertible subordinated notes, and $0.6 million from equipment financing arrangements. We intend to use the net proceeds of $45.0 million from the private placement to support our working capital priorities, such as qualifying second source manufacturer(s) for AVINZA® and ONTAK®, completion of a second generation formulation of ONTAK®, continuing expansion of commercial support activities for AVINZA® and ONTAK®, and for general corporate purposes. These proceeds were offset by the $15.9 million repurchase of approximately 2.2 million shares of our outstanding common stock held by an affiliate of Elan in connection with a November 2002 share repurchase agreement, and payments of $1.8 million on equipment financing arrangements. Cash provided from financing activities for the nine months ended September 30, 2002 includes net proceeds of $65.9 million through a private placement of 4,252,500 shares of our common stock, $3.2 million from the exercise of employee stock options, and $0.9 million from the exercise of a warrant held by Elan in connection with the conversion of zero coupon convertible senior notes. These proceeds were offset by the $50.0 million early redemption of convertible subordinated debentures and payments of $2.2 million on equipment financing arrangements.

Certain of our property and equipment is pledged as collateral under various equipment financing arrangements. As of September 30, 2003, $5.0 million was outstanding under such arrangements with $2.3 million classified as current. Our equipment financing arrangements have terms of three to five years with interest ranging from 4.73% to 10.66%.

We expect operating cash flows to continue to benefit in 2003 from increased product sales driven by AVINZA®. Also, during the fourth quarter of 2003, we will receive payment of $12.5 million from Royalty Pharma for the sale of 0.7% of potential future royalties of certain SERM products. Operating cash will be negatively impacted, however, by higher development expenses to fund clinical trials of our existing products in new indications including Phase III registration trials for Targretin® capsules in non-small cell lung cancer, and higher selling and marketing expenses on AVINZA®. During the fourth quarter of 2003, we expect to incur additional selling expense related to our co-promotion fee to our partner Organon. The first payment for these fees is due in the first quarter of 2004. Additionally, we are required to pay interest of approximately $4.4 million in November 2003 on the $155.3 million in 6% convertible subordinated notes issued in November 2002. Of the net proceeds from issuance of the 6% convertible subordinated notes, $18.0 million was invested in U.S. government securities and placed with a trustee to pay the first four scheduled interest payments. The first payment of $4.4 million was made in May 2003. These investments are presented as restricted investments in our Consolidated Balance Sheets.

We lease our office and research facilities under operating lease arrangements with varying terms through July 2015. The Company leases its corporate headquarters from a limited liability company (the "LLC") in which Ligand holds a 1% ownership interest. The lease agreement provides for increases in annual rent of 4% and terminates in 2014. Ligand also has an option to either purchase the LLC or the leased premises from the LLC at a purchase price equal to the outstanding debt on the property plus a calculated return on the investment made by the LLC's other shareholder.

In accordance with existing accounting standards, the lease is treated as an operating lease for financial reporting purposes. In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 ("FIN 46*"), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. FIN 46 requires the consolidation of certain variable interest entities by the primary beneficiary of the entity if the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or if the equity investors lack the characteristics of a controlling financial interest. For variable interest entities created prior to February 1, 2003, the consolidation requirements of FIN 46 initially were to have been applied in the Company's third quarter, but now must be applied in the Company's fourth quarter of 2003. However, the FASB plans to modify FIN 46 by the end of December 2003. We are currently in the process of determining whether the LLC will have to be consolidated under FIN 46. As FIN 46 is currently written, and after adjustments to conform the LLC's accounting policies to those of the Company, we estimate that, our Consolidated Balance Sheets as of September 30, 2003 would reflect additional property and equipment of $13.7 million and additional debt of $12.5 million. Our Consolidated Statements of Operations would reflect a one-time non-operating charge of approximately $1.9 million, which represents the difference in timing of the LLC's revenue and expense recognition under FIN 46 and the current accounting standard. We estimate that the impact of adopting FIN 46 on our net future operating results would not be significant.

As of September 30, 2003, future minimum payments, including interest, due under our contractual lease obligations are as follows (in thousands):

	Payments Due by Period				
	Total	1 year	2-3 years	4-5 years	After 5 years
Capital lease obligations	$ 5,380	$2,548	$ 2,743	$ 89	$ —
Operating leases	36,261	3,079	6,330	6,153	20,699
Total contractual lease obligations	$41,641	$5,627	$ 9,073	$ 6,242	$ 20,699

We believe our available cash, cash equivalents, short-term investments and existing sources of funding will be sufficient to satisfy our anticipated operating and capital requirements through at least the next 12 months. Our future operating and capital requirements will depend on many factors, including: the effectiveness of our commercial activities; the scope and results of preclinical testing and clinical trials; the pace of scientific progress in our research and development programs; the magnitude of these programs; 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 efforts of our collaborators; the ability to establish additional collaborations or changes in existing collaborations; and the cost of production.

Critical Accounting Policies

Certain of our accounting policies require the application of management judgment in making estimates and assumptions that affect the amounts reported in the consolidated financial statements and disclosures made in the accompanying notes. Those estimates and assumptions are based on historical experience and various other factors deemed to be applicable and reasonable under the circumstances. The use of judgment in determining such estimates and assumptions is by nature, subject to a degree of uncertainty. Accordingly, actual results could differ from the estimates made. Management believes there have been no material changes during the nine month period ended September 30, 2003 to the critical accounting policies reported in the Management's Discussion and Analysis section of our annual report on Form 10-K for the year ended December 31, 2002.

New Accounting Pronouncements

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires certain disclosures about each of the entity's guarantees. The Company does not have any guarantees outstanding.

In December 2002, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for those entities that elect to voluntarily adopt the fair value accounting provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 148 also requires more prominent disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation as well as pro forma disclosure of the effect in interim financial statements. The transition and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure requirements are effective for the first interim period ending after December 15, 2002. We have not elected to adopt the fair value accounting provisions of SFAS No. 123 and therefore the adoption of SFAS No. 148 did not have a material effect on our results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*. FIN 46 requires the consolidation of certain variable interest entities by the primary beneficiary of the entity if the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or if the equity investors lack the characteristics of a controlling financial interest. FIN 46 is effective for variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 were initially to have been applied in the first interim or annual period beginning after June 15, 2003. The FASB postponed implementation of FIN 46 in October 2003. Currently, the provisions of FIN 46 must be applied in the first interim or annual period ending after December 15, 2003. Refer to the discussion on Liquidity and Capital Resources in Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of the potential effect of adopting FIN 46 on our results of operations and financial position.

Risks and Uncertainties

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 product development and commercialization involves a number of uncertainties, and we may never generate sufficient revenues from the sale of products to become profitable.

We were founded in 1987. We have incurred significant losses since our inception. At September 30, 2003, our accumulated deficit was approximately $662 million. To date, we have received the majority of our revenues from our collaborative arrangements and only began receiving revenues from the sale of pharmaceutical products in 1999. To become profitable, we must successfully develop, clinically test, market and sell our products. Even if we achieve profitability, we cannot predict the level of that profitability or whether we will be able to sustain profitability. We expect that our operating results will fluctuate from period to period as a result of differences in when we incur expenses and receive revenues from product sales, collaborative arrangements and other sources. Some of these fluctuations may be significant.

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

We are building marketing and sales capabilities in the United States and Europe which is an expensive and time-consuming process and may increase our operating losses.

Developing the sales force to market and sell products is a difficult, expensive and time-consuming process. We have developed a US sales force of about 95 people. We also rely on third-party distributors to distribute our products. The distributors are responsible for providing many marketing support services, including customer service, order entry, shipping, billing and customer reimbursement assistance. In Europe, we currently rely on other companies to distribute and market our products. We have entered into agreements for the marketing and distribution of our products in territories such as the United Kingdom, Germany, France, Spain, Portugal, Greece, Italy and Central and South America and have established a subsidiary, Ligand Pharmaceuticals International, Inc., with a branch in London, England, to coordinate our European marketing and operations. Our reliance on these third parties means our results may suffer if any of them are unsuccessful or fail to perform as expected. We may not be able to continue to expand our sales and marketing capabilities sufficiently to successfully commercialize our products in the territories where they receive marketing approval. With respect to our co-promotion or licensing arrangements, for example our co-promotion agreement for AVINZA®, any revenues we receive will depend substantially on the marketing and sales efforts of others, which may or may not be successful.

Our small number of products means our results are vulnerable to setbacks with respect to any one product.

We currently have only five products approved for marketing and a handful of other products/indications that have made significant progress through development. Because these numbers are small, especially the number of marketed products, any significant setback with respect to any one of them could significantly impair our operating results and/or reduce the market prices for our securities. Setbacks could include problems with shipping, distribution, manufacturing, product safety, marketing, government licenses and approvals, intellectual property rights and physician or patient acceptance of the product.

Sales of our specialty pharmaceutical products may significantly fluctuate each period based on the nature of our products, our promotional activities and wholesaler purchasing and stocking patterns.

Excluding AVINZA®, our products are small-volume specialty pharmaceutical products that address the needs of cancer patients in relatively small niche markets with substantial geographical fluctuations in demand. To ensure patient access to our drugs, we maintain broad distribution capabilities with inventories held at approximately 150 locations throughout the United States. Furthermore, the purchasing and stocking patterns of our wholesaler customers are influenced by a number of factors that vary with each product, including but not limited to overall level of demand, periodic promotions, required minimum shipping quantities and wholesaler competitive initiatives. As a result, the level of product in the distribution channel may average from two to six months' worth of projected inventory usage. If any or all of our major distributors decide to substantially reduce the inventory they carry in a given period, our sales for that period could be substantially lower than historical levels.

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 currently estimate our research and development expenditures over the next 3 years to range between $250 million and $325 million. 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 and other factors. Any of these uncertain events can significantly change our cash requirements as they determine such one-time events as the receipt of major milestones and other payments.

While we expect to fund our research and development activities from cash generated from internal operations to the extent possible, if we are unable to do so we may need to complete additional equity or debt financings or seek other external means of financing. 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.

Some of our key technologies have not been used to produce marketed products and may not be capable of producing such products.

To date, we have dedicated most of our resources to the research and development of potential drugs based upon our expertise in our IR and STAT technologies. Even though there are marketed drugs that act through IRs, some aspects of our IR technologies have not been used to produce marketed products. In addition, we are not aware of any drugs that have been developed and successfully commercialized that interact directly with STATs. Much remains to be learned about the location and function of IRs and STATs. If we are unable to apply our IR and STAT technologies to the development of our potential products, we will not be successful in developing new products.

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

We have incurred losses since our inception and may not generate positive cash flow to fund our operations for one or more years. As a result, 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 favorable terms. In addition, these financings, if completed, still may not meet our capital needs and could result in substantial dilution to our stockholders. For instance, in February and March 2002 we issued to Elan an

aggregate of 6.3 million shares upon the conversion of zero coupon convertible senior notes held by Elan, and in April 2002 and September 2003 we issued an aggregate of 7.7 million shares of our common stock in private placements. These transactions have resulted in the issuance of significant numbers of new shares. In addition, in November 2002 we issued in a private placement $155.3 million in aggregate principal amount of our 6% convertible subordinated notes due 2007, which could be converted into 25,149,025 shares of our common stock.

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, or our marketing and sales initiatives. 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 products face significant regulatory hurdles prior to marketing which could delay or prevent sales. Even after approval, government regulation of our business is extensive.

Before we 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 in clinical trials, the most significant of which are our Phase III trials for Targretin® capsules in NSCLC and three Phase III trials by our partners involving bazedoxifene and lasofoxifene. Failure to show any product's safety and effectiveness would delay or prevent regulatory approval of the product and could adversely affect our business. The clinical trials process is complex and uncertain. 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. 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, which could be expensive and time-consuming, and failure to successfully conduct those trials could jeopardize continued commercialization.

The rate at which we complete our clinical trials depends on many factors, including 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. For example, each of our Phase III Targretin® clinical trials involves approximately 600 patients and requires significant time and investment to complete, including enrollment of patients and the ongoing gathering and analyzing of data. Delays in patient enrollment may result in increased costs and longer development times. In addition, our collaborative partners have rights to control product development and clinical programs for products developed under the collaborations. As a result, these collaborators may conduct these programs more slowly or in a different manner than we had expected. 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.

In addition, the manufacturing and marketing of approved products is subject to extensive government regulation, including by the FDA, Drug Enforcement Agency (or DEA) and state and other territorial authorities. The FDA administers processes to assure that marketed products are safe, effective, consistently of uniform, high quality and marketed only for approved indications. For example, while our products are prescribed legally by some physicians for unapproved uses, we may not market our products for such uses. Failure to comply with applicable regulatory requirements can result in sanctions up to the suspension of regulatory approval as well as civil and criminal sanctions.

We face substantial competition which may limit our revenues.

Some of the drugs that we are developing and marketing will compete with existing treatments. In addition, several companies are developing new drugs that target the same diseases that we are targeting and are taking IR-related and STAT-related approaches to drug development. The principal products competing with our products targeted at the cutaneous t-cell lymphoma market are Supergen/Abbott's Nipent and interferon, which is marketed by a number of companies, including Schering-Plough's Intron A. Products that compete with AVINZA® include Purdue Pharma L.P.'s OxyContin and MS Contin, Janssen Pharmaceutica Products, L.P.'s Duragesic, Elan's Oramorph SR, Faulding's Kadian and generic sustained release morphine sulfate. Many of our existing or potential

competitors, particularly large drug companies, have greater financial, technical and human resources than us and may be better equipped to develop, manufacture and market products. Many of these companies also have extensive experience in preclinical testing and human clinical trials, obtaining FDA and other regulatory approvals and manufacturing and marketing pharmaceutical products. In addition, academic institutions, governmental agencies and other public and private research organizations are developing products that may compete with the products we are developing. These institutions are becoming more aware of the commercial value of their findings and are seeking patent protection and licensing arrangements to collect payments for the use of their technologies. These institutions also may market competitive products on their own or through joint ventures and will compete with us in recruiting highly qualified scientific personnel.

Third-party reimbursement and health care reform policies may reduce our future sales.

Sales of prescription drugs depend significantly on the availability of reimbursement to the consumer from third party payers, such as government and private insurance plans. These third party payers frequently require drug companies to provide predetermined discounts from list prices, and they are increasingly challenging the prices charged for medical products and services. Our current and potential products may not be considered cost-effective, and reimbursement to the consumer may not be available or sufficient to allow us to sell our products on a competitive basis. For example, we have current and recurring discussions with insurers regarding reimbursement rates for our drugs, including AVINZA®. We may not be able to negotiate favorable reimbursement rates for our products or may have to pay significant discounts to obtain favorable rates. Only one of our products, ONTAK®, is currently eligible to be reimbursed by Medicare. Recently-enacted changes by Medicare to the hospital outpatient payment reimbursement system may adversely affect reimbursement rates for ONTAK®.

In addition, the efforts of governments and third-party payers to contain or reduce the cost of health care will continue to affect the business and financial condition of drug companies such as us. A number of legislative and regulatory proposals to change the health care system have been discussed in recent years, including price caps and controls for pharmaceuticals. These proposals could reduce and/or cap the prices for our products or reduce government reimbursement rates for products such as ONTAK®. In addition, an increasing emphasis on managed care in the United States has and will continue to increase pressure on drug pricing. We cannot predict whether legislative or regulatory proposals will be adopted or what effect those proposals or managed care efforts may have on our business. The announcement and/or adoption of such proposals or efforts could adversely affect our profit margins and business.

We rely heavily on collaborative relationships and termination of any of these programs could reduce the financial resources available to us, including research funding and milestone payments.

Our strategy for developing and commercializing many of our potential products, including products aimed at larger markets, includes entering into collaborations with corporate partners, licensors, licensees and others. These collaborations provide us with funding and research and development resources for potential products for the treatment or control of metabolic diseases, blood disorders, women's health disorders, inflammation, cardiovascular disease, cancer, skin disease, and osteoporosis. These agreements also give our collaborative partners significant discretion when deciding whether or not to pursue any development program. Our collaborations may not continue or be successful.

In addition, our collaborators may develop drugs, either alone or with others, that compete with the types of drugs they currently are developing with us. This would result in less support and increased competition for our programs. If products are approved for marketing under our collaborative programs, any revenues we receive will depend on the manufacturing, marketing and sales efforts of our collaborators, who generally retain commercialization rights under the collaborative agreements. Our current collaborators also generally 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.

We may have disputes in the future with our collaborators, including disputes concerning which of us owns the rights to any technology developed. For instance, we were involved in litigation with Pfizer, which we settled in April 1996, concerning our right to milestones and royalties based on the development and commercialization of droloxifene. These and other possible disagreements between us and our collaborators could delay our ability and the ability of our collaborators to achieve milestones or our receipt of other payments. In addition, any disagreements could delay, interrupt or terminate the collaborative research, development and commercialization of certain potential products, 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.

Challenges to or failure to secure patents and other proprietary rights may significantly hurt our business.

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 and to avoid infringing the proprietary rights of others, 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. 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.

Our patent position, like that of many 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, they 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. Further, the manufacture, use or sale of our products may infringe the patent rights of others.

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 Patent and Trademark Office and patent applications filed in foreign countries are often first published six months or more after filing. 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. While we routinely receive communications or have conversations with the owners of other patents, none of these third parties have directly threatened an action or claim against us. If other companies 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.

We have had and will continue to have discussions with our current and potential collaborators regarding the scope and validity of our patents and other proprietary rights. If a collaborator 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 collaborators to terminate their agreements where contractually permitted. Such a determination could also 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 results, a court may find our patents or those of our licensors invalid or may find that we have infringed on a competitor's rights. If any of our competitors have filed patent applications in the United States which claim technology we also have invented, the 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 have learned that Hoffmann-La Roche Inc. has received a US patent and has made patent filings in foreign countries that relate to our Panretin® capsules and gel products. We filed a patent application with an earlier filing date than Hoffmann-La Roche's patent, which we believe is broader than, but overlaps in part with, Hoffmann-La Roche's patent. We believe we were the first to invent the relevant technology and therefore are entitled to a patent on the application we filed. The Patent and Trademark Office has initiated a proceeding to determine whether we or Hoffmann-La Roche are entitled to a patent. We may not receive a favorable outcome in the proceeding. In addition, the proceeding may delay the Patent and Trademark Office's decision regarding our earlier application. If we do not prevail, the Hoffmann-La Roche patent might block our use of Panretin® capsules and gel in specified cancers.

We have also learned that Novartis AG has filed an opposition to our European patent that covers the principal active ingredient of our ONTAK® drug. We are currently investigating the scope and merits of this opposition. If the opposition is successful, we could lose our ONTAK® patent protection in Europe which could substantially reduce our future ONTAK® sales in that region. We could also incur substantial costs in asserting our rights in this opposition proceeding, as well as in other interference proceedings in the United States.

We also rely on unpatented trade secrets and know-how to protect and maintain our competitive position. We require our employees, consultants, collaborators 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.

Reliance on third-party manufacturers to supply our products risks supply interruption or contamination and difficulty controlling costs.

We currently have no manufacturing facilities, and we rely on others for clinical or commercial production of our marketed and potential products. In addition, certain raw materials necessary for the commercial manufacturing of our products are custom and must be obtained from a specific sole source. Elan manufactures AVINZA® for us, Cambrex manufactures ONTAK® for us and Cardinal Health and Raylo manufacture Targretin® capsules for us.

To be successful, we will need to ensure continuity of the manufacture of our products, either directly or through others, in commercial quantities, in compliance with regulatory requirements and at acceptable cost. Any extended and unplanned manufacturing shutdowns could be expensive and could result in inventory and product shortages. While we believe that we would be able to develop our own facilities or contract with others for manufacturing services with respect to all of our products, if we are unable to do so our revenues could be adversely affected. In addition, if we are unable to supply products in development, our ability to conduct preclinical testing and human clinical trials will be adversely affected. This in turn could also delay our submission of products for regulatory approval and our initiation of new development programs. In addition, although other companies have manufactured drugs acting through IRs and STATs on a commercial scale, we may not be able to do so at costs or in quantities to make marketable products.

The manufacturing process also may be susceptible to contamination, which could cause the affected manufacturing facility to close until the contamination is identified and fixed. In addition, problems with equipment failure or operator error also could cause delays in filling our customers' orders.

Our business exposes us to product liability risks or our products may need to be recalled, and we may not have sufficient insurance to cover any claims.

Our business exposes us to potential product liability risks. Our products also may need to be recalled to address regulatory issues. A successful product liability claim or series of claims brought against us could result in payment of significant amounts of money and divert management's attention from running the business. Some of the compounds we are investigating may be harmful to humans. For example, retinoids as a class are known to contain compounds which can cause birth defects. We may not be able to maintain our insurance on acceptable terms, or our insurance may not provide adequate protection in the case of a product liability claim. To the extent that product liability insurance, if available, does not cover potential claims, we will be required to self-insure the risks associated with such claims. We believe that we carry reasonably adequate insurance for product liability claims.

We use hazardous materials which requires us to incur substantial costs to comply with environmental regulations.

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 at substantial cost to us. Our annual cost of compliance with these regulations is approximately $600,000. We cannot completely eliminate the risk of accidental contamination or injury from the handling and disposing of hazardous materials, whether by us or by our third-party contractors. In the event of any accident, we could be held liable for any damages that result, which could be significant. We believe that we carry reasonably adequate insurance for toxic tort claims.

Our stock price may be adversely affected by volatility in the markets.

The market prices and trading volumes for our securities, and the securities of emerging companies like us, have historically been highly volatile and have experienced significant fluctuations unrelated to operating performance. For example, in 2002, the intraday sale price of our common stock on The Nasdaq National Market was as high as $20.50 and as low as $4.64. Future announcements concerning us or our competitors as well as other companies in our industry and other public companies may impact the market price of our common stock. These announcements might include:

- the results of research or development testing of ours or our competitors' products;
- technological innovations related to diseases we are studying;
- new commercial products introduced by our competitors;
- government regulation of our industry;
- receipt of regulatory approvals by our competitors;
- our failure to receive regulatory approvals for products under development;
- developments concerning proprietary rights;
- litigation or public concern about the safety of our products; or
- intent to sell or actual sale of our stock held by our corporate partners.

Future sales of our securities may depress the price of our securities.

Sales of substantial amounts of our securities in the public market could seriously harm prevailing market prices for our securities. These sales might make it difficult or impossible for us to sell additional securities when we need to raise capital.

You may not receive a return on your securities other than through the sale of your securities.

We have not paid any cash dividends on our common stock to date. We intend to retain any earnings to support the expansion of our business, and we do not anticipate paying cash dividends on any of our securities in the foreseeable future.

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 you. Such 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2003, our investment portfolio included fixed-income securities of $4.4 million. At September 30, 2003, we held no other market risk sensitive instruments. Our fixed-income securities are subject to interest rate risk and will decline in value if interest rates increase. This risk is mitigated, however, due to the relatively short effective maturities of the debt instruments in our investment portfolio. Accordingly, 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 would, 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 limited foreign currency exchange rate risk. The effect of an immediate 10% change in foreign exchange rates would have no material impact on our financial condition, results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report are effective to ensure that material information required to be disclosed by the Company, including its consolidated subsidiaries, in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls.There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

On December 11, 2001, a lawsuit was filed in the United States District Court for the District of Massachusetts against the Company by the Trustees of Boston University and other former stakeholders of Seragen. The suit was subsequently transferred to federal district court in Delaware. The complaint alleges breach of contract, breach of the implied covenants of good faith and fair dealing and unfair and deceptive trade practices based on, among other things, allegations that the Company wrongfully withheld approximately $2.1 million in consideration due the plaintiffs under the Seragen acquisition agreement. This amount had been previously accrued for in the Company's financial statements. The complaint seeks payment of the withheld consideration and treble damages.

The court subsequently granted Ligand's motion to dismiss the unfair and deceptive trade practices claims (i.e. the treble damages claims), granted Boston University's motion for summary judgment, and in November 2003 entered judgment for Boston University. We intend to appeal the judgment.

We believe that this lawsuit is without merit and will continue to vigorously defend against it. Due to the uncertainty of the process, timing, and ultimate outcome of this matter, the impact on future financial results is not subject to reasonable estimates.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three month period ended September 30, 2003, we issued the following securities:

On September 11, 2003, we issued 3,483,593 shares of our common stock in an unregistered transaction to selected institutional and accredited investors, including several current Ligand investors, for aggregate consideration of approximately $47 million. In connection with the issuance of the shares, we paid $2.0 million in cash compensation to the placement agents. We subsequently registered the resale of all of these shares on a Form S-3 registration statement (No. 333-109172), filed on September 26, 2003, as amended October 8, 2003, and declared effective on October 8, 2003. The shares were issued under a claim of exemption under Regulation D promulgated by the SEC or, alternatively, under Section 4(2) of the Securities Act.

This transaction did not involve a public offering. Appropriate legends were affixed to the stock certificates, as applicable, issued in such transactions. We believe each transferee had adequate access to information about us to make an informed investment decision and each transferee is an accredited investor within the meaning of Rule 501 of Regulation D.

ITEM 6. (A) EXHIBITS

Exhibit 3.1 (1)	Amended and Restated Certificate of Incorporation of the Company (Filed as Exhibit 3.2).
Exhibit 3.2 (1)	Bylaws of the Company, as amended (Filed as Exhibit 3.3).
Exhibit 3.3 (2)	Amended Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Company.
Exhibit 3.5 (5)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company dated June 14, 2000.
Exhibit 4.1 (6)	Specimen stock certificate for shares of Common Stock of the Company.
Exhibit 4.2 (3)	Preferred Shares Rights Agreement, dated as of September 13, 1996, by and between the Company and Wells Fargo Bank, N.A. (Filed as Exhibit 10.1)
Exhibit 4.3 (4)	Amendment to Preferred Shares Rights Agreement, dated as of November 9, 1998, between the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (Filed as Exhibit 99.1).

Exhibit 4.4 (7)	Second Amendment to the Preferred Shares Rights Agreement, dated as of December 23, 1998, between the Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (Filed as Exhibit 1).
Exhibit 4.7 (8)	Fourth Amendment to the Preferred Shares Rights Agreement and Certification of Compliance with Section 27 Thereof, dated as of October 3, 2002, between the Company and Mellon Investor Services LLC, as Rights Agent.
Exhibit 4.8 (9)	Registration Rights Agreement dated November 26, 2002 between Ligand Pharmaceuticals Incorporated and UBS Warburg LLC. (Filed as Exhibit 4.2)
Exhibit 4.9 (9)	Indenture dated November 26, 2002, between Ligand Pharmaceuticals Incorporated and J.P. Morgan Trust Company, National Association, as trustee, with respect to the 6% convertible subordinated notes due 2007. (Filed as Exhibit 4.3).
Exhibit 4.10 (9)	Form of 6% Convertible Subordinated Note due 2007. (Filed as Exhibit 4.4).
Exhibit 4.11 (9)	Pledge Agreement dated November 26, 2002, between Ligand Pharmaceuticals Incorporated and J.P. Morgan Trust Company, National Association. (Filed as Exhibit 4.5).
Exhibit 4.12 (9)	Control Agreement dated November 26, 2002, among Ligand Pharmaceuticals Incorporated, J.P. Morgan Trust Company, National Association and JP Morgan Chase Bank. (Filed as Exhibit 4.6).
Exhibit 10.261	Letter Agreement, dated July 1, 2003, between the Company and Paul V. Maier.
Exhibit 10.262	Letter Agreement, dated July 1, 2003, between the Company and Ronald C. Eld.
Exhibit 10.263	Separation Agreement and General Release, effective July 10, 2003, between the Company and Thomas H. Silberg (with certain confidential portions omitted).
Exhibit 99.1	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.
Exhibit 99.2	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.
Exhibit 99.3	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.
Exhibit 99.4	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.

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(1) 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.

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

(3) 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-3 (No. 333-12603) filed on September 25, 1996, as amended.

(4) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with, the Registration Statement on Form 8-A/A Amendment No. 1 (No. 0-20720) filed on November 10, 1998.

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

(6) 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.

(7) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Registration Statement on Form 8-A/A Amendment No. 2 (No. 0-20720) filed on December 24, 1998.

(8) This exhibit was previously filed as part of, and is hereby incorporated by reference to the same numbered exhibit filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002.

(9) 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-3 (no. 333-102483) filed on January 13, 2003, as amended.

ITEM 6. (B) REPORTS ON FORM 8-K

The following reports on Form 8-K were filed or furnished during the quarter ended September 30, 2003:

Date of Filing	Description		
July 28, 2003	Item 7 and 12, Disclosure of Results of Operations and Financial Condition	—	Ligand Reports Record Revenues for Second Quarter 2003: Net Product Sales Increase 140%, Total Revenues Up 52%
September 11, 2003	Item 5 and 7, Other Events	—	Ligand Raises $47 Million in Private Placement of Common Stock

LIGAND PHARMACEUTICALS INCORPORATED

September 30, 2003

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.

Ligand Pharmaceuticals Incorporated

Date: November 10, 2003

By: /S/ PAUL V.MAIER
Paul V. Maier
Senior Vice President, Chief Financial Officer

EXHIBIT 10.261

July 1, 2003

Mr. Paul V. Maier
Senior Vice President, CFO
LIGAND PHARMACEUTICALS INCORPORATED
10275 Science Center Drive
San Diego, CA 92121

Dear Paul:

The purpose of this letter agreement is to document the terms of the severance package to which you will be entitled should your employment with Ligand Pharmaceuticals Incorporated (the "Company") terminate under certain specified circumstances.

Part One of this letter agreement sets forth certain definitional provisions to be in effect for purposes of determining your benefit entitlements. Part Two specifies the terms and conditions upon which you may become entitled to receive severance benefits. Severance benefits accrue under this letter agreement in the event your employment with the Company were to be terminated involuntarily in connection with certain changes in control of the Company. Part Three concludes this letter agreement with a series of general terms and conditions applicable to your severance benefits.

PART ONE -- DEFINITIONS

DEFINITIONS. For purposes of this letter agreement, including in particular the application of the special benefit limitations of Part Three, the following definitions will be in effect:

1. Average Compensation means your average W-2 wages from the Company for the five (5) calendar years completed immediately prior to the calendar year in which the Change in Control is effected. Any W-2 wages for a partial year of employment will be annualized, in accordance with the frequency with which such wages are paid during such partial year, before inclusion within your Average Compensation.

2. Board means the Company's Board of Directors.

3. Change in Control means any of the following events:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company other than in the ordinary course of business,

(iii) any reverse merger in which the Company ceases to exist as an independent corporation and becomes the subsidiary of another corporation, except where there is an insubstantial change in the de facto voting control of the Company (e.g. the creation of a holding company),

(iv) any Hostile Take-Over,

(v) the acquisition by any person (or related group of persons), whether by tender or exchange offer made directly to the Company's stockholders, private purchases from one or more of the Company's stockholders, open market purchases or any other transaction, of beneficial ownership of securities possessing more than thirty percent (30%) of the total combined voting power of the Company's outstanding securities,

(vi) the acquisition by any person (or related group of persons), whether by tender or exchange offer made directly to the Company's stockholders, private purchases from one or more of the Company's stockholders, open market purchases or any other transaction, of additional securities of the Company which increase the total holdings of such person (or group) to a level of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities, or

(vii) the acquisition by any person (or related group of persons), whether by tender or exchange offer made directly to the Company's stockholders, private purchases from one or more of the Company's stockholders, open market purchases or any other transaction, of securities of the Company possessing sufficient voting power in the aggregate to elect an absolute majority of the members of the Board (rounded up to the nearest whole number).

4. COBRA means the continuation-of-coverage provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

5. Code means the Internal Revenue Code of 1986, as amended.

6. Common Stock means the Company's common stock, par value $0.001 per share.

7. Equity Incentive Plans means any of the following equity incentive plans of the Company: 1992 Stock Option/Stock Issuance Plan, the 2002 Stock Incentive Plan, and the Restricted Stock Purchase Plan, together with any amendments or successors to such plans.

8. Equity Parachute Payment means, with respect to any Option (whether Acquisition-Accelerated or Severance-Accelerated) or unvested Stock Issuance, the portion deemed to be a parachute payment under Code Section 280G and the Treasury Regulations issued thereunder. Such Equity Parachute Payment shall be calculated in accordance with the valuation provisions established under Code Section 280G and the applicable Treasury Regulations and will include an appropriate dollar adjustment to reflect the lapse of your obligation to remain in the Company's employ as a condition to your vesting in the accelerated portion of such Option or Stock Issuance.

9. ERISA means the Employee Retirement Income Security Act of 1974, as amended.

10. Health Care Coverage means the health care benefits provided by the Company to you and your eligible dependents for which you are eligible to continue coverage under the provisions of COBRA.

11. Hostile Take-Over means either of the following events:

(i) the acquisition by any person (or related group of persons) whether by tender or exchange offer made directly to the Company's stockholders, private purchases from one or more of the Company's stockholders, open market purchases or any other transaction, of beneficial ownership of securities possessing more than thirty percent (30%) of the total combined voting power of the Company's outstanding securities pursuant to a tender offer made directly to the Company's stockholders which the Board does not recommend such stockholders to

accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (a) have been Board members continuously since the beginning of such period or (b) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (a) who were still in office at the time such election or nomination was approved by the Board.

12. Involuntary Termination means the termination of your employment with the Company:

(i) upon your involuntary discharge or dismissal, or

(ii) upon your resignation in connection with any of the following changes to the terms and conditions of your employment: (A) a change in your position with the Company which materially reduces your level of responsibility, (B) a greater than ten percent (10%) reduction in your level of compensation (including base salary, fringe benefits and participation in non-discretionary bonus programs under which awards are payable pursuant to objective financial or performance standards, but excluding equity compensation) or (C) a relocation of your principal place of employment by more than fifty (50) miles.

The following guidelines shall determine whether one or more reductions in compensation should be taken into account for purposes of clause (ii)(B):

(a) Any reduction in compensation which occurs in connection with an across-the-board reduction in the level of compensation

payable to the Company's executive officers or senior management shall not constitute grounds for a clause (ii)(B) resignation, unless implemented within eighteen (18) months after a Change in Control.

(b) In the event of a Hostile Take-Over, the greater than ten percent (10%) standard of clause (ii)(B) shall be reduced to zero percent (0%) so that any reduction in the level of your compensation shall constitute grounds for a clause (ii)(B) resignation.

In no event shall an Involuntary Termination be deemed to occur should your employment terminate by reason of death or permanent disability.

13. Option means any option granted to you under any of the Equity Incentive Plans which is outstanding at the time of your Involuntary Termination or any earlier Change in Control. Your outstanding options are to be divided into two separate categories as follows:

(i) Acquisition-Accelerated Options: any outstanding Option (or installment thereof) which accelerates upon a Change in Control in accordance with the automatic acceleration provisions of the Equity Incentive Plans.

(ii) Severance-Accelerated Options: any outstanding Option (or installment thereof) which is not an Acquisition-Accelerated Option but which accelerates upon your Involuntary Termination, whether or not in connection with a Change in Control, as part of your severance benefits under this letter agreement.

14. Other Parachute Payments mean any payments in the nature of compensation to which you may become entitled under this letter agreement (other than the Equity Parachute Payment) or any other arrangement with the Company, to the extent such payments qualify as parachute payments within the meaning of Code Section 280G(b)(2) and the Treasury Regulations issued thereunder or would so qualify if the aggregate present value of such payments exceeded the amount specified in Code Section 280G(b)(2)(ii).

15. Stock Issuance means the issuance of unvested shares of Common Stock under the Company's Restricted Stock Plan or any other Equity Incentive Plan.

16. Termination for Cause means an Involuntary Termination or resignation of your employment with the Company by reason of your conviction of any felony or other criminal act, your commission of any act of fraud or embezzlement, your unauthorized use or disclosure of confidential or proprietary information or trade secrets of the Company or its subsidiaries, or any other intentional misconduct on your part which adversely affects the business or affairs of the Company in a material manner.

PART TWO -- INVOLUNTARY TERMINATION BENEFITS

You will be entitled to receive the severance benefits specified below should there occur an Involuntary Termination of your employment during the term of this letter agreement effected in connection with a Change in Control, other than a Termination for Cause. However, in the absence of a Hostile Take-Over, these benefits will continue to be paid you only for so long as you remain available for any consulting services required of you under Part Two, Paragraph 4 and abide by the restrictive covenants set forth in Part Two, Paragraph 5.

1. Severance Payments. You will receive severance payments from the Company for a period of twelve (12) months following your Involuntary Termination in an aggregate amount equal to the sum of (A) one (1) times the annual rate of base salary in effect for you at the time of your Involuntary Termination or at the time of the relevant Change in Control, whichever is higher plus (B) one (1) times the average of the bonuses (excluding any signing bonus) paid to you for services rendered in the two (2) fiscal years immediately preceding the fiscal year of your Involuntary Termination (annualized if paid for a partial fiscal year). If a bonus is paid to you for only one of those years, then the bonus amount under Clause (B) will be equal to one (1) times such bonus amount. The aggregate severance payments shall be paid to you in equal installments over the twelve-month period in accordance with the Company's normal payroll practices and subject to all applicable withholding taxes. The severance payments will immediately terminate if and only if (i) you should cease to remain available for the consulting services required of you under Section 4, or (ii) you fail to abide by the restrictive covenants set forth in Section 5 . However, in the event your Involuntary Termination occurs in connection with a Hostile Take-Over, your severance payments will be paid to you in the form of a single lump sum amount within thirty (30) days after such Involuntary Termination, and the provisions of Sections 4 and 5 of this Part Two will not apply.

2. Health Care Coverage. The Company will, at its expense, make any COBRA payments for you and your eligible dependents in order to continue your Health Care Coverage until the earlier of (i) twelve (12) months after the effective date of your Involuntary Termination (other than a

Termination for Cause) or (ii) the first date that you are covered under another employer's (or, in the event of rehire, the Company's) health benefit program which provides substantially the same level of benefits without exclusion for pre-existing medical conditions. Such payments will be in lieu of any other continued health care coverage to which you or your dependents would otherwise be entitled pursuant to the requirements of Code Section 4980B by reason of your termination of employment.

3. Option Acceleration and Lapse of Restrictions. Each of your outstanding Options under the Equity Incentive Plans will (to the extent not then otherwise exercisable) automatically accelerate so that each such Option will become immediately exercisable for the total number of shares of Common Stock at the time subject to that Option. Each such accelerated Option, together with all of your other vested Options, will remain exercisable for a period of twelve (12) months following your Involuntary Termination until the end of the specified ten (10)-year option term. Such Option(s) may be exercised for any or all of the option shares in accordance with the exercise provisions of the option agreement evidencing the grant. In addition, all restrictions applicable to the Stock Issuances you hold (to the extent those restrictions have not previously lapsed in accordance with the terms of the issuance agreements) will automatically lapse upon your Involuntary Termination (except a Termination for Cause).

4. Consulting Services. Unless your Involuntary Termination occurs in connection with a Hostile Take-Over, you will make yourself available to perform consulting services reasonably requested of you during the twelve (12)-month period following your Involuntary Termination. You will be compensated at an hourly rate to be agreed upon by you and the Company at the time such consulting services are to be rendered, and you will be reimbursed for all reasonable out-of-pocket expenses incurred in rendering such services upon your submission of appropriate documentation for those expenses.

5. Restrictive Covenants. For the one hundred twenty (120)-day period following your Involuntary Termination:

(i) You will not directly or indirectly, whether for your own account or

as an employee, director, consultant or advisor, provide services to any business enterprise which is at the time in competition with any of the Company's then existing or formally planned product lines and which is located geographically in an area where the Company maintains substantial business activities, unless you obtain the prior written consent of the Board of Directors.

(ii) You will not directly or indirectly encourage or solicit any individual to leave the Company's employ for any reason or interfere in any other manner with the employment relationships at the time existing between the Company and its current or prospective employees.

(iii) You will not induce or attempt to induce any customer, supplier, distributor, licensee or other business relation of the Company to cease doing business with the Company or in any way interfere with the existing business relationship between any such customer, supplier, distributor, licensee or other business relation and the Company.

You acknowledge that monetary damages may not be sufficient to compensate the Company for any economic loss which may be incurred by reason of your breach of the foregoing restrictive covenants. Accordingly, in the event of any such breach, the Company shall, in addition to the cessation of the severance benefits provided you under this letter agreement and any remedies available to the Company at law, be entitled to obtain equitable relief in the form of an

injunction precluding you from continuing to engage in such breach.

None of the foregoing restrictive covenants in this section 5 shall be applicable in the event your Involuntary Termination occurs in connection with a Hostile Take-Over.

6. Benefit Reduction.

(i) BENEFIT REDUCTION. If the Change in Control does not constitute a Hostile Take-Over, first the dollar amount of your severance payment under Paragraph 1 will be reduced to the extent necessary to assure that the present value of those benefits will not, when added to the present value of your Equity Parachute Payment and your Other Parachute Payments, exceed 2.99 times your Average Compensation. In the event of a Hostile Take-Over, no reduction will be made to your severance payment (or any other benefit to which you become entitled hereunder), unless necessary to provide you with the maximum after-tax benefit available, after taking into account any parachute

excise tax which might otherwise be payable by you under Code Section 4999 and any analogous State income tax provision.

(ii) RESOLUTION OF DISPUTES. In the event there is any disagreement between you and the Company as to whether one or more benefits to which you become entitled (whether under this letter agreement or otherwise) in connection with a Change in Control constitute Equity Parachute Payments or Other Parachute Payments, such dispute is to be resolved as follows:

A. The matter shall be submitted for resolution to independent counsel mutually acceptable to you and the Company ("Independent Counsel"). The resolution reached by Independent Counsel shall be final and controlling. However, should the Independent Counsel determine that the status of the benefits in dispute can be resolved by obtaining a private letter ruling from the Internal Revenue Service, a formal and proper request for such ruling shall be prepared and submitted by Independent Counsel, and the determination made by the Internal Revenue Service in the issued ruling shall be controlling. All expenses incurred in connection with the retention of Independent Counsel and (if applicable) the preparation and submission of the ruling request shall be paid by the Company.

B. The present value of each Equity Parachute Payment and each of the Other Parachute Payments (including your severance payment and Health Care Coverage) shall be determined in accordance with the provisions of Code Section 280G(d)(4) and the Treasury Regulations issued thereunder.

The full amount of your severance benefit under Paragraph 1 shall not be paid to you until any amounts in dispute under this Paragraph 6(ii) have been resolved in accordance herewith. However, any portion of such severance payment which would not otherwise exceed the benefit limitation of Paragraph 6(i) even if all amounts in dispute under this Paragraph 6(ii) were to be resolved against you will be paid to you in accordance with the applicable provisions of this letter agreement.

(iii) OVERRIDING LIMITATION. You will in all events be entitled to receive the full amount of your severance payment under Paragraph 1, to the extent those benefits, when added to the present value of your Equity Parachute Payment and your Other Parachute Payments (excluding such severance payment), will nevertheless qualify as reasonable compensation within the standards established under Code Section 280G(b)(4).

(iv) INTERPRETATION. The provisions of this Section 6 shall in all events be interpreted in such manner as will avoid the imposition of excise taxes under Code Section 4999, and the disallowance of deductions under Code Section 280G(a), with respect to your severance benefits under this letter agreement.

PART THREE -- MISCELLANEOUS PROVISIONS

1. Termination for Cause. Should your termination constitute a Termination for Cause, then the Company shall only be required to pay you (i) any unpaid compensation earned for services previously rendered through the date of such termination and (ii) any accrued but unpaid vacation benefits or sick days, (iii) any reimbursements then owed to you by the Company and no benefits will be payable to you under this letter agreement.

2. Term of Agreement. The provisions of this letter agreement will continue in effect for a period of five (5) years from the date hereof.

3. General Creditor Status. The benefits to which you may become entitled under this letter agreement (except those attributable to your Options or Stock Issuances) will be paid, when due, from the general assets of the Company. Your right (or the right of the executors or administrators of your estate) to receive any such payments will at all times be that of a general creditor of the Company and will have no priority over the claims of other general creditors of the Company.

4. Death. Should you die before receipt of all benefits to which you become entitled under this letter agreement, then the payment of such benefits will be made, on the due date or dates hereunder had you survived, to the executors or administrators of your estate. Should you die before you exercise your Severance-Accelerated Options (if any) or any other of your outstanding vested Options, then each such Option may be exercised, during the applicable exercise period in effect hereunder for those options at the time of your death, by the executors or administrators of your estate or by person to whom the Option is transferred pursuant to your will or in accordance with the laws of inheritance.

5. Miscellaneous. The provisions of this letter agreement will be construed and interpreted under ERISA. To the extent ERISA is inapplicable, then the laws of the State of California shall control, without regard to that state's choice of law provisions. This letter agreement incorporates the entire agreement between

you and the Company relating to the subject of severance benefits and supersedes all prior agreements and understandings with respect to such subject matter. This letter agreement may only be amended by written instrument signed by you and another duly-authorized officer of the Company. If any provision of this letter agreement as applied to any party or to any circumstance should be adjudged by an arbitrator or court of competent jurisdiction to be void or unenforceable for any reason, the invalidity of that provision shall in no way affect (to the maximum extent permissible by law) the application of such provision under circumstances different from those so adjudicated, the application of any other provision of this letter agreement, or the enforceability or invalidity of this letter agreement as a whole. Should any provision of this letter agreement become or be determined to be invalid, illegal or unenforceable in any jurisdiction by reason of the scope, extent or duration of its coverage, then such provision shall be deemed amended to the extent

necessary to conform to applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision shall be stricken and the remainder of this letter agreement shall continue in full force and effect.

6. Remedies. All rights and remedies provided pursuant to this letter agreement or by law will be cumulative, and no such right or remedy will be exclusive of any other. A party may pursue any one or more rights or remedies hereunder or may seek damages or specific performance in the event of another party's breach hereunder or may pursue any other remedy by law or equity, whether or not stated in this letter agreement.

7. Arbitration. Any controversy which may arise between you and the Company with respect to the construction, interpretation or application of any of the terms, provisions or conditions of this letter agreement or any monetary claim arising from or relating to this letter agreement will be submitted to and exclusively decided by final and binding arbitration in San Diego, California in accordance with the rules of the American Arbitration Association then in effect.

8. No Employment or Service Contract. Nothing in this letter agreement shall confer upon you any right to continue in the employment of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or you, which rights are hereby expressly reserved by each, to terminate your employment at any time for any reason whatsoever, with or without cause.

9. Proprietary Information. You hereby acknowledge that the Company may, from time to time during your employment with the Company, disclose to you confidential information pertaining to the Company's business and affairs. All information and data, whether or not in writing, of a private or confidential nature concerning the business or financial affairs of the Company is and will remain subject to a separate Proprietary Information and Inventions Agreement (or the like) between you and the Company.

Please indicate your acceptance of the foregoing provisions of this severance agreement by signing the enclosed copy of this letter agreement and returning it to the Company.

Very truly yours,

LIGAND PHARMACEUTICALS INCORPORATED

/S/DAVID E. ROBINSON

David E. Robinson
Chairman, President and CEO

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ACCEPTED BY AND AGREED TO

Signature: /S/PAUL V. MAIER

Dated: July 1, 2003

EXHIBIT 10.262

July 1, 2003

Mr. Ronald C. Eld
Executive Director,
Strategic & Business Planning
LIGAND PHARMACEUTICALS INCORPORATED
10275 Science Center Drive
San Diego, CA 92121

Dear Ron:

The purpose of this letter agreement is to document the terms of the severance package to which you will be entitled should your employment with Ligand Pharmaceuticals Incorporated (the "Company") terminate under certain specified circumstances.

Part One of this letter agreement sets forth certain definitional provisions to be in effect for purposes of determining your benefit entitlements. Part Two specifies the terms and conditions upon which you may become entitled to receive severance benefits. Severance benefits accrue under this letter agreement in the event your employment with the Company were to be terminated involuntarily in connection with certain changes in control of the Company. Part Three concludes this letter agreement with a series of general terms and conditions applicable to your severance benefits.

PART ONE -- DEFINITIONS

DEFINITIONS. For purposes of this letter agreement, including in particular the application of the special benefit limitations of Part Three, the following definitions will be in effect:

1. Average Compensation means your average W-2 wages from the Company for the five (5) calendar years completed immediately prior to the calendar year in which the Change in Control is effected. Any W-2 wages for a partial year of employment will be annualized, in accordance with the frequency with which such wages are paid during such partial year, before inclusion within your Average Compensation.

2. Board means the Company's Board of Directors.

3. Change in Control means any of the following events:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company other than in the ordinary course of business,

(iii) any reverse merger in which the Company ceases to exist as an independent corporation and becomes the subsidiary of another corporation, except where there is an insubstantial change in the de facto voting control of the Company (e.g. the creation of a holding company),

(iv) any Hostile Take-Over,

(v) the acquisition by any person (or related group of persons), whether by tender or exchange offer made directly to the Company's stockholders, private purchases from one or more of the Company's stockholders, open market purchases or any other transaction, of beneficial ownership of securities possessing more than thirty percent

(30%) of the total combined voting power of the Company's outstanding securities,

(vi) the acquisition by any person (or related group of persons), whether by tender or exchange offer made directly to the Company's stockholders, private purchases from one or more of the Company's stockholders, open market purchases or any other transaction, of additional securities of the Company which increase the total holdings of such person (or group) to a level of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities, or

(vii) the acquisition by any person (or related group of persons), whether by tender or exchange offer made directly to the Company's stockholders, private purchases from one or more of the Company's stockholders, open market purchases or any other transaction, of securities of the Company possessing sufficient voting power in the aggregate to elect an absolute majority of the members of the Board (rounded up to the nearest whole number).

4. COBRA means the continuation-of-coverage provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

5. Code means the Internal Revenue Code of 1986, as amended.

6. Common Stock means the Company's common stock, par value $0.001 per share.

7. Equity Incentive Plans means any of the following equity incentive plans of the Company: 1992 Stock Option/Stock Issuance Plan, the 2002 Stock Incentive Plan, and the Restricted Stock Purchase Plan, together with any amendments or successors to such plans.

8. Equity Parachute Payment means, with respect to any Option (whether Acquisition-Accelerated or Severance-Accelerated) or unvested Stock Issuance, the portion deemed to be a parachute payment under Code Section 280G and the Treasury Regulations issued thereunder. Such Equity Parachute Payment shall be calculated in accordance with the valuation provisions established under Code Section 280G and the applicable Treasury Regulations and will include an appropriate dollar adjustment to reflect the lapse of your obligation to remain in the Company's employ as a condition to your vesting in the accelerated portion of such Option or Stock Issuance.

9. ERISA means the Employee Retirement Income Security Act of 1974, as amended.

10. Health Care Coverage means the health care benefits provided by the Company to you and your eligible dependents for which you are eligible to continue coverage under the provisions of COBRA.

11. Hostile Take-Over means either of the following events:

(i) the acquisition by any person (or related group of persons) whether by tender or exchange offer made directly to the Company's stockholders, private purchases from one or more of the Company's stockholders, open market purchases or any other transaction, of beneficial ownership of securities possessing more than thirty percent (30%) of the total combined voting power of the Company's outstanding securities pursuant to a tender offer made directly to the Company's

stockholders which the Board does not recommend such stockholders to accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (a) have been Board members continuously since the beginning of such period or (b) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (a) who were still in office at the time such election or nomination was approved by the Board.

12. Involuntary Termination means the termination of your employment with the Company:

(i) upon your involuntary discharge or dismissal, or

(ii) upon your resignation in connection with any of the following changes to the terms and conditions of your employment: (A) a change in your position with the Company which materially reduces your level of responsibility, (B) a greater than ten percent (10%) reduction in your level of compensation (including base salary, fringe benefits and participation in non-discretionary bonus programs under which awards are payable pursuant to objective financial or performance standards, but excluding equity compensation) or (C) a relocation of your principal place of employment by more than fifty (50) miles.

The following guidelines shall determine whether one or more reductions in compensation should be taken into account for purposes of clause (ii)(B):

(a) Any reduction in compensation which occurs in connection with an across-the-board reduction in the level of compensation

payable to the Company's executive officers or senior management shall not constitute grounds for a clause (ii)(B) resignation, unless implemented within eighteen (18) months after a Change in Control.

(b) In the event of a Hostile Take-Over, the greater than ten percent (10%) standard of clause (ii)(B) shall be reduced to zero percent (0%) so that any reduction in the level of your compensation shall constitute grounds for a clause (ii)(B) resignation.

In no event shall an Involuntary Termination be deemed to occur should your employment terminate by reason of death or permanent disability.

13. Option means any option granted to you under any of the Equity Incentive Plans which is outstanding at the time of your Involuntary Termination or any earlier Change in Control. Your outstanding options are to be divided into two separate categories as follows:

(i) Acquisition-Accelerated Options: any outstanding Option (or installment thereof) which accelerates upon a Change in Control in accordance with the automatic acceleration provisions of the Equity Incentive Plans.

(ii) Severance-Accelerated Options: any outstanding Option (or installment thereof) which is not an Acquisition-Accelerated Option but which accelerates upon your Involuntary Termination, whether or not in connection with a Change in Control, as part of your severance benefits under this letter agreement.

14. Other Parachute Payments mean any payments in the nature of compensation to which you may become entitled under this letter agreement (other than the Equity Parachute Payment) or any other arrangement with the Company, to the extent such payments qualify as parachute payments within the meaning of Code Section 280G(b)(2) and the Treasury Regulations issued thereunder or would so qualify if the aggregate present value of such payments exceeded the amount specified in Code Section 280G(b)(2)(ii).

15. Stock Issuance means the issuance of unvested shares of Common Stock under the Company's Restricted Stock Plan or any other Equity Incentive Plan.

16. Termination for Cause means an Involuntary Termination or resignation of your employment with the Company by reason of your conviction of any felony or other criminal act, your commission of any act of fraud or embezzlement, your unauthorized use or disclosure of confidential or proprietary information or trade secrets of the Company or its subsidiaries, or any other intentional misconduct on your part which adversely affects the business or affairs of the Company in a material manner.

PART TWO -- INVOLUNTARY TERMINATION BENEFITS

You will be entitled to receive the severance benefits specified below should there occur an Involuntary Termination of your employment during the term of this letter agreement effected in connection with a Change in Control, other than a Termination for Cause. However, in the absence of a Hostile Take-Over, these benefits will continue to be paid you only for so long as you remain available for any consulting services required of you under Part Two, Paragraph 4 and abide by the restrictive covenants set forth in Part Two, Paragraph 5.

1. Severance Payments. You will receive severance payments from the Company for a period of twelve (12) months following your Involuntary Termination in an aggregate amount equal to the sum of (A) one (1) times the annual rate of base salary in effect for you at the time of your Involuntary Termination or at the time of the relevant Change in Control, whichever is higher plus (B) one (1) times the average of the bonuses (excluding any signing bonus) paid to you for services rendered in the two (2) fiscal years immediately preceding the fiscal year of your Involuntary Termination (annualized if paid for a partial fiscal year). If a bonus is paid to you for only one of those years, then the bonus amount under Clause (B) will be equal to one (1) times such bonus amount. The aggregate severance payments shall be paid to you in equal installments over the twelve-month period in accordance with the Company's normal payroll practices and subject to all applicable withholding taxes. The severance payments will immediately terminate if and only if (i) you should cease to remain available for the consulting services required of you under Section 4, or (ii) you fail to abide by the restrictive covenants set forth in Section 5 . However, in the event your Involuntary Termination occurs in connection with a Hostile Take-Over, your severance payments will be paid to you in the form of a single lump sum amount within thirty (30) days after such Involuntary Termination, and the provisions of Sections 4 and 5 of this Part Two will not apply.

2. Health Care Coverage. The Company will, at its expense, make any COBRA payments for you and your eligible dependents in order to continue your Health Care Coverage until the earlier of (i) twelve (12) months after the effective date of your Involuntary Termination (other than a

Termination for Cause) or (ii) the first date that you are covered under another employer's (or, in the event of rehire, the Company's) health benefit program which provides substantially the same level of benefits without exclusion for pre-existing medical conditions. Such payments will be in lieu of any other continued health care coverage to which you or your dependents would otherwise be entitled pursuant to the requirements of Code Section 4980B by reason of your termination of employment.

3. Option Acceleration and Lapse of Restrictions. Each of your outstanding Options under the Equity Incentive Plans will (to the extent not then otherwise exercisable) automatically accelerate so that each such Option will become immediately exercisable for the total number of shares of Common Stock at the time subject to that Option. Each such accelerated Option, together with all of your other vested Options, will remain exercisable for a period of twelve (12) months following your Involuntary Termination until the end of the specified ten (10)-year option term. Such Option(s) may be exercised for any or all of the option shares in accordance with the exercise provisions of the option agreement evidencing the grant. In addition, all restrictions applicable to the Stock Issuances you hold (to the extent those restrictions have not previously lapsed in accordance with the terms of the issuance agreements) will automatically lapse upon your Involuntary Termination (except a Termination for Cause).

4. Consulting Services. Unless your Involuntary Termination occurs in connection with a Hostile Take-Over, you will make yourself available to perform consulting services reasonably requested of you during the twelve (12)-month period following your Involuntary Termination. You will be compensated at an hourly rate to be agreed upon by you and the Company at the time such consulting services are to be rendered, and you will be reimbursed for all reasonable out-of-pocket expenses incurred in rendering such services upon your submission of appropriate documentation for those expenses.

5. Restrictive Covenants. For the one hundred twenty (120)-day period following your Involuntary Termination:

(i) You will not directly or indirectly, whether for your own account or

as an employee, director, consultant or advisor, provide services to any business enterprise which is at the time in competition with any of the Company's then existing or formally planned product lines and which is located geographically in an area where the Company maintains substantial business activities, unless you obtain the prior written consent of the Board of Directors.

(ii) You will not directly or indirectly encourage or solicit any individual to leave the Company's employ for any reason or interfere in any other manner with the employment relationships at the time existing between the Company and its current or prospective employees.

(iii) You will not induce or attempt to induce any customer, supplier, distributor, licensee or other business relation of the Company to cease doing business with the Company or in any way interfere with the existing business relationship between any such customer, supplier, distributor, licensee or other business relation and the Company.

You acknowledge that monetary damages may not be sufficient to compensate the Company for any economic loss which may be incurred by reason of your breach of the foregoing restrictive covenants. Accordingly, in the event of any such breach, the Company shall, in addition to the cessation of the severance benefits provided you under this letter agreement and any remedies available to the Company at law, be entitled to obtain equitable relief in the form of an

injunction precluding you from continuing to engage in such breach.

None of the foregoing restrictive covenants in this section 5 shall be applicable in the event your Involuntary Termination occurs in connection with a Hostile Take-Over.

6. Benefit Reduction.

(i) BENEFIT REDUCTION. If the Change in Control does not constitute a Hostile Take-Over, first the dollar amount of your severance payment under Paragraph 1 will be reduced to the extent necessary to assure that the present value of those benefits will not, when added to the present value of your Equity Parachute Payment and your Other Parachute Payments, exceed 2.99 times your Average Compensation. In the event of a Hostile Take-Over, no reduction will be made to your severance payment (or any other benefit to which you become entitled hereunder), unless necessary to provide you with the maximum after-tax benefit available, after taking into account any parachute

excise tax which might otherwise be payable by you under Code Section 4999 and any analogous State income tax provision.

(ii) RESOLUTION OF DISPUTES. In the event there is any disagreement between you and the Company as to whether one or more benefits to which you become entitled (whether under this letter agreement or otherwise) in connection with a Change in Control constitute Equity Parachute Payments or Other Parachute Payments, such dispute is to be resolved as follows:

A. The matter shall be submitted for resolution to independent counsel mutually acceptable to you and the Company ("Independent Counsel"). The resolution reached by Independent Counsel shall be final and controlling. However, should the Independent Counsel determine that the status of the benefits in dispute can be resolved by obtaining a private letter ruling from the Internal Revenue Service, a formal and proper request for such ruling shall be prepared and submitted by Independent Counsel, and the determination made by the Internal Revenue Service in the issued ruling shall be controlling. All expenses incurred in connection with the retention of Independent Counsel and (if applicable) the preparation and submission of the ruling request shall be paid by the Company.

B. The present value of each Equity Parachute Payment and each of the Other Parachute Payments (including your severance payment and Health Care Coverage) shall be determined in accordance with the provisions of Code Section 280G(d)(4) and the Treasury Regulations issued thereunder.

The full amount of your severance benefit under Paragraph 1 shall not be paid to you until any amounts in dispute under this Paragraph 6(ii) have been resolved in accordance herewith. However, any portion of such severance payment which would not otherwise exceed the benefit limitation of Paragraph 6(i) even if all amounts in dispute under this Paragraph 6(ii) were to be resolved against you will be paid to you in accordance with the applicable provisions of this letter agreement.

(iii) OVERRIDING LIMITATION. You will in all events be entitled to receive the full amount of your severance payment under Paragraph 1, to the extent those benefits, when added to the present value of your Equity Parachute Payment and your Other Parachute Payments (excluding such severance payment), will nevertheless qualify as reasonable compensation within the standards established under Code Section 280G(b)(4).

(iv) INTERPRETATION. The provisions of this Section 6 shall in all events be interpreted in such manner as will avoid the imposition of excise taxes under Code Section 4999, and the disallowance of deductions under Code Section 280G(a), with respect to your severance benefits under this letter agreement.

PART THREE -- MISCELLANEOUS PROVISIONS

1. Termination for Cause. Should your termination constitute a Termination for Cause, then the Company shall only be required to pay you (i) any unpaid compensation earned for services previously rendered through the date of such termination and (ii) any accrued but unpaid vacation benefits or sick days, (iii) any reimbursements then owed to you by the Company and no benefits will be payable to you under this letter agreement.

2. Term of Agreement. The provisions of this letter agreement will continue in effect for a period of five (5) years from the date hereof.

3. General Creditor Status. The benefits to which you may become entitled under this letter agreement (except those attributable to your Options or Stock Issuances) will be paid, when due, from the general assets of the Company. Your right (or the right of the executors or administrators of your estate) to receive any such payments will at all times be that of a general creditor of the Company and will have no priority over the claims of other general creditors of the Company.

4. Death. Should you die before receipt of all benefits to which you become entitled under this letter agreement, then the payment of such benefits will be made, on the due date or dates hereunder had you survived, to the executors or administrators of your estate. Should you die before you exercise your Severance-Accelerated Options (if any) or any other of your outstanding vested Options, then each such Option may be exercised, during the applicable exercise period in effect hereunder for those options at the time of your death, by the executors or administrators of your estate or by person to whom the Option is transferred pursuant to your will or in accordance with the laws of inheritance.

5. Miscellaneous. The provisions of this letter agreement will be construed and interpreted under ERISA. To the extent ERISA is inapplicable, then the laws of the State of California shall control, without regard to that state's choice of law provisions. This letter agreement incorporates the entire agreement between

you and the Company relating to the subject of severance benefits and supersedes all prior agreements and understandings with respect to such subject matter. This letter agreement may only be amended by written instrument signed by you and another duly-authorized officer of the Company. If any provision of this letter agreement as applied to any party or to any circumstance should be adjudged by an arbitrator or court of competent jurisdiction to be void or unenforceable for any reason, the invalidity of that provision shall in no way affect (to the maximum extent permissible by law) the application of such provision under circumstances different from those so adjudicated, the application of any other provision of this letter agreement, or the enforceability or invalidity of this letter agreement as a whole. Should any provision of this letter agreement become or be determined to be invalid, illegal or unenforceable in any jurisdiction by reason of the scope, extent or duration of its coverage, then such provision shall be deemed amended to the extent necessary to conform to applicable law so as to be valid and

enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision shall be stricken and the remainder of this letter agreement shall continue in full force and effect.

6. Remedies. All rights and remedies provided pursuant to this letter agreement or by law will be cumulative, and no such right or remedy will be exclusive of any other. A party may pursue any one or more rights or remedies hereunder or may seek damages or specific performance in the event of another party's breach hereunder or may pursue any other remedy by law or equity, whether or not stated in this letter agreement.

7. Arbitration. Any controversy which may arise between you and the Company with respect to the construction, interpretation or application of any of the terms, provisions or conditions of this letter agreement or any monetary claim arising from or relating to this letter agreement will be submitted to and exclusively decided by final and binding arbitration in San Diego, California in accordance with the rules of the American Arbitration Association then in effect.

8. No Employment or Service Contract. Nothing in this letter agreement shall confer upon you any right to continue in the employment of the Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or you, which rights are hereby expressly reserved by each, to terminate your employment at any time for any reason whatsoever, with or without cause.

9. Proprietary Information. You hereby acknowledge that the Company may, from time to time during your employment with the Company, disclose to you confidential information pertaining to the Company's business and affairs. All information and data, whether or not in writing, of a private or confidential nature concerning the business or financial affairs of the Company is and will remain subject to a separate Proprietary Information and Inventions Agreement (or the like) between you and the Company.

Please indicate your acceptance of the foregoing provisions of this severance agreement by signing the enclosed copy of this letter agreement and returning it to the Company.

Very truly yours,

LIGAND PHARMACEUTICALS INCORPORATED

/S/DAVID E. ROBINSON

David E. Robinson
Chairman, President and CEO

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ACCEPTED BY AND AGREED TO

Signature: /S/RONALD C. ELD

Dated: 7/16/03

EXHIBIT 10.263

SEPARATION AGREEMENT AND GENERAL RELEASE

THIS SEPARATION AGREEMENT AND GENERAL RELEASE (hereinafter "AGREEMENT") is made and entered into by and between Thomas H. Silberg (hereinafter "SILBERG") and Ligand Pharmaceuticals Incorporated (hereinafter "LIGAND"), and inures to the benefit of each of LIGAND's current, former and future parents, subsidiaries, related entities, employee benefit plans and their fiduciaries, predecessors, successors, officers, directors, shareholders, agents, employees and assigns.

RECITALS

A. SILBERG was for a period of time an employee of LIGAND, most recently as its Executive Vice President and Chief Operating Officer.

B. SILBERG has been a corporate officer of LIGAND.

C. SILBERG's employment with LIGAND ended effective May 13, 2003.

D. At the time of separation, SILBERG had vested options to purchase shares of LIGAND common stock as follows: 18,333 options at $10.6800/option; 21,875 options at $15.2400/option; and 101,563 options at $16.3750/option.

E. On or about October 26, 2000, LIGAND loaned SILBERG the principal sum of $150,000 pursuant to a written Promissory Note ("Note"). As of May 13, 2003, the principal balance remaining due on SILBERG's Note was $73,700.00.

F. SILBERG and LIGAND wish permanently to resolve any and all disputes arising out of SILBERG's employment with LIGAND or the cessation of that employment.

NOW, THEREFORE, for and in consideration of the execution of this AGREEMENT and the mutual covenants contained in the following paragraphs, LIGAND and SILBERG agree as follows:

1. INCORPORATION OF RECITALS. The Recitals and identification of the parties to, and beneficiaries of, this AGREEMENT are incorporated by references as though fully set forth herein.

2. NO ADMISSION OF LIABILITY. The parties agree that this AGREEMENT, and performance of the acts required by it, does not constitute an admission of liability, culpability, negligence or wrongdoing on the part of anyone, and will not be construed for any purpose as an admission of liability, culpability, negligence or wrongdoing by any party and/or by any party's current, former or fixture parents, subsidiaries, related entities, predecessors, successors, officers, directors, shareholders, agents, employees and assigns.

3. CESSATION OF EMPLOYMENT. SILBERG's employment with LIGAND terminated May 13, 2003. SILBERG hereby acknowledges his resignation from his employment and all officer positions within LIGAND.

4. WAGES AND VACATION TIME PAID. SILBERG acknowledges that he has been paid for all of his wages and his accrued and unused vacation time through May 13, 2003.

5. SEVERANCE. In consideration of the general release and other covenants given by SILBERG pursuant to this AGREEMENT, LIGAND agrees that after the Effective Date of this AGREEMENT (as defined in paragraph 30 hereof), it will commence paying to SILBERG severance payments. The severance payments shall equal, in the aggregate, the gross sum of *** (representing *** months' salary, or *** less *** to be paid on the Note as described in paragraph 6 below), less applicable withholding taxes. Severance payments shall commence on the first regular payroll date following the Effective Date, and shall continue until *** equal payments of *** have been made less applicable withholding taxes.

6. NOTE. As of the Separation Date, the outstanding balance on the Note was $73,700.00. In consideration of the general release and other covenants given by SILBERG pursuant to this AGREEMENT, LIGAND agrees to credit SILBERG with *** pursuant to the terms of the Note, which leaves a remaining balance, including

taxes, of ***. This sum of *** is being repaid by SILBERG through deductions from his *** severance payments. The severance amounts referred to in paragraph 5 above reflect SILBERG's repayment of the aggregate sum of ***. Upon payment of the severance payments described in paragraph 5 above, the Note will be paid in full and will be cancelled.

7. OUTPLACEMENT SERVICES. LIGAND shall pay SILBERG on the first business day following the expiration of the 7-day revocation period set forth in paragraph 29 the following: ***, less required withholding taxes, in lieu of outplacement services.

8. PRIOR AGREEMENTS SUPERSEDED. With the exception of the Proprietary Information and Inventions Agreement signed by SILBERG on January 17, 2000, all prior agreements or understandings between the parties are superseded and are of no further force and effect. SILBERG understands and agrees that all of the terms of the Proprietary Information and Inventions Agreement remain in force and he agrees to maintain the confidentiality of non-public information concerning LIGAND.

9. REFERENCE REQUESTS. LIGAND agrees that if it is contacted by prospective employers of SILBERG, LIGAND will release information concerning the dates of SILBERG's employment and the last position held, and will advise prospective employers of SILBERG that LIGAND's company policy is to release only such information.

10. CONTINUATION OF HEALTH BENEFITS. SILBERG acknowledges that he has been provided with written materials which describe his rights to continue his and his dependents' participation in LIGAND's group dental and vision insurance plans pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act ("COBRA"). If SILBERG timely elects to continue his and his dependents' participation in such plans pursuant to the provisions of COBRA, LIGAND will pay the premiums on behalf of SILBERG and his participating

***Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

dependents through ***. Continued participation after *** shall be at SILBERG's expense. Nothing herein shall limit the right of LIGAND to change the provider and/or the terms of its group health insurance plan at any time hereafter.

11. EXERCISE OF VESTED STOCK OPTIONS. SILBERG understands and agrees that he has ninety (90) days from the date on which his employment with LIGAND terminated (i.e., 90 days from May 13, 2003) in which to advise LIGAND in writing of his election to exercise all or a portion of his vested stock options, to tender to LIGAND a cashier's check in an amount equal to the appropriate exercise amount and all applicable withholding taxes, and to provide to LIGAND all executed subscription documents as required by LIGAND pursuant to the 2002 Ligand Stock Incentive Plan.

12. GENERAL RELEASE. (a) SILBERG for himself, his heirs, executors, administrators, assigns and successors, fully and forever releases and discharges LIGAND and each of its current, former and future parents, subsidiaries, related entities, employee benefit plans and their fiduciaries, predecessors, successors, officers, directors, shareholders, agents, employees and assigns (collectively, "Ligand Releasees"), with respect to any and all claims, liabilities and causes of action, of every nature, kind and description, in law, equity or otherwise, which have arisen, occurred or existed at any time prior to the signing of this AGREEMENT, including, without limitation, any and all claims, liabilities and causes of action arising out of or relating to SILBERG's employment with LIGAND or the cessation of that employment.

(b) LIGAND for itself, its affiliates, assigns and successors, fully and forever releases and discharges SILBERG and each of his heirs, executors, administrators, assigns and successors (collectively, "Silberg Releasees"), with respect to any and all claims, liabilities and causes of action, of every nature, kind and description, in law, equity or otherwise, which have arisen,

occurred or existed at any time prior to the signing of this AGREEMENT, including, without limitation, any and all claims, liabilities and causes of action arising out of or relating to SILBERG's employment with LIGAND or the cessation of that employment.

13. KNOWING WAIVER OF EMPLOYMENT-RELATED CLAIMS. SILBERG understands and agrees that, with the exception of potential employment-related claims identified below, he is waiving any and all rights he may have had, now has, or in the future may have, to pursue against any of the Ligand Releasees any and all remedies available to him under any employment-related causes of action, including without limitation, claims of wrongful discharge, breach of contract, breach of the covenant of good faith and fair dealing, fraud, violation of public policy, defamation, discrimination, personal injury, physical injury, emotional distress, claims for severance (except as provided for in this AGREEMENT), claims for benefits or perquisites of employment (including stock options), claims under Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act, the Americans With Disabilities Act, the Federal Rehabilitation Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, the California Family Rights Act, the Equal Pay Act of 1963, the provisions of the California Labor Code and any other federal, state or local laws and regulations relating to employment, conditions of employment (including wage and hour laws) and/or employment discrimination. Claims not covered by the release provisions of this AGREEMENT are (i) claims for unemployment insurance benefits, and (ii) claims under the California Workers' Compensation Act.

***Portions of this page have been omitted pursuant to a request for Confidential Treatment and filed separately with the Commission.

14. WAIVER OF CIVIL CODE SS.1542. Each party expressly waives any and all rights and benefits conferred upon it by Section 1542 of the Civil Code of the State of California, which states as follows:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Each party expressly agrees and understands that the Release given by it pursuant to this AGREEMENT applies to all unknown, unsuspected and unanticipated claims, liabilities and causes of action which he may have against the other party, any of the Ligand Releasees or Silberg Releasees.

15. SEVERABILITY OF RELEASE PROVISIONS. Each party agrees that if any provision of the release given by it under this AGREEMENT is found to be unenforceable, it will not affect the enforceability of the remaining provisions and the courts may enforce all remaining provisions to the extent permitted by law.

16. PROMISE TO REFRAIN FROM SUIT OR ADMINISTRATIVE ACTION. Each party promises and agrees that it will never sue the other party, any of the Ligand Releasees or Silberg Releasees, or otherwise institute or participate in any legal or administrative proceedings against the foregoing entities, with respect to any claim covered by the release provisions of this AGREEMENT, including but not limited to claims arising out of SILBERG's employment with LIGAND or the termination of that employment, unless it is compelled by legal process to do so.

17. PROMISE TO REFRAIN FROM ASSISTING IN SUIT OR ADMINISTRATIVE ACTION. Each party promises and agrees that it shall not advocate or incite the institution of, or assist or participate in, any suit, complaint, charge or administrative proceeding by any other person against the other party hereto, any of the LigandReleasees or Silberg Releasees, unless compelled by legal process to do so.

18. CONFIDENTIALITY OF SETTLEMENT. Each party promises and agrees that,

unless compelled by legal process, it will not disclose to others and will keep confidential the terms of this settlement, including the amounts referred to in this AGREEMENT, except that they may disclose this information to SILBERG's spouse and to their attorneys, accountants and other professional advisors to whom the disclosure is necessary to accomplish the purposes for which the party has consulted such professional advisors. SILBERG expressly promises and agrees that, unless compelled by legal process, he will not disclose to any present or former employees of LIGAND the terms of this settlement. Notwithstanding the foregoing, the parties acknowledge that this AGREEMENT is required to be filed with the Securities and Exchange Commission, pursuant to its rules and regulations. Confidential Treatment may be requested for certain portions, but may not be granted as to all or part of such request.

19. PROMISE TO MAINTAIN CONFIDENTIALITY OF LIGAND'S CONFIDENTIAL INFORMATION. SILBERG acknowledges that due to the position he has occupied and the responsibilities he has had at LIGAND, he has received confidential information concerning LIGAND's products,

research and development, customers, sales, prices, contracts, and the like. SILBERG hereby promises and agrees that, unless compelled by legal process, he will not disclose to others and will keep confidential all information he has received while employed by LIGAND concerning LIGAND's products and procedures, its research and development, the identities of LIGAND's customers, LIGAND's sales, LIGAND's prices, the terms of any of LIGAND's contracts with third parties, and the like. SILBERG agrees that a violation by him of the foregoing obligation to maintain the confidentiality of LIGAND's confidential information will constitute a material breach of this AGREEMENT. SILBERG specifically confirms that he will continue to comply with the terms of the Proprietary Information and Inventions Agreement executed by him on January 17, 2000.

20. NONSOLICITATION. SILBERG agrees that for a period of two (2) years from the Effective Date of this AGREEMENT, he shall not, without the prior written consent of the Company's Board of Directors, directly or indirectly solicit for employment, employ in any capacity, or make an unsolicited recommendation to any other person that it employ or solicit for employment any person who is or was, at the time of SILBERG's separation, an officer, executive, employee, agent or representative of the Company or of any affiliate of the Company.

21. INTEGRATED AGREEMENT. The parties acknowledge and agree that no promises or representations were made to them which do not appear written herein and that this AGREEMENT contains the entire agreement of the parties on the subject matter thereof. The parties further acknowledge and agree that parol evidence shall not be required to interpret the intent of the parties.

22. VOLUNTARY EXECUTION. The parties hereby acknowledge that they have read and understand this AGREEMENT and that they sign this AGREEMENT voluntarily and without coercion.

23. WAIVER AMENDMENT AND MODIFICATION OF AGREEMENT. The parties agree that no waiver, amendment or modification of any of the terms of this AGREEMENT shall be effective unless in writing and signed by all parties affected by the waiver, amendment or modification. No waiver of any term, condition or default of any term of this AGREEMENT shall be construed as a waiver of any other term, condition or default.

24. REPRESENTATION BY COUNSEL. The parties acknowledge that they have had the opportunity to be represented in negotiations for the preparation of this AGREEMENT by counsel of their own choosing, and that they have entered into this AGREEMENT voluntarily, without coercion, and based upon their own judgment and not in reliance upon any representations or promises made by the other party or parties or any attorneys, other than those contained within this AGREEMENT. The parties further agree that if any of the facts or matters upon which they now rely in making this AGREEMENT hereafter prove to be otherwise, this AGREEMENT will nonetheless remain in full force and effect.

25. CALIFORNIA LAW. The parties agree that this AGREEMENT and its terms shall be construed under California law.

26. DRAFTING. The parties agree that this AGREEMENT shall be construed without regard to the drafter of the same and shall be construed as though each party to this AGREEMENT participated equally in the preparation and drafting of this AGREEMENT.

27. COUNTERPARTS. This AGREEMENT may be signed in counterparts and said counterparts shall be treated as though signed as one document.

28. PERIOD TO CONSIDER TERMS OF AGREEMENT. SILBERG acknowledges that this AGREEMENT was presented to him on June 20, 2003 and that he is entitled to have 21 days' time in which to consider the terms of this AGREEMENT. SILBERG acknowledges that he has had the opportunity to obtain the advice and counsel from the legal representative of his choice and that he executes this AGREEMENT having had sufficient time within which to consider its terms. SILBERG represents that if he executes this AGREEMENT before 21 days have elapsed, he does so voluntarily and waives any remaining consideration period.

29. REVOCATION OF AGREEMENT. SILBERG understands that after executing this AGREEMENT, he has the right to revoke it within seven (7) days after his execution of it. SILBERG understands that this AGREEMENT will not become effective and enforceable unless the seven day revocation period passes and SILBERG does not revoke the AGREEMENT in writing. SILBERG understands that this AGREEMENT may not be revoked after the seven (7) day revocation period has passed. SILBERG understands that any revocation of this AGREEMENT must be made in writing and received by LIGAND at 10275 Science Center Drive, San Diego, CA 92121, within the seven day period.

30. EFFECTIVE DATE. This AGREEMENT shall become effective and binding upon the parties eight (8) days after SILBERG's execution thereof, so long as he has not revoked it within the time period and in the manner specified in paragraph 29, above.

Dated: JULY 2, 2003 /S/ THOMAS H. SILBERG

Thomas H. Silberg

LIGAND PHARMACEUTICALS INC.

Dated: 7-7-03 By:/S/ WARNER R. BROADDUS

VP & General Counsel

EXHIBIT 99.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, David E. Robinson, Chairman, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ligand Pharmaceuticals Incorporated;

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

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

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

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

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

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: November 10, 2003

/S/DAVID E. ROBINSON

David E. Robinson
Chairman, President and Chief Executive Officer

Exhibit 99.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Paul V. Maier, Senior Vice President, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ligand Pharmaceuticals Incorporated;

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

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

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

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

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

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: November 10, 2003

/S/PAUL V. MAIER

Paul V. Maier
Senior Vice President, Chief Financial Officer

EXHIBIT 99.3

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

In connection with the accompanying Quarterly Report on Form 10-Q of Ligand Pharmaceuticals Inc. for the quarter ended September 30, 2003, I, David E. Robinson, Chairman, President and Chief Executive Officer of Ligand Pharmaceuticals Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in such Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, fairly presents, in all material respects, the financial condition and results of operations of Ligand Pharmaceuticals Inc.

Date: November 10, 2003 /S/DAVID E. ROBINSON

David E. Robinson
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

EXHIBIT 99.4

CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q of Ligand Pharmaceuticals Inc. for the quarter ended September 30, 2003, I, Paul V. Maier, Senior Vice President, Chief Financial Officer of Ligand Pharmaceuticals Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in such Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, fairly presents, in all material respects, the financial condition and results of operations of Ligand Pharmaceuticals Inc.

Date: November 10, 2003 /S/PAUL V. MAIER

Paul V. Maier
SENIOR VICE PRESIDENT,
CHIEF FINANCIAL OFFICER