UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

[X] Quarterly Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2004 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 April 30, 2004, the registrant had 73,648,590 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)

	March 31, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,558	$ 59,030
Short-term investments; $9,247 and $9,204 restricted at March 31, 2004 and December 31, 2003, respectively	31,625	40,004
Accounts receivable, net (Note 2)	14,185	19,051
Inventories	9,770	8,262
Other current assets	3,764	3,810
Total current assets	124,902	130,157
Restricted investments	1,656	1,656
Property and equipment, net	23,620	23,501
Aquired technology and product rights, net	135,189	137,857
Other assets	8,822	8,084
Total assets	$ 294,189	$ 301,255
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 16,866	$ 18,691
Accrued liabilites	35,304	30,315
Current portion of deferred revenue	2,346	2,564
Current portion of equipment financing obligations	2,439	2,184
Current portion of long-term debt	303	295
Total current liabilities	57,258	54,049
Long-term debt	167,328	167,408
Long-term portion of deferred revenue	2,198	2,275
Long-term portion of equipment financing obligations	3,518	2,644
Other long-term liabilities	3,516	4,151
Total liabilities	233,818	230,527
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, 73,532,889 and 73,264,785 shares issued at March 31, 2004 and December 31, 2003, respectively	74	73
Additional paid-in capital	730,178	727,410
Accumulated other comprehensive loss	(53)	(66)
Accumulated deficit	(668,917)	(655,778)
	61,282	71,639
Treasury stock, at cost; 73,842 shares	(911)	(911)
Total stockholders' equity	60,371	70,728
	$ 294,189	$ 301,255

See accompanying notes.

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

	Three Months Ended March 31,	
	2004	**2003**
Revenues:		
Product sales	$ 34,136	$ 18,928
Collaborative research and development and other revenues	2,476	4,195
Total revenues	36,612	23,123
Operating costs and expenses:		
Cost of products sold	8,823	6,620
Research and development	16,852	16,640
Selling, general and administrative	14,472	12,426
Co-promotion (Note 4)	6,731	—
Total operating costs and expenses	46,878	35,686
Loss from operations	(10,266)	(12,563)
Other income (expense):		
Interest income	231	243
Interest expense	(3,091)	(2,682)
Other, net	(13)	(5,318)
Total other expense, net	(2,873)	(7,757)
Net loss	$ (13,139)	$ (20,320)
Basic and diluted per share amounts:		
Net loss	$ (.18)	$ (.29)
Weighted average number of common shares	73,299,281	70,238,438

See accompanying notes.

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

	Three Months Ended March 31,	
	2004	**2003**
Operating activities		
Net loss	$ (13,139)	$ (20,320)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of acquired technology and license rights	2,736	2,752
Depreciation and amortization of property and equipment	838	681
Amortization of debt discount and issuance costs	237	194
Write-off of X-Ceptor purchase right	—	5,000
Equity in loss of affiliate	—	302
Other	39	70
Changes in operating assets and liabilities:		
Accounts receivable, net (Note 2)	4,866	(4,910)
Inventories	(1,508)	(554)
Other current assets	46	760
Accounts payable and accrued liabilities	3,164	6,629
Other liabilities	(600)	—
Deferred revenue	(295)	(351)
Net cash used in operating activities	(3,616)	(9,747)
Investing activities		
Purchases of short-term investments	(8,375)	(331)
Proceeds from sale of short-term investments	16,797	1,223
Purchases of property and equipment	(952)	(238)
Payment for AVINZA® royalty rights	—	(4,133)
Payment for lasofoxifene royalty rights (Note 1)	(1,120)	—
Other, net	47	85
Net cash provided by (used in) investing activities	6,397	(3,394)
Financing activities		
Principal payments on equipment financing obligations	(641)	(621)
Proceeds from equipment financing arrangements	1,770	251
Increase in restricted investments	(43)	(166)
Repurchase of common stock	—	(15,867)
Proceeds from issuance of common stock	2,733	136
Other	(72)	(36)
Net cash provided by (used in) financing activities	3,747	(16,303)
Net increase (decrease) in cash and cash equivalents	6,528	(29,444)
Cash and cash equivalents at beginning of period	59,030	42,423
Cash and cash equivalents at end of period	$ 65,558	$ 12,979
Supplemental disclosure of cash flow information		
Interest paid	$ 300	$ 132

See accompanying notes.

1. Basis of Presentation

The consolidated financial statements of Ligand Pharmaceuticals Incorporated ("Ligand" or the "Company") for the three months ended March 31, 2004 and 2003 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 March 31, 2004 and the consolidated results of operations for the three months ended March 31, 2004 and 2003. The results of operations for the period ended March 31, 2004 are not necessarily indicative of the results to be expected for the year ending December 31, 2004. 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, 2003 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, its wholly owned subsidiaries, and Nexus Equity VI LLC ("Nexus"). Nexus is a variable interest entity in which Ligand is the primary beneficiary pursuant to Financial Accounting Standards Board ("FASB") Interpretation No. 46, as revised ("FIN 46(R)") *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51*.

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.

Recent Accounting Pronouncements. In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*, which was subsequently revised prior to implementation in December 2003. The revised Interpretation, known as "FIN 46(R)", 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. Ligand adopted FIN 46(R) effective December 31, 2003.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with the characteristics of both liability and equity, and requires that such financial instruments be reported as liabilities. The provisions of SFAS No. 150 are effective for instruments entered into or modified after May 31, 2003, and pre-existing instruments after June 15, 2003. The Company does not have any financial instruments covered by the Statement.

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 March 31,	
	2004	2003
Net loss as reported	$ (13,139)	$ (20,320)
Stock-based employee compensation expense included in reported net loss	—	—
Less total stock-based compensation expense determined under fair value based method for all awards	(1,612)	(1,552)
Net loss pro forma	$ (14,751)	$ (21,872)
Basic and diluted per share amounts:		
Net loss per share as reported	$ (0.18)	$ (0.29)
Net loss per share pro forma	$ (0.20)	$ (0.31)

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 March 31,	
	2004	2003
Risk free interest rate	2.79%	2.80%
Dividend yield	—	—
Volatility	52%	77%
Weighted average expected life	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):

	March 31, 2004	December 31, 2003
Raw materials	$ 715	$ 101
Work-in-process	4,321	4,261
Finished goods	4,734	3,900
	$ 9,770	$ 8,262

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

	March 31, 2004	December 31, 2003
Debt issue costs, net	$ 3,968	$ 4,205
Prepaid royalty buyout, net (1)	3,908	2,856
Other	946	1,023
	$ 8,822	$ 8,084

(1) In March 2004, Ligand paid the Salk Institute $1.1 million to exercise an option to buy out milestone payments, other payment-

sharing obligations and royalty payments due on future sales of lasofoxifene, a product under development by Pfizer.

Acquired Technology and Product Rights

Acquired technology and product rights represent payments related to the Company's acquisition of ONTAK® and license and royalty rights for AVINZA®. Acquired technology and product rights are amortized on a straight-line basis over 15 years, the period estimated to be benefited, and consist of the following (in thousands):

	March 31, 2004	December 31, 2003
AVINZA®	$ 114,437	$ 114,437
ONTAK®	45,312	45,312
Less accumulated amortization	(24,560)	(21,892)
	$ 135,189	$ 137,857

Amortization of acquired technology and product rights were $2.7 million in each of the first quarters of 2004 and 2003, respectively. Estimated annual amortization for these assets in each of the years in the period from 2004 to 2008 is $10.7 million.

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

	March 31, 2004	December 31, 2003
Allowances for product returns, sales incentives, rebates and chargebacks	$ 16,276	$ 10,347
Amount due co-promote partner (Note 4)	6,015	9,360
Compensation	4,684	3,888
Royalties	3,081	3,833
Interest	3,467	1,138
Other	1,780	1,749
	$ 35,304	$ 30,315

Long-term Debt. Long-term debt consists of the following (in thousands):

	March 31, 2004	December 31, 2003
6% Convertible Subordinated Notes	$ 155,250	$ 155,250
Note payable to bank	12,381	12,453
	167,631	167,703
Less current portion	(303)	(295)
Long-term debt	$ 167,328	$ 167,408

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 March 31,	
	2004	2003
Comprehensive loss	$ 13,126	$ 20,338

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 first quarter of 2004, cash in the amount of $24.0 million was received through the factoring arrangement. Interest expense and fees related to the factoring arrangement for the first quarter of 2004 were not material to the consolidated financial statements.

Receivables due from the financing company under the accounts receivable factoring arrangement represent the Company's most significant credit risk. As of March 31, 2004, the gross amount due from the financing company was $8.6 million, which represents approximately 61% 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.

4. AVINZA® Co-promotion

In February 2003, Ligand and Organon Pharmaceuticals USA Inc. ("Organon") 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 pays 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%

In the first quarter of 2004, Ligand recognized co-promotion expense of $6.7 million.

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 January 1, 2008 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

Variable Interest Entity ("VIE")

The Company leases one of its corporate headquarter buildings from a limited liability company (the "LLC") in which Ligand holds a 1% ownership interest. No Ligand officer or employee has any financial interest with regard to this lease arrangement or with the LLC used in this arrangement. The lease agreement provides for increases in annual rent of 4% and terminates in 2014. In addition, Ligand has the option to either purchase the portion of the LLC that it does not currently own, purchase the property from the lessor 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, sell the property to a third party, or renew the lease arrangement.

This specific type of operating lease is commonly referred to as a "synthetic lease". Prior to the issuance of FIN 46(R), synthetic leases represented a form of off-balance sheet financing under which they were treated as an operating lease for financial reporting purposes and as a financing lease for tax purposes. Under FIN 46(R), a synthetic lease is evaluated to determine i) if it qualifies as a VIE and if so, ii) the primary beneficiary required to consolidate the VIE.

Under FIN 46(R), Ligand determined that the LLC qualified as a VIE, and that Ligand is the primary beneficiary of the VIE, as the Company would absorb the majority of the entity's expected losses, if any, as defined by the Interpretation. In accordance with FIN 46(R), the Company consolidated the LLC as of December 31, 2003.

The maximum exposure to loss on the synthetic lease is indemnification for various losses, costs and expenses incurred by the LLC as a result of Ligand's use of the premises or the environmental condition of the property to the extent it exceeds the limit of insurance held by the Company. Any such additional losses, costs or expenses are contingent upon the existence of certain conditions, and therefore, not quantifiable at this time.

In December 2003, the Company informed the other shareholder of the LLC that it was exercising its right to acquire the portion of the LLC that it does not currently own. This transaction, which was completed in April 2004, resulted in Ligand's assumption of the existing loan against the property and a payment to the LLC's other shareholder of approximately $0.6 million.

Litigation

Seragen, Inc., a wholly-owned subsidiary, and Ligand, were named parties to *Sergio M. Oliver, et al. v. Boston University, et al.*, a putative shareholder class action filed on December 17, 1998 in the Court of Chancery in the State of Delaware in and for New Castle County, C.A. No. 16570NC, by Sergio M. Oliver and others against Boston University and others, including Seragen, its subsidiary Seragen Technology, Inc. and former officers and directors of Seragen. The complaint, as amended, alleged that Ligand aided and abetted purported breaches of fiduciary duty by the Seragen related defendants in connection with the acquisition of Seragen by Ligand and made certain misrepresentations in related proxy materials and seeks compensatory and punitive damages of an unspecified amount. On July 25, 2000, the Delaware Chancery Court granted in part and denied in part defendants' motions to dismiss. Seragen, Ligand, Seragen Technology, Inc. and the Company's acquisition subsidiary, Knight Acquisition Corporation, were dismissed from the action. Claims of breach of fiduciary duty remain against the remaining defendants, including the former officers and directors of Seragen. The hearing on the plaintiffs' motion for class

certification took place on February 26, 2001. The court certified a class consisting of shareholders as of the date of the acquisition and on the date of an earlier business unit sale by Seragen. The litigation is currently in the discovery phase. While Ligand and Seragen have been dismissed from the action, such dismissal is subject to a possible subsequent appeal upon judgment in the action against the remaining parties.

On December 11, 2001, a lawsuit was filed in the United States District Court for the District of Massachusetts against Ligand 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 Ligand 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. Ligand filed a motion to dismiss the unfair and deceptive trade practices claim (i.e. the treble damages claim). The court subsequently granted Ligand's motion to dismiss the unfair and deceptive trade practices claim, granted Boston University's motion for summary judgment, and in November 2003 entered judgment for Boston University. In January 2004, the district court issued an amended judgment awarding interest of approximately $739,000 to the plaintiffs in addition to the $2.1 million withheld. Ligand has appealed the judgment in this case as well as the award of interest and the calculation of damages.

The Company believes that each of these lawsuits is without merit and intend to vigorously defend against each of such lawsuits. Due to the uncertainty of the ultimate outcome of these matters, the impact on future financial results is not subject to reasonable estimates.

7. Manufacturing Arrangement

In March 2004, Ligand entered into a five-year manufacturing and packaging agreement with Cardinal Health PTS, LLC ("Cardinal") under which Cardinal will manufacture AVINZA® at its Winchester, Kentucky facility. Under the terms of the agreement, Ligand committed to certain minimum annual purchases ranging from approximately $1.6 million to $2.3 million. In addition, if regulatory approval for the manufacture of AVINZA® at the Kentucky facility has not been obtained within 30 months of the agreement's effective date, Ligand will pay Cardinal $50,000 per month until such approval is obtained or through the initial term of the contract. The technology transfer and regulatory approval is expected to be complete in 2005 after which commercial product manufacturing may commence.

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. 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 2005.

In February 2003, we 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 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%

During the first quarter of 2004, we incurred co-promotion expense of $6.7 million, with no such expenses recognized in the same period during 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 January 1, 2008 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 March 31, 2004, we had deferred revenue of $0.2 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 on an annual basis. We achieved quarterly net income for the first time in our corporate history during the fourth quarter of fiscal 2003. To consistently be profitable, we must successfully develop, clinically test, market and sell our products. Even if we consistently 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 the timing of revenues earned from product sales, expenses incurred, collaborative arrangements and other sources. Some of these fluctuations may be significant.

Recent Developments

In March 2004, Ligand and Organon announced plans to increase sales calls to primary care physicians and the long-term care and hospice market segments. We plan to achieve this through the hiring of an additional 36 Ligand specialty sales representatives that will call on top decile primary care physicians, starting in the second quarter of 2004, in a mirrored activity to Organon's sales representatives. The long-term care and hospice efforts will be achieved through an additional focus of the Organon hospital sales force and a specific call plan on key long-term care and hospice physicians and pain treatment staff, also starting in the second quarter of 2004.

Results of Operations

Total revenues for the first quarter of 2004 were $36.6 million compared to $23.1 million for the first quarter of 2003. Loss from operations for the first quarter of 2004 was $10.3 million compared to $12.6 million for the 2003 period. Net loss for the first quarter of 2004 was $13.1 million, or $.18 per share, compared to net loss of $20.3 million, or $.29 per share, for the first quarter of 2003.

Product Sales

Net product sales for the first quarter of 2004 were $34.1 million compared to $18.9 million for the first quarter of 2003. A comparison of sales by product is as follows (in thousands):

	Quarter Ended March 31,	
	2004	2003
AVINZA®	$ 22,436	$ 6,648
ONTAK®	7,308	7,131
Targretin ® capsules	3,506	3,596
Targretin® gel and Panretin® gel	886	1,553
Total net product sales	$ 34,136	$ 18,928

The increase in sales of AVINZA® is due to higher prescriptions as a result of the increased level of marketing and sales activity under our co-promotion agreement with Organon which started in March 2003. As a result of the co-promotion arrangement, AVINZA® is now promoted by approximately 800 sales representatives compared to approximately 50 representatives in the first quarter of 2003 prior to co-promotion. Sales in the first quarter of 2004 also benefited from a price increase of 9.9% effective January 1, 2004. AVINZA® sales for the quarter were negatively impacted, however, by wholesaler purchases in the fourth quarter of 2003 in advance of the announced price increase. In addition AVINZA® sales were negatively impacted by a higher level of Medicaid prescriptions in states where 1) AVINZA® recently obtained preferred formulary status relative to competing products and 2) in states where AVINZA® recently came onto the state formulary but not in a preferred position. As a result, the provision for rebates in the first quarter of 2004 was increased by approximately $2.5 million and $0.5 million, respectively. AVINZA® sales in the first quarter of 2004 were also negatively impacted by approximately $1.0 million related to higher than estimated product returns from development stage batches with shorter than normal expiry dates.

The increase in ONTAK® sales in the first quarter of 2004 compared to the first quarter of 2003 reflects a 9.0% price increase effective January 1, 2004 and increasing use (impacted in part by expanded clinical data) in cutaneous T-cell lymphoma (or CTCL), chronic lymphocytic leukemia (or CLL), non-Hodgkins lymphoma (or NHL) and graft-versus-host disease (or GVHD). Sales of Targretin® capsules also benefited from a 7.0% price increase effective January 1, 2004 while prescriptions for the first quarter of 2004 were consistent with the first quarter of 2003. Sales of both ONTAK® and Targretin® capsules, however, were negatively impacted by increased chargebacks and rebates reflecting changes in our patient mix and evolving reimbursement rates. We continue to study recently enacted changes to the 2004 Centers of Medicare and Medicaid Services reimbursement rates for ONTAK® and Section 641 of the Medicare Prescription Drug Improvement and Modernization Act relating to anti-cancer drugs for Targretin®. We continue to expect improved patient access for Targretin® capsules but increased challenges for a small sub-segment of our ONTAK®/Medicare patients in 2004 and 2005.

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, wholesaler inventory practices and the level of prescriptions subject to rebates and chargebacks. According to IMS Health National Prescription Audit (or IMS NPA) data, AVINZA® ended the first quarter of 2004 with a market share of prescriptions in the sustained-release opioid market of 4.0% compared to less than 1.0% in the first quarter of 2003. We expect that AVINZA® prescription market share will continue to increase as a result of a higher level of sales and marketing activity compared to 2003. We also expect that the expansion of the Ligand and Organon AVINZA® sales forces and sales efforts discussed under the "Recent Developments" section above will have a further positive impact on AVINZA® sales and prescriptions. Overall demand for ONTAK® measured by unit shipments from wholesalers to end users, increased 20% for the 2004 period compared to the prior year. We expect that total product sales will continue to increase in 2004 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 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 March 31, 2004 were $2.5 million compared to $4.2 million for the quarter ended March 31, 2003. A comparison of collaborative research and development and other revenues is as follows (in thousands):

	Quarter Ended March 31,	
	2004	2003
Collaborative research and development	$ 2,398	$ 4,117
Other	78	78
	$ 2,476	$ 4,195

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*.

The decrease in ongoing research activities reimbursement revenue in 2004 compared to the corresponding quarter in 2003 is due to lower funding from our research arrangement with Lilly, which contributed $1.1 million to revenue in the first quarter of 2004 compared to $1.4 million in the first quarter of 2003. The initial research term of the Lilly collaboration was extended for one year effective November 2003 at a lower level of ongoing research funding. Additionally, the decrease is due to the contractually agreed lower level of research activity and funding under our collaboration arrangement with TAP, which contributed $0.8 million to revenue in the first quarter of 2004 compared to $1.3 million in the first quarter of 2003. Revenue for the first quarter of 2003 includes a $1.1 million milestone earned from Lilly. There were no development milestones earned in the first quarter of 2004.

Gross Margin

Gross margin on product sales was 74.2% for the first quarter of 2004 compared to 65.0% for the first quarter of 2003. The increase in the margin in 2004 is due to the relative increase of sales of AVINZA® compared to 2003. AVINZA®, which represented 66% of net product sales in 2004 compared to 35% in the prior year quarter, has significantly better margins than ONTAK® for which we pay third party royalties totaling 28.0% of product sales. For both AVINZA® and ONTAK® we have capitalized license, royalty and technology rights recorded in connection with the acquisition of the rights to those products. These rights are amortized to cost of products 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 $16.9 million in the first quarter of 2004 compared to $16.6 million for the first quarter of 2003.

	Quarter Ended March 31,	
	2004	2003
Research		
Research performed under collaboration agreements	$ 1,992	$ 2,914
Internal research programs	3,746	2,861
Total research	5,738	5,775
Development		
New product development	8,405	8,762
Existing product support (1)	2,709	2,103
Total development	11,114	10,865
Total research and development	$ 16,852	$ 16,640

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

Overall, spending for research expenses remained relatively constant in the first quarter of 2004 compared to the first quarter of 2003, with increases in expenses for internal research programs offset by decreases in expenses for research performed under collaboration agreements. The decrease in expenses for research performed under collaboration agreements was due primarily to a lower contractual level of research funding under our agreement with TAP in the first quarter of 2004 compared to the first quarter of 2003. The decrease is also attributable to a lower level of research funding agreed to with Lilly in connection with the November 2003 extension of our collaboration agreement through November 2004.

Spending for development expenses remained relatively constant in the first quarter of 2004 compared to the first quarter of 2003, with increases in expenses for existing product support offset by a slight decrease in expenses for new product development. The increase in expenses for existing product support was attributable to expenses incurred in connection with the development of an alternate source of supply for AVINZA®. Expenses for our non-small cell lung cancer (or NSCLC) Phase III clinical trials for Targretin® capsules remained relatively constant in the first quarter of 2004 compared to the first quarter of 2003.

We expect development expenses to continue to increase in 2004 related to AVINZA® post-marketing regulatory commitments, increased activity on the development of our ONTAK® second generation product, expanded ONTAK® trials for indications other than CTCL, ongoing expenses on the Phase III clinical trials for Targretin® capsules in NSCLC, and initiation of additional clinical trials for Targretin® capsules in second/third line NSCLC and Targretin® gel in hand dermatitis.

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	Marketed in U.S.
	CLL	Phase II
	Peripheral T-cell lymphoma	Phase II
	B-cell NHL	Phase II
	Psoriasis (severe)	Phase II
	NSCLC third line	Phase II
Targretin® capsules	CTCL	Marketed in U.S.
	NSCLC first-line	Phase III
	NSCLC third-line monotherapy	Phase II
	NSCLC second/third line	Phase II
	Advanced breast cancer	Phase II
	Psoriasis (moderate to severe)	Phase II
	Renal cell cancer	Phase II
Targretin® gel	CTCL	Marketed in U.S.
	Hand dermatitis (eczema)	Phase II
	Psoriasis	Phase II
Panretin® gel	KS	Marketed in U.S.
LGD1550 (RAR agonist)	Advanced cancers	Phase II
	Acne	Pre-clinical
	Psoriasis	Pre-clinical
LGD1331 (Androgen antagonist)	Prostate cancer, hirsutism, acne, androgenetic alopecia	Pre-clinical
LGD5552 (Glucocorticoid agonists)	Inflammation, cancer	Pre-clinical

We do not provide forward-looking estimates of costs and time to complete ongoing research and development projects, as such estimates would involve a high degree of uncertainty. We currently estimate our total research and development expenditures over the next three years to range between $250 million and $325 million. 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, 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 $14.5 million for the first quarter of 2004 compared to $12.4 million for the first quarter of 2003. The increase in 2004 is primarily due to costs associated with additional Ligand sales representatives hired to promote AVINZA® and higher advertising and promotion expenses for AVINZA®. Additionally, marketing expenses increased in 2004 in conjunction with our increased emphasis on physician-attended product information and advisory meetings for AVINZA®. Selling, general and administrative expenses are expected to continue to increase in 2004 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 and due to the planned hiring of an additional 36 pain specialist sales representatives as further discussed under "Recent Developments". Under the co-promotion agreement, we and Organon share equally all costs for AVINZA® advertising and promotion, medical affairs and clinical trials.

Co-promotion Expense

Co-promotion expense payable to Organon amounted to $6.7 million in 2004 in connection with net sales of AVINZA® of $22.4 million. As further discussed under "Overview", we are required to pay Organon, under the terms of our co-promotion agreement, 30% of net AVINZA® sales up to $150.0 million. We expect this expense to continue to increase in 2004 as sales of AVINZA® increase.

Other Expenses, Net

Interest expense increased to $3.1 million for the first quarter of 2004 compared to $2.7 million for the first quarter of 2003. The increase in interest expense is due primarily to interest expense related to a note payable consolidated in connection with the adoption of FIN 46(R) effective December 31, 2003 as more fully discussed under "Leases and Off Balance Sheet Arrangements" below.

Other expenses, net were $.01 million for the first quarter of 2004 and $5.3 million for the first quarter of 2003. The decrease in the net expense for the three months ended March 31, 2004 is due to 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.

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 March 31, 2004, working capital was $67.6 million compared to working capital of $76.1 million at December 31, 2003. Cash, cash equivalents, short-term investments, and restricted investments totaled $98.8 million at March 31, 2004 compared to $100.7 million at December 31, 2003. 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 first quarter of 2004, cash in the amount of $24.0 million was received through the factoring arrangement. We plan to extend the factoring agreement, if available, when it comes up for renewal in the second quarter of 2004.

Operating Activities

Operating activities used cash of $3.6 million for the three months ended March 31, 2004 compared to $9.7 million for the three months ended March 31, 2003. Operating cash flow in 2004 compared to the prior year period reflects increased product sales of AVINZA® and ONTAK®. Additionally, due to our factoring arrangement, net accounts receivable decreased $2.9 million from March 31, 2003 to March 31, 2004, increasing cash flow. The factoring arrangement has served to accelerate collection of accounts receivable, including $24.0 million received under the arrangement for the quarter ended March 31, 2004. Operating cash was negatively impacted, however, by higher selling and marketing expenses for AVINZA®.

Non-cash expenses for the quarter ended March 31, 2004 decreased $5.1 million compared to the quarter ended March 31, 2003. This decrease was due to the write-off of the X-Ceptor purchase right in March 2003. Net decreases in operating assets generated an additional $8.1 million during the quarter ended March 31, 2004 compared to the quarter ended March 31, 2003. This was due primarily to the receipt of cash through our factoring arrangement. Additionally, net increases in operating liabilities over the quarter ended March 31, 2004 generated $2.8 million more than over the prior year period. This was primarily due to the payment of co-promotion expense to Organon related to fourth quarter 2003 sales of AVINZA®.

Investing Activities

Investing activities provided cash of $6.4 million for the quarter ended March 31, 2004, and used cash of $3.4 million for the quarter ended March 31, 2003. Cash provided in 2004 reflects proceeds of $8.4 million from the sale of short-term investments net of purchases of short-term investments. The use of cash in 2004 reflects $1.1 million for the exercise of an option to buy out future payments due on future sales of lasofoxifene, a product under development by Pfizer, and $1.0 million for capital purchases. Cash used in the first quarter of 2003 reflects net proceeds of $0.9 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.

Financing Activities

Financing activities provided cash of $3.7 million and used cash of $16.3 million for the quarters ended March 31, 2004 and 2003, respectively. Cash provided by financing activities in the first quarter of 2004 includes net proceeds of $2.5 million from the exercise of employee stock options, and $1.1 million from equipment financing arrangements. The use of cash in the first quarter of 2003 reflects 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.

Certain of our property and equipment is pledged as collateral under various equipment financing arrangements. As of March 31, 2004, $6.0 million was outstanding under such arrangements with $2.4 million classified as current. Our equipment financing arrangements have terms of 3 to 5 years with interest ranging from 4.73% to 10.66%.

Liquidity

We expect operating cash flows to continue to benefit in 2004 from increased product sales driven by AVINZA®. 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, higher selling and marketing expenses on AVINZA®, and by the payment of our co-promotion fee to our partner Organon. Additionally, we are required to pay interest of approximately $4.7 million in May 2004 and November 2004 on the $155.3 million in 6% convertible subordinated notes issued in November 2002.

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.

Leases and Off Balance Sheet Arrangements

We lease our office and research facilities under operating leases that generally require us to pay taxes, insurance, maintenance and minimum lease payments. Some of our leases have options to renew. An operating lease for one of our two corporate office buildings is commonly referred to as a "synthetic lease". Prior to the issuance of Financial Accounting Standards Board (or FASB) Interpretation No. 46, as revised (or "FIN 46(R)"), *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51*, synthetic leases represented a form of off-balance sheet financing which allowed us to treat the lease as an operating lease for accounting purposes and as a financing lease for tax purposes. We implemented FIN 46(R) effective December 31, 2003 and as a result, consolidated the entity from which we lease the subject office building.

As of March 31, 2004, we are not involved in any off-balance sheet arrangements.

Contractual Obligations

As of March 31, 2004, future minimum payments due under our contractual obligations are as follows (in thousands):

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	$ 5,957	$ 2,397	$ 2,916	$ 644	$ —
Operating lease obligations	19,740	1,812	3,698	3,415	10,815
Loan payable to bank (1)	12,381	303	675	11,403	—
6% Convertible Subordinated Notes	155,250	—	—	155,250	—
Other long-term liabilities (2)	3,516	124	2,840	—	552
Total contractual obligations	$196,844	$ 4,636	$10,129	$170,712	$11,367

(1) In connection with the implementation of FIN 46(R), we consolidated the entity from which we lease one of our corporate office buildings. The loan payable to bank represents the loan secured by the office building.
(2) Other long-term liabilities include merger contingencies, a liability under a royalty financing arrangement and a non-controlling interest in a variable interest entity. Deferred revenues are excluded because they have no effect on future liquidity.

As of March 31, 2004, we have net open purchase orders (defined as total open purchase orders at quarter end less any accruals or invoices charged to or amounts paid against such purchase orders) totaling approximately $16.2 million. During 2004, we also plan to spend approximately $4.0 to $5.0 million on capital expenditures.

Under the terms of our AVINZA® license and supply agreement with Elan, we are committed to purchase an annual minimum number of batches of AVINZA® from Elan through 2005 estimated at approximately $9.2 million per year.

In March 2004, we entered into a five-year manufacturing and packaging agreement with Cardinal Health PTS, LLC ("Cardinal") under which Cardinal will manufacture AVINZA® at its Winchester, Kentucky facility. Under the terms of the agreement, we committed to certain minimum annual purchases ranging from approximately $1.6 million to $2.3 million. In addition, if regulatory approval for the manufacture of AVINZA® at the Kentucky facility has not been obtained within 30 months of the agreement's effective date, we will pay Cardinal $50,000 per month until such approval is obtained or through the initial term of the contract. The technology transfer and regulatory approval is expected to be complete in 2005 after which commercial product manufacturing may commence.

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 quarter ended March 31, 2004 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, 2003.

New Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* which was subsequently revised prior to implementation in December 2003. The revised interpretation, known as "FIN 46(R)", requires the consolidation of certain variable interest entities ("VIEs") 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. We implemented FIN 46(R) on December 31, 2003, and consolidated the entity from which we lease one of our two corporate office buildings as of that date, as we determined that this entity was a VIE, as defined by FIN 46(R), and that we would absorb a majority of its expected losses, if any, as defined by the Interpretation.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with the characteristics of both liability and equity, and requires that such financial instruments be reported as liabilities. The provisions of SFAS No. 150 are effective for instruments entered into or modified after May 31, 2003, and pre-existing instruments after June 15, 2003. The Company does not have any financial instruments covered by the Statement.

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 March 31, 2004, our accumulated deficit was approximately $669 million. We began receiving revenues from the sale of pharmaceutical products in 1999. We achieved quarterly net income for the first time in our corporate history during the fourth quarter of fiscal 2003. To consistently be profitable, we must successfully develop, clinically test, market and sell our products. Even if we consistently 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 and plan to add an additional 36 sales representatives in the second and third quarters of 2004. 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 and 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 overall 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 April 2002 and September 2003 we issued an aggregate of 7.7 million shares of our common stock in a private placement. 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 non-small cell lung cancer 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 required significant time and investment to complete enrollments. Delays in patient enrollment for our other trials 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, 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, aai Pharma's Oramorph SR, Faulding's Kadian, and generic sustained release morphine sulfate and oxycodone. 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 access to the formularies, or lists of approved prescription drugs, of third-party payers such as government and private insurance plans, as well as the availability of reimbursement to the consumer from these third party payers. 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, may not be added to formularies 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 formulary access, discounts and reimbursement rates for our drugs, including AVINZA®. We may not be able to negotiate favorable reimbursement rates and formulary status for our products or may have to pay significant discounts to obtain favorable rates and access. 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, hematopoiesis, women's health disorders, inflammation, cardiovascular disease, cancer and 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.

Hoffmann-La Roche Inc. has received a US patent, has made patent filings and has issued patents in foreign countries that relate to our Panretin® gel products. While we were unsuccessful in having certain claims of the US patent awarded to Ligand in interference proceedings, we continue to believe that any relevant claims in these Hoffman-La Roche patents in relevant jurisdictions are invalid and that our current commercial activities and plans relating to Panretin® are not covered by these Hoffman-La Roche patents in the US or elsewhere. In addition, we have our own portfolio of issued and pending patents in this area which cover our commercial activities, as well as other uses of 9-*cis* retinoic acid, in the US, Europe and elsewhere. However, if the claims in these Hoffman-La Roche patents are not invalid and/or unenforceable, they might block the use of Panretin® gel in specified cancers, not currently under active development or commercialization by us.

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 possible future 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, some 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. We also recently entered into contracts with Cardinal Health to manufacture and package AVINZA® and with Hollister-Stier for the filling and finishing of ONTAK®. Each of these recent contracts calls for manufacturing and packaging the product at a new facility. Qualification and regulatory approval for these facilities are required prior to starting commercial manufacturing. Any delays or failures of the qualification or approval process could cause inventory problems or product shortages.

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 at acceptable cost and in sufficient quantities to meet product growth demands. Any extended or unplanned manufacturing shutdowns, shortfalls or delays could be expensive and could result in inventory and product shortages. If we are unable to reliably manufacture our products 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 2003, the intraday sale price of our common stock on the Nasdaq National Market was as high as $16.59 and as low as $3.69. 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 March 31, 2004, our investment portfolio included fixed-income securities of $22.4 million. At March 31, 2004, 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 principal executive officer and principal financial officer, 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 their 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")) are effective at the reasonable assurance level to ensure that information required to be disclosed by the Company 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, and is accumulated and communicated to Ligand's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in internal controls over financial reporting.* There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2004 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION
ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) On March 20, 2004, the Company amended and restated in its entirety its Preferred Share Rights Agreement dated as of September 13, 1996, as amended from time to time (the "Original Rights Agreement") in order to incorporate certain previous amendments to the Original Rights Agreement and to eliminate certain other amendments to the Original Rights Agreement providing for specific exceptions to the definitions of Acquiring Person and Distribution Date for former Company stockholders, Elan Corporation, plc and its affiliates. The Company's Board of Directors determined that these exceptions were no longer necessary as a result of Elan and its affiliates ceasing to be Company stockholders. The Company evidenced its amendment and restatement of the Original Rights Agreement by entering into an Amended and Restated Preferred Shares Rights Agreement with Mellon Investor Services LLC (as the successor to ChaseMellon Shareholder Services, L.L.C., the successor to and acquirer of Wells Fargo Bank, N.A, the original agent for the Company), as Rights Agent.

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 4.8 (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 4.13 (10)	Amended and Restated Preferred Shares Rights Agreement dated as of March 20, 2004 which includes as Exhibit A the form of Rights Certificate and as Exhibit B the Summary of Rights.
Exhibit 10.273	Letter Agreement, dated February 26, 2004, between the Company and Martin Meglasson.
Exhibit 10.274	Adoption and Trust Agreements For Smith Barney Inc. Execchoice® Nonqualified Deferred Compensation Plan, dated June 2, 2002.
Exhibit 10.275	Commercial Supply and Process Validation Agreement dated February 27, 2004, between Ligand Pharmaceuticals Incorporated and Hollister-Stier Laboratories LLC (with certain confidential portions omitted).
Exhibit 10.276	Manufacturing and Packaging Agreement dated February 13, 2004, between Ligand Pharmaceuticals Incorporated and Cardinal Health PTS, LLC (with certain confidential portions omitted).
Exhibit 10.277	Letter Agreement, dated July 17, 2003, between the Company and William A. Pettit.

Exhibit 31.1	Certification by Principal Executive Officer, Pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification by Principal Financial Officer, Pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification by Principal Executive Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification by Principal Financial Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

(10) This exhibit was previously filed as part of, and is hereby incorporated by reference to the same numbered exhibit filed with the Company's Form 8-A12G/A on April 6, 2004.

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

We filed or furnished the following reports on Form 8-K during the first quarter of 2004:

1. Ligand filed a Current Report on Form 8-K on March 3, 2004, reporting under Item 12 the issuance of a press release announcing Ligand's first quarter earnings results.
2. Ligand filed a Current Report on Form 8-K on March 18, 2004, reporting under Item 5 the implementation of a stock selling plan for Paul V. Maier.
3. Ligand filed a Current Report on Form 8-K on March 22, 2004, reporting under Item 5 the implementation of a stock selling plan for Alexander D. Cross.

LIGAND PHARMACEUTICALS INCORPORATED

March 31, 2004

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: May 7, 2004

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

EXHIBIT 10.273

February 26, 2004

Martin Meglasson
Vice President, Discovery Research
LIGAND PHARMACEUTICALS INCORPORATED
10275 Science Center Drive
San Diego, CA 92121

Dear Martin:

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

DER:bjo
agree\severance meglasson 02-26-04.doc

ACCEPTED BY AND AGREED TO

Signature: /S/ MARTIN MEGLASSON

Dated: 17 March 2004

EXHIBIT 10.274

ADOPTION AGREEMENT
FOR
SMITH BARNEY INC. EXECCHOICE(R)
NONQUALIFIED DEFERRED COMPENSATION PLAN

This is the Adoption Agreement for the SMITH BARNEY EXECCHOICE(R) NONQUALIFIED DEFERRED COMPENSATION PLAN ("PLAN"). The information furnished in this Adoption Agreement establishes the specific provisions of the Employer's Plan. While the SMITH BARNEY EXECCHOICE(R) NONQUALIFIED DEFERRED COMPENSATION PLAN has been designed to permit Plan Participants to defer Federal income tax on amounts credited to their accounts until such amounts are actually distributed to Participants, neither Smith Barney Inc. nor any of its affiliates can assure that the tax results intended herein will result with respect to a specific Employer. Therefore, Smith Barney Inc. advises any Employer who wishes to adopt this Plan to consult with its tax advisor or attorney as to the tax consequences to it and its employee Participants, including the issue of whether the Employer should seek a determination by the Internal Revenue Service as to such tax consequences.

* * * * * * * *

The Employer hereby establishes a deferred compensation plan upon the terms and conditions contained in the SMITH BARNEY EXECCHOICE(R) NONQUALIFIED DEFERRED COMPENSATION PLAN annexed hereto. By separate agreement ("Trust"), the Employer has appointed as Trustee the institution that has executed the Trust evidencing its acceptance of such appointment. The Plan shall be supplemented by the terms and conditions contained in this Adoption Agreement and collectively, the terms of such documents shall govern the rights of Participants under the Plan. This Adoption Agreement, together with the Plan and Trust, should be retained as part of the Employer's permanent records. It is understood that as the Plan (named in Section l.1 below is the Employer's Plan, Smith Barney Inc. has no obligation or liability to update this Plan and Adoption Agreement and shall have no responsibilities or liability to the extent these documents are changed or modified by the Employer.

* * * * * * * *

SECTION 1. EMPLOYER DATA

1.1 LIGAND PHARMACEUTICALS NONQUALIFIED DEFERRED COMPENSATION PLAN

NAME OF EMPLOYER'S PLAN

1.2 LIGAND PHARMACEUTICALS INC.

PROPER BUSINESS NAME OF EMPLOYER

1.3 9393 TOWNE CENTRE DRIVE

ADDRESS
SAN DIEGO, CA 92121

1.4 619-535-3900

GENERAL TELEPHONE NUMBER

1.5 619-550-7500

GENERAL FAX NUMBER

1.6 77-0160744

EMPLOYER IDENTIFICATION NUMBER

1.7 12/31

EMPLOYER'S TAXABLE YEAR ENDS

1.8 12/31

PLAN YEAR ENDS

1.9 12/05/96

EFFECTIVE DATE OF PLAN (IF NEW PLAN)

N/A

EFFECTIVE DATE OF AMENDMENT AND RESTATEMENT OF PLAN (IF OLD PLAN)

1.10 CALIFORNIA

STATE OF PRINCIPAL PLACE OF BUSINESS

1.11 CYNTHIA J. THOMAS

PRIMARY CONTACT

EXECUTIVE DIRECTOR OF HUMAN RESOURCES

TITLE OF PRIMARY CONTACT

619-550-7587

TELEPHONE NUMBER

619-550-7800

FAX NUMBER

SECTION 2. PARTICIPATION

2.1 An Employee shall be considered an Eligible Employee* if he or she falls into the following category:

X Such Employee is designated as an Eligible Employee by the Employer in Schedule A attached to the Plan, which schedule may be amended by the Employer from time to time to add or delete a Participant(s).

2.2 LOSS OF ELIGIBLE EMPLOYEE STATUS - SECTION 2.2 OF PLAN:

X Amounts credited to the Account of a Participant who is no longer an Eligible Employee shall continue to be held, pursuant to the terms of the Plan, and shall be distributed as provided in ARTICLE VI.

- ---

* For plans which are designed to allow for income deferral beyond termination of employment (which would include termination because of retirement), Eligible Employees must all be management or highly compensated employees within the meaning of sections 201(2), 301(a)(3) and 40I(a)(l) of the Employee Retirement Income Security Act of 1974, as amended ("top-hat" rule).

SECTION 3. COMPENSATION

X The definition used for purposes of benefit accrual or contribution allocation in the following plan sponsored by the Employer: EARNED INCOME AND BONUSES

SECTION 4. CONTRIBUTIONS

4.1 PARTICIPANT DEFERRALS. Deferrals elected to be made by a Participant shall be indicated by completion of his or her Deferral Election.

X The minimum amount that may be deferred each Plan Year is the greater of one thousand dollars ($1,000) or two percent (2%) of the Participant's Compensation. (OPTIONAL)

4.2 MATCHING CONTRIBUTIONS. The Employer shall make a Matching Contribution equal to (OPTIONAL):

X None

4.3 SUPPLEMENTAL EMPLOYER CONTRIBUTIONS. The Employer reserves the right to make discretionary contributions to Participants' Accounts in such mount and in such manner as may be determined by the Employer and which may be changed or suspended at any time by the Employer. Such amounts shall be allocated to Participant Accounts each Plan Year in accordance with written instructions provided by the Employer to the Administrator.

X None

4.4 TIMING OF CONTRIBUTIONS.

4.4.1 Deferrals and Matching Contributions shall be transferred to the Trust as soon as administratively feasible following the close of the following period:

X the close of each month

N/A SECTION 5. VESTING

SECTION 6. ACCOUNTS

6.1 RETIREMENT ACCOUNT. The Contributions credited shall be Deferrals and:

X any Marching Contributions and any Employer Contributions allocable thereto.

6.2 FIXED DATE ACCOUNTS. Contributions credited shall be Deferrals and (SELECT IF OTHER CONTRIBUTIONS SHALL BE INCLUDED):

X any Matching Contributions and any Supplemental Employer Conuibutions allocable thereto.

6.2.1 EDUCATIONAL ACCOUNTS. (OPTIONAL)

X Educational Accounts permitted

6.2.2 DEFINITION OF STUDENT.

X Student means a child, grandchild, niece or nephew or dependent of Participant (as defined in Section 152 of the Internal Revenue Code of 1986, as amended).

6.2.3 MAXIMUM AGE OF STUDENT AT TIME EDUCATION ACCOUNT IS ESTABLISHED.

X Other

(SPECIFY) 17

6.2.4 AGE OF STUDENT AT TIME ACCOUNT IS PAID TO PARTICIPANT.

X Time indicated by Participant in his or her Deferral Election,

SECTION 7. DISTRIBUTIONS

7.1 DEFINITION OF RETIREMENT.

X Retirement shall have the same meaning as under the terms of the following Employer sponsored plan or its successor plan: 401(K) PLAN (65 NORMAL, 59, EARLY)

7.2 EDUCATIONAL ACCOUNTS - PAYMENT OPTIONS.

Payment shall begin at the time the Student attains the age designated under section 6.2.3 of this Adoption Agreement and shall be paid to the Participant in accordance with the following distribution method:

X Other

(SPECIFY) AS INDICATED BY PARTICIPANT IN HIS OR HER DEFERRAL ELECTION.

7.3 TRANSFER TO RETIREMENT ACCOUNT (OPTIONAL)

X If a Participant has either an Education Account(s) or Fixed Date Account(s) at the time of his or her Retirement, said Accounts shall be transferred to his or her Retirement Account and paid out according to subsection 6.2(a) of the Plan.

7.4 DISABILITY.

Upon the Disability of a Participant, all amounts credited to his or her Account(s) shall be paid to the Participant:

X in a lump-sum payment, as soon as administratively feasible.

7.5 DISTRIBUTION IN THE EVENT OF FINANCIAL HARDSHIP - SECTION 6.5 OF PLAN. (OPTIONAL) This permits a distribution of all or a portion of a Participant's Account while employed for an unforeseen emergency. The distribution is limited to the amount necessary to meet the hardship and is only available to the vested portion of a Participant's Account.

X Financial hardship withdrawls permitted

7.5.1 TYPES OF CONTRIBUTIONS FROM WHICH HARDSHIP WITHDRAWALS CAN BE TAKEN.

X Deferrals only

7.6 EARLY WITHDRAWAL WHILE WORKING - SECTION 6.6 OF PLAN. (OPTIONAL) This permits distribution of all or a portion of a Participant's Account while employed for situations other than unforeseen emergency. The distribution is limited to the vested portion of a Participant's Account. In consideration of supporting the tax deferment of the contributions made to the Plan, this early withdrawal amount is subject to a ten percent (10%) penalty, and the Participant receiving the early withdrawal will be suspended from making future Deferrals for a period no later than the remainder of the Plan Year in which the withdrawal was received. The Employer should consult with its tax counsel or advisor before selecting this provision.

X Early Withdrawal Not Permitted

SECTION 8. INVESTMENT FUNDS (SPECIFY)

X SMALL CAPITALIZATION GROWTH - EQUITY

[NAME OF INVESTMENT FUND]

X LARGE CAP GROWTH - EQUITY

[NAME OF INVESTMENT FUND]

X LARGE CAP- VALUE - EQUITY

[NAME OF INVESTMENT FUND]

X STABLE VALUE INVESTMENTS - INCOME

[NAME OF INVESTMENT FUND]

SECTION 9. CHANGE OF CONTROL

9.1 GENERAL. If this is elected by the Employer, the provisions of Article IX of the Plan shall apply as selected under this Article of the Adoption Agreement.

X The provisions of Article IX as selected under this Section shall apply upon a Change of Control.

9.2 ACCELERATION PROVISION FOR VESTING UPON CHANGE OF CONTROL-SECTION 9.2 OF PLAN.

X No accelerated vesting

9.3 ACCELERATED PAYMENT PROVISION UPON CHANGE OF CONTROL-SECTION 9.3 OF PLAN.

X No accelerated payment

SECTION 10. PLAN ADMINISTRATION

The Administrator of the Plan shall be:

X A committee (e.g., Deferred Compensation Committee) consisting of the following individuals (by name or position):

PAUL V. MAIER WILLAM A. PETTIT

WILLIAM L. RESPESS CYNTHIA J. THOMAS

N/A SECTION 11. IRS APPROVAL - FAILURE TO APPROVE PLAN VOID - SECTION 11.17 OF PLAN (OPTIONAL)

SECTION 12. GOVERNING LAW

APPLICABLE STATE LAW IS: DELAWARE

SECTION 13. ADOPTION OF PLAN AND TRUST

The Employer hereby agrees to adopt the SMITH BARNEY EXECCHOICE(R) NONQUALIFIED DEFERRED COMPENSATION PLAN AND TRUST, as attached hereto. By executing this Adoption Agreement, the Employer acknowledges that no representations or warranties as to the tax consequences to the Employer and Participants of the operation of this Plan and Trust have been made by Smith Barney Inc. and that Smith Barney Inc. is under no obligation to update either the Plan document or Adoption Agreement and shall have no responsibilities or liability to the extent either document is changed or modified by the Employer.

IN WITNESS WHEREOF, the Employer has caused this Adoption Agreement to be executed this 1ST DAY OF JANUARY , 1997.

Attest: Ligand Pharmaceuticals Inc.

/S/WILLIAM L. RESPESS By: WILLIAM L. RESPESS
- ---------- ----------
Secretary Name

SR. VICE PRESIDENT,
GENERAL COUNSEL, GOVERNMENT AFFAIRS

Title

SMITH BARNEY INC. EXECCHOICE(R)
NONQUALIFIED DEFERRED COMPENSATION PLAN

SMITH BARNEY INC. EXECCHOICE(R)
NONQUALIFIED DEFERRED COMPENSATION PLAN

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SMITH BARNEY INC. EXECCHOICE(R)
NONQUALIFIED DEFERRED COMPENSATION PLAN

The Employer hereby adopts the Plan for the benefit of a select group of management or highly compensated employees. This Plan is intended to be a top-hat plan described in Sections 201(2), 301(a)(3) and 401(a)(l) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Employer intends that the Plan (and the Trust thereunder) shall be treated as unfunded for Federal income tax purposes and shall be exempt from the participation, vesting, funding, and fiduciary requirements set forth in Title I of ERISA.

ARTICLE I - DEFINITIONS

1.1 ACCOUNT. The bookkeeping account established for each Participant as provided in section 5.1 hereof, which shall reflect a Participant's Deferrals, together with Matching Contribution and Supplemental Employer Contributions, if any, together with any adjustments for investment gain or loss and any payments from such account. For purposes herein, the "Account" shall also include any references to the bookkeeping subaccounts established pursuant to section 5.1 hereof and any references to the term "Vested Account" herein.

1.2 ADOPTION AGREEMENT. The Smith Barney ExecChoice(R) Nonqualified Deferred Compensation Plan Adoption Agreement executed by the Employer to establish the Plan which contains all of the Plan provisions selected by the Employer, as the same may be amended by the Employer from time to time.

1.3 ADMINISTRATOR. The person, persons or entity designated by the Employer in the Adoption Agreement to administer the Plan. Except as otherwise required by the Trust or applicable law, the Administrator shall have exclusive power and discretion to determine all benefits and resolve all questions pertaining to the administration, interpretation and application of Plan provisions. The Administrator shall serve as the agent for the Employer with respect to the Trust. If no such person or entity is so serving at any time, the Employer shall be the Administrator.

1.4 BENEFICIARY. The person or entity designated or otherwise determined under the provisions of section 7.1 as the distributee of benefits under the Plan payable following the death of Participant.

1.5 BOARD. The Board of Directors of the Employer. For purposes of ARTICLE IX, the term "Board" shall be modified to mean the total number of members of the Board that there would be if there were no vacancies on such Board.

1.6 BONUS. Compensation which is designated as such by the Employer and

which relates to services performed during an incentive period by an Eligible Employee in addition to his or her Salary, including any pretax elective deferrals from said Bonus to any Employer sponsored plan which would include, but would not be limited to, amounts deferred under a Deferral Election to this Plan or to a qualified cash or deferred arrangement intended to quality under Code Section 401(k) or to a cafeteria plan under Code Section 125.

1.7 CHANGE OF CONTROL. If an Employer elects to have the provisions of ARTICLE IX apply, the meaning selected by the Employer in the Adoption Agreement.

1.8 CODE. The Internal Revenue Code of 1986, as amended from time to time. Any reference to a section of the Code includes any comparable section or sections of any further legislation that amends, supplements or supersedes that section.

1.9 COMPENSATION. The meaning elected by the Employer in the Adoption Agreement.

1.10 CONTINUING DIRECTORS. If an Employer elects to have the provisions of ARTICLE IX apply, the meaning selected by the Employer in the Adoption Agreement.

1.11 CONTRIBUTIONS. The Deferrals, Matching Contributions and Supplemental Employer Contributions made to the Plan.

1.12 DEFERRALS. That portion of Compensation that a Participant elects to defer in accordance with section 3.1 hereof.

1.13 DEFERRAL ELECTION. The separate written agreement ("Deferral Agreement"), submitted to the Administrator, by which an Eligible Employee agrees to participate in the Plan and make Deferrals thereto, and any other related enrollment forms which together evidence a Participant's election to participate in the Plan.

1.14 DISABILITY. Any medically determinable physical or mental disorder that renders a Participant incapable of continuing in the employment of the Employer in his or her regular duties of employment and is expected to continue for the remainder of a Participant's life, the performance and degree of which shall be supported by medical evidence satisfactory to the Administration in its sole discretion.

1.15 EDUCATION ACCOUNT. A bookkeeping subaccount which is a payment alternative to the Fixed Date Account established pursuant to section 5.l(b).

1.16 EFFECTIVE DATE. The date chosen in the Adoption Agreement as of which the Plan first becomes effective.

1.17 ELIGIBLE EMPLOYEE. An Employee of the Employer who satisfies the eligibility requirements specified in the Adoption Agreement.

1.18 EMPLOYEE. Any person employed by the Employer.

1.19 FIXED DATE ACCOUNT. The bookkeeping subaccount established pursuant to subsection 5.1(b).

1.20 INVESTMENT FUND OR FUNDS. Each investment(s) which serves as a means to measure value, increases or decreases with respect to a Participant's Accounts.

1.21 MATCHING CONTRIBUTION. A contribution made by the Employer to the Trust that is credited to one or more Participant's Accounts in accordance with the terms of section 3.2 hereof and the Adoption Agreement.

1.22 PARTICIPANT. An Eligible Employee who is a Participant as provided in ARTICLE II.

1.23 PLAN. The Employer's plan in the form of the Smith Barney Inc ExecChoice(R) Nonqualified Deferred Compensation Plan, the Adoption Agreement and all amendments thereto.

1.24 PLAN YEAR. The twelve month period elected by the Employer in the Adoption Agreement.

1.25 RETIREMENT. The meaning elected by the Employer in the Adoption Agreement.

1.26 RETIREMENT ACCOUNT. The bookkeeping subaccount established pursuant to section 5.l(a).

1.27 SALARY. An Eligible Employee's base salary rate or rates in effect at any time during a Plan Year, including any pretax elective deferrals from said salary to any Employer sponsored plan which would include, but would not be limited to, amounts deferred under a Deferral Election to this Plan or to a qualified cash or deferred arrangement under Code Section 401(k) or to a cafeteria plan under Code Section 125.

1,28 SPOUSAL CONSENT. Written consent by a Participant's Spouse waiving the benefit otherwise payable to the Spouse under the Plan upon the Participant's death, which acknowledges the designation of the Beneficiary or Beneficiaries named therein, which is witnessed by the Administrator, other Plan representative or notary public, and which includes acknowledgement by the Spouse of the effect of such waiver.

1.29 SPOUSE. The person legally recognized as the Participant's legal spouse as of the date of determination. For purposes of determining whether Spousal Consent is required with respect to a particular Participant, the Administrator shall be entitled to rely upon a representation by therticipant that the Participant has no Spouse or that Spousal Consent is nor required under the Plan because (a) the Spouse cannot be located, (b) the Participant is legally separated or (c) the Participant has been abandoned (within the meaning of local law) and the Participant has a court order to such effect.

1.30 SUPPLEMENTAL EMPLOYER CONTRIBUTION. If elected by the Employer in the Adoption Agreement, a discretionary contribution made by the Employer to the Trust that is credited to one or more Participant's Accounts in accordance with the terms of section 3.3 hereof and the Adoption Agreement.

1.3 1 TRUST. The agreement between the Employer and the Trustee under which the assets of the Plan are held, administered and managed.

1.32 TRUSTEE. The Trustee of the Trust as it may be designated thereunder from time to time.

1.33 VESTED ACCOUNT. That portion of a Participant's Account to which a Participant has a vested interest pursuant to ARTICLE IV.

1.34 YEARS OF SERVICE. A Participant's period of employment used for determining a Participant's vested percentage under ARTICLE IV as elected by the Employer in the Adoption Agreement

ARTICLE II - PARTICIPATION

2.1 COMMENCEMENT OF PARTICIPATION. Each Eligible Employee shall become a Participant at the earlier of the date on which his or her Deferral Election first becomes effective or the date on which a Deferral is first credited to his or her Account.

2.2 LOSS OF ELIGIBLE EMPLOYEE STATUS.

(a) A Participant who is no longer an Eligible Employee shall not be permitted to submit a Deferral Election and all Deferrals for such Participant shall cease as of date such Participant is determined to no longer be an Eligible Employee.

(b) Amounts credited to the Account of a Participant described in subsection (a) shall continue to be held, pursuant to the terms of the Plan, and shall be distributed in accordance with the Employer's election under the Adoption Agreement.

(c) Notwithstanding subsection (a) above and as subject to subsection (b) above, a Participant in the Plan shall continue to be a Participant so long as his or her Account balances have not yet been fully distributed.

ARTICLE III - CONTRIBUTIONS

3.1 DEFERRALS.

(a) The Employer shall credit to the Account of a. Participant an amount equal to the amount designated in the Participant's Deferral Election for that Plan Year. Such amounts shall not be made available to such Participant, except as provided in ARTICLE VI, and shall reduce such Participant's Compensation from the Employer in accordance with the provisions of the applicable Deferral Election; provided, however, that all such amounts shall be subject to the rights of the general creditors of the Employer as provided in ARTICLE VIII.

(b) Each Eligible Employee must deliver a Deferral Election to the Administrator before any Deferrals become effective. Such Deferral Election shall be void with respect to any Deferral unless submitted to the Administrator before the beginning of the calendar year during which the amount to be deferred will be earned; provided, however, that in the year in which the Plan is first adopted or an Employee is first eligible to participate, such Deferral Election shall be filed with the Administrator within thirty (30) days of the date on which the Plan is adopted or the date on which an Employee is first eligible to participate, respectively, with respect to Compensation earned during the remainder of the calendar year.

(c) The Deferral Election shall, subject to the limitation set forth in section 3.1 hereof and as elected by the Employer under the Adoption Agreement, designate the amount of Compensation deferred by each Participant, the subaccounts, if any, as set forth in subsection (e), below, the Beneficiary or Beneficiaries of the Participant and such other item as the Administrator may prescribe. Such designations shall remain effective unless amended as provided in subsection (d), below.

(d) A Participant may amend his or her Deferral Election from time to time; provided, however, that any amendment to the amount of a Participant's Deferrals shall comply with the provisions of subsection (b), above.

(e) A Participant may direct his or her Deferral to be credited to one or more subaccounts as may be established, as provided in ARTICLE V, by the Participant at the time of the Deferral Election.

3.2 MATCHING CONTRIBUTIONS. If elected by the Employer in the Adoption Agreement, the Employer shall also credit to the Account of each Participant who makes Deferrals a Matching Contribution in an amount equal to the amount specified in the Adoption Agreement.

3.3 SUPPLEMENTAL EMPLOYER CONTRIBUTIONS. The Employer reserves the right to make discretionary contributions to Participants' Accounts in such amount and in such manner as may be determined by the Employer and as specified in the Adoption Agreement.

3.4 TIMING OF CONTRIBUTIONS.

(a) Deferrals and Matching Contributions shal1 be transferred to the Trust as soon as administratively feasible following the close of the period selected in the Adoption Agreement. The Employer shall also transmit at that time any necessary instructions regarding the allocation of such amounts among the Accounts of Participants to the Trustee, the Administrator, or an agent thereof, as applicable.

(b) Supplemental Employer Contributions shall be transferred to the Trust at such time as soon as administratively feasible following the close of the period selected in the Adoption Agreement. The Employer shall also transmit at that time any necessary instructions regarding the allocation of such amounts among the Accounts of Participants to the Trustee, the Administrator, or an agent thereof, as applicable.

3.5 FORM OF CONTRIBUTIONS. All Contributions to the Trust shall be made in the form of cash or cash equivalents of U.S. currency.

ARTICLE IV - VESTING

4.1 VESTING OF DEFERRALS. A Participant shall have a vested right to the portion of his or her Account attributable to Deferral and any earnings on the investment of such Deferrals.

4.2 VESTING OF MATCHING CONTRIBUTIONS. Except as otherwise provided herein, a Participant shall have a vested right to that portion of his or her Account attributable to Matching Contributions as specified by the Employer in the Adoption Agreement.

4.3 VESTING OF SUPPLEMENTAL EMPLOYER CONTRIBUTIONS. Except as otherwise provided herein, a Participant shall have a vested right to that portion of his or her Account attributable to Supplemental Employer Contributions as specified by the Employer in the Adoption Agreement.

4.4 VESTING IN EVENT OF RETIREMENT, DISABILITY, OR DEATH.

(a) A Participant who attains the age specified in the Adoption Agreement and retires from the employ of the Employer on or after such age shall be fully vested in the amounts credited to his or her Account regardless of his or her Years of Service.

(b) A Participant who has a termination of employment due to Disability shall be fully vested in the amounts credited to his or her Account.

(c) A Participant who has a termination of employment due to death shall be fully vested in the amounts credited to his or her Account

4.5 AMOUNTS NOT VESTED. Any amounts credited to a Participant's Account that are not vested at the time of his or her termination of employment with the Employer shall be forfeited as provided in section 5.3 hereof.

ARTICLE V - ACCOUNTS

5.1 ACCOUNTS. The Administrator shall establish and maintain a bookkeeping account in the name of each Participant. The Administrator shall also establish bookkeeping subaccounts, as provided in subsections (a) and (b) below, as elected by the Participant pursuant to ARTICLE III.

(a) A Retirement Account shall be established for each Participant. His or her Retirement Account shall be credited with Deferrals (as specified in the Participant's Deferral Election), and those Contributions specified by Employer in the Adoption Agreement and the Participant's allocable share of any earnings or losses on the foregoing. Each Participant's Account shall be reduced by any distributions made.

(b) (1) A Participant may elect to establish one or more Fixed Date Accounts by designating a year of payout at the time the Account is initially established. Subject to the establishment of an Education Account pursuant to subsection (2) below, the minimum initial deferral period for each subaccount shall be five (5) years. A Participant may have a maximum number of five Fixed Date Account at any time. Each Participant`s Fixed Date Account shall be credited with Deferrals (as specified in the Participant's Deferral Election) and those Contributions specified by the Employer in the Adoption Agreement and the Participant's allocable share of any earnings or losses on the foregoing, Each Participant`s Account shall be reduced by any distributions made.

(2) In lieu of designating a future year of payout for a Fixed Date Account pursuant to subsection (1) above, a Participant may elect to have one or more Fixed Date Accounts be paid to a Participant for the purposes of meeting a Student's post-secondary educational expenses. If this alternative is elected by Participant, one or more Education Accounts shall be established. For purposes of this subsection, the term "Student" shall be those categories of persons selected by the Employer in the Adoption Agreement. The maximum number of Education Accounts a Participant may have is subject to the maximum number of Fixed Date Accounts permitted under subsection (I). If a Student dies before distribution of all amounts in the respective Education Account is made to the Participant, amounts credited to such Education Account shall be credited instead to the Participant's Retirement Account.

5.2 INVESTMENTS, GAINS AND LOSSES.

(a) Trust assets shall be invested by the Trustee in accordance with the Trustee's investment authority under the terms of the Trust and subject to any investment direction the Trustee may receive under the terms of the Trust.

(b) The Administrator shall adjust the amounts credited to each Participant's Account to reflect all contributions, investment experience, distributions and any other appropriate adjustments. Such adjustments shall be made as frequently as is administratively feasible.

(c) A Participant may direct that his or her Retirement Account, and/or Fixed Date Account established pursuant to section 5.1 may be valued as if they were invested in one or more Investment Funds elected by the Employer in the Adoption Agreement in multiples of one percent (1%) of the balance in an Account. A Participant may change his or her selection of Investment Funds no more than six (6) times each Plan Year. An election shall be effective as soon 8s administratively feasible following the date of the change as indicated on an investment allocation form completed by the Participant and delivered to the Administrator.

5.3 FORFEITURES. Any forfeitures from a Participant's Account shall continue to be held in the Trust, shall be separately invested and shall be used to reduce succeeding Matching Contributions and Supplemental Employer

Contributions until such forfeitures have been entirely so applied. If no further Matching Contributions or Supplemental Employer Contributions will be made, then such forfeitures shall be returned to the Employer.

ARTICLE VI - DISTRIBUTIONS

6.1 DISTRIBUTION ELECTION. Each Participant shall designate on his or her initial Deferral Election the form and timing of his or her distribution by indicating the type of account as described under section 5.1, and by designating the manner in which payments shall be made from the choices available under section 6.2 hereof. Such designation shall be irrevocable and shall apply to all amounts distributed from such Participant's Account Notwithstanding the foregoing, the Administrator has the authority to negate a Participant's distribution election indicated either on his or her initial Deferral Election or made pursuant to subsections 6.5 and 6.6 below if such election would violate the terms of the Plan, the Trust or applicable law.

6.2 PAYMENT OPTIONS.

(a) Retirement Account payouts shall be payable in one of the following forms: (i) in a lump-sum payment; or (ii) in annual installments over a period of up to ten (10) years (as elected by Participant on his or her Deferral Election). Retirement Account payments shall commence as soon as administratively feasible immediately after the Participant's Retirement.

(b) Unless a Participant elects to establish an Educational Account pursuant to subsection 5.l(b)(2), Fixed Date Account payouts shall be made in one lump sum payment on January 1 (or as soon as administratively feasible) of the calendar year selected by the participant on his or her Deferral Election. Educational Account payouts shall be made in the manner elected by the Employer in the Adoption Agreement.

6.3 COMMENCEMENT OF PAYMENT UPON DEATH, DISABILITY OR TERMINATION.

(a) Upon the death of a Participant, all amounts credited to his or her Account(s) shall be paid, as soon as administratively feasible, to his or her Beneficiary or Beneficiaries, as determincd under ARTICLE VII hereof, in a lump sum.

(b) Upon the Disability of a Participant, all amounts credited to his or her Account(s) shall be paid to the Participant, as specified by the Employer in the Adoption Agreement.

(c) Upon the termination of employment of a Participant, all amounts credited to his or her Vested Account(s) shall be paid to the Participant in a lump-sum payment, as soon as administratively feasible.

6.4 MINIMUM DISTRIBUTION. Notwithstanding any provision to the contrary, if the balance of a Participant's Account at the time of a termination due to Retirement or Disability is less than $10,000, then the Participant shall be paid his or her benefits as a single lump sum as soon as administratively feasible following said termination.

6.5 FINANCIAL HARDSHIP. If so elected by the Employer in the Adoption Agreement, the Administrator may permit an early distribution of part or all of a Participant's Account (including Deferrals, Matching Contributions and Supplemental Employer Contributions as specified in the Adoption Agreement); provided, however, that such distribution shall be made only if the Administrator, in its sole discretion, determines that the Participant has experienced an unforeseen emergency that is caused by an event beyond the control of the Participant and that would result in severe financial hardship to

the Participant if the early distribution were not permitted. Any distribution pursuant to this subsection is limited to amounts attributable to the Participant's Vested Account and shall not be in excess of an amount necessary to meet the hardship.

6.6 WITHDRAWAL WHILE WORKING.

(a) If so elected by the Employer in the Adoption Agreement, the Administrator may permit an early distribution of part or all of a Participant's Vested Account as provided in subsections (b) and (c) below.

(b) A Participant must deliver a written request for an early distribution to the Administrator and shall provide such additional information as the Administrator may require no later than thirty (30) days prior to the dare the Participant expects the distribution to be made. If the request is approved by the Administrator, the Participant shall receive an amount equal to his or her Vested Account (as adjusted in accordance with section 5.2) net of ten percent (10%) of such Vested Account. That portion of the Vested Account which is forfeited pursuant to this subsection (b) shall be subject to section 5.3.

(c) A Participant who receives an early disuibution under this section shall not be permitted to make Deferrals for a period beginning on the date such distribution is paid and ending on the earlier of (i) six (6) months following the payment date or (ii) the last day of the applicable Plan Year.

ARTICLE VI - BENEFICIARIES

7.1 BENEFICIARIES. If a Participant is married on the date of the Participant's death, the Participant's Beneficiary shall be the Participant's Spouse, unless the Participant names a Beneficiary or Beneficiaries (other than the Participant's Spouse) to receive the balance of the Participant's Deferred Compensation Account in the event of the Participant's death prior to the payment of the Participant's Account. Notwithstanding the immediately preceding sentence, if the Participant is married at the time of death, no designation of a Beneficiary other than the Participant's Spouse shall be effective unless Spousal Consent has been obtained with respect to such designation. To be effective, any Beneficiary designation must be filed with the Administrator on a form provided by the Administrator for that purpose. A Participant may revoke an existing Beneficiary designation by filing with the Administrator another Beneficiary designation form. The latest Beneficiary designation received by the Administrator shall be controlling. If the Beneficiary does not survive the Participant (or is otherwise unavailable to receive payment) or if no Beneficiary is validly designated, then the amounts payable under this Plan shall be paid to the Participant's Spouse, if any, and, if none, to his or her surviving issue per stirpes, if any, and, if none, to his or her estate and such person(s) or entity shall be deemed to be a Beneficiary hereunder. (For purposes of this ARTICLE, a per stirpes distribution to surviving issue means a distribution to such issue as representatives of the branches of the descendants of such Participant; equal shares are alotted for each living child and for the descendants as a group of each deceased child of the deceased Participant). If more than one person is the Beneficiary of a deceased Participant, each such person shad receive a pro rata share of any death benefit payable unless otherwise designated on the applicable form. If a Beneficiary who is receiving benefits dies, all benefits that were payable to such Beneficiary shall then be payable to the estate of that Beneficiary.

7.2 LOST BENEFICIARY.

(a) All Participants and Beneficiaries shall have the obligation to keep the Administrator informed of their current address until such time as all benefits due have been paid.

(b) If a Participant or Beneficiary cannot be located by the Administrator exercising due diligence, then, in its sole discretion, the Administrator may presume that the Participant or Beneficiary is deceased for purposes of the Plan and all unpaid amounts (net of due diligence expenses) owed to the Participant or Beneficiary shall be paid accordingly or, if a Beneficiary cannot be so located, then such amounts may be forfeited and shall be subject to section 5.3 herein. Any such presumption of death shall be final, conclusive and binding on all parties.

ARTICLE VIII - FUNDING

8.1 PROHIBITION AGAINST FUNDING. The Plan constitutes a mere promise by the Employer to make benefit payments thereunder in the future. Should any investment be acquired in connection with the liabilities assumed under this Plan, it is expressly understood and agreed that the Participants and Beneficiaries shall not have any right with respect to, or claim against, such assets nor shall any such purchase be construed to create a trust of any kind or a fiduciary relationship between the Employer and the Participants, their Beneficiaries or any other person. Any such assets shall be and remain a part of the general, unpledged, unrestricted assets of the Employer, subject to the claims of its general creditors. Each Participant and Beneficiary shall be required to look to the provisions of this Plan and to the Employer itself for enforcement of any and all benefits due under this Plan, and to the extent any such person acquires a right to receive payment under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Employer. The Trust shall be designated the owner and beneficiary of any investment acquired in connection with its obligation under this Plan.

8.2 DEPOSITS IN TRUST. Notwithstanding section 8.1, or any other provision of this Plan to the contrary, the Employer may deposit into the Trust any amounts it deem appropriate to pay the benefits under this Plan. The amounts so deposited may include all contributions made pursuant to a Deferral Election by a Participant and any other Contributions made by the Employer to the Plan,

8.3 WITHHOLDING OF EMPLOYEE CONTRIBUTIONS. The Administrator is authorized to make any and all necessary arrangements with the Employer in order to withhold the Participant's Deferrals under section 3.1 hereof from his or her Compensation. The Administrator or its designee shall determine the amount and timing of such withholding.

ARTICLE IX - CHANGE OF CONTROL

9.1 OVERRIDING PROVISIONS APPLICABLE DURING A CHANGE OF CONTROL. If so elected by the Employer in the Adoption Agreement, the following provisions of this ARTICLE will become effective upon a Change of Control. No portion of this

ARTICLE will apply to any transaction or event referred to herein to the extent it is inconsistent with applicable State or Federal law.

9.2 ACCOUNT VESTED ON CHANGE OF CONTROL. Effective on a Change of Control, Participant Accounts (including all Contributions and investment earnings as of that date) will become fully vested and nonforfeitable.

9.3 ACCOUNT VESTED AND IMMEDIATELY PAYABLE ON CHANGE OF CONTROL. Effective on a Change of Control, Participant Accounts (including all Contributions and investment earnings as of that date) will become fully vested and nonforfeitable and shall be paid to Participants and Beneficiaries, as applicable, by the Administrator as soon as administratively feasible following the Change of Control or such other date as determined by the Employer in the Adoption Agreement.

9.4 SUSPENSION OF PART OR ALL OF THE OVERRIDING PROVISIONS. If so elected by the Employer in the Adoption Agreement, by the affirmative vote of a majority of the Board and a majority of those members of the Board who are Continuing Directors, either section 9.2 or 9.3, as selected by the Employer in the Adoption Agreement, may be declared inapplicable if a majority of the members of the Board are Continuing Directors (provided that such majority is equal to the same number as constituted a majority of the Board immediately prior to the Change of Control).

ARTICLE X - CLAIMS ADMINISTRATION

10.1 GENERAL. In the event that a Participant or his or her Beneficiary does not receive any Plan benefit this is claimed, such Participant or Beneficiary shall be entitled to consideration and review as provided in this ARTICLE. Such consideration and review shall be conducted in a manner designed to comply with Section 503 of ERISA.

10.2 CLAIM REVIEW. Upon receipt of any written claim for benefits, the Administrator shall be notified and shall give due consideration to the claim presented. Written notice of the disposition of a claim by the Administrator shall be furnished to the claimant within ninety (90) days after the claim is filed. In the event of special circumstances, the Administrator may extend the period for claim determination for up to an additional ninety (90) days, in which case it shall so advise the claimant in writing. If the claim is denied to any extent by the Administrator, the Administrator shall furnish the claimant with a written notice setting forth (in a manner calculated to be understood by the c1aimant):

(a) the specific reason or reasons for denial of the claim;

(b) a specific reference to the Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the provisions of this ARTICLE.

10.3 RIGHT OF APPEAL. A claimant who has a claim denied under section 10.2 may appeal to the Administrator for reconsideration under this section must be filed by written notice within sixty (60) days after receipt by the claimant of the notice of denial under section 10.2.

10.4 REVIEW OF APPEAL. Upon receipt of an appeal the Administrator shall promptly take action to give due consideration to the appeal. Such consideration may include a hearing of the parties involved, if the Administrator feels such a hearing is

necessary. In preparing for this appeal the claimant shall be given the right to review pertinent documents and the right to submit in writing a statement of issues and comments. After consideration of the merits of the appeal the Administrator shall issue a written decision which shall be binding on all parties. The decision shall be written in a manner calculated to be understood by the claimant and shall specifically state its reasons and pertinent Plan provisions on which it relies. The Administrator's decision shall be issued within sixty (60) days after the appeal is filed, except that if a hearing is held, the decision must be issued within one hundred twenty (120) days after the appeal is filed.

10.5 DESIGNATION. The Administrator may designate one or more of its members or any other person of its choosing to make any determination otherwise required under this ARTICLE.

ARTICLE XI - GENERAL PROVISIONS

11.1 ADMINISTRATOR.

(a) The Administrator is expressly empowered to limit the amount of compensation that may be deferred; to deposit amounts into trust in accordance with section 8.2 hereof; to interpret the Plan, and to determine all questions arising in the administration, interpretation and application of the Plan; to emp1oy actuaries, accountants, counsel, and other persons it deems necessary in connection with the administration of the Plan; to request any information from the Employer it deems necessary to determine whether the Employer would be considered insolvent or subject to a proceeding in bankruptcy; and to take all other necessary and proper actions to fulfill its duties as Administrator.

(b) The Administrator shall not be liable for any actions by it hereunder, unless due to its own negligence, willful misconduct or lack of good faith,

(c) The Administrator shall be indemnified and saved harmless by the Employer from and against all personal liability to which it may be subject by reason of any act done or omitted to be done in its office capacity as Administrator in good faith in the administration of the Plan, including all expenses reasonably incurred in its defense in the event the Employer fails to provide such defense upon the request of the Administrator. The Administrator is relieved of all responsibility in connection with its duties hereunder to the fullest extent permitted by law, short of breach of duty to the Beneficiaries.

11.2 NO ASSIGNMENT. Benefits or payments under this Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's Beneficiary, whether voluntary or involuntary, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish the same shall not be valid, nor shall any such benefit or payment be in any way liable for or subject to the debts, contracts, liabilities, engagement or torts of any Participant or Beneficiary, or any other person entitled to such benefit or payment pursuant to the terms of this Plan, except to such extent as may be required by law. If any Participant or

Beneficiary or any other person entitled to a benefit or payment pursuant to the terms of this Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish any benefit or payment under this Plan, in whole or in part, or if any attempt is made to subject any such benefit or payment, in whole or in part, to the debts, contracts, liabilities, engagements or torts of the Participant or Beneficiary or any other person entitled to any such benefit or payment pursuant to the terms of this Plan, then such benefit or payment, in the discretion of the Administrator shall cease and terminate with respect to such Participant or Beneficiary, or any other such person; provided, however, that the Administrator reserves the right to interplead a court of competent jurisdiction regarding a determination of a benefit claim in the event of such attempted assignment.

11.3 NO EMPLOYMENT RIGHTS. Participation in this Plan shall not be construed to confer upon any Participant the legal right to be retained in the employ of the Employer, or give a Participant or Beneficiary, or any other person, any right to any payment whatsoever, except to the extent of the benefits provided for hereunder. Each Participant shall remain subject to discharge by the Employer to the same extent as if this Plan had never been adopted.

11.4 INCOMPETENCE. If the Administrator determines that any person to whom a benefit is payable under this Plan is incompetent by reason of physical or mental disability, the Administrator shall have the power to cause the payments becoming due to such person to be made to another for his or her benefit without responsibility of the Administrator or the Employer to see to the application of such payments. Any payment made pursuant to such power shall, as to such payment, operate as a complete discharge of the Employer, the Administrator and the Trustee.

11.5 IDENTITY. If, at any time, any doubt exists as to the identity of any person entitled to any payment hereunder or the amount or time of such payment, the Administrator shall be entitled to hold such sum until such identity or amount or time is determined or until an order of a court of competent jurisdiction is obtained. The Administrator shall also be entitled to pay such sum into court in accordance with the appropriate rules of law. Any expenses incurred by the Employer, Administrator, and Trust incident to such proceeding or litigation shall be charged against the Account of the affected Participant.

11.6 OTHER BENEFITS. The benefits of each Participant or Beneficiary hereunder shall be in addition to any benefits paid or payable to or on account of the Participant or Beneficiary under any other pension, disability, annuity or retirement plan or policy whatsoever.

11.7 NO LIABILITY. No liability shall attach to or be incurred by any manager of the Employer, Trustee or any Administrator under or by reason of the terms, conditions and provisions contained in this Plan, or for the acts or decisions taken or made thereunder or in connection therewith; and as a condition precedent to the establishment of this Plan or the receipt of benefits thereunder, or both, such liability, if any, is expressly waived and released by each Participant and by any and all persons claiming under or through my Participant or any other person. Such waiver and release shall be conclusively evidenced by any act or participation in or the acceptance of benefits or the making of any election under this Plan.

11.8 EXPENSES. All expenses incurred in the administration of the Plan, whether incurred by the Employer or the Plan, shall be paid by the Employer. If not paid by the Employer, all expenses incurred in the administration of the

Plan shall be paid by the Trust.

11.9 INSOLVENCY. Should the Employer be considered insolvent (as defined by the Trust), the Employer, through its Board and chief executive officer (or, if there is no chief executive office, its highest ranking officer), shall give immediate written notice of such to the Administrator and the Trustee. Upon receipt of such notice, the Administrator shall cease requesting payments to be made to Participants and Beneficiaries.

11.10 AMENDMENT AND TERMINATION.

(a) Except as otherwise provided in this section, the Employer shall have the sole authority to modify, amend or terminate this Plan at any time, including any period of time after which Participants have a nonforfeitable right to receive benefits under the Plan; provided, however, that any modification or termination of this Plan shall not reduce, without the consent of a Participant, a Participant's right to any amounts already credited to his or her Vested Account, or lengthen the time period for a payout from an

established Vested Account, on the day before the effective date of such modification or termination. In furtherance of the aforementioned sentence, no document (other than the Plan, Adoption Agreement, Trust, Deferral Election or summary plan description of the Plan) or any oral representations made by the Administrator or any representative of the Company may be relied upon by any Participant or Beneficiary as evidence contradicting the terms of this Plan, including the Employer's ability to modify, amend or terminate the Plan. In the event the Plan is terminated, payment of Participants' Vested Accounts may be made in a single sum payment if the Employer so designates in the Adoption Agreement. Any such decision to pay in a single sum shall apply to all Participants and Beneficiaries.

(b) If so elected by the Employer in the Adoption Agreement, a Participant shall have a vested right to his or her Account in the event of the termination of the Plan pursuant to section (a), above.

(c) Any funds remaining in the Trust after termination of the Plan and satisfaction of all liabilities to Participants and Beneficiaries, shall be returned to the Employer.

11.11 EMPLOYER DETERMINATIONS. Any determinations, actions or decisions of the Employer (including but nor limited to, Plan amendments and Plan termination) shall be made by the Board in accordance with its established procedures or by such other individuals, groups or organizations that have been properly delegated by the Board to make such determination or decision.

11.12 CONSTRUCTION. All questions of interpretation, construction or application arising under or concerning the terms of this Plan shall be decided by the Administrator, in its sole and final discretion, whose decision shall be final, binding and conclusive upon all persons.

11.13 GOVERNING LAW. This Plan shall be governed by, construed and administered in accordance with the applicable provisions of ERISA and ay other applicable Federal Law, provided, however, that to the extent not preempted by Federal law this Plan shall be governed by, construed and administered under the laws of the State designated by the Employer in the Adoption Agreement.

11.14 SEVERABILITY. If any provision of this Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provision of this Plan and this Plan shall be construed and enforced as if such provision had not been included therein. If the inclusion of any Employee (or Employees) as a Participant under this Plan would cause the Plan to fail to

comply with the requirements of sections 201(2), 301(a)(3) and 401(a)(l) of ERISA then the Plan shall be severed with respect to such Employee or Employees, who shall be considered to be participating in a separate arrangement.

11.15 HEADINGS. The ARTICLE headings contained herein are inserted only as a matter of convenience and for reference and in no way define, limit, enlarge or describe the scope or intent of this Plan nor in any way shall they affect this Plan or the construction of any provision thereof.

11.16 TERMS. Capitalized terms shall have meanings as defined herein. Singular nouns should be read as plural, masculine pronouns should be read as feminine, and vice versa, as appropriate.

11.17 APPROVAL OF IRS. If the Employer seeks a private letter filing from the Internal Revenue Service and the Internal Revenue Service does not issue a ruling acceptable to the Employer regarding the Plan, then the Plan (and the Trust), at the election of the Employer, shall be void and all Deferrals shall be returned to participants who made such contributions and all other Contributions shall be returned to the Employer.

SCHEDULE A

EMPLOYEES WHO ARE ELIGIBLE EMPLOYEES

APPENDIX B

TRUST AGREEMENT UNDER
LIGAND PHARMACEUTICALS INCORPORATED
NONQUALIFTED DEFERRED COMPENSATION PLAN

This Agreement made this 15TH day of June 2002, by and between Ligand Pharmaceuticals Inc. (hereinafter referred to as the "Company") and Smith Barney Corporate Trust (hereinafter referred to as the "Trustee");

WHEREAS, the Company has adopted the nonqualified deferred compensation plan (hereinafter referred to as the "Plan") attached as Appendix A;

WHEREAS, the Company has incurred or expects to incur liability under the terms of such Plan with respect to the individuals participating in such Plan;

WHEREAS, the Company wishes to establish a trust (hereinafter referred to as the "Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of the Company's creditors in the event of the Company's Insolvency, as herein defined, until paid to the Plan participants and their beneficiaries in such manner and at such times as specified in the Plan;

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded plan main- tained for the purpose of providing deferred

compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended;

WHEREAS, it is the intention of the Company to make contributions to the Trust to provide itself with a source of funds to assist it in meeting its liabilities under the Plan;

NOW, THEREFORE, the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

SECTION 1. ESTABLISHMENT OF THE TRUST.

(a) The Company hereby deposits with the Trustee in trust at least ONE DOLLAR ($1.00), which shall become the principal of the Trust to be held, administered and disposed of by the Trustee as provided in this Trust Agreement.

(b) The Trust hereby established is revocable by the Company; it shall become irrevocable upon a Change of Control, as defined in the Plan.

(c) The Trust is intended to be a grantor trust, of which the Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

(d) The principal of the Trust, and any earnings thereon, shall be held separate and apart from other funds of the Company and shall be used exclusively for the uses and purposes of Plan participants and general creditors as herein set forth. Plan participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Trust Agreement shall be mere unsecured contractual rights of Plan participants and their beneficiaries against the Company. Any assets held by the Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 3(a) herein.

(e) The Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with the Trustee to augment the principal to be held, administered and disposed of by the Trustee as provided in this Trust Agreement. Neither the Trustee nor any Plan participant or beneficiary shall have any right to compel such additional deposits.

SECTION 2. PAYMENTS TO PLAN PARTICIPANTS AND THEIR BENEFICIARIES.

(a) The Company shall deliver to the Trustee a schedule (the "Payment Schedule") that indicates the amounts payable with respect to each Plan participant (and his or her beneficiaries), that provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan), and the time of commencement for payment of such amounts. Except as otherwise provided herein, the Trustee shall make payments to the Plan participants and their beneficiaries in accordance with such Payment Schedule. The Trustee shall make provisions for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Company.

(b) The entitlement of a Plan participant or his or her beneficiaries to

benefits under the Plan shall be determined by the Company or such party as it shall designate under the Plan, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Plan.

(c) The Company may make payment of benefits directly to Plan participants or their beneficiaries as they become due under the terms of the Plan. The Company shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to participants or their beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan, the Company shall make the balance of each such payment as it falls due. The Trustee shall notify the Company where principal and earnings are not sufficient.

SECTION 3. TRUSTEE RESPONSIBILITY REGARDING PAYMENTS TO THE TRUST BENEFICIARY WHEN THE COMPANY IS INSOLVENT.

(a) The Trustee shall cease payment of benefits to Plan participants and their beneficiaries if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Trust Agreement if:

(i) the Company is unable to pay its debts as they become due, or

(ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section l(d) hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Company under federal and state law as set forth below:

(1) The Board of Directors and the Chief Executive Officer (or, if there is no Chief Executive Officer, the highest ranking officer of the Company) of the Company shall have the duty to inform the Trustee in writing of the Company's Insolvency. If a person claiming to be a creditor of the Company alleges in writing to the Trustee that the Company has become Insolvent, the Trustee shall determine whether the Company is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Plan participants or their beneficiaries.

(2) Unless the Trustee has actual knowledge of the Company's Insolvency or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, the Trustee shall have no duty to inquire whether the Company is Insolvent. The Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to the Trustee and that provides the Trustee with a reasonable basis for making a determination concerning the Company's solvency.

(3) If at any time the Trustee has determined that the Company is Insolvent, the Trustee shall discontinue payments to Plan participants or their beneficiaries

and shall hold the assets of the Trust for the benefit of the Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Plan participants or their beneficiaries to pursue their rights as general creditors of the Company with respect to benefits due under the Plan or otherwise.

(4) The Trustee shall resume the payment of benefits to Plan participants or their beneficiaries in accordance with Section 2 of this Trust Agreement only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if the Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan participants or their beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Plan participants or their beneficiaries by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.

SECTION 4. PAYMENTS TO COMPANY.

Except as provided in Section 3 hereof, after the Trust has become irrevocable, the Company shall have no right or power to direct the Trustee to return to the Company or to divert to others any of the Trust assets before all payment of benefits have been made to Plan participants and their beneficiaries pursuant to the terms of the Plan.

SECTION 5. INVESTMENT AUTHORITY.

ALTERNATIVES

(a) The Trustee may invest in securities (including stock or rights to acquire stock) or obligations issued by the Company. All rights associated with assets of the Trust shall be exercised by the Trustee or the person designated by the Trustee, and shall in no event be exercisable by or rest with the Plan participants.

"The Company shall have the right at any time, and from time to time in its sole discretion, to substitute assets of equal fair market value for any asset held by the Trust. This right is exercisable by the Company in a nonfiduciary capacity without the approval or consent of any person in A fiduciary capacity."

(b) The Trustee is authorized and empowered

(i) to invest and reinvest Trust assets, together with the income therefrom, in all or any type of property whether real, personal or mixed and whether tangible or intangible including but not limited to

(1) stock, whether common, preferred or convertible preferred;

(2) evidence of indebtedness including bonds, debentures, notes, mortgages and commercial paper (including those issued by the Trustee or an affiliate of the Trustee);

(3) shares issued by registered investment companies (including those which are sponsored or offered by the Trustee or an affiliate or to which services are rendered by the Trustee or an affiliate for which the Trustee or an affiliate is compensated by the registered investment company);

(4) bank investment contracts;

(5) guaranteed investment contracts, life insurance policies and annuity policies or contracts (including those issued by an affiliate of the Trustee); and

(6) options to buy or sell securities or other assets;

(ii) to deposit or invest all or any part of the assets of the Trust in savings accounts or certificates of deposit or other deposits in a bank or savings and loan association or other depository

institution, including the Trustee or any of its affiliates, provided that with respect to such deposits with the Trustee or an affiliate, the deposits shall bear a reasonable interest rate;

(iii)to hold, manage, improve, repair and control all property, real or personal, forming part of the Trust, and to sell, convey, transfer, exchange, partition, lease for any term, even extending beyond the duration of this Trust, and otherwise dispose of the same from time to time;

(iv) to hold in cash, without liability for interest, such portion of the Trust as is pending investment, or payment of expenses, or the distribution of benefits;

(v) to take such actions as may be necessary or desirable to protect the Trust from loss due to the default on any evidence of indebtedness held in the Trust including the appointment of agents or trustees in such other jurisdictions as it may seem desirable, to transfer property to such agents with such powers as are necessary or desirable to protect the Trust, to direct such agent or trustee, or to delegate such power to direct and to remove such agent or trustee;

(vi) to settle, compromise or abandon all claims and demands in favor of or against the Trust;

(vii)to exercise all of the further rights, powers, options and privileges granted, provided for, or vested in trustees generally under the laws of the state in which the Trustee incorporated as set forth above, so that the powers conferred upon the Trustee herein shall be in addition thereto;

(viii) to borrow money from any source and to execute promissory notes, mortgages or other obligations and to pledge or mortgage any Trust assets as security; and

(ix) to maintain accounts at, execute transactions through, and lend on an adequately secured basis stocks, bonds, or other securities to, any brokerage or other firm, including any firm which is an affiliate of the Trustee.

(c) To the extent that it deems necessary or appropriate to implement its powers under this Section 5 or otherwise fulfill any of its duties and responsibilities as trustee of the Trust, the Trustee shall have the following additional powers and authority:

(i) to register securities, or any other property, in its name or in the name of any nominee, including the name of any affiliate or the nominee name designated by any affiliate, with or without indication of the capacity in which property shall be held, or to hold securities in bearer form and to deposit any securities or other property in a depository or clearing corporation;

(ii) to designate and engage the services of and to delegate powers and responsibilities to, such agents, representatives, advisers, counsel and accountants as the Trustee considers necessary or appropriate, any of whom may be an affiliate of the Trustee or a person who renders services to such an affiliate, and, as a part of its expenses under this Trust Agreement, to pay their reasonable expenses and compensation;

(iii)to make, execute and deliver, as Trustee, any and all deeds, leases, mortgages, conveyances, waivers, releases or other instruments in writing necessary or appropriate for the accomplishment of any of the powers listed in this Trust Agreement; and

(iv) generally to do all other acts which the Trustee deems necessary or appropriate for the protection of the Trust.

SECTION 6. DISPOSITION OF INCOME.

During the term of this Trust, all income received by the Trust, net of expenses and taxes, shall be accumulated and reinvested.

SECTION 7. ACCOUNTING BY TRUSTEE.

The Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, which are outlined in periodic statements rendered by the Trustee. The purpose and intention of the Company is that the rendering of such statements by the Trustee shall be deemed an account stated and is binding upon the Company and its successors. Each such statement shall be considered as having been approved and accepted by the Company, unless the Company shall give written notice to the Trustee of any objection thereto, within sixty (60) days of the mailing of each statement by the Trustee. Within sixty (60) days following the close of each calendar year and within sixty (60) days after the removal or resignation of the Trustee, the Trustee shall deliver to the Company a written account of its administration of the Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in the Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

SECTION 8. RESPONSIBILITY OF TRUSTEE.

(a) The Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that the Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Company which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by the Company. In the event of a dispute between the Company and a party, the Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) If the Trustee undertakes or defends any litigation arising in connection with this Trust, the Company agrees to indemnify the Trustee against the Trustee's costs, expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If the Company does not pay such costs, expenses and liabilities in a reasonably timely manner, the Trustee may obtain payment from the Trust.

(c) The Trustee may consult with legal counsel (who may also be counsel for the Company generally) with respect to any of its duties or obligations hereunder.

(d) The Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder.

(e) The Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein, provided, however, that if an insurance policy is held as an asset of the Trust, the Trustee shall have no power to name a beneficiary of the

policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against such policy.

(f) However, notwithstanding the provisions of Section 8(e) above, the Trustee

may loan to the Company the proceeds of any borrowing against an insurance policy held as an asset of the Trust.

(g) Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or to applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of Section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

SECTION 9. COMPENSATION AND EXPENSES OF THE TRUSTEE.

The Company shall pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from the Trust.

SECTION 10. RESIGNATION AND REMOVAL OF THE TRUSTEE.

(a) The Trustee may resign at any time by written notice to the Company, which shall be effective thirty (30) days after receipt of such notice unless the Company and the Trustee agree otherwise.

(b) The Trustee may be removed by the Company upon thirty (30) days' notice or upon shorter notice accepted by the Trustee.

(c) Upon resignation or removal of the Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within sixty (60) days after receipt of notice of resignation, removal or transfer, unless the Company extends the time limit.

(d) If the Trustee resigns or is removed, a successor shall be appointed, in accordance with Section 11 hereof, by the effective date of the resignation or removal under paragraph(s) (a) [or (b)] of this Section. If no such appointment has been made, the Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

SECTION 11. APPOINTMENT OF SUCCESSOR.

If the Trustee resigns (or is removed) in accordance with Section 10(a) [or (b)] hereof, the Company may appoint any third party, such as a bank trust department or other party that may be granted corporate trustee powers under state law, as a successor to replace the Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the Company or the successor Trustee to evidence the transfer.

SECTION 12. AMENDMENT OR TERMINATION.

(a) This Trust Agreement may be amended by a written instrument executed by the Trustee and the Company. [UNLESS THE FIRST ALTERNATIVE UNDER SECTION 1(B) IS SELECTED, THE FOLLOWING SENTENCE MUST BE INCLUDED.] Notwithstanding the

foregoing, no such amendment shall conflict with the terms of the Plan or shall make the Trust revocable after it has become irrevocable in accordance with Section l(b) hereof.

(b) The Trust shall not terminate until the date on which Plan participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan [UNLESS THE SECOND ALTERNATIVE UNDER SECTION 1(B) IS SELECTED, THE FOLLOWING MUST BE INCLUDED:], "unless sooner revoked in accordance with Section 1(b) hereof." Upon termination of the Trust any assets remaining in this Trust shall be returned to the Company.

(c) Upon written approval of participants or beneficiaries entitled to payment of benefits pursuant to the terms of the Plan, the Company may terminate this Trust prior to the time all benefit payments under the Plan have been made. All assets in the Trust at termination shall be returned to the Company.

SECTION 13. MISCELLANEOUS.

(a) Any provision of this Trust prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to Plan participants and their beneficiaries under this Trust may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Trust shall be governed by and construed in accordance with the laws of Delaware.

(d) If the third alternative under Section l(b) is selected then for purposes of this Trust, Change of Control shall have the same meaning as the term is defined in the Plan.

SECTION 14. ADMINISTRATIVE PROVISIONS; INDEMNIFICATION.

(a) Whenever the Trustee must determine the insolvency or solvency of the Company under the provisions of Section 3, the Trustee is authorized to request and obtain an opinion as to the Company's insolvency or solvency from the external financial auditors of the Company. If the Company's external financial auditors are unable to or decline to render such an opinion to the Trustee, the Trustee may obtain such opinion from an independent auditing firm of the Trustee's choice and the Company shall cooperate with such auditing firm to enable such auditing firm to render such an opinion. The expense and fees of an auditing firm in providing such service and opinion shall be an administrative expense of the Trust and unless paid by the Company shall be paid from the Trust. The Trustee may rely on such opinion in taking or refraining from taking action under the terms of this Trust Agreement.

(b) In the exercise of the Trustee's investment authority under Section 5 the Trustee will be directed by the Company as to choice of investments and allocation of Trust assets among investments or by a designee of the Company

which may include the plan administrator or the plan recordkeeper. In accordance with this provision the Trustee is hereby directed to invest all Trust assets in one or more money market funds unless or until other directions are received by the Trustee from the Company or from the Company's designee. In accordance with Section 8(a) as long as such directions are given in conformity with the Plan and are in writing, the Trustee shall incur no liability to any person for any action taken

pursuant to such directions.

(c) The fees and expenses of legal counsel referred to in Section 8(c) and the fees and expenses of the agents, accountants, actuaries, investment advisers, financial consultants of other professionals in Section 8(d) shall be administrative expenses of the Trust and unless paid by the Company shall be paid from the Trust. Those agents, investment advisers, financial consultants and other professionals which the Trustee may hire pursuant to Section 8(d) may include affiliates of the Trustee.

(d) In addition to and not in derogation of any other indemnification and hold harmless provisions in this Trust Agreement, the Company agrees to indemnify and hold the Trustee harmless from and against any liability, loss or claim that the Trustee may incur or which may be assessed or made against the Trustee in the administration of the Trust, including, without limitation, liability for legal and other professional fees ("Liabilities"), unless arising from the Trustee's own gross negligence or willful misconduct, or except to the extent such indemnification may be prohibited by applicable law. With respect to such aforementioned Liabilities or the Trustee's own fees from the Trust, should the Trust prove insufficient or it is held by a court of competent jurisdiction that such Liabilities and/or fees are not properly payable from the Trust, the Company shall remain liable to indemnify the Trustee against such Liabilities and to pay the Trustee such fees. This indemnification and hold harmless provision as well as all other such indemnification and hold harmless provisions in this Trust Agreement shall survive the term of the Trustee acting as such under this Trust Agreement and shall survive the term of this Trust Agreement.

(e) With respect to Section 2(a) as it relates to the withholding and payment of applicable payroll taxes, the Company shall certify to the Trustee the types and

amount of taxes to be withheld from each payment hereunder. The Trustee shall forward to the Company a check for taxes withheld from each such payment. The Company shall deposit such withheld taxes with the appropriate taxing authorities and report such deposits to the taxing authorities and to the Plan participants and/or beneficiaries.

(f) In the event that Change of Control provisions are applicable to this Trust, the Trustee shall have no responsibility to inquire or to determine if A Change of Control of the Company has occurred, but shall be entitled to rely upon written notice from the Company.

SECTION 15. EFFECTIVE DATE.

The effective date of this Trust shall be 15, June, 2002.

Attest: Ligand Pharmaceuticals Inc.

/S/ BARBARA J. OLSON	By: /S/WARNER R. BROADDUS
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Barbara J. Olson	Warner R. Broaddus
Asst. Secretary	V.P. General Counsel & Secretary

Trustee

By: /S/ JAMES ROBINSON

Smith Barney Corporate Trust

EXHIBIT 10.275

COMMERCIAL SUPPLY AGREEMENT
27 FEBRUARY 2004

COMMERCIAL SUPPLY AND PROCESS VALIDATION AGREEMENT

THIS COMMERCIAL SUPPLY AND PROCESS VALIDATION AGREEMENT (the "Agreement") is entered into as of this 27th day of February, 2004, by and between SERAGEN INCORPORATED ("SERAGEN"), a Delaware corporation having an address at 10275 Science Center Drive, San Diego, California 92121 and HOLLISTER-STIER LABORATORIES LLC, ("HOLLISTER-STIER") having an address at 3525 North Regal Street, Spokane, Washington, 99207-5788 with respect to the following:

RECITALS

A. SERAGEN, a wholly-owned subsidiary of Ligand Pharmaceuticals, Inc., is a commercial pharmaceutical and drug development and manufacturing company active in the research, development and sale of drug products.

B. HOLLISTER-STIER is in the business of formulating, sterile filling, and packaging liquid injectable and *** drug products and medical devices.

C. SERAGEN and HOLLISTER-STIER desire to enter into this Agreement in order to establish the terms and conditions under which HOLLISTER-STIER will Formulate, fill, *** package and test for commercial release, Product(s) for clinical trial and consistency Lots for FDA approval and, following FDA approval of HOLLISTER-STIER as a formulation, fill-finish site for the Product, for commercial sale.

D. Both parties contemplate that additional SERAGEN products may be included under this Agreement, as amendments, by mutual written consent of the parties.

NOW THEREFORE, in consideration of the premises and the mutual promises and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

All references to particular Exhibits and Sections shall mean the Exhibits to, and Sections of, this Agreement, unless otherwise specified. For the purposes of this Agreement and the Exhibits hereto, the following words and phrases shall have the following meanings:

1.01 "ACTIVE INGREDIENT" OR "PDS" shall mean active pharmaceutical ingredient (API) of SERAGEN, as described in Exhibit A.

1.02 "AFFILIATE" shall mean any corporation, firm, partnership or other entity, whether de jure or de facto, which directly or indirectly owns, is owned by or is under common ownership with a party to this Agreement to the extent of at least fifty percent (50%) of the equity having the power to vote on or direct the affairs of the entity and any person, firm, partnership, corporation or other entity actually controlled by, controlling or under common control of a party to this Agreement.

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

COMMERCIAL SUPPLY AGREEMENT
27 FEBRUARY 2004

1.03 "AGREEMENT" shall mean this Commercial Supply and Process Validation Agreement.

1.04 "LOT" shall for each Product have the meaning assigned in Exhibit C.

1.05 "BATCH PRODUCTION AND CONTROL RECORD" or "BATCH RECORD" shall mean the record of detailed processing steps that have been completed according to instructions in the Master Batch Record, together with relevant in-process data.

1.06 "CERTIFICATE OF CONFORMANCE" shall mean the formal release document for the Product issued by HOLLISTER-STIER stating that the Product meets certain required quality standards. The certificate shall also identify the lot number and/or components for tracking the chain of custody. For clarity, the Certificate of Conformance is part of the MRR Documents.

1.07 "EMEA" shall mean the European Agency for the Evaluation of Medicinal Products.

1.09 "FDA" shall mean the United States Food and Drug Administration.

1.10 "FORMULATE OR FORMULATION" shall mean the Processing of Active Ingredient and excipients into intermediate bulk drug product as described in Exhibit A.

1.11 "FREE CARRIER" means that HOLLISTER-STIER delivers the goods, cleared for export (if any), to the carrier nominated by SERAGEN at HOLLISTER-STIER site. HOLLISTER-STIER is responsible for loading (Reference Article 5.05).

1.12 "GOOD MANUFACTURING PRACTICES" or the letters "GMP" or "CGMP" shall mean the prevailing standards required by the US and European regulatory agencies as, for example, currently expressed in the writings of the Code of Federal Regulations, Part 221, Section 210 and Section 211, or other sections so designated by the title `Good Manufacturing Practices' promulgated under the Federal Food, Drug and Cosmetic Act, and the EU Guide on Good Manufacturing Practice, as in effect from time to time.

1.12A "ICH" shall mean the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use.

1.13 "MASTER BATCH RECORD" shall mean a written description of the procedure to be followed for processing a Lot of Product including but not limited to a complete list of all active and inactive ingredients, components, weights and measures, descriptions of drug product containers, closures, packaging materials, and labeling and complete specifications for each, within the meaning of 21 CFR part 211.186, or its successor as in effect from time to time.

1.14 "MATERIAL" or "MATERIALS" shall mean all inactive ingredients, vials, stoppers, seals, labels, inserts, folding cartons and/or shipping cartons as are otherwise necessary to be utilized in the Processing and to meet the Specifications, but excluding Active Ingredient.

1.15 "MRR DOCUMENTS" shall mean all the final manufacturing and release requirements documents which shall set forth all Specifications and release requirements for Product(s) and as to each, its manufacture, including, without limitation, all raw materials, solvents, reagents, processing, storage, shipping and packaging specifications and necessary test protocols, final release specifications, Batch Records, Certificates of Analysis and Conformance and other documentation required to describe, control and assure the quality manufacture and testing of each in compliance with the Biologics License Application. "HOLLISTER-STIER MRR DOCUMENTS" shall refer to that portion of the MRR

Documents arising from HOLLISTER-STIER's performance under this Agreement whose content shall be mutually agreed between the parties and set forth in Exhibit F attached hereto.

1.16 "POOLING" shall mean the mixing together of multiple batches of purified drug substance into a single homogeneous solution.

1.17 "PROCESSING" shall mean processing of the Product in accordance with the Master Batch Record for the Product, as outlined in section 2.01 hereof. "Processed" and "Process" shall have comparable meanings.

1.18 "PRODUCT(S)" shall mean:

ONTAK(R) (denileukin diftitox, DAB389-IL2) final drug product supplied as either:

First generation product ("1ST GEN PRODUCT") in its final dosage form supplied as ***.

Second generation product ("2ND GEN *** PRODUCT") in its final dosage form supplied as ***.

Third generation product ("3RD GEN *** PRODUCT") in its final dosage form supplied as a ***.

1.19 "PROJECT SUMMARY" shall mean those documents attached to this Agreement as Exhibit B, which provide specific details about the Product to be processed for SERAGEN by HOLLISTER-STIER.

1.20 "REGULATORY AGENCY, REGULATORY AGENCIES" shall mean the United States Food and Drug Administration (FDA), The European Agency for the Evaluation of Medicinal Products (EMEA).

1.21 "REGULATORY APPROVAL" shall mean approval by the United States Food and Drug Administration (FDA), The European Agency for the Evaluation of Medicinal Products (EMEA) or any other national government drug regulatory agency.

1.22 "SPECIFICATIONS" shall mean the acceptance criteria for the Product as set forth in the Master Batch Record.

1.23 "USP" shall mean the United States Pharmacopoeia, Vol. 26, or any subsequent edition thereof.

ARTICLE II
SUPPLY AND PROCESSING OF PRODUCT

2.01 PROCESSING. Subject to the terms and conditions of this Agreement, and upon the parties' completion of the technical transfer process for 2nd Gen *** and 3rd Gen *** Product in accordance with mutually agreed technical transfer specifications HOLLISTER-STIER agrees that it shall supply Product, to SERAGEN, including

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

(a) for 1st Gen Product or 2nd Gen *** Product, ***

(b) for 3rd Gen *** Product, ***

in each case at its Spokane facility in Spokane, WA (the "MANUFACTURING FACILITY") validated in accordance with FDA regulations and the Specifications and HOLLISTER-STIER shall Process the Active Ingredient into Product in accordance with cGMP's, and the Specifications including without limitation adherence to appropriate quality assurance and quality control practices. HOLLISTER-STIER will permit SERAGEN to review from time to time all applicable written internal HOLLISTER-STIER quality assurance and quality control practices. The Active Ingredient cannot be Processed at a facility other than at the Manufacturing Facility without the prior written consent of SERAGEN.

2.02 MASTER BATCH RECORD. Subject to the terms and conditions of this Agreement, HOLLISTER-STIER agrees to process the Product in accordance with a

Master Batch Record approved in writing by SERAGEN. HOLLISTER-STIER further agrees that HOLLISTER-STIER will consult with SERAGEN prior to making any changes to the Master Batch Record and the process and HOLLISTER-STIER must receive written approval from SERAGEN prior to the implementation of any such changes, provided, however, that any approvals to be delivered by SERAGEN shall not be unreasonably withheld and the parties shall cooperate and act reasonably and in good faith in connection with their respective activities under this Section 2.02.

2.03 SERAGEN-SUPPLIED MATERIALS. SERAGEN, at its expense, shall deliver sufficient quantities of Active Ingredient, and those Materials and production equipment indicated on EXHIBIT B hereto as to be provided by SERAGEN, to HOLLISTER-STIER's plant at Spokane, Washington prior to the scheduled date of Processing, unless otherwise agreed to by the parties. All such items supplied by SERAGEN for purposes hereof shall meet the applicable specifications therefore as set forth on EXHIBIT B and the Master Batch Record. All items so delivered shall remain the property of SERAGEN.

2.04 HOLLISTER-STIER-SUPPLIED MATERIALS. HOLLISTER-STIER will be responsible for supplying sufficient quantities of those Materials indicated on EXHIBIT B hereto as to be provided by HOLLISTER-STIER, insofar as required to permit HOLLISTER-STIER to complete the Processing and delivery of Product in accordance with the terms of this Agreement. All such items supplied by HOLLISTER-STIER shall meet the applicable Specifications therefore as set forth on EXHIBIT B and the Master Batch Record. For clarity, the price of HOLLISTER-STIER-Supplied Materials is included in the price of Product set forth in Exhibit C.

2.05 LABELING SPECIFICATIONS. SERAGEN shall be responsible for furnishing to HOLLISTER-STIER appropriate specifications for the labeling and packaging (including package inserts) to be used on or in connection with the Processing which is to bear SERAGEN labels or other identification, and any necessary artwork and engineering drawings related thereto. HOLLISTER-STIER will label and package Product in accordance with such labeling specifications. HOLLISTER-STIER shall not affix any other labeling to the Product, except with the prior written approval of SERAGEN.

2.06 ALTERNATE SOURCES. Nothing in this Agreement shall preclude SERAGEN from taking whatever steps necessary to qualify alternative suppliers other than HOLLISTER-STIER, including but not limited to selling any Lots reasonably required to be manufactured for purposes of the qualification of such alternative suppliers and maintaining such qualifications. HOLLISTER-STIER shall provide any reasonably requested support for technology transfer in connection with such qualifications.

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

ARTICLE III
PROCESS VALIDATION

3.01 PROCESS VALIDATION. HOLLISTER-STIER shall validate all Processing according to validation protocols approved in advance in writing by SERAGEN. The agreed validation activities are described in Exhibit B. SERAGEN shall pay HOLLISTER-STIER for such validation(s) as set forth in Exhibit C.

ARTICLE IV
ORDERS, PRICE, & TERMS OF PAYMENT

4.01 FORECAST: SERAGEN shall provide HOLLISTER-STIER with four quarters rolling forecast. Such forecast shall be provided quarterly at the beginning of the calendar quarter immediately preceding the period covered by the Forecast.

4.02 PURCHASE ORDERS. SERAGEN shall provide HOLLISTER-STIER a Purchase

Order which shall provide the Lot size, the estimated API delivery schedule, the requested Processing and testing completion dates (each a "Requested Release Date"), and any other information reasonably agreed by the parties and reasonably necessary to fill the Purchase Order. For clarity, such Requested Release Date refers to the date of delivery of HOLLISTER-STIER MRR Documents to SERAGEN. A minimum period of (i) four months for 1st Gen Product and 2nd Gen *** Product and (ii) five months for 3rd Gen *** Product is required between a Requested Release Date specified in the Purchase Order and the date the Purchase Order is received by HOLLISTER-STIER (see Exhibit E). HOLLISTER-STIER shall notify SERAGEN within 10 days of receipt of a Purchase Order if it anticipates it will not be able to timely fill any Purchase Order and HOLLISTER-STIER shall cooperate in good faith and use commercially reasonable efforts to agree with SERAGEN on an alternate release date. SERAGEN's agreement to any such alternate date shall be without prejudice to any of its rights and remedies hereunder.

HOLLISTER-STIER guarantees that it will timely fill all Purchase Orders placed by SERAGEN wherein the quantity of Product (number of vials) ordered does not exceed the amount for the corresponding period in the most recently delivered four-quarter rolling forecast by more than fifty percent (50%) for 1st Gen Product and 2nd Gen *** Product. For 3rd Gen *** Product HOLLISTER-STIER shall cooperate in good faith and use commercially reasonable efforts to accommodate higher SERAGEN requirements up to a maximum of 20 Lots per year. For clarity, "timely fill" means HOLLISTER-STIER completes all Processing and delivery of HOLLISTER-STIER MRR Documents on or before the Requested Release Date.

4.03 PRICE. The price to be paid, in US dollars, by SERAGEN to HOLLISTER-STIER during the term of this Agreement for all testing, development work, validation work, stability and each Lot of Product shall be as specified in EXHIBIT C. All prices are Free Carrier the Manufacturing Facility. Payment of all FDA fees specific to the Product will be the responsibility of SERAGEN. Unless otherwise specifically agreed, HOLLISTER-STIER's price does not include any other testing, studies, Product specific validations and stability not identified herein, or other activities, not identified in EXHIBIT C, which SERAGEN may deem necessary but which are not required of HOLLISTER-STIER by this Agreement.

Commencing one year after the Effective Date of the Agreement and at each anniversary date of this Agreement, the price for the Product may be modified by way of written notification from

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HOLLISTER-STIER to SERAGEN whereby the written notice of price change is delivered at least 90 days before such anniversary date. Any changes to the price shall not exceed the annual percentage change (whether an increase or decrease) in the Producer Price Index Industry: Pharmaceutical Preparations, Series Id: PCU2834# (N), as published by the U.S. Department of Labor, Bureau of Labor Statistics and available through HTTP://DATA.BLS.GOV/CGI-BIN/SRGATE.

4.04 INVOICES. Invoices shall be delivered to SERAGEN upon SERAGEN's receipt of the HOLLISTER-STIER MRR Documentation as set forth in Article 5 below. The invoice for the total amount, less any disputed amounts or amount attributable to rejected Product, shall be payable by SERAGEN to HOLLISTER-STIER within sixty (60) days of the receipt of the invoice.

The timeline for submission of purchase order, HOLLISTER-STIER MRR delivery, invoicing, payment and passage of title is illustrated on attached Exhibit E.

4.05 PURCHASE FORMS. Purchase orders, purchase order releases, confirmations, acceptances and similar documents submitted by a party in conducting the activities contemplated under this Agreement are for administrative purposes only and shall not add to or modify the terms of the Agreement. To the extent of any conflict or inconsistency between this Agreement

and any such document, the terms of this Agreement shall govern. The Requested Release Date which shall coincide with the requested delivery of HOLLISTER-STIER MRR Documents shall appear under the heading "Delivery Date" on the purchase form attached hereto as Exhibit D.

ARTICLE V
SHIPMENTS, INSPECTION, & ACCEPTANCE

5.01. HOLLISTER-STIER MRR DOCUMENTS AND RELEASE.

(a) In accordance with the times set forth in Article IV, and after completion of its Processing, inspection, and quality assurance review, HOLLISTER-STIER shall provide to SERAGEN the HOLLISTER-STIER MRR Documents for each Lot of Product, certifying that the Product has met all Specifications set forth in this Agreement and the HOLLISTER-STIER MRR Documents, together with the relevant invoice and any requested testing samples for such Lot(s).

(b) SERAGEN shall have 60 days from receipt of the HOLLISTER-STIER MRR Documentation to complete any quality assurance testing and review of all MRR Documentation and to notify HOLLISTER-STIER of its acceptance or rejection of the Lot(s)

(c) In the absence of such rejection or upon earlier notice of acceptance and release by SERAGEN, i) such Lot(s) shall be appropriately stored or made available for immediate shipment at SERAGEN's option; ii) title shall pass to SERAGEN. Pending acceptance or rejection of Lot(s) by SERAGEN, SERAGEN may comment upon or request changes to the HOLLISTER-STIER MRR Documentation and HOLLISTER-STIER shall either a) respond to such comments/requests or b) release amended HOLLISTER-STIER MRR Documentation to SERAGEN within 10 business days of its receipt of SERAGEN's comments/requests. Both parties acknowledge that storage of Lots hereunder may be limited by available freezer capacity at the Manufacturing Facility. Risk of loss for any Lot(s) stored by HOLLISTER-STIER shall remain with HOLLISTER-STIER until shipped.

5.02 REJECTION. In any case where SERAGEN expects to reject or otherwise make a claim against HOLLISTER-STIER with respect to damaged or otherwise nonconforming Product, SERAGEN

shall, to the extent practical, notify HOLLISTER-STIER of such expected rejection and HOLLISTER-STIER shall be offered a reasonable opportunity during the relevant acceptance period (i.e. 60 days after SERAGEN's receipt of HOLLISTER-STIER MRR Documents under section 5.01 above or 15 days of SERAGEN's or its agent's receipt of a shipment under section 5.03 below) to offer proof or evidence as to why such Product should not be rejected and, where relevant, to inspect and/or test such Product. In the event of a rejection due to failure of Product to conform to its physical Specifications and HOLLISTER-STIER disputes such rejection by SERAGEN by providing notice thereof within 10 days of SERAGEN's notice of rejection, such Product shall be tested for conformance with the applicable Specifications by an independent testing organization mutually acceptable to both parties which analysis shall be binding on SERAGEN and HOLLISTER-STIER solely for the purpose of determining whether such Product may be rightfully rejected or not. The party who was wrong pays for the costs associated with the independent testing. SERAGEN shall not under any circumstances dispose of any Product rejected by SERAGEN or determined by independent testing organization to be damaged or nonconforming, without HOLLISTER-STIER's prior written consent. All or part of any shipment of Product determined to have been rightfully rejected by SERAGEN shall be disposed of by HOLLISTER-STIER, at HOLLISTER-STIER's expense in accordance with all applicable laws and regulations. In any case, and without prejudice to any of SERAGEN's rights or remedies hereunder, HOLLISTER-STIER will use commercially reasonable efforts to initiate manufacture of a new Lot of Product within 30 days from the date of SERAGEN's rejection. Following such initiation, the timelines set forth in Article IV shall apply, with the Requested Release Date deemed to be 60 days after such initiation.

In the event a rejection is due to (i) the negligence or willful misconduct

of HOLLISTER-STIER or its employees, directors or agents, (ii) HOLLISTER-STIER's failure to conform to cGMP or the Specifications, its breach of representation or warranty or (iii) failure of HOLLISTER-STIER's facilities, suppliers or subcontractors (collectively "ERROR") HOLLISTER-STIER shall also reimburse SERAGEN for the total cost of any API consumed in the rejected Lot(s) up to $*** maximum in the event of a total Lot loss. Reimbursement to SERAGEN shall consist of a series of *** per cent discounts on future deliveries until full reimbursement of the cost of the lost API as defined above. To the extent payments for such future deliveries are unavailable to be discounted, upon written request from SERAGEN the reimbursement shall be made in cash

5.03 SHIPMENTS. Shipments shall be made Free Carrier the HOLLISTER-STIER Manufacturing Facility at SERAGEN'S cost. A bill of lading will be furnished to SERAGEN with respect to each shipment. At delivery, Product will be free and clear of any liens or encumbrances placed thereon by HOLLISTER-STIER.

5.04 INSPECTION OF SHIPMENTS. SERAGEN or its agent shall inspect all shipments of Product received from HOLLISTER-STIER for proper labeling, packaging and count within fifteen (15) days of actual receipt of shipment at its designated receiving facility. However, any such inspection shall not relieve HOLLISTER-STIER of its obligation and warranties under this Agreement. If any portion of the Product received fails to conform to any applicable Specification, SERAGEN may, in accordance with the terms of Section 5.02 above, reject for full credit or replacement at SERAGEN's option, the Lot within fifteen (15) days of the actual receipt of the Product.

5.05 SHIPPING LOSS. In the event of partial or full loss or non-delivery of a shipment, the parties will cooperate to insure that notification and follow-up with the involved ground and air carriers and customs or other warehouses is made in order to determine if such missing delivery can be located. The responsibility for such partial or full loss of a shipment rests with SERAGEN. For any shipment which is not recovered or which is damaged in transit, the parties shall agree to a schedule for the manufacture of additional Product by HOLLISTER-STIER at SERAGEN's cost.

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5.06 CONDITIONAL SHIPMENTS. Except as provided in this paragraph, no Product shall be shipped from HOLLISTER-STIER prior to delivery of complete HOLLISTER-STIER MRR Documents and the certification contemplated in section 5.01(a) above. If however SERAGEN deems such prior shipment to be necessary, the parties shall cooperate in good faith and agree on procedures to make such prior shipment(s) under appropriate safeguards.

ARTICLE VI
REPRESENTATIONS & WARRANTIES

6.01 WARRANTIES BY HOLLISTER-STIER. HOLLISTER-STIER warrants that all Product delivered to SERAGEN (or shipped to a third party at the direction of SERAGEN) under this Agreement shall at the time of delivery, be free of defects in material and workmanship; meet the Specifications (except in the case of Product delivered in quarantine pursuant to Section 5.02, in which case upon release from quarantine); and have been Processed and maintained in conformance with cGMPs and other applicable FDA regulations and all other applicable Federal, state and local laws, rules and regulations as well as applicable ICH and EMEA guidelines and regulations and that HOLLISTER-STIER's performance hereunder will be undertaken in a safe and responsible manner. HOLLISTER-STIER represents and warrants to SERAGEN that HOLLISTER-STIER is not aware that activities undertaken by HOLLISTER-STIER hereunder will violate the intellectual property rights of any third party, and that HOLLISTER-STIER is not engaged in the theft or misuse of any third party's trade secret information regarding the activities undertaken by HOLLISTER-STIER hereunder, nor does HOLLISTER-STIER have notice of any claim of a third party regarding any such theft or misuse.

6.02 WARRANTIES BY SERAGEN. SERAGEN represents and warrants to HOLLISTER-STIER that SERAGEN is not aware that Product, or the Processing thereof in accordance with this Agreement, will violate the intellectual property rights of any third party, and that SERAGEN is not engaged in the theft or misuse of any third party's trade secret information regarding the processing or use or distribution of Product, nor does SERAGEN have notice of any claim of a third party regarding any such theft or misuse.

6.03 LIMITATION ON WARRANTIES. The warranties set forth in this Article VI are expressly stated and in lieu of and exclude, and the parties do expressly disclaim, all other warranties expressed or implied, arising by operation of law or otherwise, including, on the part of HOLLISTER-STIER, any implied warranties of fitness for a particular purpose and any representation or warranty as to the suitability or efficacy of Product.

ARTICLE VII
INDEMNITY, LIMITATION ON LIABILITY, & RECALLS

7.01 INDEMNIFICATION BY HOLLISTER-STIER. HOLLISTER-STIER shall defend, indemnify, and hold SERAGEN harmless from and against any and all claims, liability, damage, loss, cost and expenses (including reasonable attorney's fees) (a "Loss") insofar as such Loss or actions in respect thereof arise out of or are based upon (i) HOLLISTER-STIER's breach of any obligations or warranty hereunder, or the negligence or willful misconduct by HOLLISTER-STIER, its employees, directors, agents and subcontractors under this Agreement, (ii) any claim of violation by HOLLISTER-STIER of any patent, trade secret or other intellectual property rights of any person or entity, or (iii) the handling, storage or use of the Product.

7.02 INDEMNIFICATION BY SERAGEN. SERAGEN will defend, indemnify, and hold HOLLISTER-STIER harmless from and against any and all Loss insofar as such Loss or actions in

respect thereof arise out of or are based upon (i) SERAGEN's breach of any obligation or warranty hereunder or the negligence of willful misconduct of SERAGEN, its employees, directors, agents and subcontractors under this Agreement, (ii) the promotion, distribution, sale or use by SERAGEN or its agents of Product, including without limitation any product liability claim (except to the extent of HOLLISTER-STIER's indemnifications above), or (iii) any claim of violation by SERAGEN of any, patent, trade secret or other intellectual property rights of any person or entity.

7.03 CONDITIONS. Each party's indemnity obligations (the "Indemnifying Party") under Sections 7.01 and 7.02 are conditioned upon the other party (the "Indemnified Party") promptly notifying the Indemnifying Party of any such claim or proceeding in writing, provided that the failure to provide such notice will not effect the Indemnifying Party's obligations hereunder except if and to the extent such failure actually adversely impacts the Indemnifying Party, tendering to the Indemnifying Party the opportunity to defend or settle such a claim or proceeding at its expense and cooperating with the Indemnifying Party (at the expense of the Indemnifying Party) in defending or settling any such claim or proceeding. The Indemnifying Party should not enter into any settlement which imposes liability or fault on the Indemnified Party without the Indemnified Party's prior written consent not unreasonably withheld.

7.04 RECALL. Subject to the limitations set forth in Section 7.05 below, HOLLISTER-STIER agrees to indemnify and hold SERAGEN harmless from and against all costs and expenses of any recall of Product, provided that such recall arises out of a matter indemnified by HOLLISTER-STIER above. SERAGEN shall provide HOLLISTER-STIER an adequate opportunity to provide reasonable input regarding discussions with the FDA or otherwise concerning the proposed recall, it being understood that SERAGEN shall exclusively conduct all communications with government entities concerning any recall. HOLLISTER-STIER shall not be obligated under this Section 7.04 to indemnify SERAGEN if the recall is due to misbranding of the Product by SERAGEN or is due to any other act or omission of SERAGEN or any other third party not controlled by HOLLISTER-STIER (except HOLLISTER-STIER's subcontractors, suppliers or agents).

7.05. LIMITATION ON LIABILITY. Anything herein to the contrary notwithstanding:

(i) Neither party hereto shall be liable to the other, or the successors or permitted assigns of the other, or any other person, for any loss of profits, loss of business or interruption of business, or for any indirect, incidental, special or consequential damages, costs, losses or expenses, suffered or incurred under this Agreement or otherwise, even if advised of the possibility of such loss; and

(ii) HOLLISTER-STIER's liability for the replacement or for the cost or value of any Active Ingredient, Materials, or production equipment supplied to HOLLISTER-STIER hereunder by SERAGEN, shall include the Active Ingredient, as defined in Article 5.02, Materials, or production equipment lost or damaged or incorporated into any single rejected or nonconforming Lot of Product. HOLLISTER-STIER shall also reimburse SERAGEN for any reasonable shipping or storage charges with the understanding that HOLLISTER-STIER liability for the loss of Active Ingredient is as defined in Article 5.02. SERAGEN shall submit reasonable evidence of such loss to HOLLISTER-STIER as is necessary to support their claimed loss. The parties hereto agree that the limitations provided for under the terms of this Section 7.05, excludes indemnified claims and recall costs and is an integral part of the agreement of the parties as evidenced by this Agreement and that the parties are entering into this Agreement in reliance upon the terms and provisions of this Section 7.05, and that, but for such terms and provisions, the parties would not be entering into this Agreement. Prior to completion of a successful validation as evidenced by a validation report submitted to SERAGEN and stating that the Process is validated, HOLLISTER-STIER's liability for the replacement or for the cost or value of API is limited to the amount charged to SERAGEN for the relevant Processing hereunder, unless due to Error.

(iii)Promptly, following the execution of this Agreement, HOLLISTER-STIER shall furnish to SERAGEN a certificate of insurance signed by an authorized representative of HOLLISTER-STIER's underwriter evidencing the insurance coverage required by this Agreement and providing for at least thirty (30) days' prior written notice to SERAGEN of any cancellation, termination, material change or reduction of such insurance coverage.

ARTICLE VIII
REGULATORY

8.01 SERAGEN RESPONSIBILITIES. SERAGEN will be responsible for obtaining and maintaining all necessary regulatory approvals for the distribution and sale of Product. Additionally, SERAGEN will be responsible for all other regulatory requirements which are not related to the Manufacturing Facility and not specifically assigned to HOLLISTER-STIER in this Agreement, including the payment of any FDA user fees or other fees associated with the review and approval to market the Product imposed by any regulatory agency. SERAGEN will be responsible for maintaining claim files and for submitting appropriate reports to the FDA and other similar foreign regulatory agencies. SERAGEN will be further responsible for promptly notifying HOLLISTER-STIER of all communications from the FDA or other regulatory agencies, which may impact or change the production and/or testing of the Product as performed by HOLLISTER-STIER. SERAGEN will promptly notify HOLLISTER-STIER of any consumer complaints concerning Product, which might reasonably be attributed to HOLLISTER-STIER's obligations and warranties. All such information disclosed to HOLLISTER-STIER shall be considered Confidential Information under Article IX below.

8.02 HOLLISTER-STIER RESPONSIBILITY. So long and insofar as necessary to permit it to perform its obligation hereunder, HOLLISTER-STIER shall maintain its Annual Registration of Drug Establishment (form FDA 2656e) granted by the FDA updated and in good order and will make the license and copies of all related documents available to SERAGEN and its designees for inspection, upon reasonable request. HOLLISTER-STIER shall maintain Product complaint files pursuant to applicable federal regulations as covered by HOLLISTER-STIER's

Standard Operating Procedures. HOLLISTER-STIER will be further responsible for promptly notifying SERAGEN of all communications from the FDA or other regulatory agencies, which may impact or change the production and/or testing of the Product as performed by HOLLISTER-STIER.

HOLLISTER-STIER shall provide reasonable assistance to SERAGEN in its efforts to obtain and maintain all necessary regulatory approvals and permits relating to the production of Product at HOLLISTER-STIER's facilities. Accordingly, insofar as relating to Product and HOLLISTER-STIER's processing thereof, HOLLISTER-STIER shall permit SERAGEN or its designees access to HOLLISTER-STIER's facility, other than the filling, and packaging areas, during the Formulation and filling of Product and, upon reasonable notice and during reasonable business hours and so long as SERAGEN does not unreasonably interfere with HOLLISTER-STIER's day to day operations (i) to inspect HOLLISTER-STIER's processing facilities, (ii) to review manufacturing and quality control records relative to production by HOLLISTER-STIER of the Product, prior to the disposition of the Product (iii) to audit HOLLISTER-STIER's production efforts in respect of Product for compliance with FDA and other Regulatory Agency requirements, provided that SERAGEN shall be entitled to only one full cGMP audit in any twelve month period (iv) to review HOLLISTER-STIER's correspondence, reports, or other documents from HOLLISTER-STIER to the FDA and other Regulatory Agencies, or from the FDA and other Regulatory Agencies, to HOLLISTER-STIER, related to the Product and/or the facility as it effects the Product, and (v) to approve all Product related variances which occur during manufacture or storage of the Product, including approval of label text after receipt of labels and prior to application. During the manufacturing process, HOLLISTER-STIER will permit SERAGEN to view the operation through live television cameras or windows. HOLLISTER-STIER agrees to supply SERAGEN

with any documents, information, and/or data specified as HOLLISTER-STIER's responsibility in the Project Summary in a timely manner so as not to interfere with or otherwise impede SERAGEN's rights under this Agreement.

In addition to the foregoing, with at least five (5) days advance notice, SERAGEN shall be permitted to investigate/audit HOLLISTER-STIER facilities and records in the event of any failure of any batch to meet Specifications, any major deviation from Specifications, or any regulatory actions, violations or complaints relevant to this Agreement.

8.03 HOLLISTER-STIER ASSISTANCE WITH FILING. HOLLISTER-STIER will provide to SERAGEN, at no additional cost, one paper copy, of all documents, in HOLLISTER-STIER's standard format, for the manufacturing and control of Product at HOLLISTER-STIER's facility, in support of SERAGEN's regulatory filings for approval to market Product. Any additional support, beyond the documents above, requested by SERAGEN will be charged as set forth in Exhibit C.

8.04 MASTER FILE. HOLLISTER-STIER shall maintain one or more facility master files at the Regulatory Agencies and agrees to provide SERAGEN with any requisite letters authorizing the FDA access to HOLLISTER-STIER's facility master file in conjunction with regulatory review of HOLLISTER-STIER's production of Product as set forth in this Agreement.

ARTICLE IX
CONFIDENTIALITY AND INTELLECTUAL PROPERTY

9.01 CONFIDENTIALITY. Each party shall for 10 years from the expiration or termination of this Agreement maintain in confidence all information and materials disclosed by the other party and marked as confidential or which the other party knows or has reason to know are or contain trade secrets or other proprietary information of the other, including without limitation the Specifications, Master Production and Control Record, Batch Production and Control Record, and other information relating to the Product (all such information being "Confidential Information"), and shall not use such trade secrets or proprietary information for any purpose except as permitted by this Agreement or disclose them to anyone other than those of its employees, consultants, agents or subcontractors as are necessary in connection with such

party's activities as contemplated in this Agreement. Each party shall be responsible for ensuring compliance with these obligations by such party's employees, consultants, agents and subcontractors. Each party shall take precautions at least as strong as those which it takes to protect its own most valuable trade secrets or proprietary information to ensure that its employees, consultants, agents and subcontractors do not disclose or make any unauthorized use of trade secrets or proprietary information of the other party. Each party shall notify the other promptly upon discovery of any unauthorized use or disclosure of the other's trade secrets or proprietary information. It is acknowledged that SERAGEN and HOLLISTER-STIER may enter into confidentiality agreements with third parties in connection with the above and those agreements will be reviewed and approved by both SERAGEN and HOLLISTER-STIER.

9.02 EXCEPTIONS. The foregoing restrictions on use and disclosure shall not apply to any SERAGEN Confidential Information or HOLLISTER-STIER Confidential Information that:

(i) was know to the receiving party prior to its disclosure to the receiving party by the disclosing party as evidenced by written documents predating the receiving party's receipt of such Confidential Information, or

(ii) is public knowledge at the time of its disclosure to the receiving party or became public knowledge after its disclosure to the receiving party through no act or omission or on its behalf: or

(iii) is lawfully disclosed or made available to the receiving party by a third party having no direct or indirect obligation to the disclosing party to maintain the confidentiality of such Confidential Information; or

(iv) is independently developed by the receiving party without the aid or benefit of Confidential Information disclosed to the receiving party by the disclosing party.

Confidential Information may be disclosed by the receiving party pursuant to a subpoena lawfully issued by a court or governmental agency provided that the receiving party notifies the disclosing party promptly upon receipt of any such subpoena.

9.03 INTELLECTUAL PROPERTY Any intellectual property arising out of the performance of this Agreement (the "Product IP") shall be the exclusive property of SERAGEN, except to the extent such intellectual property is (i) invented or created solely by HOLLISTER-STIER's employees and (ii) does not arise from SERAGEN confidential or proprietary information, processes or compositions, including the Active Ingredient and (iii) is not specific to Product, its manufacture or use, or improvements thereto. HOLLISTER-STIER represents and warrants that its employees are and will remain under binding obligations to assign such Product IP to HOLLISTER-STIER, and HOLLISTER-STIER will assist in every proper way in obtaining or executing the necessary assignments and other documents reasonably necessary to perfect SERAGEN's interest in the Product IP as set forth above. HOLLISTER-STIER shall grant SERAGEN an irrevocable non-exclusive, royalty-free, paid-up license to any other intellectual property necessary to or used in Processing.

ARTICLE X
TERM AND TERMINATION

10.01 TERM. Unless terminated in accordance with the provisions of Section 10.02, the term of this Agreement shall commence on the date hereof and shall continue until the fifth (5) anniversary of the date of this Agreement. In the event SERAGEN has not placed Purchase Orders with HOLLISTER-STIER for twelve (12) contiguous months, then this Agreement shall be immediately terminable by HOLLISTER-STIER upon delivery to SERAGEN of written notice of termination. The contract shall automatically renew for additional two-year terms unless either party provides notice of non-renewal at least 36 months prior to the next renewal date.

10.02 TERMINATION. This Agreement may be terminated by either party, in the event that the other party (a) is insolvent, fails to pay its debts as they come due, files or has filed against it a petition under the Bankruptcy Act, makes an assignment for the benefit of creditors, has a receiver appointed for it or a substantial part of its assets, or otherwise takes advantage of any statute or law designed for relief of debtors or (b) fails to perform or otherwise breaches any of its obligations hereunder, if, following the giving of notice by the terminating party of its intent to terminate and stating the grounds therefore, the party receiving such notice shall not have cured the failure or breach within thirty (30) days. In no event, however, shall such notice or intention to terminate be deemed to waive any rights to damages or any other remedy which the party giving notice of breach may have as a consequence of such failure or breach.

10.03 OBLIGATIONS AND DUTIES UPON TERMINATION OR EXPIRATION. If this Agreement expires or is terminated pursuant to Section 10.02, both parties shall be released from all obligations and duties imposed or assumed hereunder to the extent so terminated, except as expressly provided to the contrary in this Agreement. Upon termination, both parties shall cease any further use of, and promptly return any, confidential information disclosed to the receiving party by the other party. Termination of this Agreement for whatever reason, shall not affect the obligations of either party, including payment

obligations, which have accrued prior to such termination. Upon termination of this Agreement, other than due to a breach of this Agreement by HOLLISTER-STIER, SERAGEN shall purchase from HOLLISTER-STIER, at HOLLISTER-STIER's cost, any Materials purchased for the Product which HOLLISTER-STIER has reasonably purchased or ordered (to the extent the order cannot be canceled) based upon SERAGEN's forecast and to the extent that such materials cannot be returned for credit or used by HOLLISTER-STIER in its business or to fill orders of other of HOLLISTER-STIER's customers. HOLLISTER-STIER shall immediately ship such materials to SERAGEN in accordance with SERAGEN's instructions, provided that SERAGEN has given reasonable assurance of payment for such items.

ARTICLE XI
MISCELLANEOUS

11.01 INDEPENDENT CONTRACTOR. HOLLISTER-STIER shall at all times during the term of this Agreement be an independent contractor, maintaining sole and exclusive control over its personnel and operation. It is understood that all work performed by HOLLISTER-STIER shall meet Specifications set forth in this Agreement, and the detailed manner and method of doing the same shall be under the control of HOLLISTER-STIER. At no time will either HOLLISTER-STIER or SERAGEN hold itself out to be the agent, employee, lessee, sub lessee, partner, or joint venturer of the other, and it is further understood and agreed between the parties that the full and exclusive relationship between them is that of an independent contractor. Nothing in this Agreement shall be construed to create any agency, employment, partnership, joint venture or similar relationship between the parties other than that of an independent contractor. Neither party shall have any right or authority whatsoever to incur any liability or obligation (express or implied) or otherwise act in any manner in the name or on the behalf of the other, or to make any promise, warranty or representation binding on the other. HOLLISTER-STIER and SERAGEN agree not to use or refer to the other without prior written permission, in any public statements, whether oral or written, related to this Agreement. Furthermore, HOLLISTER-STIER and SERAGEN both agree not to employ or solicit for employment or as an independent contractor any employee of either party during the term of this Agreement and for a period of two (2) years thereafter.

11.02 INSURANCE; LIABILITY TO THIRD PERSONS. HOLLISTER-STIER and SERAGEN, each at their own expense, shall obtain and thereafter maintain i) adequate workers' compensation insurance and ii) comprehensive general liability (bodily injury and property damage) insurance coverage of not less than $*** million, with respect to performance under this Agreement. Each party shall give the other or its representative immediately notice of any suit or action filed, or prompt notice of any claim made, against them arising out of the performance of

this Agreement.

11.03 PRODUCT LIABILITY. SERAGEN and HOLLISTER-STIER each agree at its own expense to maintain product liability insurance coverage of at least $*** million. SERAGEN and HOLLISTER-STIER will provide a Certificate of Insurance to the other upon request, and such coverage will remain in effect indefinitely and so long as either party has product liability exposure for any Product manufactured for SERAGEN. [If such product liability insurance is underwritten on a "claims made" basis, SERAGEN and HOLLISTER-STIER agree that any change in underwriters during the term of this agreement will require the purchase of "prior acts" coverage to ensure that coverage will be continuous throughout the term of this Agreement.]

11.04 GOVERNING LAW. This Agreement shall be construed, and relevant legal relations between the parties hereto shall be determined, in accordance with the laws of the State of New York.

11.05 NOTICE. All notices or communication required or permitted to be given by either party hereunder shall be mailed by registered mail or certified mail return receipt requested or sent by overnight

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

courier return receipt requested, such as Federal Express, to the other party at its respective address set forth below or to such other address as one party shall give notice of to the other from time to time hereunder. Notices shall be deemed given upon receipt.

<TABLE>
<CAPTION>
IF TO SERAGEN: IF TO HOLLISTER-STIER:
<S> <C>
SERAGEN PHARMACEUTICALS, INC. HOLLISTER-STIER LABORATORIES LLC
10275 Science Center Drive 3525 North Regal Street
San Diego, California 92121 Spokane, Washington 99207-5788

Attn: Supply Operations Attn: President

Tel: 858-550-7500 Tel: 509 489-5656
Fax: 858-550-1801 Fax: 509 484-4320

COPY TO:

SERAGEN Pharmaceuticals, Inc.
10275 Science Center Drive
San Diego, California 92121

Attn: General Counsel

Tel: 858-550-7500
Fax: 858-550-1825
</TABLE>

11.06 SUCCESSORS AND ASSIGNS. HOLLISTER-STIER shall not assign this Agreement (or any schedule hereto) without the prior written consent of SERAGEN, except that HOLLISTER-STIER shall be permitted to assign its rights and obligation hereunder with such consent to (i) one or more of its Affiliates, or (ii) the purchaser of all or substantially all of its assets, through merger, consolidation or otherwise. SERAGEN may assign this Agreement by providing prior written notice to HOLLISTER-STIER.

11.07 NO WAIVERS; SEVERABILITY. No waiver of any breach of this Agreement shall constitute a waiver of any other breach of the same or other provision of this Agreement, and no waiver shall be effective unless made in writing. Any

provision hereof prohibited by or unenforceable under any applicable law of any jurisdiction shall as to such jurisdiction be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement. It is the desire of the parties hereto that this Agreement be enforced to the maximum extent permitted by law, and should any provision contained herein be held by any governmental agency or court of competent jurisdiction to be void, illegal and unenforceable, the parties shall negotiate in good faith for a substitute term or provision which carries out the original intent of the parties.

11.08 ENTIRE AGREEMENT; AMENDMENT. SERAGEN and HOLLISTER-STIER acknowledge that they have read this entire Agreement and that this Agreement, including the attached Exhibits constitutes the entire understanding and contract between the parties hereto and supersedes any and all prior or contemporaneous oral or written communications with respect to the subject matter hereof, all of which communications are merged herein. It is expressly understood and agreed that this Agreement shall not be modified, amended or in any way altered except by an instrument in writing signed by both of the parties hereto.

11.09 DELAYS OR OMISSIONS. Except as expressly provided herein, no delay or omission to exercise any right, power or remedy accruing to any party hereto, shall impair any such right, power or remedy to such party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or in any similar breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies either under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

11.10 FORCE MAJEURE. If either party fails to fulfill its obligations hereunder (other than an obligation for the payment of money), when such failure is due to an act of God, or other circumstances beyond its reasonable control, including but not limited to fire, flood, civil commotion, riot, war (declared and undeclared), revolution, action by government including delays in obtaining governmental approvals or embargoes, then said failure shall be excused for the duration of such event and for such a time thereafter as is reasonable to enable the parties to resume performance under this Agreement provided that the party whose performance is delayed or prevented shall continue to use good faith diligent efforts to mitigate, avoid or end such delay or failure in performance as soon as practicable.

11.11 FURTHER ASSURANCES. Each party shall, at any time, and from to time, prior to or after the effective date of this Agreement, at reasonable request of the other party, execute and deliver to the other such instruments and documents and shall take such actions as may be required to more effectively carry out the terms of this Agreement.

11.12 SURVIVAL. All representations, warranties, covenants and agreements made herein and which by their express terms or by implication are to be performed after the execution and/or termination hereof, or are prospective in nature, shall survive such execution and/or termination, as the case may be.

11.13 NO THIRD PARTY BENEFICIARIES. Nothing in this Agreement shall be construed as giving any person, firm, corporation or other entity, other than the parties hereto and their successors and permitted assigns, any right, remedy or claim under or in respect of this Agreement or any provision hereof.

11.14 HEADINGS. Section headings are for convenient reference and not a part of this Agreement. All Exhibits are incorporated herein by this reference.

11.15 SINGULAR TERMS. Except as otherwise expressly provided herein or unless the context otherwise requires, all references to the singular shall include the plural and vice versa.

11.16 COUNTERPARTS. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which when taken together shall be deemed but one instrument.

11.17 NO RIGHTS. No rights or licenses with respect to the Product or any of either party's intellectual property rights and granted or deemed granted hereunder or in connection herewith, other than those rights expressly granted in this Agreement.

11.18 DISCLOSURE. Except as SERAGEN may be required by law or regulation, neither party shall disclose the name of the other party, the identity of the Product or any information with respect thereto, the existence of this Agreement or the terms and provisions of this Agreement without the prior written approval to the other party. Neither party shall use the name of the other party in any publicity or advertising without the other party's prior written consent. If either party is required in accordance with

SEC or other relevant governmental regulations to disclose the other party's name, the existence of this Agreement or the terms and provisions of this Agreement, such party shall (i) give the other prior written notice of such disclosure, and (ii) assist the other in any efforts to prevent or limit such disclosure including without limitation seeking confidential treatment of such information.

IN WITNESS WHEREOF, this Agreement shall take effect as of the date first written above when it has been executed below by the duly authorized representatives of the parties.

HOLLISTER-STIER LABORATORIES LLC

By: /S/ RICK LAPOINTE

Name: Rick Lapointe
Title: V.P. Operations

SERAGEN INC.

By: /S/ GIAN ALIPRANDI

Name: Gian Aliprandi
Title: SR VP TECH, SUPPLY & INT'L OPERATIONS

By: /S/ ANTHONY D. BONANZINO 03/04/2004

Name: Anthony D. Bonanzino, Ph.D.
Title: President and CEO

LIGAND

/S/WRB

LEGAL

Exhibit A

***

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

Exhibit B

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

Exhibit C

***

***Portions of this page have been omitted pursuant to a request for

Confidential Treatment and filed separately with the Commission.

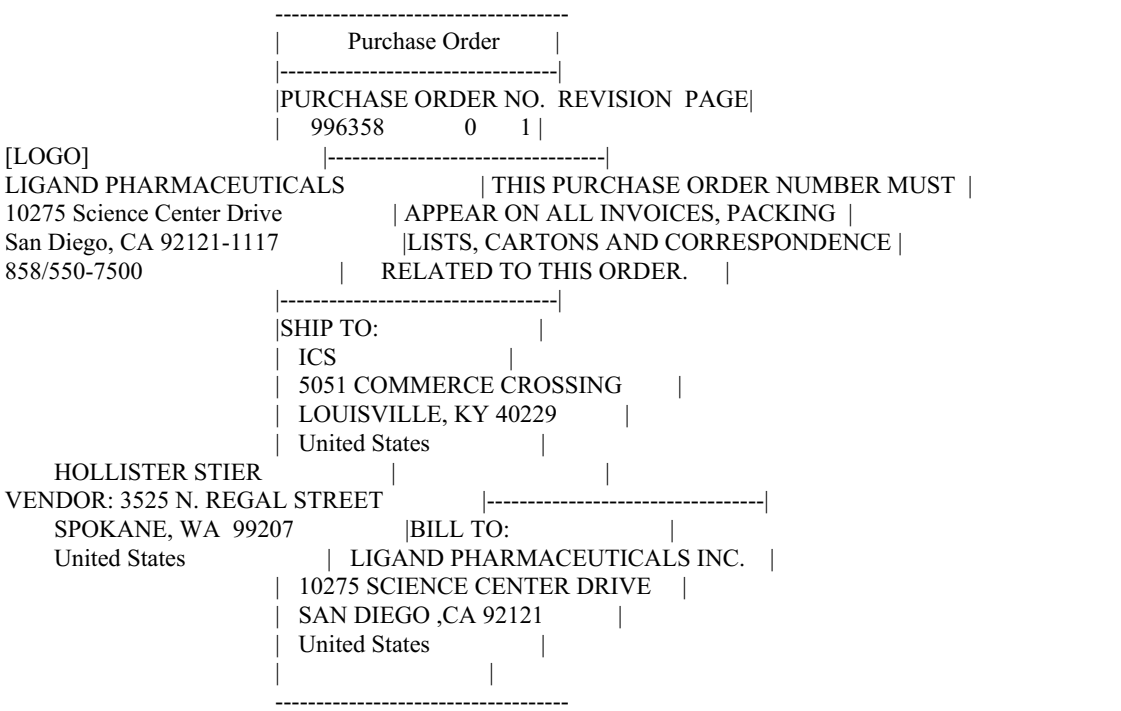
EXHIBIT "D"

EXAMPLE OF PURCHASE ORDER

(SEE ATTACHED)

EXHIBIT "D"

EXAMPLE OF PURCHASE ORDER



Purchase Order

PURCHASE ORDER NO.	REVISION	PAGE
996358	0	1

[LOGO]

LIGAND PHARMACEUTICALS
10275 Science Center Drive
San Diego, CA 92121-1117
858/550-7500

THIS PURCHASE ORDER NUMBER MUST APPEAR ON ALL INVOICES, PACKING LISTS, CARTONS AND CORRESPONDENCE RELATED TO THIS ORDER.

SHIP TO:
ICS
5051 COMMERCE CROSSING
LOUISVILLE, KY 40229
United States

VENDOR: HOLLISTER STIER
3525 N. REGAL STREET
SPOKANE, WA 99207
United States

BILL TO:
LIGAND PHARMACEUTICALS INC.
10275 SCIENCE CENTER DRIVE
SAN DIEGO ,CA 92121
United States

Order Confirmation #:

CUSTOMER ACCT NO.	VENDOR NO.	DATE OF ORDER/BUYER	REVISED DATE/BUYER
	7029	27-FEB-04 DEAMICIS, S	

PAYMENT TERMS	SHIP VIA	F.O.B.
N30		SHIPPING POINT

FREIGHT TERMS	REQUESTOR/DELIVER TO	CONFIRM TO/TELEPHONE
PREPAY & ADD		

ITEM	PART NUMBER/DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION	T
							A
							X

```
|  |                    |            |        |   |          |         | |
|  |                    |            |        |   |----------|-----------|
|  |                    |            |        |   | TOTAL    |           |
|-------------------------------------------------------------------------|
|                                          |                 |
|                                          |                 |
|                                          |                 |
|                                          |                 |
|                                          |                 |
|                                          |----------------------|
|                                          |AUTHORIZED SIGNATURE  |
- ---------------------------------------------------------------------------
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EXHIBIT "D"

EXAMPLE OF PURCHASE ORDER (cont'd)

TERMS AND CONDITIONS OF PURCHASE

IN CONSIDERATION of this Order, Seller agrees to the following terms and conditions which cannot be altered or supplemented without the express prior permission of Buyer in writing and which, together with the terms and conditions set forth on the front hereof, constitute the complete and final Agreement between the parties. The Purchase Order is in no way intended and shall not be construed as an expression of acceptance or confirmation document. Any acceptance which may be contained herein is expressly made conditional on Seller's consent to the additional or different items contained herein.

1. AGREEMENT. Written acceptance by Seller of this Purchase Order or the commencement of any work or services hereunder (including work or services with respect to samples) shall constitute acceptance by Seller of the terms and conditions of this Purchase Order. Failure by Seller to perform in accordance with all such terms and conditions shall constitute a breach of the Agreement and a substantial impairment of the value of the entire Agreement to Buyer. Upon such occurrence, Buyer, at his election and without penalty, shall have all the rights and remedies of a Buyer in the event of a breach by the Seller which goes to the whole contract, as set forth in the Uniform Commercial Code, including without limitation cancellation of the Purchase Order, specific performance, cover, damages, and the rejection or revocation of acceptance of articles delivered by Seller.

2. DELIVERY. Delivery must be made within the time stated on the Purchase Order, time being of the essence. If delivery cannot be made within such time, Seller must give Buyer immediate notice of such fact and advise of the best possible delivery date. In such event, Buyer reserves the right at its option, either to accept late delivery or to cancel this Purchase Order in whole or part in either event without cost to Buyer, and without prejudice to Buyer's right to charge Seller with any costs, losses or damages of any kind (including loss of profits) incurred as a result of Seller's failure to make timely delivery. Buyer reserves the right, upon written or facsimile notice to Seller, to postpone delivery hereunder for up to ninety (90) days past the original delivery date.

3. SHIPPING RELEASES. Unless specific delivery dates are specified in this Purchase Order, Seller shall not fabricate, procure or ship any goods or materials, except to the extent authorized in written release furnished to Seller by Buyer. Buyer shall have no responsibility for goods not shipped pursuant to such releases.

4. TRANSPORTATION. All material shall be forwarded for delivery via carrier specified, if any, procuring lowest rate via such carrier. Transportation charges on goods sold F.O.B. destination must be prepaid. No insurance charges which increase shipping costs will be allowed unless expressly authorized by Buyer. Unless otherwise instructed in writing, the original Bill of Lading shall be forwarded to Buyer's Receiving Department at destination. Shipping containers must conform to specifications as described in the National Motor Freight classification 10-A, and Uniform Freight classification 9 as amended.

5. RISK OF LOSS. Risk of Loss on any articles shipped by Seller under this Purchase Order shall remain with Seller until acceptance of articles by Buyer.

6. CARTAGE. Price is to cover net weight of material and no charges of any kind; including without limitation charges for boxing, packing, loading, bracing or cartage will be allowed unless specifically agreed to by Buyer in writing.

7. QUANTITY. The quantity of material ordered must not be exceeded or reduced unless specifically agreed to by Purchaser in writing.

8. QUALITY. Seller warrants and guarantees that all items covered by this Purchase Order will conform to the terms, plans, drawings, samples or other specifications or descriptions, furnished or adopted by Buyer, and to high professional standards, will be fit and sufficient for the purpose intended, merchantable, of good material, workmanship and quality and free from defect. Seller will be liable for costs, losses or damages (including loss of profits) incurred as a result of any breach of the warranties set forth herein. This warranty is in addition to and shall not exclude any other warranties arising under the terms of this Purchase Order, applicable law, or otherwise. Seller will indemnify and hold Buyer harmless from any losses or damages resulting from injury to person or property as a result of any defect in any item furnished hereunder.

9. INSPECTION. All articles shall be received subject to Buyer's inspection and rejection upon receipt or within a reasonable time thereafter. Seller shall pay the cost of inspecting and testing goods rejected and all transportation charges thereon. Payment for the articles specified herein shall not constitute an acceptance by Buyer.

EXHIBIT "D"

EXAMPLE OF PURCHASE ORDER (cont'd)

10. REJECTIONS. If any of the goods are found at any time to be defective in material or workmanship, o! r otherwise not in conformity with the requirements of this Purchase Order, Buyer, in addition to any other rights which it may have under warranties or otherwise, shall have the right to reject or revoke acceptance, and return such goods at Seller's expense and require repair, alteration, replacement or credit. Such goods are not to be repaired, altered, replaced or credited without prior written authorization from Buyer.

11. OTHER REMEDIES. In addition to all other rights, Buyer at its option shall have the right to retain any defective or non-conforming goods and to correct, at Seller's expense, any such deficiencies. Upon default of the Seller, Buyer shall have the right to require the delivery to it of any completed or partially completed goods or materials that Seller has produced or acquired for this Purchase Order.

12. WORK ON BUYER'S PREMISES. If this Purchase Order requires installations or any other work by Seller on the premises of Buyer, Seller shall take all necessary precautions to prevent the occurrence of any injury to person or property during the progress of such work. Seller shall indemnify and hold Buyer harmless against all loss or damage which may result in any way from its performance of such work or the act or emission of the Seller, its agents, servants, employees, or subcontractors. Seller shall maintain such Public Liability, Property Damage and Workman's Compensation insurance as will hold Buyer harmless from said risks and from any claims under the Workman's Compensation and Occupational Disease Acts or any other applicable law and on Buyer's request, Seller will furnish the certificates of insurance. Any employees of Seller engaged in such work shall not be deemed agents, servants, or employees of Buyer for any purpose, and Seller assumes exclusive liability for all payroll and other taxes pertaining to such employees.

13. COMPLIANCE WITH LAWS. Seller shall comply with all applicable Federal, State and local laws, ordinances, rules and regulations and shall indemnify and hold Buyer harmless from any losses or damages arising from any violation thereof.

14. FAIR LABOR STANDARDS ACT. By acceptance of this Order, Seller warrants and certifies that the goods and/or services to be furnished hereunder were or will be produced in full compliance with the requirements of the Fair Labor Standards Act of 1938 as amended from time to time and all Regulations adopted thereunder.

15. NON-DISCLOSURE OF INFORMATION. Except as required by this Purchase Order or as otherwise authorized in writing by Buyer, Seller shall not disclose to any third party any knowledge or information it has concerning this Purchase Order or Buyer's plans, specifications, designs, drawings, operations, methods, personnel, customers, business, work or services.

16. BUYER'S PROPERTY. Any plans, specifications, designs, drawings, blueprints, tracings and other items prepared by Seller and paid for by Buyer shall be the property of Buyer and such items, as well as all items furnished hereunder to Seller by Buyer, shall be maintained in first class condition and shall not be furnished to anyone other than Buyer. Such items shall be available for Buyer's inspection and, unless otherwise authorized by Buyer, shall be delivered to Buyer upon the completion or termination of this Purchase Order. No reproductions hereof shall be retained except as authorized by Buyer.

17. PATENTS.

(a) infringement or alleged infringement of any patent rights allegedly caused by the sale or use of any article furnished by Seller and will defend or settle any such matters at its sole cost.

(b) Seller does hereby grant to Buyer, its successors and assigns, a non-exclusive, royalty-free license under any inventions, improvements or discoveries conceived or first reduced to practice as a result of such research or development work as is required by this Purchase Order. This license shall include the right to manufacture and produce goods made in accordance with such inventions, improvements, and discoveries.

18. MODIFICATIONS. Buyer reserves the right, upon written Change Order forwarded to Seller, to modify the subject matter of this Purchase Order including but not limited to modifications in (1) plans, specifications, designs, drawings or other items applicable to required goods or services. (2) the method of shipping and packing, or (3) the time or cost of Seller's performance. An adjustment may be made in the schedule or price provided a written claim for such adjustment is submitted by Seller within twenty (20) days after receipt of the Change Order.

19. TERMINATION. Until such time as Seller has substantially begun performance under this Purchase Order or has otherwise materially changed his position, or prior to thirty (30) days before delivery for items not specially manufactured, whichever occurs later, Buyer shall have the right to terminate this Purchase Order without penalty.

EXHIBIT "D"

EXAMPLE OF PURCHASE ORDER (cont'd)

20. NON-ASSIGNMENT. Seller shall not assign this Purchase Order or any interest therein without the prior written consent of Buyer.

21. OCCUPATIONAL SAFETY. All goods and services must comply with the Williams-Steiger Occupational Safety and Health Act of 1970.

22. TAXES. Except as may be otherwise provided in this Purchase Order, price includes all applicable Federal, State and local taxes in effect on the order date.

23. LIENS. All materials or articles delivered and labor performed under this Purchase Order shall be free of all liens and a proper release of all liens or satisfactory evidence of freedom from liens will be delivered to the Buyer upon request.

24. LIMITATIONS. Seller must bring an action for any alleged breach of this Agreement by Buyer within one (1) year from the date of such alleged breach.

25. PAYMENT. Unless specific payment terms are specified in this Purchase Order, Buyer shall make payment on a net 30 day basis from the date of Buyer receipt of the goods, work or service specified on this Purchase Order.

26. CONTRACT - APPLICABLE LAW. Seller agrees that this Purchase Order and the acceptance thereof shall be a contract made in the state in which the office issuing this Purchase Order is located and governed by the laws thereof. Except as otherwise provided herein, the Uniform Commercial Code shall apply to this transaction and it is hereby included as though set forth at length.

EXHIBIT E

PURCHASE ORDER, PAYMENT AND TITLE TRANSFER

Requested Release Date

Final Payment
(HOLLISTER-STIER MRR)
Complete &
Invoice MRR
Title

Samples
Ready

PO ID TEST 1 month
1 month

2 months

2 months

2 months
1st & 2nd Gen

2 months

3 months
3rd Gen

EXHIBIT "F"
MANUFACTURING AND RELEASE REQUIREMENTS (MRR)
DOCUMENTATION

The following lists all documentation required from HOLLISTER-STIER by SERAGEN to release Finished Drug Product for Commerce:

1. Completed production and packaging records

2. A Certificate of Conformance comparing test results to product specifications. The summary of testing to be accompanied by completed Quality Control request forms and results worksheets with associated raw data

3. All receipt and distribution records associated with Lot production

4. Any planned or unplanned deviations associated with lot production or Quality Control testing

5. Any alert or action notifications generated during processing

6. Any Out of Specification (OOS) investigations associated with Lot production or Quality Control testing

EXHIBIT "G"
CONTRACTOR/QUALITY MANUAL FOR DRUG PRODUCT

ATTACHED IS A GENERIC OUTLINE OF A TABLE OF CONTENTS THAT WILL BE FINALIZED BETWEEN THE PARTIES WITHIN THREE MONTHS

DRUG PRODUCT MANUFACTURER LIGAND PHARMACEUTICALS INCORPORATED

Contractor/Quality Manual for Drug Product

Revision Date February 2004 Section Number Signature Page

This technical manual is intended to document those aspects of the relationship between Ligand and its contractors that impact the quality of the goods and services provided by these contractors. This manual provides a contractor with the instructions and technical data to continue to provide these goods and services, as well as those procedures utilized by Ligand to carry out its responsibilities with respect to assuring that the goods and services continue to be provided in a manner consistent with Ligand corporate requirements and in compliance with applicable product licenses and current good manufacturing practices (CGMP).

LIGAND PHARMACEUTICALS INC.

DRUG PRODUCT MANUFACTURER LIGAND PHARMACEUTICALS INCORPORATED

Contractor/Quality Manual for Drug Product

Revision Date February 2004 Section Number Signature Page

_____
Quality Assurance Date

_____
Technical Operations Date

DRUG PRODUCT MANUFACTURER LIGAND PHARMACEUTICALS INCORPORATED

Contractor/Quality Manual for Drug Product

Revision Date Section Number
February 2004 Table of Contents

Appendix E

SPECIFICATIONS

1. Active Pharmaceutical Ingredient

2. RAW MATERIALS (CONTRACTOR SUPPLIED)

   a. Ingredient A
   b. Ingredient B
   c. Ingredient C
   d. Ingredient D
   e. Ingredient E

3. Inprocess and bulk products

4. Finished Product

5. PACKAGING COMPONENTS

   a. Bottle
   b. Cap
   c. Insert
   d. Label
   e. Shipper

Appendix F

APPROVED VENDOR LIST

DRUG PRODUCT MANUFACTURER LIGAND PHARMACEUTICALS INCORPORATED

Contractor/Quality Manual for Drug Product

Revision Date Section Number
February 2004 Table of Contents

Appendix G

METHODS

1. GENERAL METHODS (GM)

2. SPECIFIC METHODS (SM) AND CORRESPONDING VALIDATION REPORT

3. MICROBIOLOGICAL TEST (USP) (CONTRACTOR SUPPLIED)

Appendix H

MATERIAL SAFETY DATA SHEETS (MSDS)

1. Active Pharmaceutical Ingredient
2. Drug Product

Appendix I

EXHIBIT 10.276

EXECUTION COPY

MANUFACTURING AND PACKAGING AGREEMENT

This MANUFACTURING AND PACKAGING AGREEMENT ("Agreement") is made this 13th day of February, 2004, by and between Cardinal Health PTS, LLC, having a place of business at 1100 Enterprise Drive, Winchester, Kentucky USA ("Cardinal Health") and Ligand Pharmaceuticals, Inc., having its principal place of business at 10275 Science Center Drive, San Diego, California USA ("Ligand").

A. Cardinal Health is the leading provider of contract pharmaceutical development, manufacturing, packaging, analytical, and sales and marketing services to the pharmaceutical industry.

B. Ligand has certain patent rights, technology and know-how relating to Avinza(R) (sustained release morphine) and wants Cardinal Health to assist in the formulation, filling, packaging and testing of such product as provided in this Agreement and the attachments hereto.

C. Ligand desires to engage Cardinal Health to provide certain services to Ligand in connection with the manufacture and packaging the Product (defined below); and Cardinal Health desires to provide such services pursuant to the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, terms and conditions set forth below, the parties agree as follows:

ARTICLE 1
DEFINITIONS

The following terms have the following meanings in this Agreement:

1.1 "Administrative Costs" means all costs related to conducting a recall in accordance with Applicable Laws.

1.2 "Affiliate(s)" means any corporation, firm, partnership or other entity which controls, is controlled by or is under common control with a party. For purposes of this definition, "control" shall mean the ownership of at least fifty percent (50%) of the voting share capital of such entity or any other comparable equity or ownership interest.

1.3 "API" means morphine sulfate as more fully described in the Manufacturing Specifications which has been released by its supplier and obtained by Cardinal Health as a Raw Material, along with a certificate of analysis, as provided in this Agreement.

1.4 "Applicable Laws" means all laws, ordinances, rules and regulations within the Territory applicable to the Manufacturing and Packaging of the Product or any aspect thereof and

the obligations of Cardinal Health or Ligand, as the context requires under this Agreement, including, without limitation, (i) all applicable federal, state and local laws and regulations of each Territory; (ii) the U.S. Federal Food, Drug and Cosmetic Act, and (iii) the current Good Manufacturing Practices promulgated by the Regulatory Authorities, as amended from time to time ("cGMPs").

1.5 "Batch" means defined quantity of finished drug product which has been Manufactured and Packaged in accordance with the Specifications. A "Batch" shall equal the number of 100-capsule bottles resulting from encapsulation ("Batch Size") of *** kg of bead blend or *** kg [equivalents] of morphine sulfate as indicated below:

<TABLE>
<CAPTION>

STRENGTH	BATCH SIZE (BOTTLES)
<S>	<C>
30mg	***
60	***
90	***
120	***

</TABLE>

The Batch Size indicated above assumes an estimated yield loss of *** and shall be adjusted to reflect average actual output after production of the first *** Batches.

1.6 "Calendar Quarter" means a period of three (3) consecutive months commencing on January 1, April 1, July 1 or October 1 of any calendar year.

1.7 "Cardinal Health Information" shall have the meaning set forth in Article 12.

1.8 "Change Order" shall have the meaning set forth in Section 4.5(a).

1.9 "Commencement Date" means the first date upon which a Regulatory Authority approves Cardinal Health as a manufacturer of the Product.

1.10 "Confidential Information" is as defined in Section 11.2.

1.11 "Contract Year" means each consecutive twelve (12) month period beginning on the Commencement Date.

1.12 "Ligand Information" shall have the meaning set forth in Article 12.

1.13 "Defective Product" shall have the meaning set forth in Section 5.3.

1.14 "Delivery Date" shall mean the date on which Cardinal Health shall tender the relevant Batch(es) to Ligand. Each Delivery Date shall be specified by Ligand on the relevant Purchase Order and confirmed by Cardinal Health as set forth in paragraph 4.3.

1.15 "Dispute" shall have the meaning set forth in Section 18.9.

1.16 "Effective Date" means the date first written above.

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

1.17 "FDA" means the United States Food and Drug Administration.

1.18 "Firm Commitment" shall have the meaning set forth in Section 4.2.

1.19 "Manufacture" or "Manufacturing" means the compounding, encapsulation and inspection of the Product in the primary packaging in accordance with the Specifications and the terms and conditions set forth in this Agreement.

1.20 "Manufacture Date" means the day on which the Product is to be compounded by Cardinal Health at the Manufacturing Facilities, which shall not be more than 75 days prior to the relevant Delivery Date.

1.21 "Manufacturing Facilities" means Cardinal Health's facilities located at 1100 Enterprise Drive, Winchester, KY 40391.

1.22 "Manufacturing Specifications" means the Manufacturing specifications set forth in Exhibit A.

1.23 "Minimum Requirement" shall have the meaning set forth in Section 4.1.

1.24 "MRR Documents" means a) all completed production/Batch records; b) all quality control test/request forms (result worksheets) and associated data; c) dynamic monitoring performed during processing; d) any alert/action notifications generated during processing; e) any planned or unplanned deviations associated with Product; f) any out of Specification result

investigations associated with Product; g) the Certificate of Analysis for the Batch comparing testing to Specifications; h) the appropriate disposition notification for the Batch.

1.25 "Package" or "Packaging" means the labeling and the packaging of the Product into the secondary packaging in accordance with the Packaging Specifications and the terms and conditions of this Agreement.

1.26 "Packaging Facilities" means Cardinal Health's facilities located at 3001 Red Lion Road, Philadelphia, PA 19114.

1.27 "Packaging Specifications" means the Packaging specifications set forth in Exhibit B.

1.28 "Product" means Avinza(R)as fully compounded finished drug product which has been Manufactured and Packaged in accordance with the Specifications.

1.29 "Purchase Order" shall have the meaning set forth in Section 4.3.

1.30 "Raw Materials" means all raw materials, supplies, components and packaging necessary to manufacture, package and ship the Product in accordance with the Specifications, including the API.

1.31 "Regulatory Approval" shall have the meaning set forth in Section 7.4.

1.32 "Regulatory Authority" means any governmental regulatory authority within a Territory involved in regulating any aspect of the development, manufacture, market approval, sale, distribution, packaging or use of the Product.

1.33 "Review Period" shall have the meaning set forth in Section 5.1.

1.34 "Rolling Forecast" shall have the meaning set forth in Section 4.2.

1.35 "Sample" shall have the meaning set forth in Section 5.1.

1.36 "Specifications" means, collectively, the Manufacturing Specifications and the Packaging Specifications.

1.37 "Term" shall have the meaning set forth in Section 15.1.

1.38 "Territory" means the United States of America, Canada and any other country which the parties agree in writing to add to this definition of Territory in an amendment to this Agreement.

1.39 "Unit" means each individually Packaged unit of Product, as described more fully in the Specifications.

1.40 "Unit Pricing" shall have the meaning set forth in Section 7.1.

1.41 "Validation Batches" shall mean each Batch of Product manufactured by Cardinal Health which is necessary to support the validation portion of Ligand's NDA submission to the FDA.

ARTICLE 2
VALIDATION, MANUFACTURE, PACKAGING & RELATED SERVICES

2.1 VALIDATION SERVICES. Cardinal Health shall perform the qualification, validation and stability services described in EXHIBIT C of this Agreement for the prices specified therein.

2.2 SUPPLY AND PURCHASE OF PRODUCT. During the Term, Cardinal Health shall Manufacture and Package the Products in accordance with the Specifications, the Applicable Laws and the terms and conditions of this Agreement. Ligand's purchases of the Product from Cardinal Health shall be in accordance with the terms and conditions of this Agreement.

2.3 OTHER RELATED SERVICES. Cardinal Health may provide other services upon terms and conditions agreed to by the parties in writing from time to time.

ARTICLE 3
MATERIALS

3.1 API. Cardinal Health shall be responsible for procuring, at Ligand's sole cost, the API and applicable reference standards in quantities sufficient to meet Ligand's requirements for each Product as further set forth in Article 4. Ligand and Cardinal Health shall jointly negotiate the price of the API with any third-party supplier(s) thereof, which price shall be subject to Ligand's written approval. Upon receipt of the API, Cardinal Health shall conduct identification testing of the API. Cardinal Health shall use the API solely and exclusively for Manufacturing under this Agreement.

3.2 RAW MATERIALS. Cardinal Health shall be responsible for procuring, inspecting and releasing adequate Raw Materials, including API as above, as necessary to meet the Firm Commitment, unless otherwise agreed to by the parties in writing. The suppliers will be specified in the Specifications. If after initial Product qualification Ligand requires a change of any Raw Material supplier for its own benefit (e.g. not due to the failure of a supplier to timely supply Raw Materials to Specifications), the Specifications shall be amended and if the cost of any such Raw Material is different than Cardinal Health's costs for the same raw material of equal quality from other suppliers, Cardinal Health shall adjust for the difference between Cardinal Health's cost of the Raw Material and Ligand's mandated supplier's cost in the Unit Price of the Product. Ligand will be responsible for all costs associated with qualification of such new Ligand-required supplier of a Raw Material not previously qualified by Cardinal Health. Except as provided above, all Raw Material supplier changes must be agreed by the parties by amending the Specifications in writing.

3.3 YIELD AND INVENTORY RECONCILIATION. Cardinal Health warrants that a minimum yield will be achieved using the API purchased by Cardinal Health on behalf of Ligand. Yield is defined as the relation between the API content of the Products manufactured over a certain time span (actual number of capsules produced times each strength), and the actual quantity of API used to manufacture such quantity of Products. The minimum yield to be agreed upon will be determined after the manufacture of the initial *** commercial batches of the Products and shall be set forth in Exhibit D.

Thereafter, at the end of each Contract Year, the actual yield achieved by Cardinal Health will be reconciled and compared to the minimum yield as set forth in Exhibit D. Cardinal Health shall reimburse Ligand for API consumed in excess of minimum yield. Cardinal Health will prepare for Ligand on an annual basis a written explanation, by lot number, of all variances greater than those listed in Exhibit D, unless otherwise agreed.

The parties agree that for specific manufacturing orders Ligand may provide Cardinal Health with instructions that result in a yield which is lower than the agreed upon minimum yield. Cardinal Health will not have to reimburse Ligand for API to the extent that such loss is attributable to Cardinal Health's manufacturing of Product in accordance with these specific manufacturing orders. Cardinal Health shall communicate to Ligand within three (3) business days of the end of each month the quantities (raw material and in-process) of API in inventory.

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

Ligand shall be permitted to send a representative to inventory API at Cardinal Health upon reasonable prior notice and not more than once in any 12-month period.

3.4 ARTWORK AND PACKAGING. Ligand shall provide or approve, prior to the procurement of applicable components, all artwork, advertising and packaging information necessary to Manufacture or Package the Product. Such artwork, advertising and packaging information is and shall remain the exclusive property of Ligand, and Ligand shall be solely responsible for the content thereof. Such

artwork, advertising and packaging information or any reproduction thereof may not be used by Cardinal Health following the termination of this Agreement, or during the Term of this Agreement in any manner other than solely for the purpose of performing its obligations hereunder.

3.5 REIMBURSEMENT FOR MATERIALS. In the event of (i) a Specification change requested by Ligand or Cardinal Health for Ligand's benefit and agreed by the parties or to comply with any new requirement of a Regulatory Authority, (ii) termination by Ligand without cause or expiration of this Agreement; or (iii) unforeseeable obsolescence of any Raw Material, Ligand shall bear the cost of any unused Raw Materials which cannot be otherwise used by Cardinal Health nor returned for credit, provided that Cardinal Health purchased such Raw Materials in quantities consistent with Ligand's most recent Firm Commitment and the supplier's minimum purchase obligations.

ARTICLE 4
MINIMUM COMMITMENT, PURCHASE ORDERS & FORECASTS

4.1 MINIMUM ORDERS. During each Contract Year, Ligand shall order the minimum number of units of Product ("Minimum Orders") set forth on EXHIBIT D. If Ligand does not purchase such Minimum Orders during any Contract Year, within thirty (30) days after the end of such Contract Year, Ligand shall pay Cardinal Health the difference between (i) the total amount Ligand would have paid to Cardinal Health if the Minimum Orders had been fulfilled for the Product (calculated using an average batch price as shown in EXHIBIT D) and (ii) the sum of (a) all purchases from Cardinal Health for the Product during the just-concluded Contract Year plus (b) Cardinal Health's cost of all Raw Materials for that portion of the Minimum Orders not placed. For clarity, Ligand shall not be obligated to pay for any Product ordered but not delivered by Cardinal Health in accordance with this Agreement.

4.2 FORECAST. On or before the first (1st) day of each calendar month following the Commencement Date and at least four months prior to the first Delivery Date, Ligand shall furnish to Cardinal Health a written twelve (12) month rolling forecast of the quantities of Product that Ligand intends to order from Cardinal Health during such period ("Rolling Forecast"). The first 3 months of such Rolling Forecast shall constitute a binding commitment for the quantities of Product specified therein ("Firm Commitment") and the following 9 months of the Rolling Forecast shall be non-binding, good faith estimates.

4.3 PURCHASE ORDERS. At least quarterly, Ligand shall submit purchase orders for the Firm Commitment portion of the Rolling Forecast, which specify the actual number of Batches to be Manufactured and Packaged, the approximate number of Units in each Batch, and the requested

Delivery Dates for each Batch ("Purchase Order"). Ligand shall submit each Purchase Order to Cardinal Health at least one hundred and twenty (120) days in advance of the earliest Delivery Date requested in the Purchase Order. Cardinal Health will confirm such Delivery Dates within fifteen (15) business days of receipt of the Purchase Order. If Cardinal Health indicates within such 15-day period that it is unable to meet any such delivery date, the parties will work together in good faith to set an amended delivery date or dates. In the absence of such indication, the Delivery Date(s) shall be deemed accepted. In the event of a conflict between the terms of any Purchase Order and this Agreement, this Agreement shall control. Notwithstanding the foregoing, Cardinal Health shall supply Ligand with quantities of Product which exceed by not more than 25% the quantities specified in the Firm Commitment, and shall use commercially reasonable efforts to supply additional excess quantities requested by Ligand.

4.5 CUSTOMER'S MODIFICATION OR CANCELLATION.

(a) At any time up to 90 days prior to any relevant Delivery Date, Ligand may cancel a Purchase Order or request a modification of the confirmed Delivery Date, Specifications or quantity of Product (including e.g. quantities of dosage strengths and encapsulation quantities) in such Purchase Order by submitting a written change order ("Change Order") to Cardinal Health. If a Change Order is submitted less than 90 days prior to the relevant Delivery Date, such Change Order shall be effective and binding against Cardinal Health only upon the written approval of Cardinal Health, which approval shall not be unreasonably withheld. Notwithstanding the foregoing, Ligand shall remain responsible for the

Firm Commitment portion of the Rolling Forecast.

(b) Notwithstanding any amounts due to Cardinal Health under Section 4.1, if Ligand fails to place Purchase Orders sufficient to satisfy the Firm Commitment, Ligand shall, within thirty (30) days of receipt of invoice, pay to Cardinal Health the difference between (i) the Unit Price for all Units that would have been Manufactured and Packaged if Ligand had placed Purchase Orders sufficient to satisfy the Firm Commitment and (ii) Cardinal Health's cost of any Raw Materials that would have been used in such Units. Any amounts paid under this paragraph shall be credited against any amounts subsequently due for failure to meet Minimum Orders under paragraph 4.1.

4.6 UNPLANNED DELAY OR ELIMINATION OF MANUFACTURE OR PACKAGING. Cardinal Health shall timely fill each Purchase Order, subject to the terms and conditions of this Agreement. Cardinal Health shall notify Ligand within fifteen (15) days of receipt of any Firm Commitment or Purchase Order if Cardinal Health determines that any Manufacturing or Packaging will be delayed or eliminated for any reason, provided however that such notice shall not relieve Cardinal of any of its obligations, absent written consent of Ligand.

4.7 CUSTOMER INSPECTION. Ligand may base up to two (2) representatives at the Facilities to observe, subject to Cardinal Health's reasonable measures in furtherance of its obligations to protect the confidential information of third parties, the Manufacturing and Packaging provided that Ligand provide Cardinal Health at least ten (10) days advance written notice of the attendance of such Ligand representatives. Ligand will specify whether Ligand will observe the

Manufacturing, Packaging, or both. Such inspection may include inspection for proper use and confidentiality of Ligand and Elan intellectual property. Any information received or observed by Ligand representatives shall be treated in accordance with the terms of the Confidentiality Agreement between the parties. Ligand shall indemnify and hold harmless Cardinal Health for any action or activity of such representatives while on Cardinal Health's premises.

ARTICLE 5
TESTING; SAMPLES; RELEASE

5.1 TESTING; ACCEPTANCE. Within twelve (12) business days after Cardinal Health's completion of Manufacturing and Packaging of each Batch and not later than 12 business days prior to the relevant Delivery Date, Cardinal Health shall deliver to Ligand the MRR Documents for such Batch. No later than twelve (12) business days after receipt of complete MRR Documents ("Review Period"), Ligand shall review the MRR Documents and notify Cardinal Health if, in Ligand's determination, such Batch (including its Manufacturing and Packaging) conforms to the Specifications or if such Batch fails to conform to the Specifications. If such Batch conforms to the Specifications, Ligand shall promptly, but in no event later than the end of the Review Period, provide notice of acceptance of the applicable Batch to Cardinal Health. If Ligand determines that such Batch does not conform to Specifications, Ligand shall promptly, but in no event later than the end of the Review Period, provide to Cardinal Health a notice of its determination. If Cardinal Health agrees that the Batch is defective or non-conforming, Cardinal Health will, at Ligand's option, either replace such Batch in accordance with Section 5.3 below, or credit any payments made by Ligand for such Batch. If Cardinal Health does not agree with Ligand's determination such Batch fails to meet the Specifications, then after reasonable efforts to resolve the disagreement, either party may submit a sample from the Batch to an independent third party in accordance with Section 5.2 below. If Ligand (i) notifies Cardinal Health that the Product meets the Specifications, as provided above, or (ii) does not notify Cardinal Health that Product is non-conforming prior to the end of the Review Period, then Product shall be deemed to have been accepted by Ligand, and Cardinal Health shall invoice Ligand for such Batch.

5.2 DISAGREEMENTS REGARDING PRODUCT CONFORMITY. In the event of a disagreement between the parties as to whether the Product meets the Specifications, the parties shall cause a mutually acceptable independent laboratory to review records, test data and to perform the tests and/or analyses set forth in the Specifications on samples of the alleged Defective Product. The independent laboratory's results shall be final and binding. Unless otherwise agreed to by the parties in writing, the costs associated with such testing and review shall

be borne by the party which was incorrect about whether the Product meets the Specifications.

5.3 REPLACEMENT OF DEFECTIVE PRODUCT. In accordance with the terms set forth in this Agreement, Cardinal Health shall replace, at its sole expense, all Product that does not comply with the warranty in Section 10.1 ("Defective Product"). THE OBLIGATION OF CARDINAL HEALTH TO REPLACE DEFECTIVE PRODUCT OR CREDIT LIGAND IN ACCORDANCE WITH SECTION 5.1 SHALL BE SUBJECT TO SECTION 16.1 AND SHALL BE LIGAND'S SOLE AND EXCLUSIVE REMEDY (WITHOUT PREJUDICE TO ANY INDEMNIFICATION OBLIGATIONS UNDER SECTION 13.1 OR THE OBLIGATIONS OF

SECTION 9.5 (RECALL)) UNDER THIS AGREEMENT FOR DEFECTIVE PRODUCT AND IS IN LIEU OF ANY OTHER WARRANTY, EXPRESS OR IMPLIED.

5.4 SUPPLY OF MATERIAL FOR DEFECTIVE PRODUCT. In the event Cardinal Health is required to replace Product pursuant to Section 5.3, above, in no instance shall Cardinal Health be liable for damages in excess of fees paid for Defective Product and API, subject to the limitation of liability in Section 16.1 (without prejudice to any indemnification obligations under section 13.1 or the obligations of section 9.5 (Recall)).

ARTICLE 6
DELIVERY

6.1 DELIVERY. Cardinal Health shall segregate and store all Product until acceptance as set forth in Section 5.1 above. Upon such acceptance, Cardinal Health shall tender the Product for delivery and subsequent shipment, F.O.B. the Packaging Facility. Ligand shall be responsible for all costs and risk of loss associated with shipment of the Product. Ligand shall qualify at least one (1) carrier to ship the Product to Cardinal Health.

6.2 FAILURE TO TAKE DELIVERY. If Ligand fails to provide for shipment of Product within seven (7) business days after acceptance, Ligand shall be invoiced on the first day of each month thereafter for reasonable administration and storage costs. For each such Batch of accepted but unshipped Product, Ligand agrees that: (i) Ligand has made a fixed commitment to purchase such Product, (ii) title to such Product passes to Ligand, (iii) such Product shall be on a bill and hold basis for legitimate business purposes, (iv) if no shipment date is determined at the time of billing, Cardinal Health shall have the right to ship the Product to Ligand or Ligand's designee within four months after billing, and (v) Ligand will be responsible for any decrease in market value of such Product that relates to factors and circumstances outside of Cardinal Health's control. Within five (5) days following a notice of request from Cardinal Health, Ligand shall provide Cardinal Health with a letter confirming items (i) through (v) of this Section for each Batch of undelivered Product.

ARTICLE 7
PRICING AND PAYMENT

7.1 UNIT PRICING. Ligand shall pay to Cardinal Health the unit pricing set forth on EXHIBIT D ("Unit Pricing") for all Product. In the event Ligand requests services other than Manufacturing or Packaging of Product, Cardinal Health shall provide a written quote of the fee for such additional services and Ligand shall advise Cardinal Health whether it wishes to have such additional services performed by Cardinal Health.

7.2 PRICE ADJUSTMENT. The Unit Pricing may be adjusted on an annual basis, effective on each anniversary date of this Agreement, upon sixty (60) days prior written notice from Cardinal Health to Ligand. Such adjustment shall be based on actual increases or decreases in relevant labor and/or materials costs, subject to the following limitations:

The Unit Pricing for Product shall include only: (a) the cost of excipients and packaging materials and (b) Cardinal's processing, i.e. manufacturing, testing and packaging. Any price adjustment shall limit the increase in component (b) to not more than the increase in the most recent calendar year Producer Price Index, Industry: Pharmaceutical

Preparations, Series ID: PCU2834# (N), as published by the U.S. Department of Labor, Bureau of Labor Statistics and available through HTTP://DATA.BLS.GOV/CGI-BIN/SRGATE. Cardinal Health agrees to provide back-up documentation of labor and/or materials costs for all annual increases and such costs and related documentation shall be auditable upon reasonable notice, by an independent third party reasonably acceptable to Ligand and Cardinal.

7.3 TAXES; DUTY. All taxes, duties and other amounts assessed by government authorities on the Product upon or after sale to Ligand are the responsibility of Ligand, and Ligand shall reimburse Cardinal Health for any such taxes, duties or other amounts paid by Cardinal Health.

7.4 PRODUCT APPROVAL. Notwithstanding the terms set forth above, Ligand and Cardinal Health shall use their commercially reasonable efforts to expedite and obtain all regulatory approvals necessary for Cardinal Health to commence production at the Manufacturing Facility and the Packaging Facility ("Regulatory Approvals"), and in the event such Regulatory Approvals have not been obtained by Cardinal Health, through no fault of Cardinal Health, within thirty (30) months following the Effective Date, provided that Cardinal Health installs and qualifies the equipment required by Ligand within *** following the Effective Date, then Ligand shall pay to Cardinal Health a monthly fee as provided in EXHIBIT D ("Delayed Approval Fee") until such Regulatory Approvals have been obtained and Cardinal Health is able to commence production.

7.5 PAYMENT TERMS. Cardinal Health shall invoice Ligand for all Product as provided in Section 5.1, and payment for the undisputed portions of such invoices shall be due within forty-five (45) days after the date of such invoice. In the event payment is not received by Cardinal Health on or before the forty-fifth (45th) day after the date of the invoice, then such unpaid amount shall accrue interest each month at the rate of one percent (1%) per month until paid in full.

ARTICLE 8
CHANGES TO SPECIFICATIONS

All Specifications and any changes thereto agreed to by the parties from time to time shall be in writing, dated and signed by the parties. No change in the Specifications shall be implemented by Cardinal Health, whether requested by Ligand or requested or required by any Regulatory Authority, until the parties have agreed in writing to such change, the implementation date of such change, and any increase or decrease in costs, expenses or fees associated with such change. Cardinal Health shall respond promptly to any request made by Ligand for a change in the Specifications, and both parties shall use commercially reasonable, good faith efforts to agree to the terms of such change in a timely manner. If after initial Product qualification Ligand requires a change in the Specifications for its own benefit or to comply with the requirements of

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a Regulatory Authority, the Specifications shall be amended and as soon as possible after a request is made for any change in Specifications, Cardinal Health shall notify Ligand of the costs associated with such change and shall provide such supporting documentation as Ligand may reasonably require. Ligand shall pay all costs associated with such Ligand-requested or regulatory changes. Agreed changes to the Specifications for the benefit of Cardinal shall be at the expense of Cardinal. If there is a conflict between the terms of this Agreement and the terms of the Specifications, this Agreement shall control.

ARTICLE 9
RECORDS; REGULATORY MATTERS

9.1 MRR DOCUMENTS AND DATA. Following the Manufacture and Packaging of each Batch, and in accordance with section 5.1, Cardinal Health shall provide Ligand with properly completed copies of all MRR Documents, including Manufacturing and Packaging Batch records prepared in accordance with the Specifications.

9.2 RECORDKEEPING. Cardinal Health shall maintain true and accurate books, records, test and laboratory data, reports and all other information relating to Manufacturing and Packaging under this Agreement, including all information required to be maintained by the Specifications and all Applicable Laws. Such information shall be maintained in forms, notebooks and records for a period of at least two (2) years from the relevant finished Product expiration date or longer if required under Applicable Laws.

9.3 REGULATORY COMPLIANCE. Except as provided in the next sentence, Ligand shall be solely responsible for all permits and licenses required by any regulatory agency with respect to the Product and the Manufacturing and Packaging under this Agreement, including any product licenses, applications and amendments in connection therewith. Cardinal Health will be responsible to maintain all permits and licenses required by any Regulatory Authority with respect to the Manufacturing Facility, Packaging Facility and the equipment in such facilities. During the Term, Cardinal Health will assist Ligand in its regulatory matters relating to the Manufacturing and Packaging as described above, at Ligand's request and at Ligand's expense. Each party intends and commits to cooperate to satisfy all Applicable Laws with respect to Manufacturing and Packaging under this Agreement.

9.4 GOVERNMENTAL INSPECTIONS AND REQUESTS. Cardinal Health shall immediately advise Ligand if an authorized agent of any Regulatory Authority visits either the Manufacturing Facility or the Packaging Facility if related to the Manufacturing or Packaging of the Product. Cardinal Health shall furnish to Ligand a copy of the report by such Regulatory Authority, if any, within ten (10) days of Cardinal Health's receipt of such report. Further, upon receipt of a Regulatory Authority request to inspect the Facilities or audit Cardinal Health's books and records with respect to Manufacturing or Packaging under this Agreement, Cardinal Health shall immediately notify Ligand, and shall provide Ligand with a copy of any written document received from such Regulatory Authority and Cardinal Health shall permit Ligand to have a representative present for any such Facility inspection unless such presence would be unreasonable under the circumstances. Absence of a Ligand representative shall not impede any such inspection, provided Cardinal Health has complied with the foregoing. To the extent

related to Manufacturing or Packaging hereunder, Cardinal Health shall provide to Ligand a copy of any proposed written response to any such inspection prior to its submission and a reasonable opportunity for Ligand to review and approve such response, provided that such approval shall not be unreasonably withheld.

9.5 RECALL. In the event Cardinal Health believes a recall, field alert, Product withdrawal or field correction may be necessary with respect to any Product provided under this Agreement, Cardinal Health shall immediately notify Ligand in writing. Cardinal Health will not act to initiate a recall, field alert, Product withdrawal or field correction without the express prior written approval of Ligand, unless otherwise required by Applicable Laws. In the event Ligand believes a recall, field alert, Product withdrawal or field correction may be necessary with respect to any Product provided under this Agreement, Ligand shall immediately notify Cardinal Health in writing and Cardinal Health shall provide all necessary cooperation and assistance to Ligand. The cost of any recall, field alert, Product withdrawal or field correction shall be borne by Ligand except to the extent such recall, field alert, Product withdrawal or field correction is caused by Cardinal Health's breach of its warranties, representations or obligations under this Agreement or Applicable Laws or its negligence or willful misconduct, then such cost shall be borne by Cardinal Health. For purposes hereof, such cost shall be limited to reasonable, actual and documented Administrative Costs incurred by Ligand for such recall, withdrawal or correction, and replacement of the Defective Product to be recalled, in accordance with Article 5. Ligand shall solely control the implementation of any such recall, field alert, withdrawal or field correction.

9.6 QUALITY AGREEMENTS. Within six (6) months following the execution of this Agreement, the parties shall execute a Quality Agreement in substantially the form attached to this Agreement as EXHIBIT E. The Quality Agreement shall in no way determine liability or financial responsibility of the parties for the responsibilities set forth therein. In the event of a conflict between the terms of this Agreement and the Quality Agreement, this Agreement shall control.

ARTICLE 10
REPRESENTATIONS AND WARRANTIES

10.1 LIMITED WARRANTY. Cardinal Health represents and warrants to Ligand that at the time of delivery of the Product as provided in Section 6.1, such Product will conform to and will have been Manufactured and Packaged in conformance with the Product Specifications and Applicable Laws. THE LIMITED WARRANTY SET FORTH IN THIS SECTION 10.1 IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY, WARRANTY OF NON-INFRINGEMENT AND ANY WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE. EXCEPT FOR THE WARRANTY EXPRESSED IN THIS ARTICLE 10, CARDINAL HEALTH MAKES NO OTHER WARRANTY, EITHER EXPRESS OR IMPLIED, WITH RESPECT TO THE MANUFACTURING, PACKAGING OR THE PRODUCT.

10.2 RELEASE RESPONSIBILITY. The party responsible for release of the finished Product warrants that it will not release any Batch of Product if the required Certificates of Analysis indicate that the Product does not comply with the Specifications.

10.3 ARTWORK. Ligand shall indemnify and hold harmless Cardinal Health from any damages or costs caused by infringement of the artwork provided by Ligand to Cardinal Health on any third party's intellectual property rights, including, but not limited to, copyright, trademark or trade name or by failure of such artwork to comply with all Applicable Laws, except to the extent that any of the foregoing arises out of or results from the breach by Cardinal Health of its representations, warranties or obligations under this Agreement, or the negligence or willful misconduct of Cardinal Health.

10.4 INTELLECTUAL PROPERTY. Ligand represents and warrants to Cardinal Health that Ligand has all necessary authority and right, title or interest in and to any copyrights, trademarks, trade secrets, patents, inventions, know-how and developments related to the Product ("Intellectual Property") which right, title or interest is necessary to the manufacture thereof, and Ligand hereby grants to Cardinal Health a non-exclusive, royalty-free license to use any and all of such right, title and interest to the extent necessary for Cardinal Health to perform its obligations under this Agreement. Cardinal Health shall use such Intellectual Property, whether supplied by Ligand or a third party, solely for the purpose of performing such obligations. In addition, Ligand shall indemnify and hold harmless Cardinal Health against any damages or costs arising from the violation or infringement upon any trademark, tradename, copyright, patent or other rights held by any person or entity in the making of Product in accordance with the Specifications, except to the extent that any of the foregoing arises out of or results from the breach by Cardinal Health of its representations, warranties or obligations under this Agreement, or the negligence or willful misconduct of Cardinal Health. Cardinal Health shall not use any disclosure hereunder of such Intellectual Property nor any confidential information of Ligand or Elan to challenge the validity or enforceability of such Intellectual Property.

10.5 EXISTENCE AND POWER. Each party hereby represents and warrants to the other party that such party (i) is duly organized, validly existing and in good standing under the laws of the state in which it is organized, (ii) has the power and authority and the legal right to own and operate its property and assets, and to carry on its business as it is now being conducted, and (iii) is in compliance with all requirements of applicable law, except to the extent that any noncompliance would not materially adversely affect such party's ability to perform its obligations under the Agreement.

10.6 AUTHORIZATION AND ENFORCEMENT OF OBLIGATIONS. Each party hereby represents and warrants to the other party that such party (i) has the power and authority and the legal right to enter into this Agreement and to perform its obligations hereunder and thereunder and (ii) has taken all necessary action on its part to authorize the execution and delivery of the Agreement and the performance of its obligations hereunder. The Agreement has been duly executed and delivered on behalf of such party, and constitutes a legal, valid, binding obligation, enforceable against such party in accordance with its terms.

10.7 NO CONSENTS. Each party hereby represents and warrants to the other party

that all necessary consents, approvals and authorizations of all agencies and other persons required to be obtained by such party in connection with the Agreement have been obtained.

10.8 NO CONFLICT. Each party hereby represents and warrants to the other party that the execution and delivery of this Agreement and the performance of such party's obligations hereunder (i) do not conflict with or violate any requirement of applicable laws or regulations or any material contractual obligation of such party and (ii) do not materially conflict with, or constitute a material default or require any consent under, any material contractual obligation of such party.

ARTICLE 11
CONFIDENTIAL INFORMATION

11.1 The use and disclosure of confidential information exchanged between the parties shall be governed by the Amended and Restated Confidentiality Agreement by and among Ligand, Cardinal Health and Elan dated February 13, 2004.

ARTICLE 12
INTELLECTUAL PROPERTY

Subject to the foregoing Amended and Restated Confidentiality Agreement, all Cardinal Health Information, including without limitation, all improvements, developments, derivatives or modifications to the Cardinal Health Information, shall be owned exclusively by Cardinal Health. All Ligand Information, including, without limitation, all improvements, developments, derivatives or modifications to the Ligand Information shall be owned exclusively by Ligand. Ligand grants Cardinal Health a non-exclusive, royalty-free license for the term of this Agreement to use Ligand Information, but solely for the purpose of carrying out Cardinal Health's obligations hereunder. For purposes hereof, "Cardinal Health Information" means all Cardinal Health proprietary information, intellectual property, and developments (including, all patents, patent applications, know-how, inventions, designs, concepts, improvements, technical information, manuals, instructions or specifications), owned, licensed or used by Cardinal Health in developing, formulating, manufacturing, filling, processing or packaging of pharmaceuticals and the packaging equipment, processes or methods of packaging, or any improvements to any of the foregoing, including any container, pouch, vial, ampoule or other form of container developed by Cardinal Health in each case prior to the date of this Agreement. For purposes hereof, "Ligand Information" means all proprietary information, intellectual property and developments owned, developed, licensed or used by Ligand relating to the API, including, without limitation, patents, patent applications, know-how, inventions, designs, concepts, improvements, technical information, trademarks or trade names, developed by Ligand in each case prior to the date of this Agreement. Ownership of intellectual property and improvements related to the Product shall be governed exclusively by the Amended and Restated Confidentiality Agreement.

ARTICLE 13
INDEMNIFICATION

13.1 INDEMNIFICATION BY CARDINAL HEALTH. Cardinal Health shall indemnify and hold harmless Ligand, its Affiliates, directors, officers, employees and agents from and against any suits, claims, losses, demands, liabilities, damages, costs and expenses (including costs, reasonable attorney's fees and reasonable investigative costs) in connection with any suit, demand or action by any third party arising out of or resulting from any negligence, willful misconduct or breach of this Agreement by Cardinal Health, except to the extent that such breach, negligence or willful misconduct arises out of or results from the breach of its representations, warranties or obligations under this Agreement by Ligand or the negligence or willful misconduct of Ligand.

13.2 INDEMNIFICATION BY LIGAND. Ligand shall indemnify and hold harmless Cardinal Health, its Affiliates, directors, officers employees and agents from and against all suits, claims, losses, demands, liabilities, damages, costs and expenses (including costs, reasonable attorney's fees and reasonable investigative costs) in connection with any suit, demand or action by any third party arising out of or resulting from (a) any breach of its representations, warranties or obligations set forth in this Agreement; (b) any manufacture by

Ligand, sale, promotion, distribution or use (other than by Cardinal Health) of the Product, including, without limitation, product liability or strict liability; (c) Ligand's exercise of control over the Manufacturing or Packaging under this Agreement, to the extent that Ligand's instructions or directions violate applicable law or regulation; (d) any actual or alleged infringement or violation of any patent, trade secret, copyright, trademark or other proprietary rights used by Cardinal Health in manufacturing Product; or (e) any negligence or willful misconduct by Ligand, except to the extent that any of the foregoing arises out of or results from the breach by Cardinal Health of its representations, warranties or obligations under this Agreement, or the negligence or willful misconduct of Cardinal Health.

13.3 INDEMNIFICATION PROCEDURES. All indemnification obligations in this Agreement are conditioned upon the party seeking indemnification promptly notifying the indemnifying party of any claim or liability of which the party seeking indemnification becomes aware (including a copy of any related complaint, summons, notice or other instrument), cooperating with the indemnifying party in the defense of any such claim or liability (at the indemnifying party's expense), and not compromising or settling any claim or liability without prior written consent of the indemnifying party.

ARTICLE 14
INSURANCE

14.1 CARDINAL HEALTH. Cardinal Health shall, at its own cost and expense, obtain and maintain in full force and effect the following insurance during the term of this Agreement: (i) Umbrella/Commercial General Liability insurance with per-occurrence and general aggregate limits of not less than $***; (ii) Products and Completed Operations Liability Insurance with per-occurrence and general aggregate limits of not less than $***; (iii) Workers' Compensation and Employer's Liability Insurance with statutory limits for Workers' Compensation and Employer's Liability insurance limits of not less than $***; (iv)

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Professional Services Errors & Omissions Liability Insurance with per claim and aggregate limits of not less than $*** covering sums that Cardinal Health becomes legally obligated to pay as damages resulting from claims made by Ligand for errors or omissions committed in the conduct of the services outlined in the Agreements. In lieu of insurance, Cardinal Health may self-insure any or a portion of the above required insurance. In the event that any of the required policies of insurance are written on a claims made basis, then such policies shall be maintained during the entire term of this Agreement and for a period of not less than three (3) years following the termination or expiration of this Agreement. Cardinal Health shall obtain a waiver from any insurance carrier with whom Cardinal Health carries Workers' Compensation insurance releasing its subrogation rights against Ligand. Ligand shall be named as an additional insured under the Commercial General Liability and Products and Completed Operations Liability insurance policies as respects the manufacturing services outlined in this Agreement. Cardinal Health shall furnish certificates of insurance for all of the above noted policies and required additional insured status to Ligand as soon as practicable after the Effective Date of the Agreement and upon renewal of any such policies. Each insurance policy that is required under this Section shall be obtained from an insurance carrier with an A.M. Best rating of at least A- VII.

14.2 LIGAND INSURANCE. Ligand shall, at its own cost and expense, obtain and maintain in full force and effect the following insurance or program of self insurance (provided Ligand maintains a financial condition reasonably sufficient to cover such commitments) during the term of this Agreement: (i) Products and Completed Operations Liability Insurance with per-occurrence and general aggregate limits of not less than $***; (ii) Workers' Compensation and Employer's Liability Insurance with statutory limits for Workers' Compensation and Employer's Liability insurance limits of not less than $***; (iii) All Risk Property Insurance, including transit coverage, in an amount equal to full replacement value covering Ligand's property while it is at Cardinal Health's facility or in transit to or from Cardinal Health's facility. In the event that any of the required policies of insurance are written on a claims made basis,

then such policies shall be maintained during the entire term of this Agreement and for a period of not less than three (3) years following the termination or expiration of this Agreement. Ligand shall obtain a waiver from any insurance carrier with whom Ligand carries Workers' Compensation insurance releasing its subrogation rights against Cardinal Health. Ligand shall obtain a waiver from any insurance carrier with whom Ligand carries Property Insurance releasing its subrogation rights against Cardinal Health. Ligand shall not seek reimbursement for any property claim, or portion thereof, that is not fully recovered from Ligand's Property Insurance policy. Cardinal Health and its Subsidiaries and Parent Corporation shall be named as additional insureds under the Products and Completed Operations Liability insurance policies as respects the products and completed operations outlined in this Agreement. Ligand shall furnish certificates of insurance for any policies obtained hereunder and required additional insured status to Cardinal Health as soon as practicable after the Effective Date of the Agreement and upon renewal of any such policies. Any insurance policy that is that is obtained in satisfaction of this Section shall be obtained from an insurance carrier with an A.M. Best rating of at least A-VII.

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

ARTICLE 15
TERM AND TERMINATION

15.1 TERM. This Agreement shall commence on the Effective Date and shall continue for a period of five Contract Years, unless earlier terminated under Section 15.2 below (the "Term"). This Agreement may be extended for an additional term of two years at Ligand's option, upon notice to Cardinal Health not later than 180 days prior to the end the of the Term.

15.2 TERMINATION BY EITHER PARTY.

(a) MATERIAL BREACH. Either party may terminate this Agreement effective upon sixty (60) days prior written notice to the other party, if the other party commits a material breach of this Agreement and fails to cure such breach by the end of such sixty (60) day period.

(b) BANKRUPTCY. Either party may terminate this Agreement effective upon written notice to the other party, if the other party becomes insolvent or is unable to pay its debts as they become due, files a petition for bankruptcy, makes an assignment for the benefit of its creditors or has a receiver, trustee or other court officer appointed for its properties or assets.

(c) NO APPROVAL. Ligand shall have the option of terminating this Agreement effective upon written notice to Cardinal Health if for any reason the Manufacturing Facility does not receive necessary Regulatory Approvals within 30 months after the Effective Date.

15.3 FORCE MAJEURE. Except as to payments required under this Agreement, if any default or delay occurs which prevents or materially impairs a party's performance and is due to a cause beyond the party's reasonable control, and provided that the default or delay is not caused by or the fault of such party, including but not limited to an act of God, flood, fire, explosion, earthquake, casualty, accident, war, revolution, civil commotion, blockade or embargo, injunction, law, proclamation, order, regulation or governmental demand, the affected party shall promptly notify the party in writing of such cause and shall exercise diligent efforts to resume performance under this Agreement as soon as possible. Neither party will be liable to the other party for any loss or damage due to such cause, and the Term will not be extended thereby. Neither party may terminate this Agreement because of such default or delay except upon thirty (30) days prior written notice to the other party if the default or delay has existed for five (5) months and is continuing at the end of the thirty (30) day notice period.

15.4 EFFECT OF TERMINATION. Expiration or termination of this Agreement shall be without prejudice to any rights or obligations that accrued to the benefit of either party prior to such expiration or termination. The rights and obligations of the parties shall continue under Articles 5, 7, 9, 10, 11, 12, 13, 16, 17 and

18, and Sections 3.5, 6.2, 15.4, notwithstanding expiration or termination of this Agreement.

ARTICLE 16
LIMITATIONS OF LIABILITY

16.1 CARDINAL HEALTH'S TOTAL LIABILITY UNDER THIS AGREEMENT SHALL IN NO EVENT EXCEED THE GREATER OF (A) TOTAL FEES PAID BY LIGAND TO CARDINAL HEALTH HEREUNDER DURING THE *** MONTHS PRIOR TO THE EVENT(S) GIVING RISE TO THE LIABILITY OR (B) $*** MILLION.

16.2 EXCEPT AS PROVIDED IN ARTICLES 5, 9 AND 13, NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES ARISING OUT OF PERFORMANCE UNDER THIS AGREEMENT.

ARTICLE 17
NOTICE

Any notice from either party to the other party will be effective upon receipt and must be personally delivered to such party or sent to such party by deposit in the United States mail, first class, postage prepaid, overnight courier or telecopy transmission (with written confirmation copy to follow via United States mail), to the address for such party below or such other address as a party may designate from time to time in accordance with this Section:

<TABLE>
<S> <C>
To Ligand: Ligand Pharmaceuticals Incorporated
10275 Science Center Drive
San Diego, CA 92104
ATTN: Supply Operations
Fax: 858.550.1801

With a copy to: Ligand Pharmaceuticals Incorporated
10275 Science Center Drive
San Diego, CA 92104
ATTN: General Counsel
Fax: 858.550.1825

To Cardinal Health: Cardinal Health PTS, Inc.
14 Schoolhouse Road
Somerset, NJ 08873
Attn: Vice President, Business Development
Solid Oral Pharmaceuticals
Facsimile: (732) 537-6493

With a copy to: Cardinal Health, Inc.
7000 Cardinal Health Place
Dublin, Ohio 43017
Attn: Associate General Counsel
</TABLE>

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

Pharmaceutical Technologies and Services
Facsimile: (614) 757-5051

ARTICLE 18
MISCELLANEOUS

18.1 ENTIRE AGREEMENT; AMENDMENTS. This Agreement is the entire understanding between the parties and supersedes any contracts, agreements or understanding (oral or written) of the parties with respect to the subject matter hereof. No

term of this Agreement may be amended except upon written agreement of both parties, unless otherwise provided in this Agreement.

18.2 CAPTIONS. The captions in this Agreement are for convenience only and are not to be interpreted or construed as a substantive part of this Agreement

18.3 FURTHER ASSURANCES. The parties agree to execute, acknowledge and deliver such further instruments and of all such other incidental acts as may be reasonably necessary or appropriate to carry out the purpose and intent of this Agreement.

18.4 NO WAIVER. Failure by either party to insist upon strict compliance with any term of this Agreement in one (1) or more instances will not be deemed to be a waiver of its rights to insist upon such strict compliance with respect to any subsequent failure.

18.5 SEVERABILITY. If a court or other body of competent jurisdiction declares any term of this Agreement invalid or unenforceable, the remaining terms of this Agreement will continue in full force and effect.

18.6 INDEPENDENT CONTRACTORS. The relationship of the parties is that of independent contractors, and neither party will incur any debts or make any commitments for the other party except to the extent expressly provided in this Agreement. Nothing in this Agreement is intended to create or will be construed as creating between the parties the relationship of joint ventures, co-partners, employer/employee or principal and agent.

18.7 SUCCESSORS AND ASSIGNS. This Agreement will be binding upon and inure to the benefit of the parties, their successors and permitted assigns. Neither party may assign this Agreement, in whole or in part, without the prior written consent of the other party, except that either party may without the other party's consent assign this Agreement to an Affiliate or to a successor to substantially all of the business or assets of the assigning company.

18.8 GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the State of New York, excluding its conflicts of law provisions.

18.9 ALTERNATIVE DISPUTE RESOLUTION. If a dispute, controversy or disagreement ("Dispute") arises between the parties in connection with this Agreement, then the Dispute shall be presented to the respective presidents or Senior Executives of Cardinal Health and Ligand for their consideration and resolution. If such parties cannot reach a resolution of the Dispute, then such

Dispute shall be resolved by binding Alternative Dispute Resolution in accordance with the then existing commercial arbitration rules of The CPR Institute for Dispute Resolution ("CPR"), 366 Madison Avenue, New York, NY 10017. Arbitration shall be conducted in the jurisdiction of the defendant party.

18.10 PREVAILING PARTY. In any dispute resolution proceeding between the parties in connection with this Agreement, the prevailing party will be entitled to its reasonable attorney's fees and costs in such proceeding.

18.11 COUNTERPARTS. This Agreement may be executed in one (1) or more counterparts, each of which will be deemed an original but all of which together will constitute one (1) and the same instrument.

18.12 PUBLIC ANNOUNCEMENTS. Neither party will make any press release or other public disclosure regarding this Agreement or the transactions contemplated hereby without the other party's express prior written consent, except as required under applicable law or regulation, including SEC regulation, or by any governmental agency, in which case the party required to make the press release or public disclosure shall use commercially reasonable efforts to obtain the approval of the other party as to the form, nature and extent of the press release or public disclosure prior to issuing the press release or making the public disclosure.

IN WITNESS WHEREOF, the parties have caused their duly authorized representative to execute this Agreement effective as of the date first written above.

CARDINAL HEALTH PTS, LLC. LIGAND

By: /S/ THOMAS J. STUART By: /S/ GIAN ALIPRANDI

Name: THOMAS J. STUART Name: GIAN ALIPRANDI

Its: PRESIDENT - MODIFIED RELEASE TECH. Its: SR VP TECH, SUPPLY & INTL OPERATIONS

EXHIBIT A

MANUFACTURING SPECIFICATIONS

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

EXHIBIT B

PACKAGING SPECIFICATIONS

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

EXHIBIT C

ADDITIONAL SERVICES

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

EXHIBIT D

UNIT PRICING, FEES AND MINIMUM REQUIREMENT

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

EXHIBIT E

FORM OF QUALITY AGREEMENT

DRUG PRODUCT MANUFACTURER LIGAND PHARMACEUTICALS INCORPORATED

Contractor/Quality Manual for Drug Product

Revision Date
February 2004

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(effective 8/28/97)

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Appendix I

EXHIBIT 10.277

July 1, 2003

Mr. William A. Pettit
Senior Vice President, Human Resources
and Administration
LIGAND PHARMACEUTICALS INCORPORATED
10275 Science Center Drive
San Diego, CA 92121

Dear Bill:

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/ WILLIAM A. PETTIT

Dated: July 17, 2003

EXHIBIT 31.1

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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 based 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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: MAY 7, 2004

/S/DAVID E. ROBINSON
- ---
David E. Robinson
Chairman, President and Chief Executive Officer

EXHIBIT 31.2

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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 based 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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: MAY 7, 2004

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

EXHIBIT 32.1

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

In connection with the accompanying Quarterly Report on Form 10-Q of Ligand Pharmaceuticals Inc. for the quarter ended March 31, 2004, 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 March 31, 2004, 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 March 31, 2004, fairly presents, in all material respects, the financial condition and results of operations of Ligand Pharmaceuticals Inc.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. ss. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Date: May 7, 2004 /S/ DAVID E. ROBINSON

David E. Robinson
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

EXHIBIT 32.2

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 March 31, 2004, 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 March 31, 2004, 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 March 31, 2004, fairly presents, in all material respects, the financial condition and results of operations of Ligand Pharmaceuticals Inc.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. ss. 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Date: May 7, 2004 /S/ PAUL V. MAIER

Paul V. Maier
SENIOR VICE PRESIDENT, CHIEF FINANCIAL OFFICER