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, 1997 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	77-0160744
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
9393 TOWNE CENTRE DRIVE SAN DIEGO, CA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	92121 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (619)535-3900

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
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As of April 11, 1997 the registrant had 32,500,233 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

<TABLE>
LIGAND PHARMACEUTICALS INCORPORATED
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

<CAPTION>

	March 31, 1997	December 31, 1996
	(Unaudited)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,777	$ 34,830
Short-term investments	48,949	45,822
Receivable from a related party	2,292	3,087
Other current assets	1,887	1,706
Total current assets	75,905	85,445
Restricted short-term investments	3,296	3,527
Property and equipment, net	11,703	11,680
Notes receivable from officers and employees	528	534
Other assets	4,594	954
	$ 96,026	$ 102,140
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,482	$ 4,137
Accrued liabilities	4,231	4,870
Deferred revenue	2,469	2,151

Current portion of obligations under capital leases	2,844	2,607
Total current liabilities	13,026	13,765
Long-term obligations under capital leases	8,722	8,711
Convertible subordinated debentures	34,622	33,953
Convertible note	7,500	11,250
Stockholders' equity:		
Convertible preferred stock, $.001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-- --	-- --
Common stock, $.001 par value; 80,000,000 shares authorized; 32,486,932 shares and 31,799,617 shares issued at March 31, 1997 and December 31, 1996, respectively	33	32
Paid-in capital	222,229	214,887
Warrant subscription receivable	(1,975)	(2,453)
Adjustment for unrealized gains (losses) on available-for-sale securities	(173)	(78)
Accumulated deficit	(187,733)	(177,594)
Deferred compensation and consulting fees	(214)	(322)
	32,167	34,472
Less treasury stock, at cost (1,114 shares at March 31, 1997 and December 31, 1996)	(11)	(11)
Total stockholders' equity	32,156	34,461
	$ 96,026	$ 102,140

</TABLE>

See accompanying notes.

<TABLE>

LIGAND PHARMACEUTICALS INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<CAPTION>

	Three Months Ended March 31,	
	1997	1996
<S>	<C>	<C>
Revenues:		
Collaborative research and development:		
Related parties	$ 5,966	$ 3,236
Unrelated parties	3,737	5,475
Other	109	57
	9,812	8,768
Costs and expenses:		
Research and development	16,626	12,270
Selling, general and administrative	2,319	2,618
Total operating expenses	18,945	14,888
Loss from operations	(9,133)	(6,120)
Interest income	1,069	1,097
Interest expense	(2,075)	(2,057)
Net loss	$ (10,139)	$ (7,080)

Net loss per share	$ (.32)	$ (.25)
Shares used in computing net loss per share	31,994	27,916

</TABLE>

See accompanying notes.

<TABLE>

LIGAND PHARMACEUTICALS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

<CAPTION>

	Three Months Ended March 31,	
	1997	1996
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net loss	$ (10,139)	$ (7,080)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	973	942
Amortization of notes receivable from officers and employees	56	61
Amortization of deferred compensation and consulting fees	108	127
Amortization of warrant subscription receivable	478	360
Accretion of debt discount	669	669
Change in operating assets and liabilities:		
Other current assets	(181)	(144)
Receivable from a related party	795	378
Accounts payable and accrued liabilities	(1,294)	(3,078)
Deferred revenue	318	(74)
Net cash used in operating activities	(8,217)	(7,839)
INVESTING ACTIVITIES		
Purchase of short-term investments	(10,145)	(23,020)
Proceeds from short-term investments	6,923	28,118
Increase in notes receivable from officers and employees	(50)	-- --
Increase in deposits and other assets	(3,670)	-- --
Decrease in deposits and other assets	30	34
Purchase of property and equipment	(52)	(443)
Net cash (used in) provided by investing activities	(6,964)	4,689
FINANCING ACTIVITIES		
Principal payments on obligations under capital leases	(696)	(459)
Net change in restricted short-term investments	231	3,011
Net proceeds from sale of common stock	3,593	1,138
Net cash provided by financing activities	3,128	3,690
Net (decrease) increase in cash and cash equivalents	(12,053)	540
Cash and cash equivalents at beginning of		

period	34,830	15,963
Cash and cash equivalents at end of period	$ 22,777	$ 16,503
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 2,412	$ 2,520
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Additions to obligations under capital leases	$ 944	$ 807
Conversion of note to common stock	$ 3,750	$ -- --

</TABLE>

LIGAND PHARMACEUTICALS INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

MARCH 31, 1997

1. BASIS OF PRESENTATION

The consolidated financial statements of Ligand Pharmaceuticals Incorporated (the "Company") for the three months ended March 31, 1997 and 1996 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, 1997 and the consolidated results of operations for the three months ended March 31, 1997 and 1996. The results of operations for the period ended March 31, 1997 are not necessarily indicative of the results to be expected for the year ending December 31, 1997. 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, 1996 included in the Ligand Pharmaceuticals Incorporated Form 10-K filed with the Securities and Exchange Commission.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share", which is effective for fiscal periods ending after December 15, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods presented. Under the new requirements for calculating primary earnings per share, which will be renamed basic earnings per share, stock options, warrants and convertible securities will always be excluded. The impact of Statement 128 on the calculation of basic and diluted earnings per share for the quarters ended March 31, 1997 and 1996 will have no effect.

2. CONVERSION OF CONVERTIBLE NOTE

In March 1997, the Company converted $3.8 million of the convertible notes outstanding with Wyeth-Ayerst Laboratories, the pharmaceutical division of American Home Products Corporation, into 374,626 shares of the Company's Common Stock at the $10.01 conversion price.

3. COLLABORATION EQUITY INVESTMENT

In February 1997, a third installment equity investment of $2.5 million was provided to the Company by SmithKline Beecham Corporation as a result of its election to expand the scope of research under its research agreement with the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report may contain predictions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed below at "Risks and Uncertainties." While this outlook represents management's current judgment on the future direction of the business, such risks and uncertainties could cause actual results to differ materially from any future performance suggested below. The Company undertakes no obligation to release publicly the results of any revisions to these forward-looking statements to reflect events or circumstances arising after the date hereof.

OVERVIEW

Since January 1989, the Company has devoted substantially all of its resources to its intracellular receptor and Signal Transducers and Activators of Transcription drug discovery and development programs. The Company has been unprofitable since its inception and expects to incur substantial additional operating losses for the next several years, due to continued requirements for research and development, preclinical testing, regulatory activities, establishment of manufacturing processes and sales and marketing capabilities. The Company expects that losses will fluctuate from quarter to quarter as a result of differences in the timing of expenses incurred and the revenues earned from collaborative arrangements. Some of these fluctuations may be significant. As of March 31, 1997, the Company's accumulated deficit was approximately $187.7 million.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 1997 ("1997"), COMPARED WITH THREE MONTHS ENDED MARCH 31, 1996 ("1996")

The Company had revenues of $9.8 million for 1997 compared to revenues of $8.8 million for 1996. The increase in revenues is primarily due to increased revenues from Allergan Ligand Retinoid Therapeutics, Inc. ("ALRT"), a company formed by Ligand and Allergan, Inc. ("Allergan") to conduct research and development activities, offset by decreased revenues from the research and development agreement with Wyeth-Ayerst Laboratories, the pharmaceutical division of American Home Products Corporation ("AHP"), due to a one time payment of $1.5 million in 1996, which expanded and amended the research and development agreement. Revenues in 1997 were derived from the Company's research and development agreements with (i) ALRT of $6.0 million, (ii) AHP of $1.2 million, (iii) Sankyo Company Ltd. ("Sankyo") of $744,000, (iv) Abbott Laboratories ("Abbott") of $540,000, (v) SmithKline Beecham Corporation ("SmithKline Beecham") of $711,000, (vi) Glaxo-Wellcome plc ("Glaxo") of $491,000, as well as from product sales of Ligand (Canada) in-licensed products of $109,000. Revenues in 1996 were derived from the Company's research and development agreements with (i) ALRT of $3.2 million, (ii) AHP of $2.9 million, (iii) Abbott of $725,000, (iv) Glaxo of $538,000, (v) SmithKline Beecham of $575,000, (vi) Sankyo of $703,000, and from product sales of Ligand (Canada) in-licensed products of $57,000.

For 1997, research and development expenses increased to $16.6 million from $12.3 million in 1996. These expenses increased primarily due to expansion of the Company's clinical and development programs, as well as related additions of clinical and development personnel. Selling, general and administrative expenses decreased to $2.3 million in 1997 from $2.6 million in 1996. The decrease in 1997 was primarily due to unusually high legal expenses incurred in 1996 related to the settlement of a future product rights litigation, offset by additions to personnel to support expanded clinical and development programs. Interest income was $1.1 million in 1997 and 1996. Interest expense was $2.1 million in 1997 and 1996, and consisted of

interest required by the Company's wholly-owned subsidiary, Glycomed Incorporated, under its Convertible Subordinated Debentures ("Debentures"), accretion of debt discount under the Debentures, and capital lease obligations used to finance equipment.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations through private and public offerings of its equity securities, collaborative research revenues, capital and operating lease transactions, issuance of convertible notes, investment income and product sales. From inception through March 1997, the Company has raised $161.8 million from sales of equity securities: $78.2 million from the Company's public offerings and an aggregate of $83.6 million from private placements and the exercise of options and warrants.

In March 1997, the Company converted $3.8 million of the convertible notes outstanding to AHP into 374,626 shares of the Company's Common Stock at the $10.01 conversion price. In February 1997, a third installment equity investment of $2.5 million was provided to the Company by SmithKline Beecham as a result of their election to expand the scope of research as defined.

As of March 31, 1997, the Company had acquired an aggregate of $19.1 million in laboratory and office equipment, and $4.6 million in tenant leasehold improvements, substantially all of which has been funded through capital lease and equipment note obligations and which also includes laboratory and office equipment acquired in the Glycomed merger. In addition, the Company leases its office and laboratory facilities under operating leases. In July 1994, the Company entered into a long-term lease related to the construction of a new laboratory facility, which was completed and occupied in August 1995. At the end of 1997, one of the Company's main operating lease agreements for office and research facilities expires, at which time the Company plans to move into its second build-to-suit facility. In March 1997, the Company entered into a long-term lease, related to the build-to-suit facility and loaned the construction partnership $3.7 million which will be paid back with interest over a 10 year period. In February 1997, the Company signed a master lease agreement to finance future capital equipment up to $1.5 million, and in May 1997, the Company signed a letter of intent to finance future capital equipment up to $4.5 million.

Working capital decreased to $62.9 million as of March 31, 1997, from $71.7 million at the end of 1996. The decrease in working capital resulted from an increase in cash from collaborative research agreements and equity investments, offset by an increase in operating expenses, as described above, semi-annual interest payments due on the Debentures and interest paid on the convertible note. For the same reasons, cash and cash equivalents, short-term investments, and restricted cash decreased to $75.0 million at March 31, 1997 from $84.2 million at December 31, 1996. The Company primarily invests its cash in United States government and investment grade corporate debt securities.

The Company believes that its available cash, cash equivalents, marketable securities and existing sources of funding will be adequate to satisfy its anticipated capital requirements through 1998, assuming the Company does not exercise either the option to acquire certain assets related to Oral and Topical Panretin (ALRT1057) (the "ALRT1057 Option") or an option to acquire all the outstanding shares of ALRT callable common stock (the "ALRT Stock Purchase Option") which were granted to Ligand and Allergan, as part of the ALRT formation. Based on the current level of product development expenditures, ALRT could use

substantially all of the funds available for research and development in late 1997 or early 1998, which would trigger the ALRT Stock Purchase Option. The Company has made no determination concerning the exercise of either the ALRT1057 Option or the ALRT Stock Purchase Option. The Company's future capital requirements will depend on many factors, including the pace of scientific progress in research and development programs, the magnitude of these programs, the scope and results of preclinical testing and clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims, competing technological and market developments, the ability to establish additional collaborations, changes in the existing collaborations, the cost of manufacturing scale-up and the effectiveness of the Company's commercialization activities.

RISKS AND UNCERTAINTIES

THE FOLLOWING ARE AMONG THE FACTORS THAT SHOULD ALSO BE CONSIDERED CAREFULLY IN EVALUATING LIGAND AND ITS WHOLLY-OWNED SUBSIDIARIES GLYCOMED INC. AND LIGAND (CANADA) INC. ("LIGAND" OR "THE COMPANY") AND ITS BUSINESS.

EARLY STAGE OF PRODUCT DEVELOPMENT;TECHNOLOGICAL UNCERTAINTY. Ligand was founded in 1987 and has not generated any revenues from the sale of products developed by Ligand or its collaborative partners. To achieve profitable operations, the Company, alone or with others, must successfully develop, clinically test, market and sell its products. Any products resulting from the Company's product development efforts are not expected to be available for sale for at least several years, if at all.

The development of new pharmaceutical products is highly uncertain and subject to a number of significant risks. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. Such reasons include the possibilities that potential products are found during preclinical testing or clinical trials to be ineffective or to cause harmful side effects, that they fail to receive necessary regulatory approvals, are difficult or uneconomical to manufacture on a large scale, fail to achieve market acceptance or are precluded from commercialization by proprietary rights of third parties. To date, Ligand's resources have been substantially dedicated to the research and development of potential pharmaceutical products based upon its expertise in Intracellular Receptors ("IRs") and Signal Transducers and Activators of Transcription ("STATs") technologies. Even though certain pharmaceutical products act through IRs, some aspects of the Company's IR technologies have not been used to produce marketed products. In addition,

the Company is 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. Most of the Company's potential products will require extensive additional development, including preclinical testing and clinical trials, as well as regulatory approvals, prior to commercialization. No assurance can be given that the Company's product development efforts will be successful, that required regulatory approvals from the FDA or equivalent foreign authorities for any indication will be obtained or that any products, if introduced, will be capable of being produced in commercial quantities at reasonable costs or will be successfully marketed. Further, the Company has no sales and only limited marketing capabilities outside Canada, and even if the Company's products in internal development are approved for marketing, there can be no assurance that the Company will be able to develop such capabilities or successfully market such products.

HISTORY OF OPERATING LOSSES; ACCUMULATED DEFICIT; FUTURE CAPITAL NEEDS; UNCERTAINTY OF ADDITIONAL FUNDING. Ligand has experienced significant operating losses since its inception in 1987. As of March 31, 1997, Ligand had an accumulated deficit of approximately $187.7 million. To date, substantially all of Ligand's revenues have consisted of amounts received under collaborative arrangements. The Company expects to incur additional losses at least over the next several years and expects losses to increase as the Company's research and development efforts and clinical trials progress.

The discovery and development of products will require the commitment of substantial resources to conduct research, preclinical testing and clinical trials, to establish pilot scale and commercial scale manufacturing processes and facilities, and to establish and develop quality control, regulatory, marketing, sales and administrative capabilities. The future capital requirements of the Company will depend on many factors, including the pace of scientific progress in its research and development programs, the magnitude of these programs, the scope and results of preclinical testing and clinical trials, the time and costs involved in obtaining regulatory approvals, the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims, competing technological and market developments, the ability to establish additional collaborations, changes in existing collaborations, the cost of manufacturing scale-up and the effectiveness of the Company's commercialization activities. To date, Ligand has not generated any revenue from the sales of products developed by Ligand or its collaborative partners. There can be no assurance that Ligand independently or through its collaborations will successfully develop, manufacture or market any products or ever achieve or sustain revenues or profitability from the commercialization of such products. Moreover, even if profitability is achieved, the level of that profitability cannot be accurately predicted. Ligand expects that operating results will fluctuate from quarter to quarter as a result of differences in the timing of expenses incurred and the revenues received from collaborative arrangements and other sources. Some of these fluctuations may be significant. The Company believes that its available cash, cash equivalents, marketable securities and existing sources of funding will be adequate to satisfy its anticipated capital requirements through 1998, assuming the Company does not exercise for cash its options to acquire either the assets related to Oral Panretin (ALRT1057) and Topical Panretin (ALRT1057) or the outstanding callable common stock of ALRT. Based on the current level of product development expenditures, ALRT has announced it could use substantially all of the funds available for research and development in late 1997 or early 1998, which would trigger the ALRT Stock Purchase Option. The Company has made no determination concerning the exercise of either the ALRT1057 Option or the ALRT Stock Purchase Option.

Glycomed's outstanding indebtedness includes $50 million principal amount of 7 1/2% Convertible Subordinated Debentures Due 2003 (the "Debentures"). There can be no assurance that Glycomed will have the funds necessary to pay the interest on and the principal of the Debentures or, if not, that it will be able to refinance the Debentures.

The Company expects that it will seek any additional capital needed to fund its operations through new collaborations, the extension of existing collaborations, or through public or private equity or debt financings. There can be no assurance that additional financing will be available on acceptable terms, if at all. Any inability of the Company to obtain additional financing or of Glycomed to service its obligations under the Debentures could have a material adverse effect on the Company.

UNCERTAINTIES RELATED TO CLINICAL TRIALS. Before obtaining required regulatory approvals for the commercial sale of each product under development, the Company and its collaborators must demonstrate through preclinical studies and clinical trials that

such product is safe and efficacious for use. The results of preclinical studies and initial clinical trials are not necessarily predictive of results that will be obtained from large-scale clinical trials, and there can be no assurance that clinical trials of any product under development will demonstrate the safety and efficacy of such product or will result in a marketable product. The safety and efficacy of a therapeutic product under development by the Company must be supported by extensive data from clinical trials. A number of companies have suffered significant setbacks in advanced clinical trials, despite promising results in earlier trials. The failure to demonstrate adequately the safety and efficacy of a therapeutic drug under development would delay or prevent regulatory approval of the product and could have a material adverse effect on

the Company. In addition, the FDA may require additional clinical trials, which could result in increased costs and significant development delays.

The rate of completion of clinical trials of the Company's products is dependent upon, among other factors, obtaining adequate clinical supplies and the rate of patient accrual. Patient accrual is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites and the eligibility criteria for the trial. Delays in planned patient enrollment in clinical trials may result in increased costs, program delays or both, which could have a material adverse effect on the Company. In addition, some of the Company's current corporate partners have certain rights to control the planning and execution of product development and clinical programs, and there can be no assurance that such corporate partners' rights to control aspects of such programs will not impede the Company's ability to conduct such programs in accordance with the schedules and in the manner currently contemplated by the Company for such programs. There can be no assurance that, if clinical trials are completed, the Company will submit an NDA with respect to any potential products or that any such application will be reviewed and approved by the FDA in a timely manner, if at all.

RELIANCE ON COLLABORATIVE RELATIONSHIPS. The Company's strategy for the development, clinical testing, manufacturing and commercialization of certain of its potential products includes entering into collaborations with corporate partners, licensors, licensees and others. To date, Ligand has entered into drug discovery and development collaborations with SmithKline, AHP, Abbott, Sankyo, Glaxo, ALRT (which collaboration continues the work previously undertaken with Allergan, Inc. through the Allergan Ligand Joint Venture) and Pfizer Inc. These collaborations provide Ligand with funding and research and development resources for potential products for the treatment or control of cardiovascular disease, cancer and skin disease, osteoporosis, hematopoiesis, women's health disorders, and inflammation, respectively. The Company's collaborative agreements allow its collaborative partners significant discretion in electing to pursue or not to pursue any development program. There can be no assurance that the Company's collaborations will continue or that the collaborations will be successful. In addition, there can be no assurance that Ligand's collaborators will not pursue alternative technologies either on their own or in collaboration with others as a means of developing drugs competitive with the types of drugs currently being developed in collaboration with Ligand, and any such action may result in the withdrawal of support and increased competition for the Company's programs. In addition, if products are approved for marketing under these programs, any revenues to Ligand from these products will be dependent on the manufacturing, marketing and sales efforts of its collaborators, which generally retain commercialization rights under the collaborative agreements. Ligand's current collaborators also generally have the right to

terminate their respective collaboration under certain circumstances. If any of the Company's collaborative partners were to breach or terminate its agreements with the Company or otherwise fail to conduct its collaborative activities successfully, the development of the Company's products under such agreements would be delayed or terminated. The delay or termination of any of the collaborations could have a material adverse effect on Ligand.

There can be no assurance that disputes will not arise in the future with Ligand's collaborators, including with respect to the ownership of rights to any technology developed. For example, the Company was involved in litigation with Pfizer, which was settled in April 1996, with respect to Ligand's rights to receive milestones and royalties based on the development and commercialization of droloxifene. These and other possible disagreements between collaborators and the Company could lead to delays in the achievement of milestones or receipt of milestone payments or research revenue, to delays or interruptions in, or termination of, collaborative research, development and commercialization of certain potential products, or could require or result in litigation or arbitration, which could be time consuming and expensive and could have a material adverse effect on the Company.

UNCERTAINTY OF PATENT PROTECTION; DEPENDENCE ON PROPRIETARY TECHNOLOGY. The patent positions of pharmaceutical and biopharmaceutical firms, including Ligand, are uncertain and involve complex legal and technical questions for which important legal principles are largely unresolved. In addition, the coverage sought in a patent application can be significantly reduced before or after a patent is issued. This uncertain situation is also affected by revisions to the United States patent law adopted in recent years to give effect to international accords to which the United States has become a party. The extent to which such changes in law will affect the operations of Ligand cannot be ascertained. In addition, there is currently pending before Congress legislation providing for other changes to the patent law which may adversely affect pharmaceutical and biopharmaceutical firms. If such pending legislation is adopted, the extent to which such changes would affect the operations of the Company cannot be ascertained.

Ligand's success will depend in part on its ability to obtain patent protection for its technology both in the United States and other countries. A number of pharmaceutical companies and research and academic institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to Ligand's business. Some of these patent applications, patents or technologies may conflict with Ligand's technologies or patent applications.

Any such conflict could limit the scope of the patents, if any, that Ligand may be able to obtain or result in the denial of Ligand's patent applications. In addition, if patents that cover Ligand's activities are issued to other companies, there can be no assurance that Ligand would be able to obtain licenses to such patents at a reasonable cost, if at all, or be able to develop or obtain alternative technology. The Company has from time to time had, continues to have and may have in the future discussions with its current and potential collaborators regarding the scope and validity of the Company's patent and other proprietary rights to its technologies, including the Company's co-transfection assay. If a collaborator or other party were successful in having substantial patent rights of the Company determined to be invalid, it could adversely affect the ability of the Company to retain existing collaborations beyond their expiration or, where contractually permitted, encourage their termination. Such a determination could also adversely affect the Company's ability to enter into new collaborations. If any disputes should arise in

the future with respect to the rights in any technology developed with a collaborator or with respect to other matters involving the collaboration, there could be delays in the achievement of milestones or receipt of milestone payments or research revenues, or interruptions or termination of collaborative research, development and commercialization of certain potential products, and litigation or arbitration could result. Any of the foregoing matters could be time consuming and expensive and could have a material adverse effect on the Company.

Ligand owns or has exclusively licensed over 190 currently pending patent applications in the United States relating to Ligand's technology, as well as foreign counterparts of certain of these applications in many countries. There can be no assurance that patents will issue from any of these applications or, if patents do issue, that claims allowed will be sufficient to protect Ligand's technology. In addition, Ligand is the owner or exclusive licensee of rights covered by approximately 150 worldwide patents issued or allowed to it or to The Salk Institute of Biological Studies, Baylor College of Medicine and other licensors. Further, there can be no assurance that any patents issued to Ligand or to licensors of Ligand's technology will not be challenged, invalidated, circumvented or rendered unenforceable based on, among other things, subsequently discovered prior art, lack of entitlement to the priority of an earlier, related application, or failure to comply with the written description, best mode, enablement or other applicable requirements, or that the rights granted under any such patents will provide significant proprietary protection or commercial advantage to Ligand. The invalidation, circumvention or unenforceability of any of Ligand's patent protection could have a material adverse effect on the Company.

The commercial success of Ligand will also depend in part on Ligand's not infringing patents issued to competitors and not breaching technology licenses that cover technology used in Ligand's products. It is uncertain whether any third-party patents will require Ligand to develop alternative technology or to alter its products or processes, obtain licenses or cease certain activities. If any such licenses are required, there can be no assurance that Ligand will be able to obtain such licenses on commercially favorable terms, if at all. Failure by Ligand to obtain a license to any technology that it may require to commercialize its products could have a material adverse effect on Ligand. Litigation, which could result in substantial cost to Ligand, may also be necessary to enforce any patents issued or licensed to Ligand or to determine the scope and validity of third-party proprietary rights. There can be no assurance that Ligand's patents or those of its licensors, if issued, would be held valid by a court or that a competitor's technology or product would be found to infringe such patents. If any of its competitors have filed patent applications in the United States which claim technology also invented by Ligand, Ligand may be required to participate in interference proceedings declared by the U.S. Patent and Trademark Office ("PTO") in order to determine priority of invention and, thus, the right to a patent for the technology, which could result in substantial cost to Ligand to determine its rights.

Ligand has learned that a United States patent has been issued to, and foreign counterparts have been filed by, Hoffman LaRoche ("Roche") that include claims to a formulation of 9-cis-Retinoic acid (Panretin (ALRT1057)) and use of that compound to treat epithelial cancers. Ligand had previously filed an application which has an earlier filing date than the Roche patent and which has claims that the Company believes are broader than but overlap in part with claims under the Roche patent. Ligand's rights under its patent application have been exclusively licensed to ALRT. Ligand and ALRT are currently investigating the scope and validity of this patent to determine its impact upon the Oral and Topical Panretin (ALRT1057) products. The PTO has informed Ligand that the overlapping claims are patentable to Ligand and stated its intention to initiate an

interference proceeding to determine whether Ligand or Roche is entitled to a patent by having been first to invent the common subject matter. The Company cannot be assured of a favorable outcome in the interference proceeding because of factors not known at this time upon which the outcome may depend. In addition, the interference proceeding may delay the decision of the PTO regarding the Company's application for the Oral and Topical Panretin (ALRT1057) products. While the Company believes that the Roche patent does not cover the use of Oral and Topical Panretin (ALRT1057) to treat leukemias such as APL and sarcomas such as KS, or the treatment of skin diseases such as psoriasis, if the Company does not prevail in the interference proceeding, the Roche patent might block the Company's use of Oral and Topical Panretin (ALRT1057) in certain cancers, and the Company may not be able to obtain patent protection for the Oral and Topical Panretin (ALRT 1057) products.

Ligand also relies upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain its competitive position. There can be no assurance that others will not independently develop substantially equivalent proprietary information or otherwise gain access to or disclose such information of Ligand. It is Ligand's policy to require its employees, certain contractors, consultants, members of its Scientific Advisory Board and parties to collaborative agreements to execute confidentiality agreements upon the commencement of employment or consulting relationships or a collaboration with Ligand. There can be no assurance that these agreements will not be breached, that they will provide meaningful protection of Ligand's trade secrets or adequate remedies in the event of unauthorized use or disclosure of such information or that Ligand's trade secrets will not otherwise become known or be independently discovered by its competitors.

EXERCISE OF PANRETIN (ALRT 1057) OPTION AND ALRT STOCK PURCHASE OPTION. As part of the public offering in June 1995, by the Company and ALRT of 3,250,000 units with aggregate proceeds of $32.5 million (the "ALRT Offering") all of the technologies that had been previously developed by the Allergan-Ligand Joint Venture (the "Joint Venture") that had been formed and owned 50 percent by each of Ligand and Allergan were contributed to ALRT, an off-balance sheet entity. In exchange for Ligand's and Allergan's contributions of cash and technology, they each received the ALRT1057 Option. The ALRT1057 Option is exercisable at prices ranging from $21.4 million to $36.2 million (of which $18.7 million to $31.7 million is payable by Ligand) at any time beginning June 1997 and ending the earlier of 90 days after regulatory approval for the commercial sale of Oral or Topical Panretin (ALRT1057) and June 2000. The ALRT1057 Option must be exercised by both Ligand and Allergan. As a result, Ligand can exercise the ALRT1057 Option only if Ligand and Allergan each conclude that the exercise of the ALRT1057 Option is in both of their best interests. In addition, Ligand received the ALRT Stock Purchase Option . The ALRT Stock Purchase Option is exercisable at prices ranging from $71.4 million to $120.7 million at any time between June 1997 and June 2000. If Ligand exercises the ALRT Stock Purchase Option, Allergan has an option to purchase an undivided 50% interest in all of the assets of ALRT at prices ranging from $8.9 million to $15.0 million. The purchase prices for the ALRT1057 Option and the ALRT Stock Purchase Option may be paid by Ligand and Allergan in shares of Common Stock, Allergan common stock, cash or any combination thereof. If Ligand exercises the ALRT1057 Option or the ALRT Stock Purchase Option, it will be required to make a substantial cash payment or to issue shares of Common Stock, or both. Any cash payment would reduce Ligand's capital resources. The Company may not have sufficient capital resources to exercise the ALRT1057 Option or the ALRT Stock Purchase Option for cash, which will require the Company to issue shares of Common Stock to exercise either of such options. Any payment in shares of Common Stock would result

in a decrease in the percentage ownership of the Company held by Ligand's stockholders at that time. The exercise of the ALRT1057 Option may result in, and the exercise of the ALRT Stock Purchase Option will likely require, the recording of a significant charge to the Company's earnings. Based on the current level of product development expenditures, ALRT has announced it could use substantially all of the funds available for research and development in late 1997 or early 1998, which would trigger the ALRT Stock Purchase Option.

In addition, continuation of development and commercialization of Oral and Topical Panretin (ALRT1057) and other products under development by ALRT may require substantial additional expenditures by Ligand. If Ligand does not exercise the ALRT1057 Option or ALRT Stock Purchase Option prior to expiration, the Company may lose valuable rights, including rights to Oral and Topical Panretin (ALRT1057) and other ALRT assets. Ligand and Allergan also have the option to provide funding for the development of ALRT products in certain circumstances. In the event that such funding is not provided and other funds available to ALRT are less than $10.0 million, the contractual relationship among ALRT, Allergan and Ligand may be terminated by ALRT. In such an event, ALRT would retain its rights to the products currently under development by ALRT, which could have a material adverse effect on Ligand. As of the date of this filing, Ligand has no plans to provide additional funding to ALRT and has made no determination concerning the exercise of either the ALRT1057 Option or the ALRT Stock Purchase Option.

LACK OF MANUFACTURING CAPABILITY; RELIANCE ON THIRD-PARTY MANUFACTURERS. Ligand currently has no manufacturing facilities and, accordingly, relies on third parties, including its collaborative partners, for clinical or commercial production of any compounds under consideration as products. Ligand is currently constructing and validating a cGMP pilot manufacturing capability in order to produce sufficient quantities of products for preclinical testing and initial clinical trials. If Ligand is unable to develop or contract on acceptable terms for manufacturing services, Ligand's ability to conduct preclinical testing and human clinical trials will be adversely affected, resulting in the delay of submission of products for regulatory approval and delay of initiation of new development programs, which in turn could materially impair Ligand's competitive position. Although drugs acting through IRs and STATs have been manufactured on a commercial scale by other companies, there can be no assurance that Ligand will be able to manufacture its products on a commercial scale or that such products can be manufactured by Ligand or any other party on behalf of Ligand at costs or in quantities to make commercially viable products.

LIMITED SALES AND MARKETING CAPABILITY. The creation of infrastructure to commercialize pharmaceutical products is a difficult, expensive and time-consuming process. Ligand currently has no sales and only limited marketing capability outside Canada. In Canada, Ligand has been appointed as the sole distributor of two oncology products, Proleukin, which was developed by Cetus Oncology Corporation and PHOTOFRIN, which was developed by QLT PhotoTherapeutics, Inc. To market any of its products directly, the Company will need to develop a marketing and sales force with technical expertise and distribution capability or contract with other pharmaceutical and/or health care companies with distribution systems and direct sales forces. There can be no assurance that the Company will be able to establish direct or indirect sales and distribution capabilities or be successful in gaining market acceptance for proprietary products or for other products. To the extent the Company enters into co-promotion or other licensing arrangements, any revenues received by the Company will be dependent on the efforts of third parties, and there can be no assurance that any such efforts will be successful.

SUBSTANTIAL COMPETITION; RISK OF TECHNOLOGICAL OBSOLESCENCE. Some of the drugs which Ligand is developing will compete with existing therapies. In addition, a number of companies are pursuing the development of novel pharmaceuticals which target the same diseases that Ligand is targeting as well as IR-related, STAT-related and complex carbohydrate-related approaches to drug discovery and development. Many of Ligand's existing or potential competitors, particularly large pharmaceutical companies, have substantially greater financial, technical and human resources than Ligand and may be better equipped to develop, manufacture and market products. In addition, many of these companies have extensive experience in preclinical testing and human clinical trials, obtaining FDA and other regulatory approvals and manufacturing and marketing pharmaceutical products. Academic institutions, governmental agencies and other public and private research organizations are conducting research to develop technologies and products that may compete with those under development by the Company. These institutions are becoming increasingly aware of the commercial value of their findings and are becoming more active in seeking patent protection and licensing arrangements to collect royalties for the use of technology that they have developed. These institutions also may market competitive commercial products on their own or through joint ventures and will compete with the Company in recruiting highly qualified scientific personnel. Any of these companies, academic institutions, government agencies or research organizations may develop and introduce products and processes competitive with or superior to those of Ligand. The development by others of new treatment methods for those indications for which Ligand is developing products could render Ligand's products noncompetitive or obsolete.

Ligand's products under development target a broad range of markets. Ligand's competition will be determined in part by the potential indications for which Ligand's products are developed and ultimately approved by regulatory authorities. For certain of Ligand's potential products, an important factor in competition may be the timing of market introduction of Ligand's or competitors' products. Accordingly, the relative speed at which Ligand or its existing or future corporate partners can develop products, complete the clinical trials and regulatory approval processes, and supply commercial quantities of the products to the market is expected to be an important competitive factor. Ligand expects that competition among products approved for sale will be based, among other things, on product efficacy, safety, reliability, availability, price and patent position.

Ligand's competitive position also depends upon its ability to attract and retain qualified personnel, obtain patent protection or otherwise develop proprietary products or processes, and secure sufficient capital resources.

EXTENSIVE GOVERNMENT REGULATION; NO ASSURANCE OF REGULATORY APPROVAL. The manufacturing and marketing of Ligand's products and its ongoing research and development activities are subject to regulation for safety and efficacy by numerous governmental authorities in the United States and other countries. Prior to marketing, any drug developed by the Company must undergo rigorous preclinical and clinical testing and an extensive regulatory approval process mandated by the FDA and equivalent foreign authorities. These processes can take a number of years and require the expenditure of substantial resources.

The time required for completing such testing and obtaining such approvals is uncertain, and there is no assurance that any such approval will be obtained. The Company or its collaborative partners may decide to replace a compound in testing with a modified or optimized compound, thus extending the test period. In addition, delays or rejections may be encountered based upon changes in FDA policy during the period of product development and FDA review of each submitted new drug application or product license application. Similar delays may also be encountered in

other countries. There can be no assurance that even after such time and expenditures, regulatory approval will be obtained for any products developed by the Company. Moreover, prior to receiving FDA or equivalent foreign authority approval to market its products, the Company may be required to demonstrate that its products represent improved forms of treatment over existing therapies. If regulatory approval of a product is granted, such approval may entail limitations on the indicated uses for which the product may be marketed. Further, even if such regulatory approval is obtained, a marketed product, its manufacturer and its manufacturing facilities are subject to continual review and periodic inspections, and subsequent

discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on such product or manufacturer, including withdrawal of the product from the market.

DEPENDENCE ON THIRD-PARTY REIMBURSEMENT AND HEALTH CARE REFORM. Ligand's commercial success will be heavily dependent upon the availability of reimbursement for the use of any products developed by the Company. There can be no assurance that Medicare and third-party payors will authorize or otherwise budget reimbursement for the prescription of any of Ligand's potential products. Additionally, third-party payors, including Medicare, are increasingly challenging the prices charged for medical products and services and may require additional cost-benefit analysis data from the Company in order to demonstrate the cost-effectiveness of its products. There can be no assurance that the Company will be able to provide such data in order to gain market acceptance of its products with respect to pricing and reimbursement.

In the United States, the Company expects that there will continue to be a number of federal and state proposals to implement government control of pricing and profitability of prescription pharmaceuticals. In addition, increasing emphasis on managed health care will continue to put pressure on such pricing. Cost control initiatives could decrease the price that the Company or any of its collaborative partners or other licensees receives for any drugs it may discover or develop in the future and, by preventing the recovery of development costs, which could be substantial, and an appropriate profit margin, could have a material adverse effect on the Company. Further, to the extent that cost control initiatives have a material adverse effect on the Company's collaborative partners, the Company's ability to commercialize its products and to realize royalties may be adversely affected. Furthermore, federal and state regulations govern or influence the reimbursement to health care providers of fees and capital equipment costs in connection with medical treatment of certain patients. If any actions are taken by federal and/or state governments, such actions could adversely affect the prospects for sales of the Company's products. There can be no assurance that action taken by federal and/or state governments, if any, with regard to health care reform will not have a material adverse effect on the Company.

PRODUCT LIABILITY AND INSURANCE RISKS. Ligand's business exposes it to potential product liability risks which are inherent in the testing, manufacturing and marketing of human therapeutic products. Certain of the compounds the Company is investigating could be injurious to humans. For example, retinoids as a class are known to contain compounds which can cause birth defects. Ligand currently has limited product liability insurance; however, there can be no assurance that Ligand will be able to maintain such insurance on acceptable terms or that such insurance will provide adequate coverage against potential liabilities. The Company expects to procure additional insurance when its products progress to a later stage of development and if any rights to later-stage products are in-

licensed in the future. To the extent that product liability insurance, if available, does not cover potential claims, the Company will be required to self-insure the risks associated with such claims. A successful product liability claim or series of claims brought against the Company could have a material adverse effect on the Company.

DEPENDENCE ON KEY EMPLOYEES. Ligand is highly dependent on the principal members of its scientific and management staff, the loss of whose services might impede the achievement of development objectives. Furthermore, Ligand is currently experiencing a period of rapid growth which requires the hiring of significant numbers of scientific, management and operational personnel. Accordingly, recruiting and retaining qualified management, operations and scientific personnel to perform research and development work in the future will also be critical to Ligand's success. Although Ligand believes it will be successful in attracting and retaining skilled and experienced management, operational and scientific personnel, there can be no assurance that Ligand will be able to attract and retain such personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies, universities and other research institutions for such personnel.

USE OF HAZARDOUS MATERIALS. Ligand's research and development involves the controlled use of hazardous materials, chemicals and various radioactive compounds. For example, retinoids as a class are known to contain compounds which can cause birth defects. Although the Company believes that its current safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of any accident, the Company could be held liable for any damages that result and any such liability could be significant. The Company may incur substantial costs to comply with environmental regulations. Any such event could have a material adverse effect on the Company.

VOLATILITY OF STOCK PRICE. The market prices and trading volumes for securities of emerging companies, like Ligand, have historically been highly volatile and have experienced significant fluctuations unrelated to the operating performance of such companies. Future announcements concerning the Company or its competitors may have a significant impact on the market price of the Common Stock. Such announcements might include the results of research, development

testing, technological innovations, new commercial products, government regulation, developments concerning proprietary rights, litigation or public concern as to the safety of the products.

ABSENCE OF CASH DIVIDENDS. No cash dividends have been paid on the Common Stock to date, and Ligand does not anticipate paying cash dividends in the foreseeable future.

EFFECT OF SHAREHOLDER RIGHTS PLAN AND CERTAIN ANTI-TAKEOVER PROVISIONS. In September 1996, the Company's Board of Directors adopted a preferred shares rights plan (the "Shareholder Rights Plan") which provides for a dividend distribution of one preferred share purchase right (a "Right") on each outstanding share of the Common Stock. Each Right entitles stockholders to buy 1/1000th of a share of Ligand Series A Participating Preferred Stock at an exercise price of $100, subject to adjustment. The Rights will become exercisable following the tenth day after a person or group announces acquisition of 20% or more of the Common Stock, or announces commencement of a tender offer, the consummation of which would result in ownership by the person or group of 20% or more of the Common Stock. The Company will be entitled to redeem the Rights at $0.01 per Right at any

time on or before the earlier of the tenth day following acquisition by a person or group of 20% or more of the Common Stock and September 13, 2006.

Ligand's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") includes a provision that requires the approval of the holders of 66 2/3% of Ligand's voting stock as a condition to a merger or certain other business transactions with, or proposed by, a holder of 15% or more of Ligand's voting stock, except in cases where certain directors approve the transaction or certain minimum price criteria and other procedural requirements are met (the "Fair Price Provision"). The Certificate of Incorporation also requires that any action required or permitted to be taken by stockholders of Ligand must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing. In addition, special meetings of the stockholders of Ligand may be called only by the Board of Directors, the Chairman of the Board or the President of Ligand or by any person or persons holding shares representing at least 10% of the outstanding Common Stock. The Shareholder Rights Plan, the Fair Price Provision and other charter provisions may discourage certain types of transactions involving an actual or potential change in control of Ligand, including transactions in which the stockholders might otherwise receive a premium for their shares over then current market prices, and may limit the ability of the stockholders to approve transactions that they may deem to be in their best interests. In addition, the Board of Directors has the authority to fix the rights and preferences of and issue shares of preferred stock, which may have the effect of delaying or preventing a change in control of Ligand without action by the stockholders.

PART II. OTHER INFORMATION

ITEM 6 (A) EXHIBITS

Exhibit 10.161 (1) Settlement Agreement, License and Mutual General Release between Ligand Pharmaceuticals and SRI/LJCRF, dated August 23, 1995 (with certain confidential portions omitted).

Exhibit 27.0 Financial Data Schedule

ITEM 6 (B) REPORTS ON FORMS 8-K

None.

(1) Certain confidential portions of this Exhibit were omitted by means of marking such portions with an asterisk (the "Mark"). This Exhibit has been filed separately with the Secretary of the Commission without the Mark pursuant to the Company's Application Requesting Confidential Treatment under Rule 406 under the Securities Act.

March 31, 1997

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 12, 1997 By /s/ Paul V. Maier

Paul V. Maier
Senior Vice President and Chief Financial Officer

SETTLEMENT AGREEMENT, LICENSE AND
MUTUAL GENERAL RELEASE

This Settlement Agreement and Mutual General Release (the "Agreement"), having an effective date for all purposes of August 23, 1995, is made and entered into by and between La Jolla Cancer Research Foundation (hereinafter "FOUNDATION"), a California non-profit and public benefit corporation, having a place of business at 10901 North Torrey Pines Road, La Jolla, CA 92037, SelectRA Pharmaceuticals, Inc. (hereinafter "SELECTRA"), a California corporation, having a place of business at 10901 North Torrey Pines Road, La Jolla, CA 92037, SRI International (hereinafter "SRI"), a California non-profit and public benefit corporation, having a place of business at 333 Ravenswood Ave., Menlo Park, CA 94025, (hereinafter collectively referred to as "DEFENDANTS"), and Ligand Pharmaceuticals Incorporated (hereinafter "LIGAND"), a Delaware corporation, having its principal place of business at 9393 Towne Centre Drive, Suite 100, San Diego, California, 92121 and Allergan Ligand, a California partnership (hereinafter "JV"), having a principal office and place of business at 9393 Towne Centre Drive, Suite 100, San Diego, California, 92121, (hereinafter collectively referred to as "PLAINTIFFS") and Allergan Ligand Retinoid Therapeutics, Inc. (hereinafter "ALRT"), a Delaware corporation, having a principal office at 9393 Towne Centre Drive, Suite 100, San Diego, California 92121.

WITNESSETH, That:

WHEREAS, there is now pending in the United States District Court for the Southern District of California (the "Court") an action entitled ALLERGAN/LIGAND JOINT VENTURE V. LA JOLLA CANCER RESEARCH FOUNDATION, ET AL. Federal District Court Case No. 931895 IEG (CM) (hereinafter referred to as the "Action");

[*] Certain confidential portions of this Exhibit were omitted by means of blackout of the text (the "Mark"). This Exhibit has been filed separately with the Secretary of the Commission without the Mark pursuant to the Company's Application Requesting Confidential Treatment under Rule 406 under the Act.

WHEREAS, the Complaint in the Action alleges that the DEFENDANTS have infringed certain patents exclusively licensed to LIGAND which LIGAND has in turn sublicensed in whole or in part to the JV and which have subsequently been sublicensed to ALRT;

WHEREAS, the DEFENDANTS have, in answer to the Complaint in the Action, denied infringement and asserted, inter alia, that the patents-in-suit are invalid and/or unenforceable;

WHEREAS, SRI has demanded arbitration (hereinafter the "Arbitration") of certain issues in the Action arising between SRI and LIGAND, and the Court has ordered a stay of all claims in the Action against SRI pending the Arbitration;

WHEREAS, LIGAND, the JV and ALRT, as part of the settlement of the Action, are willing to grant to each of FOUNDATION and SRI non-exclusive, non-assignable sublicenses to use the technology covered by the patents on which the Action is based for basic research purposes, including the limited right to grant sublicenses under Section 5.02;

WHEREAS, FOUNDATION and SRI, as part of the settlement of the Action, are willing to grant to LIGAND an option to acquire an exclusive, worldwide license, including the right to grant sublicenses, to any inventions, discoveries and developments that are enabled by, reduced to practice or otherwise derived from or facilitated by acts within the scope of the claims of the patents on which the Action is based, the license to include patent applications and patents on said inventions, discoveries and developments;

WHEREAS, SRI, as part of the settlement of the Action, to the extent it has not already done so, will make available to LIGAND samples of all retinoid compounds synthesized in the laboratory of [*] through [*] pursuant to the Compound Evaluation Agreement between LIGAND and SRI

bearing an effective date of May 17, 1990, for evaluation and potential commercialization of said compounds by LIGAND, and FOUNDATION and SELECTRA acknowledge the rights of LIGAND arising under this Agreement and/or the Compound Evaluation Agreement;

WHEREAS, the Parties have agreed that settlement of the Action is contingent upon entry by the Court of a consent judgment in a form satisfactory to all the Parties and dismissal of the Arbitration; and

WHEREAS, LIGAND, the JV, ALRT, SELECTRA, SRI and FOUNDATION desire to take all further actions required to settle the Action.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the Parties agree as follows:

ARTICLE 1
Definitions

For purposes of this Agreement, the terms defined in this Article shall have the meaning specified and shall be applicable both to the singular and plural forms:

1.01 "Party" shall mean either LIGAND, the JV, ALRT, FOUNDATION, SRI or SELECTRA, and the term "Parties" shall mean LIGAND, the JV, ALRT, FOUNDATION, SRI and SELECTRA. The terms "LIGAND", "the JV", "ALRT", "FOUNDATION", "SRI" and "SELECTRA" include "Affiliates".

1.02 "Affiliate" means (i) any corporation, firm, partnership, individual or other form of business organization which is now or hereafter owned or controlled by or under common control with a Party, (ii) any corporation in which a Party owns at least fifty percent (50%) of the stock entitled to vote for

directors, and (iii) any corporation, firm, partnership, individual or other form of business organization in which a Party has the maximum ownership interest it is permitted to have in the country where such business organization exists.

1.03 "Ligand Patented Technology" means and is limited to United States Patents Nos. 4,981,784, 5,071,773, 5,091,518 and 5,171,671 and any foreign counterparts thereof. Upon expiration, disclaimer or a holding from which no appeal is or can be taken of invalidity of any patent included in the Ligand Patented Technology or any claim or claims thereof, then Ligand Patented Technology shall mean and be limited to the unexpired patents included in the Ligand Patented Technology and the patents or claims thereof not affected by such disclaimer or holding of invalidity.

1.04 "Option Technology" means any invention, discovery or development by employees, consultants or agents of one or more of DEFENDANTS, including without limitation, technical data, specifications, information, know-how, processes, compounds, formulations and materials, which invention, discovery or development was enabled by, reduced to practice, or otherwise derived from or facilitated by an act or acts within the scope of the claims of any patent within the Ligand Patented Technology. Option Technology also includes inventions, discoveries or developments made by employees, consultants or agents of DEFENDANTS with persons who are not employees, consultants or agents of DEFENDANTS including Research Collaborators with DEFENDANTS pursuant to Section 5.02 hereof.

1.05 "Option Patent" means any United States or foreign patent or patent application (including any abandoned patent application) which covers or, if an abandoned patent application, covered Option Technology. Exhibit "A" hereto is a list of all such patents and patent applications which, after a

good faith inquiry, are known to FOUNDATION and SRI as of the effective date

of this Agreement; provided, however, that failure to list a patent or patent application on Exhibit "A" does not create a presumption such patent or patent application does not or did not cover Option Technology. The term Option Patent when applied to a specific issued patent includes all reissues, renewals, extensions and additions thereof and the patent applications from which they issue. The term "Option Patent" when applied to a specific patent application includes continuations, continuations-in-part, divisions and substitutes thereof and the patents which issue therefrom. A patent or patent application covers Option Technology if it contains a claim which reads upon Option Technology.

1.06 "Licensed Patent" means an Option Patent for which LIGAND has exercised its option to acquire an exclusive, worldwide license covering the same under Article 6 of this Agreement.

1.07 "Licensed Product" means a drug or other product whose importation, making, using or selling is read upon by any claim in a Licensed Patent or the discovery or development of which was enabled by, reduced to practice, or otherwise derived from or facilitated by an act or acts within the scope of a claim in a Licensed Patent.

1.08 Licensed Process" shall mean any process the practice of which is read upon by a claim in a Licensed Patent or the discovery or development of which was enabled by, reduced to practice or otherwise derived from or facilitated by an act or acts within the scope of a claim in a Licensed Patent, including any processes used to screen compounds on behalf of a third party.

1.09 "Net Sales" shall mean, in the case of sales to non-Affiliates, the invoiced price by LIGAND, JV, ALRT, or their Affiliates or sublicensees, less (a) customary trade quantity and cash discounts actually allowed and taken; (b) allowances actually given for returned, rejected or recalled products; (c) actual

charges for bad debts; (d) freight and insurance if included in the invoice price; (e) government mandated rebates; and (f) value added tax, sales, use or turnover taxes, excise taxes, and custom duties included in the invoiced price.

1.10 "Field" means and is limited to use of the Ligand Patented Technology by FOUNDATION and/or SRI for basic research, and specifically does not include research funded by a for-profit entity, unless the results of the research funded by such forprofit entity are subject to the LIGAND option of Section 6.01.

1.11 "Territory" means and is limited to FOUNDATION'S premises at 10901 North Torrey Pines Road, La Jolla, California, 92037, or any expansion and/or replacement premises thereof with respect to the license granted hereunder to FOUNDATION and SRI's premises at 333 Ravenswood Avenue, Menlo Park, California 94205 or any expansion and/or replacement premises thereof and the premises of any research collaborators sublicensed under Section 5.02 with respect to the license granted hereunder to SRI.

ARTICLE 2
Settlement of Action

2.01 Consent Judgment. The Parties shall forthwith jointly present to the Court a stipulated Consent Judgment and Injunction in the Action, in form and substance as set forth in Exhibit "B" attached hereto, and shall use their best efforts to have the Court enter and file such Consent Judgment and Injunction. If the Court refuses to, or does not within one hundred twenty

(120) days after such presentation, (i) enter and file the Consent Judgment and Injunction, or (ii) enter and file it with changes agreed to by all the Parties, then any Party aggrieved by a refusal or failure of the Court to enter and file such Consent Judgment and Injunction may terminate this Agreement by written notice to all of the other Parties within fifteen (15) days of the refusal or

within fifteen (15) days after the 120th day from such presentation, whichever is earlier.

2.02 Restrictions on Rights to Use Ligand Patented Technology. Pursuant to the sublicenses granted FOUNDATION and SRI pursuant to Article 5 hereof, FOUNDATION and SRI are granted specified rights to use Ligand Patented Technology. Except as provided in this Agreement, and in addition to the provisions of the Consent Judgment and Injunction as it may be finally entered and filed, DEFENDANTS hereby covenant and agree, for themselves and their agents, employees, privies, successors and assigns, not to make, have made, import, use, sell, market or distribute in the United States any products or carry out any processes which would infringe claims in the Ligand Patented Technology or to induce or contribute to the infringement of the Ligand Patented Technology by others.

2.03 Expenses. Each Party shall bear its own costs and expenses, including all attorneys fees, in connection with the Action and this Agreement.

2.04 Windup of SELECTRA. SELECTRA will be promptly and permanently wound up. FOUNDATION represents and warrants that the windup of SELECTRA will not leave or result in any rights to Option Technology and Option Patents in a third party, other than rights of the United States Government arising by statute or regulation. In addition to any remedies to which it is entitled at law or in equity, LIGAND may terminate the license granted FOUNDATION for breach of this warranty.

2.05 Dismissal of Arbitration. LIGAND and SRI will stipulate to the dismissal of the Arbitration with respect to their Compound Evaluation Agreement bearing an effective date of May 17, 1990, with each Party to bear its own costs, including attorney fees, in connection with the Arbitration.

2.06 Waiver By Third Parties. DEFENDANTS will secure the waiver of any third party rights to Option Technology and Option Patents known to exist, after reasonable inquiry, as of the effective date of this Agreement, including those held by Telios Pharmaceuticals, Inc. (but excluding those of the United States Government arising by statute or regulation as a result of the funding by the United States of research that results in Option Technology or Option Patents), that conflict with the rights granted LIGAND hereunder.

2.07 Covenant Not to Contest Patents. DEFENDANTS and each of them will not after the effective date of this Agreement seek in any proceeding, or assist any other party except under judicial compulsion, to have any patent or any claim thereof in the Ligand Patented Technology declared, determined or adjudicated invalid or unenforceable. As used in this Section 2.07, "proceeding" includes a reexamination proceeding in the United States Patent and Trademark Office.

2.08 Press Release. The Parties shall jointly issue a press release in the form attached hereto as Exhibit "C" on or promptly after the effective date of this Agreement. No Party shall thereafter make any further written or oral public release or written or oral public statement regarding this Agreement and the underlying Action or Arbitration (including, without limitation, press releases and disclosures in Securities and Exchange Commission filings) unless such written or oral public release or written or

oral public statement has previously been reviewed and approved by all Parties; provided, however, that a Party shall not be required to secure the approval of any other Party to make a disclosure which, upon advice of independent counsel, it is required to make by law or regulation, and further provided that where approval is required that no Party shall unreasonably withhold its approval. Once approved, such written or oral public release or written or oral public statement (including the press release attached hereto as Exhibit "C") may be freely reissued or

repeated without additional approval. Nothing in this Section 2.08 shall affect the Parties' respective rights to communicate privately, orally or in writing with employees, vendors, researchers, distributors, licensees, prospective licensees and other commercially affected persons and entities as may be necessary to effectuate this Agreement. Each Party shall have the obligation to use reasonable efforts to prevent its agents and employees from violating the foregoing.

2.09 Authorized Comments. Notwithstanding the provision of Section 2.08, a Party shall have the right to comment upon the unauthorized statements of the employees of any other Party about this Agreement or the Action or the Arbitration or the motives of any Party in bringing or settling the Action or Arbitration. FOUNDATION acknowledges the truth thereof and authorizes the publication by PLAINTIFFS of the following facts:

1. That FOUNDATION did not seek a license to the Ligand Patented Technology at any time before the Action was brought;

2. That SELECTRA intended to develop compounds that are highly specific for individual retinoid receptors - a technology that would compete directly with LIGAND;

3. That the FOUNDATION intended to hold a substantial equity interest in SELECTRA;

4. That Magnus Pfahl, Ph.D., formerly a senior staff scientist at FOUNDATION, would have held a substantial equity interest in SELECTRA; and

5. That both the FOUNDATION and Dr. Pfahl and each of them would have obtained a financial benefit from the success of SELECTRA.

SRI acknowledges the truth thereof and authorizes publication by PLAINTIFFS of the following facts:

1. That SRI did not seek a license to the Ligand Patented Technology before the Action was brought; and

2. That SRI expected to obtain a financial benefit if SELECTRA were successful and Dr. Marcia Dawson, as an employee of SRI, would have been entitled to a share of such benefit.

2.10 Restriction on Seeking Governmental License. During the term of its sublicense granted under Section 5.01, each of DEFENDANTS agree to terminate any current effort and not hereafter seek from any agency of the United States Government an express license to any patent included in the Ligand Patented Technology. Neither this Section 2.10 nor any other provision of this Agreement shall preclude DEFENDANTS from seeking to influence any agency of the United States or legislative body thereof concerning matters of general public policy, laws or regulations relating to the impact of patents on basic research or any other matter other than to seek an express license from the National

Institutes of Health or any other agency of the United States to any patent included in the Ligand Patented Technology.

ARTICLE 3
Release

3.01 Release by Plaintiffs. Except as otherwise expressly provided for and set forth in this Agreement, PLAINTIFFS, for themselves and their agents, successors, assigns, representatives and attorneys, and each of them, do hereby release and forever discharge DEFENDANTS, and their directors, officers, trustees, employees, agents and consultants acting in such capacity on behalf of or in the course of their duties for DEFENDANTS, and each of them, from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liabilities, claims, demands, losses, costs, or expenses of any nature whatsoever, whether known or unknown, fixed or contingent, which PLAINTIFFS have or may hereafter have against DEFENDANTS, or any of them, by reason of any matter, cause or thing whatsoever from the beginning of time to the date hereof; provided, however, that this release shall have no effect with respect to the License Agreement of June 23,

1989 between LIGAND and FOUNDATION, and this release, while applicable to claims for breach of, and to all events relating to, the Compound Evaluation Agreement occurring before the effective date, does not affect the rights and obligations of SRI and LIGAND under the Compound Evaluation Agreement to the extent provided under Article 4 of this Agreement. The matters released pursuant to this Section 3.01 are herein referred to as "Plaintiff's Released Claims."

3.02 Release by Defendants. Except as otherwise expressly provided for and set forth in this Agreement, DEFENDANTS, for themselves and their agents, successors, assigns, representatives and attorneys, and each of them, do hereby release and forever discharge PLAINTIFFS, and their directors, trustees, officers, employees, agents and consultants acting in such capacity on behalf of or in the course of their duties for PLAINTIFFS, and each of them, from any and all manner of action or actions, cause or causes of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liabilities, claims, demands, losses, costs, or expenses of any nature whatsoever, whether known or unknown, fixed or contingent, which DEFENDANTS have or may hereafter have against PLAINTIFFS, or any of them, by reason of any matter, cause or thing whatsoever from the beginning of time to the date hereof; provided, however, that this release shall have no effect with respect to the License Agreement of June 23, 1989 between LIGAND and FOUNDATION, and this release, while applicable to claims for breach of, and to all events relating to, the Compound Evaluation Agreement occurring before the effective date, does not affect the rights and obligations of SRI and LIGAND under the Compound Evaluation Agreement to the extent provided under Article 4 of this Agreement. The matters released pursuant to this Section 3.02 are herein referred to as "Defendant's Released Claims." Nothing herein will release LIGAND from its obligations to make royalty payments on Improvement Compounds arising under the Compound Evaluation Agreement.

3.03 Unknown Claims. The Parties specifically understand, acknowledge and agree that this is a full and final release, applying to all of the Plaintiff's Released Claims and Defendant's Released Claims, whether known or unknown. The Parties, having been fully advised by their respective counsel, hereby expressly and voluntarily waive all rights or benefits that they, and each of them, might otherwise have under the provisions of Section 1542 of the Civil Code of the State of California, which provides as follows, and under all federal, state and/or common-law statutes or principles of similar effect:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

3.04 Full Release. This Agreement is a full accord, satisfaction and discharge of all of the Plaintiff's Released Claims and Defendant's Released Claims. This Agreement has been executed with the express intention of effectuating the full and final extinguishment of all such claims.

3.05 Use in Pleadings. It is specifically understood and agreed that this Agreement may be pleaded as a full and complete defense to, and may be used as the basis for, an injunction against any action, suit, or other proceeding which may be instituted, prosecuted or attempted in breach of this Agreement.

3.06 Attorneys' Fees. In the event that legal action is necessary to enforce or remedy a breach of a provision or provisions of this Agreement, all costs and attorneys' fees shall be paid by the non-prevailing Party or Parties to the prevailing Party or Parties.

3.07 No Assignment of Claims. The Parties hereby represent and warrant to each other that they have not sold, assigned,

transferred, conveyed or otherwise disposed of any claim which, but for such sale, assignment, transfer, conveyance or other disposal, would be covered by this Agreement.

ARTICLE 4
Compound Evaluation

4.01 SRI Compounds. SRI shall make available to LIGAND, for evaluation and potential commercialization in accordance with the terms of the Compound Evaluation Agreement between LIGAND and SRI bearing an effective date of May 17, 1990, samples of all of the retinoid compounds synthesized in the laboratory of [*] through [*] not previously provided to LIGAND pursuant to the Compound Evaluation Agreement, which compounds are listed in Exhibit "D" hereto, for which SRI has a current supply. For those compounds synthesized before [*] for which no quantities are available, SRI will, at LIGAND's request, resynthesize the compounds for LIGAND at SRI's then standard commercial rate for research done for outside entities. SRI will provide to LIGAND a summary of any chemical and biological properties actually determined by SRI for the compounds synthesized through [*] and which were not previously made available to LIGAND; LIGAND shall provide SRI with the results of its evaluation of the samples of said compounds as required by the Compound Evaluation Agreement. Performance of the obligations of SRI under Section 2.04 of the Compound Evaluation Agreement will be optional on the part of SRI with respect to the compounds of Exhibit "D". Nothing in the Compound Evaluation Agreement or this Agreement shall be construed to obligate SRI to pursue patent protection for or protect patentability prior to publication or disclosure of the compounds of Exhibit "D", and SRI provides no warranty as to the patentability of any compound of Exhibit "D". The terms of the Addendum attached hereto shall govern the patent expenses associated with the patent applications specified therein. SRI shall have no obligation to provide to LIGAND samples of compounds synthesized by [*]

[*] CONFIDENTIAL TREATMENT REQUESTED

after [*] but if such subsequently synthesized compounds constitute Option Technology, LIGAND shall have an Option to acquire rights to Option Patents covering or related thereto as provided in Article 6 hereof.

4.02 Acknowledgement of LIGAND's Rights by FOUNDATION and SELECTRA. FOUNDATION and SELECTRA hereby acknowledge LIGAND's rights as set forth in Section 4.01 to the compounds synthesized in the laboratory of [*] through [*] and not previously provided to LIGAND pursuant to the Compound Evaluation Agreement between LIGAND and SRI bearing an effective date of May 17, 1990 and agree that they will not assert any rights in such compounds inconsistent with or in derogation of LIGAND's rights set forth in Section 4.01 hereof and in the Compound Evaluation Agreement. LIGAND hereby agrees to reimburse FOUNDATION for any patent application costs incurred with respect to said compounds pursuant to the terms and conditions set forth in Section 6.03(c) below if it exercises its option under Article 6 to acquire rights beyond those available to it under the Compound Evaluation Agreement.

4.03 Exhausted Rights. Nothing in this Agreement shall be deemed to restore to LIGAND any rights exhausted under the Compound Evaluation Agreement with respect to any compound actually provided to LIGAND under the Compound Evaluation Agreement prior to the date of this Agreement; provided, however, that any discovery or development made with respect to such previously provided compounds which constitute option Technology shall be subject to LIGAND's rights thereto under Article 6. Nothing herein shall affect LIGAND's obligation to pay royalties for Improvement Compounds arising under the Compound Evaluation Agreement.

[*] CONFIDENTIAL TREATMENT REQUESTED

ARTICLE 5

BASIC RESEARCH SUBLICENSE

5.01 Sublicense. LIGAND, the JV and ALRT hereby grant to each of FOUNDATION and SRI, subject to the terms herein recited, a royalty-free, non-exclusive sublicense to make and use, but not to sell, the Ligand Patented Technology solely within the Field and the Territory. Except as provided in Section 5.02 herein, these sublicenses do not include the right of FOUNDATION or SRI to further sublicense the Ligand Patented Technology without LIGAND's prior written approval. Further, FOUNDATION or SRI may not assign, convey or otherwise transfer any rights in or to use Ligand Patented Technology that are created by this Agreement to any other party except as provided in Sections 5.02 and 10.06 hereof.

5.02 Research Collaborations. Each of FOUNDATION or SRI, as the case may be, may sublicense the performance of its rights under the license for Ligand Patented Technology granted under Section 5.01 in bona fide research collaborations between either or both of them and not-for-profit entities ("Research Collaborators") which entities shall perform the sublicensed activities subject to the following conditions:

(a) The FOUNDATION or SRI, and their respective Research Collaborators, as the case may be, may not assign or otherwise convey prospectively or after the fact any rights, or permit its employees, consultants or agents to convey any rights in the Option Technology except in the circumstance where LIGAND has failed to exercise its option rights under Section 6.01;

(b) A Research Collaborator will be advised of LIGAND's rights under this Agreement and acknowledge them to LIGAND in writing;

(c) FOUNDATION or SRI, as the case may be, will use its reasonable best efforts to assure that its employees, consultants, agents, and its Research Collaborator(s) use the Ligand Patented Technology solely in the course and scope of activities licensed under Section 5.01; and

(d) In any collaboration initiated within five (5) years

of the effective date of this Agreement between FOUNDATION or SRI, as the case may be, and FOUNDATIONS's former employee, Magnus Pfahl, Ph.D., or with his employer, in which he is an investigator and under which the right to sublicense is exercised by FOUNDATION or SRI, as the case may be, provision must be made for LIGAND to secure the same rights to inventions, discoveries and developments made by Dr. Pfahl or persons under his direction as would be the case if Dr. Pfahl were a FOUNDATION employee.

FOUNDATION and/or SRI shall not permit, and they shall take reasonable steps, including bringing suit, to prevent any use of Ligand Patented Technology by a Research Collaborator of FOUNDATION and/or SRI in connection with their collaboration in violation of these conditions and outside the scope of the sublicenses permitted under this Section 5.02, and any breach by FOUNDATION and/or SRI of the foregoing shall constitute a material breach of this Agreement by that Research Collaborator's sublicensor, FOUNDATION or SRI, as the case may be. A Research Collaborator shall not have the right to grant any further sublicense of its rights obtained under this Section 5.02.

ARTICLE 6

OPTION FOR EXCLUSIVE LICENSE

6.01 Option Grant to LIGAND. FOUNDATION and SRI hereby grant to LIGAND an option to acquire an exclusive worldwide right and license, with the right to grant sublicenses, under option Patents, which Option Patents upon exercise of the option will

become Licensed Patents, to conduct research using technology covered thereby and to develop, import, make, have made, use and sell Licensed Products and Licensed Processes, including the right to use Licensed Patents in its collaborative research efforts with and in the provision of services to third parties. This option right shall be freely assignable by LIGAND, effective upon receipt of written notice of the name of the assignee from LIGAND to SRI and FOUNDATION. Neither FOUNDATION nor SRI shall have the right to grant to a third party any rights which would operate to deprive LIGAND of its rights to Option Technology or Option Patents prior to expiration of the option exercise time period specified in Section 6.02 hereof. To secure LIGAND's rights under this Article 6, each of FOUNDATION and SRI represent that it has entered with its present employees, consultants and agents and hereafter will enter into with new employees, consultants and agents, agreements which will have the effect of requiring assignment to FOUNDATION or SRI of any rights such employees, consultants and agents may have to Option Technology and Option Patents. The rights to Licensed Patents acquired by LIGAND pursuant to this Agreement shall be subject to (i) the rights of the United States as the financial sponsor of the research from which the Licensed Patents were derived which arise by statute or regulation, or by requirement of a grant or contract, when such a requirement is a standard, government imposed part of the grant or contract and of similar grants or contracts between the United States and other not-for-profit entities like SRI and FOUNDATION, and (ii) the rights of FOUNDATION and SRI and their licensed Research Collaborators to use said Licensed Patents for conducting basic research pursuant to Article 5 hereof.

6.02 Disclosure to LIGAND of Option Technology. FOUNDATION and/or SRI will promptly disclose Option Patents to LIGAND, after which LIGAND shall have [*] from said disclosure by FOUNDATION and/or SRI to review said disclosed information, patent applications or patents, and to exercise its option to license

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such Option Patents. The patents and patent applications in Exhibit "A" (except the applications specified in the Addendum attached hereto) are deemed to be disclosed as of the effective date of this Agreement. At their

election FOUNDATION and SRI may disclose Option Technology to LIGAND before any Option Patents are created therefor. If such disclosure is made, LIGAND's option to subsequently created Option Patents will expire the later of [*] from the disclosure of the Option Technology or [*] from the first disclosure of such related Option Patents. FOUNDATION and/or SRI shall have the right to [*]. Nothing in this Agreement shall be construed to obligate SRI or FOUNDATION to protect patentability prior to publication or disclosure of Option Technology, and SRI and FOUNDATION provide no warranty as to the patentability of any Option Technology; provided, however, that SRI and FOUNDATION will provide LIGAND with a copy of any notice given an agency of the federal government pursuant to 35 U.S.C. 202(c)(1) concerning inventions which are Option Technology.

6.03 Exercise of Option. If LIGAND elects to exercise its option to acquire, and does acquire, an exclusive license to an Option Patent pursuant to this Article 6, LIGAND shall perform and complete each of the following acts:

(a) Deliver within the time period specified in Section 6.02 above written notice of exercise to whichever of FOUNDATION and/or SRI is an owner of the Option Patent;

(b) Pay to FOUNDATION and/or SRI, whichever is the owner of the Option Patent, a non-refundable option exercise fee in the aggregate of [*] Dollars ($[*]) for each Licensed Patent licensed hereunder upon said exercise. The payment of the [*] Dollar ($[*]) license fee upon exercise of an option with respect to a Licensed Patent shall constitute a discharge of the obligation to pay the license fee for any other Option Patent which concurrently or subsequently is

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the subject of option exercise under this Article 6 if the concurrent or subsequent Licensed Patent is "related" to the Licensed Patent for which the license fee is paid. As used herein, a Licensed Patent is "related" to another Licensed Patent if, in whole or in part, the subject matter patented (or sought to be patented in the case of an application for patent) in the Licensed Patent is entitled to the benefit of the same filing date as or priority date as the other Licensed Patent. Related patents include, by way of example, an application for patent in the United States and its continuations, continuations-in-part, and divisions and foreign filed applications claiming the benefit of the filing date of the application as filed in the United States; and

(c) Pay and/or reimburse FOUNDATION and/or SRI pursuant to Section 6.07 herein for all of their subsequent and/or past expenses reasonably incurred incident to the preparation, filing, prosecution, and/or maintenance of the issued or subsequently issuing Licensed Patent within forty five (45) days of receipt of a written statement of such expenses. If LIGAND reasonably disputes any expenses set forth in the written statement, it shall disclose in writing its objection and FOUNDATION and/or SRI will first attempt to negotiate in good faith with LIGAND or mediate their differences for a period of not less than forty five (45) days. At the end of the forty five (45) day period, if such negotiations and/or mediation are unsuccessful, any Party may submit the dispute to binding arbitration pursuant to Article 8 herein. In the arbitration, the arbitrator may require LIGAND to pay some or all of the disputed expenses, or the arbitrator may require FOUNDATION and/or SRI to refund to LIGAND some or all of the payments made pursuant hereto.

6.04 License Fee and Royalties. To the extent that LIGAND exercises its option and acquires Licensed Patents pursuant to this Article 6, LIGAND shall pay to FOUNDATION and/or SRI:

(a) minimum annual royalty payments of [*] Dollars

($[*]) per calendar year per Licensed Patent which is a United States patent commencing twelve (12) months after the issuance of such United States patent, which minimum royalty payments shall be payable by January 31 of the calendar year in which due (the first payment being prorated for the portion of the calendar year remaining when the payment comes due). The payment of the minimum annual royalty for a Licensed Patent shall constitute the discharge of the obligation to pay the minimum annual royalty applicable to any other Licensed Patent to which it is "related" in the manner as described in Section 6.03(b). The minimum royalty payments shall be creditable by LIGAND against royalties paid by LIGAND, or its sublicensees, for Licensed Products or Licensed Processes covered by the Licensed Patent pursuant to Section 6.04(b) below accrued in the year for which the minimum royalty payment is owed;

(b) a royalty on Net Sales of Licensed Products. The royalty shall be (i) [*] percent ([*]%) on the Net Sales of a Licensed Product when its making, use or sale is covered by a claim in a Licensed Patent and (ii) [*] percent ([*]%) on the Net Sales of a Licensed Product when the making, use or sale thereof is not covered by a claim in a Licensed Patent but a Licensed Patent is used in the discovery or development of the Licensed Product. The royalty shall be paid on a country by country basis, from the first commercial sale thereof until the later of (a) expiration of the Licensed Patent having a claim which reads on making, using or selling the Licensed Product or (b) [*] years in the case where the Licensed Patent was used in the discovery or development of the Licensed Product. Only one royalty will be owed on a Licensed Product in the circumstance where the Licensed Product is covered by multiple claims in one or more Licensed Patents and where a royalty would be owed under (i) and (ii) above, the royalty shall be [*] percent ([*]%) of Net Sales; and

(c) LIGAND shall also have the right to perform Licensed Processes as a service to a third party for a fee,

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including the right to perform Licensed Processes for a fee in connection with the development of a product whose making, using or selling is not within the scope of any claim of the Licensed Patents in lieu of charging a royalty on the sales thereof. LIGAND will pay to the FOUNDATION or SRI, as the case may be, the greater of: (i) [*] percent ([*]%) of its "Net Revenues" or (ii) [*] percent ([*]%) of its "Gross Revenues" from performance of the services in the case where LIGAND is not entitled to a royalty on the sales of any product because of its performance of a Licensed Process. LIGAND will pay FOUNDATION and/or SRI [*] percent ([*]%) of its Net Revenue from the performance of services where LIGAND is entitled to a royalty on sales of a product because of its performance of a Licensed Process. Net Revenues for the purpose of this Section 6.04(c) are the Gross Revenues received for performance of the service less the fully burdened costs incurred in rendering the service.

6.05 Co-Ownership. When License Patents are owned jointly by SRI and FOUNDATION, the option exercise and royalty payments required by this Agreement will be split equally between them unless LIGAND is otherwise instructed by both FOUNDATION and SRI in writing. In the case where Licensed Patents are the result of joint inventions by employees of SRI and/or FOUNDATION and a third party or by employees of SRI, FOUNDATION and a third party and the third party refuses to license LIGAND to its rights subject to the payments required by this Agreement, then the payments for exercise of the option and royalties, including minimum annual royalty payments, will be reduced by [*] percent ([*]%).

6.06 Net Compensation Sharing. If LIGAND fails, within the time limits specified in this Article 6, to exercise its option rights, FOUNDATION and/or SRI shall be free to license such Option Patents to any other party. If and where FOUNDATION and/or SRI license such Option Patents to another party, then LIGAND will be entitled to receive a percentage of the net compensation received by FOUNDATION and/or SRI, in whatever form such compensation is

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rendered, including, but not limited to, royalties, milestone payments, technology transfer fees, bonuses, and license acquisition fees, and in whatever form paid, including, but not limited to, cash, stock, stock options, stock warrants, (but excluding any payments for research work actually performed to the extent not in excess of SRI standard commercial rates or FOUNDATION's fully burdened cost therefor, whichever is applicable) as follows:

(a) if the licensee of a FOUNDATION and/or SRI Option Patent sells a product or service within the scope of a claim in the Option Patent, LIGAND shall receive [*] percent ([*]%) of the net compensation received by FOUNDATION and/or SRI; or

(b) if the licensee of a FOUNDATION and/or SRI Option Patent exploits the Option Patent in the discovery, development, investigation, characterization or evaluation of a product or service which is not within the scope of a claim in the Option Patent, LIGAND shall receive [*] percent ([*]%) of the net compensation received by FOUNDATION and/or SRI.

In determining "net compensation" received, FOUNDATION and/or SRI shall be entitled to deduct from cash consideration received any unreimbursed expenses directly incurred (i) to obtain and maintain any Option Patent or Option Technology licensed to the third party, including filing fees, maintenance fees, attorneys' fees, consulting fees and the like, and (ii) to locate the third party and to negotiate and enter into the agreement with the third party. Past research costs are not considered direct expenses.

The right of the FOUNDATION or SRI to license Option Patents for which LIGAND fails to exercise its option does not carry with it the right to sublicense the Ligand Patented Technology directly or

[*] CONFIDENTIAL TREATMENT REQUESTED

by implication as part of the license nor does it affect the rights of SRI or Foundation provided in Section 5.02.

6.07 Patent Prosecution and Expenses. Subject to its rights and obligations elsewhere set forth in this Section 6.07 and consistent with the timing requirements set forth in Section 6.03(c) hereof, LIGAND shall reimburse FOUNDATION and/or SRI for such reasonable patent filing, prosecution, and maintenance costs, including costs on a per hour basis for time spent by inventors and staff who cooperate in such activities at the request of the responsible attorney acting for FOUNDATION and/or SRI, as shall be incurred on each Licensed Patent during the term of such license. In this regard, FOUNDATION and/or SRI may continue to use the patent attorneys or agents being used by them at the time LIGAND exercises its option or such other qualified independent patent attorneys or agents reasonably satisfactory to FOUNDATION and or SRI and LIGAND to file, prosecute and maintain Licensed Patents; provided, however, that in the case where a LIGAND or JV or ALRT owned patent or patent application or that of a LIGAND or JV or ALRT licensor other than FOUNDATION and/or SRI ("the Ligand Application") claims the same or substantially the same invention as that covered by the application within the Licensed Patents (the "Foundation/SRI Application"), and the Foundation/SRI Application has a later effective filing date in the United States, then LIGAND shall have no obligation to reimburse costs incurred in the prosecution of the Foundation/SRI Application, unless and until it is finally determined that the Foundation/SRI Application has priority over the Ligand Application in an inter partes proceeding as provided in Title 35 of the United States Code or in an informal proceeding as provided in this Section 6.07. After LIGAND has exercised its option: (i) FOUNDATION and/or SRI may elect to have such attorney bill LIGAND directly for such expenses; (ii) at LIGAND's request and expense, such attorneys or agents shall regularly meet and/or consult with LIGAND and/or its designated officers and counsel to keep them advised of the status of patent matters in the normal course;

(iii) so long as a delay will not adversely affect the rights of FOUNDATION and/or SRI, their patent attorneys or agents, when requested by LIGAND, shall be instructed not to file any papers without giving LIGAND reasonable time and opportunity to review and comment; (iv) LIGAND's requests for the filing in a single application of related inventions, discoveries and developments constituting Option Technology to reduce Sections 6.03(b) and 6.04(a) payments will be deemed presumptively correct and it will be the burden of FOUNDATION and/or SRI to establish that joinder of subject matter in a single application is contrary to standard practice in the United States. The practices of FOUNDATION, SRI and LIGAND exhibited by patent applications filed on their behalf before the effective date of this Agreement shall be considered evidence of such standard practice. The standards used in the United States Patent and Trademark Office in restriction practice and in foreign patent offices under the concept of "unity of invention" are not relevant to the appropriateness of a LIGAND request; and (v) LIGAND shall be entitled to determine the countries in which it wishes to obtain and maintain patent protection under this Agreement and shall be free, at any time and at its sole option, to abandon patent prosecution or maintenance in any country; provided, however, that sixty (60) days notice is given FOUNDATION and/or SRI concerning such abandonment. Abandonment of an application in favor of a continuation or continuation-in-part or surrender of a patent in a reissue proceeding shall not be deemed abandonment of a Licensed Patent. A Licensed Patent abandoned by LIGAND shall thereafter be deemed on a country-by-country basis to be an Option Patent on which LIGAND's option under Section 6.01 has expired. In any situation in which a Ligand Application and a Foundation/SRI Application claims the same or substantially the same subject matter, at the request of an affected Party, the Parties shall in good faith attempt to determine relative priority of invention. Each Party will bear its own costs in such a procedure.

6.08 Enforcement of Licensed Patents by LIGAND. LIGAND and any Affiliate or sublicensee authorized by LIGAND shall, at its option, have the right to enforce any of the Licensed Patents against infringement by an unlicensed third party or parties and to bring such suit in its own name. In the event LIGAND, its Affiliates or its sublicensees shall prosecute any legal action, it shall be at their own expense. FOUNDATION and/or SRI shall cooperate with LIGAND and render reasonable assistance in enforcing the Licensed Patents. If requested, FOUNDATION and/or SRI shall join LIGAND, its authorized Affiliate or sublicensee as a party in any such action and in such event FOUNDATION and/or SRI shall be entitled to be represented by their own counsel at their own expense in any such action. During the period wherein LIGAND, its Affiliates or its sublicensees is or are prosecuting any such action, LIGAND shall have the right to credit the legal expenses incurred against the royalties (including minimums if the country is the United States) payable under this Agreement in such country by [*] percent ([*]%). In the event that LIGAND obtains a recovery in such an action, it shall reimburse FOUNDATION and/or SRI the reduced royalties, after first applying any recovery amount to repay the expenses in excess of the reduced royalties involved in prosecuting the action to completion. Any and all recovery amounts remaining thereafter shall be allocated [*] percent ([*]%) to LIGAND and [*] percent ([*]%) to FOUNDATION and/or SRI.

6.09 Cooperation. As used in Sections 6.07 and 6.08, "cooperate" means with respect to FOUNDATION and SRI that they and their respective employees will, at LIGAND's request, take actions, including but not limited to, executing documents, providing declarations and affidavits, supplying documents and giving depositions and in-court testimony, and otherwise affirmatively assisting in the matters and proceedings which are the subject of those sections without subpoena. If an employee of FOUNDATION and/or SRI is requested by LIGAND to give a deposition or in-Court testimony or attend any proceeding in the

United States Patent or Trademark Office or any proceeding in a foreign patent office, LIGAND will reimburse FOUNDATION and/or SRI for the reasonable travel costs incurred. Travel costs incurred under this Section will be deemed reasonable if such type of costs are reimbursable to LIGAND's own employees under LIGAND's travel policy. LIGAND will reimburse FOUNDATION and/or SRI for time spent by any SRI or FOUNDATION professional staff member cooperating with LIGAND, at a rate equivalent to the commercial rate charged for such employee's time, or the fully burdened payroll cost of such employee's time if no commercial rate exists, for up to a maximum of [*] Dollars $ [*]) per employee per day. LIGAND will reimburse SRI and/or FOUNDATION for any other costs incurred cooperating with LIGAND to the extent such other costs are incurred with the knowledge and consent of LIGAND.

6.10 Lack of Enforcement. In the event that LIGAND does not undertake any legal action against an unlicensed third party or parties pursuant to Section 6.08 of this Agreement, FOUNDATION and/or SRI shall have the right to attempt to enforce any of the Licensed Patents against the third party or parties. If, at the end of six (6) months after LIGAND gives FOUNDATION and/or SRI written notice of LIGAND's decision not to undertake legal action against said third party or parties, FOUNDATION and/or SRI have not terminated the unlicensed competition of said third party or parties or commenced legal action for that purpose, LIGAND shall have the right at its election, by written notice to FOUNDATION and/or SRI, to reduce the royalty thereafter payable to FOUNDATION and/or SRI with respect to LIGAND's or its sublicensees or LIGAND Affiliates sales of Licensed Products or practice of Licensed Processes adversely affected by such unlicensed competition, to the extent such Licensed Products or Licensed Processes are covered by a claim in the Licensed Patent, by fifty percent (50%) thereof until such unlicensed competition shall be terminated. If the Licensed Patent which is the subject of unlicensed infringement covers a product or process used in the discovery,

development, characterization or evaluation of a Licensed Product or Licensed Process, failure to abate the infringement after notice from LIGAND shall relieve LIGAND of the obligation to pay any royalty arising in the future under Section 6.04(b)(ii).

6.11 Third Party Action For Infringement. In the event that any third party shall bring an action against LIGAND, its sublicensees or LIGAND Affiliates for alleged infringement of any patent or rights thereunder of such third party, by reason of the practice of the Licensed Patents, LIGAND shall promptly give written notice to FOUNDATION and/or SRI of the bringing of such action. To the extent that such action is attributable to LIGAND's use of Licensed Patents, LIGAND, its sublicensees and LIGAND Affiliates shall have the right to withhold payment to FOUNDATION and/or SRI of [*] percent ([*]%) of the royalties thereafter being payable with respect to Licensed Products sold and Licensed Processes practiced in the country where such action is brought, until such time as the liability of LIGAND, its sublicensees or Affiliates shall be determined; and they shall also be entitled to offset against any future royalties payable with respect to that country to FOUNDATION and/or SRI under this Article 6 of this Agreement after such determination, all unreimbursed expenses, costs and/or damages incurred or paid by LIGAND, its sublicensees or Affiliates in the defense of or by reason of such action. In the event LIGAND, its sublicensees or Affiliates is or are obligated to pay royalties or make further payments to such third party in excess of the withheld payments or to any third party in order for LIGAND, its sublicensees or Affiliates to manufacture, use and sell Licensed Products or practice Licensed Processes, such payments, to the extent attributable to LIGAND's use of Licensed Patents shall be offset against royalties thereafter payable to FOUNDATION and/or SRI with respect to that country under this Agreement to the extent of [*] percent ([*]%) of the royalties payable to FOUNDATION and/or SRI with respect to that country under this Agreement; provided, however, in no event shall the credits, offsets

or reductions set

[*] CONFIDENTIAL TREATMENT REQUESTED

forth in this Agreement cause the royalties payable to be reduced below [*] percent ([*]%). SRI and FOUNDATION shall have no obligation to pay for the cost of LIGAND's defense and LIGAND shall be solely responsible for its costs. In the event that LIGAND, its Affiliates or sublicensees are enjoined from selling any Licensed Product or practicing Licensed Processes, and the royalties withheld under this Section 6.11 of this Agreement are in excess of their said expenses, costs and/or damages, LIGAND shall have the right to retain such excess and shall not be obligated to pay said excess to FOUNDATION and/or SRI.

6.12 Voluntary Disclosure of Technology Deemed Outside Option Technology. With respect to any invention, discovery or development made by FOUNDATION and/or SRI during the term of this option, including any inventions or discoveries made by FOUNDATION and/or SRI in collaboration with third parties, FOUNDATION and/or SRI may at their sole discretion disclose said inventions or discoveries to LIGAND and notify LIGAND that the invention or discovery is outside the scope of the option granted in Section 6.01 herein. Thereafter, LIGAND shall have ninety (90) days in which to notify FOUNDATION and/or SRI that it disagrees with such a contention. In the event of such a disagreement, LIGAND and FOUNDATION and/or SRI will first use good faith efforts to negotiate or mediate their differences for a period of not less than ninety (90) days. However, if such negotiations and/or mediation is unsuccessful, any Party may submit the dispute to binding arbitration pursuant to Article 8 herein.

6.13 Contesting Disputes Concerning Option Technology. If LIGAND believes that any particular invention, discovery, or development made by FOUNDATION and/or SRI, including any inventions or discoveries made by FOUNDATION and/or SRI in collaboration with third parties, that is not disclosed to LIGAND by the FOUNDATION and/or SRI pursuant to Section 6.02, is within the scope of the option granted LIGAND in Section 6.01 herein, then LIGAND shall have the right to contest and contend that such

[*] CONFIDENTIAL TREATMENT REQUESTED

invention, discovery or development is within the scope of the option granted in Section 6.01 herein by giving written notice of its contention to SRI and/or FOUNDATION. In the event FOUNDATION and/or SRI disagree with such a contention, LIGAND and FOUNDATION and/or SRI will first use good faith efforts to negotiate or mediate their differences for a period of not less than ninety (90) days. However, if such negotiations and/or mediation is unsuccessful, any Party may submit the dispute to binding arbitration pursuant to Article 8 herein.

6.14 Dispute Regarding Existence of Licensed Product or Process. In the event of any dispute between LIGAND and FOUNDATION and/or SRI as to whether or not a product sold or process performed by LIGAND, its Affiliates, or sublicensees is a Licensed Product or Licensed Process for which a royalty or share of a service fee is due FOUNDATION and/or SRI, any Party, at its option, shall have the right to submit the dispute to binding arbitration under Article 8. LIGAND shall not be deemed to be in default of this Article 6 of this Agreement for nonpayment of royalties during the period in which its payment obligation is disputed and for one (1) month after the conclusion of the arbitration if it is required to pay royalties by reason of an arbitration award to FOUNDATION and/or SRI. At the conclusion of the arbitration, all reasonable expenses of the arbitration, including attorney fees, will be borne by the losing Party to the arbitration proceeding.

6.15 Commercialization Efforts. LIGAND shall, using reasonable efforts, as determined in its good faith business judgment, diligently seek to commercially exploit Licensed Patents. LIGAND shall be deemed to have met this obligation if within [*] year from exercise of its option under Section 6.01 it

has incorporated the technology subject to the option into a program that is spending alone or in collaboration with another party or through an Affiliate or sublicensee at least [*] per year for said program provided that the Licensed Patents are

[*] CONFIDENTIAL TREATMENT REQUESTED

used in the program in a manner which generates a current payment obligation under Section 6.04(c) or are being used in the development of a Product for which a royalty would be incurred under Section 6.04(b); provided, however, that the failure to meet the standards of this sentence shall not, in and of itself, be deemed a failure, or create a presumption thereof of failure, by LIGAND to meet its obligation of diligence under this Section.

6.16 Reporting Payment Obligations and Payments. In the circumstance where a Party has a royalty or other payment obligation to the other arising from this Agreement, it shall provide biannual reports to the Party entitled to receive the royalty or other payment within sixty (60) days of each June 30 and December 31 during the period when such royalties or other payments are due. In the case of reports of royalty obligations, such reports shall state the quantity and description of products subject to royalty sold the preceding royalty period, the Net Sales thereof and the calculation of the royalty due. All royalties or other payments due hereunder shall be paid simultaneously with the submission of such reports. If any taxes are imposed on the payment of royalties or other payments due the Party and/or are required to be withheld therefrom, such taxes shall be for the account of the Party and shall reduce the royalty payments required to be made hereunder. All payments shall be made in U.S. Dollars.

6.17 Records and Audits. A Party shall keep true and accurate records and/or books of account containing information reasonably required for the computation and verification of royalty and other payments to be made hereunder to the other Party, which records and/or books shall at all reasonable and mutually convenient times during ordinary business hours be open for periodic inspection, not more than once each calendar year and for inspection of no more than the three (3) prior years records and/or books, by an independent certified public accountant selected by the party having the right to receive a royalty or

other payment and who is reasonably acceptable to the other Party, for the sole purpose of and only to the extent reasonably necessary for verification of the amount of royalties or other payments due and payable under this Agreement. The expense of the audit shall be borne by the auditing Party and the results thereof shall be binding on both Parties; provided, however, if the audit discloses an aggregate error of more than [*] percent ([*]%) for any audited period, the expenses for said audit shall be reimbursed by the Party in error. Any underage in a royalty or other payment revealed by the audit shall be due and payable within thirty (30) days of the audit results being disclosed to the audited Party unless contested during the thirty (30) day period by the audited Party which may at its expense retain a second independent certified public accountant to audit the payment obligation. The payment obligation calculated by the second accountant will be disclosed to the other Party and averaged with the results disclosed by the first auditor and any underage resulting from such averaging will be payable within thirty (30) days of the second audit.

6.18 Governmental Approvals and Marketing of Licensed Products or Process. LIGAND or its licensee or assignee shall be responsible for obtaining all necessary governmental approvals for the development, product, distribution, sale and use of any Licensed Product or Process at its expense. LIGAND or its licensee or assignee shall have sole responsibility for any warning labels, packaging and instructions as to the use of any Licensed Product or Process and for the quality control for any Licensed Product or Process.

6.19 Indemnity. LIGAND hereby agrees to indemnify, defend and hold

harmless FOUNDATION and/or SRI (hereinafter "Indemnitees") from and against any liability or expense arising from any product liability claim asserted by any party as the result of the use of any Licensed Product or Process or any product liability claim arising from the use of any Licensed

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Patent by LIGAND, its assignee or licensee pursuant to this Agreement. Such indemnity and defense obligation shall apply to any product liability claim, including without limitation, personal injury, death or property damage, made by employees, subcontractors, sublicensees, or agents of licensees, as well as any member of the general public. Notwithstanding the above, LIGAND shall have no obligation to indemnify, defend or hold harmless the Indemnitees for claims arising from the negligence or willful misconduct of the Indemnitees, their officers, agents, employees or permitted licensees and is conditioned on the prompt notice of and reasonable assistance in the defense of such claims.

6.20 Patent Marking. To the extent required by applicable law, LIGAND, its licensee or assignee shall mark all Licensed Products or their containers in accordance with the applicable patent marking laws.

6.21 No Use of Name. The use of the name of FOUNDATION and/or SRI in connection with the advertising or sale of any Licensed Product or Process is expressly prohibited.

6.22 DISCLAIMER OF WARRANTIES. NOTHING IN THE AGREEMENT SHALL BE CONSTRUED AS A REPRESENTATION MADE OR WARRANTY GIVEN BY SRI OR FOUNDATION THAT ANY PATENT WILL ISSUE BASED UPON ANY OPTION TECHNOLOGY, THAT ANY PATENT WHICH ISSUES COVERING OPTION TECHNOLOGY WILL BE VALID, OR THAT THE USE OF ANY LICENSED PATENT WILL NOT INFRINGE THE PATENT OR PROPRIETARY RIGHTS OF ANY OTHER PERSON. FURTHERMORE, SRI AND FOUNDATION MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE LICENSED PATENTS INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

6.23 Governmental Interests. In the situation where FOUNDATION and/or SRI have received funding from the United States Government in support of research activities which have resulted

in Licensed Patents, LIGAND acknowledges that LIGAND's rights pursuant to this Agreement shall be subject to the rights of the United States Government which arise or result from the receipt of research support from the United States Government by FOUNDATION and/or SRI, including, without limitation, (i) the grant to the United States of a nonexclusive, irrevocable, royalty-free license to Licensed Patents for governmental purposes, (ii) the right of the United States to exercise "march-in" rights to force certain non-exclusive licensing if LIGAND is not diligently commercializing certain Licensed Products or Processes, and (iii) the obligation of LIGAND to manufacture substantially in the United States those Licensed Products and Processes which are sold in the United States, unless a waiver is obtained from the appropriate agency of the United States.

ARTICLE 7
CONFIDENTIALITY

7.01 Confidentiality. Except for purposes of this Agreement, including the basic research sublicense and option rights granted hereunder, each Party shall exercise all reasonable care to not disclose or use any confidential or proprietary information which may be supplied by another Party (i.e., the Disclosing Party) in the course of their relationship hereunder. The foregoing obligations shall not apply when and to the extent such information (1) was lawfully available to the public prior to receipt of such information by the Receiving Party, (2) through no act on the part of the Receiving Party, thereafter becomes lawfully available to the public, (3) is required to be disclosed by the Receiving Party to a third party by law or legal process, provided that, should the Receiving Party be required to make such disclosure, they will take all reasonable steps to inform the Disclosing Party of such

disclosure in sufficient time for the Disclosing Party to oppose such disclosure before it takes place, (4) is independently developed by the Receiving Party, or (5) is approved by the Disclosing Party for disclosure by the Receiving

Party. The obligations imposed in this Section 7.01 will continue until five (5) years after the date of the last disclosure of confidential and proprietary information under this Agreement.

ARTICLE 8
Arbitration

8.01 Arbitration of Section 6.12 and 6.13 Disputes. LIGAND, the JV, and ALRT on the one hand and FOUNDATION and/or SRI on the other agree upon request of any party to arbitrate any dispute arising under Sections 6.12 and 6.13 concerning the scope of LIGAND's option arising under Section 6.01 as it relates to the subject matter of any invention, discovery or development made during the Option Term as defined in Section 9.01. The arbitrator of such a dispute will have no right to consider the validity of any patent included in the Ligand Patented Technology or any other factor affecting the scope of the option except whether the disputed invention, discovery or development was enabled by, reduced to practice or otherwise derived from or facilitated by an act or acts within the claims of the Ligand Patented Technology. FOUNDATION and/or SRI will not be permitted any discovery in the arbitration. LIGAND and/or the JV and/or ALRT will be permitted to discover, absent a showing of good cause, only the laboratory notebooks and other records of FOUNDATION and/or SRI and take the deposition of FOUNDATION and/or SRI scientists concerning conception and reduction to practice of the invention, discovery or development and use of Ligand Patented Technology and to depose custodians of records or other persons necessary to authenticate or corroborate FOUNDATION and/or SRI records concerning such conception and reduction to practice and use of Ligand Patented Technology and to take the testimony of any witness for impeachment purposes. The burden of proof in any such arbitration will be on FOUNDATION and/or SRI and by a preponderance of the evidence. The arbitration shall be binding, except that a Party may contend in any dispute concerning the result thereof that the arbitrator acted outside of the scope authorized by this Section 8.01, and unless another procedure is agreed upon by the parties

thereto shall be conducted before a single impartial arbitrator selected by the Parties or, if they are unable to agree within fifteen (15) days of a demand, selected under the Commercial Arbitration Rules of the American Arbitration Association and conducted under those rules except as modified or limited by this Section 8.01. The award in the arbitration may be enforced in any court having jurisdiction over the parties. Any arbitration under this Section 8.01 shall be conducted in San Diego, California. A demand for arbitration under this section will not be enforceable against another Party when a dispute otherwise subject to arbitration is combined with any other justiciable claim which (i) is not subject to a demand for arbitration under this Agreement and (ii) which is brought in any court having appropriate subject matter jurisdiction and jurisdiction over the parties. All expenses of the arbitration including the reasonable attorney's fees of all parties, shall be borne by the losing party.

8.02 Arbitration of Disputes Under Sections 6.03(c) and 6.14. Any controversy or claim of the kind specified in Sections 6.03(c) and 6.14 of the Agreement, including the determination of the interpretation of scope of this Agreement to arbitrate those Sections, shall be resolved by the following procedures: Any Party may submit a dispute to final and binding arbitration administered by the American Arbitration Association ("AAA") pursuant to the Commercial Arbitration Rules of the AAA at the time of submission. Unless the Parties have agreed upon the selection of the Arbitrator before then, the AAA

shall appoint the Arbitrator pursuant to its rules as soon as practicable, but in any event within thirty (30) days after the submission to the AAA. The arbitration hearings shall commence within forty-five (45) days after the selection of the Arbitrator. Unless the Arbitrator otherwise directs, each Party shall be limited to two pre-hearing depositions lasting no longer than six (6) hours each. The parties shall exchange the documents to be used at the hearing no later than seven (7) days prior to the hearing date. Unless the Arbitrator otherwise directs, each Party shall have no longer than

ten (10) hours in total to present its position at the hearing, and the hearing shall be completed within a two-week period. A demand for arbitration under this section will not be enforceable against another Party when a dispute otherwise subject to arbitration is combined with any other justiciable claim which (i) is not subject to a demand for arbitration under this Agreement and (ii) which is brought in any court having appropriate subject matter jurisdiction and jurisdiction over the parties. The award in any arbitration may be enforced in any court having jurisdiction over the Parties. All expenses of the arbitration including the reasonable attorney's fees of all parties, shall be borne by the losing Party as determined by the arbitration.

ARTICLE 9
TERM AND TERMINATION

9.01 Option Term. Except as provided in the last sentence of this Section 9.01, LIGAND's option rights pursuant to Article 6 of this Agreement shall run from the effective date of this Agreement until the termination of the sublicense granted in Section 5.01 hereof; provided however, with respect to any Option Technology discovered by FOUNDATION and/or SRI prior to the termination of said sublicense, LIGAND's option under Article 6 shall continue to be exercisable for the time periods as set forth in Sections 6.02, 6.12, and 6.13 (but not beyond two years following the termination of said sublicense), whichever time period expires earlier. This period is hereinafter the "Option Term". The consideration for LIGAND's option under Section 6.01 is LIGAND's, the JV's and ALRT's concurrence in dismissal of the Action and the Arbitration and grant of the licenses under Article 5 to FOUNDATION and/or SRI. Therefore, LIGAND's option shall remain in full force and effect even in the subsequent event that (a) a court or government agency or arbitration or legislative enactment establishes that (i) acts by DEFENDANTS which would be infringing by an unlicensed party are not infringing by DEFENDANTS because of their status as non-profit institutions; (ii) acts by DEFENDANTS which would

otherwise be infringing constitute an unactionable experimental or de minimis use; or (iii) acts by DEFENDANTS which would be infringing are done in the course of work done on behalf of the United States Government; or (b) DEFENDANTS secure a license to any or all of the Ligand Patented Technology by a subsequent act of an agency of the United States Government; or (c) it is determined by a court or in an arbitration that DEFENDANTS have such a license by operation of law. It is further provided that the establishment of any such defense to infringement or any such license under (a)-(c) above cannot be asserted by DEFENDANTS as a failure of consideration under this Agreement or the basis for recision of this Agreement based on mutual or unilateral mistake or as the basis for any other legal or equitable remedy or defense intended to limit, reduce or eliminate LIGAND's rights during the Option Term or under any Licensed Patents. The above notwithstanding, LIGAND's option rights under Article 6 shall not extend for more than [*] years beyond the effective date of this Agreement in the case of establishment of any license or defense arising under (a)-(c) of this Section 9.01 with respect to any claim within the Ligand Patented Technology but LIGAND's option rights under Article 6 based on a claim within the Ligand Patented Technology not subject to such license or defense shall not be affected.

9.02 License Term for LIGAND. After the exercise of any option to Option Patents, the resulting rights of LIGAND arising from such exercise to Licensed Patents will expire [*]. Any license obtained by LIGAND under Section 6.01 will terminate automatically in the event of default by LIGAND under any of its obligations under this Article 6 relating to that license, if said default, including but not limited to failure to pay royalties or reimburse costs, is not cured within thirty (30) days after written notice of default is received by LIGAND. Provided however, if LIGAND disputes the existence of said default or maintains that the default has been cured within the time limits,

[*] CONFIDENTIAL TREATMENT REQUESTED

and LIGAND submits the dispute to arbitration under Article 8 within said thirty (30) days, then the termination shall not occur unless and until the completion or termination of said arbitration, and the failure of LIGAND to effect a cure of any default determined by said arbitration within thirty (30) days following the completion or termination of said arbitration.

9.03 Agreement Term. This Agreement will expire on the later of (i) expiration of the Option Term or (ii) expiration of the obligation of LIGAND to pay any royalty on Licensed Patents.

9.04 Sublicense Term For FOUNDATION and SRI. The term of the sublicenses granted FOUNDATION and SRI under Section 5.01, unless terminated for material breach, shall be for the life of the patents included in the Ligand Patented Technology unless terminated earlier at the election of SRI or FOUNDATION. The sublicense under Section 5.01 may be terminated by LIGAND or its assignee as to FOUNDATION if a material breach of the license by FOUNDATION occurs and as to SRI if a material breach of the license by SRI occurs, if said material breach is not cured within 30 days after written notice of the breach is received by the breaching party. Termination of the sublicense by either SRI or FOUNDATION shall not be construed to be termination by the other. If the sublicense granted to FOUNDATION or SRI is terminated under this Agreement but not as to both of them, the Party who is the surviving sublicensee may not grant rights under Section 5.02 to the Party whose sublicense is terminated.

ARTICLE 10
MISCELLANEOUS

10.01 Applicable Law. This Agreement shall be construed in accordance with the laws of the State of California without reference to its conflict of laws provisions.

10.02 Impossibility and Waiver. In the event that any further lawful performance of this Agreement or any part thereof by any Party hereto shall be rendered impossible by or as a consequence of any law or administrative ruling of any government, or political subdivision thereof, having jurisdiction over such Party, such Party shall not be considered in default hereunder by reason of any failure to perform occasioned thereby.

10.03 Force Majeure. Any delays in or failure by a Party in performance of any obligations hereunder shall be excused if and to the extent caused by such occurrences beyond such Party's reasonable control, including but not limited to acts of God, strikes, or other labor disturbances, war, whether declared or not, sabotage, and other causes, whether similar or dissimilar to those specified which cannot reasonably be controlled by the Party who failed to perform.

10.04 Severability. The provisions of this Agreement shall be deemed severable. Therefore, if any part of this Agreement is rendered void, invalid

or unenforceable, such rendering shall not affect the validity and enforceability of the remainder of this Agreement unless the part or parts which are void, invalid or unenforceable as aforesaid shall substantially impair the value of the whole agreement to either Party.

10.05 Integration and Amendment. This Agreement, including the Addendum and Exhibits, sets forth the entire agreement between the Parties relating to the subject matter contained herein and may not be modified, amended or discharged except as expressly stated in this Agreement or by a written agreement signed by the Parties hereto.

10.06 Assignment and Succession. This Agreement and the rights and obligations hereunder granted to and undertaken by LIGAND shall not be assigned by LIGAND without prior written approval of FOUNDATION and SRI except to a successor in interest

of substantially all of the assets to which this Agreement pertains or to an Affiliate of LIGAND or to a successor entity in the case of a merger, acquisition or other combination in which LIGAND is not a surviving entity, in which case written notice (but not approval) is required. This Agreement and the rights and obligations granted to and undertaken by FOUNDATION and/or SRI shall not be assignable without prior written consent of LIGAND except to a non-profit entity which acquires substantially all of the assets of FOUNDATION and/or SRI. This Agreement shall be binding upon and inure to the benefit of the Parties hereto, LIGAND'S assigns, successors, trustee(s) or receiver(s) in bankruptcy, and legal representatives, including any successor or assignee of the interest of LIGAND, or any LIGAND Affiliate, of the business to which this Agreement pertains by way of merger or purchase of assets or otherwise, and FOUNDATION'S and/or SRI'S permitted assigns, personal representatives, successors and trustee(s), or receiver(s) in bankruptcy.

10.07 Notices. Any and all communications required as provided for in this Agreement shall be in writing and sent by any means to the last known address of the Parties to be served therewith. Notices shall be effective when received at the address of the Party to whom notice is given so long as the notice is properly addressed as set forth below. Any notice to be given to LIGAND, the JV and ALRT shall be addressed and sent to:

William L. Respess, Esq.
Senior Vice President and General Counsel
LIGAND PHARMACEUTICALS INCORPORATED
9393 Towne Centre Drive, Suite 100
San Diego, California 92121

Any notice to be given to FOUNDATION shall be addressed and sent to:

Louis R. Coffman,
Vice President and Chief Administrative officer
LA JOLLA CANCER RESEARCH FOUNDATION
10901 North Torrey Pines Road
La Jolla, CA 92037

Any notice to be given to SRI shall be addressed to:

Daniel W. Morris
Director, Licensing and Business Development
Science and Technology Group
SRI INTERNATIONAL
333 Ravenswood Ave.
Menlo Park, CA 94025

10.08 Authority. The signature of a duly authorized representative of a Party shall bind that Party and its Affiliates.

10.09 Headings. Headings are used in this Agreement for convenience only and shall not affect any construction or interpretation of this Agreement.

10.10 WARRANTY. FOUNDATION AND SRI WARRANT THAT TO THE BEST OF THEIR RESPECTIVE KNOWLEDGE, AFTER REASONABLE INQUIRY, NO PERSON OR ENTITY OTHER THAN THE GOVERNMENT OF THE UNITED STATES HAS ANY RIGHTS TO OPTION TECHNOLOGY WHICH ARE IN DEROGATION OF OR WOULD LIMIT OR IMPAIR THE RIGHTS THERETO GRANTED LIGAND UNDER THIS AGREEMENT.

10.11 Separate Liability. The Parties agree that the obligations and duties of each Party arising under this Agreement regardless whether shared, identical, or otherwise similar, are separate and distinct from the obligations and duties of any other Party. Actions or failures to act by one Party shall not confer joint and several liability to the other Parties.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in multiple counterparts, each of which shall be deemed an original, as of the date and year first above written.

LA JOLLA CANCER RESEARCH FOUNDATION	LIGAND PHARMACEUTICALS INCORPORATED
By: [SIG]	By: /s/ WILLIAM L. RESPESS
	William L. Respess
Title: V.P.	Title: Senior Vice President General Counsel, Government Affairs
Date: August 22, 1995	Date: August 22, 1995

SRI INTERNATIONAL	ALLERGAN LIGAND
	By: LIGAND JVR, INC. General Partner
By:/s/ WILLIAM P. SOMMERS	By: /s/ WILLIAM L. RESPESS
William P. Sommers	William L. Respess
Title: President and CEO	Title: Secretary
Date: August 22, 1995	Date: August 22, 1995

SELECTRA PHARMACEUTICALS, INC.	ALLERGAN LIGAND RETINOID THERAPEUTICS, INC.
By: [SIG]	By: /s/ WILLIAM L. RESPESS
	William L. Respess
Title: V.P.	Title: Secretary
Date: August 22, 1995	Date: August 22, 1995

ADDENDUM

to
SETTLEMENT AGREEMENT, LICENSE AND
MUTUAL GENERAL RELEASE

In addition to the rights and obligations set forth in the Settlement Agreement, License and Mutual General Release, the Parties agree to the following: LIGAND will reimburse SRI and/or FOUNDATION and/or pay for such reasonable patent filing, prosecution, and maintenance costs, including costs on a per hour basis for time spent by inventors and staff, incurred at Ligand's request and with its prior approval and subject to the terms and conditions for reimbursement set forth in Section 6.09 hereof after May 3, 1995 for the following United States patent applications and their corresponding foreign counterparts: U.S. Serial No. [*] ("[*]" to M.I. Dawson et al., filed [*]) and U.S. Serial No. [*], the divisional application filed therefrom on [*]; U.S. Serial No. [*] ("[*]", to M. Pfahl et al., filed [*]) and U.S. Serial No. [*] ("[*]" to M. Pfahl et al., filed [*]) and U.S. Serial No. [*] ("[*]"), the continuation-in-part application filed therefrom on [*]. LIGAND shall determine, in its sole discretion, the countries in which it wishes to obtain and maintain patent protection with regard to the inventions disclosed in the above referenced applications, and shall be free to abandon prosecution and maintenance, provided that written notice is provided to SRI and/or FOUNDATION sixty (60) days prior to such abandonment. LIGAND shall exercise its option under Section 6.01 with respect to the applications identified in this ADDENDUM on or before three (3) months from the effective date of this Agreement.

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EXHIBIT "A"

Option Patents

La Jolla Cancer Research Foundation
Pfahl Patents

Pfahl 1
"Methods of Using Estrogen Receptor as a Constitutive Transcriptional Activator and a Respressor"
Serial No. 07/502,325
Filed: 3/30/90

Patent No. 5,183,736
Issued 2/2/93

Pfahl 2
"[*]"
Serial No. [*]
Filed: [*]
Continuation of
Serial No. [*]
Filed [*]
Continuation of
Serial No. [*]
Filed [*]

Pfahl 3
"[*]"
Serial No. [*]
Filed: [*]

Pfahl 4
"[*]"
Serial No. [*]
Filed: [*]
Serial No. [*]
Filed: [*]

Pfahl 5

"[*]"
Serial No. [*]
Filed: [*]
Continuation-in-Part of
Serial No. [*]
Filed: [*]

Pfahl 6
"[*]"
Serial No. [*]
Filed: [*]

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Pfahl 7
"[*]"
Serial No. [*]
Filed: [*]
Divisional of [*]

Pfahl 8
"[*]"
Serial No. [*]
Filed: [*]

Pfahl 9
"[*]"
Serial No. [*]
Date Filed: [*]
Continuation-in-Part of
Serial No. [*]
Filed: [*]

Pfahl 11
"[*]"
Serial No. [*]
Filed: [*]

Pfahl 12
"[*]"
Serial No. [*]
Filed: [*]

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EXHIBIT "B"

Form of Consent Judgment

LYON & LYON Case No. 93-1895 IEG (CM)
A Partnership including
DOUGLAS E. OLSON (State Bar No. 38649)
J. DONALD McCARTHY (State Bar No. 69864)
A Professional Corporation
HOPE & MELVILLE (State Bar No. 145100)
First Interstate World Center
633 West Fifth Street, Suite 4700
Los Angeles, California 90071-2066
(213) 489-1600

Attorneys for Plaintiffs

LIGAND PHARMACEUTICALS INCORPORATED
and ALLERGAN LIGAND

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

LIGAND PHARMACEUTICALS INCORPORATED, a Delaware corporation; and ALLERGAN LIGAND, a California partnership,

Plaintiffs,

v.

LA JOLLA CANCER RESEARCH FOUNDATION, a California corporation; SELECTRA PHARMACEUTICALS, INC., a California corporation; and SRI INTERNATIONAL, a California corporation,

Defendants.

CONSENT JUDGMENT

Plaintiffs Ligand Pharmaceutical Incorporated and Allergan Ligand and Defendants La Jolla Cancer Research Foundation, SelectRA Pharmaceutical, Inc., and SRI International have agreed, as part of a settlement, to the entry of the following Consent Judgment, subject to the approval of the Court:

IT IS HEREBY ORDERED ADJUDGED, AND DECREED that:

1. This Court has jurisdiction over the subject matter of the Complaint and over the parties to this Consent Judgment.

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(213) 489-1600

2. Plaintiffs, under an exclusive license from the owner, have the right to sue for infringement of U.S. Patent Nos. 4,981,784; 5,071,773; 5,091,518; and 5,171,671 (hereafter collectively referred to as the "Evans Patents"). Each of the Evans Patents is lawfully issued, valid and enforceable. Defendant SelectRA Pharmaceuticals, Inc. has infringed the Evans Patents by its plans to make, use or sell the inventions claimed therein and has induced others to make, use or sell the inventions claimed therein. Defendant La Jolla Cancer Research Foundation has infringed the Evans Patents in its efforts to commercialize the technology claimed therein. Defendant SRI International has induced infringement of the Evans Patents by providing retinoid compounds for biological evaluations to Defendant La Jolla Cancer Research Foundation.

3. The parties have entered into a Settlement Agreement, License and Mutual General Release, dated as of August __, 1995 (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Plaintiffs have granted to Defendant La Jolla Cancer Research Foundation and to Defendant SRI International certain license rights to use the Evans Patents (the

"Defendants' License Rights").

4. Defendants, and each of them, their respective agents, servants, employees, any business entity effectively owned or controlled by them, and all persons, including successors and assigns, in active concert or participation with them, or any of them, who receive actual notice of this consent Judgment, except to the extent licensed under the Settlement Agreement, are hereby enjoined:

a. from making, using or selling any product, method or compound or thing which infringes any claim of the Evans Patents;

b. from contributing to anyone's infringement of any claim of the Evans Patents; or

c. from inducing anyone to infringe any claim of the Evans Patents.

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5. The parties have settled their monetary claims, there shall be no damages or accounting for damages or profits hereunder, and each party shall bear its own costs, including attorneys' fees.

6. Except to the extent that relief is granted above, every remaining claim in the Complaint is hereby dismissed with prejudice.

7. The Court shall retain jurisdiction over the subject matter hereof and over Defendants to ensure compliance with this Consent Judgment.

Dated:
---------- ----------
United States District Judge

Approved as to form and content:

LYON & LYON
A Partnership including
DOUGLAS E. OLSON
J. DONALD McCARTHY
Professional Corporations
HOPE E. MELVILLE
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633 West Fifth Street, Suite 4700
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Dated: By:
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INCORPORATED AND ALLERGAN LIGAND

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Dated: By:
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LA JOLLA CANCER RESEARCH FOUNDATION
and SELECTRA PHARMACEUTICALS, INC.

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B - 3

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--- ---
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SRI INTERNATIONAL

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Los Angeles, CA 90071-2066
(213) 489-1600

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EXHIBIT "C"

Form of Press Release

DRAFT DRAFT DRAFT

Ligand and ALRT Contact:
Susan E. Atkins
(619) 550-7687

La Jolla Cancer Research Foundation:
Louis Coffman
(619) 455-6480 ext. 202

FOR IMMEDIATE RELEASE
- ---

LIGAND and ALRT SETTLE
PATENT INFRINGEMENT SUIT
AGAINST LA JOLLA CANCER
RESEARCH FOUNDATION,
SelectRA AND SRI

SAN DIEGO, CA, AUG. XX, 1995 -- Ligand Pharmaceuticals Incorporated (Nasdaq:LGND), Allergan Ligand Retinoid Therapeutics, Inc. (Nasdaq:ALRIZ) and the La Jolla Cancer Research Foundation (LJCRF), today announced that they have reached a mutual settlement agreement in the patent infringement litigation commenced by Ligand and the Allergan-Ligand joint venture against LJCRF and SelectRA Pharmaceuticals, Inc., an affiliate of LJCRF, and SRI International.

The settlement includes a consent judgment which confirms the validity of four patents (U.S. 4,981,784; U.S. 5,071,773; U.S. 5,091,518; and U.S. 5,171,671) covering aspects of retinoid technology utilized in the discovery and characterization of retinoid compounds which are potentially valuable pharmaceutical products. The patents, which are owned by The Salk Institute for Biological Studies, are licensed exclusively to Ligand and exclusively

sublicensed to Allergan Ligand Retinoid Therapeutics, Inc. (ALRT) for retinoid applications. Pursuant to the settlement, the consent judgment also acknowledges an infringement of the patent rights principally by reason of activities surrounding SelectRA's proposed commercialization of retinoid technology. As part of the settlement, SelectRA is being dissolved.

The settlement also includes a cross-licensing arrangement, with no party paying any damages. LJCRF and SRI have been granted a royalty-free, limited license to use the technology covered by the patents-in-suit for basic research purposes. LJCRF and SRI have in turn granted options to Ligand to acquire exclusive, worldwide, royalty-bearing license rights to inventions and patent rights which result from the use by the LJCRF and SRI of the licensed patent rights. ALRT acquires rights to such inventions and patent rights having retinoid applications as a result of Ligand's blanket sublicense to ALRT of its rights to retinoid technology. Under the settlement, Ligand and ALRT will have the opportunity to evaluate certain retinoid compounds prepared at SRI and, at ALRT's option, develop for commercial purposes those of interest to it.

"ALRT has a broad and strong patent position in the field of retinoid technology and we will continue to aggressively protect these important intellectual property assets while proceeding equally aggressively to commercialize this technology," according to Dr. Marvin Rosenthale, ALRT President.

"Ligand is pleased with this settlement which achieves our original goals for initiating this litigation. We are also pleased that the settlement provides that certain retinoid technology invented by the La Jolla Cancer Research Foundation and SRI International can be commercially exploited by ALRT," according to David E. Robinson, Ligand President and Chief Executive Officer.

"The Foundation is pleased to enter into this settlement with Ligand so as to secure the Foundation's right to use the patented technology for conducting the Foundation's basic scientific research programs," according to Erkki Ruoslahti, M.D., President of LJCRF. "The Foundation's discoveries can now be commercialized through Ligand or ALRT, and the Foundation is optimistic that they will be successful in developing and marketing products arising from this technology, which may result in royalty payments to support the Foundation's further basic scientific research efforts."

Allergan Ligand Retinoid Therapeutics, Inc. is a newly formed company whose primary purpose is to discover and develop drugs based on retinoids. Retinoids have a broad range of biological actions, and evidence suggests that retinoids may be useful in the treatment of skin diseases, a variety of cancers, including kidney cancer, certain forms of leukemia and other cancers, as well as eye diseases.

Ligand Pharmaceuticals Incorporated, founded in 1987, is a leader in gene transcription technology, particularly intracellular receptor (IR) technology and Signal Transducers and Activators of Transcription (STATs). Ligand applies IR and STATs technology to the discovery and development of small molecule drugs to enhance therapeutic and safety profiles and to address major unmet patient needs in cancer, women's health and skin diseases, as well as osteoporosis, cardiovascular and inflammatory disease.

The La Jolla Cancer Research Foundation, located in La Jolla, California, was established in 1976 as a non-profit biomedical research institute to investigate the biological roots of cancer with the goal of finding complete and noninvasive cures for the disease.

EXHIBIT "D"

Retinoid Compounds Synthesized in
[*] Laboratory During Term of the
Compound Evaluation Agreement

[*] CONFIDENTIAL TREATMENT REQUESTED

Table 1A
Retinoids available from inventory

Retinoid No.	Structure	Retinoid No.	Structure
1	[*]	8	[*]
2	[*]	9	[*]
3	[*]	10	[*]
4	[*]	11	[*]
5	[*]	12	[*]
6	[*]	13	[*]
7	[*]	14	[*]

[*] CONFIDENTIAL TREATMENT REQUESTED

Table 1A continued

Retinoid No.	Structure	Retinoid No.	Structure
15(2)	[*]	23	[*]
16(2)	[*]	24	[*]
17	[*]	25	[*]
18	[*]	25(2)	[*]
19	[*]	27	[*]
20	[*]	28	[*]
21	[*]	29	[*]
22	[*]	30	[*]

[*] CONFIDENTIAL TREATMENT REQUESTED

Table 1A continued

Retinoid No.	Structure	Retinoid No.	Structure
31(2)	[*]	39	[*]
32	[*]	40	[*]
33	[*]	41	[*]
34	[*]	42	[*]

35	[*]
36	[*]
37	[*]
38	[*]

[*] CONFIDENTIAL TREATMENT REQUESTED

Table 1B
Retinoids not available from inventory

Retinoid No.	Structure	Retinoid No.	Structure
43	[*]	51	[*]
44	[*]	52	[*]
45	[*]	53	[*]
46	[*]	54(2)	[*]
47(2)	[*]	55	[*]
48	[*]	56	[*]
49(1)	[*]	57	[*]
50	[*]	58	[*]

[*] CONFIDENTIAL TREATMENT REQUESTED

Table 1B continued

Retinoid No.	Structure	Retinoid No.	Structure
59	[*]	67(1)	[*]
60	[*]	68	[*]
61	[*]	69	[*]
62	[*]	70(1)	[*]
63	[*]	71	[*]
64	[*]	72	[*]
65	[*]	73	[*]
66	[*]	74	[*]

[*] CONFIDENTIAL TREATMENT REQUESTED

Table 1B continued

Retinoid	Retinoid

No.	Structure	No.	Structure
75	[*]		

(1) None remaining.

(2) Known to have been claimed by others ([*]).

[*] CONFIDENTIAL TREATMENT REQUESTED

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This schedule contains summary financial information extracted from SEC Form 10-Q for the three months ended March 31, 1997 and is qualified in its entirety by reference to such financial statements (in thousands except earnings per share).
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