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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Mark One

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

For the quarterly period ended September 30, 2010

or

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

For the Transition Period From _____ to _____.

Commission File Number: 001-33093

LIGAND PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**77-0160744**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
11085 North Torrey Pines Road La Jolla, CA	**92037**
(Address of principal executive offices)	**(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐
(Do not check if a smaller reporting company)

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

As of October 31, 2010, the registrant had 19,610,158 shares of common stock outstanding.

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LIGAND PHARMACEUTICALS INCORPORATED
QUARTERLY REPORT

FORM 10-Q

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* No information provided due to inapplicability of item.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,796	$ 16,032
Short-term investments	20,273	37,200
Accounts receivable, net	96	618
Assets held for sale	—	3,170
Other current assets	1,342	1,364
Current portion of co-promote termination payments receivable	9,780	9,782
Total current assets	35,287	68,166
Restricted cash and investments	1,341	1,462
Property and equipment, net	968	8,522
Goodwill and other identifiable intangible assets	15,833	2,515
Long-term portion of co-promote termination payments receivable	28,618	30,993
Deferred income taxes	25,068	25,068
Other assets	5,453	5,081
Total assets	$ 112,568	$ 141,807
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,339	$ 16,945
Accrued liabilities	7,566	9,375
Payable to Neurogen stockholders	—	3,770
Allowances for loss on returns, rebates and chargebacks related to discontinued operations	1	31
Accrued litigation settlement costs	1,000	1,000
Current portion of deferred gain	1,702	1,702
Current portion of co-promote termination liability	9,780	9,782
Current portion of lease termination payments	5,292	4,487
Current portion of equipment financing obligations	—	91
Current portion of deferred revenue	—	4,989
Total current liabilities	36,680	52,172
Long-term portion of co-promote termination liability	28,618	30,993
Long-term portion of deferred revenue, net	2,546	3,495
Long-term portion of deferred gain	426	1,702
Long-term portion of lease termination payments	—	5,281
Income tax payable	29,399	28,108
Other long-term liabilities	15,995	7,968
Total liabilities	113,664	129,719
Commitments and contingencies		
Common stock subject to conditional redemption; 112,371 shares issued and outstanding at September 30, 2010 and December 31, 2009	8,344	8,344
Stockholders' equity :		
Convertible preferred stock, $0.001 par value; 833,333 shares authorized; none issued	—	—
Common stock, $0.001 par value; 33,333,333 shares authorized; 20,619,321 and 20,544,835 shares issued at September 30, 2010 and December 31, 2009, respectively	21	21
Additional paid-in capital	729,048	726,918
Accumulated other comprehensive income	76	513
Accumulated deficit	(696,451)	(681,574)
Treasury stock, at cost; 1,101,317 shares at September 30, 2010 and December 31, 2009	(42,134)	(42,134)
Total stockholders' equity	(9,440)	3,744
	$ 112,568	$ 141,807

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Royalties	$ 1,774	$ 1,651	$ 5,337	$ 6,386
Collaborative research and development and other revenues	6,028	6,250	14,261	18,577
Total revenues	7,802	7,901	19,598	24,963
Operating costs and expenses:				
Research and development	4,935	9,921	18,912	29,744
General and administrative	3,074	2,415	9,363	12,190
Lease exit and termination costs	15,894	15,235	15,942	15,235
Write-off of acquired in-process research and development.	—	—	—	442
Total operating costs and expenses	23,903	27,571	44,217	57,611
Accretion of deferred gain on sale leaseback	426	20,444	1,277	21,426
Income (loss) from operations	(15,675)	774	(23,342)	(11,222)
Other income (expense):				
Interest income	59	176	387	436
Interest expense	(8)	(21)	(39)	(257)
Decrease in liability for contingent value rights	2,460	—	6,702	—
Other, net	1,728	126	2,476	137
Total other income (expense), net	4,239	281	9,526	316
Income (loss) before income taxes	(11,436)	1,055	(13,816)	(10,906)
Income tax expense	(419)	—	(1,318)	—
Income (loss) from continuing operations	(11,855)	1,055	(15,134)	(10,906)
Discontinued operations:				
Gain (loss) on sale of AVINZA Product Line before income taxes	11	608	23	5,331
Gain (loss) on sale of Oncology Product Line before income taxes	1	140	235	591
Income tax benefit (expense) on discontinued operations	—	—	—	—
Discontinued operations	12	748	258	5,922
Net income (loss):	$ (11,843)	$ 1,803	$ (14,876)	$ (4,984)
Basic and diluted per share amounts:				
Income (loss) from continuing operations	$ (0.60)	$ 0.06	$ (0.77)	$ (0.58)
Discontinued operations	0.00	0.04	0.01	0.32
Net income (loss)	$ (0.60)	$ 0.10	$ (0.76)	$ (0.26)
Weighted average number of common shares—basic	19,629,693	18,834,473	19,607,087	18,850,409
Weighted average number of common shares—diluted	19,629,693	18,856,516	19,607,087	18,850,409

See accompanying notes.

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

	For the nine months ended September 30,	
	2010	2009
Operating activities		
Net loss	$ (14,876)	$ (4,984)
Less: gain from discontinued operations	258	5,922
Loss from continuing operations	(15,134)	(10,906)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accretion of deferred gain on sale leaseback	(1,277)	(21,426)
Change in estimated fair value of contingent value rights	(6,702)	—
Impairment and amortization of acquired intangible assets	—	1,500
Depreciation and amortization of property and equipment	2,117	2,370
Non-cash lease costs	9,591	345
Non-cash development milestone revenue	—	(915)
Write-off of acquired in-process research and development	—	441
(Gain) loss on asset write-offs	4,990	(2)
Realized loss (gain) on investment	(585)	(72)
Stock-based compensation	2,014	2,441
Other	32	(3)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	523	(2,110)
Other current assets	22	633
Other long term assets	(372)	10,064
Accounts payable and accrued liabilities	(14,235)	(7,936)
Other liabilities	(1,075)	3,367
Deferred revenue	(5,938)	(6,996)
Net cash used in operating activities of continuing operations	(26,029)	(29,205)
Net cash provided by (used in) operating activities of discontinued operations	262	(3,307)
Net cash used in operating activities	(25,767)	(32,512)
Investing activities		
Purchases of property and equipment	(70)	(537)
Proceeds from sale of property and equipment and building	589	16
Acquisition of Metabasis, net of cash acquired	(2,834)	—
Acquisition of intellectual property	(1,375)	—
Purchases of short-term investments	(33,793)	(32,806)
Proceeds from sale of short-term investments	51,306	45,760
Other, net	(311)	261
Net cash provide by (used in) investing activities of continuing operations	13,512	12,694
Net cash provided by investing activities of discontinued operations	—	—
Net cash provided by (used in) investing activities	13,512	12,694
Financing activities		
Principal payments on equipment financing obligations	(91)	(392)
Repayment of debt	—	(3,443)
Net proceeds from issuance of common stock	110	60
Net cash provided by (used in) financing activities	19	(3,775)
Net decrease in cash and cash equivalents	(12,236)	(23,593)
Cash and cash equivalents at beginning of period	16,032	28,753
Cash and cash equivalents at end of period	$ 3,796	$ 5,160

See accompanying notes.

LIGAND PHARMACEUTICALS INCORPORATED
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Ligand Pharmaceuticals Incorporated (the "Company" or "Ligand") were prepared in accordance with instructions for this Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 and, therefore, do not include all information necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the condensed consolidated financial statements, have been included. The results of operations and cash flows for the three and nine months ended September 30, 2010 and 2009 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other future period. These statements should be read in conjunction with the consolidated financial statements and related notes, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

The Company's and its partners' products are in various stages of development. Potential products that are in development may not reach the market for a number of reasons. Prior to generating revenues from these products, the Company or its collaborative partners must complete the development of the products in the human health care market. No assurance can be given that: (1) product development efforts will be successful, (2) required regulatory approvals for any indication will be obtained, (3) any products, if introduced, will be capable of being produced in commercial quantities and/or at reasonable costs, or (4) patient and physician acceptance of these products will be achieved. The Company faces risks common to companies whose products are in various stages of development. These risks include, among others, the risk that the Company will need additional financing to complete its research and development programs and commercialize its technologies. The Company has incurred significant losses since its inception. At September 30, 2010, the Company's accumulated deficit was $696.5 million. Management expects that the Company will continue to incur substantial research and development expenses. As further discussed in Note 2, the Company sold its oncology product line ("Oncology") on October 25, 2006 and its AVINZA product line ("AVINZA") on February 26, 2007. The operating results for Oncology and AVINZA have been presented in the accompanying condensed consolidated financial statements as "Discontinued Operations."

Principles of Consolidation

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

Use of Estimates

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

Income (Loss) Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss) from continuing operations	$ (11,855)	$ 1,055	$ (15,134)	$ (10,906)
Discontinued operations	12	748	258	5,922
Net income (loss)	(11,843)	1,803	(14,876)	(4,984)
Shares used to compute basic income (loss) per share	19,629,693	18,834,473	19,607,087	18,850,409
Dilutive potential common shares:				
Restricted stock	—	22,043	—	—
Shares used to compute diluted income (loss) per share	19,629,693	18,856,516	19,607,087	18,850,409
Basic and diluted per share amounts:				
Income (loss) from continuing operations	$ (0.60)	$ 0.06	$ (0.77)	$ (0.58)
Discontinued operations	0.00	0.04	0.01	0.32
Net income (loss)	$ (0.60)	$ 0.10	$ (0.76)	$ (0.26)

Guarantees and Indemnifications

Under its amended and restated bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer's or director's serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company has a directors and officers liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, management believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of September 30, 2010 and December 31, 2009.

Revenue Recognition

Royalties on sales of AVINZA, VIVIANT, CONBRIZA and PROMACTA are recognized in the quarter reported by the respective partner.

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

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

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

Income Taxes

The Company recognizes liabilities or assets for the deferred tax consequences of temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. These temporary

differences will result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. A valuation allowance is established when management determines that it is more likely than not that all or a portion of a deferred tax asset will not be realized. Management evaluates the realizability of its net deferred tax assets on a quarterly basis and valuation allowances are provided, as necessary. During this evaluation, management reviews its forecasts of income in conjunction with other positive and negative evidence surrounding the realizability of its deferred tax assets to determine if a valuation allowance is required. Adjustments to the valuation allowance will increase or decrease the Company's income tax provision or benefit. Management also applies the relevant guidance to determine the amount of income tax expense or benefit to be allocated among continuing operations, discontinued operations, and items charged or credited directly to stockholders' equity. The Company recorded income tax expense of $0.4 million and $1.3 million for the three and nine months ended September 30, 2010.

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

Accounting for Stock-Based Compensation

Stock-based compensation expense for awards to employees and non-employee directors is recognized on a straight-line basis over the vesting period until the last tranche vests. Compensation cost for consultant awards is recognized over each separate tranche's vesting period. The Company recognized compensation expense of $0.6 million and $0.7 million for the three months ended September 30, 2010 and 2009, respectively. The compensation expense related to share-based compensation arrangements is recorded as components of research and development expenses ($0.3 million and $0.5 million) and general and administrative expenses ($0.3 million and $0.2 million) for the three months ended September 30, 2010 and 2009, respectively. The Company recognized compensation expense of $2.0 million and $2.4 million for the nine months ended September 30, 2010 and 2009, respectively. The compensation expense related to share-based compensation arrangements is recorded as components of research and development expenses ($1.1 million and $1.4 million) and general and administrative expenses ($0.9 million and $1.0 million) for the nine months ended September 30, 2010 and 2009, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Risk-free interest rate	1.7%	2.8%	2.7%	2.1%
Dividend yield	—	—	—	—
Expected volatility	70%	72%	72%	74%
Expected term	6.0 years	6.0 years	5.8 years	5.7 years

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

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

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of cash and highly liquid securities with maturities at the date of acquisition of three months or less. The following table summarizes the various investment categories at September 30, 2010 and December 31, 2009 (in thousands):

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
September 30, 2010				
U.S. government securities	$ 4,029	$ 9	$ (1)	$ 4,037
Certificates of deposit	5,062	78	—	5,140
Corporate obligations	11,057	123	(84)	11,096
	20,148	210	(85)	20,273
Certificates of deposit—restricted	1,341	—	—	1,341
	$21,489	$ 210	$ (85)	$21,614
December 31, 2009				
U.S. government securities	$19,118	$ 51	$ (95)	$19,074
Certificates of deposit	5,784	2	(2)	5,784
Corporate obligations	11,866	486	(10)	12,342
	36,768	539	(107)	37,200
Certificates of deposit—restricted	1,341	—	—	1,341
	$38,109	$ 539	$ (107)	$38,541

In July 2007, the Company purchased $5.0 million of commercial paper issued by Golden Key Ltd. The investment was highly-rated and within the Company's investment policy at the time of purchase, but during the third quarter of 2007, large credit rating agencies downgraded the quality of this security. In addition, as a result of not meeting certain liquidity covenants, the assets of Golden Key Ltd. were assigned to a trustee who established a committee of the largest senior credit holders to determine the next steps. Subsequently, Golden Key Ltd. defaulted on its obligation to settle the security on the stated maturity date of October 10, 2007. During the quarter ended September 30, 2010, the assets of Golden Key Ltd. were sold through an auction process and, as a result, the Company received a final cash distribution of approximately $2.9 million.

Concentrations of Credit Risk

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

The Company invests its excess cash principally in United States government debt securities, investment grade corporate debt securities and certificates of deposit. The Company has established guidelines relative to diversification and maturities that maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. Except as described above, the Company has not experienced any significant losses on its cash equivalents, short-term investments or restricted investments.

As of September 30, 2010 and December 31, 2009, cash deposits held at financial institutions in excess of FDIC insured amounts of $250,000 were approximately $7.0 million and $5.3 million, respectively.

Other Current Assets

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

	September 30, 2010	December 31, 2009
Prepaid expenses	$ 798	$ 848
Other receivables	544	516
	$ 1,342	$ 1,364

Property and Equipment

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

	September 30, 2010	December 31, 2009
Lab and office equipment	$ 7,110	$ 24,646
Leasehold improvements	71	11,728
Computer equipment and software	3,996	6,562
	11,177	42,936
Less accumulated depreciation and amortization	(10,209)	(34,414)
	$ 968	$ 8,522

Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or their related lease term, whichever is shorter.

On June 15, 2010, the Company committed to a plan to close its operations at its Cranbury, New Jersey facility. During the quarter ended September 30, 2010, the Company ceased use of the facility. As a result, the Company wrote-off approximately $5.4 million of property and equipment related to the facility closure, which is included in lease exit and termination costs in the statements of operations.

Goodwill and Other Identifiable Intangible Assets

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

	September 30, 2010	December 31, 2009
Acquired in-process research and development	$ 15,133	$ 1,815
Goodwill	700	700
	$ 15,833	$ 2,515

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

As discussed in Note 7, on January 27, 2010, the Company completed its acquisition of Metabasis Therapeutics, following approval of the transaction by Metabasis stockholders. The Company paid $1.8 million in cash, or approximately $0.046 per Metabasis share, to Metabasis' stockholders. In addition, Metabasis stockholders received four tradable Contingent Value Rights ("CVRs"), one CVR from each of four respective series of CVRs, for each Metabasis share. The CVRs will entitle the holders to cash payments as frequently as every six months as cash is received by the Company from proceeds from Metabasis' partnership with Roche or the sale or partnering of any of the Metabasis drug development programs, among other triggering events. The Company has also committed to spend at least $8.0 million in new research and development funding on the Metabasis programs within 42 months following the closing of the transaction. The Company has allocated $12.0 million of the purchase price of Metabasis to IPR&D.

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

Impairment of Long-Lived Assets

Management reviews long-lived assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value for the Company's long-lived assets is determined using the expected cash flows discounted at a rate commensurate with the risk involved. As of September 30, 2010, management does not believe there have been any events or circumstances indicating that the carrying amount of its long-lived assets may not be recoverable.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30, 2010	December 31, 2009
Warrant liability	$ 58	$ 459
Compensation	1,057	2,808
Legal	380	134
Lease exit obligations	2,101	61
Other	3,970	5,913
	$ 7,566	$ 9,375

The following summarizes the activity in the allowances for loss on returns, rebates and charge-backs related to discontinued operations for the nine months ended September 30, 2010 (in thousands):

	Charge-backs and Rebates	Returns	Total
Balance at December 31, 2009	$ 14	$ 17	$ 31
AVINZA Transaction Provision (1)	(6)	(7)	(13)
Oncology Transaction Provision (2)	(7)	—	(7)
Payments	—	—	—
Charges	—	(10)	(10)
Balance at September 30, 2010	$ 1	$ —	$ 1

(1) The AVINZA transaction provision amounts represent changes in the estimates of the accruals for rebates, chargebacks and returns recorded in connection with the sale of the AVINZA product line.

(2) The Oncology transaction provision amounts represent changes in the estimates of the accruals for rebates, chargebacks and returns recorded in connection with the sale of the Oncology product line.

Other Long-Term Liabilities

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

	September 30, 2010	December 31, 2009
Liability for contingent value rights	$ 3,040	$ 700
Deferred rent	749	1,165
Deposits	388	388
Lease exit obligations	11,818	4,715
Litigation payment	—	1,000
	$ 15,995	$ 7,968

Sale of Royalty Rights

The Company previously sold to third parties the rights to future royalties of certain of its products. As part of the underlying royalty agreements, the partners have the right to offset a portion of any future royalty payments owed to the Company to the extent of previous milestone payments. Accordingly, the Company deferred a portion of the revenue associated with each tranche of royalty right sold, equal to the pro-rata share of the potential royalty offset. Such amounts associated with the offset rights against future royalty payments will be recognized as revenue upon receipt of future royalties from the respective partners. As of September 30, 2010 and December 31, 2009, the Company had deferred $2.5 million of revenue, which is included in long-term portion of deferred revenue.

Comprehensive Income (loss)

Comprehensive income (loss) represents net income (loss) adjusted for the change during the periods presented in unrealized gains and losses on available-for-sale securities less reclassification adjustments for realized gains or losses included in net income (loss). Comprehensive loss is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss) as reported	$(11,843)	$1,803	$(14,876)	$(4,984)
Unrealized net gain (loss) on available-for-sale securities	(809)	223	(437)	236
Comprehensive income (loss)	$(12,652)	$2,026	$(15,313)	$(4,748)

Recently Adopted Accounting Pronouncements

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

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which, among other things, amends *Accounting Standards Topic 820 Fair Value Measurements and Disclosures (ASC 820)* to require entities to separately present purchases, sales, issuances, and settlements in their reconciliation of Level 3 fair value measurements (i.e., to present such items on a gross basis rather than on a net basis), and which clarifies existing disclosure requirements provided by ASC 820 regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value for measurements that fall within either Level 2 or Level 3 of

the fair value hierarchy. ASU No. 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company's adoption of this standard had no impact on its consolidated financial position, results of operations or cash flows.

2. Discontinued Operations

Oncology Product Line

On September 7, 2006, the Company, Eisai Inc., a Delaware corporation, and Eisai Co., Ltd., a Japanese company (together with Eisai Inc., "Eisai"), entered into a purchase agreement (the "Oncology Purchase Agreement") pursuant to which Eisai agreed to acquire all of the Company's worldwide rights in and to the Company's oncology products, including, among other things, all related inventory, equipment, records and intellectual property, and assume certain liabilities as set forth in the Oncology Purchase Agreement. The Oncology product line included the Company's four marketed oncology drugs: ONTAK, Targretin capsules, Targretin gel and Panretin gel.

Prior to the Oncology sale, the Company recorded accruals for rebates, chargebacks, and other discounts related to Oncology products when product sales were recognized as revenue under the sell-through method. Upon the Oncology sale, the Company accrued for rebates, chargebacks, and other discounts related to Oncology products in the distribution channel which had not sold-through at the time of the Oncology sale and for which the Company retained the liability subsequent to the sale. These products expired at various dates through July 31, 2008. The Company's accruals for Oncology rebates, chargebacks, and other discounts total $1,000 and $8,000 as of September 30, 2010 and December 31, 2009, respectively.

AVINZA Product Line

On September 6, 2006, the Company and King Pharmaceuticals, Inc. ("King"), entered into a purchase agreement (the "AVINZA Purchase Agreement"), pursuant to which King agreed to acquire all of the Company's rights in and to AVINZA in the United States, its territories and Canada, including, among other things, all AVINZA inventory, records and related intellectual property, and assume certain liabilities as set forth in the AVINZA Purchase Agreement (collectively, the "Transaction").

Prior to the AVINZA sale, the Company recorded accruals for rebates, chargebacks, and other discounts related to AVINZA products when product sales were recognized as revenue under the sell-through method. Upon the AVINZA sale, the Company accrued for rebates, chargebacks, and other discounts related to AVINZA products in the distribution channel which had not sold-through at the time of the AVINZA sale and for which the Company retained the liability subsequent to the sale. These products expired at various dates through June 30, 2009. The Company's accruals for AVINZA rebates, chargebacks, and other discounts total zero and $6,000 as of September 30, 2010 and December 31, 2009, respectively.

Additionally, and pursuant to the terms of the AVINZA Purchase Agreement, the Company retained the liability for returns of product from wholesalers that had been sold by the Company prior to the close of the transaction. Accordingly, as part of the accounting for the gain on the sale of AVINZA, the Company recorded a reserve for AVINZA product returns. AVINZA products sold by the Company may be returned through a specified period subsequent to the product expiration date, but no later than December 31, 2009. Under the sell-through revenue recognition method, the Company previously did not record a reserve for returns from wholesalers. The Company's reserve for AVINZA returns is zero and $17,000 as of September 30, 2010 and December 31, 2009, respectively.

3. Financial Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale fixed income and equity securities and other equity securities. The fair value of these certain financial assets and liabilities was determined using the following inputs at September 30, 2010:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Fixed income available-for-sale securities	$20,273	$ 20,273	$ —	$ —
Liabilities:				
Warrant liability	$ 58	$ —	$ —	$ 58
Payable to shareholders for contingent value rights	2,439	2,439	—	—
Total liabilities:	$ 2,497	$ 2,439	$ —	$ 58

The Company's short-term investments are fixed income available-for-sale securities and include U.S. Government Notes, Corporate Notes and Corporate Discount Commercial Paper. The fair value of the Company's short-term investments are determined using quoted market prices in active markets. The fair value of the warrant liability is determined using the Black-Scholes option-pricing model, which uses certain significant observable inputs, including stock price (quoted market prices in active market), warrant exercise price (defined in warrant agreement), expected life of warrant (defined in warrant agreement), dividend yields (determined by the Company), and risk-free interest rate (quoted market prices based on expected life assumption). The fair value of the payable to shareholders for contingent value rights is determined using quoted market prices in active markets.

4. AVINZA Co-Promotion

In February 2003, the Company and Organon Pharmaceuticals USA Inc. ("Organon") announced that they had entered into an agreement for the co-promotion of AVINZA. Subsequently in January 2006, the Company signed an agreement with Organon that terminated the AVINZA co-promotion agreement between the two companies and returned AVINZA co-promotion rights to Ligand. In consideration of the early termination and return of rights under the terms of the agreement, the Company agreed to and paid Organon $37.8 million in October 2006. The Company further agreed to and paid Organon $10.0 million in January 2007, in consideration of certain minimum sales calls during a Transition Period. In addition, following the Transition Period, the Company agreed to make royalty payments to Organon equal to 6.5% of AVINZA net sales through December 31, 2012 and thereafter 6.0% through patent expiration, currently anticipated to be November of 2017.

On February 26, 2007, the Company consummated its agreement with King pursuant to which King acquired all of the Company's rights in and to AVINZA, assumed certain liabilities, and reimbursed the Company the $47.8 million previously paid to Organon (comprised of the $37.8 million paid in October 2006 and the $10.0 million that the Company paid in January 2007). King also assumed the Company's co-promote termination obligation to make payments to Organon based on net sales of AVINZA. In connection with King's purchase of AVINZA, Organon did not consent to the legal assignment of the co-promote termination obligation to King. Accordingly, the Company remains liable to Organon in the event of King's default of the obligation. Therefore, the Company recorded an asset as of February 26, 2007 to recognize King's assumption of the obligation, while continuing to carry the co-promote termination liability in the Company's consolidated financial statements to recognize the Company's legal obligation as primary obligor to Organon. This asset represents a non-interest bearing receivable for future payments to be made by King and is recorded at its fair value based on management's estimate of future sales of AVINZA. The receivable and liability will remain equal and adjusted each quarter for changes in the estimated fair value of the obligation including for any changes in the estimate of future net AVINZA product sales. This receivable will be assessed on a quarterly basis for impairment (e.g., in the event King defaults on the assumed obligation to pay Organon). As of September 30, 2010 and December 31, 2009, the fair value of the co-promote termination liability (and the corresponding receivable) was determined using a discount rate of 15%.

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

A summary of the co-promote termination liability as of September 30, 2010 is as follows (in thousands):

Net present value of payments based on estimated future net AVINZA product sales as of December 31, 2009	$40,775
Assumed payments made by King or assignee	(4,021)
September 30, 2010 fair value adjustment of estimated future payments based on estimated future net AVINZA product sales	1,644
Total co-promote termination liability as of September 30, 2010	38,398
Less: current portion of co-promote termination liability as of September 30, 2010	(9,780)
Long-term portion of co-promote termination liability as of September 30, 2010	$28,618

5. Property Leases

In August 2009, the Company entered into a lease termination agreement for its 82,500 square foot office and laboratory facility in San Diego, California, which had a lease term through November 2021. Under the terms of the termination agreement, the Company will pay a termination fee of $14.3 million as follows: $4.5 million was paid upon signing, $4.5 million in July 2010 and $5.3 million in April 2011. As a result, during the third quarter of 2009, the Company recorded lease termination costs of $15.2 million, which included the net present value of the lease termination payments of $14.3 million and $0.9 million of other costs associated with the lease termination. The Company may be required to deliver to the landlord an irrevocable letter of credit for the then-outstanding termination fee if it does not maintain cash and investments of at least $30.0 million prior to the date upon which the second payment is due and cash and investments of at least $20.0 million prior to the date upon which the final payment is due. The Company must also maintain a current ratio of at least 110% measured monthly. The current ratio covenant requirement has been waived by the landlord until December 31, 2010. In addition, the Company entered into a new lease with the same landlord for a period of 27 months commencing October 2009, for premises consisting of approximately 30,000 square feet of office and lab space located in San Diego to serve as its new corporate headquarters. Under the terms of the new lease, the Company pays a basic annual rent of $1.2 million (subject to an annual fixed percentage increase, as set forth in the agreement), plus other normal and necessary expenses associated with the lease.

The Company leases approximately 99,000 square feet in three facilities in Cranbury, New Jersey under leases that expire in 2016. The leases for the New Jersey facilities provide generally for scheduled rent increases, options to extend the leases with certain changes to the terms of the lease agreement, and refurbishment allowances. Commencing September 2009, the Company sublet 5,100 square feet of space through August 2014. As of September 30, 2010, the Company expects to receive $0.4 million in aggregate future lease payments over the duration of the sublease agreement.

On June 15, 2010, the Company committed to a plan to close its operations at its Cranbury, New Jersey facility. During the quarter ended September 30, 2010, the Company ceased use of the facility. As a result, the Company recorded a net charge to operating expenses of $9.7 million for costs related to the difference between the remaining lease obligations of the abandoned operating leases, which run through August 2016, and the Company's estimate of potential future sublease income, discounted to present value. In addition, the Company wrote-off approximately $5.4 million of property and equipment related to the facility closure, which is included in lease exit and termination costs in the statements of operations.

The Company also leases an office and research facility in San Diego, California under an operating lease arrangement through July 2015. Commencing January 2008, the Company sublet this facility through July 2015 and fully vacated this facility in February 2008. The lease agreement provides for increases in annual rents based on changes in the Consumer Price Index or fixed percentage increases ranging from 3% to 7%. The sublease agreement provides for a 3% increase in annual rents. As of September 30, 2010, the Company expects to receive aggregate future minimum lease payments totaling $4.3 million (nondiscounted) over the duration of the sublease agreement. The Company recorded a net charge to operating expenses of $4.3 million for exit costs when it fully ceased use of this facility in the first quarter of 2008. The net charge consisted of a $6.5 million charge for future rent payments offset by a $2.3 million reversal of deferred rent. As of September 30, 2010 and December 31, 2009, $5.0 million and $5.5 million, respectively, has been recorded as a liability for these exit costs and included in accrued expenses and other long-term liabilities on the condensed consolidated balance sheets.

6. Litigation

In February 2009, the Company reached a settlement with The Rockefeller University whereby the parties resolved all disputes that have arisen between them. As part of the settlement, the Company agreed to pay Rockefeller, $5.0 million immediately upon settlement, $1.0 million on or before February 10, 2010, $1.0 million on or before February 10, 2011, and 50% of any milestone payment and 5.88% to 7.0% of certain royalties, in each case received by the Company pursuant to an agreement with SmithKline Beecham Corporation (now known as GlaxoSmithKline) entered into on December 29, 1994. The Company also agreed to pay Rockefeller 1.5% of world-wide net sales of LGD-4665 as certain payments are received by the Company pursuant to its agreement with SmithKline Beecham Corporation entered into on December 17, 2008. As of September 30, 2010, the Company has recorded a liability of $1.0 million related to the settlement, which is included in current portion of accrued litigation settlement costs in the accompanying balance sheets.

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

7. Acquisition of Metabasis

On January 27, 2010, the Company completed the acquisition of Metabasis Therapeutics, Inc., following approval of the transaction by Metabasis stockholders. As a result, the Company gained a fully funded partnership with Roche, additional pipeline assets and drug discovery technologies and resources. The transaction was first announced on October 27, 2009. The Company paid $1.8 million in cash, or approximately $0.046 per Metabasis share, to Metabasis' stockholders. In addition, Metabasis stockholders received four tradable CVRs, one CVR from each of four respective series of CVRs, for each Metabasis share. The CVRs will entitle Metabasis stockholders to cash payments as frequently as every six months as cash is received by the Company from proceeds from Metabasis' partnership with Roche or the sale or partnering of any of the Metabasis drug development programs, among other triggering events. The Company has also committed to spend at least $8.0 million in new research and development funding on the Metabasis programs within 42 months following the closing of the transaction.

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

Purchase Consideration:	
(in thousands)	
Cash paid to Metabasis shareholders	$ 1,758
Fair value of contingent value rights	9,142
Total purchase consideration	$10,900
Allocation of Purchase Price:	
(in thousands)	
Cash acquired	$ 376
Other current assets	382
Acquired in-process research and development	11,975
Liabilities assumed	(1,833)
	$10,900

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

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

In accordance with ASC Topic 805, Business Combinations ("ASC Topic 805"), the allocation of the purchase price is subject to adjustment during the measurement period after the closing date (January 27, 2010), when additional information on assets and liability valuations becomes available. The Company has not finalized its valuation of certain assets and liabilities recorded pursuant to the acquisition including intangible assets and deferred taxes. Thus, the provisional measurements recorded are subject to change and any changes will be recorded as adjustments to the fair value of those assets and liabilities and residual amounts will be allocated to goodwill.

In addition, at the closing of the acquisition, the Company recorded a $9.1 million contingent liability for amounts potentially due to holders of CVRs. The initial fair value of the liability was determined using quoted market prices of Metabasis common stock in active markets. The liability will be subsequently marked-to-market at each reporting period based upon the quoted market prices of the underlying CVR, and the change in fair value is recorded in the Company's consolidated statements of operations. The carrying amount of the liability may fluctuate significantly based upon quoted market prices and actual amounts paid under the CVR agreements may be materially different than the carrying amount of the liability. The fair value of the liability at September 30, 2010 was $2.4 million, which is included in other long-term liabilities as management is unable to estimate the timing of potential future payments. As a result, the Company recorded other income of $2.5 million and $6.7 million during the three and nine months ended September 30, 2010.

8. Stockholders' Equity

On November 8, 2010, following approval from the Company's stockholders at a special meeting of stockholders on September 9, 2010, the Company announced a 1-for-6 reverse stock split of its common stock. Accordingly, all share, warrant, option and per share information for all periods presented has been restated to account for the effect of the reverse stock split.

Stock Option Activity

The following is a summary of the Company's stock option plan activity and related information:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2009	668,579	$ 30.12		
Granted	240,791	9.90		
Exercised	—	—		
Forfeited	(61,318)	13.02		
Cancelled	(90,351)	55.98		
Balance at September 30, 2010	757,701	$ 21.96	7.55	$ 17
Exercisable at September 30, 2010	391,613	$ 28.68	6.72	$ 8
Options expected to vest as of September 30, 2010	687,341	$ 22.62	7.46	$ 16

The weighted-average grant-date fair value of all stock options granted during the nine months ended September 30, 2010 was $6.36 per share. There were no options exercised during the nine months ended September 30, 2010. As of September 30, 2010, there was $3.9 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 2.6 years.

As of September 30, 2010, 1.3 million shares were available for future option grants or direct issuance under the Company's 2002 Stock Incentive Plan, as amended.

Restricted Stock Activity

Restricted stock activity for the nine months ended September 30, 2010 is as follows:

	Shares	Weighted-Average Grant Date Stock Price
Nonvested at December 31, 2009	95,714	$ 19.74
Granted	58,172	9.60
Vested	(61,125)	18.60
Forfeited	(12,840)	13.14
Nonvested at September 30, 2010	79,921	$ 14.28

The weighted-average grant-date fair value of restricted stock granted during the nine months ended September 30, 2010 was $9.60 per share. As of September 30, 2010, there was $0.7 million of total unrecognized compensation cost related to nonvested restricted stock. That cost is expected to be recognized over a weighted-average period of 1.7 years.

Employee Stock Purchase Plan

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

The Amended ESPP allows employees to purchase Ligand common stock at the end of each six month period at a price equal to 85% of the lesser of fair market value on either the start date of the period or the last trading day of the period (the "Lookback Provision"). The 15% discount and the Lookback Provision make the Amended ESPP compensatory. There were 13,640 shares of common stock issued and $0.1 million of proceeds received under the Amended ESPP during the nine months ended September 30, 2010, and the Company recorded compensation expense of $51,000. There were 5,967 shares of common stock issued under the Amended ESPP during the nine months ended September 30, 2009, resulting in a compensation expense of $45,000. As of September 30, 2010, 105,147 shares were available for future purchases under the Amended ESPP.

Warrants

As of September 30, 2010, warrants to purchase 144,606 shares of the Company's common stock were outstanding with an exercise price of $51.54 per share and an expiration date of April 2012, and warrants to purchase 17,592 shares of the Company's common stock were outstanding with an exercise price of $56.82 per share and an expiration date of March 2011. The two series of warrants were assumed in the acquisition of Pharmacopeia, Inc.

As of September 30, 2010, 144,606 warrants with an exercise price of $179.40 per warrant and an expiration date of April 2013 were outstanding to purchase an aggregate of 129,360 shares of the Company's common stock. If exercised, these warrants are also entitled to receive $0.1 million in cash and 981,411 of each of the Company's four contingent value rights issued to Neurogen shareholders in December 2009. The series of warrants was assumed in the acquisition of Neurogen Corporation.

Share Repurchases

On June 15, 2010, the Company announced that its Board of Directors has authorized the Company to repurchase up to $10.0 million of its common stock from time to time in privately negotiated and open market transactions for a period of up to two years, subject to the Company's evaluation of market conditions, applicable legal requirements and other factors. The Company is not obligated to acquire common stock under this program and the program may be suspended at any time. As of September 30, 2010, the Company had not made any repurchases of its common stock under this program.

9. Warrant Liability

In connection with the acquisition of Pharmacopeia, Inc., the Company assumed approximately 144,606 warrants to purchase its common stock. To qualify as permanent equity, an equity derivative must permit the issuer to settle in unregistered shares. Under securities law, if the warrants were issued in connection with a public offering and have a cash settlement feature at the holder's option, a company does not have the ability to settle in unregistered shares. Therefore, the warrants cannot be classified as permanent equity and are instead classified as a liability. The warrants issued as part of Pharmacopeia's equity financing in October 2006 meet this criteria, and have been recorded as a liability in the accompanying balance sheet. The fair value of the warrants is remeasured at each reporting date until the warrants are exercised or have expired. Changes in the fair value of the warrants are reported in the statement of operations as income (decreases) or expense (increases). At September 30, 2010 and December 31, 2009, the fair value of the warrants was approximately $0.1 million and $0.5 million, respectively, and is included in accrued liabilities.

The fair value of the warrants was calculated using the Black-Scholes option-pricing model with the following assumptions at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Risk-free interest rate	0.4%	1.1%
Dividend yield	—	—
Expected volatility	81%	98%
Expected term	1.6 years	2.3 years

10. Common Stock Subject to Conditional Redemption

During the first quarter of 2009, the Company earned a milestone from Pfizer, Inc. (Pfizer). In the second quarter of 2009, pursuant to the Company's 1991 research agreement and 1996 settlement agreement with Pfizer, Pfizer elected to pay the milestone by returning 53,889 shares of stock it owns in the Company, which at the date the milestone was earned had a market value of $0.9 million. Ligand retired the tendered shares in May 2009. The difference between the fair value of the shares tendered and the carrying value of such shares based on the contractual exchange ratio, approximately $3.1 million, was credited to additional paid-in capital. The Company is entitled to royalties on future sales from Pfizer, which pursuant to the 1996 settlement agreement, Pfizer may elect to pay by returning up to 112,371 shares of stock it owns in Ligand.

11. Subsequent Events

On November 1, 2010, the Company was notified by the Internal Revenue Service that it had received grants totaling $2.0 million in response to applications submitted for qualified investments in a qualifying therapeutic discovery project under section 48D of the Internal Revenue Code.

On November 3, 2010, the Company was notified by the Internal Revenue Service that it was granting the Company's request for an extension of time to make a closing-of-the-books election with respect to an ownership change, within the meaning of section 382 of the Internal Revenue Code, for the 2007 tax year. The Company will file an amended 2007 federal tax return in the fourth quarter of 2010 and is evaluating the impact on the $25.1 million that was recorded by the Company as a liability for uncertain tax positions.

On November 9, 2010, following approval from the Company's stockholders at a special meeting of stockholders on September 9, 2010, the Company announced a 1-for-6 reverse stock split of its common stock. Accordingly, all share, warrant, option and per share information for all periods presented has been restated to account for the effect of the reverse stock split.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

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

Overview

We are a biotechnology company that focuses on drug discovery and early-stage development of pharmaceuticals that address critical unmet medical needs or that are more effective and/or safer than existing therapies, more convenient to administer and are cost effective. Our goal is to build a profitable company by generating income from research, milestone, and royalty revenues resulting from our collaborations with pharmaceutical partners. In order to meet this goal, we have entered into several transactions, described below, over the past several years.

On September 7, 2006, we announced the sale of ONTAK, Targretin capsules, Targretin gel, and Panretin gel to Eisai, Inc., or Eisai, and the sale of AVINZA to King Pharmaceuticals, Inc., or King. The Eisai sales transaction subsequently closed on October 25, 2006. The AVINZA sale transaction subsequently closed on February 26, 2007. Accordingly, the results for the Oncology and AVINZA Product Lines have been presented in our consolidated statements of operations as "Discontinued Operations."

On December 23, 2009, we acquired all of the outstanding common shares of Neurogen Corporation, or Neurogen. As consideration, we issued approximately 0.7 million shares of our common stock to Neurogen stockholders, or approximately 0.061 shares of our common stock for each outstanding Neurogen share, as well as approximately $0.6 million in cash. Security holders of Neurogen also received contingent value rights, or CVRs, under which they could receive cash payments under certain circumstances. Neurogen was a drug development company historically focusing on small-molecule drugs to improve the lives of patients suffering from psychiatric and neurological disorders with significant unmet medical needs. Neurogen had conducted its drug development independently and, when advantageous, collaborated with world-class pharmaceutical companies to access additional resources and expertise.

On January 27, 2010, we completed the acquisition of Metabasis Therapeutics, Inc., or Metabasis, following approval of the transaction by Metabasis stockholders. As a result, we gained a fully funded partnership with Hoffman-La Roche, or Roche, additional pipeline assets and drug discovery technologies and resources. We paid $1.6 million in cash, or approximately $0.046 per Metabasis share, to Metabasis' stockholders. In addition,

Metabasis stockholders received four tradable CVRs, one CVR from each of four respective series of CVRs, for each Metabasis share. The CVRs will entitle the holders to cash payments as frequently as every six months as cash is received by us from proceeds from Metabasis' partnership with Roche or the sale or partnering of any of the Metabasis drug development programs, among other triggering events. We have also committed to spend at least $8.0 million in new research and development funding on the Metabasis programs within 42 months following the closing of the transaction. Through September 30, 2010, we estimate that we have spent approximately $2.1 million of the committed amount.

In May 2010, we purchased from the Genaera Liquidating Trust certain intellectual property and interests in future milestones and royalties for MEDI-528, an IL-9 antibody program under development by AstraZeneca's subsidiary, MedImmune. MEDI-528 is currently in a 320-patient Phase II study for moderate-to-severe asthma. We paid $2.8 million to the Genaera Liquidating Trust in connection with the purchase, which was recorded as acquired In-Process Research and Development ("IPR&D"). As part of the transaction, we also entered into a separate agreement with a Ligand shareholder, whereby the shareholder and we agreed to share the purchase price and any proceeds from the deal equally. Accordingly, we were reimbursed for $1.4 million of the purchase price.

In July 2010, we entered into an asset purchase agreement with Wyeth LLC, or Wyeth, a wholly owned subsidiary of Pfizer, Inc., to sell specific compounds, patents, protocols, data and know-how relating to the JAK-3 program that was being developed under the Research and License Agreement that Pharmacopeia and Wyeth had previously entered into on December 22, 2006, and amended on September 1, 2009. We received an aggregate payment of $3.0 million, and we retained the right to develop and commercialize defined JAK-3 compounds for non-human use or for topical uses for skin and eye diseases in humans.

In October 2010, we divested our combinatorial chemical library and associated proprietary technology for $1.8 million, of which, $1.0 million was received at closing and $0.8 million will be paid in equal annual payments over two years. In addition, under the agreement, we are entitled to receive 10% of all revenue from collaborations for a period of three years. The combinatorial chemistry asset, which we obtained through our acquisition of Pharmacopeia in December 2008, comprises an encoded combinatorial library collection (ECLiPS) and an ultra-high throughput screening platform.

In November 2010, Bristol-Myers Squibb, or BMS, presented proof of concept clinical data on p38 MAP kinase inhibitor, BMS-582949, in rheumatoid arthritis at the 74th annual meeting of the American College of Rheumatology. BMS also announced plans to initiate a new clinical study for BMS-582949 in 2011. BMS-582949 is an orally active p-38 mitogen-activated protein (MAP) kinase inhibitor. We are entitled to payments resulting from the successful achievement by BMS of certain clinical and regulatory milestones, as well as a royalty on future net sales.

Our current business strategy includes targeted internal drug research and early-stage development capabilities. We believe that we have promising product candidates throughout our internal development programs. We also have research and development collaborations for our product candidates with numerous global pharmaceutical companies. These collaborations include ongoing clinical programs at Bristol-Myers Squibb, or BMS, GlaxoSmithKline, or GSK, Pfizer, Merck & Co., Inc., or Merck, Roche and Celgene. We aim to create value for shareholders by advancing our internally developed programs through early pre-clinical or clinical development and then entering licensing agreements with larger pharmaceutical and biotechnology companies with substantially greater development and commercialization infrastructure. In addition to advancing our R&D programs, we expect to collect licensing fees and royalties from existing and future license agreements. We aim to build a profitable company by generating income from our corporate licenses.

We currently receive royalty revenues from King, Pfizer and GSK. In February 2007, we completed the sale of our AVINZA product line to King. As a result of the sale, we received the right to future royalties on the net sales of AVINZA through 2017.

In December 2008, the U.S. Food and Drug Administration, or FDA, granted accelerated approval of GSK's PROMACTA for the treatment of thrombocytopenia in patients with chronic immune (idiopathic) thrombocytopenic purpura, or ITP, who have had an insufficient response to corticosteroids, immunoglobulins or splenectomy. PROMACTA is also approved under the trade name Revolade(R) in Japan, Europe, Venezuela, Kuwait, Chile and Russia. PROMACTA is the first oral thrombopoietin, or TPO, receptor agonist therapy for the treatment of adult patients with chronic ITP. In March 2010, GSK received approval for Revolade from the European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP) for the oral treatment of thrombocytopenia (reduced platelet count) in adults with the blood disorder chronic ITP. As a result of the regulatory approvals of PROMACTA, we are entitled to receive tiered royalties based on annual net sales of PROMACTA. As part of a settlement agreement and mutual release we entered into on February 11, 2009 with The Rockefeller University, or Rockefeller, we agreed to pay a share of such royalties to Rockefeller.

In October 2010, we announced that our partner Pfizer, Inc. launched VIVIANT(R) (bazedoxifene) in Japan for the treatment of postmenopausal osteoporosis. The drug is also marketed in Spain under the brand name CONBRIZA(R) through a co-promotion with Almirall, an international pharmaceutical company based in Spain. Pfizer received manufacturing and marketing approval for the product in Japan in July 2010. VIVIANT was approved in April 2009 by the European Commission (under the trade name CONBRIZA(R)) for the treatment of postmenopausal osteoporosis in women at increased risk of fracture. VIVIANT, a selective estrogen receptor modulator (SERM), is a result of the successful research collaboration between Wyeth (now Pfizer) and Ligand that began in 1994. Pfizer is responsible for the registration and worldwide marketing of bazedoxifene, a synthetic drug specifically designed to reduce the risk of osteoporotic fractures while also protecting uterine tissue. Ligand is entitled to receive tiered royalties on net sales of bazedoxifene. Any such royalties may be subject to reduction or offset for past milestone payments and/or may be subject to other terms and conditions set forth in our agreement.

We also have the potential to receive near-term royalties on product candidates resulting from our research and development collaboration arrangements with third party pharmaceutical companies if and when any such product candidate is ultimately approved by the FDA and successfully marketed. Our near-term product candidates are discussed below.

In addition to the accelerated approval granted for GSK's PROMACTA for the treatment of thrombocytopenia in patients with chronic ITP, GSK also reported new phase III results for PROMACTA in chronic ITP at the 2009 14th Congress of European Hematology meeting and initiated two Phase III trials in patients with hepatitis C in the fourth quarter of 2007. GSK presented PROMACTA CLD Phase III data at the European Association for the Study of the Liver (EASL) conference in April 2010. At study termination with 292 patients, both primary and secondary efficacy end points were met. A platelet transfusion was avoided in 104 (72%) of the patients treated with PROMACTA versus 28 (19%) of the patients on placebo ($p<0.0001$). A Phase II study in patients with oncology-related thrombocytopenia is ongoing and a Phase I study is ongoing in patients with sarcoma receiving the adriamycin and ifosfamide regimen.

In addition to Pfizer's launch of bazedoxifene in Japan (VIVIANT) and Spain (CONBRIZA), the FDA has advised that it expects to convene an advisory committee to review the pending New Drug Applications, or NDAs, for both the treatment and prevention indications. Approvable letters were received for each of these NDAs, in which, among other things, the FDA requested further analyses and discussion concerning the incidence of stroke and venous thrombotic events, identified certain issues concerning data collection and reporting, and requested additional source documents. An FDA-requested advisory committee meeting is expected to be scheduled following submission of the complete response to the approvable letters. In April 2009, Pfizer received approval in the EU for CONBRIZA (the EU trade name for VIVIANT) for the treatment of postmenopausal osteoporosis in women at increased risk of fracture.

Pfizer is also developing bazedoxifene in combination with PREMARIN (Aprela) as a tissue selective estrogen complex under development for menopausal symptoms and osteoporosis. Two Phase III studies with bazedoxifene/conjugated estrogens (Aprela) showed reduced number and severity of hot flashes in symptomatic postmenopausal women by up to 80 percent when compared with placebo. Pfizer expects to file an initial New Drug Application, or NDA, in the second half of 2010. We are entitled to receive tiered royalties on these products.

Lasofoxifene (FABLYN®) is a product candidate that resulted from our collaboration with Pfizer. Pfizer submitted an NDA and an MAA for FABLYN for osteoporosis treatment in December 2007 and January 2008, respectively. The FDA Advisory Committee in early September 2008 voted 9-3 in favor of approving this drug. In January 2009, Pfizer received a complete response letter from the FDA requesting additional information for FABLYN. In February 2009 FABLYN received approval in the EU for the treatment of osteoporosis. Pfizer reported that following a strategic review, it decided to explore strategic options for FABLYN, including out-licensing or sale. Under the terms of our agreement with Pfizer, we are entitled to receive royalty payments on worldwide net sales of lasofoxifene for any indication. Any such royalties may be subject to reduction or offset for past milestone payments and/or may be subject to other terms and conditions set forth in our agreement.

Metabasis Contingent Value Rights

In January 2010, we completed our acquisition of Metabasis Therapeutics. In addition to cash consideration, we issued four tradable Contingent Value Rights ("CVRs"), one CVR from each of four respective series of CVRs, for

each Metabasis share. The CVRs will entitle the holder to cash payments as frequently as every six months as cash is received by us from proceeds from Metabasis' partnership with Roche or the sale or partnering of any of the Metabasis drug development programs, among other triggering events. We have also committed to spend at least $8 million in new research and development funding on the Metabasis programs within 42 months following the closing of the transaction. Through September 30, 2010, we estimate that we have spent approximately $2.1 million of the committed amount.

In April 2010, we earned a $6.5 million milestone payment from Roche as a result of Roche progressing RG7348 into a Phase I clinical trial for the treatment of hepatitis C viral (HCV) infection. The milestone payment arises from a 2008 collaboration and license agreement between Roche and Metabasis, and approximately 65% was distributed to CVR holders in June 2010.

Results of Operations

Total revenues for the three and nine months ended September 30, 2010 were $7.8 million and $19.6 million, respectively, compared to $7.9 million and $25.0 million for the same periods in 2009. We reported losses from continuing operations of $11.9 million and $15.1 million, respectively, for the three and nine months ended September 30, 2010, compared to income from operations of $1.1 million for the three months ended September 30, 2009 and a $10.9 million loss from continuing operations for the nine months ended September 30, 2009.

Royalty Revenue

Royalty revenues were $1.8 million and $5.3 million for the three and nine months ended September 30, 2010, respectively, compared to $1.7 million and $6.4 million for the same periods in 2009. The increase in royalty revenues of $0.1 million for the three months ended September 30, 2010, compared to the same period in 2009, is primarily due to continued increases in PROMACTA sales. The decrease in royalty revenues of $1.1 million for the nine months ended September 30, 2010, compared to the same period in 2009, is primarily due to a decrease in AVINZA sales.

Collaborative Research and Development and Other Revenues

We recorded collaborative research and development and other revenues of $6.0 million and $14.3 million for the three and nine months ended September 30, 2010, respectively, compared to $6.3 million and $18.6 million for the same periods in 2009. For 2010, $1.7 million of deferred revenue was recognized as the result of the termination of a collaboration agreement. The decreases of $0.3 million and $4.3 million, respectively, for the three and nine months ended September 30, 2010, compared to the same periods in 2009, are primarily due to the termination of our remaining research obligations under collaboration agreements.

Research and Development Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Internal research programs	$ 2,303	$ 2,418	$ 8,321	$ 9,304
Collaborative research	2,179	6,754	8,655	14,822
Development	453	749	1,936	5,618
Total research and development	$ 4,935	$ 9,921	$18,912	$29,744

Research and development expenses were $4.9 million and $18.9 million for the three and nine months ended

September 30, 2010, respectively, compared to $9.9 million and $29.7 million for the same 2009 periods. The decrease of $5.0 million for the three months ended September 30, 2010, compared to the same period in 2009, is primarily due to $4.5 million of costs associated with collaboration agreements that were terminated and $0.3 million of costs associated with clinical trials. The decrease of $10.8 million for the nine months ended September 30, 2010, compared to the same period in 2009, is primarily due to $6.1 million of costs associated with collaboration agreements that were terminated, $3.7 million of costs associated with clinical trials, and $1.0 million in reduced headcount related costs associated with internal research programs.

A summary of our significant internal research and development programs as of September 30, 2010 is as follows:

Program	Disease/Indication	Development Phase
Selective Androgen Receptor Modulators (SARMs) (agonists)	Muscle wasting and frailty	Phase I
Thyroid receptor beta agonists	Hyperlipidemia	Phase I and Preclinical
Small molecule Erythropoietin (EPO) receptor agonists	Chemotherapy-induced anemia, anemia due to kidney failure	Preclinical
Glucagon receptor antagonists	Diabetes	Preclinical
Histamine 3 (H3) receptor antagonists	Cognitive disorders	Research

We do not provide forward-looking estimates of costs and time to complete our ongoing research and development projects, as such estimates would involve a high degree of uncertainty. Uncertainties include our inability to predict the outcome of complex research, our inability to predict the results of clinical studies, regulatory requirements placed upon us by regulatory authorities such as the FDA and EMEA, our inability to predict the decisions of our collaborative partners, our ability to fund research and development programs, competition from other entities of which we may become aware in future periods, predictions of market potential from products that may be derived from our research and development efforts, and our ability to recruit and retain personnel or third-party research organizations with the necessary knowledge and skills to perform certain research. Refer to “Item 1A. Risk Factors” for additional discussion of the uncertainties surrounding our research and development initiatives.

General and Administrative Expenses

General and administrative expenses were $3.1 million and $9.4 million for the three and nine months ended September 30, 2010, respectively, compared to $2.4 million and $12.2 million for the same periods in 2009. The increase of $0.7 million for the three months ended September 30, 2010, compared to the same period in 2009, is primarily due to costs associated with the acquisitions of Neurogen and Metabasis and other legal-related matters, partially offset by lower facilities costs as a result of our lease termination in 2009. The decrease of $2.8 million for the nine months ended September 30, 2010, compared to the same period in 2009, is primarily due to lower headcount related costs as a result of staff reductions, lower facilities costs as a result of our lease termination in 2009 and lower legal costs. These decreases were partially offset by costs associated with the acquisitions of Neurogen and Metabasis.

Lease Termination and Exit Costs

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

In September 2010, we ceased use of our facility located in Cranbury, New Jersey. As a result, during the quarter ended September 30, 2010, we recorded lease exit costs of $9.7 million for costs related to the difference between the remaining lease obligations of the abandoned operating leases, which run through August 2016, and management's estimate of potential future sublease income, discounted to present value. Actual future sublease income may differ materially from our estimate, which would result in us recording additional expense or reductions in expense. In addition, we wrote-off approximately $5.4 million of property and equipment related to the facility closure and recorded approximately $0.8 million of severance related costs.

Write-off of acquired in-process research and development

For acquisitions prior to January 1, 2009, the fair value of acquired IPR&D projects, which have no alternative future use and which have not reached technological feasibility at the date of acquisition, were immediately expensed. As a result of adjustments to our purchase price allocation related to our acquisition of Pharmacopeia, Inc. in December 2008, we wrote-off an additional $0.4 million of acquired IPR&D during the nine months ended September 30, 2009.

Accretion of Deferred Gain on Sale Leaseback

On November 9, 2006, we sold real property located in San Diego, California for a sale price of $47.6 million. This property included our corporate headquarter building totaling approximately 82,500 square feet, the land on which the building was situated, and two adjacent vacant lots. As part of the sale transaction, we agreed to leaseback the building for a period of 15 years. We recognized an immediate pre-tax gain on the sale transaction of $3.1 million and deferred a gain of $29.5 million on the sale of the building. The deferred gain was being recognized on a straight-line basis over the 15 year term of the lease at a rate of approximately $2.0 million per year. In August 2009, we entered into a lease termination agreement for this building. As a result, we recognized $20.4 million of accretion of deferred gain during the quarter ended September 30, 2009, and will recognize the remaining balance of the deferred gain through the term of our new building lease, which expires in December 2011. The amount of the deferred gain recognized for the three and nine months ended September 30, 2010 was $0.4 million and $1.3 million, respectively, compared to $20.4 million and $21.4 million for the same periods in 2009.

Interest Income, net

Interest income was $0.1 million and $0.4 million for the three and nine months ended September 30, 2010, respectively, compared to $0.2 million and $0.4 million for the same periods in 2009. Interest income in 2010 was comparable to 2009 as lower cash and investment balances were offset by higher yields.

Decrease in Liability for Contingent Value Rights

We recorded a decrease in liability for CVRs of $2.5 million and $6.7 million for the three and nine months ended September 30, 2010, respectively. The decrease relates to our liability for amounts potentially due to holders of CVRs associated with our Metabasis acquisition. The initial fair value of the liability was determined using quoted market prices of Metabasis common stock in active markets. The liability is subsequently marked-to-market at each reporting period based upon the quoted market prices of the underlying CVR, and the change in fair value is recorded in our consolidated statements of operations. The carrying amount of the liability may fluctuate significantly based upon quoted market prices and actual amounts paid under the CVR agreements may be materially different than the carrying amount of the liability. The fair value of the liability at September 30, 2010 was $2.4 million, compared to $9.1 million at the date of acquisition.

Income Taxes

We recorded income tax expense of $0.4 million and $1.3 million for the three and nine months ended September 30, 2010, respectively, primarily related to estimated interest on a proposed underpayment of tax as well as differences in book and tax bases of certain items as a result of our recent acquisitions. In December 2009, the Internal Revenue Service, or IRS, issued to us a Notice of Proposed Adjustment, or NOPA, seeking an increase to our taxable income for the 2007 fiscal year of $71.5 million and a $4.1 million penalty for substantial underpayment of tax in fiscal 2007. We responded to the NOPA in February 2010, disagreeing with the conclusions reached by the IRS in the NOPA. We have recorded a liability for uncertain tax positions of $25.1 million related to the income tax

effect of the NOPA and $3.8 million related to estimated interest due on the proposed underpayment of tax. We also recorded deferred income tax assets of $25.1 million associated with the ability to carry back losses from 2008 and 2009 to offset the NOPA. In addition, we recorded an income tax receivable of $4.5 million associated with changes in income tax law in relation to prior AMT taxes paid on carry back periods. We have not recorded the penalties proposed by the IRS in our financial statements as we believe that we met the appropriate standard for the tax position on our 2007 tax return. If we are unsuccessful in our negotiations with the IRS, we may be required to pay the $4.1 million penalty and utilize a significant amount of our net operating loss carryforwards. On November 3, 2010, we were notified by the Internal Revenue Service that it was granting our request for an extension of time to make a closing-of-the-books election with respect to an ownership change, within the meaning of section 382 of the Internal Revenue Code, for the 2007 tax year. We will file an amended 2007 federal tax return in the fourth quarter of 2010 and are evaluating the impact on the $25.1 million that was recorded by us as a liability for uncertain tax positions.

We recorded no provision for income taxes for the three and nine months ended September 30, 2009 as we did not realize any taxable income from either continuing or discontinued operations.

Discontinued Operations

Oncology Product Line

On September 7, 2006, we and Eisai Inc., a Delaware corporation, and Eisai Co., Ltd., a Japanese company (which we collectively refer to as Eisai), entered into a purchase agreement, or the Oncology Purchase Agreement, pursuant to which Eisai agreed to acquire all of our worldwide rights in and to our oncology products, including, among other things, all related inventory, equipment, records and intellectual property, and assume certain liabilities as set forth in the Oncology Purchase Agreement. The Oncology product line included our four marketed oncology drugs: ONTAK, Targretin capsules, Targretin gel and Panretin gel.

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

During the three and nine months ended September 30, 2010, we recognized a $1,000 and a $0.2 million pre-tax gain due to subsequent changes in certain estimates and liabilities recorded as of the sale date. During the three and nine months ended September 30, 2009, we recognized a $0.1 million and a $0.6 million pre-tax gain, respectively, due to subsequent changes in certain estimates and liabilities recorded as of the sale date.

AVINZA Product Line

On September 6, 2006, we and King entered into a purchase agreement, or the AVINZA Purchase Agreement, pursuant to which King agreed to acquire all of our rights in and to AVINZA in the United States, its territories and Canada, including, among other things, all AVINZA inventory, records and related intellectual property, and assume certain liabilities as set forth in the AVINZA Purchase Agreement, which we collectively refer to as the Transaction.

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

During the three and nine months ended September 30, 2010, we recognized pre-tax gains of $11,000 and $23,000, respectively, due to subsequent changes in certain estimates and liabilities recorded as of the sale date. During the three and nine months ended September 30, 2009, we recognized pre-tax gains of $0.6 million and $5.3 million, respectively, due to subsequent changes in certain estimates and liabilities recorded as of the sale date.

Income Taxes

We recorded no provision for income taxes related to discontinued operations for the three and nine months ended September 30, 2010 and 2009 as we did not realize any taxable income from either discontinued or continuing operations.

Liquidity and Capital Resources

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

We had a working capital deficit of $1.4 million at September 30, 2010 compared to working capital of $16.0 million at December 31, 2009. Available cash, cash equivalents and short-term investments totaled $24.1 million as of September 30, 2010 compared to $53.2 million as of December 31, 2009. We primarily invest our cash in certificates of deposit and United States government and investment grade corporate debt securities.

On July 19, 2007, we purchased $5.0 million of commercial paper issued by Golden Key Ltd. The investment was highly-rated and within our investment policy at the time of purchase, but during the third quarter of 2007, large credit rating agencies downgraded the quality of this security. In addition, as a result of not meeting certain liquidity covenants, the assets were assigned to a trustee who established a committee of the largest senior credit holders to determine the next steps. Subsequently, Golden Key defaulted on its obligation to settle the security on the stated maturity date of October 10, 2007. During the quarter ended September 30, 2010, the assets of Golden Key Ltd. were sold through an auction process and, as a result, we received a final cash distribution of approximately $2.9 million.

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

In December 2009, the Internal Revenue Service, or IRS, issued to us a Notice of Proposed Adjustment, or NOPA, seeking an increase to our taxable income for the 2007 fiscal year of $71.5 million and a $4.1 million penalty for substantial underpayment of tax in fiscal 2007. We responded to the NOPA in February 2010, disagreeing with the conclusions reached by the IRS in the NOPA. We have recorded a liability for uncertain tax positions of $25.1 million related to the income tax effect of the NOPA and $3.8 million related to estimated interest due on the proposed underpayment of tax. We also recorded deferred income tax assets of $25.1 million associated with the ability to carry back losses from 2008 and 2009 to offset the NOPA. In addition, we recorded an income tax receivable of $4.5 million associated with changes in income tax law in relation to prior AMT taxes paid on carry back periods. We have not recorded the penalties proposed by the IRS in our financial statements as we believe that we met the appropriate standard for the tax position on our 2007 tax return. If we are unsuccessful in our negotiations with the IRS, we may be required to pay the $4.1 million penalty and utilize a significant amount of our net operating loss carryforwards. On November 3, 2010, we were notified by the Internal Revenue Service that it was granting our request for an extension of time to make a closing-of-the-books election with respect to an ownership change, within the meaning of section 382 of the Internal Revenue Code, for the 2007 tax year. We will file an amended 2007 federal tax return in the fourth quarter of 2010 and are evaluating the impact on the $25.1 million that was recorded by us as a liability for uncertain tax positions.

Based on management's plans, including expense reductions, if necessary, and our current business outlook, we believe our currently available cash, cash equivalents, and short-term investments as well as our current and future royalty, license and milestone revenues will be sufficient to satisfy our anticipated operating and capital requirements through at least the next twelve months. Our future operating and capital requirements will depend on many factors, including, but not limited to: the pace of scientific progress in our research and development programs; the magnitude of these programs; the scope and results of preclinical testing and clinical trials; the time and costs involved in obtaining regulatory approvals; the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims; competing technological and market developments; the amount of royalties on sales of AVINZA, VIVIANT, CONBRIZA and PROMACTA; the efforts of our collaborative partners; obligations under our operating lease agreements and lease termination agreement; and the capital requirements of any companies we may acquire, including Neurogen and Metabasis.

Operating Activities

Operating activities used cash of $25.8 million for the nine months ended September 30, 2010, compared to $32.5 million for the same period in 2009.

The use of cash for the nine months ended September 30, 2010 reflects a net loss of $14.9 million, adjusted by $0.3 million of gain from discontinued operations and $10.1 million of non-cash items to reconcile the net income to net cash used in operations. These reconciling items primarily reflect non-cash lease costs of $9.6 million, loss on asset write-offs of $5.0 million, depreciation of assets of $2.1 million and the recognition of $2.0 million of stock-based compensation expense, partially offset by the change in estimated fair value of CVRs of $6.7 million, accretion of deferred gain on the sale leaseback of the building of $1.3 million and realized gain on investment of $0.6 million. The use of cash during the nine months ended September 30, 2010 is further impacted by changes in operating assets and liabilities due primarily to decreases in accounts payable and accrued liabilities of $14.2 million, an increase in other long term assets of $0.4 million, a decrease in other liabilities of $1.1 million and a decrease in deferred revenue of $5.9 million, partially offset by a decrease in accounts receivable, net of $0.5 million. Net cash provided by operating activities of discontinued operations was $0.3 million for the nine months ended September 30, 2010.

The use of cash for the nine months ended September 30, 2009 reflects a net loss of $5.0 million, adjusted by $5.9 million of gain from discontinued operations and $15.3 million of non-cash items to reconcile the net income to net cash used in operations. These reconciling items primarily reflect the accretion of deferred gain on the sale leaseback of the building of $21.4 million and non-cash development milestones of $0.9 million, partially offset by the recognition of $2.4 million of stock-based compensation expense, depreciation of assets of $2.4 million, non-cash lease costs of $0.3 million, write-off of acquired in-process research and development of $0.4 million and the amortization of acquired intangible assets of $1.5 million. The use of cash during the nine months ended September 30, 2009 is further impacted by changes in operating assets and liabilities due primarily to decreases in accounts payable and accrued liabilities of $7.9 million, an increase in accounts receivable, net of $2.1 million and a decrease in deferred revenue of $7.0 million, partially offset by the release of our $10.1 million restricted indemnity account as a result of the completion of the SEC investigation, a decrease in other current assets of $0.6 million and an increase in other liabilities of $3.4 million. Net cash used in operating activities of discontinued operations was $3.3 million for the nine months ended September 30, 2009.

Investing Activities

Investing activities provided cash of $13.5 million for the nine months ended September 30, 2010, compared to $12.7 million for the same 2009 period.

Cash provided by investing activities during the nine months ended September 30, 2010 primarily reflects the net proceeds from the sale of short-term investments of $17.5 million and the proceeds from the sale of property, equipment and buildings of $0.6 million, partially offset by $2.8 million paid for the acquisition of Metabasis and $1.4 million for the acquisition of intellectual property. None of the cash provided by investing activities for the nine months ended September 30, 2010 related to discontinued operations.

Cash provided by investing activities during the nine months ended September 30, 2009 primarily reflects the net proceeds from the sale of short-term investments of $13.0 million, partially offset by purchases of property and equipment of $0.5 million. None of the cash used in investing activities for the nine months ended September 30, 2009 related to discontinued operations.

Financing Activities

Financing activities provided cash of $19,000 for the nine months ended September 30, 2010, compared to $3.8 million of cash used in financing activities for the same 2009 period.

Cash provided by financing activities for the nine months ended September 30, 2010 primarily reflects $0.1 million of proceeds from the issuance of common stock upon the exercise of stock options, partially offset by payments under equipment financing obligations of $0.1 million.

Cash used for the nine months ended September 30, 2009 primarily reflects payments under equipment financing obligations of $0.4 million and the repayment of debt of $3.4 million related to an equipment line of credit acquired from Pharmacopeia that was paid off in January 2009.

On June 15, 2010, we announced that our Board of Directors has authorized us to repurchase up to $10.0 million of our common stock from time to time in privately negotiated and open market transactions for a period of up to two years, subject to our evaluation of market conditions, applicable legal requirements and other factors. We are not obligated to acquire common stock under this program and the program may be suspended at any time. As of September 30, 2010, we had not made any repurchases of our common stock under this program.

None of the cash used in financing activities for the nine months ended September 30, 2010 and 2009 relates to discontinued operations.

Other

As part of certain of our strategic alliances with our research partners, we have received up-front cash payments and licenses to certain product candidates. In connection with these agreements, we were obligated to perform significant research and development activities over multiple years. As of September 30, 2010, we had no remaining obligations to perform research and development activities under these agreements.

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

In connection with the acquisition of Neurogen Corporation on December 23, 2009, Neurogen security holders received CVRs under four CVR agreements. The CVRs entitle Neurogen shareholders to cash payments upon the sale or licensing of certain assets and upon the achievement of a specified clinical milestone.

In connection with the acquisition of Metabasis Therapeutics on January 27, 2010, Metabasis security holders received CVRs under four CVR agreements. The CVRs entitle the holders to cash payments upon the sale or licensing of certain assets and upon the achievement of specified milestones.

Leases and Off-Balance Sheet Arrangements

We lease our office and research facilities under agreements accounted for as operating leases with varying terms through August 2016. The agreements provide for increases in annual rents based on changes in the Consumer Price Index or fixed percentage increases ranging from 3% to 7%. Commencing January 2008, we also sublease a portion of our facilities through July 2015. The sublease agreement provides for a 3% increase in annual rents.

Contractual Obligations

As of September 30, 2010, future minimum payments due under our contractual obligations are as follows (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations (1)	$28,066	$ 6,007	$10,011	$9,558	$ 2,490
Consulting agreements	265	265	—	—	—
Lease termination payments	5,300	5,300	—	—	—
Co-promote termination liability (2)	—	—	—	—	—
Total contractual obligations	$33,631	$ 11,572	$10,011	$9,558	$ 2,490

(1) We lease an office and research facility under an operating lease arrangement through July 2015. Commencing January 2008, we sublet this facility through July 2015. The sublease agreement provides for a 3% increase in annual rents. As of September 30, 2010, we expect to receive aggregate future minimum lease payments totaling $4.6 million (nondiscounted) over the duration of the sublease agreement as follows: less than one year, $0.9 million; one to three years, $2.0 million; and three to five years, $1.7 million.

(2) Our co-promote termination obligation to Organon was assumed by King pursuant to the AVINZA Purchase Agreement. However, as Organon did not consent to the legal assignment of the obligation to King, we remain liable to Organon in the event of King's default of the obligation. We have excluded payments under the co-promote termination liability from the table as amounts are expected to be reimbursed by King. As of September 30, 2010, the total estimated amount of the obligation is $60.6 million on an undiscounted basis.

As of September 30, 2010, we have net open purchase orders (defined as total open purchase orders less any accruals or invoices charged to or amounts paid against such purchase orders) totaling approximately $2.7 million. We plan to spend approximately $0.1 million on capital expenditures during the remainder of 2010. In addition, under the terms of our merger with Metabasis, we are committed to spend at least $8.0 million in new research and development funding on the Metabasis programs within 42 months following the closing of the transaction. Through September 30, 2010, we estimate that we have spent approximately $2.1 million of the committed amount.

On June 15, 2010, we committed to a plan to close our operations at our Cranbury, New Jersey facility, with an expected completion in the fourth quarter of 2010. In September 2010, we ceased use of this facility. As a result, during the quarter ended September 30, 2010, we recorded lease exit costs of $9.7 million for costs related to the difference between the remaining lease obligations of the abandoned operating leases, which run through August 2016, and management's estimate of potential future sublease income, discounted to present value.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2010, our investment portfolio included fixed-income securities of $21.6 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. However, due to the short duration of our investment portfolio, an immediate 10% change in interest rates is not expected to have a material impact on our financial condition, results of operations or cash flows. At September 30, 2010, we also had certain equipment financing arrangements with variable rates of interest. Due to the relative insignificance of such arrangements, however, an immediate 10% change in interest rates would have no material impact on our financial condition, results of operations, or cash flows. Declines in interest rates over time will, however, reduce our interest income, while increases in interest rates over time will increase our interest expense.

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

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report, which we refer to as the Evaluation Date. Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to us, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there has not been any change in our internal control over financial reporting during that quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In December 2009, the Internal Revenue Service, or IRS, issued to us a Notice of Proposed Adjustment, or NOPA, seeking an increase to our taxable income for the 2007 fiscal year of $71.5 million and a $4.1 million penalty for substantial underpayment of tax in fiscal 2007. We responded to the NOPA in February 2010, disagreeing with the conclusions reached by the IRS in the NOPA. We have recorded a liability for uncertain tax positions of $25.1 million related to the income tax effect of the NOPA and $3.8 million related to estimated interest due on the proposed underpayment of tax. We also recorded deferred income tax assets of $25.1 million associated with the ability to carry back losses from 2008 and 2009 to offset the NOPA. In addition, we recorded an income tax receivable of $4.5 million associated with changes in income tax law in relation to prior AMT taxes paid on carry back periods. We have not recorded the penalties proposed by the IRS in our financial statements as we believe that we met the appropriate standard for the tax position on our 2007 tax return. If we are unsuccessful in our negotiations with the IRS, we may be required to pay the $4.1 million penalty and utilize a significant amount of our net operating loss carryforwards. On November 3, 2010, we were notified by the Internal Revenue Service that it was granting our request for an extension of time to make a closing-of-the-books election with respect to an ownership change, within the meaning of section 382 of the Internal Revenue Code, for the 2007 tax year. We will file an amended 2007 federal tax return in the fourth quarter of 2010 and are evaluating the impact on the $25.1 million that was recorded by us as a liability for uncertain tax positions.

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

ITEM 1A. RISK FACTORS

The following is a summary description of some of the many risks we face in our business including any risk factors as to which there may have been a material change from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2009. You should carefully review these risks in evaluating our business, including the businesses of our subsidiaries. You should also consider the other information described in this report.

We have marked with an asterisk (*) those risk factors that reflect substantive changes from the risk factors included in our previously filed Annual Report on Form 10-K for the year ended December 31, 2009.

Risks Related To Us and Our Business.

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

King is obligated to pay us royalties based on its sales of AVINZA and GSK is obligated to pay us royalties on its sales of PROMACTA. These royalties represented 23% and 21% of total revenues for the three months ended September 30, 2010 and 2009, respectively, and 27% and 26% of total revenues for the nine months ended September 30, 2010 and 2009, respectively, and will continue to be a substantial portion of our ongoing revenues for some time. We also receive milestones and collaborative revenue from our partners in various collaborations, but the amount of such revenue is unknown and highly uncertain. As a result, any setback that may occur with respect to AVINZA or PROMACTA could significantly impair our operating results and/or reduce the market price of our stock, as could any reduction in our expected milestone and collaborative revenue. Setbacks for AVINZA and PROMACTA could include problems with shipping, distribution, manufacturing, product safety, marketing, government licenses and approvals, intellectual property rights, competition with existing or new products and physician or patient acceptance of the products, as well as higher than expected total rebates, returns or discounts.

King and GSK's sales efforts for AVINZA and PROMACTA, respectively, could be affected by a number of factors and decisions regarding their organizations, operations, and activities as well as events both related and unrelated to AVINZA or PROMACTA, including sales force reorganizations and lower than expected sales calls and prescription volumes. AVINZA and PROMACTA could also face stiffer competition from existing or future products. The negative impact on the sales of AVINZA or PROMACTA will negatively affect our royalties, revenues and earnings.

Sales of AVINZA and PROMACTA may also be negatively impacted by higher than expected discounts (especially pharmacy benefit management/group purchasing organization rebates and Medicaid rebates, which can be substantial), returns and chargebacks and/or slower than expected market penetration. Other setbacks that AVINZA could face in the sustained-release opioid market include abuse issues and the inability to obtain sufficient quotas of morphine from the Drug Enforcement Agency to support production requirements.

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

On September 10, 2007, King reported that Actavis, a manufacturer of generic pharmaceutical products headquartered in Iceland, had filed with the FDA an Abbreviated New Drug Application, or ANDA, with a Paragraph IV Certification pertaining to AVINZA, the rights to which were acquired by King from us in February 2007. According to the report, Actavis's Paragraph IV Certification sets forth allegations that U.S. Patent No. 6,066,339, or the 339 patent, which pertains to AVINZA, and which is listed in the FDA's Approved Drug Products With Therapeutic Equivalence Evaluations, will not be infringed by Actavis's manufacture, use, or sale of the product for which the ANDA was submitted. The expiration date for this patent is November 2017. King, King Pharmaceuticals Research and Development, Inc., Elan Corporation, plc, or Elan, and Elan Pharma International Ltd. jointly filed suit in federal district court in New Jersey on October 18, 2007 against Actavis, Inc. and Actavis Elizabeth LLC for patent infringement under the 339 patent. The lawsuit seeks a judgment that would, among other things, prevent Actavis from commercializing its proposed morphine product until after expiration of the 339 patent. The Court held a claim construction hearing on March 19, 2010 and issued a ruling. The Court has scheduled trial to begin on February 7, 2011. The close of all discovery is currently set for January 7, 2011.

On July 21, 2009, King, King Pharmaceuticals Research and Development, Inc., Elan and Elan Pharma International Ltd. jointly filed suit in federal district court in New Jersey against Sandoz Inc., or Sandoz, for patent infringement under the 339 patent. According to the complaint, Sandoz filed an ANDA for morphine sulfate extended release capsules and, in connection with the ANDA filing, Sandoz provided written certification to the FDA alleging that the claims of the 339 patent are invalid, unenforceable and/or will not be infringed by the manufacture, use or sale of Sandoz's proposed morphine product. Similar to the lawsuit against Actavis, this lawsuit seeks a judgment that would, among other things, prevent Sandoz from commercializing its proposed morphine product until after expiration of the 339 patent. The parties are in the midst of fact discovery. A claim construction hearing was held on September 23, 2010 and the Court issued a ruling on October 1, 2010. Trial is currently set for May 9, 2011.

AVINZA was licensed from Elan, which is its sole manufacturer. Any problems with Elan's manufacturing operations or capacity could reduce sales of AVINZA, as could any licensing or other contract disputes with Elan, raw materials suppliers, or others.

Further, pursuant to the agreement with King, we may no longer receive AVINZA royalties on a quarterly basis, but will collect royalties on an annual basis, which may adversely impact our cash flows.

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

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

The rates at which we complete our clinical trials depends on many factors, including, but are not limited to, our ability to obtain adequate supplies of the products to be tested and patient enrollment. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites and the eligibility criteria for the trial. Delays in patient enrollment for our trials may result in increased costs and longer development times. For example, the trial entitled "Eltrombopag To Reduce The Need For Platelet Transfusion In Subjects With Chronic Liver Disease And Thrombocytopenia Undergoing Elective Invasive Procedures (ELEVATE)" was suspended in October 2009 in accordance with an IDMC Recommendation. GSK terminated the ELEVATE study and the program is under review. In addition, our collaborative partners have rights to control product development and clinical programs for products developed under the collaborations. As a result, these collaborative partners may conduct these programs more slowly or in a different manner than expected. Moreover, even if clinical trials are completed, we or our collaborative partners still may not apply for FDA approval in a timely manner or the FDA still may not grant approval.

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

Our strategy for developing and commercializing many of our potential products, including products aimed at larger markets, includes entering into collaborations with corporate partners and others. These collaborations have provided us with funding and research and development resources for potential products for the treatment of a

variety of diseases. These agreements also give our collaborative partners significant discretion when deciding whether or not to pursue any development program. Our existing collaborations may not continue or be successful, and we may be unable to enter into future collaborative arrangements to develop and commercialize our product candidates.

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

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

Our operations have consumed substantial amounts of cash since inception. Clinical and preclinical development of drug candidates is a long, expensive and uncertain process. Also, we may acquire companies, businesses or products and the consummation of such acquisitions may consume additional cash. For example, as part of the consideration for our recent acquisition of Pharmacopeia, we distributed approximately $9.3 million in cash to Pharmacopeia stockholders. Security-holders of Pharmacopeia also received contingent value rights under which we could be required to make an aggregate cash payment of $15.0 million to such security-holders under certain circumstances. Security holders of Neurogen and Metabasis also received contingent value rights under which we could be required to make unspecified payments under certain circumstances. In April 2010, we earned a $6.5 million milestone payment from Roche as a result of Roche progressing RG7348 into a Phase I clinical trial for the treatment of HCV infection. The milestone payment arises from a 2008 collaboration and license agreement between Roche and Metabasis and approximately 65% was distributed to CVR holders under a contingent value rights agreement and the former landlord of Metabasis.

In December 2009, the Internal Revenue Service, or IRS, issued to us a Notice of Proposed Adjustment, or NOPA, seeking an increase to our taxable income for the 2007 fiscal year of $71.5 million and a $4.1 million penalty for substantial underpayment of tax in fiscal 2007. We responded to the NOPA in February 2010, disagreeing with the conclusions reached by the IRS in the NOPA. We recorded a liability for uncertain tax positions of $25.1 million related to the income tax effect of the NOPA and $3.8 million related to estimated interest due on the proposed underpayment of tax. We also recorded deferred income tax assets of $25.1 million associated with the ability to carry back losses from 2008 and 2009 to offset the NOPA. In addition, we recorded an income tax receivable of $4.5 million associated with changes in income tax law in relation to prior AMT taxes paid on carry back periods. We have not recorded the penalties proposed by the IRS in our financial statements as we believe that we met the appropriate standard for the tax position on our 2007 tax return. If we are unsuccessful in our negotiations with the IRS, we may be required to pay the $4.1 million penalty and utilize a significant amount of our net operating loss carryforwards. On November 3, 2010, we were notified by the Internal Revenue Service that it was granting our request for an extension of time to make a closing-of-the-books election with respect to an ownership change, within the meaning of section 382 of the Internal Revenue Code, for the 2007 tax year. We will file an amended 2007 federal tax return in the fourth quarter of 2010 and are evaluating the impact on the $25.1 million that was recorded by us as a liability for uncertain tax positions.

On June 15, 2010, we committed to a plan to close our operations at our Cranbury, New Jersey facility, with an expected completion in the fourth quarter of 2010. In September 2010, we ceased use of this facility. As a result, during the quarter ended September 30, 2010, we recorded lease exit costs of $9.7 million for costs related to the difference between the remaining lease obligations of the abandoned operating leases, which run through August 2016, and management's estimate of potential future sublease income, discounted to present value.

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

- the costs associated with our drug research and development activities, and additional costs we may incur if our development programs are delayed or are more expensive to implement than we currently anticipate;
- changes in collaborative relationships, including the funding we receive in connection with those relationships;
- the progress of our milestone and royalty producing activities;
- our ability to reach a favorable resolution with the IRS with respect to their audit of our fiscal 2007 federal tax return, or to other potential tax assessments;
- acquisitions of other businesses or technologies;
- the termination of our lease agreements;
- the costs of the closure of our operations at our Cranbury, New Jersey facility;
- the purchase of additional capital equipment;
- cash payments, including CVR payments, or refunds we may be required to make pursuant to certain agreements with third parties;
- competing technological and market developments; and
- the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights, and the outcome of related litigation.

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

If, as the result of a merger, or otherwise, our collaborative partners were to change their strategy or the focus of their development and commercialization efforts with respect to our alliance products, the success of our alliance products could be adversely affected.*

Our collaborative partners may change the focus of their development and commercialization efforts as the result of a merger. Pharmaceutical and biotechnology companies have historically re-evaluated their priorities from time to time, including following mergers and consolidations which are common in these industries, and two of our collaborative partners have recently entered into merger agreements. In October 2009, Wyeth, a collaborative partner of ours, and Pfizer announced that Pfizer had completed its acquisition of Wyeth in a cash and stock transaction. Furthermore, in November 2009, Schering-Plough Corporation, another of our collaborative partners, and Merck & Co., Inc., or Merck, announced that Merck and Schering-Plough had combined, under the name Merck, in a stock and cash transaction. As a result of the consummation of these mergers, our collaborative partners may develop and commercialize, either alone or with others, products and services that are similar to or competitive with our alliance products. Furthermore, the ability of our alliance products to reach their potential could be limited if our collaborative partners reduce or fail to increase spending related to such products as a result of these mergers.

On May 3, 2010, we received written notice from Trevena, Inc. that, effective immediately, it was exercising its right to terminate the Research and License Agreement, dated February 5, 2009, as amended, between Trevena and us. Under this agreement, we agreed to screen biological target receptors selected by Trevena against our library of compounds to identify potential active compounds for the development of novel therapeutics. We believe that this agreement was terminated in response to changes in Trevena internal research priorities relating to the subject matter of the research collaboration.

On May 13, 2010, Pfizer Inc. announced in a Form 10-Q filed with the SEC that it is in the process of withdrawing its NDAs with the FDA relating to Fablyn (lasofoxifene tartrate). As previously disclosed, Fablyn is a selective estrogen receptor modulator product candidate that resulted from a collaboration between Pfizer and us formed to develop therapies for osteoporosis. Pfizer submitted an NDA to the FDA and a marketing authorization application to the European Medicines Agency for Fablyn for the treatment of osteoporosis in December 2007 and January 2008, respectively, and in February 2009, Pfizer received approval from the European Commission for Fablyn tablets. Under the terms of our agreement with Pfizer, we are entitled to receive royalty payments on worldwide net sales of lasofoxifene for any indication. Pfizer has indicated that it is exploring strategic options for Fablyn, including out-licensing or sale.

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

In October, 2010, Pfizer announced that it had entered into an agreement to acquire King. Pfizer has commenced a tender offer and Pfizer and King are targeting a late fourth-quarter 2010 or first-quarter 2011 closing assuming execution of the tender process and receipt of the appropriate regulatory clearances. There can be no assurance of the impact that this anticipated acquisition will have on our relationship with Pfizer or King, or that the acquisition will occur at all.

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

We may not be successful in entering into additional out-license agreements on favorable terms, which may adversely affect our liquidity or require us to alter development plans on our products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We were founded in 1987. We have incurred significant losses since our inception. As of September 30, 2010, our accumulated deficit was $696.5 million.

Most of our products in development will require extensive additional development, including preclinical testing and human studies, as well as regulatory approvals, before they can be marketed. We cannot predict if or when any of the products we are developing or those being developed with our partners will be approved for marketing. There are many reasons why we or our collaborative partners may fail in our efforts to develop our potential products, including the possibility that: preclinical testing or human studies may show that our potential products are ineffective or cause harmful side effects; the products may fail to receive necessary regulatory approvals from the FDA or foreign authorities in a timely manner, or at all; the products, if approved, may not be produced in commercial quantities or at reasonable costs; the products, if approved, may not achieve commercial acceptance; regulatory or governmental authorities may apply restrictions to our products, which could adversely affect their commercial success; or the proprietary rights of other parties may prevent us or our partners from marketing the products.

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

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

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

We will have continuing obligations to indemnify the buyers of our commercial product lines, and may be subject to other liabilities related to the sale of our commercial product lines.*

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

In addition, King assumed our obligation to make payments to Organon based on net sales of AVINZA (the fair value of which was $38.4 million as of September 30, 2010). We remain liable to Organon in the event King defaults on this obligation. Any requirement to pay a material amount to Organon, could adversely affect our business and the price of our securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant returns of products we sold prior to selling our commercial businesses could harm our operating results.

Under our agreements to sell our commercial businesses, we remain financially responsible for returns of our products sold before those businesses were transferred to their respective buyers. Consequently, if returns of those products are higher than expected, we could incur substantial expenses for processing and issuing refunds for those returns which, in turn, could negatively impact our financial results. The amount of returns could be affected by a number of factors including, but not limited to, ongoing product demand, product rotation at distributors and wholesalers, and product stability issues.

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

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

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

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

We may be unable to successfully integrate the businesses of Neurogen, Metabasis and/or Pharmacopeia and realize the anticipated benefits of the mergers.*

In December 2008, we completed our merger with Pharmacopeia. In December 2009, we completed our merger with Neurogen and in January 2010, we completed our merger with Metabasis. The success of these mergers will depend, in part, on our ability to realize the anticipated synergies, growth opportunities and cost savings from integrating Pharmacopeia's, Neurogen's and/or Metabasis' business with our business. Our success in realizing these benefits and the timing of this realization depend upon the successful integration of the operations of Pharmacopeia, Neurogen and/or Metabasis. The integration of independent companies is a complex, costly and time-consuming process. It is possible that the integration processes could result in the loss of key employees, diversion of each company's management's attention, the disruption or interruption of, or the loss of momentum in, each company's ongoing business or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect either company's ability to maintain relationships with licensors, collaborators, partners, suppliers and employees or our ability to achieve the anticipated benefits of the merger, or could reduce our earnings or otherwise adversely affect the business and financial results of the combined company and, as a result, adversely affect the market price of our common stock.

During the integration process for our Metabasis acquisition, we have become aware that the electronic data we received as part of the acquisition is incomplete due to the data retention and backup policies in place at Metabasis prior to the time of the acquisition. We are in the process of determining the impact of the deficiencies. The missing electronic data could impact our ability to partner affected compounds and may lead to increased costs and development time for affected programs, which could impact our ability to achieve the anticipated benefits of the acquisition and lead to unanticipated development costs.

We expect to incur significant costs and commit significant management time integrating Pharmacopeia's, Neurogen's and Metabasis' business operations, technology, development programs, products and personnel with those of ours. If we do not successfully integrate the business of Pharmacopeia, Neurogen and Metabasis, the expenditure of these costs will reduce our cash position.

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

Our common stock has experienced significant price and volume fluctuations and may continue to experience volatility in the future. As a result, you may not be able to sell your shares quickly or at the latest market price if trading in our stock is not active or the volume is low. On June 15, 2010, we announced that our Board of Directors approved a reverse stock split of the Company's outstanding common stock at a ratio in the range of 1-for-5 to 1-for-10. Our stockholders approved the reverse stock split at a special meeting held on September 9, 2010, and our Board of Directors has the discretion to implement the reverse stock split and to determine the exact ratio until the time of our 2011 annual meeting of stockholders. We believe the reverse stock split will have the effect of increasing the per share trading price of our common stock. Many factors may have a significant impact on the market price of our common stock, including, but not limited to, the following factors: results of or delays in our preclinical studies and clinical trials; the success of our collaboration agreements; publicity regarding actual or potential medical results relating to products under development by us or others; announcements of technological innovations or new commercial products by us or others; developments in patent or other proprietary rights by us or others; comments or opinions by securities analysts or major stockholders; future sales of our common stock by existing stockholders; regulatory developments or changes in regulatory guidance; litigation or threats of litigation; economic and other external factors or other disaster or crises; the departure of any of our officers, directors or key employees; period-to-period fluctuations in financial results; and limited daily trading volume.

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

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

While no material weaknesses were identified as of September 30, 2010, we cannot assure you that material weaknesses will not be identified in future periods. The existence of one or more material weakness or significant deficiency could result in errors in our consolidated financial statements. Substantial costs and resources may be required to rectify any internal control deficiencies. If we fail to achieve and maintain the adequacy of our internal controls in accordance with applicable standards, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting. If we cannot produce reliable financial reports, our business and financial condition could be harmed, investors could lose confidence in our reported financial information, or the market price of our stock could decline significantly. In addition, our ability to obtain additional financing to operate and expand our business, or obtain additional financing on favorable terms, could be materially and adversely affected, which, in turn, could materially and adversely affect our business, our financial condition and the market value of our securities. Moreover, our reputation with customers, lenders, investors, securities analysts and others may be adversely affected.

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

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

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

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

As part of our efforts to acquire companies, business or product candidates or to enter into other significant transactions, we conduct business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in the transaction. Despite our efforts, we ultimately may be unsuccessful in ascertaining or evaluating all such risks and, as a result, might not realize the intended advantages of the transaction. If we fail to realize the expected benefits from acquisitions we may consummate in the future, whether as a result of unidentified

risks, integration difficulties, regulatory setbacks and other events, our business, results of operations and financial condition could be adversely affected. If we acquire product candidates, we will also need to make certain assumptions about, among other things, development costs, the likelihood of receiving regulatory approval and the market for such product candidates. Our assumptions may prove to be incorrect, which could cause us to fail to realize the anticipated benefits of these transactions.

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

ITEM 6. EXHIBITS

The Index to Exhibits on page 49 is incorporated herein by reference as the list of exhibits required as part of this Quarterly Report.

LIGAND PHARMACEUTICALS INCORPORATED

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

Date: November 9, 2010

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

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INDEX TO EXHIBITS

Exhibit Number	Description
2.1(1)	Agreement and Plan of Merger, by and among the Company, Pharmacopeia, Inc., Margaux Acquisition Corp. and Latour Acquisition, LLC, dated as of September 24, 2008 (Filed as Exhibit 2.1).
2.2(2)	Agreement and Plan of Merger, by and among the Company, Neurogen Corporation and Neon Signal, LLC, dated as of August 23, 2009 (Filed as Exhibit 10.1).
2.3(3)	Amendment to Agreement and Plan of Merger, by and among the Company, Neurogen Corporation, and Neon Signal, LLC, dated September 18, 2009 (Filed as Exhibit 10.1).
2.4(3)	Amendment No. 2 to Agreement and Plan of Merger, by and among the Company, Neurogen Corporation, and Neon Signal, LLC, dated November 2, 2009 (Filed as Exhibit 10.2).
2.5(4)	Amendment No. 3 to Agreement and Plan of Merger, by and among the Company, Neurogen Corporation, and Neon Signal, LLC, dated December 17, 2009 (Filed as Exhibit 10.1).
2.6(5)	Agreement and Plan of Merger, dated as of October 26, 2009, by and among the Company, Metabasis Therapeutics, Inc., and Moonstone Acquisition, Inc (Filed as Exhibit 10.1).
2.7(6)	Amendment to Agreement and Plan of Merger, by and among the Company, Metabasis Therapeutics, Inc., Moonstone Acquisition, Inc., and David F. Hale as Stockholders' Representative, dated November 25, 2009 (Filed as Exhibit 10.1).
3.1(7)	Amended and Restated Certificate of Incorporation of the Company (Filed as Exhibit 3.1).
3.2(7)	Bylaws of the Company, as amended (Filed as Exhibit 3.3).
3.3(8)	Amended Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Company (Filed as Exhibit 3.3).
3.4(9)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company dated June 14, 2000 (Filed as Exhibit 3.5).
3.5(10)	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company dated September 30, 2004 (Filed as Exhibit 3.6).
3.6(11)	Amendment of the Bylaws of the Company dated November 8, 2005 (Filed as Exhibit 3.1).
3.7(12)	Amendment of Bylaws of the Company dated December 4, 2007 (Filed as Exhibit 3.1).
4.1(13)	Specimen stock certificate for shares of Common Stock of the Company.
4.2(14)	Pledge Agreement dated November 26, 2002, between the Company and J.P. Morgan Trust Company, National Association (Filed as Exhibit 4.5).
4.3(14)	Control Agreement dated November 26, 2002, among the Company, J.P. Morgan Trust Company, National Association and JP Morgan Chase Bank (Filed as Exhibit 4.6).
4.4(15)	2006 Preferred Shares Rights Agreement, by and between the Company and Mellon Investor Services LLC, dated as of October 13, 2006 (Filed as Exhibit 4.1).
10.1†	Asset Purchase Agreement, dated as of July 30, 2010, by and among Wyeth LLC, Pharmacopeia, Inc. and the Company.
31.1	Certification by Principal Executive Officer, Pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Principal Financial Officer, Pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit Number	Description
32.1	Certification by Principal Executive Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Principal Financial Officer, Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(14) This exhibit was previously filed as part of, and is hereby incorporated by reference to the numbered exhibit filed with the Company's Registration Statement on Form S-3 (No. 333-102483) filed on January 13, 2003, as amended.

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

Exhibit 10.1

CERTAIN MATERIAL (INDICATED BY AN ASTERISK) HAS BEEN OMITTED FROM THIS DOCUMENT PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

ASSET PURCHASE AGREEMENT

Dated as of July 30, 2010

By and Between

WYETH LLC

and

PHARMACOPEIA, INC.

and

Solely for Purposes of the Specified Sections Herein

LIGAND PHARMACEUTICALS INCORPORATED

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ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT (this "Agreement") is dated as of July 30, 2010 (the "Effective Date"), by and between Wyeth LLC, a Delaware limited liability company, Pharmacopeia, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (the "Company") and, solely for purposes of Sections 3.4(c), 8.1(a), 8.2 and 8.3 herein, Ligand Pharmaceuticals Incorporated, a Delaware corporation ("Parent"). Wyeth LLC, the Company and, for purposes of Sections 3.4(c), 8.1(a), 8.2 and 8.3, Parent, may each be referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

WHEREAS, Wyeth, together with its Affiliates, acting through its Wyeth Pharmaceutical Division, and Pharmacopeia Drug Discovery, Inc. have entered into the Research and License Agreement, dated as of December 22, 2006, as amended by the letter agreement dated September 1, 2009 (the "Research Collaboration Agreement"), whereby such Parties entered into a Research Collaboration (as defined below) to discover, research and develop compounds that are JAK-3 Kinase Inhibitors (as defined below);

WHEREAS, Wyeth LLC is the successor-in-interest to Wyeth and the Company is the successor-in-interest to Pharmacopeia Drug Discovery, Inc.;

WHEREAS, subject to the terms and conditions set forth herein, Wyeth LLC ("Wyeth") and the Company desire to terminate the Research Collaboration Agreement as of the Effective Date; and

WHEREAS, subject the terms and conditions set forth herein, Wyeth desires to purchase, and the Company desires to sell to Wyeth the Purchased Assets (as defined below);

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, and intending to be legally bound hereby, the Parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 Defined Terms. Defined terms used in this Agreement shall have the meanings ascribed to them as follows:

"Acquired Compound Derivatives" means (a**)** any compound derived from an Acquired Compound (where "derived" means it (i) is the result of a series of one or more chemical modifications made to such Acquired Compound, (ii) is otherwise obtained from a chemical synthesis program based on one or more such Acquired Compounds, (iii) is based on structure-activity data obtained from the testing of one or more Acquired Compounds, or (iv) otherwise contains a chemical moiety, functional group or structural group of an Acquired Compound that imparts material JAK3 Inhibitory Activity); and (b**)** any isomers, enantiomers, prodrugs, hydrates, solvates, metabolites, crystalline forms and all pharmaceutically active salts thereof.

"Acquired Compound Product" means a pharmaceutical preparation containing an Acquired Compound or Acquired Compound Derivative.

"Affiliate(s)" means, with respect to any Person or entity, any other Person or entity which controls, is controlled by or is under common control with such Person or entity. A Person or entity will be regarded as in "control" of another entity if it owns or controls at least fifty percent (50%) of the equity securities of the subject entity entitled to vote in the election of directors (or, in the case of an entity that is not a corporation, for the election of the corresponding managing authority); *provided*, *however*, that the term "Affiliate" will not include subsidiaries or other entities in which a Party or its Affiliates owns a majority of the ordinary voting power necessary to elect a majority of the board of directors or other governing board, but is restricted from electing such majority by contract or otherwise, until such time as such restrictions are no longer in effect.

"Commercialization" or "Commercialize" means activities directed to obtaining pricing and reimbursement approvals, marketing, promoting, Manufacturing for commercial purposes, distributing, importing or selling a product. Commercialization will not include any activities related to Development.

"Company Affiliate" means all Affiliates of the Company other than any Person that (i) became an Affiliate solely by reason of the consummation of the transactions contemplated under the Agreement and Plan of Merger, dated as of September 24, 2008, between Pharmacopeia, Inc., Margaux Acquisition Corp. and Latour Acquisition, LLC; (ii) has not at any time been and is not currently involved in the Research Collaboration; and (iii) is not a transferee, assignee or licensee of any Intellectual Property arising out of or related to the Research Collaboration.

"Company Intellectual Property" means any Purchased Asset that constitutes Intellectual Property, including the Acquired Patents.

"Control" or "Controlled" means with respect to any Know-How, information, compound, product or other Intellectual Property right, the possession (whether by ownership or license) by a Party or its Affiliate of the ability to grant to the other Party or its Affiliate access to or a license under such item or right without violating the terms of any agreement or other arrangements with any Third Party.

"Development" or "Develop" means (a) Research and (b) clinical research and drug development activities, including without limitation clinical toxicology, Manufacturing process development, quality assurance and quality control development, statistical analysis, clinical studies (including pre- and post-approval studies), Manufacturing for clinical studies, regulatory affairs, pharmacovigilance and regulatory approval, and clinical study regulatory activities (including regulatory activities other than those directed to obtaining pricing and reimbursement approvals).

"FDA" means the United States Food and Drug Administration or any successor agency thereto.

"Governmental Authority" means any federal, state, municipal, foreign or other governmental body, department, commission, board, bureau, agency, court or instrumentality, domestic or foreign, or other entity exercising any executive, legislative, judicial, quasi-judicial, regulatory or administrative function of government, including any Regulatory Authority such as the FDA.

"Intellectual Property" means any or all rights in, arising out of, or associated therewith: (a) all United States, international and foreign Patent Rights; (b) all Know-How; (c) all copyrights, copyright registrations and applications therefor, and all other rights corresponding thereto throughout the world; (d) all industrial designs and any registration and applications therefor throughout the world; (e) all trade names, brand names, model names and other source indicators, logos, domain names, URLs, common law trademarks and service marks, including all goodwill associated therewith, and all registration and applications therefor throughout the world; and (f) all mask works and all applications, registrations, and renewals in connection therewith.

"JAK-3 Kinase Inhibitor" means a molecule that has JAK-3 Kinase Inhibitory Activity at an in vitro fifty percent (50%) inhibitory concentration (IC50) of less than or equal to one (1) micromolar.

"JAK-3 Kinase Inhibitory Activity" means, when used to describe a compound, that the compound binds to the protein tyrosine kinase enzyme known as Janus Activating Kinase 3 ("JAK-3").

"Know-How" means proprietary information or other know-how, whether or not patentable, and whether stored or transmitted in oral, documentary, electronic, or other form, including without limitation, ideas, concepts, formulas, methods, procedures, designs, compositions, plans, documents, data, inventions, discoveries, developments, works of authorship, biological and chemical materials, and any information relating to research and development plans, experiments, results, compounds, therapeutic leads, candidates, products, preclinical and clinical data, trade secrets, chemical synthesis, scale-up and manufacturing, toxicology, regulatory, stability, and any other information relevant to the Development, Commercialization, improvement or other modification of a compound or product.

"Law" means any federal, state, local or foreign law, statute, common law, rule, regulation, code, directive, ordinance or other requirement of general application of any Governmental Authority.

"Liabilities" means any direct or indirect liability, indebtedness, claim, loss, damage, deficiency, obligation or responsibility, fixed or unfixed, liquidated or unliquidated, secured or unsecured, accrued, absolute or contingent.

"Lien" means any lien, license, claim, charge, option, mortgage, pledge or security interest, rights of first refusal or rights of first offer, encumbrance or other similar right, whether arising by contract, operation of law or otherwise.

"Losses" of any Person means any and all demands, claims, suits, actions, causes of action, proceedings, assessments, losses, damages, Liabilities, Taxes, costs and expenses, incurred or suffered by such Person, including settlement costs, costs of investigation, costs of collection, interest, penalties and attorneys' fees, Third Party expert and consultant fees and expenses, fines, judgments and awards.

"Manufacturing" or "Manufacture" means activities directed to producing, manufacturing, processing, filling, finishing, packaging, labeling, quality assurance testing and release, shipping and storage of a compound or product.

"Patent Rights" means any and all (a) patents, (b) pending patent applications, including, without limitation, all provisional applications, substitutions, continuations, continuations- in- part, divisions, renewals, and all patents granted thereon, (c) all patents- of-addition, reissues, reexaminations and

extensions or restorations by existing or future extension or restoration mechanisms, including, without limitation, supplementary protection certificates or the equivalent thereof, (d) invention disclosures (including disclosures contained in draft applications), (e) inventor's certificates and (f) all United States and foreign counterparts of any of the foregoing.

"Permits" means all licenses, permits, consents, applications, orders, waivers, clearances, franchises, certificates, variances, approvals, filings, notifications and other authorizations of any Governmental Authorities under applicable Law.

"Person" means an individual, sole proprietorship, partnership, limited partnership, limited liability partnership, corporation, limited liability company, business trust, joint stock company, trust, incorporated association, joint venture or similar entity or organization, including a government or political subdivision, department or agency of a government.

"Pharmacopeia Field" means all uses of a product in non-human animals, and all topical uses of a product for the treatment or prevention of skin and eye diseases in humans where such product would be applied directly to the skin or eye and would have its therapeutic effect at or near a target site on the skin or eye.

"Pharmacopeia Know-How" means all Know-How owned or Controlled by the Company as of the Effective Date that is reasonably necessary to Develop, make, have made, or use Acquired Compounds or Acquired Compound Derivatives or to Develop, make, have made, use, offer to sell, sell, import or export or otherwise Commercialize Acquired Compound Products.

"Pharmacopeia Patent Rights" means all Patent Rights owned or Controlled by the Company as of the Effective Date that are reasonably necessary to Develop, make, have made, use, import or export Acquired Compounds or Acquired Compound Derivatives, or to Develop, make, have made, use, offer to sell, sell, import, export or otherwise Commercialize Acquired Compound Products.

"Post-Closing Tax Period" shall mean any Tax period beginning after the Closing and that portion of a Straddle Period beginning after the Closing.

"Pre-Closing Tax Period" shall mean any Tax period ending on or before the Closing and that portion of any Straddle Period ending on the Closing.

"Proceeding" means any action, suit, dispute, litigation, hearing, interference, opposition, claim, grievance, arbitral action or other proceeding before any Governmental Authority, at law or in equity.

"Regulatory Authorit(y/ies)" means any national (e.g., the FDA), supra-national (e.g., the European Commission, the Council of the European Union, or the European Agency for the Evaluation of Medicinal Products), regional, state or local regulatory agency, department, bureau, commission, council or other governmental entity in each country of the world involved in the granting of regulatory approvals for pharmaceutical products.

"Representative" means any attorney, accountant, financial advisor, agent or other authorized representative of any Person.

"Research" means those discovery and preclinical activities undertaken by or on behalf of a Party or its Affiliates with respect to a compound or product, prior to conducting clinical studies using such compound or product, including, without limitation, medicinal chemistry and synthesis, purification and other discovery efforts, test method development and stability testing, delivery system development, pharmacology, preclinical toxicology, and formulation of such compound or product.

"Research Collaboration" means the research collaboration and other activities engaged in by the Parties or their Affiliates pursuant to the Research Collaboration Agreement.

"Straddle Period" means any Tax period beginning before or on and ending after the Closing. For purposes of allocating Taxes (other than Transfer Taxes) between the portion of a Straddle Period that is included in the Pre-Closing Tax Period and the portion of a Straddle Period that is included in the Post-Closing Tax Period, (a) in the case of Property Taxes, the portion that is allocable to the Pre-Closing Tax Period shall be deemed to be the amount of such Taxes for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of calendar days of such Straddle Period in the Pre-Closing Tax Period and the denominator of which is the number of calendar days in the entire Straddle Period, and (b) in the case of all other Taxes, the portion that is allocable to the Pre-Closing Tax Period shall be determined as if the Tax period ended on the Closing Date, based on a "closing of the books" method.

"Tax" or "Taxes" means any and all taxes, assessments, levies, tariffs, duties or other charges or impositions in the nature of a tax (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any taxing authority, including income, estimated income, gross receipts, profits, business, license, occupation, franchise, capital stock, real or personal property, sales, use, transfer, value added, employment or unemployment, social security, disability, alternative or add-on minimum, customs, excise, stamp, environmental, commercial rent or withholding taxes, whether contested or not.

"Third Part(y/ies)" means any Person(s) other than Wyeth, the Company or their respective Affiliates.

1.2 Other Defined Terms. The following capitalized terms are defined in this Agreement in the Section indicated below:

Defined Term	Section
Acquired Compound Patents	3.1(a)(ii)
Acquired Compounds	3.1(a)(i)
Agreement	Preamble
Allocation Schedule	4.4
Assumed Liabilities	3.2
Claim	8.2(a)
Closing	5.1
Code	4.4
Company	Preamble
Confidential Information	7.5(a)
Effective Date	Preamble
Form 8594	4.4

Indemnification Claim Notice	8.2(a)
Indemnified Party	8.2(a)
Indemnifying Party	8.2(a)
Non-Assert Acquired Compound IP	3.4(b)(i)
Parent	Preamble
Parties	Preamble
Party	Preamble
Property Taxes	9.3(c)
Purchase Price	4.1
Purchased Assets	3.1(a)
Releasee	7.3(a)
Research Collaboration Agreement	Recitals
Retained Liabilities	3.3
Selected Compound Product	3.4(a)
Selected Compounds	3.4(b)
Technology Transfer Period	7.1(c)
Transaction Documents	6.1(b)
Violation	6.1(c)
Wyeth	Recitals

1.3 Rules of Construction. References in this Agreement to gender include references to all genders, and references to the singular include references to the plural and vice versa. The words "include," "includes" and "including" when used in this Agreement shall be deemed to be followed by the phrase "without limitation." Unless the context otherwise requires, references in this Agreement to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement. Unless the context otherwise requires, the words "hereof," "hereby" and "herein" and words of similar meaning when used in this Agreement refer to this Agreement in its entirety and not to any particular Article, Section or provision of this Agreement. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

ARTICLE II

TERMINATION OF RESEARCH COLLABORATION AGREEMENT

2.1 Termination of the Research Collaboration Agreement. Subject to Section 2.2, the Parties agree that the Research Collaboration Agreement is hereby terminated as of the Effective Date.

2.2 Survival of Certain Provisions of the Research Collaboration Agreement. The following provisions of the Research Collaboration Agreement shall survive the termination of the Research Collaboration Agreement and remain in effect in accordance with their terms: Section 1.1 (Defined Terms), but solely to the extent used in the other sections of the Research Collaboration Agreement referenced in this Section 2.2**;** Section 3.6.3 (Records and Audits); and Sections 7.1-7.3 (Confidentiality), except with respect to Confidential Information (as defined in the Research Collaboration Agreement) which also constitutes Confidential Information (as defined herein), as to which Section 7.5 hereof shall govern.

ARTICLE III

PURCHASED ASSETS; LIABILITIES AND LICENSES

3.1 Purchase and Sale of the Purchased Assets.

(a) On the terms and conditions set forth in this Agreement, the Company shall (and shall cause its Affiliates to) and hereby does, as of the Effective Date, sell, transfer, convey, assign and deliver to Wyeth, and Wyeth shall and hereby does, as of the Effective Date, purchase and acquire free and clear of all Liens all of the Company's (and its Affiliates') right, title and interest in, to and under the following assets, properties and rights (collectively, the "Purchased Assets"):

(i) all Pharmacopeia Compounds (as defined in the Research Collaboration Agreement), as set forth on Schedule 3.1(a)(i) attached hereto wherein all chemical structures are identified by corresponding compound reference numbers as listed within the electronic database named 'JAK3 Searchable #2108' that was shared between the parties (the "Acquired Compounds"), including all inventions relating thereto;

(ii) all Patent Rights owned by the Company that cover or would be infringed by the Manufacture, use, Development or Commercialization of the Acquired Compounds, the Acquired Compound Derivatives or the Acquired Compound Products, as set forth on Schedule 3.1(a)(ii) attached hereto (the "Acquired Compound Patents") and all patent prosecution documents and files relating thereto;

(iii) all written protocols relating to the synthesis and/or screening of any of the Acquired Compounds or otherwise utilized in connection with the synthesis and/or screening of compounds to identify JAK-3 Kinase Inhibitors under the Research Collaboration, as set forth on Schedule 3.1(a)(iii) attached hereto;

(iv) all data, databases, results, research and development plans, experiments, laboratory notebooks, materials, software, methods and assays, screening protocols and other Know-How or information relating primarily to activities conducted by, or on behalf of, the Company and/or its Affiliates under the Research Collaboration, as set forth on Schedule 3.1(a)(iv) attached hereto; and

(v) all physical quantities of the Acquired Compounds in the possession of the Company or its Affiliates or any Third Party on behalf of the Company and/or its Affiliates, as set forth on Schedule 3.1(a)(v) attached hereto.

The Parties acknowledge and agree that the Schedules referenced in this Section 3.1(a) are intended to contain a complete list of the assets, properties and/or rights in the category(ies) described in the applicable paragraph and that, if it is subsequently determined after the Closing that any assets, properties and/or rights falling within such category are not listed on the applicable Schedule, the Parties shall supplement such Schedule to add such assets, properties and/or rights.

(b) As of the Effective Date, all right, title and interest to and risk of loss as to the Purchased Assets shall pass from the Company and its Affiliates to Wyeth free and clear of all Liens.

3.2 Assumed Liabilities. As of the Effective Date, Wyeth shall assume and pay, perform or otherwise discharge, in accordance with their respective terms and subject to their respective conditions thereof, only the following Liabilities (collectively, the "Assumed Liabilities"):

(a) any Liabilities to the extent relating to the Purchased Assets and arising from events or circumstances occurring on or after the Effective Date; and

(b) any Liabilities for Taxes that are allocated to Wyeth pursuant to Section 9.3(c) and all other Liabilities for Taxes imposed with respect to the Purchased Assets for any Post-Closing Tax Period.

3.3 Retained Liabilities. Other than the Assumed Liabilities, the Company shall retain and shall be responsible for paying, performing and discharging when due, and Wyeth shall not assume or have any responsibility for, any Liabilities of the Company or any of its Affiliates of any kind, character or description whatsoever or to perform any obligations of the Company or any of its Affiliates under any contracts, agreements or commitments (the "Retained Liabilities"), including:

(a) any Liabilities to the extent relating to the assets, properties or rights of the Company or its Affiliates, other than the Purchased Assets;

(b) any Liabilities to the extent relating to the Purchased Assets and arising from events or circumstances occurring prior to the Effective Date;

(c) any Liabilities to the extent relating to the manufacture, use, sale, importation, exportation or other Development or Commercialization of the Selected Compounds and/or the Selected Compound Products; and

(d) any Liabilities for Taxes that are allocated to the Company pursuant to Section 4.3 or 9.3(c) and all other Liabilities for Taxes imposed with respect to the Purchased Assets for any Pre-Closing Tax Period.

3.4 Grants of Licenses; Covenant Not to Sue.

(a) The Company hereby grants to Wyeth and its Affiliates a non-exclusive, irrevocable, royalty-free, perpetual, worldwide license, with the right to sublicense, under the Pharmacopeia Patent Rights and Pharmacopeia Know-How not constituting Purchased Assets, to make, have made, use, offer to sell, sell, import, export and otherwise Develop and Commercialize Acquired Compounds, Acquired Compound Derivatives and Acquired Compound Products.

(b) Wyeth hereby grants to the Company and its Affiliates a non-exclusive, irrevocable, royalty-free, perpetual, worldwide license, with the right to sublicense, under the Company Intellectual Property to make, have made, use, offer to sell, sell, import, export and otherwise Develop and Commercialize the compounds specifically identified on Schedule 3.4(b) attached hereto (collectively, the "Selected Compounds") and any pharmaceutical preparation containing a Selected Compound (each, a "Selected Compound Product") solely in the Pharmacopeia Field.

(c) Each of the Parent and the Company hereby perpetually covenants, warrants and agrees that it will not (and will cause its Affiliates, successors, and assigns not to) sue or otherwise commence any action or proceeding against Wyeth or its Affiliates or their respective licensees, successors or assigns for past or future infringement or misappropriation of any Non-Assert Acquired Compound IP owned or Controlled by Parent or the Company or any of their respective Affiliates. For purposes hereof, "Non-Assert Acquired Compound IP" means Patent Rights and Know-How owned or Controlled by Parent or the Company or any of their respective Affiliates as of the Effective Date that cover or would be infringed by or that otherwise relate to the Manufacture, use, Development or Commercialization of the Acquired Compounds, Acquired Compound Derivatives and/or Acquired Compound Products.

(d) All rights and licenses granted hereunder are rights to "intellectual property" (as defined in Section 101(35A) of Title 11 of the United States Bankruptcy Code, as amended).

(e)Except as expressly provided in this Agreement, neither Party will be deemed by estoppel or implication to have granted the other Party any license or other right with respect to intellectual property of such Party.

ARTICLE IV

PAYMENTS

4.1 Purchase Price. As consideration for the Purchased Assets, the rights granted to Wyeth hereunder and obligations incurred by the Company hereunder, Wyeth shall pay to the Company a total of U.S.$3,000,000 (THREE MILLION U.S. DOLLARS) in accordance with Section 4.2 (the "Purchase Price").

4.2 Payment Terms. The Purchase Price shall be payable by Wyeth to the Company in two installments: (a) the first installment of U.S. $2,000,000 (TWO MILLION U.S. DOLLARS) is due within ten (10) days after receipt of an invoice therefor following the Effective Date; and (b) the second installment of U.S.$1,000,000 (ONE MILLION U.S. DOLLARS) is due within ten (10) days after receipt of an invoice therefor following the later of (i) expiration of the Technology Transfer Period or (ii) receipt by Wyeth of true, correct and complete copies of all assignments of inventions relating to the Purchased Assets and written evidence that all such assignments of inventions have been filed with the Unites States Patent and Trademark Office. All payments hereunder shall be made by wire transfer of immediately available funds to an account designated by the Company in writing to Wyeth.

4.3 Taxes.

(a) The Company shall pay, when due, any sales Tax, transfer Taxes, stamp Taxes and other Taxes payable in connection with the sale and transfer of the Purchased Assets hereunder.

(b) It is understood and agreed between the Parties that any payments made pursuant to this Agreement are inclusive of any value added Tax imposed upon such payments.

(c) In the event any of the payments made by Wyeth pursuant to this Agreement become subject to withholding Taxes under the Laws of any jurisdiction, Wyeth shall deduct and withhold the amount of such Taxes for the account of the Company, to the extent required by Law, such amounts payable to the Company shall be reduced by the amount of Taxes deducted and withheld, and Wyeth shall pay the amounts of such Taxes to the proper Governmental Authority in a timely manner and promptly transmit to the Company an official Tax certificate or other evidence of such Tax obligations together with proof of payment from the relevant Governmental Authority of all amounts deducted and withheld sufficient to enable the Company to claim such payment of Taxes. Any such withholding Taxes required under applicable Law to be paid or withheld shall be an expense of, and borne solely by, the Company. Wyeth will provide the Company with reasonable assistance to enable the Company to recover such Taxes as permitted by Law.

4.4 Purchase Price Allocation. The Company and Wyeth agree that the sum of the Purchase Price and the Assumed Liabilities shall be allocated among the Purchased Assets in accordance with Section 1060 of the Code, pursuant to an allocation schedule (the "Allocation Schedule") as agreed by Wyeth and the Company in accordance with this Section 4.4. Wyeth shall provide to the Company a draft Allocation Schedule within ninety (90) days after the Closing. Thereafter, the Company shall have thirty (30) days either to (a) agree with and accept the Allocation Schedule or (b) to deliver to Wyeth any suggested changes to the Allocation Schedule. If the Company proposes changes, the Parties will work in good faith to reach agreement on a mutually acceptable Allocation Schedule within thirty (30) days after the Company has delivered its suggested changes. If the Company and Wyeth are unable to resolve any dispute and reach agreement on the Allocation Schedule within such period, such dispute shall be resolved promptly by a nationally recognized accounting firm acceptable to the Company and Wyeth, the costs of which shall be borne equally by the Company and Wyeth. The Company and Wyeth shall provide each other promptly with any other information required to complete the Allocation Schedule. Once the Company and Wyeth have agreed on the Allocation Schedule or the allocation has been determined by the national recognized accounting firm pursuant to this paragraph, (i) the Allocation Schedule shall be binding upon the Parties, (ii) the Company and Wyeth shall complete and file IRS Form 8594 ("Form 8594") (and any similar form required by state, local or foreign law) using the Allocation Schedule, and (iii) the Company and Wyeth shall not take any position and shall cause their Affiliates not to take any position (whether in any audit, on any Tax return, or otherwise) that is inconsistent with the allocation, in each case unless otherwise required by applicable Law or pursuant to a "determination" within the meaning of Section 1313(a) of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). Not later than thirty (30) days prior to filing its respective Form 8594 relating to this transaction, the Company and Wyeth shall each deliver to the other Party a copy of its Form 8594, and within ten (10) days after filing its Form 8594 with the IRS pursuant to this Section 4.4, each Party shall provide the other with a copy of such form as filed. To the extent required by applicable Law, the Allocation will be revised to reflect any adjustment of the Purchase Price pursuant to this Agreement.

ARTICLE V

THE CLOSING

5.1 The Closing. Except as may otherwise be agreed to by the Parties in writing, the consummation of the purchase and sale provided for in this Agreement (the "Closing") shall occur on the Effective Date.

5.2 Delivery of Documents. At the Closing, the Company shall deliver to Wyeth patent assignments with respect to the Acquired Patents, in the form attached hereto as Exhibit A, and any other good and sufficient instruments of transfer, conveyance and assignment, reasonably requested by Wyeth, to vest in Wyeth good and marketable title to the Purchased Assets, free and clear of all Liens.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of the Company. The Company hereby makes the representations and warranties to Wyeth as set forth in this Section 6.1 as of the Effective Date.

(a) Due Organization. The Company is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization. The Company has all requisite corporate power and authority to own, lease and operate all of its properties and assets and to carry on its business as it is now being conducted.

(b) Authorization and Validity of Agreement.

(i) The Company has all requisite corporate power and authority to enter into this Agreement and the documents, certificates and instruments referred to herein or delivered pursuant hereto (collectively, the "Transaction Documents") and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents and the consummation by the Company of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action and no other corporate action or proceeding on the part of the Company is or will be necessary. This Agreement and the other Transaction Documents have been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery hereof, constitute legal, valid and binding obligations of the Company, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other Laws relating to or affecting creditors' rights generally and by general equity principles (whether considered in a proceeding in equity or at law). The Company is the successor-in-interest to Pharmacopeia Drug Discovery, Inc.'s rights and obligations under the Research Collaboration Agreement and is a wholly owned subsidiary of Parent.

(ii) The applicable sections of this Agreement constitute the legal, valid and binding obligations of the Parent, enforceable against it in accordance with their respective terms. Parent has the unrestricted right, power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement, and the execution, delivery and performance of this Agreement by Parent solely for the purposes of the specified sections herein have been duly authorized by all necessary action on behalf of Parent and this Agreement has been duly executed and delivered by Parent solely for the purposes of the specified sections herein.

(c) No Conflict. The execution and delivery by the Company of this Agreement does not, and the execution and delivery by the Company of each other Transaction Document will not, and the consummation of the transactions contemplated hereby and thereby will not, (i) conflict with or result in a default under or breach or violation of (any such conflict, default, breach or violation, a "Violation") pursuant to any provision of the certificate of incorporation, by-laws or similar organizational documents of the Company, (ii) result in any Violation of any material contractual obligations of the Company or any of its Affiliates or (iii) result in any Violation of any applicable Laws.

(d) Consents. No material consent, approval, authorization, filing, notification or other Permit of any Governmental Authority or of, with or from any other Person, is required in connection with the execution and delivery of this Agreement or any of the other Transaction Documents by the Company or the consummation by the Company of the transactions contemplated hereby or thereby.

(e) Title; Sufficiency of the Assets.

(i) The Company has good, valid and marketable sole title, of record and beneficially, to all of the Purchased Assets free and clear of all Liens and at the Closing will transfer and deliver to Wyeth good, valid and marketable title to the Purchased Assets, free and clear of all Liens. Without limiting the foregoing, none of the Purchased Assets is subject to any lease, license, contract or other agreement of the Company or its Affiliates, including any Third Party Agreement (as defined in the Research Collaboration Agreement), other than, prior to the Closing, the Research Collaboration Agreement.

(ii) The Purchased Assets comprise all the assets, properties and rights of the Company and/or the Company Affiliates related to the Acquired Compounds or necessary to Manufacture, use, Develop or Commercialize the Acquired Compounds and the Acquired Compound Products.

(f) Legal Proceedings. There are no, and since December 22, 2006, there have not been any, Proceedings pending or, to the best knowledge of the Company, threatened in writing against, affecting or involving any of the Purchased Assets.

(g) Compliance with Laws.

(i) The Company has made on a timely basis all required filings, applications and registrations with Governmental Authorities required in relation to the Purchased Assets, including the Acquired Compounds (including all authorizations required by the FDA and all foreign equivalents thereof).

(ii) The Company is, and at all times since December 22, 2006, has been, in compliance in all material respects with all Laws applicable to the ownership or use of the Purchased Assets, and the Company has not received any written notice alleging facts which, if true, would constitute a failure to comply with this subsection (g)(ii).

(iii) The Company has filed with the FDA all material required notices, supplemental applications and annual or other reports in connection with the use of the Purchased Assets.

(h) Brokers, Finders, etc. No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement or the other Transaction Documents.

(i) Intellectual Property.

(i) Each of Schedules 3.1(a)(i), 3.1(a)(ii), 3.1(a)(iii) and 3.1(a)(iv) contains, to the Company's best knowledge, a complete and correct list of the assets, properties and/or rights described in the corresponding paragraph of Section 3.1(a).

(ii) Schedule 3.1(a)(ii) identifies the following information with respect to each identified Patent Right in the Acquired Compound Patents, as applicable: (A) country, (B) title, (C) application number, (D) application filing date, (E) patent number, (F) patent issue date, and (G) listed inventor(s).

(iii) The Company is not aware of any Patent Rights owned by the Company or its Affiliates covering any screening methods used to identify JAK-3 Kinase Inhibitors or any assays or methods relating to JAK-3 Kinase Inhibitors used or identified in the Research Collaboration.

(iv) Other than the Acquired Compound Patents set forth on Schedule 3.1(a)(ii), to the Company's best knowledge, the Company and its Affiliates do not own or Control any Patent Rights with claims covering or that would be infringed by the Development, Manufacture, use, sale, offer for sale, import or other Commercialization of the Acquired Compounds, Acquired Compound Derivatives or JAK-3 Kinase Inhibitors.

(v) None of Acquired Compound Patents is subject to any funding agreement with any Governmental Authority. To the extent that any of the Acquired Compound Patents arose from work funded in whole or in part by U.S. federal funding, all requirements necessary to vest the entire right, title and interest in the Company have been satisfied.

(vi) The Company has not received any written notice from, and is not aware of any facts that would give rise to, any Third Party asserting any ownership rights to any Company Intellectual Property; and the Company has not received any notice of and is not aware of any facts that would give rise to, and there is not any pending or to the Company's best knowledge threatened, any Proceeding by a Third Party (A) asserting that the Company is infringing or has misappropriated or otherwise is violating any patent, trade secret or other Intellectual Property right or proprietary right of any Third Party or (B) relating to the Company Intellectual Property.

(vii) To the Company's best knowledge, the making, use or sale of the Acquired Compounds would not infringe any issued patent owned or possessed by any Third Party. To the Company's best knowledge, there are no Third Party patent applications pending which, if issued, would be infringed by the making, use or sale of the Acquired Compounds or the Acquired Compound Products.

(viii) There are no current or expected Proceedings before any Governmental Authority (including the United States Patent and Trademark Office or equivalent authority anywhere in the world) related to any Company Intellectual Property. No Company Intellectual Property is the subject of any Proceeding, order, decree, judgment, agreement, or stipulation binding on the Company restricting in any material respect the use, transfer, or licensing thereof by the Company.

(ix) With respect to each item of the Company Intellectual Property, necessary registration, maintenance, annuities and renewal fees in connection with such Company Intellectual Property have been made and all necessary documents and certificates in connection with such Company Intellectual Property have been filed with the relevant patent authorities in the United States and other applicable countries of the world for the purposes of maintaining such Company Intellectual Property.

(x) All employees, officers, contractors and consultants of the Company and its Company Affiliates have executed agreements requiring assignment to the Company or its Company Affiliates, as the case may be, of all inventions relating to the Company Intellectual Property, the Purchased Assets, the Acquired Compounds and/or the Research Collaboration made during the course of and as a result of their association with it and obligating the individual to maintain as confidential the confidential information of the Company or its Company Affiliates, as the case may be, relating to the Company Intellectual Property, the Acquired Compounds or the Research Collaboration. True, correct and complete copies of all assignments of inventions relating to the Company Intellectual Property have been provided to Wyeth.

(xi) The Acquired Compound Patents are, to the Company's best knowledge, not invalid or unenforceable, in whole or in part.

(xii) Neither the Company nor any Affiliate thereof has prepared, or has had prepared on behalf of the Company or its Affiliates, any invention disclosures pertaining to the Purchased Assets that have not already resulted in an Acquired Compound Patent.

(xiii) The Acquired Compounds identified on Schedule 3.1(a)(i) constitute all compounds owned or Controlled by the Company or its Company Affiliates that have been identified by the Company or its Company Affiliates as JAK-3 Kinase Inhibitors.

(xiv) None of the Manufacture, use, Development or Commercialization of the Acquired Compounds would require rights under any license, contract or other agreement of the Company or its Affiliates with Third Parties, including any Third Party Agreement (as defined in the Research Collaboration Agreement).

(j) Regulatory Status. The Company has not received any written notice that any filings with any Governmental Authority in relation to the Purchased Assets is not currently in good standing. The Company has filed with the FDA all required notices, supplemental applications and annual or other reports, relating to the Purchased Assets. The Company has delivered to Wyeth copies of all material (i) reports of inspection observations, (ii) establishment inspection reports, (iii) warning letters, as well as any other material documents received by the Company from the FDA or any other Governmental Authority relating to the Purchased Assets that assert ongoing material lack of compliance with any Laws (including regulations promulgated by the FDA and any other Governmental Authority) by the Company.

(k) Solvency. Upon the consummation of the transactions contemplated by the Transaction Documents, (a) the Company will not be insolvent, (b) the Company will not be left with unreasonably small capital, (c) the Company will not have incurred Liabilities beyond its ability to pay or satisfy such Liabilities, as they mature and (d) the capital of the Company will not be impaired.

6.2 Representations and Warranties of Wyeth. Wyeth hereby makes the representations and warranties to the Company as set forth in this Section 6.2 as of the Effective Date.

(a) Due Organization. Wyeth is a corporation duly incorporated or otherwise organized, validly existing and in good standing under the Laws of its jurisdiction of incorporation or organization.

(b) Authorization and Validity of Agreement. Wyeth has all requisite corporate power and authority to enter into this Agreement and the other Transaction Documents and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Wyeth of this Agreement and the other Transaction Documents and the consummation by Wyeth of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action of Wyeth and no other corporate action or proceeding on the part of Wyeth is or will be necessary for the execution, delivery and performance by Wyeth of this Agreement or the other Transaction Documents and the consummation by Wyeth of the transactions contemplated hereby or thereby. This Agreement and the other Transaction Documents have been duly and validly executed and delivered by Wyeth and, assuming the due authorization, execution and delivery hereof by the Company, constitute legal, valid and binding obligations of Wyeth, enforceable against Wyeth in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other Laws relating to or affecting creditors' rights generally and by general equity principles (whether considered in a proceeding in equity or at law). Wyeth LLC is the successor-in-interest to Wyeth's rights and obligations under the Research Collaboration Agreement.

(c) No Conflict. The execution and delivery by Wyeth of this Agreement does not, and the execution and delivery by Wyeth of each other Transaction Document will not, and the consummation of the transactions contemplated hereby and thereby will not, (i) result in any Violation of any provision of the articles or certificate of incorporation, by-laws or similar organizational documents of Wyeth or any of its Affiliates, (ii) result in any Violation of any material contractual obligations of Wyeth or any of its Affiliates or (iii) result in any Violation of any applicable Laws except in the case of subclause (ii) or (iii) for any Violation which would not reasonably be expected to, individually or in the aggregate, materially adversely affect the ability of Wyeth to perform its obligations under this Agreement.

(d) Consents. No material consent, approval, authorization, filing, notification or other Permit of any Governmental Authority or of, with or from any other Person, is required in connection with the execution and delivery of this Agreement or any of the other Transaction Documents by Wyeth or the consummation by Wyeth of the transactions contemplated hereby or thereby.

(e) Brokers, Finders, etc. None of Wyeth nor any of its Affiliates has employed any agent, broker, investment banker, financial advisor or other firm or Person who is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement or the other Transaction Documents.

ARTICLE VII

COVENANTS

7.1 Technology and Asset Transfer.

(a) As soon as reasonably possible after the Effective Date (and in any event within thirty (30) days after the Effective Date), the Company shall (i) disclose to Wyeth or its designated Affiliate all material Know-How of the Company and/or its Affiliates in existence as of the Effective Date that is used, held for use or intended for use in, or that arises or has arisen out of, or is otherwise related to the Research Collaboration and provide copies of any existing tangible embodiment thereof in such written or electronic form as it exists as of the Effective Date and as reasonably requested by Wyeth, including the Know-How described in Sections 3.1(a)(iii)-(iv) hereof and (ii) deliver to Wyeth all other tangible Purchased Assets, including the Acquired Compounds described in Section 3.1(a)(v).

(b) Upon request by Wyeth and for a period of up to thirty (30) days following the Effective Date, the Company will and will cause its Company Affiliates to provide reasonable assistance and cooperation to Wyeth or its designated Affiliate in connection with understanding and using such Know-How for purposes of conducting the same types of activities as the JAK-3 related activities conducted pursuant to the Research Collaboration.

(c) The services to be provided under the foregoing subsections (a) and (b) above shall be provided during the period (the "Technology Transfer Period") commencing on the Effective Date and continuing until thirty (30) days after the Effective Date.

7.2 Non-Competition.

(a) For a period of three (3) years after the Effective Date, the Company will not Develop itself, or collaborate with, license, or otherwise authorize any Affiliate or Third Party to, Develop or Commercialize any compound that it knows, or has reason to know, is a JAK-3 Kinase Inhibitor anywhere in the world; *provided, however*, that: (i) the Company will not be prohibited from entering into a Change of Control Transaction with any Third Party that conducts such research activities or is Developing or Commercializing a JAK-3 Kinase Inhibitor, and after such Change of Control Transaction the Third Party that acquires control of such Party may continue to conduct such activities, so long as such activities do not utilize any information obtained in the Research Collaboration; and (ii) the Company shall have the right to Develop and Commercialize the Selected Compounds and the Selected Compound Products solely in the Pharmacopeia Field.

(b) For a period of three (3) years after the Effective Date, the Company will not grant any license or right to any Affiliate or any Third Party under any Patent Right or Know-How Controlled by the Company (other than Patent Rights and Know-How jointly owned by the Company and one or more of its Third Party collaborators) (whether in a new agreement or as an amendment to an existing agreement), for human therapeutic use, to any JAK-3 Kinase Inhibitor having as its primary mechanism of action JAK-3 Kinase Inhibitory Activity (other than a Selected Compound solely in the Pharmacopeia Field) or any method or making or using such a compound.

(c) For a period of three (3) years after the Effective Date, the Company will not grant any license or right (whether in a new agreement or as an amendment to an existing agreement) to any Affiliate or any Third Party under any Patent Right or Know-How Controlled by the Company to any compound that the Company knows, or has reason to know, is a JAK-3 Kinase Inhibitor (other than a Selected Compound solely in the Pharmacopeia Field) or any method of making or using such a compound.

(d) If a court of competent jurisdiction or other Governmental Authority determines that the foregoing restrictions are too broad or otherwise unreasonable under applicable Law, including with respect to time or scope, the court or other Governmental Authority is hereby requested and authorized by the Parties to revise the foregoing restriction to include the maximum restrictions allowable under applicable Law. Each of the Parties acknowledges, however, that this Section 7.2 has been negotiated by the Parties and that the territory and time period are reasonable in light of the circumstances pertaining to the Parties.

(e) Notwithstanding any other provision of this Agreement, it is understood and agreed that the remedy of indemnity payments pursuant to Article VIII and other remedies at law, if any, would be inadequate in the case of any breach of the covenants contained in this Section 7.2, and accordingly, Wyeth shall be entitled to equitable relief, including the remedy of specific performance, with respect to any breach or attempted breach of such covenants.

7.3 Release.

(a) Each Party, on behalf of itself and each of its Affiliates and their respective successors and assigns, hereby releases and forever discharges the other Party and its Affiliates, and each of their respective individual, joint or mutual, past, present and future Representatives, Affiliates, stockholders, members, partners, controlling persons, successors and assigns (individually, a "Releasee" and collectively, "Releasees") from any and all claims, demands, Proceedings, causes of action, orders, decrees, judgments, obligations, contracts, agreements, debts and Liabilities whatsoever, whether known or unknown, suspected or unsuspected, both at law and in equity, which such Party or any of its Affiliates now has, has ever had or may hereafter have against the respective Releasees (i) arising under, in connection with or relating to the Research Collaboration Agreement or the Research Collaboration; and (ii) arising contemporaneously with or prior to the Effective Date or on account of or arising out of any matter, cause or event occurring contemporaneously with or prior to the Effective Date, whether or not relating to claims pending on, or asserted after, the Effective Date. Notwithstanding any other provision of this Agreement or the other Transaction Documents, nothing contained herein shall operate to release any obligations of any Party arising under this Agreement or any other Transaction Document.

(b) Each releasing Party hereby irrevocably covenants to (and to cause its Affiliates and their respective successors and assigns to) refrain from, directly or indirectly, asserting any claim or demand, or commencing, instituting or causing to be commenced, any Proceeding of any kind against any Releasee, based upon any matter purported to be released hereby.

(c) Without in any way limiting any of the rights and remedies otherwise available to any Releasee under this Agreement or otherwise, the releasing Party shall indemnify and hold harmless each Releasee from and against all Losses whether or not involving Third Party claims, arising directly or indirectly from or in connection with (i) the assertion by or on behalf of the releasing Party and its Affiliates and their respective successors and assigns of any claim or other matter purported to be released pursuant to this Section 7.3 and (ii) the assertion by any Third Party of any claim or demand against any Releasee which claim or demand arises directly or indirectly from, or in connection with, any assertion by or on behalf of the releasing Party or any of its Affiliates and their respective successors and assigns against such Third Party of any claims or other matters purported to be released pursuant to this Section 7.3.

(d) If any provision of this Section 7.3 is held invalid or unenforceable by any court of competent jurisdiction or other Governmental Authority, the other provisions of this Section 7.3 will remain in full force and effect. Any provision of this Section 7.3 held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

(e) The Company and Wyeth each acknowledge that they have been advised by legal counsel and are familiar with the provisions of California Civil Code Section 1542, which provides as follows:

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

Each of the Parties recognizes and understands that this section applies to and covers the aforementioned claims and hereby expressly waives any rights it may have under this section.

7.4 Public Announcements. No Party to this Agreement shall originate any publicity, news release or other public announcement, written or oral, relating to this Agreement, the terms of this Agreement or the existence of any arrangement between the Parties (including the Research Collaboration Agreement), without the prior written consent of the Company (in the case of origination by Wyeth) or Wyeth (in the case of origination by the Company), whether named in such publicity, news release or other public announcement or not, except where such publicity, news release or other public announcement is required by Law; *provided*, *however*, in such event, the Party issuing such publicity, news release or other public announcement shall still be required to consult with the Company or Wyeth, as applicable, whether named in such publicity, news release or public announcement or not, to provide a reasonable period of time to allow the Company or Wyeth, as applicable, to comment thereon and, after its release, shall provide the other Party with a copy thereof. If any Party, based on the advice of its counsel, determines that this Agreement, or any of the other documents executed in connection herewith or related hereto, must be filed with the U.S. Securities and Exchange Commission ("SEC"), then such Party, prior to making any such filing, shall provide the Company or Wyeth, as applicable, and its counsel with a redacted version of this Agreement (or any Transaction Documents or other related documents) which it intends to

file and will give due consideration to any comments provided by the Company or Wyeth, as applicable, or its counsel and use reasonable efforts to ensure the confidential treatment by the SEC of those provisions specified by the Company or Wyeth, as applicable, or its counsel. Without limiting any other provision of this Section 7.4 or Section 7.5, the Parties acknowledge that Parent will be required by Law to issue a news release and file this Agreement with the SEC.

7.5 Confidentiality.

(a) The Company shall, and shall cause its Affiliates and Representatives to, hold in confidence (i) all proprietary, secret or confidential information of Wyeth and its Affiliates disclosed to the Company and/or its Affiliates in the course of performing this Agreement and (ii) all Know-How and other information relating to the Purchased Assets, including the Acquired Compounds (collectively, "Confidential Information"). The Company shall not disclose or use such Confidential Information, except to the extent such Confidential Information (a) is (at the time of disclosure) or becomes (after the time of disclosure) known to the public or part of the public domain through no breach of this Agreement by the Company or its Affiliates; (b) with respect to Confidential Information described in clause (i) of the first sentence of this Section 7.5(a) only, was known to, or was otherwise in the possession of, the Company or its Affiliates prior to the time of disclosure by Wyeth or any of its Affiliates; (c) is disclosed to the Company or an Affiliate on a non-confidential basis by a Third Party who is entitled to disclose it without breaching any confidentiality obligation to Wyeth or any of its Affiliates; or (d) with respect to Confidential Information described in clause (i) of the first sentence of this Section 7.5(a) only, is independently developed by or on behalf of the Company or its Affiliates, as evidenced by its written records, without reference to the Confidential Information disclosed by Wyeth or its Affiliates under this Agreement. In the event the Company or its Affiliates is required to disclose Confidential Information by Law or in connection with bona fide legal process, such disclosure shall not be a breach of this Agreement; *provided*, that the Company (i) informs Wyeth as soon as reasonably practicable of the required disclosure; (ii) limits the disclosure to the minimum required by such Law or legal process; and (iii) at Wyeth's request and expense, assists in good faith in an attempt to object to or limit the required disclosure.

(b) Without limiting the foregoing paragraph (a), the Company shall not, and shall cause its Affiliates and Representatives not to, make any publication, presentation or other public disclosure, or prepare or file any application for a patent or other Intellectual Property right (i) during the three (3) year period after the Closing to the extent relating to any Development or Commercialization activities or any Intellectual Property arising therefrom regarding JAK-3 Kinase Inhibitors or (ii) at any time to the extent relating to the Purchased Assets (other than the Selected Compounds in the Pharmacopeia Field). After the three (3) year period referred to in clause (i) of the preceding sentence, all such publications, presentations, public disclosures or applications for a patent or other Intellectual Property right referred to in such clause will be provided to Wyeth for review, comment and approval at least sixty (60) days prior to the intended submission date. At all times, all publications, presentations, public disclosures or applications for a patent or other Intellectual Property right relating to Selected Compounds in the Pharmacopeia Field will be provided to Wyeth for review, comment and approval at least sixty (60) days prior to the intended submission date.

7.6 Availability of Records. Subject to Section 7.5, after the Effective Date, the Company shall make available to Wyeth and its Affiliates and Representatives during normal business hours when reasonably requested for a valid business purpose not inconsistent with this Agreement, all information, records and documents related to the Purchased Assets, including the Acquired Compounds in its possession and shall preserve all such information, records and documents until the later of: (i) six (6) years after the Effective Date; or (ii) the required retention period under any applicable Laws for all such information, records or documents. The Company shall also make available to Wyeth during normal business hours, when reasonably requested for a valid business purpose not inconsistent with this Agreement, personnel responsible for preparing or maintaining information, records and documents, in connection with filings or applications for regulatory approvals, litigation or potential litigation (other than litigation between the Parties), each as it relates to the Purchased Assets.

7.7 Ownership. The Company, on behalf of itself and its Affiliates, acknowledges and agrees that all Patent Rights relating to the Purchased Assets and all Know-How and Patent Rights arising out of Development or other activities conducted by or on behalf of Wyeth or its Affiliates based on or utilizing the Purchased Assets shall be owned solely by Wyeth or such Affiliate, as applicable.

ARTICLE VIII

INDEMNIFICATION

8.1 Indemnification by the Company and Parent.

(a) From and after the Effective Date, the Company and Parent, jointly and severally, shall indemnify Wyeth and its Affiliates and each of their respective officers, directors, employees, stockholders and Representatives against, and hold them harmless from and against any and all Losses, as incurred, arising from, in connection with or otherwise with respect to:

(i) any breach of any representation or warranty of the Company contained in this Agreement or any other Transaction Document;

(ii) the failure by the Company to perform any covenant, agreement, obligation or undertaking contained in this Agreement or any other Transaction Document;

(iii) all Retained Liabilities; and

(iv) the failure to comply with statutory provisions relating to bulk sales and transfers, if applicable.

(b) Indemnification by Wyeth. From and after the Effective Date, Wyeth shall indemnify the Company and its Affiliates and each of their respective officers, directors, employees, stockholders and Representatives against, and hold them harmless from and against, any and all Losses, as incurred, arising from, in connection with or otherwise with respect to:

(i) any breach of any representation or warranty of Wyeth contained in this Agreement or any other Transaction Document;

(ii) the failure by Wyeth to perform any covenant, agreement, obligation or undertaking contained in this Agreement or any other Transaction Document; and

(iii) all Assumed Liabilities.

8.2 Indemnification Procedure.

(a) A Party seeking indemnification hereunder (the "Indemnified Party") shall notify each other Party (the "Indemnifying Party" which shall include Parent in the event the Indemnifying Party is the Company) in writing (each, an "Indemnification Claim Notice") reasonably promptly after the assertion against the Indemnified Party of any claim or fact in respect of which the Indemnified Party intends to base a claim for indemnification hereunder ("Claim"), but the failure or delay to so notify the Indemnifying Party shall not relieve the Indemnifying Party of any obligation or liability that it may have to the Indemnified Party, except to the extent that the Indemnifying Party demonstrates that its ability to defend or resolve such Claim is adversely affected thereby. The Indemnification Claim Notice shall contain a description of the Claim and the nature and amount of the Claim (to the extent that the nature and amount of such Claim is known at such time). Upon the reasonable request of the Indemnifying Party, the Indemnified Party shall furnish promptly to the Indemnifying Party copies of all written correspondence and official documents (including court documents) received or sent in respect of such Claim.

(b) With respect to Third Party Claims, subject to the provisions of subsections (c) and (d) below, the Indemnifying Party shall have the right, upon written notice given to the Indemnified Party within thirty (30) days after receipt of the Indemnification Claim Notice to assume the defense and handling of such Claim, at the Indemnifying Party's sole expense so long as (x) the Indemnifying Party agrees in writing to be responsible for all Losses arising from such Claim without any reservations of rights, (y) the Claim involves only money damages and does not seek an injunction or other equitable relief and (z) such Claim has not been brought by a Governmental Authority. If the Indemnifying Party so assumes the defense and handling of the Claim, the provisions of subsection (c) below shall govern. If the Indemnifying Party does not give written notice to the Indemnified Party, within thirty (30) days after receipt of the Indemnification Claim Notice, of the Indemnifying Party's election to assume the defense and handling of such Claim, the provisions of subsection (d) below shall govern.

(c) Upon assumption of the defense of a Third Party Claim by the Indemnifying Party: (i) the Indemnifying Party shall have the right to and shall assume control and responsibility for dealing with the Claim; (ii) the Indemnifying Party may, at its own cost, appoint as counsel in connection with conducting the defense and handling of such Claim any law firm or counsel reasonably acceptable to the Indemnified Party; (iii) the Indemnifying Party shall keep the Indemnified Party informed of the status of such Claim; and (iv) the Indemnifying Party shall have the right to settle the Claim on any terms the Indemnifying Party chooses; *provided*, *however*, that it shall not, without the prior written consent of the Indemnified Party, agree to a settlement of any Claim which could lead to liability or create any financial or other obligation on the part of the Indemnified Party or its Affiliates other than purely financial obligations for which the Indemnified Party is fully indemnified hereunder or which does not include an unconditional release of the Indemnified Party for all Losses arising out of or relating to the Claim. The Indemnified Party shall reasonably cooperate with the Indemnifying Party and shall be entitled to participate in, but not control, the defense of such Claim with its own counsel and at its own expense.

(d) If the Indemnifying Party does not give written notice to the Indemnified Party as set forth in subsection (b) or fails to conduct the defense and handling of any Third Party Claim in good faith and in a reasonable manner after having assumed such Claim, the Indemnified Party may, at the Indemnifying Party's expense, select counsel reasonably acceptable to the Indemnifying Party in connection with conducting the defense and handling of such Claim and defend or handle such Claim in such manner as it may deem appropriate. In such event, the Indemnified Party shall keep the Indemnifying Party informed of the status of such Claim and shall not settle such Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. If the Indemnified Party defends or handles such Claim, the Indemnifying Party shall cooperate with the Indemnified Party, at the Indemnified Party's request but at no expense to the Indemnified Party, and shall be entitled to participate in the defense and handling of such Claim with its own counsel and at its own expense.

8.3 Effect of Investigation or Knowledge. Any claim by Wyeth or its Affiliates or any of their respective officers, directors, employees, stockholders and Representatives for indemnification shall not be adversely affected by any investigation by or opportunity to investigate afforded to Wyeth, its Affiliates or their respective Representatives, nor shall such a claim be adversely affected by the knowledge of Wyeth, its Affiliates or their respective Representatives on or before the Effective Date of any breach of the type specified in Section 8.1 or of any state of facts that may give rise to such a breach.

ARTICLE IX

MISCELLANEOUS

9.1 Notices. All notices and other communications hereunder will be in writing and will be deemed given if delivered personally or by facsimile transmission (receipt verified), mailed by registered or certified mail (return receipt requested), postage prepaid, or sent by nationally recognized express courier service, to the Parties at the following addresses (or at such other address for a Party as will be specified by like notice; *provided*, *however*, that notices of a change of address will be effective only upon receipt thereof):

(i) if to the Company or Parent:

Pharmacopeia, Inc.
11085 North Torrey Pines Road, Suite 300
La Jolla, CA 92037
Attn: General Counsel
Facsimile: (858) 550-7272

(ii) if to Wyeth:

c/o Pfizer Inc.
Inflammation and Immunology Research Unit
200 Cambridge Park Drive,
Cambridge, MA 02140
Attention: Business Development Lead
Facsimile: [ ]

with copies to:

c/o Pfizer Inc.
Biotherapeutics Research Division
230 East Grand Ave.
South San Francisco, CA 94080
Attention: Lead Counsel, Biotherapeutics R&D
Facsimile: [ ]

9.2 Bulk Sales. The Parties hereby agree to waive compliance with the provisions of the Laws of any jurisdiction relating to a bulk sale or transfer of assets (other than any such Laws relating to Taxes on, or notices to Taxing authorities with respect to, any such bulk sale or transfer of assets) that may be applicable to the transactions contemplated by this Agreement; *provided*, *however*, that to the extent Wyeth is required to make any payments with respect to any provisions of the Laws of any jurisdiction relating to a bulk sale or transfer of assets that may be applicable to the transactions contemplated by this Agreement, the Company shall fully indemnify Wyeth for such payments pursuant to Section 8.1(a)(iv).

9.3 Further Assurances; Tax Filings and Property Taxes.

(a) From time to time after the Effective Date and without further consideration, the Parties hereto shall, and shall cause their respective Affiliates to, execute, acknowledge and deliver such documents and instruments and take or cause to be taken such other actions as Wyeth or the Company, as applicable, may reasonably request (i) in order to carry out the purpose and intention of this Agreement and the other Transaction Documents, including to consummate more effectively the purchase, sale, conveyance, assignment, transfer and delivery of the Purchased Assets as contemplated by this Agreement and the other Transaction Documents, (ii) to vest in Wyeth title to the Purchased Assets, (iii) to enable Wyeth to prosecute, maintain and enforce the Acquired Compound Patents or (iv) as otherwise appropriate to consummate the transactions contemplated by this Agreement and the other Transaction Documents.

(b) The Parties agree to cooperate fully in the preparation and filing of any sales and use or other Transfer Tax filings or notices required to be made under applicable Law in connection with the purchase and sale of the Purchased Assets hereunder.

(c) Wyeth shall be responsible for all real property taxes, personal property taxes and similar ad valorem taxes (collectively, "Property Taxes") levied with respect to the Purchased Assets for any Post-Closing Tax Period, and the Company shall be responsible for all Property Taxes levied with respect to the Purchased Assets for any Pre-Closing Tax Period. Wyeth shall pay or cause to be paid, when due, to the appropriate taxing authorities all Property Taxes relating to the Purchased Assets for the Tax period during which the Closing occurs. To the extent the Company receives invoices for Property Taxes following the Closing which are payable by Wyeth, the Company shall forward such invoices promptly to Wyeth. Wyeth shall send to the Company a statement that apportions the Property Taxes between the Company and Wyeth based upon Property Taxes actually invoiced and paid to the relevant taxing authority by Wyeth for the Tax period which includes the Closing Date, with the Company and Wyeth each being responsible for their share of such Property Taxes in accordance with this paragraph. This statement shall be accompanied by proof of Wyeth's actual payment of such Property Taxes for such Tax period. Within thirty (30) days of receipt of such statement and proof of payment, the Company shall reimburse Wyeth for its pro-rated portion of such Property Taxes.

9.4 Entire Agreement of the Parties. This Agreement (together with the other Transaction Documents) constitutes and contains the complete, final and exclusive understanding and agreement of the Parties and cancels and supersedes any and all prior negotiations, correspondence, understandings and agreements, whether oral or written, among the Parties respecting the subject matter hereof and thereof.

9.5 Assignment. Neither Party will assign this Agreement nor any rights or obligations hereunder without the prior written consent of the other Party, which consent will not be unreasonably withheld or delayed, except as follows: Either Party may assign its rights and obligations under this Agreement by way of sale of such Party itself or the sale of the portion of the business of such Party to which this Agreement relates, through merger, sale of assets and/or sale of stock or ownership interest, *provided* that such sale is not primarily for the benefit of such Party's creditors. Either Party may assign its rights and obligations under this Agreement to an Affiliate of such Party, *provided* that such Party will remain liable for all of its rights and obligations under this Agreement. Each Party will promptly notify the other Party of any assignment or transfer under the provisions of this Section. This Agreement will be binding upon the successors and permitted assigns of the Parties, and the name of a Party appearing herein will be deemed to include the names of such Party's successors and permitted assigns to the extent necessary to carry out the intent of this Agreement. Any assignment not in accordance with this Section 9.5 will be void.

9.6 Amendment. No amendment, modification or supplement of any provision of this Agreement will be valid or effective unless made in writing and signed by a duly authorized officer of each Party.

9.7 Waiver. No provision of the Agreement will be waived by any act, omission or knowledge of a Party or its agents or employees, except by an instrument in writing expressly waiving such provision and signed by a duly authorized officer of the waiving Party. The waiver by either of the Parties of any breach of any provision hereof by the other Party will not be construed to be a waiver of any succeeding breach of such provision or a waiver of the provision itself.

9.8 Costs and Expenses. Regardless of whether the transactions contemplated by this Agreement are consummated and except as otherwise expressly provided in this Agreement, the Company, on the one hand, and Wyeth, on the other hand, shall each bear their own costs and expenses (including attorneys' fees and costs) incurred in connection with this Agreement and the transactions contemplated by this Agreement and the other Transaction Documents.

9.9 Mutual Drafting. The Parties hereto have been represented by counsel who have carefully negotiated the provisions hereof. As a consequence, the Parties do not intend that the presumptions of any Laws or rules relating to the interpretation of contracts against the drafter of any particular clause should be applied to this Agreement and therefore waive their effects. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the intent of the Parties.

9.10 Governing Law. This Agreement will be governed by and interpreted in accordance with the substantive laws of the State of New York, without regard to conflict of law principles thereof.

9.11 Jurisdiction; Venue; Service of Process.

(a) Jurisdiction. Each Party to this Agreement, by its execution hereof, (i) hereby irrevocably submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York located in New York City (or, if, and only if, such court does not have jurisdiction over the claim, the state courts of the State of New York located in New York City) for the purpose of any claim between the Parties arising in whole or in part under or in connection with this Agreement or the other Transaction Documents, (ii) hereby waives to the extent not prohibited by applicable law, and agrees not to assert, by way of motion, as a defense or otherwise, in any such claim, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that any such claim brought in one of the above-named courts should be dismissed on grounds of forum non conveniens, should be transferred or removed to any court other than one of the above-named courts, or should be stayed by reason of the pendency of some other proceeding in any other court other than one of the above-named courts, or that this Agreement or the other Transaction Documents or the subject matter hereof or thereof may not be enforced in or by such court, and (iii) hereby agrees not to commence any such claim other than before one of the above-named courts. Notwithstanding the previous sentence, a Party may commence any claim in a court other than the above-named courts solely to seek pre-litigation attachment of assets or preliminary injunction relief prior to litigation on the merits in the above-named courts or for the purpose of enforcing an order or judgment issued by one of the above-named courts.

(b) Venue. Each Party agrees that for any claim between the Parties arising in whole or in part under or in connection with this Agreement, such Party shall bring claims only in the City of New York. Each Party further waives any claim and will not assert that venue should properly lie in any other location within the selected jurisdiction.

(c) Service of Process. Each Party hereby (i) consents to service of process in any claim between the Parties arising in whole or in part under or in connection with this Agreement or the other Transaction Documents in any manner permitted by New York law, (ii) agrees that service of process made in accordance with clause (a) or made by registered or certified mail, return receipt requested, at its address specified pursuant to Section 9.1, will constitute good and valid service of process in any such claim and (iii) waives and agrees not to assert (by way of motion, as a defense, or otherwise) in any such claim any claim that service of process made in accordance with clause (a) or (b) does not constitute good and valid service of process.

9.12 Waiver of Jury Trial. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, THE PARTIES HEREBY WAIVE, AND COVENANT THAT THEY WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY ACTION ARISING IN WHOLE OR IN PART UNDER OR IN CONNECTION WITH THIS AGREEMENT, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. THE PARTIES AGREE THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING,

VOLUNTARY AND BARGAINED FOR AGREEMENT AMONG THE PARTIES IRREVOCABLY TO WAIVE ITS RIGHT TO TRIAL BY JURY IN ANY PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS WILL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

9.13 Severability. If any clause or portion thereof in this Agreement is for any reason held to be invalid, illegal or unenforceable, the same will not affect any other portion of this Agreement, as it is the intent of the Parties that this Agreement will be construed in such fashion as to maintain its existence, validity and enforceability to the greatest extent possible. In any such event, this Agreement will be construed as if such clause of portion thereof had never been contained in this Agreement, and there will be deemed substituted therefor such provision as will most nearly carry out the intent of the Parties as expressed in this Agreement to the fullest extent permitted by applicable law.

9.14 Counterparts. This Agreement may be executed in any number of counterparts, each of which need not contain the signature of more than one Party but all such counterparts taken together will constitute one and the same agreement.

9.15 Descriptive Headings. The descriptive headings of this Agreement, including the Schedules hereto, are for convenience only, and will be of no force or effect in construing or interpreting any of the provisions of this Agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, duly authorized representatives of the Parties have duly executed this Agreement to be effective as of the Effective Date.

PHARMACOPEIA, INC.

By: /s/ Charles Berkman
Name: Charles Berkman
Title: Vice President, General Counsel and Secretary

WYETH LLC

By: /s/ Mikael Dolsten
Name: Mikael Dolsten
Title: Title: President of R&D

LIGAND PHARMACEUTICALS INCORPORATED
(solely for purposes of Sections 3.4(c), 8.1(a), 8.2 and 8.3)

By: /s/ Charles Berkman
Name: Charles Berkman
Title: Vice President, General Counsel and Secretary

Schedule 3.1(a)(i)

Acquired Compounds

[***]

*** Thirteen (13) pages have been omitted pursuant to a request for confidential treatment.

Schedule 3.1(a)(ii)

Acquired Compound Patents

[***]

*** Sixteen (16) pages have been omitted pursuant to a request for confidential treatment.

Schedule 3.1(a)(iii)

Protocols

[***]

*** One (1) page has been omitted pursuant to a request for confidential treatment.

Schedule 3.1(a)(iv)

Know-How to be Transferred

[***]

*** Two (2) pages have been omitted pursuant to a request for confidential treatment.

Schedule 3.1(a)(v)

Physical Quantities of Acquired Compounds

[***]

*** One (1) page has been omitted pursuant to a request for confidential treatment.

Schedule 3.4(b)

Selected Compounds

[***]

*** Seven (7) pages have been omitted pursuant to a request for confidential treatment.

Exhibit A

Form of Patent Assignment

ASSIGNMENT OF PATENT RIGHTS

This ASSIGNMENT OF PATENT RIGHTS, effective as of July [_], 2010, is entered into by Pharmacopeia, Inc., a Delaware corporation, having its principal office at 11085 North Torrey Pines Road, Suite 300, La Jolla, CA 92037 ("**Assignor**"), for the benefit of Wyeth LLC, a Delaware limited liability company, having its principal office at [_____] (the "**Assignee**").

WHEREAS, Assignor and Assignee have entered into that certain Asset Purchase Agreement dated as of July [__], 2010 (the "**Purchase Agreement**"); and

WHEREAS, Assignor is the owner of those patents and patent applications set forth on Appendix A hereto (the "**Assigned Patents**"), and Assignor has agreed to sell and assign, and the Assignee has agreed to buy and acquire all of Assignor's rights, title and interests in and to such Assigned Patents.

NOW, THEREFORE, in consideration of the sum of One Dollar ($1.00), and other good and valuable consideration, the receipt of which is hereby acknowledged:

ASSIGNOR HEREBY assigns, transfers and conveys to Assignee all of Assignor's rights, title and interest throughout the world in and to the Assigned Patents, as well as any extensions, divisions, reexaminations, reissues and continuations thereof and any applications or patents that claim priority from such patents and applications, including any foreign counterparts thereto, and all rights, claims and privileges pertaining to any of the foregoing; and

ASSIGNOR HEREBY, in conjunction with the foregoing assignment, authorizes and requests, as necessary, the Commissioner of Patents and Trademarks of the United States, and the corresponding entities or agencies in any country foreign to the United States, to record Assignee as the assignee and owner of the Assigned Patents issued in the United States or issued or registered in any corresponding jurisdiction.

[Signature Appears on the Following Page]

IN WITNESS WHEREOF, Assignor has caused this Assignment of Patent Rights to be executed by its duly authorized representatives effective as of the date written above.

PHARMACOPEIA, INC.

By: _____
Name:
Its:

State of _____)
) ss
County of _____)

On _____ before me, _____, a Notary Public in and for said County and State, personally appeared _____ and _____ who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under penalty of perjury under the laws of the State of _____that the foregoing paragraph is true and correct. WITNESS my hand and official seal.

Signature _____ (Seal)
My Commission Expires: _____

APPENDIX A TO
ASSIGNMENT OF PATENT RIGHTS

Assigned Patents

[***]

*** Sixteen (16) pages have been omitted pursuant to a request for confidential treatment.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John L. Higgins, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: November 9, 2010

/s/ John L. Higgins
John L. Higgins
President, Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John P. Sharp, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Date: November 9, 2010

/s/ John P. Sharp
John P. Sharp
Vice President, Finance and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the accompanying Quarterly Report on Form 10-Q of Ligand Pharmaceuticals Incorporated (the "Company") for the quarter ended September 30, 2010, I, John L. Higgins, President, Chief Executive Officer and Director of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in such Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely to accompany such Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Date: November 9, 2010

/s/ John L. Higgins

John L. Higgins
President, Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the accompanying Quarterly Report on Form 10-Q of Ligand Pharmaceuticals Incorporated (the "Company") for the quarter ended September 30, 2010, I, John P. Sharp, Vice President, Finance and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in such Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely to accompany such Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Date: November 9, 2010

/s/ John P. Sharp

John P. Sharp
Vice President, Finance and Chief Financial Officer
(Principal Financial Officer)