

LIGAND PHARMACEUTICALS INC

Form DEFM14A

January 24, 2007

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

**SCHEDULE 14A  
INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**LIGAND PHARMACEUTICALS INCORPORATED**  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - 1) Title of each class of securities to which transaction applies:
  - 2) Aggregate number of securities to which transaction applies:
  - 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The purchase price payable under the asset purchase agreement consists of an aggregate upfront cash consideration of \$265 million, assumption by King of payment obligations of Ligand of \$47.75 million (or reimbursement to Ligand at closing of the asset sale to the extent any such amounts have been paid) and specified existing royalty obligations to third parties, and receipt of certain royalty payments based on King's annual net sales of AVINZA<sup>®</sup> through AVINZA<sup>®</sup>'s patent expiration in November 2017.

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Solely for purposes of calculating the amount of the filing fee, the registrant estimates a purchase price of approximately \$480.8 million.

- 4) Proposed maximum aggregate value of transaction: \$480.8 million
  
  - 5) Total fee paid: \$51,445.60
- b Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
    - (1) Amount Previously Paid: \$
  
    - (2) Form, Schedule or Registration Statement No.:
  
    - (3) Filing Party:
  
    - (4) Date Filed:
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**Ligand Pharmaceuticals Incorporated**  
**10275 Science Center Drive**  
**San Diego, California 92121**

January 24, 2007

To our stockholders:

You are cordially invited to attend a special meeting of stockholders of Ligand Pharmaceuticals Incorporated to be held at the La Jolla Marriott located at 4240 La Jolla Village Drive, La Jolla, California 92037 on February 12, 2007 at 9:00 a.m., local time.

We have agreed to sell all of our rights in and to AVINZA<sup>®</sup> (morphine sulfate extended-release capsules), in the United States, its territories and Canada to King Pharmaceuticals, Inc. ( King ), and its wholly-owned subsidiary King Pharmaceuticals Research and Development, Inc. ( King R&D ), pursuant to an asset purchase agreement, dated as of September 6, 2006, as amended as of November 30, 2006. In exchange for our rights in and to AVINZA<sup>®</sup>, King and King R&D have agreed to pay us \$265 million in cash, subject to specific inventory adjustments, assume a payment obligation of Ligand of approximately \$48 million (or reimburse Ligand at closing of the asset sale to the extent any such amounts have been paid ) and specified existing royalty obligations to third parties, and pay Ligand certain royalty payments based on King s annual net sales of AVINZA<sup>®</sup> through AVINZA<sup>®</sup> s patent expiration in November 2017. The full text of the asset purchase agreement is included as Annex A to the proxy statement that accompanies this letter.

The proposed asset sale will not become effective until such time as we receive not less than the minimum number of votes necessary to approve the sale of all or substantially all of our assets, under Delaware law. We have scheduled a special meeting of our stockholders for this vote on February 12, 2007. **YOUR VOTE IS VERY IMPORTANT.**

After careful consideration, our board of directors has unanimously determined that the proposed sale of assets is in the best interest of Ligand Pharmaceuticals Incorporated and our stockholders. **THE BOARD OF DIRECTORS UNANIMOUSLY APPROVED THE PROPOSED SALE AND THE ASSET PURCHASE AGREEMENT AND RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE PROPOSED SALE.**

We are also asking for your approval of a proposal to amend Ligand s 2002 Stock Incentive Plan (the 2002 Plan ) to allow equitable adjustments to be made to options outstanding under the 2002 Plan in the event of a payment of a special cash dividend to our stockholders.

Our board of directors has approved the amendment to the 2002 Plan. **THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE AMENDMENTS TO OUR 2002 PLAN.**

Please review in detail the attached proxy statement for a more complete statement regarding the proposal to approve the asset sale (proposal 1 in this proxy statement), which includes a description of the asset purchase agreement, the background of the decision to enter into the asset purchase agreement, and the reasons that our board of directors has decided to recommend that you approve the asset sale; and the amendment to the 2002 Plan (proposal 2 in this proxy statement).

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Your vote is very important to us regardless of the number of shares you own. Whether or not you are able to attend the special meeting in person, please complete, sign and date the enclosed proxy card and return it in the envelope provided as soon as possible. If you hold shares of our common stock directly in your name, you may also grant a proxy using the Internet or by telephone by following the instructions printed on your proxy card. Granting a

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proxy by mail, telephone or the Internet will not limit your right to vote in person if you wish to attend the special meeting and vote in person.

On behalf of our board of directors, I thank you for your support and urge you to vote **FOR** each of the proposals described in this proxy statement.

By Order of the Board of Directors,

/s/ John L. Higgins  
John L. Higgins  
*Chief Executive Officer*

San Diego, California  
January 24, 2007

The notice and proxy statement are first being mailed to our stockholders on or about January 29, 2007.

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**Ligand Pharmaceuticals Incorporated  
10275 Science Center Drive  
San Diego, California 92121**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
To Be Held On February 12, 2007**

To our stockholders:

A special meeting of stockholders of Ligand Pharmaceuticals Incorporated will be held at the La Jolla Marriott located at 4240 La Jolla Village Drive, La Jolla, California 92037 on February 12, 2007 at 9:00 a.m., local time. At this meeting you will be asked:

1. To consider and to vote on a proposal to approve the sale of all or substantially all of our assets under Delaware law through the sale of our rights in and to AVINZA<sup>®</sup> (morphine sulfate extended-release capsules), in the United States, its territories and Canada, pursuant to the asset purchase agreement attached as Annex A to this proxy statement;
2. To consider and to vote on a proposal to amend Ligand's 2002 Stock Incentive Plan to allow equitable adjustments to be made to options outstanding under the plan in the event of the payment of a large non-recurring cash dividend;
3. To approve adjournment of the special meeting, if necessary, to facilitate the approval of the preceding proposals, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting to establish a quorum or to approve the preceding proposals; and
4. To transact such other business as may properly be brought before the special meeting or any adjournment or postponement thereof.

After careful consideration, our board of directors has unanimously determined that the proposed sale of assets is in the best interest of Ligand Pharmaceuticals Incorporated and our stockholders. **THE BOARD OF DIRECTORS UNANIMOUSLY APPROVED THE PROPOSED SALE AND THE ASSET PURCHASE AGREEMENT AND RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE PROPOSED SALE.**

Our board of directors has approved the amendment to our 2002 Stock Incentive Plan. **THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE AMENDMENT TO THE 2002 STOCK INCENTIVE PLAN.**

Only holders of record of our common stock at the close of business on January 23, 2007, will be entitled to notice of and to vote at the special meeting or any adjournment thereof. Each share of our common stock is entitled to one vote on each matter to be voted upon at the special meeting.

Your vote is important, regardless of the number of shares you own. The proposed sale of AVINZA<sup>®</sup> will not be completed unless it is authorized by the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting. Even if you plan to attend the meeting in person, we request that you complete, sign, date and return the enclosed proxy or grant a proxy by the telephone or using the Internet to ensure that your shares will be represented at the meeting if you are unable to attend. Your prompt cooperation will be greatly appreciated.

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You are urged to review carefully the information contained in the enclosed proxy statement prior to deciding how to vote your shares at the special meeting.

The notice and proxy statement are first being mailed to stockholders on or about January 29, 2007.

Please follow the voting instructions on the enclosed proxy card to vote either by mail, telephone or electronically by the Internet.

By Order of the Board of Directors,

/s/ Warner R. Broaddus

Warner R. Broaddus

*Secretary*

San Diego, California

January 24, 2007

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**SUMMARY TERM SHEET**

The following summary highlights selected information from this proxy statement and may not contain all of the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to in this proxy statement. Each item in this summary includes a page reference directing you to a more complete description of that item. In this proxy statement, the terms Ligand, company, we, our, ours, and us refer to Ligand Pharmaceuticals Incorporated, a Delaware corporation, and its subsidiaries.

**Parties to the Asset Sale**

*Ligand Pharmaceuticals Incorporated*  
10275 Science Center Drive  
San Diego, California 92121  
Telephone No.: (858) 550-7500

Ligand discovers, develops and markets new drugs that address critical unmet medical needs of patients in the areas of cancer, pain, skin diseases, men's and women's hormone-related diseases, osteoporosis, metabolic disorders, and cardiovascular and inflammatory diseases. Ligand's proprietary drug discovery and development programs are based on its leadership position in gene transcription technology, primarily related to intracellular receptors.

*King Pharmaceuticals, Inc.*  
501 Fifth Street  
Bristol, Tennessee 37620  
Telephone No.: (423) 989-8000

King Pharmaceuticals, Inc., or King, is a vertically integrated branded pharmaceutical company. King seeks to capitalize on opportunities in the pharmaceutical industry through the development, including through in-licensing arrangements and acquisitions, of novel branded prescription pharmaceutical products in attractive markets and the strategic acquisition of branded products that can benefit from focused promotion and marketing and product life-cycle management.

*King Pharmaceuticals Research and Development, Inc.*  
4000 CentreGreen Way, Suite 300  
Cary, North Carolina 27513  
Telephone No.: (919) 653-7099

King Pharmaceuticals Research and Development, Inc., or King R&D, is a Delaware corporation and a wholly-owned subsidiary of King.

**The Special Meeting**

***Date, Time, Place and Purpose (Page 11)***

The special meeting will be held on February 12, 2007, starting at 9:00 a.m., local time, at the La Jolla Marriott located at 4240 La Jolla Village Drive, La Jolla, California 92037.

You will be asked to consider and vote upon approval of: (i) the asset sale and adoption of the asset purchase agreement; and (ii) the amendment of our 2002 Stock Incentive Plan, referred to in this proxy statement as the 2002 Plan, to allow equitable adjustments to be made to options subject to the 2002 Plan in the event of the payment of a special cash dividend. In addition, you will be asked to approve the adjournment of the special meeting, if necessary, in order to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting to establish a quorum or to approve the forgoing proposals.

The persons named in the accompanying proxy card will also have discretionary authority to vote upon other business, if any, that properly comes before the special meeting and any adjournment of the special meeting.

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***Record Date, Voting and Quorum (Page 11)***

You are entitled to vote at the special meeting if you owned shares of our common stock at the close of business on January 23, 2007, the record date for the special meeting. You will have one vote for each share of our common stock that you owned on the record date. As of the record date, there were 100,599,215 shares of our common stock outstanding and entitled to be voted.

A quorum of the holders of the outstanding shares of our common stock must be present for the special meeting to be held. A quorum is present if the holders of a majority of the outstanding shares of our common stock entitled to vote are present at the special meeting, either in person or represented by proxy. Abstentions and broker non-votes are counted as present for the purpose of determining whether a quorum is present. A broker non-vote occurs on an item when a broker is not permitted to vote on that item without instructions from the beneficial owner of the shares and no instructions are given.

***Security Ownership of Certain Beneficial Owners, Directors and Management (Page 104)***

As of the record date, the directors and current executive officers of Ligand collectively beneficially owned in the aggregate 11,256,444 shares, representing approximately 11% of the shares of our common stock entitled to vote at the special meeting.

***Revocability of Proxies (Page 12)***

Any Ligand registered stockholder (meaning a stockholder that holds stock in its own name) entitled to vote may submit a proxy by telephone or the Internet or by returning the enclosed proxy card by mail, or may vote in person by appearing at the special meeting. If your shares are held in street name by your broker, you should instruct your broker on how to vote your shares using the instructions provided by your broker. If you do not provide your broker with instructions, your shares will not be voted and that will have the same effect as a vote against the asset sale.

Any Ligand registered stockholder who executes and returns a proxy card (or submits a proxy via telephone or the Internet) may revoke the proxy at any time before it is voted in any one of the following ways:

delivering to the Secretary of Ligand a written instrument that revokes the proxy;

submitting another properly completed proxy with a later date; or

attending the special meeting and voting in person.

Simply attending the special meeting will not constitute revocation of a proxy. If you have instructed your broker to vote your shares, the above-described options for revoking your proxy do not apply and instead you must follow the directions provided by your broker to change your instructions.

**The Asset Sale**

***The Asset Sale (Page 14)***

On September 6, 2006, our board of directors, at a meeting duly called and held, approved the asset sale by and between Ligand, King and King R&D, pursuant to an asset purchase agreement, dated as of September 6, 2006, as amended as of November 30, 2006, a copy of which is included as Annex A to this proxy statement. Please read it carefully. Ligand, King and King R&D may sometimes be referred to in this proxy statement as a party, or

collectively as the parties. Pursuant to the terms of the asset purchase agreement:

we intend to sell all of our rights in and to AVINZA<sup>®</sup> (morphine sulfate extended-release capsules), in the United States, its territories and Canada, which would constitute a sale of all or substantially all of our assets under Delaware law; and

in exchange for our rights in and to AVINZA<sup>®</sup>, King and King R&D have agreed to pay us \$265 million in cash, subject to specific inventory adjustments, assume a payment obligation of Ligand to Organon of approximately \$48 million (or reimburse Ligand at closing of the asset sale to the extent any such amounts

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have been paid), assume the Company's existing co-promote termination obligation to make payments to Organon based on net sales of AVINZA<sup>®</sup>, and assume specified existing royalty obligations to other third parties. The Company will also receive certain royalty payments based on King's annual net sales of AVINZA<sup>®</sup> through AVINZA<sup>®</sup>'s patent expiration in November 2017. At closing of the asset sale \$15 million of the cash payment will be funded into an escrow to support any indemnification claims made by King within the first year of closing.

If all necessary approvals have been obtained, including stockholder and regulatory approvals and any third party consents, we hope to complete the asset sale shortly after this special meeting scheduled for February 12, 2007

***Reasons for the Asset Sale (Page 23)***

In evaluating the asset sale, our board of directors considered the recommendations of the strategic alternatives committee, its consultations with our management and financial and legal advisors and various factors. For the material factors considered by our board of directors in reaching its decision to approve the asset sale and adopt the asset purchase agreement, see "The Asset Sale" Reasons for the Asset Sale, beginning on page 21.

***Recommendation of Our Board of Directors (Page 25)***

After careful consideration, our board of directors has unanimously:

determined that the asset sale, the asset purchase agreement and the transactions contemplated thereby are advisable and fair to and in the best interests of Ligand and our stockholders; and

approved the asset sale and adopted the asset purchase agreement.

***Opinion of Our Financial Advisor (Page 25 and Annex B)***

In connection with the asset sale, Ligand's board of directors received a written opinion, dated September 6, 2006, from Ligand's financial advisor, UBS Securities LLC, or UBS, as to the fairness, from a financial point of view and as of the date of such opinion, to Ligand of the aggregate consideration to be received by Ligand in the asset sale. The full text of UBS' written opinion, dated September 6, 2006, is attached to this proxy statement as Annex B. We encourage you to read this opinion carefully and in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. **UBS' opinion, which was provided to Ligand's board in connection with its evaluation of the aggregate consideration from a financial point of view, does not address any other aspect of the asset sale and does not constitute a recommendation to any stockholder as to how to vote or act with respect to the transaction.** Under the terms of UBS' engagement, Ligand has agreed to pay UBS for its financial advisory services in connection with the transaction an aggregate fee of approximately \$4.5 million, a portion of which was payable in connection with UBS' opinion and approximately \$3.4 million of which is contingent upon completion of the transaction.

***Proceeds from the Asset Sale (Page 29)***

While we are evaluating a distribution of a substantial portion of the net cash proceeds from the asset sale to our stockholders in the form of a special dividend, we cannot predict the timing or amount of such distribution, if any, to be made to our stockholders. The amount, if any, available to our stockholders will be determined by our board of directors, after weighing the company's remaining liabilities and operational needs. In addition, since our board of directors has not conducted the analyses necessary to determine the amount and timing of any special dividend, we cannot guarantee that the Company will distribute any of the net cash proceeds from the asset sale to our stockholders

in the event the asset sale is approved. Consequently, we would advise our stockholders that they should not vote in favor of the asset sale based upon the assumption that they will receive a special dividend out of the net cash proceeds of the asset sale. We anticipate that any such dividend would be paid to our stockholders on a pro rata basis.

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***Effects of the Asset Sale (Page 30)***

If the asset sale is approved and the asset purchase agreement is adopted by our stockholders and the other conditions to closing of the asset sale are satisfied, King and King R&D will acquire all of our rights in and to AVINZA(R) in the United States, its territories and Canada. This will constitute the sale of substantially all of our assets under Delaware law. If approved, we expect to become a highly-specialized research and development and royalty company following the consummation of the asset sale. If the asset sale is not approved by the holders of a majority of our outstanding shares, then either we or King may terminate the asset purchase agreement and our board of directors, along with management, will reassess our options in light of our long-term strategic goals.

***Other Agreements and Transactions Related to the Asset Sale (Page 31)***

In addition to the asset purchase agreement, we also entered into the following related agreements and transactions in connection with the asset sale:

a contract sales force agreement with King, pursuant to which King agreed to conduct a detailing program to promote the sale of AVINZA<sup>®</sup>, which agreement is not a condition to the asset sale;

a loan arrangement with King, pursuant to which King loaned to us, \$37.75 million, which arrangement is not a condition to the asset sale; and

as a condition to closing the asset sale, we are also required to mail a notice of redemption to each of the holders of our 6% Convertible Subordinated Notes, due 2007, which we mailed on October 30, 2006.

***Other Agreements and Transactions Related to our Strategic Review Process (Page 32)***

In connection with our overall strategic review process we also entered into the following agreements, neither of which is a condition to the asset sale:

an asset purchase agreement with Eisai Inc. and Eisai Co., Ltd., pursuant to which we sold to Eisai Inc. and Eisai Co., Ltd. all of our rights to our marketed oncology products; and

a sale and leaseback transaction for our corporate headquarters with Slough Estates USA Inc.

***Interests of Ligand's Directors and Executive Officers in the Asset Sale (Page 32)***

After the closing of the asset sale, King and King R&D have agreed to indemnify and hold our executive officers and directors harmless from any loss arising out of any breach of representations and warranties by King, or a failure by King to perform covenants applicable to them under the asset purchase agreement. All of our directors and executive officers own shares of our common stock and/or options to purchase shares of our common stock, and to that extent, their interests in the asset sale are the same as that of other holders of our common stock. See Security Ownership of Certain Beneficial Owners, Directors and Management, beginning on page 104.

***Dissenters Rights (Page 32)***

You will not experience any change in your rights as a stockholder as a result of the asset sale. None of Delaware law, our certificate of incorporation or our bylaws provides for appraisal or other similar rights for dissenting stockholders in connection with the asset sale. Accordingly, you will have no right to dissent and obtain payment for your shares.

**Material U.S. Federal and State Income Tax Consequences (Page 33)**

The asset sale will not result in any U.S. federal income tax consequences to our stockholders. The transaction will be a taxable event to Ligand for U.S. federal income tax purposes, but Ligand anticipates that a substantial portion or all of the taxable gain resulting from the asset sale will be offset by net operating losses. For a complete description of the material tax consequences of the asset sale to Ligand, please see Material U.S. Federal and State Income Tax Consequences, beginning on page 32.

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**Regulatory Matters (Page 33)**

On October 5, 2006, we were notified that we had been granted early termination of the waiting period under the Hart-Scott Rodino Antitrust Improvement Act of 1976, as amended, or the HSR Act, which is a federal antitrust regulation law.

**Asset Purchase Agreement (Page 33)**

***No Negotiation (Page 37)***

The asset purchase agreement restricts our ability to solicit or engage in discussions or negotiations with third parties regarding specified transactions involving Ligand. Notwithstanding these restrictions, under certain limited circumstances, our board of directors may respond to an alternative acquisition proposal, change its recommendation with respect to the asset sale and/or terminate the asset purchase agreement and enter into an alternative agreement if it constitutes a superior proposal under the asset purchase agreement after paying the termination fee specified in the asset purchase agreement.

***Conditions to Completion of the Asset Sale (Page 38)***

Before we can complete the asset sale, a number of conditions must be satisfied. These include, among other things:

- the absence of any governmental or court order that enjoins, restrains, prohibits, or makes illegal the asset sale;
- the expiration or termination of the applicable waiting period under the HSR Act, which condition was satisfied on October 5, 2006, when we were notified that we had been granted early termination of the waiting period under the HSR Act;
- the receipt of our stockholder approval;
- the accuracy of the parties' representations and warranties, subject to specified materiality qualifications;
- the performance by each party of its obligations under the asset purchase agreement in all material respects;
- the delivery of specified third-party consents;
- the execution and delivery of specified agreements; and
- the redemption or conversion of all outstanding Ligand 6% Convertible Subordinated Notes due 2007, which occurred on November 29, 2006.

Other than the conditions pertaining to our stockholder approval and the absence of governmental or court orders, either Ligand on the one hand, or King on the other hand, may elect to waive conditions to their respective performance and consummate the asset sale.

***Termination (Page 39)***

The asset purchase agreement may be terminated and the asset sale may be abandoned at any time prior to consummation of the asset sale by:

the mutual written consent of both parties;

either King or us, if the asset sale has not been completed by February 28, 2007 and, in either case, the failure to complete the asset sale by such date is not the result of the failure of the party seeking to terminate the asset purchase agreement of its obligations under the asset purchase agreement;

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either King or us, if our stockholders do not adopt the asset purchase agreement at the special meeting;

either King or us, if the other party is in material breach of the asset purchase agreement, which breach is not cured within 10 days of the breaching party being notified of such breach;

us, if our board of directors has determined that an acquisition proposal is a superior proposal;

King, if, prior to the adoption of the asset purchase agreement by our stockholders, our board of directors:

fails to include in this proxy statement its recommendation of the asset purchase agreement; or

approves or recommends an acquisition proposal to our stockholders or approves or recommends that our stockholders tender their shares of common stock in any tender offer or exchange offer that is an acquisition proposal;

King, if it receives written notice from us that our board of directors has determined that an acquisition proposal is a superior proposal.

***Termination Fee (Page 40)***

We are obligated to pay King a termination fee of \$12 million if we or King terminates the asset purchase agreement under certain circumstances.

**The 2002 Plan**

***Plan Structure (Page 80)***

***Issuable Shares (Page 80)***

As of December 31, 2006, options for 5,766,386 shares of common stock were outstanding under the 2002 Plan, and 797,639 shares remained available for future grant or direct issuance. We do not currently intend to amend the 2002 Plan to increase the number of shares that may be granted under the 2002 Plan. We do not plan to issue additional options to directors and officers other than in the ordinary course of business or in connection with new hires. We do not anticipate that additional discretionary grants will be made prior to a dividend.

***Adjustments (Page 81)***

If the proposed amendment to the 2002 Plan is approved our board of directors or a designated plan administrator will be able to adjust the outstanding options issued under the 2002 Plan to reflect the payment of a special cash dividend to our stockholders after the consummation of the asset sale. Such adjustments may take the form of either an adjustment to each outstanding option's strike price and/or the number of shares granted under such option in order to reflect a decline in the value of our stock which may occur as a result of an extraordinary cash dividend. Without such adjustment, the option holders would be inequitably disadvantaged by such a dividend. No cash or other consideration would be paid to option holders as a result of the adjustment.

***Eligibility (Page 81)***

Officers, directors and employees of Ligand and its subsidiaries are eligible to participate in the 2002 Plan.

***Valuation (Page 81)***

The fair market value per share of common stock on any relevant date under the 2002 Plan is deemed to be equal to the closing selling price per share on that date on the Nasdaq Global Market.

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***Amendment and Termination (Page 85)***

The board may amend or modify the 2002 Plan at any time, subject to any required stockholder approval pursuant to applicable laws. The 2002 Plan will terminate on the earlier of March 7, 2012 or the termination of all outstanding options in connection with certain changes in control or ownership of the company.

***Proposed Amendment (Page 86)***

The proposed amendment would allow for equitable adjustments to be made to outstanding options together with or after a large non-recurring cash dividend is paid to our stockholders. The proposed amendment does not allow option holders to participate in any dividend.

***Interests of Directors and Officers (Page 86)***

As of December 31, 2006, our directors and executive officers (including our former CEO, Mr. Robinson) owned options to purchase 2,737,346 shares of our common stock. If our stockholders amend the 2002 Plan, then any adjustment made to each outstanding option's strike price and/or the number of shares granted under such option would also be applied to the options held by our directors and executive officers.

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**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING**

**The Special Meeting**

**Q: Why am I receiving this proxy statement and proxy card?**

A: You are receiving a proxy statement and proxy card because you owned shares of our common stock as of the record date. This proxy statement and proxy card relate to Ligand's special meeting of stockholders (and any adjournment thereof) and describes the matters on which we would like you, as a stockholder, to vote.

**Q: Who is soliciting my proxy?**

A: Our board of directors is soliciting your proxy for use at the special meeting.

**Q: What proposals will be voted on at the special meeting?**

A: You will be asked to consider and vote on the following proposals:

to approve the sale of all or substantially all of our assets under Delaware law through the sale of our rights in and to AVINZA® (morphine sulfate extended-release capsules), in the United States, its territories and Canada, pursuant to the asset purchase agreement attached as Annex A to this proxy statement;

to approve the amendment of our 2002 Plan, to allow equitable adjustments to be made to options subject to the 2002 Plan in the event of the payment of a large non-recurring cash dividend; and

to approve adjournment of the special meeting, if necessary, to facilitate the approval of the foregoing, including to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting to establish a quorum or to approve the foregoing.

**Q: Why are we asking for a stockholder vote?**

A: Delaware law requires that a Delaware corporation obtain approval from its stockholders for the sale of all or substantially all of its property and assets. Obtaining stockholder approval is also a condition to closing of the asset sale under the terms of the asset purchase agreement we negotiated with King. In addition, Nasdaq rules require that stockholder approval be obtained for any material amendment to an equity compensation plan such as the 2002 Plan.

**Q: How does our Board of Directors recommend that I vote?**

A: The board of directors unanimously recommends that you vote:

FOR the proposal to approve the asset sale and adopt the asset purchase agreement;

FOR the proposal to approve the amendment to the 2002 Plan; and

FOR the adjournment of the special meeting, if necessary, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to establish a quorum or to approve the asset sale.

**Q: What vote of our stockholders is required to approve the asset sale and adopt the asset purchase agreement?**

A: For us to complete the asset sale, stockholders holding at least a majority of the shares of our outstanding common stock at the close of business on the record date must vote **FOR** the resolution approving the asset sale and adopting the asset purchase agreement.

**Q: What vote of our stockholders is required to approve the amendment to the 2002 Plan?**

A: For us to amend the 2002 Plan, stockholders holding at least a majority of the shares of our outstanding common stock represented in person or by proxy and entitled to vote at the special meeting must vote **FOR** the proposal.

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**Q: What vote of our stockholders is required to approve the proposal to adjourn the special meeting, if necessary, to solicit additional proxies?**

A: The affirmative vote of a majority of the outstanding shares of our common stock present or represented by proxy at the special meeting and entitled to vote on the matter.

**Q: Am I entitled to appraisal or dissenters' rights in connection with the asset sale?**

A: No. Holders of shares of our outstanding common stock will not have appraisal or dissenters' rights in connection with either the asset sale or amendments to the 2002 Plan.

**Q: What do I need to do now?**

A: After carefully reading and considering the information contained in this proxy statement, please vote your shares by completing, signing, dating and returning the enclosed proxy card in the enclosed return envelope, by granting a proxy using the telephone number printed on your proxy card; or by granting a proxy using the Internet instructions printed on your proxy card. You can also attend the special meeting and vote in person. The special meeting will take place on February 12, 2007. Our board of directors unanimously recommends that you vote FOR the asset sale and amendments to the 2002 Plan.

**Q: Can I change my vote after I have mailed in my signed proxy card?**

A: Yes. You can change your vote at any time before we vote your proxy at the special meeting. You can do so in three ways. First, you can send written notice stating that you would like to revoke your proxy to our Secretary at the address given below. Second, you can request a new proxy card and complete and send it to our Secretary at the address given below. Third, you can attend the special meeting and vote in person. You should send any written notice or request for a new proxy card to the attention of the Secretary, 10275 Science Center Drive, San Diego, California 92121.

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me?**

A: Your broker or other nominee will vote your shares only if you provide instructions on how to vote to such broker or other nominee. Following the directions provided by your broker or other nominee, you should instruct your broker or other nominee to vote your shares. Without your instructions, your shares will not be voted, which will have the same effect as a vote against the asset sale.

**Q: How will we solicit proxies?**

A: Proxies may be solicited in person, by telephone, facsimile, mail or e-mail by our directors, officers and employees without additional compensation. Brokers, nominees, fiduciaries, and other custodians have been requested to forward soliciting material to the beneficial owners of shares of our common stock held of record by them, and we will reimburse such custodians for their reasonable expenses.

**Q: Who can help answer further questions about the asset sale?**

A: If you have more questions about the asset sale, the amendment to the 2002 Plan, the special meeting or this proxy statement, you should contact Ligand's Secretary at 10275 Science Center Drive, San Diego, California 92121.



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**CAUTIONARY STATEMENT CONCERNING  
FORWARD-LOOKING INFORMATION**

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements about our plans, objectives, expectations and intentions. Forward-looking statements include information concerning possible or assumed future results of operations of Ligand, the expected completion and timing of the asset sale and other information relating to the asset sale. There are forward-looking statements throughout this proxy statement, including, among others, under the headings Summary, Effects of the Asset Sale, and in statements containing the words believes, expects, estimates, forecasts, seeks, may, will, and continues or other similar expressions. You should read statements that contain these words carefully. They discuss our future expectations or state other forward-looking information, and may involve known and unknown risks over which we have no control, including, without limitation:

the inability to complete the asset sale due to the failure to satisfy the conditions to consummation of the asset sale, including the failure to obtain stockholder approval;

the occurrence of any event, change or other circumstances that could give rise to the termination of the asset purchase agreement;

the failure of the asset sale to close for any other reason;

the ability to recognize the benefits of the asset sale;

the outcome of legal proceedings that may be instituted against us and others in connection with the asset purchase agreement;

the amount of the costs, fees, expenses and charges related to the asset sale; and

the effect of the announcement of the asset sale on our client relationships, operating results and business generally, including the ability to retain key employees.

You should not place undue reliance on forward-looking statements. We cannot guarantee any future results, levels of activity, performance or achievements. All forward-looking statements contained in the proxy statement speak only as of the date of this proxy statement or as of such earlier date that those statements were made and are based on current expectations or expectations as of such earlier date and involve a number of assumptions, risks and uncertainties that could cause the actual result to differ materially from such forward-looking statements. Except as required by law, we undertake no obligation to update or publicly release any revisions to these forward-looking statements or reflect events or circumstances after the date of this proxy statement.

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**THE SPECIAL MEETING**

We are furnishing this proxy statement to you, as a stockholder of Ligand, as part of the solicitation of proxies by our board of directors for use at the special meeting of stockholders. In this proxy statement, the terms Ligand, company, we, our, ours, and us refer to Ligand Pharmaceuticals Incorporated, a Delaware corporation, and its subsidiaries. The term asset purchase agreement refers to the Purchase Agreement, dated as of September 6, 2006, by and between Ligand Pharmaceuticals Incorporated, King Pharmaceuticals, Inc., and King Pharmaceuticals Research and Development, Inc., as amended as of November 30, 2006 and as it may be amended from time to time. The term asset sale refers to the proposed sale of all of our rights in and to AVINZA® to King and King R&D pursuant to the asset purchase agreement. The term King refers to King Pharmaceuticals, Inc., and the term King R&D refers to King Pharmaceuticals Research and Development, Inc.

**Date, Time, Place and Purpose of the Special Meeting**

This proxy statement is being furnished to our stockholders in connection with the solicitation of proxies by our board of directors for use at that special meeting to be held at the La Jolla Marriott located at 4240 La Jolla Village Drive, La Jolla, California 92037 on February 12, 2007 at 9:00 a.m., local time. The purpose of the special meeting is:

to consider and to vote on a proposal to approve the asset sale, which will constitute the sale of substantially all of the assets of Ligand to King and King R&D and approve the asset purchase agreement;

to consider and to vote on a proposal to amend Ligand's 2002 Stock Incentive Plan, referred to herein as the 2002 Plan, to allow equitable adjustments to be made to options outstanding under the 2002 Plan in the event of the payment of a large non-recurring cash dividend;

to approve adjournment of the special meeting, if necessary, to permit the solicitation of additional proxies if there are not sufficient votes at the time of the special meeting to establish a quorum or to approve the asset sale and adopt the asset purchase agreement; and

to transact such other business as may properly be brought before the special meeting or any adjournment or postponement thereof.

Our board of directors has unanimously determined that the approval of the asset sale is advisable and that the asset sale is fair and in the best interest of our stockholders. Accordingly, our board of directors unanimously recommends that our stockholders vote **FOR** the approval of the asset sale.

In addition, our board of directors has approved the amendment of the amendment of the 2002 Plan that would allow equitable adjustments to be made to options outstanding under the 2002 Plan in the event a special cash dividend is paid to our stockholders. Accordingly, our board of directors recommends that our stockholders vote **FOR** the approval of the amendment of the 2002 Plan.

**Record Date, Voting and Quorum**

Our board of directors fixed the close of business on January 23, 2007, as the record date for the determination of holders of our outstanding shares entitled to notice of and to vote on all matters presented at the special meeting. Such stockholders will be entitled to one vote for each share held on each matter submitted to a vote at the special meeting. As of the record date, there were 100,599,215 shares of our common stock, \$0.001 par value per share, issued and

outstanding, each of which is entitled to one vote on each matter to be voted upon. You may vote in person or by proxy.

The required quorum for the transaction of business at the special meeting is a majority of the votes eligible to be cast by holders of shares of our common stock issued and outstanding on the record date. Shares that are voted FOR, or AGAINST a proposal or marked ABSTAIN are treated as being present at the special meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the special meeting with respect to such proposal. Broker non-votes and the shares of common stock as to which a stockholder abstains are included for purposes of determining whether a quorum of shares of common stock is present at a meeting. A broker non-vote occurs when a nominee holding shares of common stock for the beneficial owner does not vote on a

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particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

### **Required Vote**

Approval of the asset sale requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting. The proposals to amend the 2002 Plan and to adjourn the meeting, if necessary, to solicit additional proxies, each require the affirmative vote of the holders of a majority of the outstanding shares of our common stock present or represented by proxy at the special meeting and entitled to vote on the matter.

Each holder of a share of our common stock is entitled to one vote per share. Failure to vote by proxy (by returning a properly executed proxy card or by following the instructions printed on the proxy card for telephone and Internet voting) or to vote in person will not count as votes cast or shares voting on the proposals. Since the first proposal requires the approval of the holders of a majority of our shares outstanding, both broker non-votes and abstentions would have the same effect as votes against such proposal. With respect to the second, third and fourth proposals, to approve the adjournment of the special meeting, if necessary, neither broker non-votes nor abstentions are included in the tabulation of the voting results and, therefore, they do not have the effect of votes against such proposals.

### **Voting**

Stockholders may vote their shares:

by attending the special meeting and voting their shares of our common stock in person;

by completing the enclosed proxy card, signing and dating it and mailing it in the enclosed post-prepaid envelope;

by using the telephone number printed on your proxy card; or

by using the Internet by going to <http://www.proxyvoting.com/lgnd> and following the instructions printed on your proxy card.

Our board of directors is asking for your proxy. Giving the board of directors your proxy means you authorize it to vote your shares at the special meeting in the manner you direct. You may vote for or against the proposals or abstain from voting. All valid proxies received prior to the special meeting will be voted. All shares represented by a proxy will be voted, and where a stockholder specifies by means of the proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specification so made. If no choice is indicated on the proxy, the shares will be voted FOR the approval of the asset sale and adoption of the asset purchase agreement, the amendment to the 2002 Plan and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the special meeting.

Stockholders who have questions or requests for assistance in completing or submitting proxy cards should contact us at 1-800-356-2017.

Stockholders who have their shares in street name, meaning the name of a broker or other nominee who is the record holder, must either direct the record holder of their shares to vote their shares or obtain a proxy from the record holder to vote their shares at the special meeting.

**Revocability of Proxies**

A stockholder giving a proxy has the power to revoke his or her proxy, at any time prior to the time it is voted, by:

delivering to the Secretary of Ligand a written instrument that revokes the proxy;

submitting another properly completed proxy with a later date; or

attending the special meeting and voting in person.

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Simply attending the special meeting will not constitute revocation of your proxy. If your shares are held in the name of a broker or other nominee who is the record holder, you must follow the instruction of your broker or other nominee to revoke a previously given proxy.

The form of proxy accompanying this proxy statement confers discretionary authority upon the named proxyholders with respect to amendments or variations to the matters identified in the accompanying Notice of Special Meeting and with respect to any other matters which may properly come before the special meeting. As of the date of this proxy statement, management knows of no such amendment or variation or of any matters expected to come before the special meeting which are not referred to in the accompanying Notice of Special Meeting.

**Attendance at the Special Meeting**

Only holders of common stock, their proxy holders and guests we may invite may attend the special meeting. If you wish to attend the special meeting in person but you hold your shares through someone else, such as a stockbroker, you must bring proof of your ownership and identification with a photo at the special meeting. For example, you could bring an account statement showing that you beneficially owned shares of common stock of Ligand as of the record date as acceptable proof of ownership.

**Solicitation of Proxies**

In addition to solicitation by mail, our directors, officers and employees may solicit proxies by telephone, other electronic means or in person. These people will not receive compensation for their services, but we will reimburse them for their out-of-pocket expenses. We will bear the cost of printing and mailing proxy materials, including the reasonable expenses of brokerage firms and others for forwarding the proxy materials to beneficial owners of common stock.

**Other Business**

We are not currently aware of any business to be acted upon at the special meeting other than the matters discussed in this proxy statement. Under our bylaws, business transacted at the special meeting is limited to the purposes stated in the notice of special meeting, which is provided at the beginning of this proxy statement. If other matters do properly come before the special meeting, or at any adjournment or postponement of the special meeting, we intend that shares of our common stock represented by properly submitted proxies will be voted in accordance with the recommendations of our board of directors.

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**PROPOSAL ONE:  
THE ASSET SALE**

The following is a description of the material aspects of the asset sale, including background information relating to the proposed terms of the asset purchase agreement. While we believe that the following description covers the material terms of the asset sale, the asset purchase agreement and other arrangements between King and King R&D and us, the description may not contain all of the information that is important to you. In particular, the following summary of the asset purchase agreement is not complete and is qualified in its entirety by reference to the copy of the asset purchase agreement attached to this proxy statement as Annex A and incorporated by reference herein. You should carefully read this proxy statement and the other documents to which we refer, including the asset purchase agreement, for a complete understanding of the terms of the asset sale.

**Background of the Asset Sale**

Ligand's board of directors and management have from time to time evaluated and considered a variety of strategic alternatives as part of our long-term strategy to maximize stockholder value.

In September 2005, as we neared the end of our financial restatement process (in 2005 we restated our consolidated financial statements for the years 2002 and 2003, the quarters of 2003, and the first three quarters of 2004, to correct errors related to revenue recognition and other matters), we considered retaining an investment banker to help us in evaluating strategic alternatives, including the sale of the company as a whole. UBS Securities LLC, or UBS, was subsequently engaged as our financial advisor to assist us in our review of near-term and long-term business and financial objectives and financial and strategic alternatives. In addition, in late September 2005, Third Point LLC, one of our largest shareholders, began urging our board of directors and management to take a number of actions, including the creation of a special committee of directors to evaluate our strategic alternatives, including the sale of the entire company or the sale or divestiture of our separate assets, and the engagement of an investment banking firm.

On October 31, 2005, our board of directors held a special meeting, together with management, our financial advisor and our outside legal advisor, Latham & Watkins LLP, at which management presented to and discussed with our board of directors, its proposed business plan and the process for reviewing and evaluating various potential business and strategic alternatives available to us as part of our effort to maximize shareholder value, such as a sale of the company or business combination, a sale of assets, a spin-out or other restructuring of assets, partnerships with other companies, and product or company acquisitions. Our board of directors also asked our financial advisor to assist the board and management in investigating possible business and strategic alternatives.

On November 18, 2005, we announced that we would be exploring strategic alternatives to enhance shareholder value and that we had engaged UBS as our financial advisor to assist our board of directors and management in this process.

At regularly scheduled meetings held on December 8th and 9th of 2005, our board of directors met and discussed Ligand's strategic review process with management and our financial and legal advisors. Management presented to and discussed with our board of directors its current strategic plan, including financial projections and product trends, and other strategic alternatives. Our board of directors also discussed with our financial advisor possible business and strategic alternatives available to us. As part of this discussion and in response to the board's request made at the October 31, 2005 board meeting, our financial advisor discussed with the board the potential sale or divestiture of our separate assets, including our rights in AVINZA<sup>®</sup>, which we refer to herein as the AVINZA<sup>®</sup> assets, the potential establishment of a royalty trust, and a potential combination of a sale of the company as a whole or selected commercial assets with the establishment of a royalty trust and possible process for evaluating these potential

alternatives. In addition, our legal advisor discussed with our board of directors its fiduciary duties under Delaware law in connection with this process. After extended discussion, our board of directors directed management and our financial advisor to conduct further work to evaluate the strategic alternatives that had been discussed at the meeting and to contact third parties regarding their interest in pursuing a possible transaction with us.

Between December 2005 and February 2006, in accordance with our board of directors' directives, our financial advisor contacted 78 interested parties, including 64 strategic parties and 14 financial parties, regarding

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their interest in pursuing a possible transaction with us. Confidentiality agreements were executed with 38 interested parties, 24 other strategic parties and 13 financial parties, each of which was provided with a confidential information memorandum regarding Ligand. During this period, an electronic and a physical data room were assembled that contained, among other things, financial, legal and operational due diligence materials related to Ligand and the AVINZA® assets.

On December 28, 2005, we executed a confidentiality agreement with King and a copy of the confidential information memorandum regarding Ligand was provided.

On January 17, 2006, we entered into a termination and return of rights agreement with Organon USA, Inc., or Organon, that terminated the AVINZA® co-promotion agreement between Ligand and Organon. Pursuant to the termination and return of rights agreement Organon agreed to continue to promote AVINZA® through September 30, 2006. The termination and return of rights agreement also obligates Ligand to pay Organon an approximately \$48 million termination payment, with approximately \$38 million due on or before October 15, 2006, and an additional \$10 million due on or before January 15, 2007, and a royalty payment based upon net sales of AVINZA®. Under certain circumstances, including the sale of the AVINZA® assets, these cash payments will accelerate.

On or about January 19, 2006, at our board of director's direction, our financial advisor contacted representatives of King and the 38 interested parties, which received confidential information memoranda, including King, to inform them that Ligand had established February 10, 2006, as the deadline for submission by interested parties of preliminary, non-binding indications of interest with respect to an acquisition of Ligand as a whole or the acquisition of one or more of our assets, including the AVINZA® assets.

On or about February 10, 2006, we received preliminary, non-binding indications of interest from King, and two other strategic parties referred to herein as Company A and Company B. Company A's initial indication of interest was for an acquisition of the company as a whole, which it later revised into a bid to purchase only the AVINZA® assets. Company B's preliminary indication of interest was for an acquisition of the AVINZA® assets.

On February 16, 2006, our board of directors held a special meeting, together with management and our financial and legal advisors, to review and discuss the indications of interest received to date. At the meeting, our financial advisor updated our board of directors regarding the overall strategic review process and reviewed with our board of directors the terms of the indications of interest that had been received with respect to our various assets, and certain publicly available information relating to each of the companies that had submitted bids. Our board of directors noted that other than Company A's initial bid, none of the indications of interest received were for the acquisition of the entire company, and that the indications received with respect to our research and development assets and royalty assets fell short of what our board of directors considered an acceptable value. Following further discussion, our board of directors authorized management and our financial advisor to continue discussions with the parties that had submitted indications of interest with respect to the AVINZA® assets, including inviting these companies to conduct comprehensive due diligence and participate in management presentations. Our board of directors also instructed management and our financial advisor to continue to evaluate our transaction options, including those discussed at the board meetings held on December 8th and 9th of 2005, and invite other companies into the process. Director John W. Kozarich was not present at this meeting.

From February 16 to mid-April 2006, our management made presentations to Company A, Company B and King on March 6, 2006. The management presentations included a general overview of our business, including the AVINZA® assets and our historical and projected financial performance. In addition, during this time, our representatives conducted due diligence calls with representatives of the interested parties and responded to requests for additional due diligence materials.

During the week of February 20, 2006, Company A and Company B indicated that they would not be submitting a second round of non-binding indications of interest. Both Company A and Company B indicated an interest in participating in the process but each concluded that the price level at which they were interested was not likely to be successful.

During the week of March 6, 2006, in accordance with our board of directors' directives, our financial advisor contacted an additional financial party, referred to herein as Company C. On March 16, 2006, we executed a

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confidentiality agreement with Company C, which submitted a preliminary non-binding indication of interest on April 7, 2006.

On or about April 6, 2006, at our board of director's direction, our financial advisor informed the interested parties that Ligand had established April 24, 2006 as the deadline for submission by interested parties of a second round of non-binding indications of interest with respect to an acquisition of the AVINZA® assets.

On April 11, 2006, King and Company C were provided a draft asset purchase agreement for their review and comment.

On April 24, 2006, we received a second round non-binding indication of interest from King for an acquisition of the AVINZA® assets, along with a mark-up of the draft asset purchase agreement previously provided by Ligand. Company C declined to submit a second indication of interest, citing issues with its financing.

On April 28, 2006, our board of directors held a special meeting, together with management and our financial and legal advisors, to review and discuss the strategic review process, including King's indication of interest. At the meeting, our financial advisor updated our board of directors regarding the overall strategic review process and reviewed with our board the financial terms of King's indication of interest which reflected a decrease in the proposed purchase price from \$600 million in cash, plus the assumption of payment obligations of Ligand to Organon of approximately \$48 million and the Company's obligation to make payments to Organon based on net sales of AVINZA® under the Organon termination and return of rights agreement, to a range of \$500 million to \$600 million, plus the assumption of payment obligations of Ligand to Organon of approximately \$48 million and the Company's obligation to make payments to Organon based on net sales of AVINZA® under the Organon termination and return of rights agreement. Our board was informed by our financial advisor that King had indicated that this reduction in King's proposed purchase price was a result of unidentified issues that King had raised in its due diligence investigation which it had conducted to date. In addition, our legal advisors reviewed with our board of directors the principal legal matters reflected in the mark-up of the draft asset purchase agreement submitted by King. Management provided our board of directors with an update on general business matters, including our preliminary financial results for the first quarter of 2006, and discussed with the board financial reporting requirements for 2006. After extended discussion during which the members of our board expressed disappointment with King's revised indication of interest, our board of directors directed management and our financial advisor to continue to evaluate Ligand's strategic alternatives, including pursuing a potential transaction with King, which our board believed could still bring significant value to our stockholders if coupled with further negotiations. Directors Henry F. Blissenbach and Mr. Kozarich were not present at this meeting.

During May 2006, representatives of King conducted additional due diligence.

On May 25, 2006, our board of directors held a regular meeting, together with management and our financial and legal advisors, at which our financial advisor updated our board with respect to the strategic review process, including efforts to provide King with the additional due diligence materials. Also at the meeting, management and our financial advisor discussed with our board of directors the other strategic alternatives, initially discussed at the board meetings held on December 8th and 9th of 2005. Directors Daniel S. Loeb and Jeffrey R. Perry were not present at this meeting.

On June 6, 2006, King submitted a revised indication of interest which contained a proposed purchase price for the acquisition of the AVINZA® assets of \$250 million, plus the assumption of payment obligations of Ligand to Organon of approximately \$48 million and the Company's obligation to make payments to Organon based on net sales of AVINZA® under the Organon termination and return of rights agreement. In King's revised indication of interest, King noted that this price reflected concerns raised during its due diligence investigation with respect to our current inventory levels, which exceeded the level King had targeted in calculating its bid, uncertainties related to the

formulation's possible interactions with alcohol and existing intellectual property indemnifications contained in our manufacturing agreements.

On June 8, 2006, our board of directors held a special meeting, together with management and our financial and legal advisors, at which management and our financial advisor reviewed with our board of directors King's June 6, 2006 indication of interest. After extended conversation, our board of directors decided to suspend negotiations with King at that time, based upon concerns with respect to King's willingness to consummate a

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transaction and the reduced purchase price reflected in King's revised indication of interest. Following this determination, management led a discussion of the status of the strategic review process in general and its proposed business plan, which included a discussion regarding the possibility of partnering with another pharmaceutical company to market AVINZA<sup>®</sup>, the sale of our oncology assets and steps to cut spending.

During June 2006, at our board of directors' direction, our financial advisor contacted parties which previously had expressed an interest in the AVINZA<sup>®</sup> assets but had declined to submit either a preliminary or second round indication of interest, including Company A and Company B, and an additional four potential parties which had not been contacted previously.

On June 13, 2006, our board of directors held a special meeting at which the board of directors and management discussed the formation of a strategic alternatives committee of our board of directors to oversee the strategic review process. Our legal advisor also discussed with our board of directors its fiduciary duties under Delaware law with respect to the formation of a strategic alternatives committee to oversee the strategic review process. Following a discussion of these matters and the responsibilities to be delegated to the strategic alternatives committee, our board of directors established the strategic alternatives committee, comprised of independent directors of our board of directors John Groom and Michael A. Rocca and board member Brigette Roberts, to assist our board of directors and management with its review and supervision of the strategic review process and any resulting transactions. Director Alexander D. Cross was not present at this meeting.

On June 14, 2006, the strategic alternatives committee held a regular meeting, together with management and our financial advisor, to review and discuss the strategic review process. At the meeting, our financial advisor updated the committee regarding the overall strategic review process, including efforts to divest the AVINZA<sup>®</sup> assets. In addition, management presented and discussed with the committee several contingency options should Ligand be unable to divest the AVINZA<sup>®</sup> assets prior to the Organon termination date, including expanding Ligand's sales force, engaging a contract sales organization and identifying a new co-promotion partner. These topics were also discussed on June 21, 2006, and at our board of directors regular meeting, which was also attended by management and our financial advisor.

Between early and mid-July 2006, our management made presentations, which included a general overview of our business, including the AVINZA<sup>®</sup> assets and our historical and projected financial performance, to each of Company A and Company B. During this time, our representatives also conducted diligence calls with representatives of each of Company A and Company B and responded to requests for additional due diligence materials. In addition, on July 13, 2006 Company A and Company B were provided with a draft asset purchase agreement for their review and comment.

On or about July 13, 2006, at the strategic alternative committee's direction, our financial advisor informed Company A and Company B that Ligand had established July 31, 2006 as the deadline for submission by interested parties of a second round of non-binding indications of interest with respect to an acquisition of the AVINZA<sup>®</sup> assets.

On or about July 25, 2006, Jason Aryeh, the general partner of JALAA Equities, LP, had a telephonic conversation with Adriann W. Sax, Executive Vice President, Business Development and Strategic Planning of King, during which Ms. Sax indicated that King was still interested in a possible transaction with Ligand for the AVINZA<sup>®</sup> assets. Dating back to early 2005, Mr. Aryeh had been independently contacting potential purchasers of Ligand to gauge their interest in purchasing either Ligand as a whole or its individual assets. As of July 31, 2005, Mr. Aryeh was a beneficial holder of approximately 1.93% of our common stock. It was in this context that Mr. Aryeh began to develop a relationship with representatives of King, including Ms. Sax and Neil Morton, Associate Director of Business Development and Strategic Planning of King. From their first telephone conversation on November 18, 2005, Mr. Aryeh, Ms. Sax and Mr. Morton spoke on a regular basis regarding a possible transaction with Ligand for the AVINZA<sup>®</sup> assets. Shortly after Mr. Aryeh's initial conversation with Ms. Sax and Mr. Norton, Mr. Aryeh

contacted David E. Robinson, a director and our then President, Chief Executive Officer and Chairman of the Board, Jeffrey R. Perry, one of our directors and a representative of UBS, to inform each of them of his conversations with Ms. Sax and Mr. Morton and his belief that an agreement could be reached between King and the Company for the sale of AVINZA® assets. In addition, Mr. Aryeh provided King with diligence materials that he had independently developed to aid King in its due diligence process.

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On July 26, 2006, our board of directors, together with our legal advisors, and representatives of Dorsey & Whitney LLP, counsel to the non-management members of the board of directors, held a special meeting at which management updated our board of directors regarding the overall strategic review process and presented and discussed with our board of directors management's current operational initiatives to support Ligand's ongoing business. Following management's presentation, the non-management members of the board of directors discussed the strategic review process in an executive session.

On July 27, 2006, our board of directors reconvened at a regular meeting, together with management, our financial and legal advisors, and representatives of Dorsey & Whitney. Following a discussion with management and our financial advisor regarding the strategic review process, the non-management members of our board of directors met in executive session. During the executive session our non-management board members discussed whether the Company and our strategic review process might benefit from, a change in executive leadership. Following the executive session, the non-management board members met with Mr. Robinson to update him with respect to the matters discussed during the executive session. Following this meeting, Mr. Robinson offered his resignation from his positions as director, President, Chief Executive Officer, and Chairman of the Board, to be effective as of July 31, 2006. In accepting his resignation, our board of directors thanked Mr. Robinson for his 15 years of service to the Company, during which time he had transformed the Company from a small private research-stage company in 1991 into a publicly traded specialty pharmaceutical company.

On July 28, 2006, Mr. Aryeh contacted Dr. Roberts and Mr. Perry, regarding his conversations with King and relayed Ms. Sax's statement that King remained interested in a possible transaction with Ligand for the AVINZA® assets.

On or about July 29, 2006, Dr. Roberts had conversations with her fellow strategic alternative committee members, Messrs. Groom and Rocca, regarding Mr. Aryeh's discussion with Ms. Sax.

On July 31, 2006, our board of directors held a special meeting, together with our legal advisor and representative of Dorsey & Whitney at which Dr. Blissenbach was appointed as Chairman of the Board and Interim Chief Executive Officer. Mr. Groom updated the board of directors regarding the overall strategic review process and summarized for the board King's expression of interest in reengaging in the process. In addition, our board of directors discussed the possibility of utilizing Mr. Aryeh to help facilitate a possible transaction with King regarding the sale of the AVINZA® assets. Following an extended discussion, our board of directors authorized the strategic alternatives committee to ask Mr. Aryeh to help facilitate a possible transaction with King regarding the sale of the AVINZA® assets for which Mr. Aryeh was to receive no consideration or other remuneration. On August 1, 2006, Mr. Aryeh entered into a confidentiality agreement with Ligand.

On July 31 and August 1, 2006, we received a second round non-binding indication of interest from Company A and Company B, respectively. In addition, Company A provided Ligand and our outside counsel with a mark-up of the draft asset purchase agreement. Pursuant to its written proposal, Company A proposed to purchase the AVINZA® assets for a purchase price of \$325 million in cash, but did not offer to assume Ligand's payment obligations under the Organon termination and return of rights agreement. Pursuant to its written proposal, Company B proposed to purchase the AVINZA® assets for a purchase price of \$300 million in cash and assume Ligand's payment obligations of approximately \$48 million under the Organon termination and return of rights agreement.

On August 1, 2006, Dr. Roberts and Mr. Aryeh met with Brian A. Markison, President and Chief Executive Officer of King, Ms. Sax, Steve Andrzejewski, Chief Commercial Officer of King, and Mr. Morton at King's offices in Bridgewater, New Jersey, to discuss a possible transaction with Ligand regarding the AVINZA® assets. At this meeting the parties discussed financial terms of King's bid for the AVINZA® assets and process matters such as the status of King's due diligence.

On August 2, 2006, the strategic alternatives committee held a meeting, together with management and our financial and legal advisors, to review and discuss Company A's and Company B's respective indications of interest. At the meeting, our financial advisor updated the committee regarding the overall strategic review process and reviewed with the committee the financial terms of Company A's and Company B's indications of interest, respectively. The committee was informed by our financial advisor that each of Company A and Company B had

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indicated that its proposed acquisition was not fully funded, but that it was either working with a current financing source or its existing equity sponsors to develop a fully financed bid. Following an extensive discussion of the bids received, the committee authorized management and our financial advisor to continue discussions with Company A and Company B, including inviting these companies to conduct comprehensive due diligence and participate in management presentations. Director Dr. Brigitte Roberts was not present at this meeting.

On August 4, 2006, the strategic alternatives committee held a meeting with management and our financial and legal advisors, to review and discuss the strategic review process. At the meeting the committee was updated regarding the status of discussions with Company A and Company B. The committee was also updated with respect to the status of discussions with King, including King's request for an onsite due diligence visit and concerns raised by King regarding Ligand's current inventory levels, which exceeded the level King had targeted in calculating its bid. After a discussion, the committee directed management and Messrs. Perry and Aryeh to arrange a due diligence visit at Ligand's offices in San Diego, California for August 7 through August 9, 2006.

From August 7 through August 9, 2006, representatives of King, including Ms. Sax, Mr. Morton and representatives of King's financial advisor, Citigroup Global Markets Inc., met with representatives of Ligand, including Dr. Roberts, Mr. Aryeh, Andres Negro-Vilar, M.D., Ph.D., Executive Vice President, Research and Development, and Chief Scientific Officer of Ligand, James L. Italien, Ph.D., Senior Vice President, Regulatory Affairs and Compliance of Ligand, and Tod G. Mertes, CPA, Vice President, Controller and Treasurer of Ligand, at Ligand's offices in San Diego, California to discuss King's open diligence issues, including dialogue with the FDA regarding AVINZA<sup>®</sup> alcohol interaction studies and AVINZA<sup>®</sup> product revenue models.

On August 10, 2006, the strategic alternatives committee held a meeting, together with management, Mr. Perry, Mr. Aryeh and our financial and legal advisors, to receive an update on the status of discussions with Company A, Company B and King. The committee was updated regarding the discussions with Company A and Company B, and with respect to the status of discussions with King, including King's recent diligence visit to Ligand's offices and ongoing negotiations by King regarding Ligand's current inventory levels, which exceeded King's target levels used to calculate its bid. Mr. Aryeh suggested and discussed with the committee that a possible solution to King's inventory targets as well as our concern regarding how to fill the promotion gap to be vacated by Organon beginning on October 1, could take the form of a contract sales agreement with King, pursuant to which King's sales force would promote the AVINZA<sup>®</sup> product between October 1, 2006 and the closing of the proposed sale of the AVINZA<sup>®</sup> assets. After a discussion, the committee authorized management and Mr. Aryeh to continue discussions with King and to propose the potential solutions discussed with the committee. Director Dr. Brigitte Roberts was not present at this meeting.

On August 14, 2006, representatives of Ligand and Company A telephonically discussed Company A's mark-up of the draft asset purchase agreement. At the culmination of the telephonic discussion, and at the strategic alternative committee's direction, Company A was informed that Ligand had established August 24, 2006 as the deadline for submission by interested parties of a final best offer and asked that Company A submit a revised mark-up of the asset purchase agreement with its bid. Following these discussions and in accordance with the strategic alternative committee's directives, our financial advisor also informed Company B that Ligand had established August 24, 2006 as the deadline for submission by interested parties of a final best offer and asked that Company B submit a mark-up of the draft asset purchase agreement with its bid.

On August 15, 2006, we received a written indication of interest from King pursuant to which King proposed to purchase the AVINZA<sup>®</sup> assets for a purchase price of \$250 million in cash, assume Ligand's payment obligations of approximately \$48 million and the Company's obligation to make payments to Organon based on net sales of AVINZA<sup>®</sup> under the Organon termination and return of rights agreement, and pay a royalty based on King's annual net sales of AVINZA<sup>®</sup> through AVINZA<sup>®</sup>'s patent expiration in November 2017.

On August 15, 2006, the strategic alternatives committee held a meeting with management and our financial and legal advisors, to receive an update on the discussions with the interested parties.

On August 15, 2006, King provided Ligand and our legal advisor with a draft non-binding term sheet for an asset purchase agreement to be entered into in connection with the sale of the AVINZA<sup>®</sup> assets and a draft non-binding term sheet for a contract sales force agreement. During the period from August 15, 2006 through August 22,

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2006, representatives of Ligand and King negotiated the terms of the two term sheets during several telephonic meetings. In connection with these negotiations, on August 18, 2006, Mr. Aryeh, Mr. Perry and a representative of our outside legal counsel had a telephonic meeting with Joseph Squicciarino, Chief Financial Officer of King, Ms. Sax, James W. Elrod, General Counsel of King to negotiate the terms of non-binding term sheets for the asset purchase agreement and the contract sales force agreement. On August 22, 2006, Dr. Blissenbach, Mr. Perry, Mr. Aryeh and a representative of our outside legal counsel met with Mr. Markison, Mr. Squicciarino, Ms. Sax, Mr. Andrzejewski and Mr. Elrod, at Ligand's offices in San Diego, California, to finalize the terms of the non-binding term sheets, including the structure of the royalty payment. Pursuant to the non-binding term sheet, King agreed to pay Ligand a purchase price of \$250 million in cash, assume Ligand's payment obligations of approximately \$48 million and its obligation to make payments to Organon based on net sales of AVINZA® under the Organon termination and return of rights agreement and a 15% royalty during the first 20 months after the closing of the asset sale on its net sales of the AVINZA® product. With respect to subsequent royalty payments King agreed to pay Ligand a 5% royalty if its net sales were less than \$200 million, and if King's calendar year net sales were greater than \$200 million, then the royalty payment would be 10% of all of King's net sales less than \$250 million, plus 15% of all of King's net sales greater than \$250 million.

On August 21, 2006, our board of directors held a special meeting, together with management and our legal advisor, at which management updated our board of directors regarding the status of discussions with the three remaining interested parties. Dr. Brigitte Roberts was not present at his meeting.

On August 23, 2006, King provided Ligand and our legal advisors a draft contract sales force agreement.

On August 24, 2006, Company A submitted a final best offer pursuant to which Company A increased its offer price from \$325 million to \$350 million in cash and added 1% royalty on Company A's net sales for a period of five years. Company B informed our financial advisor that it would not be submitting a final best offer at that time, although it remained interested in a possible transaction with Ligand.

On August 25, 2006, the strategic alternatives committee held a special meeting with management, Messrs. Perry and Aryeh and our financial and legal advisors, to review and discuss King's and Company A's respective bids. Our financial advisor reviewed with the committee the terms of Company A's bid and informed the committee that Company B had indicated that it would not be submitting a final best offer at that time, although it remained interested in a possible transaction with Ligand. Our legal advisor reviewed the principal legal aspects of Company A's mark-up of the draft asset purchase agreement. The committee was also updated with respect to the status of discussions with King and discussed with Messrs. Perry and Aryeh the financial terms of the non-binding term sheets for an asset purchase agreement to be entered into in connection with the sale of the AVINZA® assets and the contract sales force agreement. Our legal advisor reviewed the principal legal aspects of the terms sheets agreed upon with King. After an extended discussion, the committee directed management and our financial and legal advisors to continue discussions with both King and Company A with respect to a possible sale of the AVINZA® assets. Dr. Brigitte Roberts was not present at his meeting.

On August 25, 2006, King provided Ligand and our legal advisors with a mark-up of the draft asset purchase agreement. Thereafter, management, Mr. Aryeh and our outside legal advisor negotiated the terms of the asset purchase agreement and contract sales force agreement with King's representatives.

On August 30, 2006 and August 31, 2006, representatives of Company A discussed with our financial advisor the value of Company A's bid and pending due diligence requirements, which Company A estimated would require approximately two weeks to complete. Company A was informed that a two week due diligence period could place Company A at a substantial timing disadvantage. As a result of these discussions, Company A increased the cash component of its offer price from \$350 million to \$385 million and restructured its proposed royalty payment to

provide for a 1% royalty for sales up to \$100 million, which would increase incrementally for each additional \$100 million in sales up to \$500 million at which point the royalty would remain at 11%, as well as its duration.

On August 31, 2006, the strategic alternatives committee held a meeting, together with management, Messrs. Perry and Aryeh and our financial and legal advisors, to review and discuss the status of negotiations with King and Company A. At the meeting, our financial advisor discussed with the committee financial aspects of King's and Company A's proposals to purchase the AVINZA® assets. Our legal advisors also summarized and discussed with

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the committee the material terms of the proposed asset purchase agreements. After an extended discussion, the committee directed management and our financial and legal advisors to continue discussions with both King and Company A with respect to a possible sale of the AVINZA® assets and inform them that Ligand had established September 5, 2006 as the deadline for submission of final best offers coupled with a fully negotiated asset purchase agreement.

Following the strategic alternatives committee meeting, our financial advisor informed Company A, in accordance with the committee's directives, of the September 5, 2006 deadline for submission of final best offers and discussed with Company A its remaining diligence requirements. Company A expressed an interest in completing its remaining due diligence on an accelerated basis and negotiating the asset purchase agreement. Over the next several days, management and our advisors worked with Company A and its advisors to address its due diligence requests and negotiate the asset purchase agreement. Following the strategic alternatives committee meeting, Mr. Aryeh informed King, in accordance with the committee's directives, of the deadline for submission of a final best offer and a fully negotiated asset purchase agreement. Over the next several days, Messrs. Perry and Aryeh and our legal advisor worked with King to negotiate and finalize the asset purchase agreement and contract sales force agreement.

On September 4, 2006, Mr. Aryeh and King's financial advisor had a telephonic conversation to discuss possible changes to King's proposal. During this discussion, Mr. Aryeh suggested that King offer to loan Ligand, at Ligand's option, an amount equal to the initial termination payment Ligand will be required to make under the termination and return of rights agreement with Organon, at a favorable interest to Ligand, but which would be forgiven at closing of the proposed asset sale, if the parties closed the transaction prior to January 1, 2007. Later that day, Mr. Perry had a telephonic conversation with King's financial advisor during which he urged King to raise the up-front cash component of its bid from its current level of \$250 million.

On September 5, 2006, Dr. Blissenbach and Mr. Markison had a telephonic discussion to clarify King's proposal. As a result of these discussions, King increased the cash component of its offer price from \$250 million to \$265 million and offered to loan Ligand, at Ligand's option, up to \$37.75 million at an interest rate of 9.50%, which accrued interest amounts, if any, would be forgiven at closing of the proposed asset sale, if the parties closed the transaction prior to January 1, 2007. Mr. Markison stated that this was King's best and final offer.

On September 5, 2006, the strategic alternatives committee held a meeting, together with management, Messrs. Perry and Aryeh and our financial and legal advisors to review and discuss King's final best offer received earlier in that day, Company A's final best offer received on August 30, 2006, and the respective asset purchase agreements. Mr. Aryeh reviewed and discussed with the committee the financial terms of King's final best offer, including the increase of upfront cash and the no-interest loan. Our legal advisors reviewed and discussed with the committee its fiduciary obligations under Delaware law in connection with the proposed asset sale. Our legal advisors also summarized and discussed with the committee the material terms of the asset purchase agreements, including provisions permitting the board of directors to change its recommendation to stockholders or terminate the asset purchase agreement to accept a superior proposal, subject to payment of a termination fee equal to approximately 2.5% of the aggregate purchase price plus reimbursement of King's out-of-pocket expenses. Our legal advisors also noted for the committee that the King asset purchase agreement had been fully negotiated but that the Company A asset purchase agreement would need additional time to complete. Our financial advisor then reviewed with the committee the events leading up to the asset sale. The committee, with the assistance of management and our financial advisor, compared financial terms of King's final best offer received earlier in that day and Company A's final best offer received on August 30, 2006, including the differences in upfront cash, different royalty payment structures, management's view of the respective abilities of each bidder to market AVINZA® going forward, the impact such abilities could have on the relative attractiveness of the offers and the implications of our existing net operating losses on the potential after-tax value to be received by Ligand in the proposed transactions. The committee considered the estimated net present values of the offers, which were estimated at \$480.8 million for the King offer and \$394.8 million for the Company A offer, based

on forecasts and estimates prepared by management as to the net sales of AVINZA® under each bidder. After an extended discussion regarding King's proposal relative to Company A's, the committee concluded to recommend that our board of directors approve the asset purchase agreement to be entered into with King and recommend that our stockholders approve the sale of the AVINZA® assets to King, based on the expected relative values of the offers, the implications

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of our existing net operating losses on the potential after-tax value to be received by Ligand in the proposed transactions (specifically the higher gross cash proceeds including the royalty payments that were expected from a transaction with King resulted in a more extensive utilization of our existing net operating losses) and the increased assurance of closing a transaction with King based upon the status of the respective asset purchase agreements. Director Dr. Brigitte Roberts was not present at this meeting.

On September 6, 2006, our board of directors held a special meeting with management, Mr. Aryeh, our financial and legal advisors, and representatives of Dorsey & Whitney to review and discuss King's and Company A's final best offers and asset purchase agreements, respectively, and consider the recommendation of the strategic alternatives committee to approve the sale of the AVINZA® assets to King. Dr. Blissenbach reviewed and discussed with the board the financial terms of the asset purchase agreement with King and the events leading up to the asset sale. The board discussed, with the assistance of management and our financial advisor, financial terms of King's and Company A's final best offers, including the differences in up-front cash, different royalty payment structures, management's view of the respective abilities of each bidder to market AVINZA® going forward, the impact such abilities could have on the relative attractiveness of the offers and the implications of our existing net operating losses on the potential after-tax value to be received by Ligand in the proposed transactions. The board considered the estimated net present values of the offers, which were estimated at \$480.8 million for the King offer and \$394.8 million for the Company A offer, based on forecasts and estimates prepared by management as to the net sales of AVINZA® under each bidder. Mr. Groom discussed with our board of directors the strategic alternatives committee's process and relayed the committee's recommendation that the board of directors approve the asset purchase agreement to be entered into with King and recommend that our stockholders approve the sale of the AVINZA® assets to King. UBS then reviewed with our board of directors its financial analysis of the aggregate consideration to be paid by King for the AVINZA® assets, and delivered to our board of directors an oral opinion, which opinion was confirmed by delivery of a written opinion dated September 6, 2006, to the effect that, as of that date and based on and subject to various assumptions, matters considered and limitations described in its opinion, the aggregate consideration to be received by Ligand in the transaction was fair, from a financial point of view, to Ligand. Our legal advisors reviewed and discussed with our board of directors its fiduciary obligations under Delaware law in connection with the asset sale. Our legal advisors also summarized and discussed with our board the material terms of the asset purchase agreement with King, including provisions permitting the board of directors to change its recommendation to stockholders or terminate the asset purchase agreement to accept a superior proposal, subject to payment of a termination fee equal to approximately 2.5% of the aggregate purchase price plus reimbursement of King's out-of-pocket expenses. After an extended discussion regarding the financial and legal advantages of King's proposal relative to Company A's proposal, our board unanimously approved the sale of the AVINZA® assets to King and resolved to recommend that our stockholders approve the sale of the AVINZA® assets to King.

The parties executed the asset purchase agreement and contract sales agreement on September 6, 2006. On September 7, 2006, Ligand and King issued a press release announcing the transaction.

On September 27, 2006, Mr. Aryeh was appointed as a director by our board of directors to fill the vacancy created by the resignation of Mr. Robinson. In appointing Mr. Aryeh, our board of directors noted his experience as an experienced biotechnology and specialty pharmaceutical investment executive and his extensive contacts in the industry. Upon his appointment, Mr. Aryeh received an automatic grant of option to purchase 20,000 of our shares of common stock and will receive our standard board fees in accordance with our non-employee director compensation policy for his service as a member of our board of directors.

On January 3, 2007, we entered into an Amendment No. 1 to the asset purchase agreement which was effective as of November 30, 2006, pursuant to which the parties agreed to amend the date either party may terminate the asset purchase agreement in the event the asset sale has not been consummated from December 31, 2006 to February 28, 2007.



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**Reasons for the Asset Sale**

In evaluating the asset sale, the board of directors considered the recommendations of the strategic alternatives committee, consulted with our management and financial and legal advisors, reviewed a significant amount of information and considered a number of factors. The material factors considered by the board of directors were:

the value and the consideration to be received by the company pursuant to the asset purchase agreement, including the fact that the company would receive an up-front cash payment, and King would agree to assume certain payment obligations of Ligand, plus Ligand would receive a certain royalty payment based on King's annual net sales of AVINZA® through AVINZA®'s patent expiration in November 2017, which will, among other things, provide funds to operate the company following the completion of the asset sale;

the implications of our existing net operating losses on the potential after-tax value of the consideration to be received by Ligand in the asset sale (specifically the higher gross cash proceeds, including the royalty payments, that were expected from a transaction with King resulted in a more extensive utilization of our existing net operating losses);

the strategic review process undertaken by the company which included the retention of internationally recognized financial and legal advisors; the formation of a strategic alternatives committee of the board of directors, established to administer and maintain flexibility in the process, while our board retained authority with respect to key transaction decisions and approvals; and a solicitation and bid process designed to maximize stockholder value, which ultimately resulted in King's offer to acquire the AVINZA® assets;

the recommendation of the strategic alternatives committee (a committee formed to consider strategic alternatives available to the company and make recommendations to the board of directors regarding the company's strategic alternatives) to approve the asset purchase agreement and recommend that our stockholders vote for the approval of the asset sale and adoption of the asset purchase agreement;

historical, current and projected information concerning the AVINZA® business, financial performance and condition, operations, technology, management and competitive position, and current industry, economic and market conditions, including the possibility that we continue to operate the AVINZA® business, shut down certain operations or sell other business assets;

the financial presentation of our financial advisor, UBS, including its opinion (the full text of which is attached as Annex B to this proxy statement), dated September 6, 2006, to the board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to Ligand of the aggregate consideration to be received by Ligand in the asset sale, as more fully described below under the caption "THE ASSET SALE Opinion of Our Financial Advisor" beginning on page 25;

the potential impact of the asset sale on our reputation, customers, strategic partners and employees;

King's agreement to hire our sales representatives whose primary responsibility is the promotion of AVINZA®;

King's premier sales force and its ability to promote AVINZA®, and the impact of such promotion will have on the royalty payments we will be entitled to under the asset purchase agreement;

the Contract Sales Force Agreement, as amended, referred to herein as the contract sales agreement, with King, pursuant to which King agreed to conduct a detailing program to promote the sale of AVINZA® for an agreed upon fee, subject to the terms and conditions of the contract sales agreement, which commenced on October 1, 2006 and is scheduled to continue for a period of six months or until the closing of the asset sale or earlier termination of the asset purchase agreement. Previously, Organon Pharmaceuticals USA, Inc., conducted a detailing program to promote the sale of AVINZA®, however, Organon's ceased on September 30, 2006, pursuant to and in accordance with the terms of Termination and Return of Rights Agreement, dated as of January 1, 2006, by and between Ligand and Organon Pharmaceuticals USA, Inc., which would have resulted in the under promotion of AVINZA® if not for the contract sales agreement;

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the fact that the asset purchase agreement affords our board of directors flexibility to consider, evaluate and accept superior proposals in the period after signing and prior to the consummation of the asset purchase agreement as follows:

- subject to compliance with the asset purchase agreement, we can participate in any discussions or negotiations with, and provide any non-public information (other than any confidential information of King or any non-public financial or other material terms of the asset purchase agreement) to, any person in response to an acquisition proposal by any such person, if our board of directors determines that there is a reasonable likelihood that such acquisition proposal could lead to a superior proposal, as defined in the asset purchase agreement;
- subject to compliance with the asset purchase agreement, our board of directors is permitted to change its recommendation to stockholders with respect to or enter into an alternative transaction that is a superior proposal, conditioned upon the payment to King of a \$12 million termination fee;
- subject to compliance with the asset purchase agreement, our board of directors is permitted to change its recommendation to stockholders, if it determines that doing so is consistent with its fiduciary duties to our stockholders under applicable law; and
- subject to compliance with the asset purchase agreement, our board of directors is permitted to take and disclose to our stockholders a position with respect to any tender offer or exchange offer by a third party or amend or withdraw such a position in accordance with applicable law;

our efforts, with the assistance of our advisors, to negotiate and execute an asset purchase agreement favorable to us.

In the course of its deliberations, the board of directors also considered a variety of risks and other countervailing factors concerning the asset purchase agreement and asset sale. The material factors considered by the board of directors were:

the risk that the asset sale might not be completed in a timely manner or at all;

the fact that our participation in any future earnings or growth of AVINZA® will be limited to royalty payments;

the restrictions on the conduct of our business prior to completion of the asset sale, requiring us to conduct our business only in the ordinary course, subject to specific limitations or King's consent, which may delay or prevent us from undertaking business opportunities that may arise pending completion of the asset sale;

the restrictions on our board of directors' ability to solicit or engage in discussions or negotiations with a third party regarding alternative transactions involving AVINZA® or Ligand as a whole, and the requirement that we pay King a \$12 million termination fee in certain cases in the event of a termination of the asset purchase agreement;

the risk that the inventory adjustments required under the King proposal could be substantial, thus reducing the up-front cash consideration;

the fact that we selected the King proposal over an alternative proposal which offered consideration consisting of a larger up-front cash payment coupled with a smaller royalty payment;

the risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to implement the asset sale; and

the possibility of management and employee disruption associated with the asset sale.

The foregoing discussion of the material information and factors considered by our board of directors. The board of directors collectively reached a unanimous conclusion to recommend the approval of the asset sale and adoption of the asset purchase agreement in light of the various factors and other factors that each member of the board of directors believed were appropriate. Of the variety of factors considered by the board of directors in connection with its evaluation of the asset sale and the complexity of these matters, the board of directors did not

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consider it practicable, and did not attempt, to quantify, rank or otherwise assign relative or specific weight or values to any of these factors. Rather, the board of directors made its recommendation based on the totality of information presented to it and the investigation conducted by it. In considering the factors discussed above, individual directors may have given different weight to different factors.

### **Recommendation of Our Board of Directors**

After careful consideration, our board of directors unanimously determined that the asset sale is fair to, and in the best interests of, the company and our stockholders and that the asset purchase agreement and the asset sale are advisable. Accordingly, our board of directors approved the asset purchase agreement and recommended that our stockholders approve the asset sale.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE ASSET SALE.**

### **Opinion of Our Financial Advisor**

On September 6, 2006, at a meeting of our board of directors held to evaluate the asset sale, UBS delivered to our board of directors an oral opinion, confirmed by delivery of a written opinion dated September 6, 2006, to the effect that, as of that date and based on and subject to various assumptions, matters considered and limitations described in its opinion, the aggregate consideration to be received by Ligand in the transaction was fair, from a financial point of view, to Ligand.

The full text of UBS' opinion, the material aspects of which are summarized below, describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS. This opinion is attached as Annex B and is incorporated into this proxy statement by reference. **UBS' opinion is directed only to the fairness, from a financial point of view, of the aggregate consideration to be received by Ligand in the transaction and does not address any other aspect of the transaction. The opinion does not address the relative merits of the transaction as compared to other business strategies or transactions that might be available with respect to Ligand's rights in AVINZA® and assets to be sold in the asset sale, collectively referred to in this section as the AVINZA® assets, or Ligand's underlying business decision to effect the transaction. The opinion does not constitute a recommendation to any stockholder as to how such stockholder should vote or act with respect to the transaction. Holders of our common stock are encouraged to read this opinion carefully in its entirety.** The summary of UBS' opinion described below is qualified in its entirety by reference to the full text of its opinion.

In arriving at its opinion, UBS:

- reviewed publicly available business and financial information relating to the AVINZA® assets and King;

- reviewed internal financial information and other data relating to the AVINZA® assets that were provided to UBS by Ligand's management and not publicly available, including financial forecasts and estimates (including forecasts and estimates as to net sales anticipated by Ligand's management to be achieved by King) prepared by Ligand's management;

- conducted discussions with members of Ligand's senior management concerning the AVINZA® assets;

- reviewed publicly available financial and stock market data with respect to companies UBS believed to be generally relevant;

compared the financial terms of the transaction with the publicly available financial terms of other transactions which UBS believed to be generally relevant;

reviewed the purchase agreement and certain related documents; and

conducted other financial studies, analyses and investigations, and considered other information, as UBS deemed necessary or appropriate.

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In connection with its review, with Ligand's consent, UBS did not assume any responsibility for independent verification of any of the information provided to or reviewed by UBS for the purpose of its opinion and, with Ligand's consent, UBS relied on that information being complete and accurate in all material respects. In addition, with Ligand's consent, UBS did not make any independent evaluation or appraisal of any assets, including the AVINZA® assets, or liabilities, contingent or otherwise, of Ligand, and UBS was not furnished with any evaluation or appraisal. With respect to the financial forecasts and estimates (including forecasts and estimates as to net sales) prepared by Ligand's management, UBS assumed, at Ligand's direction, that they were reasonably prepared on a basis reflecting the best currently available estimates and judgments of Ligand's management as to the future performance of the AVINZA® assets and as to net sales. In addition, UBS assumed, with your approval, that the forecasts and estimates as to net sales anticipated by Ligand's management to be achieved by King will be achieved at the times and in the amounts projected. UBS also relied, at Ligand's direction, without independent verification or investigation, upon the assessments of Ligand's management as to the AVINZA® assets and the risks associated with the AVINZA® assets (including the potential impact of drug competition). UBS's opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information available to UBS as of, the date of its opinion.

At Ligand's direction, UBS contacted third parties to solicit indications of interest in a possible transaction with Ligand and held discussions with certain of these parties prior to the date of UBS's opinion. At Ligand's direction, UBS was not asked to, and it did not, offer any opinion as to the terms of the transaction agreement or any related documents, other than the aggregate consideration to be received by Ligand in the transaction to the extent expressly specified in the opinion, or the form of the transaction. In rendering its opinion, UBS assumed, with Ligand's consent, that Ligand, King and King R&D would comply with all material terms of the purchase agreement and related documents and that the transaction would be consummated in accordance with the terms of the purchase agreement and related documents without any adverse waiver or amendment of any material term or condition of the purchase agreement or related documents. UBS also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the transaction would be obtained without any material adverse effect on the AVINZA® assets, Ligand, King or the transaction. Except as described above, Ligand imposed no other instructions or limitations on UBS with respect to the investigations made or the procedures followed by UBS in rendering its opinion.

In connection with rendering its opinion to our board of directors, UBS performed a variety of financial and comparative analyses which are summarized below. The following summary is not a complete description of all analyses performed and factors considered by UBS in connection with its opinion. The preparation of a financial opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. With respect to the selected companies analysis and the selected transactions analysis summarized below, no company or transaction used as a comparison is identical or directly comparable to the AVINZA® assets or the transaction and, accordingly, such analyses may not necessarily utilize all companies or transactions that could be deemed comparable to the AVINZA® assets or the transaction. These analyses necessarily involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or acquisition values of the companies or businesses concerned.

UBS believes that its analyses and the summary below must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying UBS's analyses and opinion. None of the analyses performed by UBS was assigned greater significance or reliance by UBS than any other. UBS arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole. UBS did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion.

The estimates of the future performance of the AVINZA® assets and estimates of net sales provided by Ligand's management in or underlying UBS analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its analyses, UBS considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of Ligand. Estimates of the financial value of companies, businesses or product lines do not necessarily

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purport to be appraisals or reflect the prices at which such companies, businesses or product lines actually may be sold.

The aggregate consideration was determined through negotiation between Ligand and King and the decision to enter into the transaction was solely that of Ligand's board of directors. UBS' opinion and financial analyses were only one of many factors considered by Ligand's board in its evaluation of the transaction and should not be viewed as determinative of the views of Ligand's board of directors or management with respect to the transaction or the aggregate consideration.

The following is a brief summary of the material financial analyses performed by UBS and reviewed with Ligand's board of directors in connection with its opinion relating to the asset sale. **The financial analyses summarized below include information presented in tabular format. In order to fully understand UBS' financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of UBS' financial analyses.** For purposes of the analyses described below, the term "implied value of the aggregate consideration" refers to the implied value of the aggregate consideration to be received by Ligand in the transaction based on the initial consideration of \$312.75 million, consisting of \$265.0 million in cash and the assumption of Ligand's payment obligation of \$47.75 million to Organon Pharmaceuticals USA Inc. (or reimbursement to Ligand of such amount to the extent paid by Ligand prior to the closing of the asset sale) plus the estimated net present value of future royalty payments of approximately \$168 million payable to Ligand derived utilizing internal estimates of Ligand's management as to net sales of AVINZA® that will be achieved by King and a discount rate of 13.5%.

### *Selected Companies Analysis*

UBS compared selected standalone financial data for the AVINZA® assets with corresponding data for the following six publicly traded specialty pharmaceuticals companies. These companies, which are listed below, were selected primarily because they (i) have market capitalizations ranging from \$250 million to \$650 million, (ii) are focused on the development, sales and marketing of branded prescription products with niche indications, (iii) employ small sales forces that target physician specialists and (iv) have not experienced major setbacks with their lead products:

Axcan Pharma Inc.

Bradley Pharmaceuticals, Inc.

Connetics Corporation

Pharmion Corporation

Salix Pharmaceuticals, Ltd.

Sciele Pharma, Inc.

UBS reviewed, among other things, enterprise values of the selected companies, calculated as equity market value based on closing stock prices on September 1, 2006, plus book value of debt and minority interests, plus preferred stock, less cash, as a multiple of latest 12 months revenue and calendar years 2006 and 2007 estimated revenue. UBS then compared the latest 12 months revenue and calendar years 2006 and 2007 estimated revenue multiples derived from the selected companies with corresponding multiples implied for the AVINZA® assets based on the implied

value of the aggregate consideration. Financial data of the selected companies were based on publicly available research analysts' estimates, public filings and other publicly available information. Financial data relating to the AVINZA® assets were based on public filings and internal estimates of Ligand's management. This analysis indicated the following implied high, mean, median and low multiples for the selected companies, as

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compared to corresponding multiples implied for the AVINZA<sup>®</sup> assets based on the implied value of the aggregate consideration:

Enterprise Value as Multiple of:	Implied Multiples for Selected Companies				Implied Multiples for AVINZA <sup>®</sup> Assets Based on Implied Value of Aggregate Consideration
	High	Mean	Median	Low	
Revenue					
Latest 12 Months	3.1x	2.3x	2.2x	1.8x	3.7x
Calendar year 2006	2.8x	2.3x	2.2x	1.9x	3.3x
Calendar year 2007	2.3x	2.1x	2.0x	1.9x	3.2x

**Selected Transactions Analysis**

UBS reviewed transaction values in 10 selected transactions in the pharmaceuticals industry announced since August 2000 involving the sale of one or more products. These transactions, which are listed below, were selected primarily because they (i) had transaction values of less than \$650 million and (ii) involved specialty pharmaceutical products which had not experienced major setbacks and which were marketed through small sales forces focused on physician specialists:

Acquiror	Seller (Product)
Valeant Pharmaceuticals International	InterMune, Inc. (Infergen)
Pfizer Inc.	Sanofi-Synthelabo (Campto)
Connetics Corporation	Hoffmann-La Roche Inc. (Soriatane)
Galen Holdings PLC	Eli Lilly and Company (Sarafem)
Enzon, Inc.	Elan Corporation, plc (Abelcet)
Schering AG	Immunex Corporation (Leukine)
King	Johnson & Johnson (Ortho-Prefest)
King	Bristol-Myers Squibb Company (Corgard, Corzide, Delestrogen and Florinef)
Biovail Corporation	Aventis Pharmaceuticals Inc. (Cardizem)
Hoffman-La Roche Inc.	SmithKline Beecham plc (Kytril)

UBS reviewed transaction values in the selected transactions as a multiple of latest 12 months revenue. UBS then compared the latest 12 months revenue multiples derived from the selected transactions with the corresponding multiple implied for the AVINZA<sup>®</sup> assets based on the implied value of the aggregate consideration. Multiples for the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. Financial data relating to the AVINZA<sup>®</sup> assets were based on public filings. This analysis indicated the following implied high, mean, median and low multiples for the selected transactions, as compared to the corresponding multiple implied for the AVINZA<sup>®</sup> assets based on the implied value of the aggregate consideration:

<b>Transaction Value as Multiple of:</b>	<b>Implied Multiples for Selected Companies</b>				<b>Implied Multiple for AVINZA<sup>®</sup> Assets Based on Implied Value of Aggregate Consideration</b>
	<b>High</b>	<b>Mean</b>	<b>Median</b>	<b>Low</b>	
Latest 12 Months Revenue	4.3x	3.2x	3.4x	1.7x	3.7x

***Discounted Cash Flow Analysis***

UBS performed a discounted cash flow analysis to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that could be generated from the AVINZA<sup>®</sup> assets over the period beginning September 6, 2006 through fiscal year 2020 based on internal estimates of Ligand's management. The cash flows were then discounted to present value using discount rates ranging from 11.5% to 15.5% which discount rate range was derived taking into consideration the estimated weighted average cost of capital for the AVINZA<sup>®</sup> assets. This

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analysis indicated the following implied reference range for the AVINZA® assets, as compared to the implied value of the aggregate consideration:

<b>Implied Reference Range for AVINZA® Assets</b>	<b>Implied Value of Aggregate Consideration</b>
\$307.6 million - \$357.4 million	\$ 480.8 million

**Miscellaneous**

Under the terms of UBS' engagement, Ligand has agreed to pay UBS for its financial advisory services in connection with the transaction an aggregate fee of approximately \$4.5 million, a portion of which was payable in connection with UBS' opinion and approximately \$3.4 million of which is contingent upon completion of the transaction. In addition, Ligand has agreed to reimburse UBS for its reasonable expenses, including fees, disbursements and other charges of legal counsel, and to indemnify UBS and related parties against liabilities, including liabilities under federal securities laws, relating to, or arising out of, its engagement. UBS in the past has provided, and currently is providing, investment banking services to Ligand unrelated to the asset sale, including acting as financial advisor to Ligand in connection with Ligand's sale of its oncology product lines to Eisai Co., Ltd., for which UBS received an aggregate fee of approximately \$2.1 million. In the past, UBS has provided investment banking services to King unrelated to the asset sale, for which UBS received compensation. In the ordinary course of business, UBS, its successors and affiliates may hold or trade, for their own accounts and the accounts of their customers, securities of Ligand and King and, accordingly, may at any time hold a long or short position in such securities.

Ligand selected UBS as its financial advisor in connection with the transaction because UBS is an internationally recognized investment banking firm with substantial experience in similar transactions and is familiar with Ligand and its business. UBS is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities and private placements.

**Required Vote**

Approval of the asset sale requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting. Each holder of a share of our common stock is entitled to one vote per share. Failure to vote by proxy (by returning a properly executed proxy card or by following the instructions printed on the proxy card for telephone and Internet voting) or to vote in person will not count as votes cast or shares voting on the proposals. Abstentions, however, will count for the purpose of determining whether a quorum is present. Since the approval of the asset sale requires the approval of the holders of a majority of our shares outstanding, abstentions will have the same effect as votes against the proposal. Broker non-votes and the shares of common stock as to which a stockholder abstains are included for purposes of determining whether a quorum of shares of common stock is present at a meeting. A broker non-vote occurs when a nominee holding shares of common stock for the beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Since the approval of the asset sale requires the approval of the holders of a majority of our shares outstanding, broker non-votes will have the same effect as votes against such proposal.

**Proceeds from the Asset Sale**

Encompassed in the goals of our strategic review process, our board of directors sought to both maximize value for our stockholders as well as provide them with a vehicle to realize such value. As such and based upon preliminary discussions our board has had with management regarding the remaining liabilities and operational needs of the newly restructured company, our board is considering a distribution of a substantial portion of the net cash proceeds from the asset sale, which it does not believe will conflict with the goals of the newly restructured company. However, significant work regarding the structure and operational necessities of the newly restructured company (including whether we intend to acquire other new businesses) must still be performed, in addition to the analyses necessary to insure that any such distribution is made out of a surplus of net assets as required under Delaware law, before we will be in a position to determine the amount or timing of such special distribution, if any. Accordingly, since our board of directors has not conducted the analyses necessary to determine the amount and

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timing of any such distribution, we cannot guarantee that the Company will distribute any of the net cash proceeds from the asset sale to our stockholders in the event the asset sale is approved. Consequently, we would advise our stockholders that they should not vote in favor of the asset sale based upon the assumption that they will receive a distribution out of the net cash proceeds of the asset sale. We would expect that if and when any such distribution is made to our stockholders, such distribution would be made on a pro rata basis.

Other than the possible operational needs and remaining liabilities which are discussed below under the heading, Effects of the Asset Sale, we cannot accurately determine other liabilities and obligations that may remain for us if and when we close the asset sale. While our board of directors and management have had preliminary discussions regarding the operational needs and remaining liabilities of the newly restructured company, the discussions are still preliminary in nature and could change. We also do not have concrete or approximate figures for our possible operational needs over the next twelve months or remaining liabilities, as they depend on a number of currently unknown factors, such as the size and expense structure of the newly restructured company and its physical plant, and the time and resources that will be required to complete the restructuring.

### **Effects of the Asset Sale**

If the asset sale is approved and the purchase agreement is adopted by our stockholders and the other conditions to closing are satisfied, we expect to become a research and development focused company with no marketed products. Specifically, we will continue to operate our research and development operations, including the Thrombopoietin oral mimic (e.g. LGD4665) Glucocorticoid agonists (e.g. LGD5552) programs, and manage our existing collaborative research and development programs, pursuant to which we are entitled to receive milestone and royalty payments. Although we decided not to sell our research and development operations and existing collaborative research and development programs because the value contained in the bids received was too low, we may establish a royalty trust in the future should it prove more beneficial to our stockholders than managing and holding the collaborative research and development programs. We will also consider all available alternatives. Such alternatives may include, without limitation, the acquisition of a new business or alternatively, the sale of the company, the sale of additional assets, restructuring, the distribution of assets to our stockholders or the possible dissolution of us and liquidation of our assets, the discharge of any remaining liabilities, and the eventual distribution of the remaining assets to our stockholders in the event we are liquidated. In the event we were to pursue an acquisition, we would not expect to issue equity to fund such future endeavor. In such an event, we would expect that any such funding would be derived from proceeds of the royalty owed us under the asset purchase agreement, from our cash reserves or other forms of debt financing. Furthermore, although we are evaluating a distribution of a substantial portion of the net cash proceeds from the asset sale to our stockholders in the form of a special dividend, we have not determined the timing or amount of distribution, if any, to be made to our stockholders. The amount, if any, available to our stockholders will be determined by our board of directors, after weighing the Company's remaining liabilities and operational needs. We would expect that if and when any such distribution is made to our stockholders, such distribution would be made on a pro rata basis.

Most of our products in development will also require extensive additional development, including preclinical testing and human studies, as well as regulatory approvals, before we can market them. We cannot predict if or when any of the products we are developing or those being developed with our partners will be approved for marketing. 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.

The AVINZA® assets constituted approximately 67% of our revenues and 81% of our operating loss in the first two quarters of fiscal 2006. Following the asset sale, our immediate ability to produce revenues and income will therefore be substantially reduced. As such, the proceeds from the asset sale, along with other capital that we have access to, may not be adequate to bring our developing product lines to market, nor can we be certain that our future products,

even if brought to market, will be sufficiently profitable to justify the sale of AVINZA®.

In addition, under the asset purchase agreement, we have agreed to indemnify King for a period of 16 months after the closing for a number of specified matters including the breach of our representations, warranties and covenants contained in the asset purchase agreement, and in some cases for a period of 30 months following the closing of the asset sale. That indemnification obligation could cause us to be liable to King under certain circumstances, which would decrease the remaining cash available for eventual distribution to stockholders or for

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our use in connection with any future corporate purposes. Additionally, the asset purchase agreement requires that King assume specified liabilities related to the AVINZA<sup>®</sup> drug product. If King fails to perform and discharge the assumed liabilities specified in the asset purchase agreement, then we may be liable for the assumed liabilities which would also decrease the remaining cash available for eventual distribution to stockholders or for our use in connection with any future corporate purposes.

Finally, we will continue to have an obligation to comply with the applicable reporting requirements of the Securities Exchange Act of 1934, as amended, even though compliance with such reporting requirements is economically burdensome.

## **Purpose of the Asset Sale**

The purpose of the asset sale for Ligand is to enable it to immediately realize the value of its remaining business. In this respect, the board of directors believes that the asset sale is more favorable to Ligand's stockholders than any other alternative reasonably available because of the uncertain returns to such stockholders in light of Ligand's business, operations, financial condition, strategy and prospects, as well as the risks involved in achieving those prospects, and general industry, economic and market conditions, both on a historical and on a prospective basis.

In particular, the board of directors believes that we face several challenges in our efforts to increase stockholder value, including competition from companies with substantially greater scale. For these reasons, and the other reasons discussed under "The Asset Sale" "Reasons for the Asset Sale" beginning on page 22, the board of directors has determined that the asset purchase agreement, the asset sale and related transactions are advisable and are fair to and in the best interests of Ligand and its stockholders.

## **Other Agreements and Transactions Related to the Asset Sale**

### ***Contract Sales Force Agreement***

On September 6, 2006, we entered into a Contract Sales Force Agreement, referred to herein as the "contract sales agreement", with King, pursuant to which King agreed to conduct a detailing program to promote the sale of AVINZA<sup>®</sup> for an agreed upon fee, subject to the terms and conditions of the contract sales agreement. Pursuant to the contract sales agreement, King has agreed to perform certain minimum monthly product details, which commenced on October 1, 2006 and continue for a period of six months or until the closing of the asset sale or earlier termination is scheduled to the asset purchase agreement. We estimate that, assuming the closing of the asset sale were to occur at the end of February 2007, the amount due to King for the detailing program would be approximately \$7.0 million.

### ***Loan Arrangement***

In connection with the asset sale, King agreed to loan to us, at our option, up to \$37.75 million. On October 13, 2006 we entered into a loan agreement with King pursuant to which King loaned to us \$37.75 million at a 9.50% interest rate. Pursuant to the loan agreement King took a security interest in the AVINZA<sup>®</sup> assets as well as cash proceeds from the sale of our oncology products equal to the loan amount. On January 8, 2007, we paid to King the \$37.75 million loan principal and accrued interest then due as provided for in the loan agreement. Pursuant to a side letter agreement, dated as of December 29, 2006, if the closing of the asset sale occurs on or prior to February 28, 2007, King has agreed to refund all amounts in excess of the \$37.75 million loan principal to us as a credit at the closing of the asset sale.

### ***Redemption of 6% Notes***

As a condition to the consummation of the asset purchase agreement we were required, and on October 30, 2006 we mailed a notice of redemption to each of the holders of our 6% Convertible Subordinated Notes, due 2007, referred to herein as the 6% Notes, which set a redemption date of November 29, 2006. Pursuant to the terms of the 6% Notes, each noteholder had the option to either elect to convert the 6% Notes, on or before November 29, 2006, into shares of the Company's common stock at a conversion rate of 161.9905 shares per \$1,000 principal amount of

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the notes (approximately \$6.17 per share) or the redemption price equal to 101.2% of the principal amount. In connection with the redemption on or before November 29, 2006, the \$128.2 million of principal amount of 6% Notes outstanding converted into approximately 20.8 million shares of our common stock.

## **Other Agreements and Transactions Related to our Strategic Review Process**

### ***Sale of Oncology Product Line to Eisai Inc. and Eisai Co., Ltd.***

On September 7, 2006, we entered into an asset purchase agreement with Eisai Inc. and Eisai Co., Ltd., pursuant to which we agreed to sell to Eisai Inc. and Eisai Co., Ltd. all of our rights to our four marketed oncology products: ONTAK<sup>®</sup>, Targretin<sup>®</sup> capsules, Targretin<sup>®</sup> gel and Panretin<sup>®</sup> gel. In exchange for our interests in and to the oncology products, Eisai Inc. and Eisai Co., Ltd. agreed to pay us an aggregate up-front cash payment of \$205 million, \$20 million of which will be funded into an escrow account to support any indemnification claims made by Eisai following the Closing, and Eisai will assume certain liabilities. On October 25, 2006, we consummated the transactions described above.

### ***Sale and Leaseback Transaction***

On October 25, 2006, we entered into an asset purchase agreement with Slough Estates USA Inc., for the sale of our corporate headquarters building, the land it is on and two adjacent undeveloped parcels of land for an aggregate consideration of \$47.6 million. The transaction closed on November 9, 2006, upon which we received an up-front cash payment, net of fees, expenses and payment of existing indebtedness of approximately \$35 million. In connection with the Sale Leaseback, the Company paid off the existing mortgage on the building of approximately \$11.6 million on November 6, 2006. In addition, we agreed to lease back the building for a period of fifteen years, at a rate of approximately \$3 million per year, subject to a fixed annual percentage increase as stated in the asset purchase agreement. In addition, Ligand will have the right to extend the term of the lease for two five year periods under the same terms and conditions as the initial term.

## **Interests of Our Directors and Executive Officers in the Asset Sale**

After the closing of the asset sale, King and King R&D have agreed to indemnify and hold our executive officers and directors from any loss arising out of any breach of representations and warranties by King or King R&D, or a failure by King or King R&D to perform covenants applicable to them under the asset purchase agreement. All of our directors and executive officers own shares of our common stock and/or options to purchase shares of our common stock, and to that extent, their interests in the asset sale is the same as that of other holders of our common stock. See Security Ownership of Certain Beneficial Owners, Directors and Management beginning on page 104.

## **Dissenters Rights**

Holders of our common stock will not have appraisal or dissenters rights in connection with the asset sale. Neither the Delaware General Corporation Law nor our certificate of incorporation provides our stockholders with appraisal or dissenters rights in connection with the asset sale. Our shares of common stock will remain publicly traded on the Nasdaq Global Market following the consummation of the asset sale.

## **Accounting Treatment of the Asset Sale**

Under accounting principles generally accepted in the United States of America, upon stockholder approval of the asset purchase agreement, we expect to reflect the results of operations of the AVINZA<sup>®</sup> assets sold as discontinued operations, including the related gain on the sale, net of any applicable taxes commencing with the quarter during

which the asset sale is probable of occurring and is approved by the shareholders. For further information, see the unaudited pro forma condensed financial information included in this proxy statement.

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**Financing; Source and Amount of Funds**

The asset sale is not conditioned upon King obtaining financing. The total amount of funds necessary to pay the initial asset sale consideration will be approximately \$312.75 million. King expects to fund the transaction from its working capital.

**MATERIAL U.S. FEDERAL AND STATE INCOME TAX CONSEQUENCES**

The asset sale will not result in any U.S. federal income tax consequences to our stockholders. The transaction will be a taxable event to Ligand for U.S. federal income tax purposes, but Ligand expects, subject to the completion and outcome of certain tax analysis and studies currently in process, that a substantial portion or all of the taxable gain resulting from the asset sale will be offset by net operating losses. These analyses include studies to assess the potential impact of ownership changes on the Company's net operating losses under Internal Revenue Code Section 382 and to evaluate and support the availability of research and credit development credits. At a minimum, however, the asset sale is expected to result in some federal alternative minimum tax being imposed on Ligand in the year of the sale and may, depending upon several factors, result in the imposition of federal income taxes in subsequent years that may or may not be offset by available tax credits. In addition, assuming net operating losses are used to offset the gain recognized on Ligand's other asset dispositions, Ligand expects that all or substantially all of the taxable gain resulting from the asset sale will be subject to state income tax, which may be substantially reduced if Ligand is able to substantiate and claim certain tax credits. The asset sale also may result in Ligand being subject to state or local sales, use or other taxes in jurisdictions in which Ligand files tax returns or has assets.

**REGULATORY MATTERS**

The asset sale is subject to the HSR Act, which provides that certain acquisition transactions may not be consummated unless certain acquisition transactions may not be consummated unless certain information has been furnished to the Antitrust Division of the Department of Justice, which we refer to as the DOJ, and the Federal Trade Commission, which we refer to as the FTC, and certain waiting period requirements have been satisfied. Pursuant to the HSR Act, on September 13, 2006, each of Ligand and King filed a Notification and Report Form for Certain Mergers and Acquisitions in connection with the asset sale with the DOJ and FTC. On October 5, 2006, we were notified that we had been granted early termination of the waiting period under the HSR Act.

**ASSET PURCHASE AGREEMENT**

The following is a summary of the material terms of the asset purchase agreement. This summary does not purport to describe all the terms of the asset purchase agreement and is qualified by reference to the complete asset purchase agreement, which is attached as Annex A to this proxy statement. We urge you to read the asset purchase agreement carefully and in its entirety because it, and not this proxy statement, is the legal document that governs the asset sale.

The text of the asset purchase agreement has been included to provide you with information regarding its terms. The terms of the asset purchase agreement (such as the representations and warranties) are intended to govern the contractual rights and relationships, and allocate risks, between the parties in relation to the asset sale. The asset purchase agreement contains representations and warranties that Ligand, on the one hand, and King and King R&D on the other hand, made to each other as of specific dates. The representations and warranties were negotiated between the parties with the principal purpose of setting forth their respective rights with respect to their obligations to consummate the asset sale and may be subject to important limitations and qualifications as set forth therein, including a contractual standard of materiality different from that generally applicable under federal securities laws.

In addition, such representations and warranties are qualified by information in confidential disclosure schedules that Ligand and King have exchanged in connection with signing the asset purchase agreement. While Ligand does not believe that the disclosure schedules contain information that the securities laws require to be publicly disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached asset purchase agreement. Accordingly, you should

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not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified by the underlying disclosure schedules. These disclosure schedules contain information that has been included in our prior public disclosures, as well as potential additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the asset purchase agreement, which subsequent information may or may not be fully reflected in our public disclosures.

## **General**

Under the terms of the asset purchase agreement, King and King R&D have agreed to purchase all of our United States, and its territories and Canadian rights in and to AVINZA<sup>®</sup>, including, among other things, all AVINZA<sup>®</sup> inventory, equipment, records and related intellectual property.

Pursuant to the terms of the asset purchase agreement, King and King R&D will make a \$265 million cash payment to Ligand, \$15 million of which will be funded into an escrow account to support any indemnifications claims made by King, to acquire our rights in and to AVINZA<sup>®</sup>. In addition, King will assume a product-related liability totaling approximately \$48 million and future royalty payments owed to Organon Pharmaceuticals USA Inc. and all other existing product royalty obligations. In addition to existing royalty obligations assumed by King, King will pay Ligand a 15% royalty during the first 20 months after the closing of the asset sale. Subsequent royalty payments will be based upon calendar year net sales. If King's calendar year net sales are less than \$200 million, the royalty payment will be 5% of all of King's net sales for that year. If King's calendar year net sales are greater than \$200 million, then the royalty payment will be 10% of all of King's net sales less than \$250 million, plus 15% of all of King's net sales greater than \$250 million.

Additionally, the \$265 million cash payment from King and King R&D may be offset by an inventory value adjustment. On the closing date of the asset sale, we will provide King and King R&D with a report based on our inventory data, which will set forth (i) certain inventory calculations, (ii) whether we have met certain specified reduction of levels of inventory held by retailers and wholesalers, and (iii) our out-of-pocket costs paid with respect to certain of our contracts related to AVINZA<sup>®</sup>. If, as of the closing of the asset sale, we have not reduced the amount of inventory held by wholesalers to one month, the purchase price will be reduced by the value of such excess wholesaler inventory on a dollar-for-dollar basis, as determined in accordance with the asset purchase agreement. In addition, if, as of the closing of the asset sale, we have not reduced the amount of inventory held by retailers to one and a half months, we will be required to pay King an amount equal to the value of such excess retail inventory on a dollar-for-dollar basis up to \$10 million at which point we will be required to pay King \$.50 for each dollar of excess retail inventory, as determined in accordance with the asset purchase agreement. In the event we are required to pay King any amounts under the inventory adjustment King will have the right to a distribution of such amounts from a special inventory escrow, which will be funded at closing from the \$265 million cash proceeds. The amount of the special inventory escrow will be determined at the closing of the asset sale, and will be equal to the value of the excess retail inventory, if any, determined as of the closing date up to \$10 million.

## **Closing**

Closing of the asset sale under the asset purchase agreement will occur on a date following the satisfaction or waiver of all conditions to the obligations of the parties to consummate the transactions contemplated thereby, including the approval of the asset sale and adoption of the asset purchase agreement by the holders of a majority of our common stock outstanding on the record date.

## **Representations and Warranties**

The asset purchase agreement contains a number of customary representations and warranties applicable to Ligand, subject in some cases to customary qualifications, relating to, among other things, the following:

due organization, valid existence and good standing, and other corporate matters of Ligand;

authorization, execution, delivery and enforceability of the asset purchase agreement;

conflicts or violations under charter documents, contracts and instruments or law;

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title to, or interest in, encumbrances upon and the sufficiency of the properties and assets that are used to conduct our AVINZA® business;

intellectual property matters;

pending or threatened material litigation;

required consents and approvals;

taxes;

matters related to employee benefits applicable to us;

governmental registrations;

material compliance with all applicable laws;

regulatory matters;

government contracts

financial statements;

matters related to product recalls, product returns, product warranties and product liabilities;

brokerage or finders fees, and other fees with respect to the asset sale;

inventory and equipment;

contracts;

product liability

exporting and manufacturing;

customers, suppliers and third-party service providers; and

adverse event reports.

The asset purchase agreement also contains a number of customary representations and warranties applicable to King and King R&D, subject in some cases to customary qualifications, relating to, among other things, the following:

due organization, valid existence and good standing, and other corporate matters of King and King R&D;

authorization, execution, delivery and enforceability of the asset purchase agreement;

conflicts or violations under charter documents, contracts and instruments or law;

pending or threatened material litigation;

required consents and approvals;

financing; and

brokerage or finders' fees, and other fees with respect to the asset sale.

The representations and warranties of each of the parties to the asset purchase agreement will expire upon completion of the asset sale.

**Indemnification; Survival of Indemnification Obligations**

After closing of the asset sale, we have agreed to indemnify and hold King and its affiliates and their respective officers, directors, employees, stockholders, agents, and representatives harmless from any loss arising out of (i) any breach of representations and warranties by us, (ii) our activities before closing of the asset sale, (iii) a failure by us to perform covenants applicable to us under the asset purchase agreement, (iv) any liability not undertaken by King and King R&D pursuant to the asset purchase agreement, or (v) fees owed by us to any broker, financial advisor, or

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others retained by us in connection with the asset sale. In general, we may be required to indemnify King and King R&D for any indemnifiable losses incurred by them in connection with the asset sale for a period of 16 months following the closing date of the asset sale, except that King may bring a claim relating to a breach of representations and warranties relating to the authorization, execution and delivery of the asset purchase agreement, title to and sufficiency of assets, and employee benefits for a period of 30 months following the closing date of the asset sale. In general, we are not obligated to make King whole for any losses until King suffers losses in excess of \$1.5 million and then only to the extent such losses exceed \$1.5 million. In addition, our liability for any claim for indemnification brought by King or King R&D is limited to \$40 million. Pursuant to the asset purchase agreement, \$15 million of the cash payment to be made by King to us at the closing of the asset sale will be funded into an escrow account to support any indemnification claims made by King. If no claims are made by King as of the one year anniversary of the closing of the asset sale, the escrow amount will be released to Ligand.

After closing of the asset sale, King and King R&D have agreed to indemnify and hold us and our affiliates, and our respective officers, directors, employees, stockholders, agents, and representatives harmless from any loss arising out of (i) any breach of representations and warranties by King or King R&D, (ii) or a failure by King or King R&D to perform covenants applicable to them under the asset purchase agreement, (iii) any liability assumed by King and King R&D under the asset purchase agreement, or (iv) fees owed by King or King R&D to any broker, financial advisor, or others retained by them in connection with the asset sale.

## **Covenants and Agreements**

Under the asset purchase agreement, we have agreed to abide by certain customary covenants prior to the closing of the asset sale. Among others, these covenants include the following:

- permitting representatives of King to have reasonable access to all premises, personnel, personnel records, other records and contracts of Ligand with respect to AVINZA®;

- providing certain reports to King regarding inventory;

- operating the AVINZA® business in the ordinary course, preserving the AVINZA® business substantially intact, and preserving the goodwill of those third parties having business relationships with us;

- using our best efforts to reduce inventory to achieve specified levels in the wholesale and retail channels;

- paying all taxes and payables;

- making all filings required to consummate the asset sale;

- preparing and filing this proxy statement, soliciting proxies from our stockholders in favor of the approval of the asset sale and adoption of the asset purchase agreement, and holding the special meeting to which this proxy statement relates;

- mailing to each of the holders of our convertible notes a notice of redemption;

- using commercially reasonable efforts to facilitate an efficient transfer of AVINZA® to Buyer.

We have agreed to promptly notify King following any material developments or changes with respect to AVINZA® or upon becoming aware of any event arising after the date of the asset purchase agreement that would result in any material breach of our representations, warranties or covenants or that would have the effect of making any

representation or warranty untrue or incorrect in any material respect so as to cause the failure of any closing conditions. In addition, we have also agreed that until the consummation of the asset sale, subject to certain exceptions for actions taken in the ordinary course of business or actions contemplated by the asset purchase agreement, consistent with past practice, we will comply with specific restrictions relating to, among others:

taking any willful action likely to result in any material representation or warranty becoming untrue;

creating any encumbrance on our properties;

entering into any contracts relating primarily or exclusively to AVINZA®;

terminating any of the contracts to be assigned to King pursuant to the asset purchase agreement;

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transferring or granting any rights related to AVINZA<sup>®</sup>, including any intellectual property rights;

failing to renew specified contracts;

initiating any litigation or arbitration actions, or make any claims or demands for breach with respect to specified contracts;

entering into or modifying employment agreements with certain employees, or modifying the job descriptions of such employees; or

agreeing to take any of the actions specified in the previous bullet points.

**Regulatory Matters**

The asset purchase agreement provides that we and King will file as soon as practicable after the date of the asset purchase agreement any required filings and applications with governmental authorities in connection with the asset sale, including filings under the HSR Act.

**No Negotiation**

The asset purchase agreement provides that Ligand shall not, nor shall it cause any of its affiliates or representatives to, directly or indirectly, take any action to:

solicit, initiate or facilitate any acquisition proposal (as described below);

participate in any discussions or negotiations with, or furnish any non-public information to, any third party that has made an acquisition proposal