

LIGAND PHARMACEUTICALS INC
Form DEF 14A
April 27, 2012
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SCHEDULE 14A INFORMATION

(Rule 14a-101)

**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 under 240.14a-12

LIGAND PHARMACEUTICALS INCORPORATED

Name of Registrant as Specified In Its Charter

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April 27, 2012

Dear Stockholder:

You are cordially invited to attend the annual meeting of the stockholders of Ligand Pharmaceuticals Incorporated, to be held on Thursday, May 31, 2011 at 9:00 a.m. local time, at Ligand Pharmaceuticals Incorporated, located at 11085 North Torrey Pines Road, Suite 100, La Jolla, CA 92037.

Details of the business to be conducted at the annual meeting are given in the attached notice of annual meeting and proxy statement.

Your vote is important, so even if you plan to attend the meeting, I encourage you to sign, date and return the enclosed proxy promptly in the accompanying reply envelope or, if you prefer, you may vote by telephone or on the internet. This will ensure your vote is counted whether or not you are able to attend. If you decide to attend the annual meeting and wish to change your proxy vote, you may do so automatically by voting in person at the annual meeting.

We look forward to seeing you at the annual meeting.

/s/ JOHN L. HIGGINS
John L. Higgins

President and Chief Executive Officer

La Jolla, California

April 27, 2012

Your vote is important. Please vote your shares whether or not you plan to attend the meeting.

In order to assure your representation at the meeting, you are requested to complete, sign and date the enclosed proxy or vote by internet or telephone as described in the enclosed proxy materials as promptly as possible. If you are voting by mail, please return it in the enclosed envelope. You do not need to add postage if mailed in the United States.

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD THURSDAY, MAY 31, 2012

Dear Stockholder:

The annual meeting of stockholders of Ligand Pharmaceuticals Incorporated (the Company) will be held at Ligand Pharmaceuticals Incorporated, located at 11085 North Torrey Pines Road, Suite 100, La Jolla, CA 92037, on May 31, 2012 at 9:00 a.m. local time, for the following purposes:

1. To elect a board of directors for the forthcoming year. Our board of directors has nominated the following eight (8) persons, each to serve for a one year term to expire at the 2013 annual meeting of stockholders: Jason M. Aryeh, Todd C. Davis, John L. Higgins, David M. Knott, John W. Kozarich, John L. LaMattina, Sunil Patel and Stephen L. Sabba.
 2. To ratify the selection of Grant Thornton LLP as the Company's independent registered accounting firm for the fiscal year ending December 31, 2012.
 3. To approve the amendment and restatement of the Ligand Pharmaceuticals Incorporated 2002 Stock Incentive Plan.
 4. To consider and vote upon, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission.
 5. To transact such other business as may properly come before the meeting or any adjournment(s) thereof.
- Stockholders of record at the close of business on April 16, 2012 will be entitled to vote at the annual meeting. The stock transfer books of the Company will remain open between the record date and the date of the meeting. A list of stockholders entitled to vote at the annual meeting will be available for inspection at the offices of the Company and at the meeting. Whether or not you plan to attend the annual meeting in person, please sign, date and return the enclosed proxy in the envelope provided or, if you prefer, you may vote by telephone or on the internet. If you attend the annual meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the annual meeting will be counted. The prompt return of your proxy will assist us in preparing for the annual meeting.

By Order of the Board of Directors,

/s/ CHARLES S. BERKMAN
Charles S. Berkman

Vice President, General Counsel & Secretary

La Jolla, California

April 27, 2012

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LIGAND PHARMACEUTICALS INCORPORATED

11085 North Torrey Pines Road, Suite 100

La Jolla, CA 92037

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS

MAY 31, 2012

On behalf of the board of directors of Ligand Pharmaceuticals Incorporated (the Company), we are asking for your proxy, to be used at the annual meeting of stockholders to be held on May 31, 2012. The annual meeting will be held at 9:00 a.m. local time, at our corporate headquarters located at 11085 North Torrey Pines Road, Suite 100, La Jolla, CA 92037. Stockholders of record on April 16, 2012 are entitled to notice of and to vote at the annual meeting. If you need directions to the location of the annual meeting, please contact us at (858) 550-7500. This proxy statement and accompanying proxy materials will be first mailed to stockholders on or about May 2, 2012.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 31, 2012.

This proxy statement and the Company's annual report are available electronically at <http://bnymellon.mobular.net/bnymellon/lgnd>.

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

What is the purpose of the annual meeting?

At our annual meeting, stockholders will act on the items outlined in the notice of meeting that is attached to this proxy statement. These include the election of directors, the ratification of the selection of Grant Thornton LLP as the Company's independent registered public accounting firm, the approval of the amendment and restatement of the Ligand Pharmaceuticals Incorporated 2002 Stock Incentive Plan, and the approval, on an advisory basis, of the compensation of the named executive officers as disclosed in this proxy statement. In addition, following the formal part of the meeting, management will respond to questions from our stockholders. An annual report on Form 10-K for the year ended December 31, 2012 is enclosed with this proxy statement.

Who can vote at the meeting?

Only stockholders of record as of the close of business on the record date, April 16, 2012, are entitled to vote the shares of stock they held on that date. Stockholders may vote in person or by proxy (see "How do I vote?" below). Each holder of shares of common stock is entitled to one vote for each share of stock held on the proposals presented in this proxy statement. Our amended and restated bylaws provide that a majority of all of the shares of the stock entitled to vote, whether present in person or represented by proxy, will be a quorum for the transaction of business at the meeting. As of the record date, there were 19,716,145 shares of common stock outstanding (not including 1,118,222 shares held in treasury and not entitled to vote) and only shares of one class of common stock outstanding.

All votes will be counted by an inspector of elections appointed for the meeting. The inspector will count separately yes votes, no votes, abstentions and broker non-votes. Shares represented by proxies that reflect abstentions or broker non-votes (i.e., shares held by a broker or nominee which are represented at the annual meeting, but not empowered to vote on a particular proposal) will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum.

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How many votes do I have?

Each share of our common stock that you own as of April 16, 2012 entitles you to one vote.

How are votes counted?

Directors will be elected by a favorable vote of a plurality of the aggregate votes present, in person or by proxy, at the annual meeting. Accordingly, abstentions will not affect the outcome of the election of candidates for director. Absent instructions from the beneficial owner of such shares, a broker is not entitled to vote shares held for a beneficial owner on certain non-routine items, such as the election of directors, the approval of the amendment and restatement of the Ligand Pharmaceuticals Incorporated 2002 Stock Incentive Plan, and the approval, on an advisory basis, of the compensation of the named executive officers as disclosed in this proxy statement. Thus, if the beneficial owner does not give a broker specific instructions, the beneficially owned shares may not be voted on these proposals the election of directors and will not be counted in determining the number of shares necessary for approval, although they will count for purposes of determining whether a quorum exists. Stockholders are not permitted to cumulate their shares for the purpose of electing directors or otherwise.

The proposal to ratify the selection of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012 requires the affirmative vote of a majority of the aggregate votes present, in person or by proxy, and entitled to vote at the annual meeting. Abstentions will have the same effect as a vote against this proposal. However, ratification of the selection of Grant Thornton LLP is considered a routine matter on which a broker or other nominee is empowered to vote. Accordingly, no broker non-votes will result from this proposal.

Approval of the amendment and restatement of the Ligand Pharmaceuticals Incorporated 2002 Stock Incentive Plan and the non-binding advisory resolution on our executive compensation requires the affirmative vote of a majority of the aggregate votes present, in person or by proxy, and entitled to vote at the annual meeting. Abstentions will have the same effect as a vote against these proposals. Absent instructions from the beneficial owner of such shares, a broker is not entitled to vote shares held for a beneficial owner on the resolution to approve the amendment and restatement of the Ligand Pharmaceuticals Incorporated 2002 Stock Incentive Plan or the compensation of our named executive officers. As a result, broker non-votes will have no effect on the outcome of the vote on these proposals.

Voting results will be tabulated and certified by our mailing and tabulating agent, Computershare.

How do I vote by proxy?

Stockholders of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the annual meeting or vote by proxy using the enclosed proxy card. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure that your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy. To vote in person, come to the annual meeting and we will provide you with a ballot. To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you properly complete your proxy card and send it to us in time to vote, your proxy (one of the individuals named on your proxy card) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your shares will be, as permitted, voted as recommended by our board of directors. If any other matter is presented at the annual meeting, your proxy (one of the individuals named on your proxy card) will vote in accordance with his or her best judgment. As of the date of this proxy statement, we knew of no matters that needed to be acted on at the meeting, other than those discussed in this proxy statement.

Beneficial Owners: Shares Registered in the Name of a Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization

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rather than directly from us. Simply complete and mail the proxy card to ensure that your vote is counted. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

By Telephone or Internet

You may choose instead to vote by telephone or on the internet. To vote by telephone or internet, please follow the instructions on the proxy materials enclosed with this proxy statement.

May I revoke my proxy?

If you give us your proxy, you may revoke it at any time before it is exercised. You may revoke your proxy in any one of the three following ways:

you may send in another signed proxy with a later date;

you may notify our corporate secretary, Charles S. Berkman, in writing before the annual meeting that you have revoked your proxy;
or

you may notify our corporate secretary in writing before the annual meeting and vote in person at the meeting.

Who is paying the costs of soliciting these proxies?

We will pay all of the costs of soliciting these proxies. Our directors, officers and other employees may solicit proxies in person or by telephone, fax or email. We will pay our directors, officers and other employees no additional compensation for these services. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward these proxy materials to their principals and to obtain authority to execute proxies. We will then reimburse them for their expenses. Our costs for forwarding proxy materials will not be significant.

How do I obtain an Annual Report on Form 10-K?

If you would like a copy of our annual report on Form 10-K for the fiscal year ended December 31, 2011 that we filed with the Securities and Exchange Commission (SEC), we will send you one without charge. Please write to:

Ligand Pharmaceuticals Incorporated

11085 North Torrey Pines Road, Suite 100

La Jolla, California 92037

Attn: Corporate Secretary

All of our SEC filings are also available free of charge in the investor relations section of our website at www.ligand.com.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in our current report on Form 8-K to be filed with the SEC within four business days after the annual meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

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The persons named below have been nominated by our board of directors to serve as directors of the Company until the next annual meeting of stockholders and until their successors have been elected and qualified. Each person nominated for election has agreed to serve if elected. The proxies received by the proxyholders will be voted for the nominees named below. The eight candidates receiving the highest number of affirmative votes of the shares entitled to vote at the annual meeting will be elected directors of the Company. As of the date of this proxy statement, our board of directors is not aware of any nominee who is unable to or will decline to serve as a director. If, however, any of those named are unable to serve at the time of the annual meeting, the proxyholders may exercise discretionary authority to vote for substitutes.

Nominees

Name	Offices Held	Year First Elected Director	Age*
John W. Kozarich(N)	Chairman of the Board	2003	62
John L. Higgins	President, Chief Executive Officer and Director	2007	42
Jason M. Aryeh(C)(N)	Director	2006	43
Todd C. Davis(C)	Director	2007	51
David M. Knott(A)(C)	Director	2007	67
John L. LaMattina(C)	Director	2011	62
Sunil Patel(A)	Director	2010	40
Stephen L. Sabba(A)(N)	Director	2008	52

* As of April 16, 2012

(A) Member of the audit committee

(C) Member of the compensation committee

(N) Member of the nominating and corporate governance committee

Business Experience of Director-Nominees

Jason M. Aryeh has served as a member of our board of directors since September 2006. He is the founder and managing general partner of JALAA Equities, LP, a private hedge fund focused on the biotechnology and specialty pharmaceutical sector, and has served in such capacity since 1997. Mr. Aryeh also serves on the board of directors of Nabi Biopharmaceuticals, a public biotechnology company, CorMatrix Cardiovascular, a medical device company, Myrexix, Inc., a public biotechnology company, and the Cystic Fibrosis Foundation's Therapeutics Board (CFFT). Mr. Aryeh earned an A.B. in economics, with honors, from Colgate University, and is a member of the Omnicron Delta Epsilon Honor Society in economics. In selecting Mr. Aryeh to serve as a director, the board considered, among other things, his valuable capital markets experience, including his prior service as managing general partner of a hedge fund focused on the biotechnology and specialty pharmaceutical sector. Ligand also benefits from Mr. Aryeh's current involvement in the biotechnology industry through his position as a director of Nabi Biopharmaceuticals and Myrexix, Inc.

Todd C. Davis has served as a member of our board of directors since March 2007. Since December 2006, Mr. Davis has served as a managing director of Cowen Healthcare Royalty Management, LLC, the investment advisor to Cowen Healthcare Royalty Partners, L.P. Previously, from November 2004 to October 2006, Mr. Davis served as a partner at Paul Capital Partners, an investment firm. From 2001 to 2004, Mr. Davis served as a partner at Apax Partners. Mr. Davis has historically been employed in the health care industry in positions at

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Abbott Laboratories and Elan. Mr. Davis has historically served on the boards of several public and private companies, including Artes Medical, Inc., and currently serves on the board of Suneva Medical, Inc. Mr. Davis earned a B.S. from the U.S. Naval Academy and an M.B.A. from Harvard Business School. In selecting Mr. Davis to serve as a director, the board considered, among other things, his valuable prior experience as a director of several public and private companies. Ligand also benefits from Mr. Davis' financial and accounting expertise and leadership experience within the biotechnology industry.

John L. Higgins joined the Company in January 2007 as President and Chief Executive Officer and he was also appointed to the Board in March 2007. Prior to joining the Company, Mr. Higgins served as Chief Financial Officer at Connetics Corporation, a specialty pharmaceutical company, since 1997, and also served as Executive Vice President, Finance and Administration and Corporate Development at Connetics since January 2002 until its acquisition by Stiefel Laboratories, Inc. in December 2006. Before joining Connetics, he was a member of the executive management team at BioCryst Pharmaceuticals, Inc., a biopharmaceutical company. Currently, he is a Director of BioCryst and serves as Chairperson of its audit committee. Before joining BioCryst in 1994, Mr. Higgins was a member of the healthcare banking team of Dillon, Read & Co. Inc., an investment banking firm. Mr. Higgins serves as Chairman of CoMentis, Inc., a biopharmaceutical company, and serves on the board, audit and compensation committees of Techne Corporation, a company with a market capitalization of over \$2 billion. Mr. Higgins has served as a director of numerous public and private companies. He graduated Magna Cum Laude with an A.B. from Colgate University. In selecting Mr. Higgins to serve as a director, the board considered, among other things, his valuable experience operating and managing public biotechnology companies, including his service on the boards of other biopharmaceutical companies and his financial transaction experience as an investment banker. Ligand also benefits from Mr. Higgins' financial experience in leadership roles at companies within the biopharmaceutical industry.

David M. Knott has served as a member of our board of directors since March 2007. Since 1987, Mr. Knott has served as chief investment manager of Knott Partners Management and Dorset Management, two related hedge fund entities. From 1983 to 1987, he served as general partner and analyst at Mandrakos Associates. Prior to that, Mr. Knott was a broker at Donaldson Lufkin & Jenrette (DLJ). Mr. Knott currently serves on the board of directors of Paramount Resources. He received a B.A. in political science from the University of Pennsylvania and an M.B.A. in finance from the Wharton School of the University of Pennsylvania. In selecting Mr. Knott to serve as a director, the board considered, among other things, his valuable experience as a director of Paramount Resources and several private organizations which provides the board with a broad leadership perspective. Ligand also benefits from Mr. Knott's financial and accounting expertise and his perspective as a significant stockholder.

John W. Kozarich, Ph.D. has served as a member of our board of directors since March 2003. Dr. Kozarich is chairman and president and a director of ActivX Biosciences, Inc., which he joined in January 2001. ActivX is a wholly-owned subsidiary of KYORIN Pharmaceutical Co., Ltd., Tokyo, Japan, an international pharmaceutical company. From 1992 to 2001, Dr. Kozarich was vice president at Merck Research Laboratories, where he was responsible for a number of research programs. Dr. Kozarich is also a biotechnology professor at the Scripps Research Institute, and previously held faculty positions at the University of Maryland and Yale University School of Medicine. Dr. Kozarich earned his B.S. in chemistry from Boston College (summa cum laude; FBK), his Ph.D. in biological chemistry from the Massachusetts Institute of Technology, and was an NIH postdoctoral fellow at Harvard University. In selecting Dr. Kozarich to serve as a director, the board considered, among other things, his valuable pharmaceutical and international experience, including his service at Merck Research Laboratories, which is part of one of the world's largest pharmaceutical companies, and his service with ActivX Biosciences, Inc. Ligand also benefits from Dr. Kozarich's financial and accounting experience in the pharmaceutical and biotechnology industries.

John L. LaMattina, Ph.D. has served as a member of our board of directors since February 2011. He spent 30 years at Pfizer Inc. retiring as president of Pfizer Global R&D at the end of 2007. During his career, he held various positions of responsibility, including Vice President of U.S. Discovery Operations in 1993, Senior Vice

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President of Worldwide Discovery Operations in 1998 and Senior Vice President of Worldwide Development in 1999. Dr. LaMattina graduated with cum laude honors from Boston College with a B.S. in Chemistry. He received a Ph.D. from the University of New Hampshire in Organic Chemistry and subsequently was at Princeton University in the National Institutes of Health Postdoctoral Fellowship program. Dr. LaMattina is currently a senior partner at PureTech, a venture capital firm focusing on biotech investments, and serves on several boards, including the Board of Human Genome Science, Inc., the Board of Trustees of Boston College and the Scientific Advisory Board for Trevena Pharmaceuticals.

Sunil Patel has served as a member of our board of directors since October 2010. Mr. Patel has more than 17 years of senior management and R&D experience in the biotechnology industry and is currently Senior Vice President of Corporate Development for OncoMed Pharmaceuticals, a development-stage company focused on therapeutics targeting cancer stem cells. Mr. Patel has held senior management positions in corporate development, marketing, and strategy with BiPar Sciences, Allos Therapeutics, Connetics, Abgenix and Gilead Sciences. Mr. Patel also worked at McKinsey & Company serving biotech and pharmaceutical clients and has held scientific research positions at ZymoGenetics and ProCytel. Mr. Patel received his undergraduate degree in Chemistry at the University of California, Berkeley, and master's degree in Molecular Bioengineering/Biotechnology at the University of Washington. In selecting Mr. Patel to serve as a director, the board considered, among other things, his valuable pharmaceutical and corporate development experience, including his service at OncoMed Pharmaceuticals. Ligand also benefits from Mr. Patel's experience in serving as a senior member of management at both public and private biotechnology companies.

Stephen L. Sabba, M.D. has served as a member of our board of directors since August 2008. Dr. Sabba has been a leading Research Analyst and Bio Fund Manager for Knott Partners Management, an investment fund company, since November 2006. Previously he was a Partner and Director of Research with Kilkenny Capital Management, a Chicago-based hedge fund. Prior to that, Dr. Sabba was Director of Research at Sturza's Medical Research, and previously was a gastroenterologist and internist in private practice at Phelps Memorial Hospital in North Tarrytown, New York. He received his medical degree from the New York University School of Medicine, and completed a residency in internal medicine and a fellowship in gastroenterology at the Veterans Administration Medical Center in New York City. He earned a Bachelor of Science degree with honors from Cornell University. In selecting Dr. Sabba to serve as a director, the board considered, among other things, his capital markets and accounting expertise gained from his prior experience working in the hedge fund and investment fund industries. Ligand also benefits from his background as a medical doctor and from his understanding of medicine.

Director Independence

Our board of directors has determined that, with the exception of Mr. Higgins, each of the directors is an independent director under the NASDAQ Global Market listing standards. The independent directors have two or more regularly scheduled executive sessions per year at which only the independent directors are present.

Board Meetings and Committees

Our board of directors held 2 in-person meetings and 6 telephonic meetings, and acted by unanimous written consent 2 times during the fiscal year ended December 31, 2011. During such year, each incumbent director attended at least 90% of the aggregate number of meetings of our board of directors which were held during the periods in which he served. The Company does not have a policy regarding attendance of the directors at the annual meeting. At our 2011 annual meeting of stockholders, one of our then-current directors, John Higgins, was in attendance.

Our board of directors has an audit committee, a nominating and corporate governance committee and a compensation committee. Each committee is described below. Each of these committees has a written charter approved by our board of directors. A copy of each charter can be found under the Investor Relations Corporate Governance Corporate Charters section of our website at www.ligand.com. Our board of directors

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has determined that each member of these committees meets the applicable rules and regulations regarding independence and that each member is free of any relationship that would interfere with his or her individual exercise of independent judgment with regard to the Company.

The audit committee was established in March 1992 and is primarily responsible for overseeing the Company's accounting and financial reporting processes, auditing of financial statements, systems of internal control, and financial compliance programs. The audit committee currently consists of Messrs. Knott and Patel and Sabba (chair), each of whom is independent as defined under Rule 4350 of the NASDAQ Global Market listing standards. Mr. Davis was a member of the Audit Committee until November 16, 2010, at which time he was replaced by Mr. Patel. Dr. Kozarich was a member of the Audit Committee until April 6, 2011, at which time he was replaced by Dr. Sabba. The audit committee held 1 in-person meeting, held 5 telephonic meetings and acted by unanimous written consent 1 time during 2011. After reviewing the qualifications of all current committee members and any relationship they may have that might affect their independence from the Company, our board of directors has determined that (i) all current committee members are independent as defined under Section 10A of the Securities Exchange Act of 1934, as amended, (ii) all current committee members are independent as defined under the NASDAQ Global Market listing standards, (iii) all current committee members have the ability to read and understand financial statements and (iv) Mr. Knott qualifies as an audit committee financial expert. The latter determination is based on a qualitative assessment of his level of knowledge and experience based on a number of factors, including his formal education and experience.

The nominating committee was established in December 2001 and is responsible for identifying and recommending candidates for director of the Company. The nominating committee was reconstituted as the nominating and corporate governance committee in March 2007 and consists of Mr. Aryeh (chair) and Drs. Kozarich and Sabba. Each member of the nominating and corporate governance committee is an independent director under Rule 4200(a)(15) of the NASDAQ Global Market listing standards. The nominating and corporate governance committee held 2 in-person meetings and held 2 telephonic meetings during 2011.

The nominating and corporate governance committee considers nominees recommended by stockholders, if submitted in writing to the Secretary at the Company's principal executive offices and accompanied by the author's full name, current address and telephone number. The nominating and corporate governance committee has set no specific minimum qualifications for candidates it recommends, but considers each individual's qualifications, such as high personal integrity and ethics, relevant expertise and professional experience, as a whole. The nominating and corporate governance committee and the board as a whole consider it beneficial to the Company to have directors with a diversity of backgrounds and skills. The nominating and corporate governance committee and the board as a whole have no formal policy with regard to the consideration of diversity in identifying director nominees. The nominating and corporate governance committee considers candidates throughout the year and makes recommendations as vacancies occur or the size of our board of directors expands. Candidates are identified from a variety of sources including recommendations by stockholders, current directors, management, and other parties. The nominating and corporate governance committee considers all such candidates in the same manner, regardless of source. Under its charter, the nominating and corporate governance committee may retain a search firm to identify and recommend candidates but has not done so to date.

The compensation committee was established in March 1992 and reviews and approves the Company's compensation policies, sets executive officers' compensation and administers the Company's stock option and stock purchase plans. The compensation committee consists of Messrs. Aryeh, Davis (chair), and Knott and Dr. LaMattina. Each member is an independent director under Rule 4200(a)(15) of the NASDAQ Global Market listing standards. The compensation committee held 2 in-person meetings, held 4 telephonic meetings and acted by unanimous written consent one time during 2011.

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Board Leadership Structure

Our board of directors has nominated eight persons to serve as directors of the Company until the next annual meeting of stockholders, seven of whom are independent. We separate the roles of chief executive officer and chairman of our board of directors in recognition of the differences between the two roles. The chief executive officer is responsible for setting the strategic direction for the Company and the day-to-day leadership and performance of the Company, while the chairman of our board of directors provides guidance to the chief executive officer and presides over meetings of the full board of directors. We believe that this separation of responsibilities provides a balanced approach to managing the board of directors and overseeing the Company.

Board's Role in Risk Oversight

Our board of directors is actively involved in oversight of risks that could affect the Company. The board's role in our risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including risks associated with our operational, financial, legal and regulatory functions. The full board (or the appropriate board committee in the case of risks that are under the purview of a particular committee) receives these reports from the appropriate risk owner within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. When a board committee engages in a discussion related to areas of material risk to the Company, the chairman of the relevant committee reports on the discussion to the full board during the committee reports portion of the next board meeting. This enables the board and its committees to coordinate the risk oversight role.

Communicating with the Board of Directors

Stockholders may communicate with our board of directors or individual directors by mail, in care of the Secretary, at the Company's principal executive offices. Letters are distributed to the board of directors, or to any individual director or directors as appropriate, depending on the content of the letter. However, items that are unrelated to the duties and responsibilities of the board of directors will be excluded. In addition, material that is illegal, inappropriate or similarly unsuitable will be excluded. Any letter that is filtered out under these standards, however, will be made available to any director upon request.

Recommendation of the Board of Directors

The board of directors unanimously recommends a vote **FOR** the nominees listed above.

Table of Contents**PROPOSAL NO. 2****RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

You are being asked to ratify the selection of Grant Thornton LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012. Neither the firm nor any of its members has any relationship with the Company or any of its affiliates, except in the firm's capacity as the Company's independent registered public accounting firm.

Stockholder ratification of the selection of Grant Thornton LLP as the Company's independent registered public accounting firm is not required by Delaware law, the Company's certificate of incorporation, the Company's amended and restated bylaws, or otherwise. However, the audit committee is submitting the selection of Grant Thornton LLP to the stockholders for ratification as a matter of good corporate practice. In the event the stockholders fail to ratify the selection, the board of directors will reconsider its selection. Even if the selection is ratified, the board of directors or its audit committee, in its discretion, may direct the appointment of a different independent auditing firm at any time during the year if such a change would be in the Company's and its stockholders' best interests.

Representatives of Grant Thornton LLP are expected to be present at the annual meeting, and will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions. The affirmative vote of the holders of a majority of the shares represented and voting at the annual meeting will be required to ratify the selection of Grant Thornton LLP.

Independent Auditor's Fees

The following is a summary of the fees incurred by the Company from Grant Thornton LLP, the Company's independent registered public accounting firm for the fiscal years ended December 31, 2011 and 2010:

Fee Category	Fiscal Year 2011 Fees	Fiscal Year 2010 Fees
Audit Fees(1)	\$ 310,000	\$ 325,000
Audit-Related Fees(2)	19,200	5,500
Tax Fees(3)	135,600	149,400
All Other Fees(4)	37,670	
Total Fees	\$ 502,470	\$ 479,900

- (1) Audit fees consist of fees for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory and regulatory filings or engagements. In 2011 and 2010, audit fees included fees for professional services rendered for the audits of (i) management's assessment of the effectiveness of internal control over financial reporting and (ii) the effectiveness of internal control over financial reporting.
- (2) Audit-Related fees consist of fees billed for professional services that are reasonably related to the performance of the audit or review of our consolidated financial statements but are not reported under Audit Fees. Such fees include, among other things, employee benefit plan audits and certain consultations concerning financial accounting and reporting standards.
- (3) Tax fees consist of fees for professional services rendered for assistance with federal, state and international tax compliance.
- (4) All other fees consist of fees for professional services related to acquisitions and the Form S-3 filing.

In considering the nature of the services provided by Grant Thornton LLP during the 2011 fiscal year, the audit committee determined that such services are compatible with the provision of independent audit services.

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The audit committee discussed these services with Grant Thornton LLP and the Company's management to determine that they are permitted under the rules and regulation concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

The services performed by Grant Thornton LLP in 2011 and 2010 were pre-approved in accordance with the requirements of the audit committee charter adopted on November 13, 2006.

Except as stated above, there were no other fees charged by Grant Thornton for 2011 and 2010. The audit committee considers the provision of these services to be compatible with maintaining the independence of Grant Thornton LLP. None of the fees paid to Grant Thornton LLP under the categories Audit-Related Fees and Tax Fees described above were approved by the audit committee after services were rendered pursuant to the *de minimis* exception established by the SEC.

Audit Committee Policy Regarding Pre-Approval of Audit and Permissible Non-Audit Services of Our Independent Registered Public Accounting Firm

Our audit committee has established a policy that all audit and permissible non-audit services provided by our independent registered public accounting firm will be pre-approved by the audit committee. These services may include audit services, audit-related services, tax services and other services. The audit committee considers whether the provision of each non-audit service is compatible with maintaining the independence of our auditors. Pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. Our independent registered public accounting firm and management are required to periodically report to the audit committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date.

Recommendation of the Board of Directors

Our board of directors unanimously recommends that the stockholders vote **FOR** the ratification of the selection of Grant Thornton LLP to serve as the Company's independent registered public accounting firm for the year ending December 31, 2012.

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PROPOSAL NO. 3

APPROVAL OF AMENDED AND RESTATED LIGAND PHARMACEUTICALS INCORPORATED 2002 STOCK INCENTIVE PLAN

We are asking our stockholders to approve the amendment and restatement of the Ligand Pharmaceuticals Incorporated 2002 Stock Incentive Plan, or the 2002 Plan. The amended and restated 2002 Plan is referred to herein as the Restated Equity Plan. The Restated Equity Plan was adopted by our board in April 2012, subject to stockholder approval. The Restated Equity Plan will become effective if it is approved by the stockholders at the annual meeting.

Stockholder approval of the Restated Equity Plan is necessary in order for us to (1) meet the stockholder approval requirements of the NASDAQ Global Market, (2) take tax deductions for certain compensation resulting from awards granted thereunder qualifying as performance-based compensation under Section 162(m) of the Internal Revenue Code, as amended, or the Code, and (3) grant incentive stock options, or ISOs, thereunder.

The proposed amendments to the 2002 Plan would:

Increase the Share Reserve. We are asking our stockholders to approve an increase of 1,800,000 in the number of shares available for issuance under the Restated Equity Plan. Accordingly, the Restated Equity Plan authorizes the issuance of an aggregate of 4,579,254 shares of common stock. As of April 20, 2012, awards covering a total of 1,778,558 shares were subject to outstanding awards under the 2002 Plan and 149,214 shares remained available for future grants under the 2002 Plan.

Under the terms of the Restated Equity Plan, the shares available for issuance may be used for all types of awards under a fungible pool formula. Pursuant to this fungible pool formula, the authorized share limit will be reduced by one share of common stock for every one share subject to an option or stock appreciation right, or SAR, outstanding under the Restated Equity Plan and 1.5 shares of common stock for every one share subject to a full-value award under the Restated Equity Plan. For purposes of the Restated Equity Plan, a full-value award is an award pursuant to which shares of our common stock are issuable that is granted with a per-share exercise or purchase price less than 100% of the fair market value of a share of our common stock on the date of grant.

The proposed increase in shares available for issuance under the Restated Equity Plan (over the existing share reserve under the 2002 Plan) has been reviewed and approved by our board. In the process, the board determined that the existing number of shares available for issuance under the 2002 Plan was insufficient to meet our ongoing needs to provide long-term incentive grants on an ongoing and regular basis to motivate, reward, and retain key employees who create stockholder value. The increase in shares has been necessitated by the hiring of new employees, our recent acquisition of CyDex Pharmaceuticals, Inc., and by granting additional stock awards to current employees as long-term incentives. The increase will enable us to continue our policy of equity ownership by employees and directors as an incentive to contribute to our continued success.

Extend the Term. The Restated Equity Plan will have a term of ten years from the date it was adopted by the board of directors. We are also seeking stockholder approval of the material terms of performance goals under the Restated Equity Plan. Stockholder approval of such terms would preserve our ability to deduct compensation associated with future performance-based awards made under the Restated Equity Plan to certain executives. Section 162(m) of the Code limits the deductions a publicly-held company can claim for compensation in excess of \$1 million paid in a given year to its chief executive officer and its three other most highly-compensated executive officers (other than its chief financial officer) (these officers are generally referred to as the covered employees). Performance-based compensation that meets certain requirements is not counted against the \$1 million deductibility cap. Stock options and SARs qualify as performance-based compensation. Other awards

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that we may grant under the Restated Equity Plan may qualify as performance-based compensation if the payment, retention or vesting of the award is subject to the achievement during a performance period of performance goals selected by the compensation committee. The compensation committee retains the discretion to set the level of performance for a given performance measure under a performance-based award. For such awards to qualify as performance-based compensation, the stockholders must approve the material terms of the performance goals at least every five years. For a discussion of the performance criteria for which approval is being sought, please see the discussion under Performance-Based Awards below.

The Restated Equity Plan is not being materially amended in any respect other than to reflect the changes described above. If this proposal is not approved, the Restated Equity Plan will not become effective, but the existing 2002 Plan will remain in effect.

Highlights of the Restated Equity Plan

The Restated Equity Plan authorizes the issuance of equity-based compensation in the form of stock options, SARs, restricted shares, restricted share units, dividend equivalents, stock payments and performance-based awards structured by the compensation committee within parameters set forth in the Restated Equity Plan, for the purpose of providing our directors, officers, employees and consultants equity compensation, incentives and rewards for superior performance. Some of the key features of the Restated Equity Plan that reflect our commitment to effective management of incentive compensation are as follows:

Broad-based eligibility for equity awards. We grant equity awards to all of our full-time employees. By doing so, we link employee interests with stockholder interests throughout the organization and motivate our employees to act as owners of the business.

Stockholder approval is required for additional shares. The Restated Equity Plan does not contain an annual evergreen provision. The Restated Equity Plan authorizes a fixed number of shares, so that stockholder approval is required to increase the maximum number of securities which may be issued under the Restated Equity Plan.

No Re-pricing or Replacement of Options or Stock Appreciation Rights. The Restated Equity Plan prohibits, without stockholder approval: (1) the amendment of awards to reduce the exercise price, and (2) the replacement of an option or stock appreciation right with cash, any other award or an option or stock appreciation right with an exercise price that is less than the exercise price per share of the original option or stock appreciation right.

No In-the-Money Option or Stock Appreciation Right Grants. The Restated Equity Plan prohibits the grant of options or SARs with an exercise or base price less than the fair market value of our common stock, generally the closing price of our common stock, on the date of grant.

Section 162(m) Qualification. The Restated Equity Plan is designed to allow awards made under the Restated Equity Plan to qualify as performance-based compensation under Section 162(m) of the Code.

Independent Administration. The compensation committee of the board, which consists of only independent directors, will administer the Restated Equity Plan if it is approved by stockholders.

Summary of the Restated Equity Plan

The following is a summary of the principal features of the Restated Equity Plan, assuming approval of this proposal. The summary, however, is not a complete description of all the provisions of the Restated Equity Plan. The proposed Restated Equity Plan is attached to this proxy statement as Appendix A.

Plan Structure

The Restated Equity Plan contains three separate equity programs:

the Discretionary Option Grant Program,

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the Stock Issuance Program, and

the Other Stock Awards Program.

The principal features of these programs are described below.

Administration

The Restated Equity Plan will be administered by the compensation committee of the board. This committee has complete discretion, subject to the provisions of the Restated Equity Plan, to authorize awards under the Restated Equity Plan to all eligible persons other than non-employee members of our board. However, the board may also appoint a secondary committee of one or more members of our board of directors to have separate but concurrent authority to make awards under those programs to all eligible individuals other than our executive officers and non-employee members of our board of directors. The full board will administer the Restated Equity Plan with respect to awards to the non-employee members of our board of directors. The term Plan Administrator, as used in this proxy statement, will mean the board, the compensation committee or any secondary committee, to the extent each such entity is acting within the scope of its duties under the Restated Equity Plan.

Eligibility

Officers and employees of Ligand and its subsidiaries, whether now existing or subsequently established, non-employee members of our board of directors and consultants and independent contractors of Ligand and its parent and subsidiaries are eligible to participate in the Restated Equity Plan.

As of April 20, 2012, approximately 21 employees and directors, including 6 executive officers, and 7 non-employee members of our board of directors were eligible to receive awards under the 2002 Plan.

Shares Available

We are asking our stockholders to approve an increase of 1,800,000 in the number of shares available for issuance under the Restated Equity Plan. The Restated Equity Plan will authorize the issuance of an aggregate of 4,579,254 shares of common stock, reduced by (1) one share for each share subject to a stock option or SAR and (2) 1.5 shares for each share subject to a full-value award. As of April 20, 2012, 149,214 shares of common stock remained available for future issuance under the 2002 Plan and 1,778,558 shares were subject to outstanding awards under the 2002 Plan.

If (1) any award is forfeited or expires or such award is settled for cash, (2) any shares subject to a full-value award are forfeited by the holder or repurchased by us at a price not greater than the price paid by the holder of such shares, or (3) any shares are tendered or withheld to satisfy any tax withholding obligation with respect to a full-value award, then the shares subject to such award may, to the extent of such forfeiture, expiration, cash settlement or repurchase, be used again for new grants under the 2012 Plan. Any shares that again become available for grant will be added back as (1) one share if such shares were subject to an option or SAR, and (2) as 1.5 shares if such shares were subject to full-value awards. The payment of dividend equivalents in cash in conjunction with any outstanding awards will not be counted against the shares available for issuance under the Restated Equity Plan.

Notwithstanding the foregoing, the following shares will not be added to the shares authorized for grant under the Restated Equity Plan: (1) any shares tendered or withheld to satisfy the exercise price of an option or any tax withholding obligation with respect to an option or SAR, (2) any shares subject to a SAR that are not issued in connection with the stock settlement of the SAR on its exercise, and (3) any shares purchased on the open market with the cash proceeds from the exercise of options.

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Adjustments

Should any change be made to the common stock issuable under the Restated Equity Plan by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding common stock as a class without our receipt of consideration, or as a result of a change in ownership or control of Ligand, then appropriate adjustments will be made to:

the maximum number and/or class of securities issuable under the Restated Equity Plan;

the number and/or class of securities for which any one person may be granted awards per calendar year under the Restated Equity Plan;

the number and/or class of securities and price per share in effect under each outstanding option; and

the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Restated Equity Plan.

In addition, equitable adjustments will be made to outstanding awards in the event a large non-recurring cash dividend is paid to our stockholders, which affects the common stock or share price of the common stock underlying the awards subject to the Restated Equity Plan. Such adjustments to the outstanding awards will be effected in a manner which will preclude the enlargement or dilution of rights and benefits under those awards.

Valuation

The fair market value per share of common stock on any relevant date under the Restated Equity Plan will be deemed to be equal to the closing selling price per share on that date on the NASDAQ Global Market. If there is no reported selling price for such date, then the fair market value per share will be the closing selling price on the last preceding date for which such quotation exists. On April 20, 2012, the closing selling price per share was \$14.28.

Discretionary Grant Program

Grants

The Plan Administrator has complete discretion under the Discretionary Option Grant Program to determine which eligible individuals are to receive option grants, the time or times when those grants are to be made, the number of shares subject to each such grant, the status of any granted option as either an ISO or a non-statutory option under the federal tax laws, the vesting schedule (if any) to be in effect for the option grant and the maximum term (up to 10 years) for which any granted option is to remain outstanding.

Price and Exercisability

Each granted option will have an exercise price per share not less than 100% of the fair market value per share of common stock on the option grant date, and no granted option will have a term in excess of 10 years. The shares subject to each option will generally become exercisable for fully-vested shares in a series of installments over a specified period of service measured from the grant date. However, one or more options may be structured so that they are immediately exercisable for any or all of the option shares. The shares acquired under such immediately-exercisable options will normally be unvested and subject to repurchase by us, at the lower of (1) the exercise price paid per share or (2) the fair market value per share of common stock at the time of cessation of service if the optionee ceases service with us prior to vesting in those shares.

The exercise price may be paid in cash, in shares of common stock or, in the Plan Administrator's discretion, by issuance of a promissory note. Outstanding options may also be exercised through a same-day sale program pursuant to which a designated brokerage firm is to effect an immediate sale of the shares purchased under the option and pay to us, out of the sale proceeds available on the settlement date, sufficient funds

to cover the exercise price for the purchased shares plus all applicable withholding taxes.

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No optionee has any stockholder rights with respect to the option shares until such optionee has exercised the option and paid the exercise price for the purchased shares. Options are generally not assignable or transferable other than by will or the laws of inheritance and, during the optionee's lifetime, the option may be exercised only by such optionee. However, the Plan Administrator may allow non-statutory options to be transferred or assigned during the optionee's lifetime to one or more members of the optionee's immediate family or to a trust established exclusively for one or more such family members or to the optionee's former spouse, to the extent such transfer or assignment is in furtherance of the optionee's estate plan or pursuant to a domestic relations order. The optionee may also designate one or more beneficiaries to automatically receive his or her outstanding options at death.

Termination of Service

Upon cessation of service, the optionee will have a limited period of time in which to exercise his or her outstanding options for any shares in which the optionee is vested at that time. The Plan Administrator has discretion to extend the period following the optionee's cessation of service during which his or her outstanding options may be exercised, up to the date of the option's expiration and/or to accelerate the exercisability or vesting of such options in whole or in part.

Stock Issuance Program

Shares may be issued under the Stock Issuance Program at a price per share, if any, determined by the Plan Administrator. The Plan Administrator has complete discretion under this program to determine which eligible individuals are to receive such stock issuances, the time or times when such issuances or awards are to be made, the number of shares subject to each such issuance or award and the vesting schedule, if any, to be in effect for the stock issuance.

The shares issued may be fully and immediately vested upon issuance or may vest upon the recipient's completion of a designated service period or upon our attainment of pre-established performance goals. The Plan Administrator has, however, the discretionary authority at any time to accelerate the vesting of any and all unvested shares outstanding under the Stock Issuance Program.

Any unvested shares for which the requisite service requirement or performance objective is not obtained must be surrendered to us for cancellation or repurchase, and the participant will not have any further stockholder rights with respect to those shares.

Other Stock Awards Program

The Plan Administrator has complete discretion under the Other Stock Awards Program to make awards of stock appreciation rights, restricted stock units or dividend equivalents to eligible persons under the Plan.

Stock Appreciation Rights

SARs may be granted in connection with stock options or other awards, or separately. SARs granted by the Plan Administrator in connection with stock options or other awards typically will provide for payments to the holder based upon increases in the price of our common stock over the exercise price of the SAR or a related option or other awards. Each granted SAR will have an exercise or base price per share not less than 100% of the fair market value per share of common stock on the SAR grant date, and no granted SAR will have a term in excess of 10 years. Except as required by Section 162(m) of the Code with respect to a SAR intended to qualify as performance-based compensation as described in Section 162(m) of the Code, there are no restrictions specified in the plan on the exercise of SARs or the amount of gain realizable therefrom, although restrictions may be imposed by the Plan Administrator in the SAR agreements. The Plan Administrator may elect to pay SARs in cash or in shares of our common stock or in a combination of both.

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Restricted Stock Units.

Restricted stock units may be awarded to participants, typically without payment of consideration, but subject to vesting conditions based on continued employment or on performance criteria established by our compensation committee. Like stock issuances that are subject to vesting, restricted stock units may not be sold, or otherwise transferred or hypothecated, until vesting conditions are removed or expire. Unlike stock issuances, shares issuable pursuant to a restricted stock unit award will not be issued until the restricted stock unit award has vested, and recipients of restricted stock unit awards generally will have no voting or dividend rights prior to the time when vesting conditions are satisfied.

Dividend Equivalents

Dividend equivalents represent the value of the dividends, if any, per share paid by us, calculated with reference to the number of shares covered by the stock options, SARs or other awards held by the participant.

Equity Awards to Non-Employee Directors

Non-employee members of our board of directors are eligible for automatic equity awards under the Restated Equity Plan pursuant to the terms of our Director Compensation Policy, which is described below under Compensation Discussion and Analysis Narrative to Director Compensation Table.

General Plan Provisions

Change in Ownership or Control

In the event that we are acquired by merger or asset sale, or if there is a change in ownership or control, the Plan Administrator may provide for any or all of the following alternatives:

require participants to surrender their outstanding awards for a cash payment;

replace outstanding awards with other rights or property;

accelerate the vesting of all or a portion of the awards;

require that the successor or survivor corporation assume the awards or replace them with equivalent awards; or

adjust the terms and conditions of outstanding awards.

In addition, in the event that we are acquired by merger or asset sale, or if there is a change in ownership or control, then awards granted under the Restated Equity Plan may:

vest or accelerate in full when such awards are not to be assumed by any successor corporation;

vest or accelerate in full when such awards are to be assumed by any successor corporation; or

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vest or accelerate in full when such awards are to be assumed by any successor corporation and the employee holding such options is involuntarily terminated.

The acceleration of vesting in the event of a change in the ownership or control of Ligand may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of Ligand.

Special Tax Election

The Plan Administrator may provide holders of awards under the Restated Equity Plan with the right to have us withhold a portion of the shares otherwise issuable to such individuals in satisfaction of the withholding taxes to which such individuals may become subject in connection with the exercise or vesting of those awards. Alternatively, the Plan Administrator may allow such individuals to deliver previously acquired shares of common stock in payment of such withholding tax liability.

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Amendment and Termination

The board may amend or modify the Restated Equity Plan at any time, subject to any required stockholder approval pursuant to applicable laws and regulations. Unless sooner terminated by the board, the Restated Equity Plan will terminate on the *earliest* of:

April 2022;

the termination of all outstanding options in connection with certain changes in control or ownership of the Company.

Repricing Prohibited

The Restated Equity Plan prohibits, without stockholder approval: (1) the amendment of awards to reduce the exercise price, and (2) the replacement of an option or SAR with cash, any other award or an option or SAR with an exercise price that is less than the exercise price per share of the original option or SAR.

Performance-Based Awards

Performance awards may also be granted pursuant to the Restated Equity Plan. The value of performance awards may be linked to any one or more of the performance criteria listed below, or other specific criteria determined by the Plan Administrator, in each case on a specified date or dates or over any period or periods determined by the Plan Administrator. The goals are established and evaluated by the Plan Administrator and may relate to performance over any periods as determined by the Plan Administrator. The Plan Administrator will determine whether performance awards are intended to be performance-based compensation within the meaning of Section 162(m) of the Code. Following is a brief discussion of the requirements for awards to be treated as performance-based compensation within the meaning of Section 162(m) of the Code.

The Plan Administrator may grant awards to employees who are or may be covered employees, as defined in Section 162(m) of the Code, that are intended to be performance-based compensation within the meaning of Section 162(m) of the Code in order to preserve the deductibility of these awards for federal income tax purposes. Participants are only entitled to receive payment for a Section 162(m) performance-based award for any given performance period to the extent that pre-established performance goals set by the compensation committee for the period are satisfied. These pre-established performance goals must be based on one or more of the following performance criteria:

net earnings (either before or after interest, taxes, depreciation and amortization),

gross or net sales or revenue,

net income (either before or after taxes),

adjusted net income,

operating earnings or profit,

cash flow (including, but not limited to, operating cash flow and free cash flow),

return on assets,

return on capital,

return on stockholders' equity,

total stockholder return,

return on sales,
gross or net profit or operating margin,

costs,

funds from operations,

expenses,

working capital,

earnings per share,

adjusted earnings per share,

price per share of our common stock,

regulatory body approval for commercialization of a product,

implementation or completion of critical projects, and

market share,

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any of which may be measured with respect to us, or any subsidiary, affiliate or other business unit, either in absolute terms, terms of growth or as compared to any incremental increase or decrease or as compared to results of a peer group or to market performance indicators or indices. The compensation committee will define in an objective fashion the manner of calculating the performance criteria it selects to use for such awards. With regard to a particular performance period, the compensation committee will have the discretion to select the length of the performance period, the type of performance-based awards to be granted, and the goals that will be used to measure the performance for the period. In determining the actual size of an individual performance-based award for a performance period, the compensation committee may reduce or eliminate (but not increase) the initial award. Generally, a participant will have to be employed by or providing services to us or any of our subsidiaries or affiliates on the date the performance-based award is paid to be eligible for a performance-based award for any period.

The Plan Administrator may, in its sole discretion, provide that one or more objectively determinable adjustments shall be made to one or more of the performance goals. Such adjustments may include one or more of the following:

items related to a change in accounting principle,

items relating to financing activities,

expenses for restructuring or productivity initiatives,

other non-operating items,

items related to acquisitions,

items attributable to the business operations of any entity acquired by us during the performance period,

items related to the disposal of a business or segment of a business,

items related to discontinued operations that do not qualify as a segment of a business under applicable accounting standards,

items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the performance period,

other items of significant income or expense which are determined to be appropriate adjustments,
items relating to unusual or extraordinary corporate transactions, events or developments,

items related to amortization of acquired intangible assets,

items that are outside the scope of our core, on-going business activities,

items related to acquired in-process research and development,

items relating to changes in tax laws,

items relating to major licensing or partnership arrangements,

items relating to asset impairment charges,

items relating to gains or losses for litigation, arbitration and contractual settlements, or

items relating to any other unusual or nonrecurring events or changes in applicable laws, accounting principles or business conditions.

For all awards intended to qualify as performance-based compensation, such determinations will be made by the compensation committee within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code.

The maximum number of shares which may be subject to awards granted under the Restated Equity Plan to any individual in any calendar year may not exceed 1,000,000 shares of common stock.

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Material U.S. Federal Income Tax Consequences

The following is a general summary under current law of the material federal income tax consequences to an employee, consultant or non-employee director granted an award under the Restated Equity Plan. This summary deals with the general federal income tax principles that apply and is provided only for general information. Some kinds of taxes, such as state, local and foreign income taxes and federal employment taxes, are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. The summary does not discuss all aspects of federal income taxation that may be relevant in light of a holder's personal circumstances. This summarized tax information is not tax advice and a holder of an award should rely on the advice of his or her legal and tax advisors.

Option Grants

Options granted under the Restated Equity Plan may be either ISOs which satisfy the requirements of Section 422 of the Code or non-statutory options which are not intended to meet such requirements. The Federal income tax treatment for the two types of options differs as follows:

Incentive Options. The optionee recognizes no taxable income at the time of the option grant, and no taxable income is generally recognized at the time the option is exercised. However, the amount by which the fair market value (at the time of exercise) of the purchased shares exceeds the exercise price will be included in the optionee's income for purposes of the alternative minimum tax. The optionee will, however, recognize taxable income in the year in which the purchased shares are sold or otherwise made the subject of a taxable disposition. For Federal tax purposes, dispositions are divided into two categories: (1) qualifying and (2) disqualifying. A qualifying disposition occurs if the sale or other disposition is made after the optionee has held the shares for more than two years after the option grant date and more than one year after the exercise date. If either of these two holding periods is not satisfied, then a disqualifying disposition will result.

Upon a qualifying disposition, the optionee will recognize long-term capital gain in an amount equal to the excess of (1) the amount realized upon the sale or other disposition of the purchased shares over (2) the exercise price paid for the shares. If there is a disqualifying disposition of the shares, then the excess of (1) the lesser of the fair market value of those shares on the exercise date or the sale date over (2) the exercise price paid for the shares will be taxable as ordinary income to the optionee. Any additional gain or loss recognized upon the disposition will be recognized as a capital gain or loss by the optionee.

If the optionee makes a disqualifying disposition of the purchased shares, then we will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal to the excess of (1) the fair market value of such shares on the option exercise date or the sale date, if less, over (2) the exercise price paid for the shares. In no other instance will we be allowed a deduction with respect to the optionee's disposition of the purchased shares.

Non-Statutory Options. No taxable income is recognized by an optionee upon the grant of a non-statutory option. The optionee will in general recognize ordinary income in the year in which the option is exercised, equal to the excess of the fair market value of the purchased shares on the exercise date over the exercise price paid for the shares, and the optionee will be required to satisfy the tax withholding requirements applicable to such income.

We are entitled to an income tax deduction equal to the amount of ordinary income recognized by the optionee with respect to the exercised non-statutory option. The deduction is in general allowed for the taxable year of Ligand in which such ordinary income is recognized by the optionee.

Stock Appreciation Rights

No taxable income is recognized upon receipt of a SAR. The holder recognizes ordinary income, in the year in which the SAR is exercised, in an amount equal to the excess of the fair market value of the underlying shares of common stock on the exercise date over the base price in effect for the exercised right, and the holder is required to satisfy the tax withholding requirements applicable to such income.

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We are entitled to an income tax deduction equal to the amount of ordinary income recognized by the holder in connection with the exercise of the SAR. The deduction generally is allowed for the taxable year in which such ordinary income is recognized.

Direct Stock Issuance

An employee to whom unvested shares are issued generally will not recognize taxable income upon such issuance and we generally will not then be entitled to a deduction unless an election is made by the participant under Section 83(b) of the Code. However, when the restrictions on the shares of stock lapse, such that the shares are no longer subject to a substantial risk of forfeiture, the employee generally will recognize ordinary income and we generally will be entitled to a deduction for an amount equal to the excess of the fair market value of the shares at the date such restrictions lapse over the purchase price. If a timely election is made under Section 83(b) with respect to unvested stock, the participant generally will recognize ordinary income on the date of the issuance equal to the excess, if any, of the fair market value of the shares at that date over the purchase price therefore, and we will be entitled to a deduction for the same amount. A participant who receives stock in lieu of a cash payment that would otherwise have been made will generally be taxed as if the cash payment has been received, and we generally will be entitled to a deduction for the same amount.

Restricted Stock Units

An individual to whom restricted stock units are issued will not have taxable income upon issuance and we will not then be entitled to a deduction. An individual to whom restricted stock units are issued will generally realize ordinary income at the time the shares issuable with respect to the restricted stock unit award are distributed to the individual in an amount equal to the fair market value of such shares (less any purchase price), and we will be entitled to a corresponding deduction.

Dividend Equivalents

A recipient of a dividend equivalent award generally will not recognize taxable income at the time of grant, and we will not be entitled to a deduction at that time. When a dividend equivalent is paid, the participant generally will recognize ordinary income, and we will be entitled to a corresponding deduction.

Section 162(m) of the Code

Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain covered employees in a taxable year to the extent that compensation to such covered employee exceeds \$1 million. It is possible that compensation attributable to awards under the Restated Equity Plan, when combined with all other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified performance-based compensation, are disregarded for purposes of the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m), compensation attributable to stock awards will generally qualify as performance-based compensation if (1) the award is granted by a compensation committee composed solely of two or more outside directors, (2) the plan contains a per-employee limitation on the number of awards which may be granted during a specified period, (3) the plan is approved by the stockholders, and (4) under the terms of the award, the amount of compensation an employee could receive is based solely on an increase in the value of the stock after the date of the grant (which requires that the exercise price of the option is not less than the fair market value of the stock on the date of grant), and for awards other than options, established performance criteria that must be met before the award actually will vest or be paid.

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The Restated Equity Plan is designed to meet the requirements of Section 162(m); however, full-value awards granted under the Restated Equity Plan will only be treated as qualified performance-based compensation under Section 162(m) if the full-value awards and the procedures associated with them comply with all other requirements of Section 162(m). There can be no assurance that compensation attributable to awards granted under the Restated Equity Plan will be treated as qualified performance-based compensation under Section 162(m) and thus be deductible to us.

Section 409A of the Code

Certain awards under the Restated Equity Plan may be considered nonqualified deferred compensation subject to Section 409A of the Code, which imposes additional requirements on the payment of deferred compensation. Generally, if at any time during a taxable year a nonqualified deferred compensation plan fails to meet the requirements of Section 409A, or is not operated in accordance with those requirements, all amounts deferred under the nonqualified deferred compensation plan for the current taxable year and all preceding taxable years, by or for any participant with respect to whom the failure relates, are includible in the gross income of the participant for the taxable year to the extent not subject to a substantial risk of forfeiture and not previously included in gross income. If a deferred amount is required to be included in income under Section 409A, the amount will be subject to income tax at regular income tax rates plus an additional 20 percent tax, as well as potential premium interest tax.

Plan Benefits

The table below shows, as to our named executive officers and the various indicated groups, the number of shares of common stock subject to awards granted under the 2002 Plan that were outstanding as of April 20, 2012:

Name and Position	Number of Shares Subject to Stock Option Awards	Number of Shares Subject to Restricted Stock Awards/RSUs
John L. Higgins, President and Chief Executive Officer	471,999	32,166
Matthew W. Foehr, Executive Vice President and Chief Operating Officer	225,000	26,666
John P. Sharp, Vice President, Finance and Chief Financial Officer	122,164	8,000
Charles S. Berkman, Vice President and General Counsel	102,829	8,000
Syed M.I. Kazmi, Ph.D., Vice President, Business Development and Strategic Planning	96,453	7,000
Nishan DeSilva, M.D., M.B.A., Vice President of Corporate Development	90,000	10,000
All directors who are not employees (7 persons)(1)	107,008	20,475
All current executive officers as a group (6 persons)	1,108,445	91,832
All employees who are not executive officers (15 persons)	412,385	38,413

- (1) All of the non-employee members of our board of directors will, upon his re-election to the board at the Annual Meeting, receive an automatic award of shares of restricted stock and options to purchase shares of common stock under the Restated Equity Plan pursuant to our Director Compensation Policy, as described below under Compensation Discussion and Analysis Narrative to Director Compensation Table. Each option will have an exercise price per share equal to the fair market value per share of common stock on the grant date.

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All other future grants under the Restated Equity Plan are within the discretion of the Plan Administrator and the benefits of such grants are, therefore, not determinable.

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Our board believes that the Restated Equity Plan is necessary in order to continue to provide equity incentives to attract and retain the services of high quality employees. Our board unanimously recommends that the stockholders vote **FOR** this proposal.

Compensation Plans

We have two compensation plans approved by our stockholders under which our equity securities are authorized for issuance to employees and directors for goods or services, the 2002 Plan and the Employee Stock Purchase Plan.

The following table summarizes information about our equity compensation plans as of December 31, 2011:

	(a) Number of securities to be issued upon exercises of outstanding options, warrants and rights	(b) Weighted- average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by security holders	1,454,220	\$ 36.83	831,143(1)
Equity compensation plans not approved by security holders(2)	1,454,220	\$ 36.83	831,143

- (1) At December 31, 2011, 733,852 and 97,291 shares were available under the 2002 Plan and the 2002 Employee Stock Purchase Plan, respectively, for future grants of stock options or sale of stock.
- (2) There are no equity compensation plans (including individual compensation arrangements) not approved by the Company's security holders.

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PROPOSAL NO. 4

APPROVAL OF COMPENSATION OF THE NAMED EXECUTIVE OFFICERS

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, our stockholders are entitled to vote at the annual meeting to provide advisory approval of the compensation of our named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the SEC. Pursuant to the Dodd-Frank Act, the stockholder vote on executive compensation is an advisory vote only, and it is not binding on us or our board of directors.

Although the vote is non-binding, our compensation committee and board of directors value the opinions of the stockholders and will consider the outcome of the vote when making future compensation decisions. As described more fully in the Compensation Discussion and Analysis section of this proxy statement, our executive compensation program is designed to attract, retain and motivate individuals with superior ability, experience and leadership capability to deliver on our annual and long-term business objectives necessary to create stockholder value. We urge stockholders to read the Compensation Discussion and Analysis section of this proxy statement, which describes in detail how our executive compensation policies and procedures operate and are intended to operate in the future. The compensation committee and the board of directors believe that our executive compensation program fulfills these goals and is reasonable, competitive and aligned with our performance and the performance of our executives.

We are asking our stockholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we ask that our stockholders vote **FOR** the following resolution:

RESOLVED, that Ligand Pharmaceuticals Incorporated stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in Ligand Pharmaceuticals Incorporated's Proxy Statement for the 2012 Annual Meeting of Stockholders, pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, the 2011 Summary Compensation Table and the other related tables and disclosure.

Recommendation of the Board of Directors

Our board of directors recommends that stockholders vote **FOR** the approval, on an advisory basis, of the compensation of the named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the SEC.

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EXECUTIVE OFFICERS

The names of the executive officers of the Company and their ages, titles and biographies as of April 22, 2012 are set forth below.

John L. Higgins, 42, is being considered for the position of director of the Company. See Election of Directors for a discussion of Mr. Higgins business experience.

Charles S. Berkman, J.D., 43, has served as our Vice President, General Counsel and Secretary since April 2007. Mr. Berkman joined the Company in November 2001 and previously served as Associate General Counsel and Chief Patent Counsel for the Company (and Secretary since March 2007). Prior to joining the Company, Mr. Berkman was an attorney at the international law firm of Baker & McKenzie from November 2000 to November 2001. Before that he served as an attorney at the law firm of Lyon & Lyon from 1993 to November 2000, where he specialized in intellectual property law. Mr. Berkman earned a B.S. in chemistry from the University of Texas and a J.D. from the University of Texas School of Law.

Matthew W. Foehr, 39, has served as our Executive Vice President and Chief Operating Officer since April 2011. Mr. Foehr has more than 17 years of experience managing global research and development programs. Prior to joining the Company, commencing in January 2010, he was Vice President and Head of Consumer Dermatology R&D, as well as Interim Chief Scientific Officer of Dermatology commencing in 2010, in the Stiefel division of GlaxoSmithKline (GSK), where he was responsible for leading the global R&D consumer dermatology franchise, heading all R&D strategy and operations for the business. Following GSK's \$3.6 billion acquisition of Stiefel Laboratories, Inc. (Stiefel) in December 2009, Mr. Foehr led the R&D integration of Stiefel into GSK. Prior to GSK's acquisition, Mr. Foehr served as Senior Vice President of Global R&D Operations for Stiefel from April 2009 through December 2009, Senior Vice President of Product Development & Support from March 2009 to April 2009, and Vice President of Supply Chain Technical Services from January 2007 to March 2008. Prior to Stiefel, Mr. Foehr held various executive roles at Connetics Corporation from July 1999 through December 2006, including a position as Senior Vice President of Technical Operations and Vice President of Manufacturing from January 2003 through December 2006. Mr. Foehr is the author of multiple scientific publications and is named on numerous U.S. patents. Mr. Foehr received his B.S. in biology from Santa Clara University.

Syed M.I. Kazmi, Ph.D., M.B.A., 55, has served as our Vice President, Business Development and Strategic Planning since July 2007. Dr. Kazmi has more than 20 years of Pharmaceutical R&D and Business development experience. From 1995 until June 2007, he held various positions at Ligand, including Senior Scientist in Molecular Endocrinology, Director of Project Management and leader of multiple drug development teams, and Senior Director of Business Development. Prior to joining Ligand, Dr. Kazmi worked in discovery research at Johnson & Johnson from 1988 to 1995, where his most recent position was Principal Scientist in endocrinology and inflammation drug development programs. From 1985 to 1988, he held his postdoctoral research positions at McMaster University, Hamilton. Dr. Kazmi received a Ph.D. in biochemistry from J.N. University, New Delhi, and an executive MBA from San Diego State University.

John Sharp, C.P.A., 47, joined the Company in April 2007 as our Vice President, Finance and Chief Financial Officer. From November 2004 to April 2007, Mr. Sharp served as Vice President of Finance of Sequenom, Inc. and served as its Principal Accounting Officer since October 2005. From August 2000 to November 2004, Mr. Sharp served as Director of Accounting at Diversa Corporation, a publicly traded biotech company. From January 1994 until August 2000, Mr. Sharp was at the public accounting firm PricewaterhouseCoopers (formerly Coopers & Lybrand), most recently as a Senior Audit Manager. He received a B.S. from San Diego State University, and is a certified public accountant (inactive) and a member of the Association of BioScience Financial Officers.

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Nishan de Silva, M.D., M.B.A. 39, joined the Company in February 2012 as our Vice President of Corporate Development. Nishan has more than twelve years of healthcare experience across healthcare investing and management consulting. Prior to joining Ligand, Dr. de Silva served as a Principal of private equity firm Warburg Pincus LLC, where he was responsible for sourcing late-stage biopharmaceutical investments. Over the previous eight years, he evaluated hundreds of biopharmaceutical company investment opportunities, negotiated and structured major equity positions for several companies and served on the board of directors for several public and private biopharmaceutical companies. Prior to joining Warburg Pincus, Dr. de Silva worked in healthcare venture capital at Sprout Group and as a management consultant at McKinsey & Company, where he focused on growth strategy projects for senior management at leading global pharmaceutical and healthcare services companies. Dr. de Silva holds an M.D. from The University of Pennsylvania School of Medicine, an M.B.A. in Healthcare Management from The Wharton School, and an A.B. in Biology from Harvard College.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS,
DIRECTORS AND MANAGEMENT**

The following table shows, based on information we have, the beneficial ownership of our common stock as of April 16, 2012, by:

all persons who are beneficial owners of 5% or more of our outstanding common stock;

each of our current directors, including our president and chief executive officer, Mr. Higgins;

each of our named executive officers (as defined below in Compensation Discussion and Analysis Summary Compensation Table); and

all of our executive officers and directors as a group.

Unless otherwise indicated, each of the stockholders has sole voting and investment power with respect to the shares beneficially owned, subject to community property laws, where applicable. Percentage of ownership is based on approximately 19,716,145 shares of common stock outstanding on April 16, 2012 (not including 1,118,222 shares held in treasury and not entitled to vote). Shares of common stock underlying options include options which are currently exercisable or will become exercisable within 60 days after April 16, 2012, are deemed outstanding for computing the percentage of the person or group holding such options, but are not deemed outstanding for computing the percentage of any other person or group. The address for individuals for whom an address is not otherwise indicated is 11085 Torrey Pines Road, Suite 100, La Jolla, CA 92037.

Beneficial Owner	Number of Shares Beneficially Owned	Shares Beneficially Owned via Options, Warrants or Convertible Notes	Percent of Class Owned
BVF Partners(1) 900 N. Michigan Ave, Suite 1100 Chicago, IL 60611	3,476,044		17.63%
David M. Knott(2) 485 Underhill Blvd., Ste. 205 Syosset, NY 11791-3419	1,690,411	15,668	8.65%
Wellington Management Company, LLC(3) 75 State Street Boston, MA 02109	1,221,353		6.19%
BlackRock Fund Advisors(4) 40 E. 52 nd Street New York, NY 10022	1,182,106		6.00%

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Directors and Executive Officers

Jason M. Aryeh(5)	311,162	16,298	1.66%
Todd C. Davis	29,201	15,668	*
John L. Higgins	107,275	177,312	1.44%
David M. Knott(2)	1,690,411	15,668	6.58%
John W. Kozarich	26,098	22,369	*
John L. LaMattina	16,814	9,557	*
Sunil Patel	25,705	10,113	*
Stephen L. Sabba	10,704	12,335	*
Charles S. Berkman	17,328	53,767	*
Syed M.I. Kazmi	18,230	51,163	*
John P. Sharp	21,666	56,123	*
Matthew W. Foehr	36,250	52,084	*
Nishan de Silva	10,000		*
Directors and executive officers as a group (13 persons)	2,320,844	492,457	14.27%

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- * Less than 1%
- (1) Based solely on a review of a Schedule 13G filed on November 23, 2011, which reported that BVF Partners (on behalf of Biotechnology Value Fund, L.P., Biotechnology Value Fund II, L.P., BVF Investments, L.L.C., Investment 10, L.L.C., BVF Partners L.P., BVF Inc. and Mark N. Lampert) had sole voting and dispositive power over 3,476,044 shares.
 - (2) Based solely on a review of a Form 4 filed on September 6, 2011 by David M. Knott.
 - (3) Based solely on a review of a Schedule 13G filed on February 14, 2012, which reported that Wellington Management Company, LLP had sole voting and dispositive power over 1,221,353 shares.
 - (4) Based solely on a review of a Schedule 13G filed on February 6, 2012, which reported that BlackRock Fund Advisors had sole voting and dispositive power over 1,182,106 shares.
 - (5) Based solely on a review of a Form 4 filed on November 10, 2011 and includes shares held by JALAA Equities, LP., of which Mr. Aryeh is the founder and general partner, 21,801 held directly by Mr. Aryeh and 5,025 held in a family trust.

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COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis describes the principles of our executive compensation program, how we applied those principles in compensating our named executive officers for 2011, and how our compensation program drives performance.

Our named executive officers for 2011 are:

John L. Higgins, President and Chief Executive Officer;

Matthew W. Foehr, Executive Vice President and Chief Operating Officer;

John P. Sharp, Vice President, Finance and Chief Financial Officer;

Charles S. Berkman, Vice President and General Counsel; and

Syed M.I. Kazmi, Ph.D., Vice President, Business Development and Strategic Planning.

In this Compensation Discussion and Analysis, we first provide an executive summary of our program for 2011. We then describe our compensation philosophy and the objectives of our executive compensation program and how the compensation committee of our board of directors oversees our compensation program. We discuss the compensation determination process and describe how we determine each element of compensation. We believe that our compensation program in 2011 and in prior years shows that we have closely linked pay to performance.

Executive Summary

Overview of Our Executive Compensation Program

The compensation committee has designed our executive compensation program to provide compensation opportunities that:

Attract, motivate and retain individuals of superior ability and managerial talent critical to its long-term success

Align executives' interests with the Company's corporate strategies, business objectives and the long-term interests of the Company's stockholders;

Create incentives to achieve key strategic and corporate performance objectives; and

enhance the executives' incentive to increase the Company's stock price and maximize stockholder value.

The following is a summary of important aspects of our executive compensation program discussed later in this Compensation Discussion and Analysis:

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Key Elements of Our Compensation Program. Our compensation program is designed to achieve these objectives through a combination of the following types of compensation:

Base salary;

Annual variable performance bonus awards payable in cash;

Long-term stock-based incentive awards; and

Employee benefits and perquisites, including change in control severance arrangements.

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Each element of our executive compensation program is discussed in greater detail below.

We Intend to Pay for Performance. The majority of our named executive officers' total compensation as shown in our Summary Compensation Table below ties compensation directly to the achievement of corporate objectives, increases in our stock price or both. We emphasize pay for performance in order to align executive compensation with our business strategy and the creation of long-term shareholder value.

Our Compensation Program Supports Our Corporate Objectives and Stockholder Interests. Our compensation program is designed to align executive officer compensation with our corporate strategies, business objectives and the long-term interests of our stockholders by rewarding successful execution of our business plan and tying a portion of total compensation opportunities to equity incentives.

Overview of 2011 Performance

The compensation committee believes the executive compensation program is an important factor in driving our named executive officers' performance to achieve sustainable profitability and stock price appreciation. Our Company's fiscal year 2011 accomplishments, guided by our named executive officers, illustrate the success of this strategy, even in an uncertain economic environment, and included, among other things, the following:

CyDex Acquisition: In January 2011, the Company closed its acquisition of CyDex Pharmaceuticals, Inc., a specialty pharmaceutical company that owns the Captisol drug formulation technology platform. The CyDex acquisition brings significant annual revenue to Ligand, includes numerous license and royalty-bearing agreements, including one with Onyx Pharmaceuticals, Inc. for carfilzomib, and a substantial portfolio of fully-funded partnered development programs.

Strategic Drug Alliance with Chiva Pharmaceuticals, Inc.: In January 2011, the Company entered into a strategic relationship with Chiva Pharmaceuticals, Inc. to develop multiple Company assets and technology in China and potentially worldwide. The Company granted Chiva licenses to begin immediate development in China of the Company's two clinical-stage HepDirect programs, a non-exclusive HepDirect technology license for new compounds and a license to develop Fablyn, a selective estrogen receptor modulator. Under the terms of the agreement, the Company has the potential to earn over \$100 million in milestones and royalties on potential sales.

Diversification of Captisol Supply Business: In 2011, the Company entered into multiple agreements to supply Captisol to a number of partners in the pharmaceutical field, including The Medicines Company, Merck, SAGE Therapeutics, Eli Lilly and Hospira.

Research and Development: In 2011, the Company completed and presented data on a number of early stage trials, including its Phase I SARM trial, its Phase IIa Melphalan trial and its pre-clinical trials for GCSF and IRAK-4.

Restructuring Efforts: During 2011, the Company undertook various cost-cutting efforts, including the negotiation of a new lease that will substantially reduce expenditures.

Additional Strategic Developments: During 2011, the Company established new business relationships and partnerships, streamlined Captisol operations, and further leveraged existing partners for operational and distribution services.

2011 Compensation Programs and Decisions

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In line with our executive compensation program's emphasis on pay for performance, compensation awarded to our named executive officers for 2011 reflected our financial results and overall compensation philosophy:

Modest Base Salary Adjustments: During 2011, our named executive officers received an approximately 1% increase to their base salaries;

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Pay-for-Performance Annual Incentive Bonuses: For 2011, our Company focused on certain key business development objectives and objectives related to the CyDex business. Our compensation program for 2011 was designed to support the Company's focus on these areas and together achievement in these areas represented 80% of our named executive officers' total bonus opportunity. Corporate performance determines all of our named executive officers' bonuses. The annual bonuses awarded to our named executive officers for 2011 are discussed below under "Annual Bonuses;" and

Equity-based Compensation: Our compensation committee continued its practice of ensuring that a substantial portion of our named executive officers' total compensation is awarded in the form of long-term equity incentive awards. As in year's past, a large portion of the annual award was granted in the form of stock options, which provide value to our executives only if our stock price increases.

In light of the Company's overall performance during 2011, the compensation committee believes that the named executive officers' 2011 compensation was appropriate.

Response to 2011 Say on Pay Vote

In June 2011, we held a stockholder advisory vote on the compensation of our named executive officers, commonly referred to as a say-on-pay vote. Our stockholders overwhelmingly approved the compensation of our named executive officers, with over 98% of stockholder votes cast in favor of our 2011 say-on-pay resolution (excluding abstentions and broker non-votes). As we evaluated our compensation practices and talent needs throughout 2011, we were mindful of the strong support our stockholders expressed for our compensation philosophy. As a result, following our annual review of our executive compensation philosophy, the compensation committee decided to generally retain our existing approach to executive compensation for our continuing executives, with an emphasis on short- and long-term incentive compensation that rewards our senior executives when they deliver value for our stockholders.

In addition, when determining how often to hold a stockholder advisory vote on executive compensation, the board of directors took into account the strong preference for an annual vote expressed by our stockholders at our 2011 annual meeting. Accordingly, the board of directors determined that we will hold an advisory stockholder vote on the compensation of our named executive officers every year until the next say-on-pay frequency vote.

The Role of the Compensation Committee

The compensation committee has the primary authority to determine the Company's compensation philosophy and to establish compensation for the Company's executive officers. In determining each level of compensation and the total package, the compensation committee reviewed a variety of sources, to determine and set compensation.

The chief executive officer aids the compensation committee by providing annual recommendations regarding the compensation of all executive officers, other than himself. Each named executive officer and senior executive management team member, in turn, participates in an annual performance review with the chief executive officer to provide input about his contributions to the Company's success for the period being assessed. The performance of our chief executive officer and senior executive management team as a group is reviewed annually by the compensation committee.

As in prior years, the compensation committee and the Company's management consulted several independent compensation surveys to assist them in determining market pay practices for compensating executive officers. These surveys were reviewed to compare the Company's compensation levels to the market compensation levels, taking into consideration the other companies' size, the industry, the individual executive's level of responsibility and his years of experience. For 2011, the current executive salaries were benchmarked against the Radford Global Life Sciences Compensation Report using data from companies with 50-149

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employees and the Biotech Employee Development Coalition (BEDC) Survey for San Diego-based public and private biotechnology companies with 50-149 employees. These surveys were used due to the competitiveness in hiring employees within the biotechnology industry as well as in our geographic location and we believe they represent the types of companies with which we compete for executive talent. With respect to the foregoing survey data, the identities of the individual companies included in the surveys were not provided to the compensation committee, and the compensation committee did not refer to individual compensation information for such companies. Instead, the compensation committee only referred to the statistical summaries of the compensation information for the companies included in such surveys.

Additionally, each year the compensation committee consults surveys of the compensation practices of a peer group of companies in the United States. This is necessary so the Company can offer compensation that is competitive within that group of companies. The peer group companies for 2011 compensation purposes included Acadia Pharmaceuticals, Affymax, Anadys Pharmaceuticals, Arena Pharmaceuticals, Cytokinetics, Dynavax Technologies, Exelixis, Geron, Incyte, Isis Pharmaceuticals, Momenta Pharmaceuticals, Neurocrine Biosciences, NPS Pharmaceuticals, Progenics Pharmaceuticals, Rigel, Sunesis Pharmaceuticals, Telik, and Xenoport.

The selected companies in our peer group are companies that fall within a reasonable range of comparison factors and/or that we may compete with for executive talent. Criteria used in the identification and selection of the peer group included business/labor market competitors in the biotechnology industry similar in size and complexity to us, companies with market values generally between \$200 million and \$800 million and companies with products in comparable stages of development to our products. We also focused on companies with multiple product candidates, as opposed to single product companies. The peer group was not selected on the basis of executive compensation levels.

The peer group compensation data is limited to publicly available information and therefore does not provide precise comparisons by position as offered by more comprehensive survey data. The survey data, however, can be used to provide pooled compensation data for positions closely akin to those held by each named executive officer. In addition, the pool of senior executive talent from which the Company draws and against which it compares itself extends beyond the limited community of our immediate peer group and includes a wide range of other organizations in the communications sector outside of the Company's traditional competitors, which range is represented by such surveys. As a result, the compensation committee uses peer group data on a limited basis to analyze the overall competitiveness of the Company's compensation with its direct publicly traded peers in the United States and its general compensation philosophy but continues to primarily rely on industry survey data in determining actual executive compensation. For purposes of this compensation discussion and analysis, references to our peer group include both the peer group of companies listed above and the survey data reviewed by our compensation committee.

The compensation committee strives to target total compensation, as well as annual cash and long-term performance compensation to the median (i.e. 50th percentile) of executive officers performing similar job functions at companies in our peer group. However, we strongly believe in retaining the best talent among our senior executive management team and while we believe that comparisons to market data are a useful tool, we do not believe that it is appropriate to establish executive compensation levels based solely a comparison to data from these companies. Therefore, the compensation committee may approve total compensation packages for senior executive management that vary from the peer group median based on several principal factors. Specifically, officers with relatively less overall experience, less tenure with the Company and/or lower performance ratings over several years will have total compensation set at or below the peer group median. Conversely, if an officer consistently receives favorable performance ratings over successive years, accumulates years of service and expertise with the Company and/or has significant other experience or responsibilities, his total compensation will typically be above the peer group median.

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In addition, the mix of compensation paid to our named executive officers is intended to ensure that total compensation reflects our overall success or failure and to motivate executive officers to meet appropriate performance measures. In determining each element of compensation for any given year, our compensation committee considers and determines each element individually and then review the resulting total compensation and determine whether it is reasonable and competitive. We do not have a pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation.

The compensation levels of our named executive officers reflect to a significant degree their varying roles and responsibilities. Mr. Higgins, in his role as chief executive officer, has the greatest level of responsibility among our named executive officers and, therefore, receives the highest level of pay. This is also consistent with the practices of the companies in our peer group and the summary compensation data included in the summaries of comparable companies reviewed by our compensation committee.

Base Compensation

As discussed above, the Company provides its named executive officers with a base salary that is structured around the median of base salaries offered by our peer group, but will vary from such level based on:

industry experience, knowledge and qualifications;

the salary levels in effect for comparable positions within the Company's principal industry marketplace competitors; and

internal comparability considerations.

As a general matter, the base salary for each executive officer is initially established through negotiation at the time the officer is hired, taking into account the officer's qualifications, experience, prior salary and competitive salary information. Increases in base salary from year to year are based upon the performance of the executive officers (other than the chief executive officer) as well as market positioning considerations, as assessed by the chief executive officer and approved by the compensation committee. The compensation committee assesses these factors with respect to the chief executive officer.

Our named executive officers received only modest base salary increases in 2011 of 1% from 2010 levels.

The Company estimates that the salary levels of our named executive officers for 2011 continued to approximate the 50th percentile of the salary levels in effect for comparable executive positions at companies in our peer group, with the exception of Mr. Sharp, whose salary level approximated the 75th percentile. This differential resulted from increases to Mr. Sharp's base salary in years prior to 2009 to reflect his expanded areas of responsibility above and beyond just serving as chief financial officer, as he also has responsibility for overall administration of the Company and information technology. Mr. Sharp's base salary has remained substantially unchanged from 2009 levels and this differential in pay positioning relative to the comparable company data has arisen from those earlier base salary adjustments, and not from recent pay increases.

Performance-Based Compensation

Annual Performance-Based Cash Compensation

It is the compensation committee's objective to have a substantial portion of each named executive officer's compensation contingent upon the Company's performance. For our named executive officers, all of his or her annual bonus compensation is dependent on the Company's performance relative to specified performance objectives.

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The annual performance-based bonus program consists of a cash award if certain corporate performance objectives are satisfied. The Company sets annual incentive targets around a baseline, which is the median (i.e. 50th percentile) of annual incentives offered by our peer group. Under the Company's program, the potential performance bonus for the chief executive officer is up to 75% of base salary, 50% of base salary for Mr. Foehr, and 40% of base salary for the other named executive officers.

In determining the performance compensation awarded to each named executive officer, the Company evaluates the Company's performance in a number of areas. At the beginning of each year, our board of directors sets corporate objectives for the year. These objectives are set by the board of directors after considering management input and our overall strategic objectives. These objectives generally relate to factors such as strategic objectives, achievement of product development objectives, establishment of new collaborative arrangements and general operational goals. Following the conclusion of each year, the compensation committee determines the level of achievement of the corporate objectives for each year relative to these corporate objectives. This achievement level is then applied to each named executive officer's target bonus to determine that year's total annual bonus. The Compensation Committee retains the discretion to reduce final bonus payout.

At the beginning of 2011, our board of directors, with input provided by our named executive officers, established our Company goals for the year. The compensation committee then reviewed and considered a proposed Company-wide (including named executive officers) bonus program in view of the Company goals, including the proportional emphasis to be placed on each objective annual bonus determination purposes.

The Company goals approved by the compensation committee for 2011 for purposes of annual bonus achievement included:

Goals Related to CyDex Business Unit (40% Weighting)

Manage current business contracts to maximize revenue

Expand relationship with manufacturing partners

Complete a multi-product partnership and enter new research contracts

Develop business plans to expand business over the next three years

Business Development Goals (40% Weighting)

Complete at least one major licensing deal for internal programs

Complete at least two other licensing deals

Operational Goals (20% Weighting)

Successfully integrate acquired assets

Achieve financial management and corporate communications objectives.

In evaluating management's performance against our 2011 corporate objectives in January 2012, our compensation committee determined to award a corporate achievement level of 100% relative to those objectives. This determination was made in the discretion of the compensation committee after its review of our overall corporate performance relative to each of the objectives listed above. In general, quantitative objectives

were not established for the corporate objectives during 2011. Instead these performance objectives were used as a guide by the compensation committee in determining overall corporate performance as they represented those areas in which the named executive officers and our employees generally were expected to focus their efforts.

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With respect to the goals related to our CyDex business unit, the compensation committee awarded full credit, for an achievement level of 40%, noting the entry into agreements to supply Captisol to a number of new partners, including The Medicines Company, Merck, SAGE Therapeutics, Eli Lilly and Hospira.

With respect to the business development goals, the compensation committee awarded full credit, for an achievement level of 40%, noting the entry into a strategic licensing agreement with Chiva for Fablyn, as well as the finalization of licensing agreements with The Medicines Company and Hospira.

With respect to the operational goals, which were entirely qualitative goals and not objectively determinable, the compensation committee determined an overall achievement level of 20% was appropriate given its subjective determination of the Company's overall performance in this area during 2011.

As a result of the foregoing determinations, all of our named executive officers other than Dr. Kazmi received bonus awards equal to 100% of their target awards. Dr. Kazmi's award represented 31% of his base salary, or approximately 78% of his target award. The compensation committee determined to pay Dr. Kazmi's bonus award at this level based on its subjective evaluation of his individual performance for 2011.

The actual bonus awards paid to our named executive officers are disclosed below in the table entitled Summary Compensation Table.

Long-Term Performance-Based Equity Incentive Program

In accordance with its philosophy, the Company's longer-term performance-based compensation is based on equity ownership. The Company believes that equity ownership in the Company is important to tie the ultimate level of an executive officer's compensation to the performance of the Company's stock and stockholder gains while creating an incentive for sustained growth.

We generally provide equity compensation to our named executive officers through grants of stock options and restricted stock units. The grants are designed to align the interests of our named executive officers with those of the stockholders and provide each individual with a significant incentive to manage the Company from the perspective of an owner with an equity stake in the business. The compensation committee views granting options and restricted stock unit awards as a retention device and therefore also reviews the status of vesting and number of vested versus unvested options and restricted stock unit awards at the time of grant. Guidelines for the number of stock options and restricted stock unit awards granted to each executive officer are determined using a procedure approved by the compensation committee based upon several factors, including the executive officer's level of responsibility, salary grade, performance and the value of the stock option and restricted stock unit awards at the time of grant. With respect to our named executive officers, we generally make awards to such officers at the time of initial hire based on an evaluation of the foregoing factors. Additional grants, other than the annual awards to executives, may be made following a significant change in job responsibility or in recognition of a significant achievement. Annual awards are made to our named executive officers when such awards are deemed appropriate by the compensation committee based on an evaluation of the foregoing factors.

Stock options granted under the various stock plans generally have a four-year vesting schedule designed to provide an incentive for continued employment. The options generally expire ten years from the date of the grant. This provides a reasonable time frame during which executive officers and other employees who receive grants can benefit from the appreciation of the Company's shares. The exercise price of options granted under our 2002 Plan, is equal to 100% of the fair market value of the underlying stock on the date of grant. Accordingly, the option will provide a return to the executive officer only if the market price of the shares appreciates over the option term. Restricted stock unit awards generally vest in equal installments over three years.

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Equity incentive awards under the compensation programs discussed above are made at regular compensation committee meetings and at special meetings as needed. For example, a special meeting may be called if a regular meeting is cancelled or following the annual performance review process. The effective date for such grants is the date of such meeting. The Company may also make grants of equity incentive awards at the discretion of the compensation committee or the board of directors in connection with the hiring of new named executive officers and other employees.

In January 2011, the compensation committee approved aggregate awards of 200,000 stock options and 24,000 restricted stock units to our named executive officers (other than Mr. Foehr) pursuant to the Company's 2002 Plan as part of our annual grant program as follows: John L. Higgins, 115,000 options and 15,000 restricted stock units; John P. Sharp, 30,000 options and 3,000 restricted stock units; Charles S. Berkman, 15,000 options and 3,000 restricted stock units; and Dr. Syed M.I. Kazmi, 40,000 options (of which 30,000 were subject to performance-based vesting) and 3,000 restricted stock units. Other than the performance-based vesting options granted to Dr. Kazmi, which were eligible to vest based upon the successful completion of certain strategic transactions during 2011, the foregoing option awards are subject to the standard four year time-based vesting schedule described above and the foregoing restricted stock unit awards are subject to the standard three year time-based vesting schedule described above. Dr. Kazmi did not vest in any of the foregoing performance-based awards as no qualifying transactions were consummated during 2011.

In April 2011, in connection with his commencement of employment, the compensation committee approved an award of 165,000 options and 25,000 restricted stock units to Mr. Foehr. The vesting of 100,000 of these options and all of these restricted stock units is consistent with the time-based vesting schedules described above. The remaining 65,000 options vest as follows: 15,000 options will vest if and when cumulative CyDex revenue for 2011 and 2012 exceeds certain pre-determined levels; 25,000 options will vest if the Company completes a strategic partnership with a commercial partner by June 30, 2012; and 25,000 options will vest if the Company completes a multi-product CyDex technology-based platform transaction with a pharmaceutical company by June 30, 2012. Mr. Foehr vested in 25,000 of these options in January 2012 as a result of the CyDex technology-based platform transaction consummated with Eli Lilly.

The benchmark for the time-based equity grants to the named executive officers in 2011 was the 75th percentile level of annual option grants and restricted stock awards for similar positions at our peer group companies, adjusted using the above factors and taking into consideration such equivalency factors as our number of shares outstanding and market capitalization, compared to the peer group companies. No other factors were considered by the compensation committee in determining the size of such awards and the awards actually granted to the named executive officers during 2011 were consistent with this pay positioning.

All of the equity awards granted to our named executive officers are disclosed below in the table entitled "Grants of Plan-Based Awards in Fiscal Year 2011."

Other Elements of Compensation and Perquisites

In order to attract, retain and pay market levels of compensation, we provide our named executive officers and other employees the following benefits and perquisites.

Medical Insurance. The Company provides to each named executive officer, the named executive officer's spouse and children such health, dental and vision insurance coverage as the Company may from time to time make available to its other executives of the same level of employment. The Company pays a portion of the premiums for this insurance for all employees.

Life and Disability Insurance. The Company provides each named executive officer such disability and/or life insurance as the Company in its sole discretion may from time to time make available to its other executive employees of the same level of employment.

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Defined Contribution Plan. The Company and its designated affiliates offer the Section 401(k) Savings/Retirement Plan (the 401(k) Plan), a tax-qualified retirement plan, to their eligible employees. The 401(k) Plan permits eligible employees to defer from 1% to 90% of their annual eligible compensation, subject to certain limitations imposed by the Internal Revenue Code. The employees' elective deferrals are immediately vested and non-forfeitable in the 401(k) Plan. In April 2007, the Company began to make matching contributions to the 401(k) Plan equal to \$0.25 per each \$1.00 contributed by an employee up to an annual maximum of \$2,000 per year.

Employee Stock Purchase Plan. The Company's 2002 Employee Stock Purchase Plan, which qualifies under Section 423 of the Internal Revenue Code, permits participants to purchase Company stock on favorable terms. Plan participants are granted a purchase right to acquire shares of common stock at a price that is 85% of the stock price on either the first day of the six month offering period or the stock price on the last day of the six month offering period, whichever is lower. The purchase dates occur on the last business days of December and June of each year. To pay for the shares, each participant may authorize periodic payroll deductions from 1% to 10% of his or her cash compensation, subject to certain limitations imposed by the Internal Revenue Code. All payroll deductions collected from the participant in an offering period are automatically applied to the purchase of common stock on that offering period's purchase date provided the participant remains an eligible employee and has not withdrawn from the employee stock purchase plan prior to that date.

Other. The Company makes available certain other perquisites or fringe benefits to executive officers and other employees, such as tuition reimbursement, airline club dues, professional society dues and food and recreational fees incidental to official company functions, including board meetings. The aggregate of these other benefits was less than \$10,000 for each executive officer in the last fiscal year.

Severance and Change in Control Arrangements

We believe that reasonable severance benefits for our named executive officers are important because it may be difficult for our executive officers to find comparable employment within a short period of time. We also believe that it is important to protect our named executive officers in the event of a change in control transaction involving us. In addition, it is our belief that the interests of stockholders will be best served if the interests of our senior management are aligned with them, and providing change in control benefits should eliminate, or at least reduce, the reluctance of senior management to pursue potential change in control transactions that may be in the best interests of stockholders. Accordingly, the severance arrangements we have entered into with each of our executive officers provide for severance benefits in specified circumstances, as well as benefits in connection with a change in control.

Change in Control Arrangements

The Company has a change in control severance agreement with each of the named executive officers. In the event a named executive officer's employment is terminated by us without cause or he or she resigns for good reason within 24 months following a change in control of the Company, he or she will be eligible to receive a severance benefit equal to:

one times (two times for Mr. Higgins) the annual rate of base salary in effect for such officer at the time of involuntary termination; plus

one times (two times for Mr. Higgins) the greater of: (a) the maximum target bonus for the fiscal year in which the termination occurs; or (b) the maximum target bonus for the fiscal year in which the change in control occurs, if different; plus

twelve (twenty-four for Mr. Higgins) multiplied by the monthly premium the executive would be required to pay for continued health coverage for himself or herself and his or her eligible dependents.

The foregoing severance amount will be payable in a lump sum following the officer's termination of employment.

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The change in control severance agreements also provide that all of a named executive officer's outstanding stock awards will vest in the event of such a termination. In addition, the post-termination exercise period of a named executive officer's stock options will be extended from three months to the date that is nine months following the date of termination (but in no event beyond the original expiration date of such options).

For purposes of the change in control severance agreements, an involuntary termination is either a termination of a named executive officer's employment by us without cause or his resignation for good reason. Cause is generally defined as an officer's conviction of, or plea of guilty or no contest to, a felony under the laws of the United States or any state thereof, an officer's willful and material breach of any obligation or duty under the employment agreement, the Company's confidentiality and proprietary rights agreement or the Company's written employment or other written policies that have previously been furnished to the officer, which breach is not cured within 30 days after written notice thereof is received by the officer, if such breach is capable of cure, the officer's gross negligence or willful misconduct, including without limitation, fraud, dishonesty or embezzlement, in the performance of his duties, or the officer's continuing failure or refusal to perform his assigned duties or to comply with reasonable directives of the board of directors that are consistent with the officer's job duties (which directives are not in conflict with applicable law), which failure is not cured within 30 days after written notice thereof is received by the officer.

For purposes of the change in control severance agreements, good reason is generally defined as a material diminution in the officer's authority, duties or responsibilities, a material diminution in the officer's base compensation, a material change in the geographic location at which the officer must perform his duties, or any other action or inaction that constitutes a material breach by the Company or any successor or affiliate of its obligations to the officer under the employment agreement. An officer must provide written notice to the Company of the occurrence of any of the foregoing events or conditions without his written consent within 90 days of the occurrence of such event. The Company will have a period of 30 days to cure such event or condition after receipt of written notice of such event from the officer. Any voluntary termination of an officer's employment for good reason must occur no later than the date that is six months following the initial occurrence of one of the foregoing events or conditions.

For purposes of the change in control severance agreements, a change in control has generally the same definition as given to such term under our 2002 Plan, as described below.

Amended and Restated Severance Plan

We maintain the Ligand Pharmaceuticals Incorporated Amended and Restated Severance Plan to provide severance payments to our employees and the employees of our subsidiaries upon an involuntary termination of employment without cause. Each of the named executive officers is eligible to participate in the severance plan, provided that he is not subject to disciplinary action or a formal performance improvement plan at the time of termination. However, if, as a result of his or her involuntary termination by us without cause, a named executive officer would be eligible to receive severance under any individual change in control severance agreement, employment agreement or other arrangement providing severance benefits, as approved by our board of directors or a committee thereof, such named executive officer will not be eligible for benefits under the severance plan.

Under the terms of the severance plan, a named executive officer will be eligible to receive (1) a lump sum payment in cash for fully earned but unpaid base salary and accrued but unused vacation through the date of termination, (2) an amount equal to his base salary for the severance period, which period will be equal to (a) two months plus (b) one week for each year of service as of the date of termination and (c) continued health coverage at the same cost as was in effect for the named executive officer at the date of termination throughout such severance period, provided that such named executive officer elects continued coverage under COBRA. The foregoing cash severance benefit will be payable in a lump sum following the officer's termination of employment, subject to the officer's execution of a general release of claims acceptable to us.

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For purposes of the severance plan, cause is generally defined an officer's conviction of (or entry of a plea of no contest to) any felony or any other criminal act, an officer's commission of any act of fraud or embezzlement, an officer's unauthorized use or disclosure of confidential or proprietary information or trade secrets of the Company or our subsidiaries, or an officer's commission of any material violation of the Company's policies, or an officer's commission of any other intentional misconduct which adversely affects the business or affairs of the Company in a material manner.

Change in Control Acceleration of Equity Awards

Equity awards granted under the 2002 Plan to the named executive officers may be subject to accelerated vesting in the event of a change in control.

Option agreements under the 2002 Plan, which cover each of the named executive officers, provide that such options will automatically vest in the event of a change in control where the option is not assumed or replaced by a successor:

Under the 2002 stock incentive plan, a change in control is generally defined as:

a merger, consolidation or reorganization of the Company in which 50% or more of its voting securities change ownership;

the sale, transfer or other disposition of all or substantially all of the Company's assets in complete liquidation or dissolution of the Company; or

a change in control of the Company effected through a successful tender offer for more than 50% of the Company's outstanding common stock or through a change in the majority of our board of directors as a result of one or more contested elections for board membership.

Compensation Recovery Policy

Our board of directors maintains a policy that it will evaluate in appropriate circumstances whether to seek the reimbursement of certain compensation awards paid to an executive officer if such executive engages in misconduct that caused or partially caused a restatement of financial results, in accordance with section 304 of the Sarbanes-Oxley Act of 2002. If circumstances warrant, we will seek to claw back appropriate portions of the executive officer's compensation for the relevant period, as provided by law.

Policies Regarding Tax Deductibility of Compensation

Within its performance-based compensation program, the Company aims to compensate the named executive officers in a manner that is tax-effective for the Company. Section 162(m) of the Internal Revenue Code restricts the ability of publicly held companies to take a federal income tax deduction for compensation paid to certain of their executive officers to the extent that compensation exceeds \$1.0 million per covered officer in any fiscal year. However, this limitation does not apply to compensation that is performance-based.

The non-performance based compensation paid in cash to the Company's executive officers for the 2011 fiscal year did not exceed the \$1.0 million limit per officer, and the compensation committee does not anticipate that the non-performance based compensation to be paid in cash to the Company's executive officers for fiscal 2012 will exceed that limit.

In addition, the 2002 Plan has been structured so that any compensation paid in connection with the exercise of options grants under that plan with an exercise price equal to the fair market value of the option shares on the grant date will qualify as performance-based compensation. Therefore, it will not be subject to the \$1.0 million deduction limitation.

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The following table provides information regarding the compensation earned by our named executive officers during the fiscal years ended December 31, 2011, 2010 and 2009.

Name and Principal Position	Year	Salary(\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	Non-Equity Incentive Plan	All Other Compensation	Total
						Compensation (\$)(2)	Compensation (\$)(3)	
John L. Higgins, President and Chief Executive Officer	2011	\$ 423,850		\$ 150,750	\$ 738,128	\$ 317,888	\$ 2,540	\$ 1,633,155
	2010	\$ 420,000		\$ 124,500	\$ 426,504	\$ 223,650	\$ 2,540	\$ 1,197,194
	2009	\$ 420,000		\$ 266,310	\$ 726,943	\$ 252,000	\$ 2,486	\$ 1,667,739
Matthew W. Foehr, Executive Vice President and Chief Operating Officer	2011	\$ 247,950		\$ 249,250	\$ 869,820	\$ 123,959	\$ 2,643	\$ 1,493,638
John P. Sharp, Vice President, Finance and Chief Financial Officer	2011	\$ 265,007		\$ 30,150	\$ 192,555	\$ 106,003	\$ 3,284	\$ 597,000
	2010	\$ 262,600		\$ 29,880	\$ 109,360	\$ 74,578	\$ 2,810	\$ 479,228
	2009	\$ 262,383		\$ 64,560	\$ 186,125	\$ 83,963	\$ 2,810	\$ 599,841
Charles S. Berkman, Vice President and General Counsel	2011	\$ 249,719		\$ 30,150	\$ 96,278	\$ 99,888	\$ 2,838	\$ 478,872
	2010	\$ 247,450		\$ 29,880	\$ 109,360	\$ 70,276	\$ 2,534	\$ 459,520
	2009	\$ 247,246		\$ 64,560	\$ 186,125	\$ 79,119	\$ 2,534	\$ 579,583
Dr. Syed M.I. Kazmi, Vice President, Business Development and Strategic Planning	2011	\$ 244,623		\$ 30,150	\$ 73,813	\$ 75,000	\$ 4,162	\$ 450,597
	2010	\$ 242,400		\$ 29,880	\$ 109,360	\$ 68,842	\$ 3,948	\$ 454,430
	2009	\$ 242,200		\$ 64,560	\$ 186,125	\$ 77,504	\$ 3,200	\$ 573,589

- (1) Reflects the grant date fair value for stock and option awards granted in 2009, 2010 and 2011, calculated in accordance with FASB ASC Topic 718. With respect to stock and option awards with performance-based vesting conditions, the grant date fair value was adjusted for our assessment of the probability that performance conditions will be achieved. The assumptions used to calculate the value of stock and option awards are set forth under Note 12 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 23, 2012. The following table provides the full grant date fair values for all stock and option awards included in the Summary Compensation Table that were granted during 2009 and 2011 with performance-based vesting conditions, assuming that the highest level of performance will be achieved in each case (no performance-based awards were granted during 2010):

Name and Principal Position	Year	Grant Date Fair Value of Stock Awards(\$)	Grant Date Fair Value of Option Awards(\$)
John L. Higgins, President and Chief Executive Officer	2009	107,600	70,400
Matthew W. Foehr, Executive Vice President and Chief Operating Officer	2011		244,050
John P. Sharp, Vice President, Finance and Chief Financial Officer	2009	26,900	17,600
Charles S. Berkman, Vice President and General Counsel	2009	26,900	17,600
Dr. Syed M.I. Kazmi,	2011		256,740
	2009	26,900	17,600

Vice President, Business Development and
Strategic Planning

- (2) Represents performance bonus awards under the management bonus plan earned in 2009, 2010 and 2011, but paid in the subsequent year.
- (3) Represents life insurance premiums paid by the Company and, for each year represented in the table, \$2,000 in 401(k) matching funds paid by the Company for each named executive officer.

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The following table summarizes plan-based awards granted to our named executive officers during the last fiscal year.

Name	Grant Date	Date of Compensation Committee Action	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Units (#)(3)	All Other Option Awards: Number of Securities Underlying Options (#)(4)	Exercise or Base Price of Option Awards (\$/Sh)	Closing Price on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(5)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)					
John L. Higgins					317,888								
	2/17/11	1/21/11						15,000			10.05	150,750	
	2/17/11	1/21/11							115,000	10.05		738,128	
Matthew W. Foehr					123,975								
	4/18/11	4/1/11						25,000			9.97	249,250	
	4/18/11	4/1/11							100,000	9.97	9.97	625,770	
	4/18/11	4/1/11					65,000			9.97	9.97	406,750	
John P. Sharp					106,003								
	2/17/11	1/21/11						3,000			10.05	30,150	
	2/17/11	1/21/11							30,000	10.05		192,555	
Charles S. Berkman					99,888								
	2/17/11	1/21/11						3,000			10.05	30,150	
	2/17/11	1/21/11							15,000	10.05		96,278	
Dr. Syed M.I. Kazmi					97,850								
	2/17/11	1/21/11						3,000			10.05	30,150	
	2/17/11	1/21/11							10,000	10.05	10.05	64,185	
	2/17/11	1/21/11					30,000			10.05	10.05	192,555	

(1) Cash bonus awards granted under our annual performance bonus program. Actual bonus amounts paid are reflected in the Summary Compensation Table above.

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- (2) The equity incentive plan award granted to Dr. Kazmi consisting of an option award was eligible to vest based upon the successful completion of certain strategic transactions during 2011. Dr. Kazmi did not vest in any of the foregoing performance-based awards as no qualifying transactions were consummated during 2011. The equity incentive plan award granted to Mr. Foehr vests as follows: 15,000 options will vest if and when cumulative CyDex revenue for 2011 and 2012 exceeds certain pre-determined levels; 25,000 options will vest if the Company completes a strategic partnership with a commercial partner by June 30, 2012; and 25,000 options will vest if the Company completes a multi-product CyDex technology-based platform transaction with a pharmaceutical company by June 30, 2012. Mr. Foehr vested in 25,000 of these options in January 2012 as a result of the CyDex technology-based platform transaction consummated with Eli Lilly. For a description of the change in control provisions applicable to the foregoing equity awards, see *Severance and Change in Control Arrangements* above. These option awards are disclosed in the table assuming that the highest level of performance will be achieved.
- (3) The restricted stock unit awards granted to the named executive officers vest in equal installments over a three year period. For a description of the change in control provisions applicable to the foregoing equity awards, see *Severance and Change in Control Arrangements* above.
- (4) Except as described above, each option grant to the named executive officers vests 12.5% after six months from grant and the remainder in 42 equal monthly installments. For a description of the change in control provisions applicable to the foregoing equity awards, see *Severance and Change in Control Arrangements* above.
- (5) Represents the fair value of the stock option or stock award at the time of grant as determined in accordance with the provisions of FASB ASC Topic 718. The assumptions used to calculate the value of stock and option awards are set forth under Note 12 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 23, 2012.

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The following table provides information on all stock option awards and stock awards held by the named executive officers of the Company as of December 31, 2011. All outstanding equity awards are in shares of the Company's common stock.

Name(1)	Option Awards(1)					Stock Awards(2)		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)	Unearned Shares, Unit or Other Rights That Have Not Vested (#)
John L. Higgins	46,193	1,806		21.00	2/22/18			
	50,042	18,958		16.14	2/14/19			
	29,792	35,208		9.96	2/14/20			
	23,958	91,042		10.05	2/16/21			
						27,499	326,413	
Matthew W. Foehr	16,667	83,333		9.97	4/17/2021			
			65,000(4)	9.97				