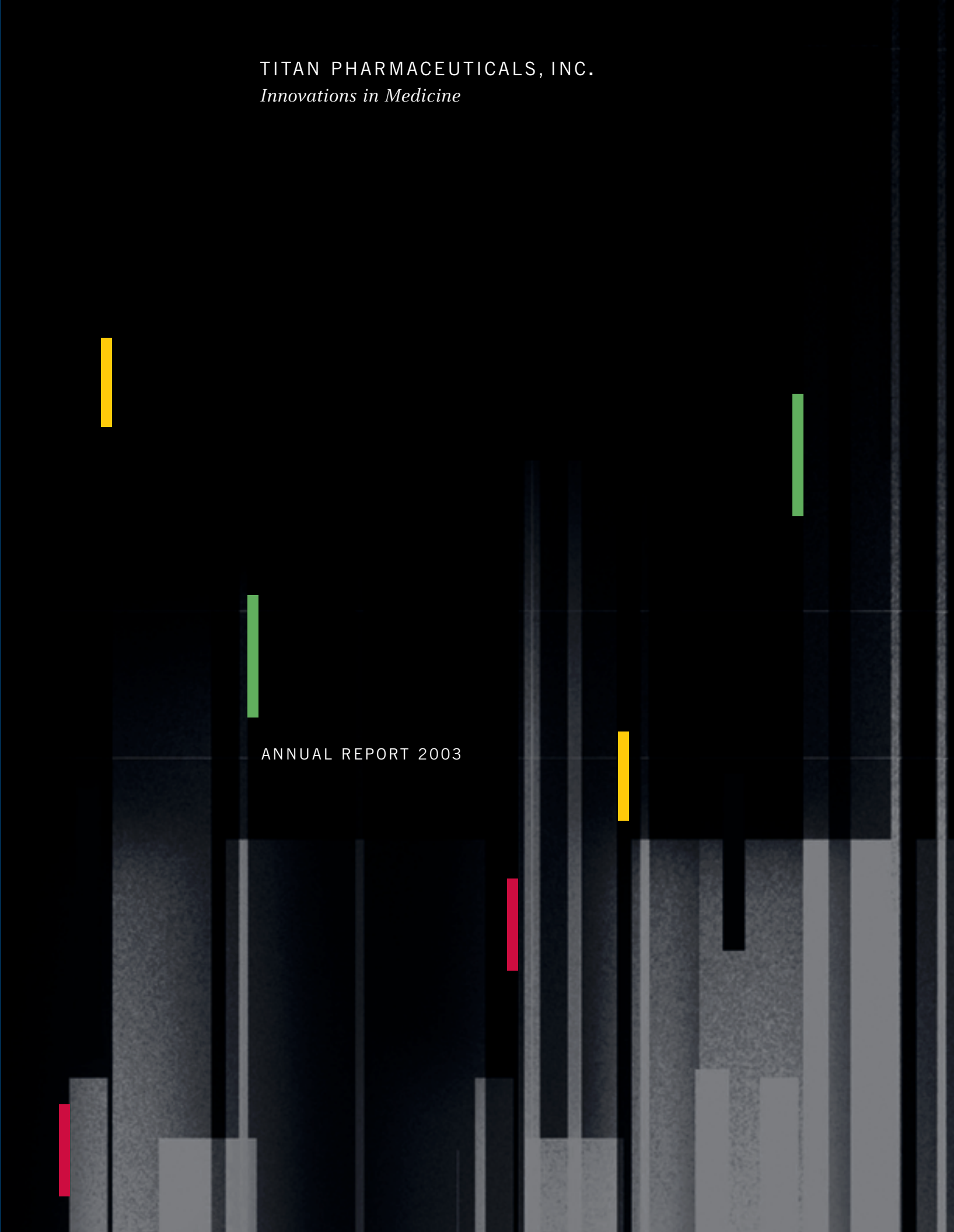
TITAN PHARMACEUTICALS, INC.

Innovations in Medicine



ANNUAL REPORT 2003

corporate information

Executive Officers

Louis R. Bucalo, M.D.
Chairman, President and Chief Executive Officer

Sunil Bhonsle
Executive Vice President, Chief Operating Officer, Secretary and Director

Robert E. Farrell
Executive Vice President, Chief Financial Officer

Richard C. Allen, Ph.D.
Executive Vice President, Cell Therapy

Corporate Office

400 Oyster Point Boulevard, Suite 505
South San Francisco, California 94080
Tel: 650-244-4990
Fax: 650-244-4956

General Counsel

Loeb & Loeb, LLP
345 Park Avenue
New York, New York 10154-0037

Securities Listing

Titan's securities are listed on the American Stock Exchange
Common Stock: TTP

Independent Auditors

Ernst & Young, LLP
Palo Alto, California

Transfer Agent and Registrar

Continental Stock Transfer & Trust Company
17 Battery Place, 8th Floor
New York, New York 10004
Tel: 212-509-4000

Board of Directors

Louis R. Bucalo, M.D.
Chairman, President and Chief Executive Officer
Executive Committee

Ernst-Günter Afting, M.D., Ph.D.
President of the GSF-National Center for Environment and Health, Germany
Former President and Chief Executive Officer of Roussel Uclaf

Victor J. Bauer, Ph.D.
Former President of Hoechst-Roussel Pharmaceuticals, Inc.

Sunil Bhonsle
Executive Vice President, Chief Operating Officer and Secretary

Eurelio M. Cavalier
Executive Committee
Compensation Committee
Former Group Vice President of U.S. Pharmaceutical Business Unit, Eli Lilly & Company

Hubert E. Huckel, M.D.
Executive Committee
Compensation Committee
Audit Committee
Former Chairman of the Board of Hoechst-Roussel Pharmaceuticals, Inc.

M. David MacFarlane, Ph.D.
Audit Committee
Former Vice President and Responsible Head of Regulatory Affairs of Genentech, Inc.

Ley S. Smith
Executive Committee
Audit Committee
Former President and Chief Operating Officer of the Upjohn Company, and Former President of Pharmacia & Upjohn's U.S. Pharma Product Center

Konrad M. Weis, Ph.D.
Executive Committee
Compensation Committee
Former President, Chief Executive Officer and Honorary Chairman of Bayer Corporation

Titan is focused on identifying new drugs to improve the treatment of serious diseases, developing these drug candidates with leading experts in clinical research, and accelerating the development process using carefully selected strategies, including partnering with other leading companies.

In 2003, Titan advanced corporate growth through the achievement of significant product development milestones, as well as through the acquisition of an important new product candidate, DITPA, a novel compound in clinical testing for the treatment of congestive heart failure. Titan is pursuing several product development programs in clinical testing: iloperidone, Spheramine®, Probuphine®, DITPA, Pivanex®, and gallium maltolate.

to our shareholders

During 2003, Titan expanded the number of its core development programs, and made important progress in several areas.

Titan's core product development programs address the following important therapeutic areas: central nervous system disorders, cancer and cardiovascular disease. All of Titan's products in development are now in clinical testing. Iloperidone, Titan's novel agent for the treatment of schizophrenia, is continuing in Phase III development. Four products, Spheramine, Probuphine, DITPA and Pivanex are in Phase II clinical testing, and gallium maltolate is in Phase I clinical testing.

In June 2004, Titan announced that Vanda Pharmaceuticals, Inc. acquired from Novartis Pharma, AG the worldwide rights to develop and commercialize iloperidone, Titan's proprietary product in development for the treatment of schizophrenia and related psychotic disorders. Under its agreement with Novartis, Vanda will pursue completion of the iloperidone Phase III development program. All of Titan's rights and economic interests in iloperidone, including royalties on sales of iloperidone, remain unchanged under the agreement. With the implementation of this agreement, Titan re-established an important Phase III clinical program.

Spheramine, our novel cell therapy product, is in development for the treatment of Parkinson's disease. During 2003, Titan presented additional positive long-term data from a completed pilot study of Spheramine for the treatment of Parkinson's disease. Two-year results from this pilot study were presented at the Meeting of the American Academy of Neurology in 2003, demonstrating an average 41% improvement in patient motor function two years post treatment with no significant adverse events. A randomized, controlled, blinded Phase IIb clinical study of Spheramine in advanced Parkinson's disease is currently in process. Titan's corporate partner for the development of Spheramine, Schering AG, Germany, is funding this study.

Probuphine, our novel treatment in development for opiate addiction, is the first product in clinical testing to utilize Titan's proprietary ProNeura drug delivery system. In 2003, Titan initiated a Phase I/II clinical study of Probuphine for the treatment of opiate addiction. In June 2004, we announced positive results from this study. The data demonstrated that all 12 patients treated with Probuphine at both dose levels tested were safely switched to Probuphine from daily sublingual buprenorphine therapy, with maintenance of therapeutic benefit for six months after a single treatment, and no significant adverse events.

In October 2003, Titan acquired 3,5-diiodothyroproprionic acid (DITPA), a novel product in clinical testing for the treatment of congestive heart failure. DITPA is an orally active analogue of thyroid hormone that has demonstrated in preclinical and preliminary clinical studies to date the ability to improve cardiac function. Titan is developing DITPA initially as a potential treatment for congestive heart failure (CHF) associated with low serum thyroid hormone (T3) levels, and plans to initiate a randomized, controlled Phase II clinical study of DITPA in Class III and IV patients with low serum T3 levels in the second half of 2004. In addition, a randomized, controlled Phase II study in patients with Class II–IV CHF was initiated by the Veterans Administration Cooperative Studies Program in 2004. This multi-center study is funded by a $3.8 million government grant from the Veterans Administration system.

Pivanex is an anti-cancer agent that inhibits histone deacetylases (HDAC), a class of enzymes important for cell growth. Pivanex is being evaluated in a Phase IIa clinical study as a single agent in the treatment of refractory chronic lymphocytic leukemia. In a Phase IIb clinical study with Pivanex in combination with docetaxel in the treatment of non-small cell lung cancer, Titan discontinued treatment with Pivanex due to significant safety concerns with the combination regimen. Further safety data review and analysis is in progress to determine next steps for Pivanex.

Titan's gallium maltolate is a novel oral agent in development for the treatment of cancer and bone disease. Gallium maltolate demonstrated favorable results in a pilot study presented in September 2003 at the Annual Meeting of the American Society for Bone and Mineral Research, showing that gallium maltolate can achieve targeted, potentially therapeutic serum levels of gallium in patients with advanced Paget's disease. A Phase I study of gallium maltolate in various cancers is currently ongoing.

We would like to thank our shareholders for their support and our employees for their continued dedicated efforts toward further progress in the coming year.

Sincerely,

Louis R. Bucalo, M.D.
Chairman, President and Chief Executive Officer

identifying

Identifying, evaluating and acquiring promising drug candidates are some of Titan's important core competencies. Titan identifies and acquires compounds and technologies based on important scientific principles that potentially address significant unmet medical needs.

"Data from preliminary clinical testing suggest that DITPA may be an important thyroid hormone (T3) replacement therapy for congestive heart failure, due to its potential ability to improve cardiac function without increasing heart rate."

Milton Packer, M.D.

Professor of Internal Medicine, Director for the Center of Biostatistics and Clinical Science, Holder of the Gayle and Paul Stoffle Distinguished Chair in Cardiology, University of Texas Southwestern Medical Center at Dallas.

DITPA

In 2003, Titan acquired DITPA, a novel product in development for the treatment of congestive heart failure (CHF). In a preliminary double-blind, placebo controlled Phase II clinical study in patients with CHF, DITPA was shown to increase cardiac index and lower systemic vascular resistance without increasing heart rate.

market

DITPA is in development for the treatment of congestive heart failure (CHF):

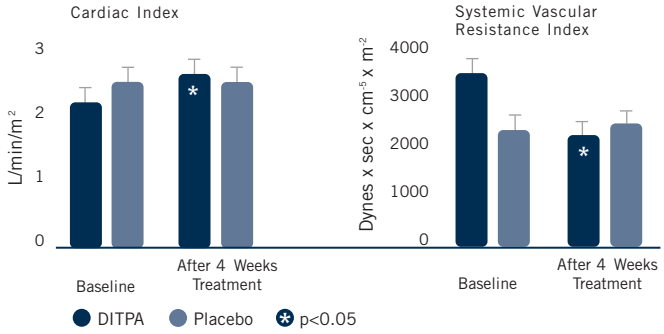
- More than 15 million patients worldwide with CHF, 4.7 million in the United States.
- Approximately 1 million CHF patients collectively in the U.S. and Europe have decreased thyroid hormone (T_3) levels—DIPTA's initial target population.

results

DITPA INCREASES CARDIAC INDEX

A preliminary double-blind, placebo controlled Phase II clinical study evaluated the effect of DITPA on cardiac function and systemic vascular resistance in patients with Class II or III CHF. In this study DITPA was seen to increase cardiac index, while lowering systemic vascular resistance.

Phase II Clinical Study



status

- Titan plans to initiate a randomized, controlled Phase II clinical study with DITPA in the second half of 2004 in Class III and IV CHF patients with low serum T_3 levels.
- The U.S. Department of Veterans Affairs (VA) has initiated a 150 patient, randomized, double blind Phase II clinical study with DITPA in CHF. This multi-center study is funded by a $3.8 million grant from the VA.
- An expert advisory group has been established to help guide further development of DITPA.

DITPA (3,5-diiodothyropropionic acid) is an orally active analogue of thyroid hormone. Thyroid hormone itself plays a central role in maintaining cardiovascular function, and many patients with advanced (NYHA Class III and IV) CHF have decreased thyroid hormone (T_3) levels. Low T_3 levels are an independent predictor of poor survival in advanced CHF patients, and this patient group is estimated to comprise approximately 500,000 patients in the U.S., and a similar number in Europe. However, currently available thyroid hormone preparations are not well suited for chronic administration in this setting in advanced CHF. In preliminary studies to date, DITPA has been shown to increase cardiac function without increasing heart rate, and represents a potential new approach to the improved treatment of many patients with CHF.

developing

During the past year, Titan advanced the development of Probuphine through the initiation and completion of a Phase I/II clinical study evaluating the safety, pharmacokinetics and preliminary efficacy of Probuphine in the treatment of opiate addiction.

"Treatment with Probuphine may potentially overcome the challenges of poor compliance, misdirection of drug and variable serum levels associated with daily oral therapy, and provide patients with a more effective treatment option."

John B. Saunders, M.D., FRACP, FAFPHM, FAChAM

Professor of Alcohol and Drug Studies, University of Queensland, Director, Alcohol and Drug Service, Royal Brisbane and Women's Hospital

PROBUPHINE

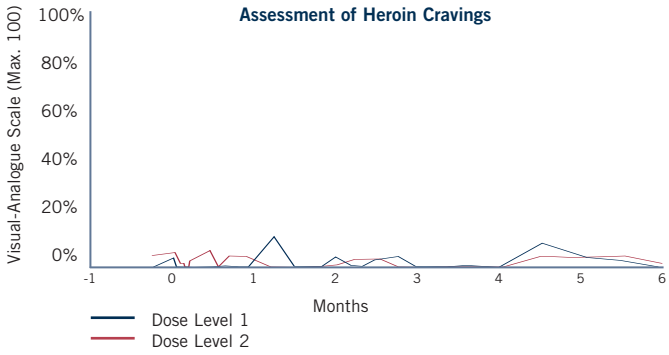
Probuphine is Titan's first product in clinical testing to utilize its proprietary ProNeura long-term drug delivery technology. Probuphine is designed to deliver buprenorphine continuously for up to six months following a single visit to the doctor's office. Continuous long-term delivery of buprenorphine may help eliminate many challenges associated with daily oral therapy, including poor compliance, variable blood levels, risk of misuse, morning withdrawal symptoms before each dose, and overall reduced therapeutic value.

market

- United States: 1.3 million heroin users; 150,000-200,000 receiving pharmacological treatment
- European Union: 1.5 million heroin users; 450,000-500,000 receiving pharmacological treatment
- France: More than 50% of heroin-addicted patients receiving pharmacological treatment use buprenophrine

results

Preliminary clinical results demonstrate that Probuphine's continuous, long-term delivery controls withdrawal symptoms and opiate craving, and may provide a new and important approach to buprenorphine therapy for patients with opiate addiction.



status

- In 2004, Titan completed a Phase I/II clinical study of Probuphine in the treatment of opiate addiction. The study results demonstrated that all 12 patients at two dose levels treated with Probuphine were safely switched from daily oral sublingual buprenorphine therapy to Probuphine, with maintenance of therapeutic benefit for six months after a single treatment, and no significant adverse events. These positive study results were presented at the annual meeting of the International Society of Addiction Medicine in Helsinki in June 2004.

Titan's ProNeura drug delivery system consists of a small, solid rod made from a mixture of ethylene-vinyl acetate (EVA) and drug substance. The resulting product is a solid matrix that releases the drug substance slowly, at continuous levels, through the process of diffusion. The product is placed subcutaneously, normally in the upper arm in a simple 15-minute office procedure, and is removed in a similar manner at the end of the treatment period.

ProNeura technology was developed to address the need for a simple, practical method to achieve continuous long-term drug delivery. In addition to Probuphine, Titan has also demonstrated preliminary proof of principle of ProNeura technology with a number of other drugs in preclinical testing, including drugs for the treatment of Parkinson's disease, psychiatric disorders and alcohol addiction.

developing

Titan is conducting a dose ranging clinical study of gallium maltolate in patients with multiple myeloma, metastatic prostate cancer, metastatic bladder cancer and refractory lymphoma. Titan is also conducting preclinical studies to evaluate gallium maltolate in the treatment of liver cancer, bone metastases, metabolic bone disease and rheumatoid arthritis.

"Given the scientific evidence from prior clinical studies demonstrating the anti-cancer activity of intravenous gallium nitrate in several different tumor types, it is hoped that oral gallium maltolate may prove to be an important, and more easily administered, potential therapy for the treatment of cancer."

Dr. Donald W. Northfelt

F.A.C.P., Assistant Clinical Professor of Medicine at the University of California, San Diego, and Medical Oncologist at Eisenhower Medical Center in Rancho Mirage, California.

GALLIUM MALTOLATE

Gallium maltolate is a novel oral agent for the potential treatment of cancer and bone disease. Gallium, a semi-metallic element, inhibits ribonucleotide reductase, a key enzyme essential for DNA replication in cancer cells. Prior independent clinical studies using intravenously administered gallium nitrate have demonstrated preliminary evidence of clinical activity of gallium in several cancers including multiple myeloma, lymphoma, bladder cancer and prostate cancer.

market

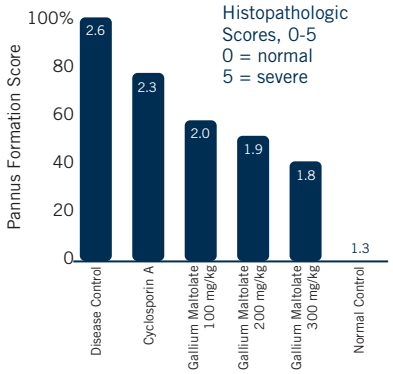
Gallium maltolate is being evaluated as a potential treatment for multiple myeloma, metastatic prostate cancer, metastatic bladder cancer and refractory lymphoma:

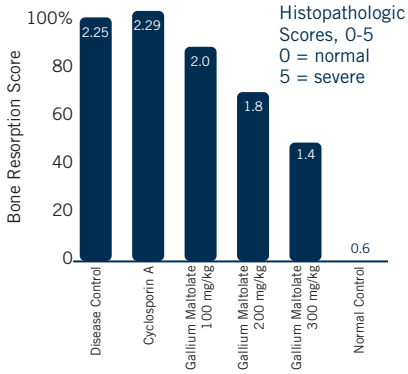
- Bladder cancer is the sixth most commonly-diagnosed cancer in the U.S., with approximately 54,000 new cases diagnosed each year.
- Prostate cancer is the most common male cancer in the U.S. with an incidence of approximately 221,000 new cases each year.
- Multiple myeloma is the second most common hematological malignancy, with approximately 14,000 new cases annually in the U.S.
- The incidence of lymphoma in the U.S. is approximately 55,000 new cases each year.

results

EFFECT OF GALLIUM MALTOLATE IN AN ANIMAL MODEL OF RHEUMATOID ARTHRITIS

In a preclinical animal model for arthritis, oral dosing of gallium maltolate reduced the severity of the disease in a dose-dependent manner. Further development of gallium maltolate therapy in this disease setting is under review.





status

- Titan is continuing to advance a Phase I/II clinical study with gallium maltolate in advanced cancer patients.
- In September 2003, Titan presented favorable results from a dose finding study of oral gallium maltolate in the treatment of advanced Paget's disease demonstrating achievement of significant serum levels of gallium.

Titan is conducting a dose ranging clinical study of gallium maltolate in patients with multiple myeloma, lymphoma, bladder cancer and prostate cancer. The maximum tolerated dose level has not yet been reached. Accordingly, additional patient cohorts are being enrolled at higher doses. In addition to its anti-cancer activity, gallium has been shown in laboratory studies to increase bone deposition and reduce bone turnover. Based on these results, Titan is also conducting preclinical studies evaluating gallium maltolate in other disease settings, including metabolic bone disease and rheumatoid arthritis.

accelerating

Spheramine is being developed by Titan and Schering AG, Germany, Titan's corporate partner for the development of this novel cell therapy for the potential treatment of Parkinson's disease. A randomized, controlled, blinded, multi-center Phase IIb clinical study of Spheramine in advanced Parkinson's disease is currently in progress.

"Spheramine is an innovative and unique potential therapy for Parkinson's disease, and preliminary clinical results seen to date are encouraging."

Ray L. Watts, M.D.

Professor and Chairman, Department of Neurology, University of Alabama, Birmingham.

SPHERAMINE

Titan enhances resources for product development by establishing partnerships with other pharmaceutical development companies and government institutions. Spheramine, Titan's novel cell therapy in development for the treatment of Parkinson's disease, is being developed through a corporate partnership with Schering AG, Germany.

Schering is funding the clinical development program for Spheramine. In 2002, Titan received a $2 million milestone payment from Schering following the successful completion of Titan's pilot clinical study with Spheramine, and the decision by Schering to

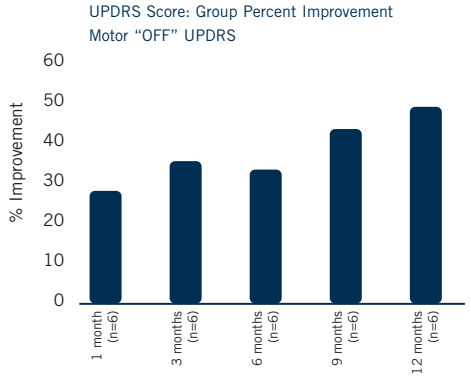
market

Spheramine is in development for the treatment of later-stage Parkinson's disease (PD) patients

- United States: 400,000 (out of estimated 800,000 total PD population)
- European Union: 500,000 (out of estimated 1 million total PD population)

results

A pilot clinical study of Spheramine in six patients with later-stage Parkinson's disease demonstrated substantial improvement (48%) in motor function at one-year post treatment with no significant adverse events.



status

- At the American Academy of Neurology meeting in 2003, two-year results from the Spheramine pilot study were presented that demonstrated an average 41% improvement in patients' motor function two years post treatment with no significant adverse events.
- A randomized, controlled, blinded Phase IIb clinical study of Spheramine in advanced Parkinson's disease, initiated in December 2002, is currently in progress, and is proceeding on schedule. Titan's corporate partner for the development of Spheramine is Schering AG, Germany.

initiate randomized clinical testing for the treatment of advanced Parkinson's disease. In addition to clinical and manufacturing development funding and milestone payments, Schering will also pay Titan a royalty on future product sales of Spheramine.

Spheramine utilizes Titan's novel, proprietary cell-coated microcarrier (CCM) technology, which enables the development of cell-based therapies for minimally-invasive, site specific delivery of therapeutic factors to the central nervous system.

Titan's CCM technology involves adhering cells to microscopic carriers that can then be implanted into the central nervous system. This confers greatly improved survival to the cells and avoids the need for immunosuppression (suppression of the immune system to prevent rejection). Spheramine is the first Titan product to utilize this technology.

ILOPERIDONE

Titan's proprietary product in development for schizophrenia and related psychotic disorders, iloperidone, is now partnered with Vanda Pharmaceuticals, which acquired worldwide rights to iloperidone from Novartis Pharma, AG. Vanda will now move forward to advance iloperidone in Phase III clinical testing.

status

Iloperidone has been evaluated to date in a Phase III clinical program comprising over 3,500 patients at more than 200 sites in 24 countries. This Phase III program, which was conducted by Novartis Pharma, AG, demonstrated preliminary evidence of the clinical efficacy, safety and tolerability of iloperidone in the treatment of schizophrenia. Additionally, a study was completed in elderly patients with good results. Iloperidone was considered safe in these studies, but also showed a dose dependent increase in the QTc interval that may affect the opportunity for iloperidone as a first line therapy for schizophrenia.

Vanda Pharmaceuticals will now pursue advancement of the iloperidone Phase III development program. Vanda was founded by its Chairman, Dr. Argeris N. Karabelas, formerly CEO of Novartis Pharmaceuticals, and its CEO, Dr. Mihael Polymeropoulos, former Vice President of Pharmacogenetics at Novartis Pharmaceuticals.

products in development

	disease target	phase
ILOPERIDONE is an antipsychotic agent in development for the treatment of schizophrenia	Schizophrenia	III
SPHERAMINE is a novel cell therapy in development for the treatment of advanced Parkinson's disease.	Advanced Parkinson's disease	II
PROBUPHINE is a novel treatment in development for opiate addiction that utilizes the Company's proprietary ProNeura long-term drug delivery system. Probuphine delivers buprenorphine, an approved agent for treatment of opiate addiction, for six months.	Opiate addiction	II
DITPA (3,5-diiodothyroproprionic acid), is an orally active analogue of thyroid hormone in development for the treatment of congestive heart failure associated with low thyroid hormone levels.	Congestive heart failure	II
PIVANEX is an anti-cancer agent that inhibits histone deacetylases (HDAC), a class of enzymes important for cell growth.	Chronic lymphocytic leukemia	II
GALLIUM MALTOLATE is a novel oral agent in development for the treatment of cancer and bone disease.	Bladder cancer, lymphoma	I

selected financial data

The selected financial data presented below summarizes certain financial data which has been derived from and should be read in conjunction with our consolidated financial statements and footnotes thereto included elsewhere herein. See also Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,				
(in thousands, except per share data)	2003	2002	2001	2000	1999
Statement of Operations Data					
Total revenue[1]	$ 89	$ 2,892	$ 4,572	$ 1,880	$ 337
Operating expenses:					
Research and development	22,258	29,819	23,339	16,744	9,429
Acquired/in-process research and development[2]	3,896	—	—	4,969	136
General and administrative	5,109	5,076	5,383	4,070	2,794
Other income, net	1,285	3,821	6,686	5,115	726
Net loss	$ (29,889)	$ (28,182)	$ (17,464)	$ (18,788)	$ (11,296)
Basic and diluted net loss per share	$ (1.07)	$ (1.02)	$ (0.63)	$ (0.73)	$ (0.70)
Shares used in computing:					
Basic and diluted net loss per share	27,907	27,642	27,595	25,591	16,112

(1) Revenues for 2001 include $2.5 million license fee payment from Novartis for the development and commercialization of iloperidone in Japan. Revenues for 2002 include a $2.0 million milestone payment from Schering.

(2) Acquired research and development reflects the acquisition of DTI in 2003 and in-process research and development reflects the acquisition of GeoMed in 2000, and the acquisition of a minority interest in Theracell in 1999.

	As of December 31,				
(in thousands)	2003	2002	2001	2000	1999
Balance Sheet Data					
Cash, cash equivalents, and marketable securities	$ 46,555	$ 73,450	$105,051	$117,523	$ 46,454
Working capital	44,578	70,702	100,193	115,386	45,128
Total assets	49,008	75,926	107,132	118,442	47,362
Total stockholders' equity	44,426	70,740	100,127	114,738	44,302

management's discussion and analysis of financial condition and results of operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes.

The following discussion contains certain forward-looking statements, within the meaning of the "safe harbor" provisions of the Private Securities Reform Act of 1995, the attainment of which involves various risks and uncertainties. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "will," "expect," "believe," "estimate," "plan," "anticipate," "continue," or similar terms, variations of those terms or the negative of those terms. Our actual results may differ materially from those described in these forward-looking statements due to, among other factors, the results of ongoing research and development activities and pre-clinical testing, the results of clinical trials and the availability of additional financing through corporate partnering arrangements or otherwise.

Spheramine®, Pivanex®, Probuphine®, CeaVac®, TriAb®, TriGem™ and CCM™ are trademarks of Titan Pharmaceuticals, Inc.

OVERVIEW

We are a biopharmaceutical company developing proprietary therapeutics for the treatment of CNS disorders, cancer, and cardiovascular disease. Our product development programs focus on large pharmaceutical markets with significant unmet medical needs and commercial potential. We have six products in clinical development:

- Ioperidone: for the treatment of schizophrenia and related psychotic disorders (partnered with Vanda Pharmaceuticals, Inc.)
- Spheramine: for the treatment of late stage Parkinson's disease
- Probuphine: for the treatment of opiate addiction
- DITPA: for the treatment of congestive heart failure
- Pivanex: for the treatment of non-small cell lung cancer
- Gallium maltolate: for the treatment of several cancers and bone related disease associated with cancer

We are directly developing our product candidates and also utilizing strategic partnerships. These collaborations help fund product development and enable us to retain significant economic interest in our products. Spheramine development is primarily funded by our corporate partner for Spheramine, Schering. In June 2004, we announced that Vanda Pharmaceuticals, Inc. had acquired from Novartis Pharma AG the worldwide rights to develop and commercialize iloperidone, Titan's proprietary antipsychotic agent in Phase III clinical development for the treatment of schizophrenia and related psychotic disorders. Under it's agreement with Novartis, Vanda will pursue advancement of the iloperidone Phase III development program. All of Titan's rights and economic interests in iloperidone, including royalties on sales of iloperidone, remain essentially unchanged under the agreement. Titan is no longer directly pursuing development of the monoclonal antibodies—CeaVac, TriAb, and TriGem—for the treatment of various cancers, and remaining clinical studies are externally funded collaborations with co-operative groups.

The following table provides summary status of our products in development:

Product	Potential Indication(s)	Phase of Development	Marketing Rights
Iloperidone	Schizophrenia, psychosis	Phase III	Vanda Pharmaceutical Inc.
Spheramine	Parkinson's disease	Phase IIb	Schering AG
Probuphine	Opiate addiction	Phase II	Titan
DITPA	Congestive heart failure	Phase II	Titan
Pivanex	Chronic lymphocytic leukemia	Phase II	Titan
Gallium maltolate	Bladder cancer, lymphoma	Phase I	Titan

For additional information on our product development programs, see Item 1(c) "Narrative Description of Business" section.

Our products are at various stages of development and may not be successfully developed or commercialized. We do not currently have any products being sold on the commercial market. Our proposed products will require significant further capital expenditures, development, testing, and regulatory clearances prior to commercialization. We may experience unanticipated problems relating to product development and cannot predict whether we will successfully develop and commercialize any products. An estimation of product completion dates and completion costs can vary significantly for each product and are difficult to predict. Various statutes and regulations also influence our product development progress and the success of obtaining approval is highly uncertain. For a full discussion of risks and uncertainties in our product development, see "Risk Factors—Our products are at various stages of development and may not be successfully developed or commercialized."

CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. We believe the following accounting policies and estimates for the year ended December 31, 2003, to be critical:

We have elected to continue to follow Accounting Principles Board Opinion No. 25 (or APB 25), "Accounting for Stock Issued to Employees," to account for employee stock options because the alternative fair value method of accounting prescribed by Statement of Financial Accounting Standards No. 123 (or SFAS 123), "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, no compensation expense is recognized when the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant. Had we elected to follow SFAS 123 and to apply the fair value method to stock-based employee compensation, we would have recorded an additional $2.0 million in net loss, or an additional $0.07 of net loss per share for the year ended December 31, 2003.

RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2003 and 2002

Revenues in 2003 were $0.1 million compared to $2.9 million for 2002, a decrease of $2.8 million. Our 2002 revenue included a one-time $2 million milestone payment from Schering AG following successful completion of our Phase I/II clinical study of Spheramine in the treatment of Parkinson's disease and Schering's decision to initiate randomized clinical testing of Spheramine for the treatment of patients with late-stage Parkinson's disease (see Note 7 to the Consolidated Financial Statements beginning on page F-1 in this report). In addition, our 2002 revenue also included SBIR grant revenues from the National Institutes of Health in support of the development of Spheramine. We had no comparable milestone or grant revenue in 2003.

Research and development expenses for 2003 were $22.3 million compared to $29.8 million for 2002, a decrease of $7.5 million. The decrease in research and development was primarily associated with the completion of a randomized, placebo-controlled Phase III clinical study in 2002. Of our 2003 research and development expenses, approximately 52%, or $11.7 million, were attributable to external R&D expenses. External R&D expenses include direct expenses such as clinical research organization charges, investigator and review board fees, patient expense reimbursements, pre-clinical activities and contract manufacturing expenses. In 2003, approximately $5.2 million of external R&D expenses were related to Pivanex, $1.2 million to Probuphine, $1.3 million to gallium maltolate, $0.6 million to Spheramine, and the remainder to other projects. Remaining R&D expenses were attributable to internal operating costs, which include clinical research and development personnel salaries and employment related expenses, clinical trials related travel expenses, and allocation of facility and corporate costs. In 2003, we recorded a $3.9 million acquired research and development expense in connection with the acquisition of DITPA, a novel product for the potential treatment of congestive heart failure. The entire purchase price was charged to acquired research and development on the acquisition date in accordance with generally accepted accounting principles. See Note 8 to the Consolidated Financial Statements beginning on page F-1 in this report. As a result of the risks and uncertainties inherently associated with pharmaceutical research and development activities described elsewhere in this report, we are unable to estimate the specific timing and future costs of our clinical development programs or the timing of material cash inflows, if any, from our product candidates.

General and administrative expenses for 2003 were $5.1 million compared to $5.1 million for 2002. We expect G&A costs to remain approximately the same in 2004.

Other income, net, for 2003 was $1.3 million compared to $3.8 million for 2002, a decrease of $2.5 million. The decrease, primarily in interest income, was a result of declining interest rates and our smaller average cash and marketable securities position.

As a result of the foregoing, we had a net loss of $29.9 million in 2003 compared to a net loss of $28.2 million in 2002.

None of our products has been commercialized, and we do not expect to generate any revenue from product sales or royalties in the foreseeable future. We will also continue to identify new technologies and/or product candidates for possible in-licensing or acquisition. Accordingly, we expect to incur operating losses for the foreseeable future. We cannot assure you that we will ever achieve profitable operations.

Comparison of Years Ended December 31, 2002 and 2001

Revenues in 2002 were $2.9 million compared to $4.6 million for 2001, a decrease of $1.7 million. Our 2001 revenue included a one-time license fee payment of $2.5 million received from Novartis for the development and commercialization of iloperidone in Japan, and an SBIR grant received from the National Institutes of Health in support of the development of Spheramine.

Research and development expenses for 2002 were $29.8 million compared to $23.3 million for 2001, an increase of $6.5 million. The increase in research and development was primarily associated with the completion of the randomized, placebo-controlled Phase III clinical study of CeaVac in Dukes' D colorectal cancer and our other expanded clinical programs in cancer, specifically the Phase II studies with Pivanex and the Phase I/II study with gallium maltolate.

General and administrative expenses for 2002 were $5.1 million compared to $5.4 million for 2001, a decrease of $300,000. The decrease was primarily due to lower stock option related non-cash compensation expenses.

Other income, net, for 2002 was $3.8 million compared to $6.7 million for 2001, a decrease of $2.9 million. The decrease, primarily in interest income, was a result of declining interest rates and our smaller average cash and marketable securities position.

As a result of the foregoing, we had a net loss of $28.2 million in 2002 compared to a net loss of $17.5 million in 2001.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	2003	2002	2001
As of December 31			
Cash, cash equivalents and marketable securities	$ 46,555	$ 73,450	$105,051
Working capital	$ 44,578	$ 70,702	$100,193
Current ratio	14:1	19:1	18:1
Year Ended December 31			
Cash used in operating activities	$ (26,438)	$ (29,291)	$ (13,739)
Cash provided by (used in) investing activities	$ 26,002	$ 30,678	$ (1,710)
Cash provided by (used in) financing activities	$ 113	$ (4)	$ 921

We have funded our operations since inception primarily through sales of our securities, as well as proceeds from warrant and option exercises, corporate licensing and collaborative agreements, and government sponsored research grants.

In October 2003, we acquired DITPA through the acquisition of Developmental Therapeutics, Inc. in a stock transaction for 1,187,500 shares of Titan common stock valued at approximately $3.6 million using the average market price of our common stock over the five-day trading period, including and prior to the date of the merger. In addition, up to a total of 750,000 shares of common stock will be issued only upon the achievement of positive pivotal study results or certain other substantial milestones within five years.

Uses of cash in operating activities were primarily to fund product development programs and administrative expenses. We have entered into various agreements with research institutions, universities, and other entities for the performance of research and development activities and for the acquisition of licenses related to those activities. Certain of the licenses require us to pay royalties on future product sales, if any. In addition, in order to maintain license and other rights while products are under development, we must comply with customary licensee obligations, including the payment of patent related costs, annual minimum license fees, and meeting project-funding milestones.

The following table sets forth the aggregate contractual cash obligations as of December 31, 2003 (in thousands):

		Payments Due by Period			
	Total	< 1 year	1–3 years	3–5 years	5 years+
Contractual obligations					
Operating leases	$ 3,121	$ 924	$ 1,852	$ 345	—
Sponsored research & license agreements	$ 1,974	$ 319	$ 653	$ 668	$ 334
Total contractual cash obligations	$ 5,095	$ 1,243	$ 2,505	$ 1,013	$ 334

We expect to continue to incur substantial additional operating losses from costs related to continuation and expansion of product and technology development, clinical trials, and administrative activities. We believe that we currently have sufficient working capital to sustain our planned operations through the first half of 2005. In addition, in February 2004 we filed a shelf registration statement with the Securities and Exchange Commission to sell up to $50 million of common or preferred stock. Under this registration statement, shares may be sold periodically to provide additional funds for our operations. For a full discussion of risks and uncertainties regarding our need for additional financing, see "Risk Factors—We may need additional financing."

OFF-BALANCE SHEET ARRANGEMENTS

Titan has never entered into any off-balance sheet financing arrangements and has never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets. Item 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our portfolio of marketable securities exposes us to interest rate risk. We adhere to an investment policy that requires us to limit amounts invested in securities based on maturity, type of instrument, investment grade and issuer. We satisfy liquidity requirements by investing excess cash in securities with different maturities to match projected cash needs and limit concentration of credit risk by diversifying our investments among a variety of high credit-quality issuers. A hypothetical 100 basis point decrease in interest rates would result in an approximate $330,000 decrease in cash flow over the subsequent year. We do not use derivative financial instruments in our investment portfolio.

The following table summarizes principal amounts and related weighted-average interest rates by year of maturity on our interest-bearing investment portfolio at December 31, 2003 (in thousands, except interest rate):

	Face Value			Estimated
	2004	2005	Total	Fair Value
Cash equivalents and marketable securities				
Variable rate securities	$ 5,082	—	$ 5,082	$ 5,082
Average interest rate	0.88%	—	0.88%	
Fixed rate securities	$ 24,810	$ 15,885	$ 40,695	$ 41,220
Average interest rate	3.15%	1.42%	2.48%	

consolidated balance sheets

(in thousands of dollars)	December 31, 2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 6,832	$ 7,155
Marketable securities	39,723	66,295
Related party receivables	123	316
Prepaid expenses, other receivables and current assets	1,241	881
Total current assets	47,919	74,647
Property and equipment, net	789	979
Investment in other companies	300	300
	$ 49,008	$ 75,926
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,505	$ 1,901
Accrued clinical trials expenses	634	1,203
Other accrued liabilities	1,202	841
Total current liabilities	3,341	3,945
Commitments		
Minority interest—Series B preferred stock of Ingenex, Inc.	1,241	1,241
Stockholders' Equity		
Preferred stock, $0.001 par value per share; 5,000,000 shares authorized, issuable in series:		
Convertible Series C, 222,400 shares designated, 222,400 shares issued and outstanding, with an aggregate liquidation value of $2,000 at December 31, 2003 and 2002	—	—
Common stock, at amounts paid in, $0.001 par value per share; 50,000,000 shares authorized, 28,903,043 and 27,642,085 shares issued and outstanding at December 31, 2003 and 2002, respectively	195,331	191,680
Additional paid-in capital	9,047	9,161
Deferred compensation	(211)	(621)
Accumulated deficit	(159,741)	(129,852)
Accumulated other comprehensive income	—	372
Total stockholders' equity	44,426	70,740
	$ 49,008	$ 75,926

See accompanying notes.

consolidated statements of operations

(in thousands, except per share amount)	Year ended December 31, 2003	2002	2001
Revenue:			
Contract revenue	$ 28	$ 2,696	$ 1,224
License revenue	61	—	2,600
Grant revenue	—	196	748
Total revenue	89	2,892	4,572
Operating expenses:			
Research and development	22,258	29,819	23,339
Acquired research and development	3,896	—	—
General and administrative	5,109	5,076	5,383
Total operating expenses	31,263	34,895	28,722
Loss from operations	(31,174)	(32,003)	(24,150)
Other income (expense):			
Interest income	1,278	4,221	6,763
Other income (expense)	7	(400)	(77)
Other income, net	1,285	3,821	6,686
Net loss	$ (29,889)	$ (28,182)	$ (17,464)
Basic and diluted net loss per share	$ (1.07)	$ (1.02)	$ (0.63)
Weighted average shares used in computing basic and diluted net loss per share	27,907	27,642	27,595

See accompanying notes.

consolidated statement of stockholders' equity

(in thousands)	Preferred Stock Shares	Amount
Balances at December 31, 2000	222	$ —
Comprehensive loss:		
Net loss		
Unrealized gain on marketable securities		
Comprehensive loss		
Issuance of common stock upon exercise of options and warrants		
Rescission of stock option exercises		
Compensation related to stock options		
Amortization of deferred compensation		
Balances at December 31, 2001	222	—
Comprehensive loss:		
Net loss		
Unrealized loss on marketable securities		
Comprehensive loss		
Issuance of common stock upon exercise of options, net of issuance costs of $6		
Compensation related to stock options		
Amortization of deferred compensation		
Balances at December 31, 2002	222	$ —
Comprehensive loss:		
Net loss		
Unrealized loss on marketable securities		
Comprehensive loss		
Issuance of common stock to acquire technologies, net of issuance costs of $22		
Issuance of common stock upon exercise of options		
Compensation related to stock options		
Amortization of deferred compensation		
Balances at December 31, 2003	222	$ —

See accompanying notes.

Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders Equity
27,234	$190,763	$ 8,744	$ (1,254)	$ (84,206)	$ 691	$114,738
				(17,464)		(17,464)
					1,200	1,200
						(16,264)
461	1,028					1,028
(53)	(107)	149				42
		124	(83)			41
			542			542
27,642	191,684	9,017	(795)	(101,670)	1,891	100,127
				(28,182)		(28,182)
					(1,519)	(1,519)
						(29,701)
—	(4)					(4)
		144	(141)			3
			315			315
27,642	$191,680	$ 9,161	$ (621)	$(129,852)	$ 372	$ 70,740
				(29,889)		(29,889)
					(372)	(372)
						(30,261)
1,188	3,538					3,538
73	113					113
		(114)	114			—
			296			296
28,903	$195,331	$ 9,047	$ (211)	$(159,741)	$ —	$ 44,426

consolidated statements of cash flows

(in thousands of dollars)	Years ended December 31, 2003	2002	2001
Cash flows from operating activities:			
Net loss	$ (29,889)	$ (28,182)	$ (17,464)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	439	374	272
(Gain) loss on investment activities	(51)	309	—
Acquired research and development	3,873	—	—
Non-cash compensation related to stock options	296	318	732
Changes in operating assets and liabilities:			
Prepaid expenses, receivables and other current assets	(166)	(291)	(580)
Accounts payable	(675)	1,007	(410)
Accrued clinical trials and other liabilities	(265)	(826)	1,711
Deferred contract revenue	—	(2,000)	2,000
Net cash used in operating activities	(26,438)	(29,291)	(13,739)
Cash flows from investing activities:			
Purchases of property and equipment, net	(248)	(778)	(254)
Investment in other companies	91	—	(600)
Purchases of marketable securities	(47,660)	(25,114)	(72,733)
Proceeds from maturities of marketable securities	64,819	43,718	55,750
Proceeds from sales of marketable securities	9,000	12,852	16,127
Net cash used in investing activities	26,002	30,678	(1,710)
Cash flows from financing activities:			
Issuance of common stock, net	113	(4)	921
Net cash (used in) provided by financing activities	113	(4)	921
Net increase (decrease) in cash and cash equivalents	(323)	1,383	(14,528)
Cash and cash equivalents at beginning of year	7,155	5,772	20,300
Cash and cash equivalents at end of year	6,832	7,155	5,772
Marketable securities at end of year	39,723	66,295	99,279
Cash, cash equivalents and marketable securities at end of year	$ 46,555	$ 73,450	$105,051
Schedule of non-cash transaction:			
Issuance of common stock to acquire technologies, net	$ 3,538	$ —	$ —

See accompanying notes.

notes to consolidated financial statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company and its Subsidiaries

We are a biopharmaceutical company developing proprietary therapeutics for the treatment of central nervous system (CNS) disorders, cancer, and cardiovascular disease. Our product development programs focus on large pharmaceutical markets with significant unmet medical needs and commercial potential. We are directly developing our product candidates and also utilizing strategic partnerships, including a collaboration with Schering AG, Germany (Schering). These collaborations help fund product development and enable us to retain significant economic interest in our products. Some of our preclinical product development work is conducted through our two consolidated subsidiaries: Ingenex, Inc., and ProNeura, Inc. At December 31, 2003, we owned 81% of Ingenex, assuming the conversion of all preferred stock to common stock, and 79% of ProNeura. In the fourth quarter of 2003, we acquired 3,5-diiodothyropropionic acid (DITPA), a novel product in clinical testing, for the treatment of congestive heart failure (CHF) through the acquisition of Developmental Therapeutics, Inc. (DTI), a private company established to develop DITPA. We operate in one business segment, the development of pharmaceutical products.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of Titan and our wholly and majority owned subsidiaries. All significant intercompany balances and transactions are eliminated.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation. These reclassifications have no impact on the results of operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock Option Plans

We have elected to continue to follow Accounting Principles Board Opinion No. 25 (or APB 25), "Accounting for Stock Issued to Employees," rather than the alternative method of accounting prescribed by Statement of Financial Accounting Standards No. 123 (or SFAS 123), "Accounting for Stock-Based Compensation." Under APB 25, no compensation expense is recognized when the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant. The following table illustrates the effect on our net loss and net loss per share if Titan had applied the provisions of SFAS 123 to estimate and recognize compensation expense for our stock-based employee compensation.

	Year Ended December 31,		
	2003	2002	2001
Net loss, as reported	$ (29,889)	$ (28,182)	$ (17,464)
Add: Stock-based employee compensation expense included in reported net loss	296	318	1,088
Deduct: Stock-based employee compensation expense determined under fair value method for all stock option grants	(2,319)	(8,489)	(10,225)
Pro forma net loss	$ (31,912)	$ (36,353)	$ (26,601)
Basic and diluted net loss per share, as reported	$ (1.07)	$ (1.02)	$ (0.63)
Pro forma basic and diluted net loss per share	$ (1.14)	$ (1.32)	$ (0.96)

Cash, Cash Equivalents and Marketable Securities

Our cash and investment policy emphasizes liquidity and preservation of principal over other portfolio considerations. We select investments that maximize interest income to the extent possible given these two constraints. We satisfy liquidity requirements by investing excess cash in securities with different maturities to match projected cash needs and limit concentration of credit risk by diversifying our investments among a variety of high credit-quality issuers and limit the amount of credit exposure to any one issuer. The estimated fair values have been determined using available market information. We do not use derivative financial instruments in our investment portfolio.

All investments with original maturities of three months or less are considered to be cash equivalents. Our marketable securities, consisting primarily of high-grade debt securities including money market funds, U.S. government and corporate notes and bonds, and commercial paper, are classified as available-for-sale at time of purchase and carried at fair value. If the fair value of a security is below its amortized cost for six consecutive months or if its decline is due to a significant adverse event, the impairment is considered to be other-than-temporary. Other-than-temporary declines in fair value of our marketable securities are charged against interest income. We recognized expenses of approximately $40,000 in 2003, $9,000 in 2002, and none in 2001 as a result of charges related to other-than-temporary declines in the fair values of certain of our marketable securities. Amortization of premiums and discounts, and realized gains and losses are included in interest income. Unrealized gains and losses are included as accumulated other comprehensive income, a separate component of stockholders' equity. The cost of securities sold is based on use of the specific identification method.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from three to five years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets.

Investment in Other Companies

We have invested in equity instruments of privately held companies for business and strategic purposes. These investments are classified as long-term assets and are accounted for under the cost method as we do not have the ability to exercise significant influence over their operations. We monitor our investments for impairment and record reductions in carrying value when events or changes in circumstances indicate that the carrying value may not be recoverable. Determination of impairment is based on a number of factors, including an assessment of the strength of investee's management, the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the investee, fundamental changes to the business prospects of the investee, share prices of subsequent offerings, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in our carrying value.

In July 2001, we made a $300,000 equity investment in Altagen Biosciences Inc. (formerly CSS Acquisition Corporation) for 300 shares of Series D Preferred stock, representing 2.5% of total equity in the company. In December 2001, we made a $300,000 equity investment in Molecular Medicine LLC for 714,286 shares of Series A Preferred stock, and at December 31, 2003, these shares represent 6.6% of total equity in the company. In June 2002, we recorded a $300,000 reduction in the carrying value of our investment in Altagen, and in July 2003, we returned the 300 shares of Series D Preferred stock to Altagen in settlement of outstanding liabilities and recorded a gain on investment of approximately $90,000.

Revenue Recognition

We generate revenue principally from collaborative research and development arrangements, technology licenses, and government grants. Revenue arrangements with multiple components are divided into separate units of accounting if certain criteria are met, including whether the delivered component has stand-alone value to the customer, and whether there is objective and reliable evidence of the fair value of the undelivered items. Consideration received is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are then applied to each of the units.

Revenue is recognized when the four basic criteria of revenue recognition are met: (1) a contractual agreement exists; (2) transfer of technology has been completed or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. For each source of revenue, we comply with the above revenue recognition criteria in the following manner:

- Collaborative arrangements typically consist of non-refundable and/or exclusive technology access fees, cost reimbursements for specific research and development spending, and various milestone and future product royalty payments. If the delivered technology does not have stand-alone value or if we do not have objective or reliable evidence of the fair value of the undelivered component, the amount of revenue allocable to the delivered technology is deferred. Non-refundable upfront fees with stand-alone value that are not dependent on future performance under these agreements are recognized as revenue when received, and are deferred if Titan has continuing performance obligations and has no evidence of fair value of those obligations. Cost reimbursements for research and development spending are recognized when the related costs are incurred and when reimbursements are received. Payments received related to substantive, performance-based "at-risk" milestones are recognized as revenue upon achievement of the clinical success or regulatory event specified in the underlying contracts, which represent the culmination of the earnings process. Amounts received in advance are recorded as deferred revenue until the technology is transferred, costs are incurred, or milestone is reached.
- Technology license agreements typically consist of non-refundable upfront license fees and annual minimum access fees or royalty payments. Non-refundable upfront license fees and annual minimum payments received with separable stand-alone values are recognized when the technology is transferred or accessed, provided that the technology transferred or accessed is not dependent on the outcome of our continuing research and development efforts.
- Government grants, which support our research efforts in specific projects, generally provide for reimbursement of approved costs as defined in the notices of grants. Grant revenue is recognized when associated project costs are incurred.

Research and Development Costs

Research and development expenses include internal and external costs. Internal costs include salaries and employment related expenses, facility costs, administrative expenses and allocations of corporate costs. External expenses consist of costs associated with outsourced clinical research organization activities, sponsored research studies, product registration, patent application and prosecution, and investigator sponsored trials. In accordance with SFAS No. 2, "Accounting for Research and Development Costs," all such costs are charged to expense as incurred.

Net Loss Per Share

We calculate basic net loss per share using the weighted average common shares outstanding for the period. Diluted net income per share would include the impact of other dilutive equity instruments, primarily our preferred stock, options and warrants. For the years ended December 31, 2003, 2002, and 2001, outstanding preferred stock, options and warrants totaled 6.1 million, 6.4 million, and 4.4 million shares, respectively. We reported net losses for all years presented and, therefore, preferred stock, options and warrants were excluded from the calculation of diluted net loss per share as they were anti-dilutive.

Comprehensive Income

Comprehensive income is comprised of net loss and other comprehensive income. The only component of other comprehensive income is unrealized gains and losses on our marketable securities. Comprehensive loss for the years ended December 31, 2003, 2002, and 2001 was $30.3 million, $29.7 million, and $16.3 million, respectively. Comprehensive loss has been disclosed in the Statement of Stockholders' Equity for all periods presented.

Recent Accounting Pronouncements

In November 2003, the EITF discussed several of the recommendations on the proposed models for evaluating impairment of equity and debt securities discussed on Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." Although the Task Force requested further revisions to the underlying impairment models at the November meeting, it reached a consensus that certain quantitative and qualitative disclosures are required for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS No. 115 and SFAS No.124 that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. For those investments with unrealized losses that have not been recognized as other-than-temporary impairments, additional disclosure is required. The disclosure requirement is effective for fiscal years ending after December 15, 2003 (see Note 2).

In January 2003, the FASB issued Interpretation No. 46 (or FIN 46), "Consolidation of Variable Interest Entities." FIN 46 addresses consolidation of variable interest entities ("VIEs") that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB completed deliberations of proposed modifications to FIN 46 ("Revised Interpretation") resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation of the Revised Interpretation. VIEs created after January 1, 2004 must be accounted fro under the Revised Interpretation. Special purpose entities ("SPEs") created prior to February 1, 2003 may be accounted for under the original or revised interpretation's provisions no later than our first quarter of fiscal 2004. Non-SPEs created prior to February 1, 2003, should be accounted for under the revised interpretation's provisions no later than our first quarter of 2004. We do not currently have any arrangements with variable interest entities that will require consolidation of there financial information in our financial statements.

In November 2002, the EITF reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF Issue No. 00-21 did not have a material impact on our financial position and results of operations.

Also in November 2002, the FASB issued Interpretation No. 45 (or FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including certain indemnification agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material impact on our results of operations and financial position. See Note 10, "Guarantees and Indemnifications," below for a discussion related to these agreements.

2. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

The following is a summary of our cash, cash equivalents and marketable securities at December 31 (in thousands):

	2003				2002			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash	$ 253	$ —	$ —	$ 253	$ 576	$ —	$ —	$ 576
Cash equivalents:								
Money market funds	5,082	—	—	5,082	6,579	—	—	6,579
Commercial paper	1,497	—	—	1,497	—	—	—	—
Total cash equivalents	6,579	—	—	6,579	6,579	—	—	6,579
Marketable securities:								
Securities of the U.S. government and its agencies	33,178	47	(17)	33,208	40,064	258	(17)	40,305
Corporate notes and bonds	4,246	9	(38)	4,217	18,571	161	(38)	18,694
Commercial paper	2,299	—	(1)	2,298	7,288	8	—	7,296
Total marketable securities	39,723	56	(56)	39,723	65,923	427	(55)	66,295
Total cash, cash equivalents and marketable securities	$46,555	$ 56	$ (56)	$46,555	$73,078	$ 427	$ (55)	$73,450
Securities available-for-sale:								
Maturing within 1 year	$30,353			$30,353	$58,275			$58,505
Maturing between 1 to 2 years	$15,949			$15,949	$14,227			$14,369

Gross realized losses on sales of marketable securities were $17,000 for the year ended December 31, 2003. There were no gross realized gains in 2003. For the year ended December 31, 2002, there were $119,000 of gross realized gains and $3,000 of gross realized losses. For the year ended December 31, 2001, there were $149,000 of gross realized gains and no gross realized losses.

The aggregate amount of unrealized losses and the related fair value of investments with unrealized losses at December 31, 2003 were approximately $56,000 and $3.8 million, respectively. The unrealized losses were caused by fluctuation in market interest rates and are not considered other-than-temporary until a continuous decline has occurred.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31 (in thousands):

	2003	2002
Furniture and office equipment	$ 530	$ 525
Leasehold improvements	368	318
Laboratory equipment	428	365
Computer equipment	810	728
	2,136	1,936
Less accumulated depreciation and amortization	(1,347)	(957)
Property and equipment, net	$ 789	$ 979

Depreciation and amortization expense was $436,000, $374,000, and $272,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

4. RESEARCH AND LICENSE AGREEMENTS

We have entered into various agreements with research institutions, universities, clinical research organizations and other entities for the performance of research and development activities and for the acquisition of licenses related to those activities. Expenses under these agreements totaled $2.6 million, $1.3 million, and $1.6 million in the years ended December 31, 2003, 2002, and 2001, respectively.

At December 31, 2003, the annual aggregate commitments we have under these agreements, including minimum license payments, are as follows (in thousands):

2004	$ 319
2005	324
2006	329
2007	334
2008	334
	$ 1,640

After 2008, we must make annual payments aggregating $334,000 per year to maintain certain licenses. Certain licenses provide for the payment of royalties by us on future product sales, if any. In addition, in order to maintain these licenses and other rights during product development, we must comply with various conditions including the payment of patent related costs and obtaining additional equity investments.

5. AGREEMENT WITH AVENTIS SA

In 1997, we entered into an exclusive license agreement with Aventis SA (formerly Hoechst Marion Roussel, Inc.). The agreement gave us a worldwide license to the patent rights and know-how related to the antipsychotic agent iloperidone, including the ability to develop, use, sublicense, manufacture and sell products and processes claimed in the patent rights. We are required to make additional benchmark payments as specific milestones are met. Upon commercialization of the product, the license agreement provides that we will pay royalties based on net sales.

6. ILOPERIDONE SUBLICENSE TO NOVARTIS PHARMA AG

We entered into an agreement with Novartis in 1997 pursuant to which we granted Novartis a sublicense for the worldwide (with the exception of Japan) development, manufacturing and marketing of iloperidone. In April 2001, we entered into an amendment to the agreement for the development and commercialization of iloperidone in Japan. Under the amendment, in exchange for rights to iloperidone in Japan, Titan received a $2.5 million license fee in May 2001. Novartis will make our milestone payments to Aventis during the life of the Novartis agreement, and will also pay to Aventis and Titan a royalty on future net sales of the product, providing Titan with a net royalty of 8% on the first $200 million of sales annually and 10% on all sales above $200 million on an annual basis. Novartis has assumed the responsibility for all clinical development, registration, manufacturing and marketing of iloperidone, and we have no remaining obligations under the terms of this agreement, except for maintaining certain usual and customary requirements, such as confidentiality covenants.

7. LICENSING AND COLLABORATIVE AGREEMENT WITH SCHERING AG

In January 2000, we entered into a licensing and collaborative agreement with Schering, under which we will collaborate with Schering on manufacturing and clinical development of our cell therapy product, Spheramine®, for the treatment of Parkinson's disease. Under the agreement, we will perform clinical development activities for which we will receive funding. As of December 31, 2003, we recognized $2.8 million under this agreement to date. In February 2002, we announced that we received a $2.0 million milestone payment from Schering. The milestone payment followed Schering's decision in the first quarter 2002 to initiate larger, randomized clinical testing of Spheramine for the treatment of patients with late-stage Parkinson's disease following the successful completion of Titan's Phase I/II clinical study of Spheramine. As a result, Titan recognized $2.0 million in contract revenue in the first quarter of 2002. Schering will fully fund, and manage in collaboration with us, all future pilot and pivotal clinical studies, and manufacturing and development activities. We are entitled to receive up to an aggregate of $8 million over the life of the Schering agreement upon the achievement of specific milestones.

8. DITPA ACQUISITION

On October 16, 2003, we announced the acquisition of a novel product in clinical testing for the treatment of congestive heart failure (CHF). The product in development, 3,5-diiodothyropropionic acid (DITPA), is an orally active analogue of thyroid hormone that has demonstrated in preclinical and clinical studies to date the ability to improve cardiac function, with no significant adverse effects. Titan acquired DITPA through the acquisition of Developmental Therapeutics, Inc. (DTI), a private company established to develop DITPA, and the exclusive licensee of recently issued U.S. patent and pending U.S. and international patent applications covering DITPA. Titan acquired DTI in a stock transaction for 1,187,500 shares of Titan common stock valued at approximately $3.6 million using the average market price of our common stock over the five-day trading period, including and prior to the date of the merger in accordance with generally accepted accounting principles. We also made a cash payment of $171,250 to the licensor of the technology. In the fourth quarter of 2003, the total acquisition cost of $3.9 million was reported as acquired research and development in the statement of operations. An additional payment of 712,500 shares of Titan common stock will be made only upon the achievement of positive pivotal study results or certain other substantial milestones within five years. In addition, a cash payment of $102,750 or, alternatively, an additional payment of 37,500 shares of Titan common stock, will be made to the licensor of the technology upon achievement of such study results or such other substantial milestones within five years.

9. COMMITMENTS AND CONTINGENCIES

Lease Commitments

We lease facilities under operating leases that expire at various dates through June 2007. We also lease certain office equipment under operating and capital leases that expire at various dates through February 2007. Rental expense was $825,000, $765,000, and $584,000 for years ended December 31, 2003, 2002, and 2001, respectively.

The following is a schedule of future minimum lease payments at December 31, 2003 (in thousands):

2004	924
2005	959
2006	893
2007	345
	$ 3,121

Legal Proceedings

On November 4, 2003, a purported class action suit entitled Patrick Magee v. Titan Pharmaceuticals, Inc., et al was filed in the United States District Court for the Northern District of California on behalf of purchasers of Titan's common stock during the period between December 1, 1999 and July 22, 2002. Subsequently, several similar actions were filed in the same court. The complaints alleged that Titan and certain of its executive officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by issuing false and misleading statements that failed to disclose certain key information regarding iloperidone. The complaints sought unspecified damages.

On November 6, 2003, a stockholder purporting to act on our behalf filed a derivative action in the California Superior Court for the County of San Mateo against Titan's executive officers and directors and certain former directors seeking unspecified damages, injunctive relief and restitution. Titan was also named as a nominal defendant. The derivative action is based on the same factual allegations as the purported class actions and alleges state law claims for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment.

On February 2, 2004, we announced that all of the class action and derivative lawsuits filed against the Company had been dismissed without prejudice. In every case, the plaintiffs agreed to voluntarily dismiss the lawsuits after discussion of the facts with Titan's counsel, without any further legal action necessary by Titan. Titan, its affiliates, and insurers, made no payment in connection with dismissal of the lawsuits, and have no obligation to make any payments whatsoever to any plaintiffs or their counsel in connection with the dismissals. Furthermore, Titan has no other obligations in connection with the dismissals.

10. GUARANTEES AND INDEMNIFICATIONS

As permitted under Delaware law and in accordance with our Bylaws, we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum amount of potential future indemnification is unlimited; however, we have a director and officer insurance policy that limits our exposure and may enable us to recover a portion of any future amounts paid. We believe the fair value of these indemnification agreements is minimal. Accordingly, we have not recorded any liabilities for these agreements as of December 31, 2003.

In the normal course of business, we have commitments to make certain milestone payments to various clinical research organizations in connection with our clinical trial activities. Payments are contingent upon the achievement of specific milestones or events as defined in the agreements, and we have made appropriate accruals in our consolidated financial statements for those milestones that were achieved as of December 31, 2003. We also provide indemnifications of varying scope to our clinical research organizations and investigators against claims made by third parties arising from the use of our products and processes in clinical trials. Historically, costs related to these indemnification provisions were immaterial. We also maintain various liability insurance policies that limit our exposure. We are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

11. STOCKHOLDERS' EQUITY

Preferred Stock

In connection with the merger of our Trilex Pharmaceuticals, Inc. subsidiary (Trilex) in 1997, we issued 222,400 shares of Series C convertible preferred stock (the Series C Preferred) to certain members of the Trilex management team and to certain consultants of Trilex. The Series C Preferred automatically converts to Titan's common stock, on a one-to-one basis, only if certain development milestones are achieved within certain timeframe. Upon achievement of the milestones, we would be required to value the technology using the then fair market value of our common stock issuable upon conversion. Holders of Series C Preferred are not entitled to vote but entitled to receive dividends, when, as and if declared by the board of directors ratably with any declaration or payment of any dividend on our common stock or other junior securities. The Series C Preferred has a liquidation preference equal to $0.01 per share. No value was assigned to the Series C Preferred in the accompanying financial statements.

Common Stock

In October 2003, we acquired DITPA through the acquisition of Developmental Therapeutics, Inc. (DTI) in a stock transaction for 1,187,500 shares of Titan common stock valued at approximately $3.6 million using the average market price of our common stock over the five-day trading period, including and prior to the date of the merger. In addition, up to a total of 750,000 shares of common stock will be issued only upon the achievement of positive pivotal study results or certain other substantial milestones within five years.

Shares Reserved for Future Issuance

As of December 31, 2003, shares of common stock reserved by us for future issuance consisted of the following (shares in thousands):

Stock options	8,090
Preferred stock	222
DTI merger contingent shares	750
	9,062

12. STOCK OPTION PLANS

In July 2002, we adopted the 2002 Stock Option Plan (2002 Plan). The 2002 Plan assumed the options which remain available for grant under our option plans previously approved by stockholders. Under the 2002 Plan and predecessor plans, a total of 6.4 million shares of our common stock were authorized for issuance to employees, officers, directors, consultants, and advisers. Options granted under the 2002 Plan and predecessor plans may either be incentive stock options within the meaning of Section 422 of the Internal Revenue Code and/or options that do not qualify as incentive stock options; however, only employees are eligible to receive incentive stock options. Options granted under the option plans generally expire no later than ten years from the date of grant, except when the grantee is a 10% shareholder, in which case the maximum term is five years from the date of grant. Options generally vest at the rate of one fourth after one year from the date of grant and the remainder ratably over the subsequent three years, although options with different vesting terms are granted from time-to-time. The exercise price of any options granted under the 2002 Plan must be at least 100% of the fair market value of our common stock on the date of grant, except when the grantee is a 10% shareholder, in which case the exercise price shall be at least 110% of the fair market value of our common stock on the date of grant.

In July 2002, our Board of Directors elected to continue the option grant practice under our amended 1998 Option Plan, which provided for the automatic grant of non-qualified stock options (Directors' Options) to our directors who are not 10% stockholders (Eligible Directors). Each Eligible Director will be granted an option to purchase 10,000 shares of common stock on the date that such person is first elected or appointed a director. Commencing on the day immediately following the later of (i) the 2000 annual stockholders meeting, or (ii) the first annual meeting of stockholders after their election to the Board, each Eligible Director will receive an automatic biennial (i.e. every two years) grant of an option to purchase 15,000 shares of common stock as long as such director is a member of the Board of Directors. In addition, each Eligible Director will receive an automatic annual grant of an option to purchase 5,000 shares of common stock for each committee of the Board on which they serve. The exercise price of the Director's Options shall be equal to the fair market value of our common stock on the date of grant.

In August 2001, we adopted the 2001 Employee Non-Qualified Stock Option Plan (2001 NQ Plan) pursuant to which 1,750,000 shares of common stock were authorized for issuance for option grants to employees and consultants who are not officers or directors of Titan. Options granted under the option plans generally expire no later than ten years from the date of grant. Option vesting schedule and exercise price are determined at time of grant by the Board of Directors. Historically, the exercise prices of option granted under the 2001 NQ Plan were 100% of the fair market value of our common stock on the date of grant.

In December 2001, Titan entered into agreements with certain officers and directors of the company to rescind stock options that were previously granted and exercised. These agreements resulted in the rescission of 88,000 stock options that were exercised and, as a result, a total compensation charge of $149,000 was recorded in general and administrative expense and the reinstated options were subsequently cancelled. A total of 53,000 shares of common stock were returned and retired from shares outstanding as of December 31, 2001, and $107,000 was refunded to the individuals.

Activity under our stock option plans, as well as non-plan activity are summarized below (shares in thousands):

	Shares Available For Grant	Number of Options Outstanding	Weighted Average Exercise Price
Balance at December 31, 2000	1,157	3,666	$ 12.95
Increase in shares reserved	1,000	—	—
Options granted	(1,300)	1,300	$ 15.21
Options exercised	—	(404)	$ 3.26
Options cancelled	434	(434)	$ 26.35
Balance at December 31, 2001	1,291	4,128	$ 13.20
Increase in shares reserved	2,750	—	—
Options granted	(2,200)	2,200	$ 4.44
Options exercised	—	—	—
Options cancelled	132	(138)	$ 15.31
Balance at December 31, 2002	1,973	6,190	$ 10.05
Options granted	(699)	699	$ 1.83
Options exercised	—	(73)	$ 1.57
Options cancelled	864	(864)	$ 8.67
Balance at December 31, 2003	2,138	5,952	$ 9.39

Our option plans allow for stock options issued as the result of a merger or consolidation of another entity, including the acquisition of minority interest of our subsidiaries, to be added to the maximum number of shares provided for in the plan (Substitute Options). Consequently, Substitute Options are not returned to the shares reserved under the plan when cancelled. During 2003, 2002 and 2001, the number of Substitute Options cancelled was immaterial.

Options for 3.9 million and 2.6 million shares were exercisable at December 31, 2002 and 2001, respectively. The options outstanding at December 31, 2003 have been segregated into three ranges for additional disclosure as follows (option shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.08 – $ 3.77	2,088	7.43	$ 2.14	1,186	$ 2.28
$ 3.79 – $11.63	2,355	6.27	$ 8.39	2,146	$ 8.29
$11.95 – $46.50	1,509	6.30	$ 20.99	1,459	$ 20.44
$ 0.08 – $46.50	5,952	6.69	$ 9.39	4,791	$ 10.50

In addition, Ingenex has a stock option plan under which options to purchase common stock of Ingenex have been and may be granted. No options had been granted under such plan since 1997.

We have elected to continue to follow APB 25 in accounting for our stock options. Under APB 25, no compensation expense is recognized when the exercise price of our stock options equals the market price of the underlying stock on the date of grant.

Pro forma net loss and net loss per share information required by SFAS 123 as amended by SFAS 148 has been determined as if we had accounted for our employee stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions for 2003, 2002, and 2001: weighted-average volatility factor of 0.70, 0.79, and 0.86, respectively; no expected dividend payments; weighted-average risk-free interest rates in effect of 2.2%, 2.4%, and 3.9%, respectively; and a weighted-average expected life of 3.01, 3.54, and 2.99 years, respectively. For purposes of disclosure, the estimated fair value of options is amortized to expense over the options' vesting period.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

Based upon the above methodology, the weighted-average fair value of options granted during the years ended December 31, 2003, 2002, and 2001 was $0.89, $2.32, and $8.44, respectively. A tabular presentation of pro forma net loss and net loss per share information for all reporting periods is presented in Note 1.

13. MINORITY INTEREST

The $1.2 million received by Ingenex upon the issuance of its Series B convertible preferred stock has been classified as minority interest in the consolidated balance sheet. As a result of the Series B preferred stockholders' liquidation preference, the balance has not been reduced by any portion of the losses of Ingenex.

Amounts invested by outside investors in the common stock of the consolidated subsidiaries have been apportioned between minority interest and additional paid-in capital in the consolidated balance sheets. Losses applicable to the minority interest holdings of the subsidiaries' common stock have been reduced to zero.

14. RELATED PARTIES TRANSACTIONS

We make loans to our employees from time to time in order to attract and retain the best available talent and to encourage the highest level of performance. In 2002 and 2001, we provided certain relocation loans to employees in connection with employment. Also in February 2001, we provided a loan to a vice president officer in the principal amount of $373,000 bearing interest at prime rate. The loan was due and payable on August 7, 2002 and as of December 31, 2002, the principal balance was paid in full.

15. INCOME TAXES

As of December 31, 2003, we had net operating loss carryforwards for federal income tax purposes of approximately $157.4 million that expire at various dates through 2023, and federal research and development tax credits of approximately $4.2 million that expire at various dates through 2023. We also had net operating loss carryforwards for state income tax purposes of approximately $56.5 million that expire at various dates through 2013, and state research and development tax credits of approximately $3.2 million which do not expire.

Utilization of our net operating loss may be subject to substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets are as follows (in thousands):

	December 31, 2003	2002
Deferred tax assets:		
Net operating loss carryforwards	$ 59,000	$ 45,300
Research credit carryforwards	6,400	2,100
Other, net	4,200	4,600
Total deferred tax assets	69,600	52,000
Deferred tax liabilities:		
Unrealized gain on investments	(50)	(100)
Valuation allowance	(69,550)	(51,900)
Net deferred tax assets	$ —	$ —

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $17.6 million, $11.1 million, and $5.9 million during 2003, 2002, and 2001, respectively. The valuation allowance at December 31, 2002 includes $3.7 million related to deferred tax assets arising from tax benefits associated with stock option plans. This benefit, when realized, will be recorded as an increase to stockholders' equity.

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, except per share amount)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2003				
Total revenue	$ 26	$ 2	—	$ 61
Net loss	$ (6,530)	$ (6,681)	$ (6,169)	$(10,509)
Basic and diluted net loss per share	$ (0.24)	$ (0.24)	$ (0.22)	$ (0.37)
2002				
Total revenue	$ 2,347	$ 151	$ 158	$ 236
Net loss	$ (4,950)	$ (7,032)	$ (7,296)	$ (8,904)
Basic and diluted net loss per share	$ (0.18)	$ (0.25)	$ (0.26)	$ (0.32)

report of independent registered public accounting firm

The Board of Directors and Stockholders
Titan Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Titan Pharmaceuticals, Inc. as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting and Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Titan Pharmaceuticals, Inc. at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Palo Alto, California
February 20, 2004

Market for Registrant's Common Equity and Related Stockholder Matters

(a) Price Range of Securities

Our common stock trades on the American Stock Exchange under the symbol TTP. The table below sets forth the high and low sales prices of our common stock as reported by the American Stock Exchange for the periods indicated.

	High	Low
Fiscal Year Ended December 31, 2003:		
First Quarter	$ 1.81	$ 1.36
Second Quarter	$ 3.09	$ 1.44
Third Quarter	$ 2.80	$ 1.91
Fourth Quarter	$ 4.00	$ 2.42
Fiscal Year Ended December 31, 2002:		
First Quarter	$ 9.81	$ 5.60
Second Quarter	$ 7.00	$ 3.10
Third Quarter	$ 4.17	$ 1.35
Fourth Quarter	$ 2.86	$ 1.20

(b) Approximate Number of Equity Security Holders

The number of record holders of our common stock as of March 5, 2004 was approximately 154. Based on the last ADP search, we believe there are in excess of 11,000 beneficial holders of our common stock.

(c) Dividends

We have never paid a cash dividend on our common stock and anticipate that for the foreseeable future any earnings will be retained for use in our business and, accordingly, do not anticipate the payment of cash dividends.

TITAN PHARMACEUTICALS, INC. *is a biopharmaceutical company focused on the development and commercialization of novel treatments for central nervous system disorders, cancer and cardiovascular disease. Titan's numerous products in development utilize novel technologies that have the potential to significantly improve the treatment of these diseases. Titan also establishes partnerships with multinational pharmaceutical companies and government institutions for the development of its products.*

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