Titan Pharmaceuticals is focused on developing innovative new treatments for diseases with significant unmet medical needs. The Company is developing therapeutic products with leading experts in clinical research, and optimizes development and commercial opportunities through partnerships with other leading pharmaceutical development companies.

In 2004, Titan achieved important corporate and clinical development progress toward advancement of randomized Phase II and Phase III clinical studies with several products.

To Our Shareholders

In 2004, Titan Pharmaceuticals made substantial progress in the development and clinical testing of products in core therapeutic areas of central nervous system disorders, cardiovascular disease and bone related disease. Probuphine, for the treatment of opiate addiction, demonstrated positive data in initial clinical testing and is targeted to begin pivotal Phase III clinical testing in the second half of 2005. Iloperidone, Titan's novel agent in development for the treatment of schizophrenia, is continuing Phase III development with Vanda Pharmaceuticals, Inc. Spheramine has advanced in Phase IIb clinical testing in collaboration with Titan's partner Schering AG, Germany. In addition, two randomized, double blind Phase II clinical studies evaluating DITPA in the treatment of congestive heart failure were launched this past year.

Probuphine, Titan's novel treatment in development for opiate addiction, is the first product to utilize Titan's proprietary ProNeura extended-release drug delivery technology. Opiate addiction continues to be a significant problem in the U.S. and Europe, with substantial cost to society and impact on individual lives. It is estimated that there are approximately 2.8 million opiate addicts in the United States and Europe, with only approximately 700,000 individuals actively receiving treatment. A new treatment option for opiate addiction in the U.S. is buprenorphine, which has a therapeutic profile that is superior to methadone. However, limitations still exist with currently available forms of buprenorphine therapy. These include poor patient compliance, potential inappropriate redistribution of drug, as well as the need for frequent, sometimes daily visits to the clinic to obtain medication to prevent drug redistribution. In June 2004, the Company announced results from its initial clinical study of Probuphine, a novel six month dosage form of buprenorphine therapy for the treatment of opiate addiction. In this study, patients were successfully switched from daily sublingual buprenorphine therapy to Probuphine and had maintenance of therapeutic benefit for a period of six months following a single treatment with Probuphine. Titan plans to initiate pivotal clinical testing of Probuphine in the treatment of opiate addiction in the second half of 2005. Titan also plans to initiate Phase II testing with Probuphine in the treatment of chronic pain, an important second indication for Probuphine, and one for which buprenorphine has already shown established efficacy in other dosage forms. Titan believes its ProNeura delivery system may also offer several advantages for the treatment of chronic pain associated with arthritis, musculoskeletal problems and other conditions.

Iloperidone is Titan's product in development for the treatment of schizophrenia, a chronic and disabling psychiatric disorder affecting more than 2.5 million Americans. Iloperidone has already completed a substantial portion of Phase III clinical testing. In June 2004, Titan announced that Vanda Pharmaceuticals, Inc. acquired from Novartis Pharma AG the worldwide rights to develop and commercialize iloperidone, and is now pursuing completion of the iloperidone Phase III development program.

Spheramine is a standardized cell-based therapeutic in development for the treatment of Parkinson's disease. There are an estimated 1.0 million individuals in the U.S. and over 4.0 million worldwide with Parkinson's disease. In 2004, Titan announced completion of enrollment in the second of three cohorts in its randomized Phase IIb study of Spheramine in advanced Parkinson's disease, and is currently completing enrollment of the third and final cohort of patients. The Spheramine program is being funded by Schering AG, Germany, Titan's corporate partner for worldwide development and commercialization of Spheramine. This past year, Titan was also granted Fast Track designation by the FDA for Spheramine for the treatment of advanced Parkinson's disease.

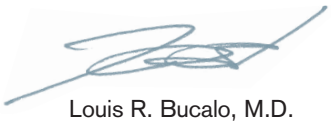
Titan's novel product in development for the treatment of congestive heart failure, DITPA, is an orally active analogue of thyroid hormone. It is estimated that there are approximately 4.7 million individuals with congestive heart failure (CHF) in the U.S. In preclinical and initial clinical studies, DITPA has demonstrated the ability to improve cardiac function without increasing heart rate. Titan plans to initially develop DITPA as a potential treatment for CHF associated with low serum thyroid hormone (T_3). In December 2004, Titan initiated a double blind, randomized Phase II clinical study of DITPA in advanced CHF patients with low T_3 levels. DITPA is also currently being evaluated in a second Phase II study, also initiated in this past year, in patients with moderate to advanced CHF, funded by the U.S. Department of Veterans Affairs.

Gallium maltolate is Titan's novel oral agent in development for the treatment of bone diseases such as osteoporosis and rheumatoid arthritis (RA). Preclinical studies conducted by Titan indicate that oral dosing of gallium maltolate reduces the severity of disease related end points in a dose-dependent manner, indicating potential in the treatment of rheumatoid arthritis.

Titan's ProNeura drug delivery system may offer advantages in the treatment of a number of disorders. In addition to advancing its lead ProNeura product, Probuphine, for the treatment of opiate addiction and chronic pain, this past year Titan advanced further applications of ProNeura in preclinical testing, including the treatment of chronic pain, Parkinson's disease, psychiatric disorders and alcoholism, where conventional treatment utility is limited by variability in serum drug levels and poor patient compliance.

As Titan moves forward in 2005, 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

Probuphine

Probuphine is a novel product in development for the treatment of opiate addiction and chronic pain, and is Titan's first product in clinical testing to utilize the Company's proprietary ProNeura long-term drug delivery technology. Probuphine is designed to deliver buprenorphine, an approved agent for the treatment of opiate addiction and pain, continuously for up to six months following a single visit to the doctor's office.

Heroin addiction continues to be a serious problem in the U.S. and Europe, with significant cost to society and impact on individual lives. There are in excess of 1 million heroin addicts in the U.S. and a similar number in Europe.

Probuphine consists of a small, solid rod made from a mixture of buprenorphine and a polymer, ethylene-vinyl acetate. The resulting product is a solid matrix that releases buprenorphine slowly at continuous levels, through the process of diffusion. The product is placed subcutaneously, usually in the upper arm, in a simple 15-minute office procedure.

The standard of care for opiate addiction has previously been methadone maintenance treatment. However, only about 20% of opiate addicts are being treated with methadone with varying levels of success. Because methadone is a potentially dangerous substance with highly restricted distribution, and also has significant abuse potential, methadone treatment is only administered in tightly controlled settings, and patients generally do not return to an active, productive lifestyle under methadone treatment, since methadone, like heroin, produces euphoria and intoxication.

Buprenorphine offers several advantages over methadone maintenance treatment. Buprenorphine is a mixed opiate agonist and antagonist that controls withdrawal symptoms and cravings without causing drug-related euphoria. Because of these characteristics, buprenorphine is considered by experts to be a significant improvement in the treatment of opiate addiction. However, current buprenorphine treatment is administered as a daily oral therapy that still presents a number of challenges and drawbacks. Probuphine, which provides continuous long-term delivery of buprenorphine, may help eliminate many of the challenges associated with daily oral therapy, including poor compliance, variable blood levels, risk of misuse, morning withdrawal symptoms occurring before the daily dose, and overall reduced therapeutic value. Additionally, unlike oral medication, the abuse and redistribution potential for Probuphine is greatly reduced.

Titan expects to initiate randomized Phase III clinical testing of Probuphine in the treatment of opiate addiction in the third quarter of 2005. Treatment with Probuphine in a previous 12 patient pilot study was well tolerated and demonstrated therapeutic benefit for a period of six months. Buprenorphine has also been approved for the treatment of pain, and Titan plans to initiate Phase II clinical testing of Probuphine in chronic pain in late 2005.

Disease Target: **OPIATE ADDICTION**

Status: **INITIATING PHASE III**

Probuphine consists of a small, solid rod made from a mixture of buprenorphine and polymer.

Titan plans to initiate Phase III clinical testing of Probuphine in the treatment of opiate addiction in the third quarter of 2005.

Iloperidone

Iloperidone is Titan's proprietary product in development for the treatment of schizophrenia and related psychotic disorders. Schizophrenia is a chronic, severe, and disabling mental disorder that affects approximately 2.2 million individuals in the U.S. Schizophrenia is characterized by positive symptoms such as delusions, hallucinations, disorganized and incoherent speech, and negative symptoms such as severe emotional abnormalities, and withdrawal. Although there are a number of drugs already on the market for this serious condition, many patients stop taking their medications because of unacceptable and limiting side effects caused by currently available drugs, such as severe weight gain, movement disorders and sedation.

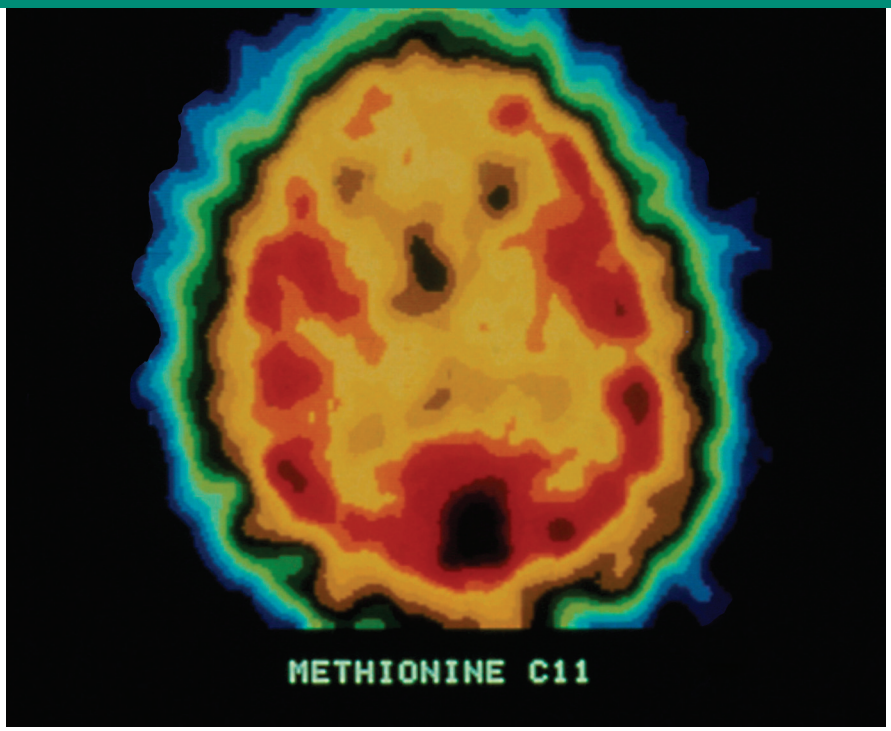
Iloperidone is a novel antipsychotic that was originally selected based on its low binding affinity to the dopamine D2 receptor and high affinity for the 5-HT2 receptor in order to potentially minimize clinical side effects while providing beneficial effects. Iloperidone's unique binding profile to dopamine and serotonin receptors potentially enables iloperidone to treat the symptoms of schizophrenia, with a low incidence of significant side effects.

Iloperidone has been evaluated in a Phase III clinical program comprising over 3,500 patients at more than 200 sites in 24 countries. This program included three Phase III efficacy studies and three Phase III long-term safety studies. In this program a laboratory measurement of QTc interval prolongation was observed at the highest dose and was further evaluated, and is roughly comparable to that of ziprasidone, an approved antipsychotic medication. Based on discussions with the FDA, additional Phase III clinical testing is necessary prior to NDA submission.

In June 2004, Vanda Pharmaceuticals, Inc. acquired the worldwide rights to develop and commercialize iloperidone from Novartis Pharma AG. Vanda was founded by Dr. Argeris N. Karabelas, former CEO of Novartis Pharmaceuticals, and Dr. Mihael Polymeropoulos, former Vice President of Pharmacogenetics at Novartis Pharmaceuticals. Vanda is now pursuing advancement of the iloperidone Phase III development program and is expected to initiate further Phase III clinical testing of iloperidone in 2005.

Disease Target: **SCHIZOPHRENIA**

Status: **PHASE III**



Colored PET (Positron Emission Tomography) scan of the brain of a person suffering from schizophrenia. The use of the radioactive methionine (an amino acid) shows protein synthesis in the brain. The tracer appears red, with frontal lobes of the brain (at top) appearing deficient; more red areas of protein synthesis would be expected in this area in a normal brain. The neurotransmitter serotonin is a chemical made in the frontal lobes of the brain which controls moods. Low protein synthesis and abnormal serotonin levels are associated with schizophrenia.

Iloperidone's binding profile to dopamine and serotonin receptors enables iloperidone to improve the symptoms of schizophrenia, with a low incidence of significant side effects.

Spheramine

Spheramine is a novel cell therapy product in development for the treatment of Parkinson's disease, a neurodegenerative disorder that affects over four million individuals world wide.

Parkinson's disease results from declining levels of dopamine production and associated neuronal activity in specific regions of the brain. Symptoms include tremor, rigidity, and slowness of normal voluntary movement. Current treatments involve daily administration of oral agents containing dopamine precursors or dopamine agonists which raise the levels of dopamine activity in the brain. However, most patients eventually develop a "wearing-off effect" where each dose alleviates symptoms for a shorter amount of time. Because these therapies are orally delivered, they also result in elevated systemic levels of dopamine, causing potential side effects.

Spheramine is an innovative, standardized cell therapy using normal human cells. These cells, retinal pigment epithelial (RPE) cells, are placed on microcarriers and injected into the brain to provide a localized continuous source of dopamine in brain regions deficient in dopamine.

Titan is developing Spheramine in partnership with Schering AG, Germany for the treatment of advanced Parkinson's disease. Spheramine utilizes Titan's novel, cell-coated microcarrier (CCM™) technology that enables minimally-invasive, site specific delivery of therapeutics to the central nervous system. CCM technology involves adhering cells to microscopic beads that enable the survival of the cells in the central nervous system. CCM technology also avoids the need for immunosuppression (suppression of the immune system to prevent rejection).

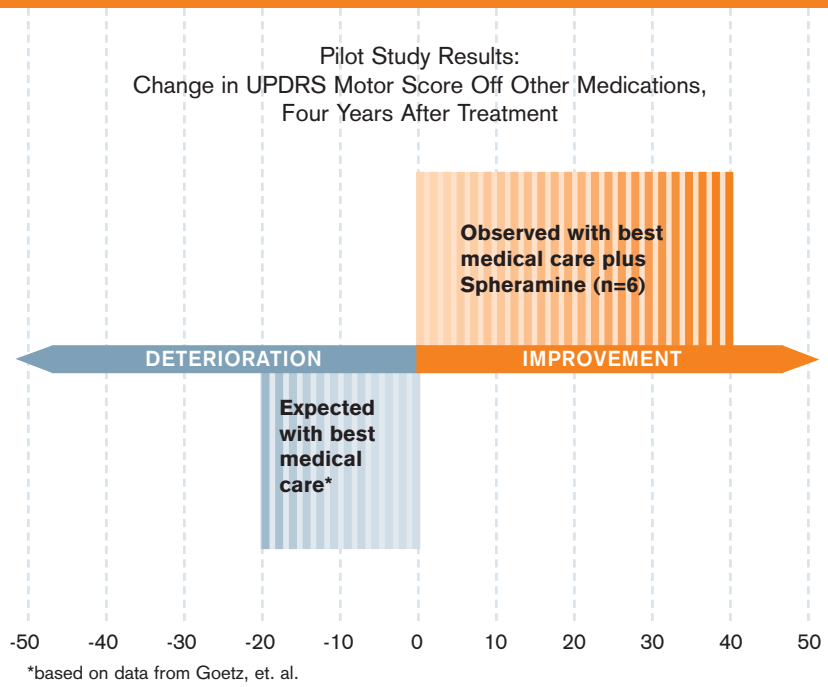
Positive results from a pilot clinical study to assess the safety and preliminary efficacy of Spheramine in six subjects with moderately severe to severe Parkinson's disease, demonstrated an average improvement in motor function of 48% over baseline at one-year post treatment. Data was recently presented at the International Congress on Parkinson's disease in June 2005 demonstrating continuing average improvement in motor function of 40% in these patients, four years after treatment.

Based on the encouraging results from the pilot study, Titan and Schering AG, Germany initiated a 68-patient, randomized, double blind, controlled Phase IIb clinical study to further evaluate the safety and efficacy of Spheramine. Substantial progress in enrollment of this study was made in 2004, and initial results are anticipated to be available in the second half of 2006. This past year, Titan also obtained Fast Track designation for Spheramine from the FDA. The FDA's Fast Track Program is designed to facilitate the development and expedite the review of drug candidates that demonstrate the potential to treat serious or life-threatening diseases and address unmet medical needs.

Schering AG, Germany is funding the development program for Spheramine, including the current Phase IIb trial. In addition to clinical and manufacturing development funding and milestone payments, Schering will also pay Titan a royalty on future sales of Spheramine.

Disease Target: **PARKINSON'S DISEASE**

Status: **PHASE IIb**



Average improvement in motor function of 40% continues four years after treatment with Spheramine. This data was presented at the International Congress on Parkinson's Disease in June 2005.

Titan is developing Spheramine in partnership with Schering AG, for the treatment of advanced Parkinson's disease.

DITPA

DITPA (3,5-diiodothyropropionic acid) is an analogue of thyroid hormone (T_3), in development for the treatment of cardiovascular disease. T_3 plays a central role in healthy cardiovascular function, and a deficiency in T_3 may be related to worsening cardiovascular function.

Titan is initially developing DITPA for congestive heart failure (CHF) associated with low serum T_3 levels. In CHF patients, the heart is often unable to pump sufficient blood to meet the needs of the body. Several studies have identified a high risk group of CHF patients who have reduced serum T_3 levels, comprising approximately one million patients collectively in the U.S. and Europe. Currently available thyroid hormone medications are generally considered not suitable for chronic use in CHF because they can potentially increase heart rate, an unwanted side effect in this patient group. In both preclinical and preliminary clinical testing, DITPA was shown to improve cardiovascular function without increasing heart rate.

This past year, Titan initiated a double-blind, placebo controlled Phase II study to evaluate DITPA in class III and IV CHF patients (those with advanced disease) with low levels of serum T_3. The study will evaluate safety and parameters related to severity of CHF, including change in overall clinical status, echocardiograms, and quality of life measurements. DITPA is also being evaluated in a second double-blind, placebo controlled Phase II study in patients with Class II, III and IV CHF funded by a $3.8 million grant from the U.S. Department of Veterans Affairs.

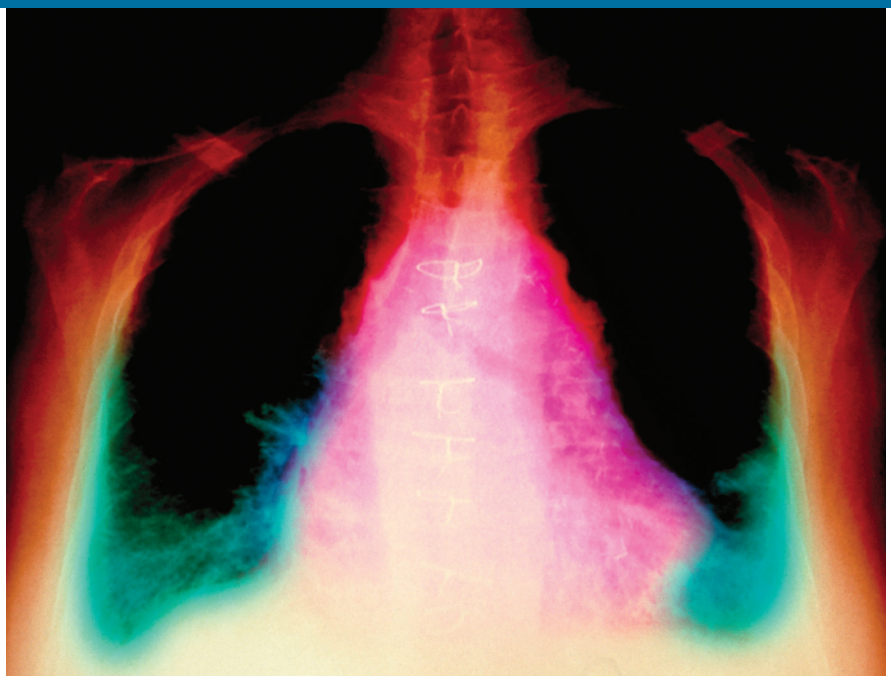
In addition to CHF, DITPA may have potential to address other significant cardiovascular medical conditions. It is estimated that over 300 million people world-wide have high cholesterol levels and are therefore at risk of developing coronary artery disease. The current standard of care for patients relies largely on drugs known as statins. Despite widespread use of statins, over 40% of Americans are still in a high-risk category for developing coronary artery disease. In a placebo controlled pilot clinical study in patients with CHF, DITPA lowered total cholesterol by approximately 24% ($p=0.005$), LDL cholesterol by approximately 25% ($p=0.052$) and triglyceride levels by 35% ($p=0.01$) after 4 weeks of treatment. Titan plans to evaluate the potential for DITPA to be used in combination with statins in patients whose cholesterol levels cannot be sufficiently controlled by statins alone.

Titan may also evaluate DITPA for the treatment of diastolic dysfunction, a condition in which the heart fails to fill adequately with blood. Diastolic dysfunction is the primary cause of congestive heart failure in approximately 25 percent of the estimated 8 million people in the U.S. and Europe with CHF. Potential beneficial effects of DITPA on diastolic function have been observed in preclinical and early clinical testing, which may form the basis for further clinical development in this setting.

Another potential opportunity for DITPA is the treatment of left ventricular dysfunction after myocardial infarction (MI). This condition is characterized by progressive loss of surviving heart muscle and its gradual replacement with scar tissue. This process, known as pathological ventricular remodeling, is a major cause of morbidity and mortality in patients with CHF. Recent preclinical studies showed that DITPA reduced the progressive extension of heart tissue death by approximately 80 percent, reduced ventricular remodeling subsequent to MI, and improved heart function. Based on these observations, Titan is also currently evaluating the potential utility of DITPA in this indication.

Disease Target: **CONGESTIVE HEART FAILURE**

Status: **PHASE II**



Color enhanced X-ray of the enlarged heart of a patient with congestive heart failure. In heart failure, the heart cannot pump enough blood to meet the needs of the body's other organs. This can result in a back flow of pressure in the veins causing abnormal swelling in the legs, and fluid in the lungs or other organs.

DITPA is an analogue of thyroid hormone that Titan is developing for the treatment of cardiovascular disease.

Gallium maltolate

Gallium maltolate is a novel oral agent in development for the treatment of bone diseases such as osteoporosis and rheumatoid arthritis, and cancer.

This past year, Titan completed a dose ranging clinical study of gallium maltolate in cancer patients. Significant blood levels of gallium were achieved and a maximum tolerated dose level was not reached in this study. Titan is currently completing optimization of a formulation of gallium maltolate with further increased bioavailability, and subsequent clinical trials will use this new formulation.

Osteoporosis affects an estimated 10 million people in the U.S., mainly postmenopausal women and the elderly. An additional 18 million individuals in the U.S. are estimated to suffer from low bone mass. The disease contributes significantly to bone fractures and patients with low bone mass are at significantly higher risk for fractures from trauma. These fractures frequently result in severe morbidity and can even be life-threatening.

Gallium acts upon bone by inhibiting osteoclasts, or bone matrix resorbing cells, and also increases the activity of osteoblasts, or bone matrix building cells. Together, these activities can increase bone deposition by reducing bone turnover and increasing bone mineral density.

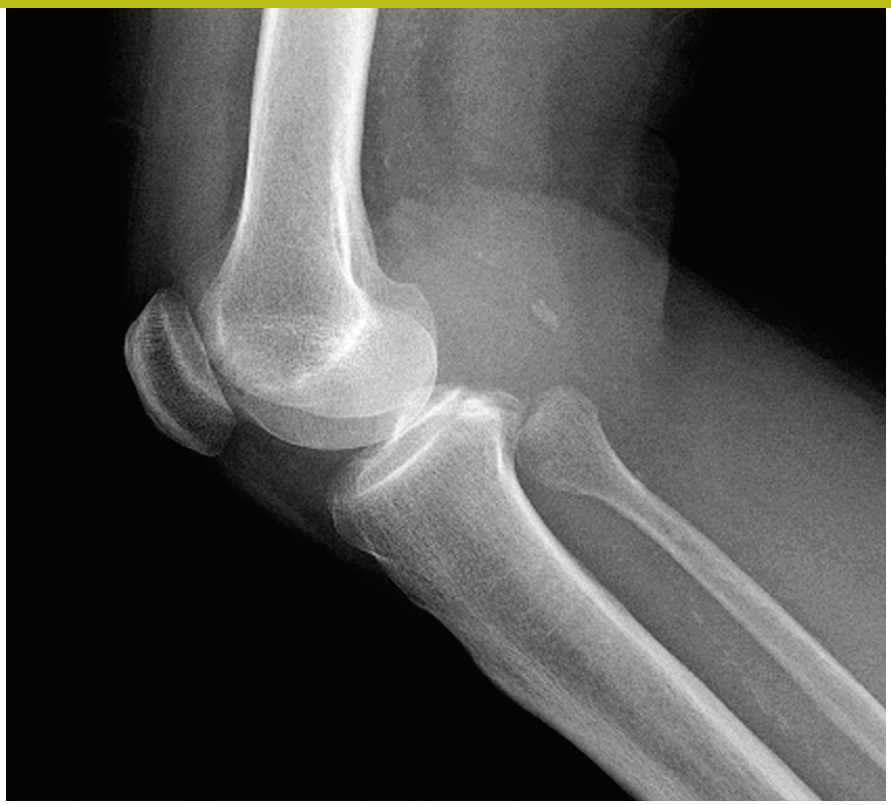
Rheumatoid arthritis (RA) is characterized by inflammation of the lining of the joints, and can lead to long-term bone and joint damage, resulting in chronic pain, loss of function and disability. RA is estimated to affect approximately 2.5 million individuals in the U.S. The disease weakens bone structure and causes bone deformity and loss of function, secondary to inflammatory factors released in the disease process that erode bone matrix.

Preclinical studies in rheumatoid arthritis conducted by Titan indicate that oral dosing of gallium maltolate can reduce the severity of disease related end-points in a dose-dependent manner, thereby indicating potential for gallium maltolate in the treatment of RA. In addition to strengthening the bone matrix, gallium has been shown to suppress certain immune reactions, specifically those involving T lymphocytes and macrophages, without being generally immunosuppressive or cytotoxic. This may also be therapeutically important, since RA is known to involve a pathological T lymphocyte reaction with macrophage involvement against the patient's own tissues.

Gallium also inhibits ribonucleotide reductase, a key enzyme essential for DNA replication. Prior independent clinical studies using intravenously administered gallium nitrate have demonstrated preliminary evidence of clinical activity in several cancers.

Disease Target: **BONE DISEASE AND OTHER DISORDERS**

Status: **PHASE I**



An x-ray view of the knee in a patient with osteoporosis (diminished bone mineralization). Osteoporosis, or porous bone, is a disease characterized by low bone mass and structural deterioration of bone tissue leading to bone fragility and an increased susceptibility to fractures of the hip, spine and wrist. In the U.S., approximately 10 million patients have osteoporosis.

Gallium maltolate is a novel agent in development for the treatment of bone diseases such as osteoporosis and rheumatoid arthritis.

ProNeura

Disease Target: **CNS DISORDERS**
Status: **PRECLINICAL**

Titan's ProNeura technology was developed to address the need for a simple, practical method to achieve continuous long-term drug delivery, and can potentially provide controlled drug release on an outpatient basis over extended periods for up to 6–12 months. ProNeura can also potentially improve the results of treatment, by avoiding the varying blood levels of drug that are usually seen throughout the day with many oral medications.

The ProNeura 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 is placed subcutaneously, normally in the upper arm, in a simple 15-minute office procedure. The medication is then released slowly, at continuous levels, resulting in a constant rate of release similar to intravenous administration. Such long-term, linear release characteristics are potentially superior to oral dosing, by avoiding the peak and trough drug blood levels that can cause problems with many central nervous system therapeutic agents, as well as other types of drugs.

This past year, data were presented demonstrating that continuous drug delivery using the ProNeura system significantly reduced motor symptoms in a validated primate model of Parkinson's disease. Titan has demonstrated initial proof of principle of the ProNeura technology with a number of drugs in preclinical testing, including drugs for the treatment of psychiatric disorders, Parkinson's disease and alcohol addiction.

Titan has demonstrated potential utility of the ProNeura system in preclinical studies with a number of drugs that are approved for the treatment of various central nervous system disorders.

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)	2004	2003	2002	2001	2000
Statement of Operations Data					
Total revenue[1]	$ 31	$ 89	$ 2,892	$ 4,572	$ 1,880
Operating expenses:					
Research and development	20,415	22,258	29,819	23,339	16,744
Acquired/in-process research and development[2]	759	3,896	—	—	4,969
General and administrative	5,237	5,109	5,076	5,383	4,070
Other income, net	376	1,285	3,821	6,686	5,115
Net loss	$ (26,004)	$ (29,889)	$ (28,182)	$ (17,464)	$ (18,788)
Basic and diluted net loss per share	$ (0.83)	$ (1.07)	$ (1.02)	$ (0.63)	$ (0.73)
Shares used in computing:					
Basic and diluted net loss per share	31,381	27,907	27,642	27,595	25,591

(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 the minority shares of Proneura in 2004, the acquisition of DTI in 2003 and in-process research and development reflects the acquisition of GeoMed in 2000.

	As of December 31,				
(in thousands)	2004	2003	2002	2001	2000
Balance Sheet Data					
Cash, cash equivalents, and marketable securities	$36,322	$46,555	$73,450	$105,051	$117,523
Working capital	33,760	44,578	70,702	100,193	115,386
Total assets	38,626	49,008	75,926	107,132	118,442
Total stockholders' equity	33,713	44,426	70,740	100,127	114,738

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.

Probuphine®, Spheramine® and CCM™ are trademarks of Titan Pharmaceuticals, Inc.

OVERVIEW

We are a biopharmaceutical company developing proprietary therapeutics for the treatment of central nervous system (CNS) disorders, cardiovascular disease and cancer. Our product development programs focus on large pharmaceutical markets with significant unmet medical needs and commercial potential. We are focused primarily on clinical development of the following products:

- Iloperidone: for the treatment of schizophrenia and related psychotic disorders (partnered with Vanda Pharmaceuticals, Inc.)
- Probuphine: for the treatment of opiate addiction
- Spheramine: for the treatment of advanced Parkinson's disease (partnered with Schering AG)
- DITPA: for the treatment of congestive heart failure
- Gallium maltolate: for the treatment of bone related diseases and certain cancers.

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. In June 2004, we announced that Vanda Pharmaceuticals, Inc. had acquired from Novartis Pharma AG the worldwide rights to develop and commercialize iloperidone, our proprietary antipsychotic agent in Phase III clinical development for the treatment of schizophrenia and related psychotic disorders. Vanda will now pursue advancement of the iloperidone Phase III development program. All of our rights and economic interests in iloperidone, including royalties on sales of iloperidone, remain essentially unchanged under the agreement. Spheramine development is primarily funded by our corporate partner for Spheramine, Schering AG, Germany (Schering). We are no longer directly pursuing development of the monoclonal antibodies—CeaVac, TriAb, and TriGem—for the treatment of various cancers, and further development of Pivanex for treatment of lung cancer was also discontinued.

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 Pharmaceuticals, Inc.
Probuphine	Opiate addiction	Phase I/II	Titan
Spheramine	Parkinson's disease	Phase IIb	Schering AG
DITPA	Congestive heart failure	Phase II	Titan
Gallium maltolate	Bone related disease and certain cancers	Phase I/II	Titan

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 and we do not expect to generate any revenue from product sales or royalties in the foreseeable future. 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. 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. 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," included in our 2004 Form 10-K/A filed with the Securities and Exchange Commission on April 15, 2005.

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, 2004, 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 $1.1 million in net loss, or an additional $0.03 of net loss per share for the year ended December 31, 2004.

RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2004 and 2003

Revenues in 2004 were $31,000 compared to $89,000 for 2003, a decrease of $58,000. Our revenues during 2004 and 2003 were derived from fees received under various licensing agreements.

Research and development expenses for 2004 were $20.4 million compared to $22.3 million for 2003, a decrease of $1.9 million. The decrease in research and development was primarily associated with the pending completion of a Phase II clinical study and the reduction of internal resources to our immunotherapy products in 2004. Of our 2004 research and development expenses, approximately 44%, or $9.0 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, preclinical activities and contract manufacturing expenses. In 2004, approximately $3.9 million of external R&D expenses were related to Pivanex, $1.4 million to Probuphine, $1.3 million to gallium maltolate, $1.2 million to DITPA, $0.2 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 2004, we recorded a $759,000 acquired research and development expense in connection with the acquisition of minority shares of ProNeura, Inc. The entire purchase price of the shares was charged to acquired research and development on the acquisition date in accordance with generally accepted accounting principles. 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 2004 were $5.2 million compared to $5.1 million for 2003.

Other income, net, for 2004 was $376,000 compared to $1.3 million for 2003, a decrease of $900,000. 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 $26.0 million in 2004 compared to a net loss of $29.9 million in 2003.

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 advanced Parkinson's disease (see Note 7 to the Consolidated Financial Statements). 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, preclinical 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.

General and administrative expenses for 2003 were $5.1 million compared to $5.1 million for 2002.

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.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	2004	2003	2002
As of December 31			
Cash, cash equivalents and marketable securities	**$ 36,322**	$ 46,555	$ 73,450
Working capital	**$ 33,760**	$ 44,578	$ 70,702
Current ratio	**10:1**	14:1	19:1
Year Ended December 31:			
Cash (used in) provided by operating activities	**$ (23,912)**	$ (26,438)	$ (29,291)
Cash (used in) provided by investing activities	**$ 7,977**	$ 26,002	$ 30,678
Cash (used in) provided by financing activities	**$ 14,566**	$ 113	$ (4)

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 our 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 our 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, 2004 (in thousands):

		Payments Due by Period			
	Total	< 1 year	1–3 years	3–5 years	5 years+
Contractual obligations					
Operating leases	$ 3,676	$ 893	$ 1,331	$ 1,157	295
Sponsored research & license agreements	$ 2,408	$ 753	$ 653	$ 668	$ 334
Total contractual cash obligations	$ 6,086	$ 1,646	$ 1,985	$ 1,826	$ 629

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 2005. 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. In March 2004, we completed a sale of 3,075,000 shares of our common stock offered under the registration statement at a price of $5.00 per share, for gross proceeds of approximately $15.4 million. Net proceeds were approximately $14.4 million. For a full discussion of risks and uncertainties regarding our need for additional financing, see "Risk Factors—We will need additional financing," included in our 2004 Form 10-K/A filed with the Securities and Exchange Commission on April 15, 2005.

OFF-BALANCE SHEET ARRANGEMENTS

We have never entered into any off-balance sheet financing arrangements and we have 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.

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 $200,000 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, 2004 (in thousands, except interest rate):

	Face Value			
	2005	2006	Total	Estimated Fair Value
Cash equivalents and marketable securities:				
Variable rate securities	$ 5,005	—	$ 5,005	$ 5,005
Average interest rate	1.38%	—	1.38%	
Fixed rate securities	$ 26,885	$ 3,990	$ 30,875	$ 30,859
Average interest rate	1.40%	2.85%	1.59%	

CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures:* Our principal executive and financial officers reviewed and evaluated our disclosure controls and procedures (as defined in Exchange Act Rule 13a15(e)) as of the end of the period covered by this Annual Report. Based on that evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures are effective in timely providing them with material information relating to the company, as required to be disclosed in the reports we file under the Exchange Act.

(b) *Management's Annual Report on Internal Control Over Financial Reporting:* Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*. Based on the assessment using those criteria, management concluded that, as of December 31, 2004, our internal control over financial reporting was effective.

Our independent registered public accountants, Odenberg Ullakko Muranishi & Co., LLP, audited the consolidated financial statements included in this Annual Report and have issued an audit report on management's assessment of our internal control over financial reporting as well as on the effectiveness of our internal control over financial reporting. Each of the report on the audit of internal control over financial reporting and the report on the audit of the consolidated financial statements appear elsewhere in this Annual Report.

(c) *Changes in Internal Control Over Financial Reporting:* There were no significant changes in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Consolidated balance sheets

(in thousands of dollars)	December 31, 2004	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 5,463	$ 6,832
Marketable securities	30,859	39,723
Related party receivables	18	123
Prepaid expenses, other receivables and current assets	1,092	1,241
Total current assets	37,432	47,919
Property and equipment, net	1,044	789
Investment in other companies	150	300
	$ 38,626	$ 49,008
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 689	$ 1,505
Accrued clinical trials expenses	1,445	634
Other accrued liabilities	1,538	1,202
Total current liabilities	3,672	3,341
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, 2004 and 2003	—	—
Common stock, at amounts paid in, $0.001 par value per share; 50,000,000 shares authorized, 32,307,638 and 28,903,043 shares issued and outstanding at December 31, 2004 and 2003, respectively	210,264	195,331
Additional paid-in capital	9,327	9,047
Deferred compensation	(82)	(211)
Accumulated deficit	(185,745)	(159,741)
Accumulated other comprehensive income	(51)	—
Total stockholders' equity	33,713	44,426
	$ 38,626	$ 49,008

See accompanying notes.

Consolidated statement of operations

(in thousands, except per share amount)	Year ended December 31, 2004	2003	2002
Revenue:			
Contract revenue	$ —	$ 28	$ 2,696
License revenue	31	61	—
Grant revenue	—	—	196
Total revenue	31	89	2,892
Operating expenses:			
Research and development	20,415	22,258	29,819
Acquired research and development	759	3,896	—
General and administrative	5,237	5,109	5,076
Total operating expenses	26,411	31,263	34,895
Loss from operations	(26,380)	(31,174)	(32,003)
Other income (expense):			
Interest income	673	1,278	4,221
Other income (expense)	(297)	7	(400)
Other income, net	376	1,285	3,821
Net loss	$ (26,004)	$ (29,889)	$ (28,182)
Basic and diluted net loss per share	$ (0.83)	$ (1.07)	$ (1.02)
Weighted average shares used in computing basic and diluted net loss per share	31,381	27,907	27,642

See accompanying notes.

Consolidated statement of stockholders' equity

(in thousands)	Preferred Stock Shares	Preferred Stock Amount
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	$ —
Comprehensive loss:		
Net loss		
Unrealized loss on marketable securities		
Comprehensive loss		
Issuance of common stock, net of issuance costs of $1,020		
Issuance of common stock upon exercise of options		
Issuance of common stock upon tender of Proneura, Inc. shares		
Compensation related to stock options		
Amortization of deferred compensation		
Balances at December 31, 2004	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
27,642	$ 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
				(26,004)		(26,004)
					(51)	(51)
						(26,055)
3,075	14,355					14,355
180	211					211
150	367					367
		280	(154)			126
			283			283
32,308	$ 210,264	$ 9,327	$ (82)	$ (185,745)	$ (51)	$ 33,713

Consolidated statement of cash flows

(in thousands of dollars)	Years ended December 31, 2004	2003	2002
Cash flows from operating activities:			
Net loss	$ (26,004)	$ (29,889)	$ (28,182)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	466	439	374
(Gain) loss on investment activities	261	(51)	309
Gain on disposition of property and equipment	4	—	—
Acquired research and development	759	3,873	—
Non-cash compensation related to stock options	409	296	318
Changes in operating assets and liabilities:			
Prepaid expenses, receivables and other current assets	254	(166)	(291)
Accounts payable	(816)	(675)	1,007
Accrued clinical trials and other liabilities	755	(265)	(826)
Deferred contract revenue	—	—	(2,000)
Net cash used in operating activities	(23,912)	(26,438)	(29,291)
Cash flows from investing activities:			
Purchases of property and equipment, net	(725)	(248)	(778)
Investment in other companies	—	91	—
Purchases of marketable securities	(12,098)	(47,660)	(25,114)
Proceeds from maturities of marketable securities	20,800	64,819	43,718
Proceeds from sales of marketable securities	—	9,000	12,852
Net cash provided by investing activities	7,977	26,002	30,678
Cash flows from financing activities:			
Issuance of common stock, net	14,566	113	(4)
Net cash (used in) provided by financing activities	14,566	113	(4)
Net increase (decrease) in cash and cash equivalents	(1,369)	(323)	1,383
Cash and cash equivalents at beginning of year	6,832	7,155	5,772
Cash and cash equivalents at end of year	5,463	6,832	7,155
Marketable securities at end of year	30,859	39,723	66,295
Cash, cash equivalents and marketable securities at end of year	$ 36,322	$ 46,555	$ 73,450
Schedule of Non-cash transaction:			
Issuance of common stock to acquire technologies, net	$ 367	$ 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, cardiovascular disease and cancer. 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 consolidated subsidiary Ingenex, Inc. At December 31, 2004, we owned 81% of Ingenex, assuming the conversion of all preferred stock to common stock. In the fourth quarter of 2004, we completed the merger of ProNeura, Inc., our 89% owned subsidiary, into Titan. 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 we had applied the provisions of SFAS 123 to estimate and recognize compensation expense for our Stock-Based employee compensation.

	Year Ended December 31,		
	2004	2003	2002
Net loss, as reported	$ (26,004)	$ (29,889)	$ (28,182)
Add: Stock-Based employee compensation expense included in reported net loss	268	296	318
Deduct: Stock-Based employee compensation expense determined under fair value method for all stock option grants	(1,390)	(2,319)	(8,489)
Pro forma net loss	$ (27,126)	$ (31,912)	$ (36,353)
Basic and diluted net loss per share, as reported	$ (0.83)	$ (1.07)	$ (1.02)
Pro forma basic and diluted net loss per share	$ (0.86)	$ (1.14)	$ (1.32)

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 $102,000 in 2004, $40,000 in 2003, and $9,000 in 2002 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 BioServices, Inc. for 714,286 shares of Series A Preferred stock, and at December 31, 2004, these shares represent 4.6% 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. In September 2004, we recorded a $150,000 reduction in the carrying value of our investment in Molecular Medicine BioServices, Inc., and included the loss in other income (expense).

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 standalone 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 standalone 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 standalone value that are not dependent on future performance under these agreements are recognized as revenue when received, and are deferred if we have continuing performance obligations and have 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, annual minimum access fees or royalty payments. Nonrefundable upfront license fees and annual minimum payments received with separable standalone 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, 2004, 2003, and 2002, outstanding preferred stock, options and warrants totaled 6.7 million, 6.1 million, and 6.4 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, 2004, 2003, and 2002 was $26.1 million, $30.3 million, and $29.7 million, respectively. Comprehensive loss has been disclosed in the Statement of Stockholders' Equity for all periods presented.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued their final standard on accounting for share-based payments in FASB Standard No. 123R (revised 2004), *Share-Based Payment* (FAS 123R). This statement replaces FASB Statement 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. The statement is effective for all interim and annual periods beginning after June 15, 2005 and requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Stock-based payments include stock option grants under Company stock plans. The adoption of FAS 123R could materially impact our results of operations.

2. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

The following is a summary of our cash, cash equivalents and marketable securities at December 31, 2004 and 2003 (in thousands):

	2004				2003			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash	$ 458	$ —	$ —	$ 458	$ 253	$ —	$ —	$ 253
Cash equivalents:								
Money market funds	5,005	—	—	5,005	5,082	—	—	5,082
Commercial paper	—	—	—	—	1,497	—	—	1,497
Total cash equivalents	5,005	—	—	5,005	6,579	—	—	6,579
Marketable securities:								
Securities of the U.S. government and its agencies	29,910	3	(54)	29,859	33,178	47	(17)	33,208
Corporate notes and bonds	—	—	—	—	4,246	9	(38)	4,217
Commercial paper	1,000	—	—	1,000	2,299	—	(1)	2,298
Total marketable securities	30,910	—	—	30,859	39,723	56	(56)	39,723
Total cash, cash equivalents and marketable securities	$36,373	$ 3	$ (54)	$36,322	$46,555	$ 56	$ (56)	$46,555
Securities available-for-sale:								
Maturing within 1 year	$31,909			$31,869	$30,353			$30,353
Maturing between 1 to 2 years	$ 4,000			$ 3,995	$15,949			$15,949

There were no material gross realized gains or losses on sales of marketable securities for the year ended December 31, 2004. For the year ended December 31, 2003, there were no gross realized gains and $17,000 of gross realized losses. For the year ended December 31, 2002, there were $119,000 of gross realized gains and $3,000 of gross realized losses.

The aggregate amount of unrealized losses and the related fair value of investments with unrealized losses at December 31, 2004 were approximately $54,000 and $23.1 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.

We recorded charges totaling $51,000 related to other than temporary impairments of debt and equity securities for the year ended December 31, 2004.

3. PROPERTY AND EQUIPMENT

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

	2004	2003
Furniture and office equipment	$ 540	$ 530
Leasehold improvements	413	368
Laboratory equipment	935	428
Computer equipment	871	810
	2,759	2,136
Less accumulated depreciation and amortization	(1,715)	(1,347)
Property and equipment, net	$ 1,044	$ 789

Depreciation and amortization expense was $466,000, $436,000, and $374,000 for the years ended December 31, 2004, 2003, and 2002, 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 $3.5 million, $2.6 million, and $1.3 million in the years ended December 31, 2004, 2003, and 2002, respectively.

At December 31, 2004, the annual aggregate commitments we have under these agreements, including minimum license payments, are as follows (in thousands):

2005	$ 753
2006	324
2007	329
2008	334
2009	334
	$ 2,074

After 2009, 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 Pharma AG (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, we 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 us a royalty on future net sales of the product, providing us 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.

In June 2004, we announced that Vanda Pharmaceuticals, Inc. (Vanda) had acquired from Novartis the worldwide rights to develop and commercialize iloperidone, our proprietary antipsychotic agent in Phase III clinical development for the treatment of schizophrenia and related psychotic disorders. Under its agreement with Novartis, Vanda will pursue advancement of the iloperidone Phase III development program. All of our rights and economic interests in iloperidone, including royalties on sales of iloperidone, remain essentially unchanged under the agreement.

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, 2004, we have recognized $2.8 million under this agreement. 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 advanced Parkinson's disease following the successful completion of our Phase I/II clinical study of Spheramine. As a result, we 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. We 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. We acquired DTI in a stock transaction for 1,187,500 shares of our 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 our 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 our 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 2010. We also lease certain office equipment under operating and capital leases that expire at various dates through July 2008. Rental expense was $832,000, $825,000, and $765,000 for years ended December 31, 2004, 2003, and 2002, respectively.

The following is a schedule of future minimum lease payments at December 31, 2004 (in thousands):

2005	$ 893
2006	764
2007	567
2008	573
2009	584
Thereafter	295
	$ 3,676

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, 2004.

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, 2004. 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 our common stock, on a one-to-one basis, only if certain development milestones are achieved within a 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. Certain milestones were not achieved by October 6, 2004. Therefore, we have the right to redeem all, but not less than all, of the outstanding shares of Series C Preferred Stock at a redemption price equal to the aggregate par value of the shares plus accrued and unpaid dividends, if any. Holders of Series C

Preferred are not entitled to vote but are 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. There were no accrued and unpaid dividends outstanding as of December 31, 2004.

Common Stock

In October 2004, we issued 149,599 shares of our common stock in exchange for 101,700 shares of ProNeura, Inc. (ProNeura) common stock under a share exchange agreement with two of the three minority shareholders of ProNeura. Our common stock was valued at $367,000 using the average market price of our common stock over a five day trading period, including two days prior to and subsequent to the date of issuance.

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. In March 2004, we completed a sale of 3,075,000 shares of our common stock offered under the registration statement at a price of $5.00 per share, for gross proceeds of approximately $15.4 million. Net proceeds were approximately $14.4 million.

In October 2003, we acquired DITPA through the acquisition of Developmental Therapeutics, Inc. (DTI) in a stock transaction for 1,187,500 shares of our 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, 2004, shares of common stock reserved by us for future issuance consisted of the following (shares in thousands):

Stock options	7,910
Preferred stock	222
DTI merger contingent shares	750
	8,882

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. Generally, 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 options granted under the 2001 NQ Plan were 100% of the fair market value of our common stock on the date of grant.

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, 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
Options granted	(1,407)	1,407	$ 2.90
Options exercised	—	(180)	$ 1.17
Options cancelled	734	(734)	$ 7.81
Balance at December 31, 2004	1,465	6,445	$ 8.39

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 2004, 2003 and 2002, the number of Substitute Options cancelled was immaterial.

Options for 5.0 million and 3.9 million shares were exercisable at December 31, 2004 and 2003, respectively. The options outstanding at December 31, 2004 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 – $ 3.38	2,157	7.92	$ 2.13	1,085	$ 1.83
$ 3.43 – $ 8.77	2,344	5.35	$ 6.32	2,010	$ 6.66
$ 9.06 – $ 46.50	1,944	5.61	$ 17.82	1,944	$ 17.82
$ 0.08 – $ 46.50	6,445	6.29	$ 8.39	5,039	$ 9.92

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 have 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 2004, 2003, and 2002: weighted-average volatility factor of 0.70, 0.70, and 0.79, respectively; no expected dividend payments; weighted-average risk-free interest rates in effect of 3.0%, 2.2%, and 2.4%, respectively; and a weighted-average expected life of 3.97, 3.01, and 3.54 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, 2004, 2003, and 2002 was $1.65, $0.89, and $2.32, 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 PARTY 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. At December 31, 2004 and 2003, such receivables were $18,000 and $123,000, respectively.

15. INCOME TAXES

As of December 31, 2004, we had net operating loss carryforwards for federal income tax purposes of approximately $184.2 million that expire at various dates through 2024, and federal research and development tax credits of approximately $5.3 million that expire at various dates through 2024. We also had net operating loss carryforwards for state income tax purposes of approximately $58.9 million that expire at various dates through 2014, and state research and development tax credits of approximately $4.0 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, 2004	2003
Deferred tax assets:		
Net operating loss carryforwards	$ 66,070	$ 59,000
Research credit carryforwards	9,344	6,400
Other, net	1,732	4,200
Total deferred tax assets	77,146	69,600
Deferred tax liabilities:		
Unrealized gain on investments	—	(50)
Valuation allowance	(77,146)	(69,550)
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 $7.6 million, $17.6 million, and $11.1 million during 2004, 2003, and 2002, respectively. The valuation allowance at December 31, 2004 includes $4.0 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
2004				
Total revenue	$ 1	—	—	$ 30
Net loss	$ (6,381)	$ (5,555)	$ (6,270)	$ (7,798)
Basic and diluted net loss per share	$ (0.22)	$ (0.17)	$ (0.20)	$ (0.24)
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)

Report of independent registered public accounting firm

To the Board of Directors and Stockholders of
Titan Pharmaceuticals, Inc.

We have audited management's assessment, included in the accompanying Management Report on Internal Controls Over Financial Reporting included in Item 9A that Titan Pharmaceuticals, Inc. and its subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Titan Pharmaceuticals, Inc. and its subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended and our report dated February 15, 2005 expressed an unqualified opinion thereon.

/s/ Odenberg Ullakko Muranishi & Co. LLP

San Francisco, California
February 15, 2005

Report of independent registered public accounting firm

To the Board of Directors and Stockholders of
Titan Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheet of Titan Pharmaceuticals, Inc. and its subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with standards of the Public Company Accounting 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Titan Pharmaceuticals, Inc. and its subsidiaries at December 31, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Titan Pharmaceuticals, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2005 expressed an unqualified opinion thereon.

/s/ Odenberg Ullakko Muranishi & Co. LLP

San Francisco, California

February 15, 2005

Report of independent registered public accounting firm

The Board of Directors and Stockholders
Titan Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheet of Titan Pharmaceuticals, Inc. as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two 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 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. 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 the consolidated results of its operations and its cash flows for each of the two 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, 2004:		
First Quarter	$ 5.89	$ 2.80
Second Quarter	$ 5.15	$ 2.43
Third Quarter	$ 2.84	$ 1.80
Fourth Quarter	$ 3.39	$ 1.94
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

(b) Approximate Number of Equity Security Holders

The number of record holders of our common stock as of March 1, 2005 was approximately 155. Based on the last ADP search, we believe there are in excess of 10,000 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.