TITAN PHARMACEUTICALS, INC.

INNOVATIONS
IN MEDICINE™

2005
ANNUAL
REPORT

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.

ILOPERIDONE

THERAPEUTIC TARGET:
Schizophrenia

PHASE: III

Iloperidone is an antipsychotic agent in development for the treatment of schizophrenia.

PROBUPHINE®

THERAPEUTIC TARGET:
Opiate Addiction

PHASE:
Initiating Phase III

Probuphine is a novel product in development for the treatment of opiate addiction that utilizes the Company's proprietary ProNeura™ long-term drug delivery system. Probuphine delivers buprenorphine, an approved agent for treatment of opiate addiction, for six months.

SPHERAMINE®

THERAPEUTIC TARGET:
Parkinson's Disease

PHASE: IIb

Spheramine is a novel cell therapy in development for the treatment of advanced Parkinson's disease.

DITPA

THERAPEUTIC TARGET:
Congestive Heart Failure

PHASE: II

DITPA (3,5-diiodothyropropionic acid), is an analogue of thyroid hormone (T_3) in development for the treatment of congestive heart failure associated with low T_3 levels.

THERAPEUTIC TARGET:
Hyperlipidemia

PHASE: II

In a previous placebo controlled pilot clinical study in patients with CHF, DITPA lowered total cholesterol by approximately 24%, LDL cholesterol by approximately 25% and triglyceride levels by 35% after four weeks of treatment.

GALLIUM MALTOLATE

THERAPEUTIC TARGETS:
Bone Disease
Cancer
Chronic Bacterial Infections

PHASE: I

Gallium maltolate is a novel oral agent in development for the treatment of bone disease and other disorders.

TO OUR SHAREHOLDERS:

Titan Pharmaceuticals achieved significant progress during the past year. We advanced each of our clinical stage development programs, and took steps to position Titan for future success by expanding our portfolio of earlier stage development programs. In addition, we enhanced the financial resources available to the Company through transactions completed in 2005 and earlier this year. Looking ahead, Titan has significant opportunities and distinct advantages, and is dedicated to further advancing its innovative therapeutic products under development.

Each of Titan's product development programs made important progress during the past year.

ILOPERIDONE

Our corporate partner for iloperidone, Vanda Pharmaceuticals, is pursuing completion of the iloperidone Phase III development program. We believe that Vanda has a good strategy for positioning this product to maximize its potential as an improved treatment for schizophrenia and related psychotic disorders. Vanda is seeking to differentiate iloperidone from currently marketed antipsychotics based on the potentially improved side effect profile that iloperidone preliminarily demonstrated in previous Phase III clinical testing. Currently marketed schizophrenia drugs often induce significant side effects resulting in poor patient compliance and discontinuance of treatment. Iloperidone, with its potential relatively low incidence of significant side effects, is being targeted to address these issues. To further address the issues of poor patient compliance and discontinuation, Vanda is developing a four-week injectable depot formulation of iloperidone that has successfully completed a Phase I/IIa clinical trial. Vanda is also seeking to differentiate iloperidone through the development of testing procedures that may enable physicians to identify patients that may experience improved results with iloperidone. In addition to schizophrenia, iloperidone may be effective in the treatment of bipolar disorder, and Vanda is readying an initial Phase II study of iloperidone in this indication. We are pleased with the steps that Vanda has taken to date to advance the iloperidone Phase III development program in schizophrenia, and believe that iloperidone has the potential to contribute meaningfully to the improved treatment of this disease.

PROBUPHINE

Titan achieved significant regulatory and manufacturing progress in preparation for the initiation of the Probuphine Phase III clinical development program. We advanced discussions with U.S. and international regulatory authorities regarding the design of a multinational Phase III clinical program for treatment of opiate addiction. We also expanded our manufacturing capacity in order to meet requirements for the initiation of Phase III testing, as well as for projected requirements for a commercial supply of product. There is a large unmet need for improved therapies in the treatment of opiate addiction, with an estimated 2.8 million individuals in the U.S. and Europe addicted to illicit opiates such as heroin, and more than 2.0 million individuals in the U.S. alone who are addicted to prescription opiates, such as oxycodone. Probuphine utilizes Titan's ProNeura long-term drug delivery system, and is designed to provide six months of treatment with buprenorphine, an approved agent for the treatment of opiate addiction. We believe that Probuphine has the potential to address many of the challenges and limitations of current therapies for opiate addiction.

SPHERAMINE

In accordance with further progress in the Spheramine development program, the Investigational New Drug application (IND) for Spheramine was transferred to our corporate partner, Schering AG, Germany, and Schering has assumed additional responsibilities for the management of the Spheramine development program. Schering has also taken over responsibility for manufacturing and is working to scale up manufacturing capacity in preparation for potential Phase III testing

and commercialization of Spheramine. Titan and Schering are jointly conducting a Phase IIb clinical study of Spheramine in the treatment of advanced Parkinson's disease. Spheramine has been granted both Fast Track and Orphan Drug designations by the FDA.

DITPA

This past year, Titan expanded the development of DITPA beyond the treatment of congestive heart failure (CHF), into the treatment of elevated cholesterol, and the treatment of metabolic syndrome. DITPA is an orally active analogue of thyroid hormone (T_3). Thyroid hormone is known to play a central role in normal cardiovascular function and lipid metabolism. In addition to the two ongoing, randomized, controlled Phase II clinical studies that are evaluating DITPA as a potential treatment for CHF, Titan this year initiated a Phase II clinical study evaluating DITPA as a potential treatment for elevated cholesterol. This investigator sponsored study is being conducted at The Johns Hopkins Medical Institutions in Baltimore. Titan also is preparing to launch another investigator sponsored Phase II clinical study of DITPA at Johns Hopkins in the treatment of metabolic syndrome, a condition characterized by a constellation of factors including significant obesity and high triglyceride levels. In addition to DITPA's potential in the treatment of CHF, elevated cholesterol and metabolic syndrome, there is scientific evidence from research into the relationship between thyroid hormone and cardiovascular function that suggests the potential of DITPA in the treatment of diastolic dysfunction, left ventricular dysfunction, myocardial infarction and cardiopulmonary bypass surgery.

GALLIUM MALTOLATE

Titan achieved significant preclinical and manufacturing progress in preparation for the initiation of additional clinical studies of gallium maltolate, a novel oral agent for the potential treatment of chronic bacterial infections, bone disease and cancer. Preclinical data demonstrating that gallium maltolate, in combination

with antibiotic treatment, can eradicate and prevent recurrence of chronic bacterial biofilm-based infection was presented at the American Society for Microbiology in May 2006, and preclinical data demonstrating the activity of gallium maltolate in human lymphoma cell lines resistant to gallium nitrate was presented at the annual meeting of the American Association for Cancer Research in April 2006. Preclinical studies with gallium maltolate in other settings are ongoing. Titan has also developed a new formulation of gallium maltolate with potentially improved bioavailability, and we anticipate using this formulation in future clinical studies.

PRONEURA LONG-TERM DRUG DELIVERY TECHNOLOGY

Titan's first product to utilize our proprietary ProNeura long-term drug delivery technology is Probuphine, our product in development for the treatment of opiate addiction. We have also completed preliminary preclinical testing of a prototype ProNeura formulation of buprenorphine for the treatment of chronic pain, as well as other prototypes for long-term delivery of drugs for the treatment of Parkinson's disease and female sexual dysfunction. We believe that our ProNeura technology can potentially improve treatment for a number of disorders by providing continuous therapy and avoiding the varying blood levels that are associated with many oral medications.

Titan has also taken steps this past year to enhance its financial resources.

Recently, Titan established an equity line of credit that provides the Company with the flexibility to access additional capital at selected times when additional capital or liquidity is desirable. To date, Titan has accessed only approximately $4 million under this facility. In addition, this year Titan completed the sale of $10 million of common stock to a select group of institutional investors.

Throughout the remainder of this year and 2007, Titan will focus on the advancement and completion of several of our ongoing and planned clinical studies. We appreciate the continued support of our shareholders, scientific colleagues and corporate partners, and the dedicated efforts of our employees toward our goal of providing improved treatment for millions of patients through the advancement of Titan's innovative therapeutic products.

Sincerely,

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

ILOPERIDONE

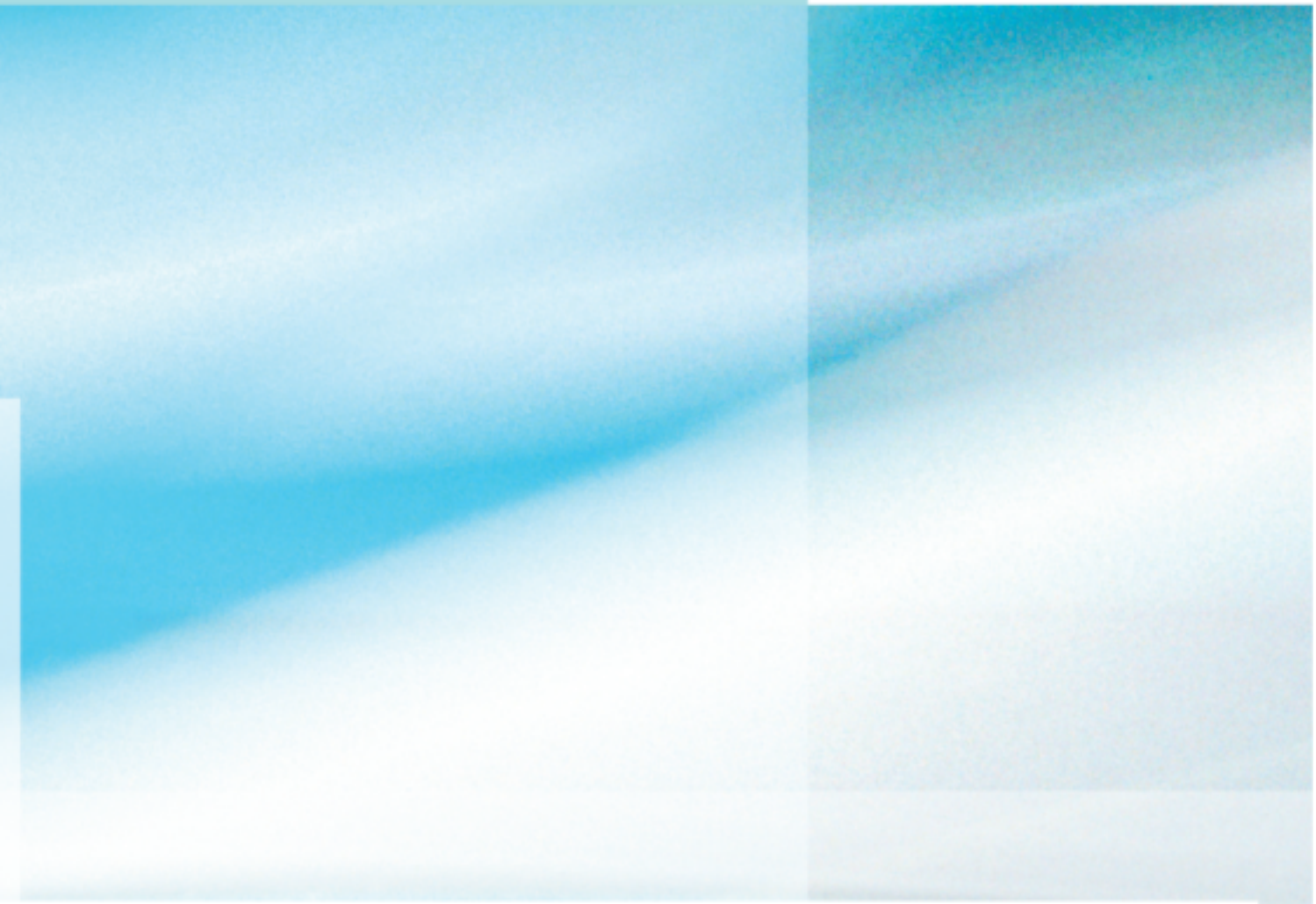
THERAPEUTIC TARGET:
Schizophrenia

PHASE III DEVELOPMENT CONTINUING THROUGH TITAN'S PARTNER FOR ILOPERIDONE

Iloperidone is an oral, small molecule, being developed for the treatment of schizophrenia. Iloperidone was originally selected based on its low binding affinity to the dopamine D2 receptor and high affinity for the 5-HT2 receptor, characteristics that may potentially minimize side effects while providing beneficial effects in the treatment of this condition. Titan's corporate partner for iloperidone, Vanda Pharmaceuticals, is implementing an ongoing pivotal Phase III clinical study, which, if successful, is intended to support both U.S. and European regulatory filings for the approval of iloperidone in the treatment of schizophrenia.

Schizophrenia is a chronic, debilitating mental disorder characterized by positive symptoms, such as hallucinations and delusional thinking, as well as negative symptoms, such as emotional abnormalities and withdrawal. Schizophrenia affects approximately 1% of the world's population, with an estimated 2.2 million patients in the U.S.

The global market for schizophrenia drugs exceeded $14 billion in 2004. However, many physicians and patients are dissatisfied with current drugs because of side effects they induce. These side effects, such as weight gain, diabetes, extrapyramidal symptoms, hyperprolactinemia, increased somnolence and cognition difficulties, often result in poor patient compliance and discontinuance of treatment. The recent CATIE (Clinical Antipsychotic Trials of Interventional Effectiveness) study, conducted by the National Institute of Mental health and reported in The New England Journal of Medicine, found that 74% of patients taking current antipsychotic agents discontinued treatment within 18 months, with the average time to discontinuation for these patients being approximately 6 months. Iloperidone, with its potentially favorable side effect profile, is targeted to help address these issues, and potentially improve treatment.



Iloperidone's potential for relatively low incidence of significant side effects has been preliminarily demonstrated in initial Phase III clinical testing. In three short-term and three long-term Phase III trials involving more than 3,500 patients, iloperidone demonstrated potentially reduced side effects relative to current antipsychotic drugs, including low weight gain, no induction of diabetes, low extrapyramidal symptoms, including no akathisia (inability to sit still), no hyperlactinemia, low incidence of sleepiness and low effects on cognition relative to placebo.

To further address the issues of poor patient compliance and discontinuation, Titan's corporate partner, Vanda, is developing a four-week injectable depot formulation of iloperidone that has successfully completed a Phase I/IIa clinical trial. The commercial potential for a depot formulation has been demonstrated by the success of the depot formulation for risperidone, a currently marketed antipsychotic agent that achieved worldwide depot formulation sales of $310 million in 2004, its first full year on the market. The four-week depot formulation for iloperidone may potentially be an attractive alternative to the two-week depot formulation for risperidone.

Vanda is also seeking to differentiate iloperidone through the development of testing procedures that may enable physicians to prospectively identify patients that are both more likely to respond to iloperidone, and experience improved results with iloperidone, versus other therapies.

Finally, in addition to schizophrenia, iloperidone may be effective in the treatment of bipolar disorder, and Vanda is preparing an initial Phase II study of iloperidone in this indication.

PROBUPHINE

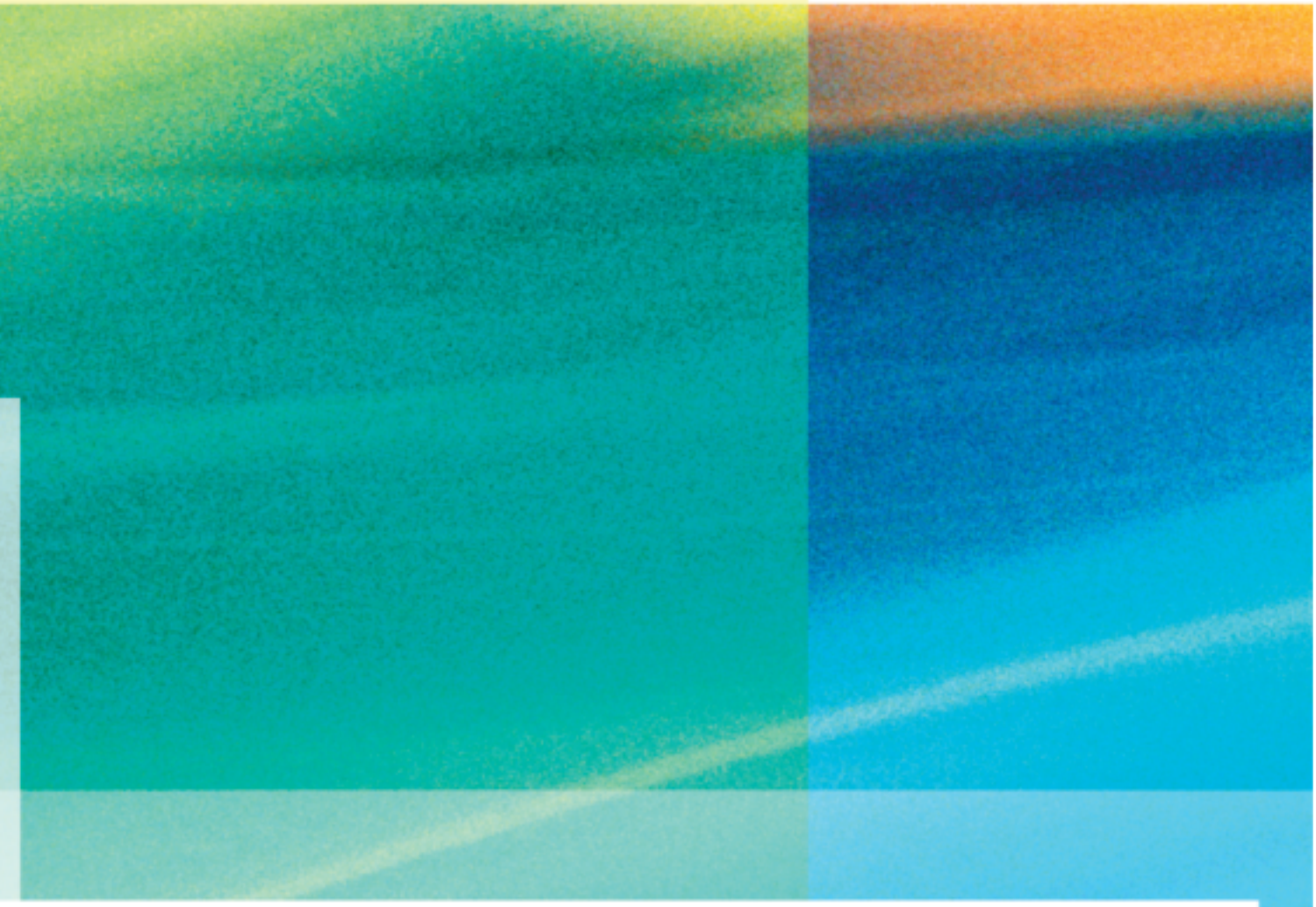
THERAPEUTIC TARGET:
Opiate Addiction

TITAN IS PREPARING TO LAUNCH A U.S. AND INTERNATIONAL PHASE III CLINICAL PROGRAM

Probuphine is a novel product under development by Titan for the treatment of opiate addiction. An estimated 2.8 million individuals in the U.S. and Europe are addicted to illicit opiates such as heroin, and more than 2.0 million individuals in the U.S. alone are addicted to prescription pain killers such as hydrocodone, oxycodone and morphine.

Treatment of opiate addiction for several decades had consisted largely of methadone maintenance treatment. Buprenorphine, which was approved in the U.S. in 2003, is considered by many experts to offer several advantages over methadone. However, current buprenorphine treatment is administered in a daily sublingual tablet formulation that presents a number of challenges and drawbacks, including poor compliance, variable blood levels, risk of diversion and misuse, and morning withdrawal symptoms occurring before the daily dose. Probuphine is designed to address these limitations, and potentially provide an improved treatment for opiate addiction.

Probuphine is Titan's first product in clinical testing to utilize Titan's proprietary ProNeura long-term drug delivery system. 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 designed to release burenorphine at therapeutic blood levels continuously for six months. Titan believes that this novel, six month dosage form of buprenorphine may offer several potential advantages in the treatment of opiate addiction.



Probuphine is administered in a simple office procedure in which the physician places the product subcutaneously, usually in the upper arm. At the end of the six-month treatment period, the product can be removed and replaced in a similar, simple procedure.

In a previous pilot study, 12 opiate-dependent patients were successfully switched from their daily oral doses of buprenorphine to Probuphine, with maintenance of therapeutic benefit, including absence of significant withdrawal or craving.

In preparation for the initiation of Phase III clinical studies of Probuphine, Titan is finalizing discussions with U.S. and international regulatory authorities regarding the design of a multinational Phase III clinical program. Titan has also expanded its capacity for the manufacture of Probuphine in order to meet both the product requirements for the Phase III clinical program as well as projected requirements for commercial product supply.

SPHERAMINE

THERAPEUTIC TARGET:
Parkinson's Disease

Spheramine is a cell-based therapy in development for the treatment of advanced Parkinson's disease. Spheramine consists of microscopic carrier beads that are coated with normal, human, L-dopa-producing cells. The product is implanted in the central nervous system to enhance levels of dopamine, an essential neurotransmitter that is deficient in certain brain regions in patients with Parkinson's disease. Spheramine utilizes Titan's proprietary cell-coated microcarrier (CCM™) technology, which is designed to enhance the viability of cells used to deliver therapeutic factors into the central nervous system.

Parkinson's disease results from reduced 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" in which 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, especially as progressively higher doses are required.

The CCM technology, on which Spheramine is based, involves adhering normal, human retinal pigment epithelial (RPE) cells to microscopic beads. These beads, or microcarriers, enhance the ability of the cells to survive in the central nervous system while avoiding the need for immunosuppression.

Preliminary efficacy and safety of Spheramine has been demonstrated in preclinical and pilot clinical studies. In a study in a primate model of Parkinson's disease, positron emission tomography imaging studies demonstrated increased dopamine signals in the regions of the brain treated with Spheramine. In addition, a pilot clinical study of Spheramine in six patients with late-stage Parkinson's disease demonstrated an average 48% improvement in motor function one year after treatment. The six patients in the pilot clinical study continued to demonstrate average improvement in motor function of 43% over baseline, four years after treatment.

Titan is currently conducting a multi-center, randomized, blinded, placebo-controlled Phase IIb clinical study of Spheramine in advanced Parkinson's disease. This 68-patient study will further evaluate the efficacy, safety and tolerability of Spheramine. Titan's corporate partner for the development of Spheramine, Schering AG, Germany, is funding the Spheramine development program.

In recognition of further progress made in the Spheramine development program, and in accordance with our prior agreements, Titan has now transferred the Investigational New Drug application (IND) for Spheramine to Schering, and Schering has assumed additional responsibilities for management of the program. Schering has also taken over responsibility for manufacturing and is working to scale up manufacturing capacity in preparation for potential commercialization of Spheramine. Spheramine has been granted both Fast Track and Orphan Drug designations by the FDA.

DITPA

THERAPEUTIC TARGETS:

Congestive Heart Failure
Hyperlipidemia

DITPA (3,5-diiodothyropropionic acid) is an orally active analogue of thyroid hormone (T_3). Titan is currently evaluating DITPA in Phase II clinical studies for the treatment of congestive heart failure (CHF) and the treatment of elevated cholesterol.

Thyroid hormone is known to play a central role in maintaining normal cardiovascular function. Several studies in CHF patients have identified a high risk group with 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 this patient group, because they can potentially increase heart rate, an unwanted side effect. DITPA was selected to be evaluated in this patient group based on both preclinical and preliminary clinical testing that demonstrated DITPA's ability to improve cardiovascular function with a reduced potential to increase heart rate.

Enrollment is continuing in Titan's 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.

Titan has also initiated a randomized, double-blind, placebo-controlled Phase II clinical study evaluating DITPA as a potential treatment for elevated cholesterol. This investigator sponsored study is being conducted at The Johns Hopkins Medical Institutions in Baltimore. In a previous 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. The ongoing Phase II study will evaluate DITPA in individuals receiving standard lipid-lowering therapy, whose LDL cholesterol levels are not sufficiently reduced with standard therapy.

In addition, Titan is preparing to launch an investigator sponsored Phase II clinical study of DITPA in the treatment of metabolic syndrome, a condition characterized by a group of factors including significant obesity and high triglyceride levels.

GALLIUM MALTOLATE

THERAPEUTIC TARGETS:

Bone Disease
Cancer
Chronic Bacterial Infections

Gallium is a semi-metallic element with multiple biologic actions. Gallium maltolate is a novel oral formulation of gallium that Titan is developing for the potential treatment of several disorders, including chronic bacterial infections, bone disease and cancer.

Gallium may render resistant bacteria in biofilms susceptible to treatment by depriving the bacteria of iron required for growth. In May 2006, Titan presented preclinical data at the American Society for Microbiology demonstrating that gallium maltolate, in combination with antibiotic treatment, can eradicate and prevent recurrence in a model of chronic urinary tract bacterial infection. Based on these results, Titan believes that gallium maltolate may have potential in the treatment of chronic bacterial biofilm-associated infections, including urinary tract infections and lung infections associated with cystic fibrosis.

Gallium also acts upon bone by inhibiting osteoclasts, or bone matrix resorbing cells, and by enhancing 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. Preclinical studies in rheumatoid arthritis (RA) indicate that oral dosing of gallium maltolate can strengthen bone matrix and reduce the severity of RA related end-points in a dose-dependent manner.

Gallium may also have potential as an anti-cancer agent. Research suggests that gallium concentrates in tumor tissues where it substitutes for ferric iron, thereby inhibiting the activity of ribonucleotide reductase. The blocking of the ribonucleotide reductase activity inhibits DNA synthesis and cancer cell growth. Prior independent clinical studies using intravenously administered gallium nitrate in several cancers demonstrated preliminary evidence of clinical activity. In April 2006, preclinical data demonstrating the activity of gallium maltolate in human lymphoma cell lines resistant to gallium nitrate was presented at the annual meeting of the American Association for Cancer Research. Based on these results, Titan believes that gallium maltolate may have potential in the treatment of several cancers, including multiple myeloma, lymphoma, bladder cancer and prostate cancer.

Titan has recently developed a new formulation of gallium maltolate with potentially improved bioavailability, and anticipates using this formulation in future clinical studies.

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 notes 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)	2005	2004	2003	2002	2001
Statements of Operations Data:					
Total revenue[1]	**$ 89**	$ 31	$ 89	$ 2,892	$ 4,572
Operating expenses:					
Research and development	**17,770**	20,415	22,258	29,819	23,339
Acquired/in-process research and development[2]	**—**	759	3,896	—	—
General and administrative	**5,370**	5,237	5,109	5,076	5,383
Other income, net	**589**	376	1,285	3,821	6,686
Net loss	**$(22,462)**	$(26,004)	$(29,889)	$(28,182)	$(17,464)
Basic and diluted net loss per share	**$ (0.69)**	$ (0.83)	$ (1.07)	$ (1.02)	$ (0.63)
Shares used in computing:					
Basic and diluted net loss per share	**32,635**	31,381	27,907	27,642	27,595

(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 and the acquisition of DTI in 2003.

	As of December 31,				
(in thousands)	2005	2004	2003	2002	2001
Balance Sheet Data:					
Cash, cash equivalents, and marketable securities	**$17,369**	$36,322	$46,555	$73,450	$105,051
Working capital	**15,449**	33,760	44,578	70,702	100,193
Total assets	**19,737**	38,626	49,008	75,926	107,132
Total stockholders' equity	**15,360**	33,713	44,426	70,740	100,127

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 thereto included elsewhere herein.

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®, ProNeura™ and CCM™ are trademarks of Titan Pharmaceuticals, Inc. This aceuticals, Inc. This report also includes trade names and trademarks of companies other than Titan Pharmaceuticals, Inc.

OVERVIEW

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

- Probuphine: for the treatment of opioid dependence
- Iloperidone: for the treatment of schizophrenia and related psychotic disorders (partnered with Vanda Pharmaceuticals, Inc.)
- Spheramine: for the treatment of advanced Parkinson's disease (partnered with Schering AG)
- DITPA: for the treatment of congestive heart failure and hyperlipidemia
- Gallium maltolate: for the treatment of bone related diseases, chronic bacterial infections and cancer

We are directly developing our product candidates and also utilizing strategic partnerships. These partnerships help fund product development and enable us to retain significant economic interest in our products. In June 2004, we announced that Vanda Pharmaceuticals, Inc. (Vanda) had acquired from Novartis Pharma AG (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. Vanda is proceeding with and now funding the iloperidone Phase III development program. All of our rights and economic interests in iloperidone, including royalties on sales of iloperidone, remain essentially unchanged from our agreement with Novartis. Spheramine development is primarily funded by our corporate partner for Spheramine, Schering AG, Germany (Schering). Under the agreement, in exchange for exclusive, worldwide development, manufacturing and commercialization rights, Schering will provide clinical and manufacturing development funding, milestone payments and a royalty to Titan on future product sales.

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

Product	Potential Indication(s)	Phase of Development	Marketing Rights
Probuphine	Opioid dependence	Phase III in preparation	Titan
Iloperidone	Schizophrenia, psychosis	Phase III	Vanda Pharmaceuticals, Inc.
Spheramine	Parkinson's disease	Phase IIb	Schering AG
DITPA	Congestive heart failure	Phase II	Titan
DITPA	Hyperlipidemia	Phase II	Titan
Gallium maltolate	Bone related disease, chronic bacterial infections, cancer	Phase I	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 commercially sold. 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 2005 Form 10-K filed with the Securities and Exchange Commission.

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 consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. We believe the following accounting policy for the year ended December 31, 2005, 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 $900,000 in net loss, or an additional $0.03 of net loss per share for the year ended December 31, 2005.

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 December 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 our stock plans. The adoption of FAS 123R could materially impact our results of operations.

RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2005 and 2004

Revenues in 2005 were $89,000 compared to $31,000 for 2004, an increase of $58,000. Our revenues during 2005 and 2004 were derived from fees received under various licensing agreements.

Research and development expenses for 2005 were $17.8 million compared to $20.4 million for 2004, a decrease of $2.6 million. The decrease in research and development was primarily associated with the conclusion of certain clinical studies in 2004 and cost reduction strategies initiated in 2005 resulting in lower internal expenditures in 2005. Of our 2005 research and development expenses, approximately 38%, or $6.8 million, were attributable to external R&D expenses. External R&D expenses include direct expenses such as clinical research organization charges, investigator and review board fees, patient expense reimbursements, pre-clinical activities and contract manufacturing expenses. In 2005, approximately $2.4 million of external R&D expenses were related to Probuphine, $2.7 million to DITPA, $0.7 million to gallium maltolate, 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 2005 were $5.4 million compared to $5.2 million for 2004.

Other income, net, for 2005 was $589,000 compared to $376,000 for 2004, an increase of $213,000.

As a result of the foregoing, we had a net loss of $22.5 million in 2005 compared to a net loss of $26.0 million in 2004.

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, pre-clinical 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.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	2005	2004	2004
As of December 31:			
Cash, cash equivalents and marketable securities	**$ 17,369**	$ 36,322	$ 46,555
Working capital	**$ 15,449**	$ 33,760	$ 44,578
Current ratio	**5.9:1**	10:1	14:1
Year Ended December 31:			
Cash used in operating activities	**$ (22,921)**	$ (23,912)	$ (26,438)
Cash provided by investing activities	**$ 22,533**	$ 7,977	$ 26,002
Cash provided by financing activities	**$ 4,067**	$ 14,566	$ 113

At December 31, 2005, we had $17.4 million of cash, cash equivalents, and marketable securities compared to $36.3 million at December 31, 2004.

Our operating activities used $22.9 million during 2005. This consisted primarily of the net loss for the period of $22.5 million and $0.9 million related to changes in prepaid expenses, receivables, other assets, accounts payable and other accrued liabilities. This was offset in part by non-cash charges of $0.4 million related to depreciation and amortization expenses. 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, meeting project-funding milestones and diligent efforts in product development. The aggregate commitments we have under these agreements, including minimum license payments, for the next 12 months is approximately $0.2 million.

Net cash provided by investing activities of $22.5 million during 2005 consisted of sales and maturities of marketable securities of $29.9 million, partially offset by purchases of marketable securities of $7.2 million and capital expenditures of approximately $0.1 million.

Net cash provided by financing activities during 2005 was $4.1 million, which consisted primarily of $3.8 million of net proceeds from the sale of common stock under the Standby Equity Distribution Agreement with Cornell Capital Partners and net proceeds from the exercise of stock options.

On September 30, 2005, we reduced our workforce by 10 employees in order to reduce our operating expenses. We expect to save approximately $1.2 million per year in payroll expenses due to the reduction.

On September 28, 2005, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Under the agreement, we can require Cornell to purchase up to $35.0 million of our common stock over a two year period following the effective date of a registration statement covering the shares of the common stock to be sold to Cornell Capital Partners. We can make draw-downs under the agreement in $2.0 million increments. At the closing of each draw-down (which will take place six days after our notification to Cornell Capital Partners) we will issue to Cornell Capital Partners a number of shares of our common stock equal to the amount of the draw-down divided by the lowest daily volume weighted average price of our common stock during the five trading days following the draw-down notice to Cornell Capital Partners. At each closing, we will pay 5% of the amount of the draw-down to Cornell Capital Partners and $500 to Yorkville Associates Management, the investment advisor to Cornell Capital Partners. We are not obligated to make any draw-downs under the agreement, and will not pay any additional fees to Cornell Capital Partners if we do not do so. As of December 31, 2005, we completed a total of five draw-downs under the the Standby Equity Distribution Agreement pursuant to which we issued an aggregate of 3,131,228 shares and received net proceeds of approximately $3.8 million. We can issue 3,344,059 additional shares under the agreement without receipt of the required shareholder approval.

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 March 2006, we completed a sale of 3,076,924 shares of our common stock offered under the registration statement at a price of $3.25 per share, for gross proceeds of approximately $10 million. Net proceeds were approximately $9.4 million.

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 with our current cash balances and the Standby Equity Distribution agreement we will have access to sufficient working capital to sustain our planned operations through 2007.

Although the Standby Equity Distribution agreement provides us with up to an additional $31.0 million of financing, subject to the receipt of required shareholder approval, and the workforce reduction described above will save us approximately $1.2 million per year, we continue to seek alternative financing sources and in the future we will need to seek additional financing to continue our product development activities, and will be required to obtain substantial funding to commercialize any products other than iloperidone or Spheramine that we may successfully develop. In the future, if we are unable to complete a debt or equity offering, or otherwise obtain sufficient financing when and if needed, we may be required to reduce, defer or discontinue one or more of our product development programs.

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.

The following table sets forth the aggregate contractual cash obligations as of December 31, 2005 (in thousands):

		Payments Due by Period			
	Total	< 1 year	1–3 years	3–5 years	5 years+
Contractual obligations					
Operating leases	$2,831	$778	$1,171	$ 882	—
Sponsored research & license agreements	$ 999	$219	$ 312	$ 312	$156
Total contractual cash obligations	$3,830	$997	$1,483	$1,194	$156

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 2007.

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 2005 Form 10-K filed with the Securities and Exchange Commission.

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 $100,000 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, 2005 (in thousands, except interest rate):

	Face Value			
	2006	2007	Total	Estimated Fair Value
Cash equivalents and marketable securities:				
Variable rate securities	$7,698	—	$ 7,698	$ 7,698
Average interest rate	3.92%	—	3.92%	
Fixed rate securities	$7,236	$ 999	$ 8,235	$ 8,227
Average interest rate	2.87%	4.05%	3.01%	

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 13a-15(e)) as of the end of the period covered by this Form 10-K. 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, 2005. 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, 2005, our internal control over financial reporting was effective.

Our independent registered public accountants, Odenberg Ullakko Muranishi & Co., LLP, have issued an attestation 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 as of December 31, 2005. The attestation report on the internal control over financial reporting appears 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, 2005	2004
Assets		
Current assets:		
Cash and cash equivalents	**$ 9,142**	$ 5,463
Marketable securities	**8,227**	30,859
Prepaid expenses, receivables and other current assets	**1,216**	1,110
Total current assets	**18,585**	37,432
Property and equipment, net	**788**	1,044
Investment in other companies	**150**	150
Other assets	**214**	—
	$ 19,737	$ 38,626
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 518**	$ 689
Accrued clinical trials expenses	**787**	1,445
Other accrued liabilities	**1,831**	1,538
Total current liabilities	**3,136**	3,672
Commitments and contingencies		
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, 2005 and 2004	**—**	—
Common stock, at amounts paid in, $0.001 par value per share; 75,000,000 shares authorized, 35,584,269 and 32,307,638 shares issued and outstanding at December 31, 2005 and 2004, respectively	**214,331**	210,264
Additional paid-in capital	**9,264**	9,327
Deferred compensation	**(19)**	(82)
Accumulated deficit	**(208,207)**	(185,745)
Accumulated other comprehensive income (loss)	**(9)**	(51)
Total stockholders' equity	**15,360**	33,713
	$ 19,737	$ 38,626

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amount)	Year ended December 31, 2005	2004	2003
Revenue:			
Contract revenue	$ —	$ —	$ 28
License revenue	89	31	61
Total revenue	89	31	89
Operating expenses:			
Research and development	17,770	20,415	22,258
Acquired research and development	—	759	3,896
General and administrative	5,370	5,237	5,109
Total operating expenses	23,140	26,411	31,263
Loss from operations	(23,051)	(26,380)	(31,174)
Other income (expense):			
Interest income	570	673	1,278
Other income (expense)	19	(297)	7
Other income, net	589	376	1,285
Net loss	$ (22,462)	$ (26,004)	$ (29,889)
Basic and diluted net loss per share	$ (0.69)	$ (0.83)	$ (1.07)
Weighted average shares used in computing basic and diluted net loss per share	32,635	31,381	27,907

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Preferred Stock Shares	Preferred Stock Amount
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	—
Comprehensive loss:		
Net loss		
Unrealized loss on marketable securities		
Comprehensive loss		
Issuance of common stock, net of issuance costs of $263		
Issuance of common stock upon exercise of options		
Compensation related to stock options		
Amortization of deferred compensation		
Balances at December 31, 2005	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	$ 191,680	$ 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
				(22,462)		(22,462)
					42	42
						(22,420)
3,131	3,887					3,887
145	180					180
		(63)				(63)
			63			63
35,584	$ 214,331	$ 9,264	$ (19)	$ (208,207)	$ (9)	$ 15,360

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	Years ended December 31, 2005	2004	2003
Cash flows from operating activities:			
Net loss	**$ (22,462)**	$ (26,004)	$ (29,889)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	**405**	466	439
(Gain) loss on investment activities	**(8)**	261	(51)
Gain on disposition of property and equipment	**—**	4	—
Acquired research and development	**—**	759	3,873
Non-cash compensation related to stock options	**—**	409	296
Changes in operating assets and liabilities:			
Prepaid expenses, receivables and other current assets	**(320)**	254	(166)
Accounts payable	**(171)**	(816)	(675)
Accrued clinical trials and other liabilities	**(365)**	755	(265)
Net cash used in operating activities	**(22,921)**	(23,912)	(26,438)
Cash flows from investing activities:			
Purchases of property and equipment, net	**(149)**	(725)	(248)
Investment in other companies	**—**	—	91
Purchases of marketable securities	**(7,202)**	(12,098)	(47,660)
Proceeds from maturities of marketable securities	**29,884**	20,800	64,819
Proceeds from sales of marketable securities	**—**	—	9,000
Net cash provided by investing activities	**22,533**	7,977	26,002
Cash flows from financing activities:			
Issuance of common stock, net	**4,067**	14,566	113
Net cash provided by financing activities	**4,067**	14,566	113
Net increase (decrease) in cash and cash equivalents	**3,679**	(1,369)	(323)
Cash and cash equivalents at beginning of year	**5,463**	6,832	7,155
Cash and cash equivalents at end of year	**9,142**	5,463	6,832
Marketable securities at end of year	**8,227**	30,859	39,723
Cash, cash equivalents and marketable securities at end of year	**$ 17,369**	$ 36,322	$ 46,555
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, bone disease and other disorders. Our product development programs focus primarily 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, 2005, 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 only 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 consolidated 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.

	Years Ended December 31,		
	2005	2004	2003
Net loss, as reported	**$ (22,462)**	$ (26,004)	$ (29,889)
Add: Stock-based employee compensation expense included in reported net loss	**(27)**	268	296
Deduct: Stock-based employee compensation expense determined under fair value method for all stock option grants	**(873)**	(1,390)	(2,319)
Pro forma net loss	**$ (23,362)**	$ (27,126)	$ (31,912)
Basic and diluted net loss per share, as reported	**$ (0.69)**	$ (0.83)	$ (1.07)
Pro forma basic and diluted net loss per share	**$ (0.72)**	$ (0.86)	$ (1.14)

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 $45,000 in 2005, $102,000 in 2004, and $40,000 in 2003 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 (loss), 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, 2005, 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 stand-alone value to the customer, and whether there is objective and reliable evidence of the fair value of the undelivered items. Consideration received is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are then applied to each of the units.

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

- Collaborative arrangements typically consist of non-refundable and/or exclusive technology access fees, cost reimbursements for specific research and development spending, and various milestone and future product royalty payments. If the delivered technology does not have stand-alone value or if we do not have objective or reliable evidence of the fair value of the undelivered component, the amount of revenue allocable to the delivered technology is deferred. Non-refundable upfront fees with stand-alone value that are not dependent on future performance under these agreements are recognized as revenue when received, and are deferred if 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 a milestone is reached.
- Technology license agreements typically consist of non-refundable upfront license fees, annual minimum access fees or royalty payments. Non-refundable upfront license fees and annual minimum payments received with separable stand-alone values are recognized when the technology is transferred or accessed, provided that the technology transferred or accessed is not dependent on the outcome of our continuing research and development efforts.
- Government grants, which support our research efforts in specific projects, generally provide for reimbursement of approved costs as defined in the notices of grants. Grant revenue is recognized when associated project costs are incurred.

Research and Development Costs

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

Net Loss Per Share

We calculate basic net loss per share using the weighted average common shares outstanding for the period. Diluted net income per share would include the impact of other dilutive equity instruments, primarily our preferred stock, options and warrants. For the years ended December 31, 2005, 2004, and 2003, outstanding preferred stock, options and warrants totaled 6.7 million, 6.7 million, and 6.1 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 (Loss)

Comprehensive income (loss) 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, 2005, 2004, and 2003 was $22.4 million, $26.1 million, and $30.3 million, respectively. Comprehensive income (loss) has been disclosed in the Consolidated Statements 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 December 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, 2005 and 2004 (in thousands):

	2005				2004			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash	**$ 1,444**	**$ —**	**$ —**	**$ 1,444**	$ 458	$—	$ —	$ 458
Cash equivalents:								
Money market funds	**7,698**	**—**	**—**	**7,698**	5,005	—	—	5,005
Total cash and cash equivalents	**9,142**	**—**	**—**	**9,142**	5,463	—	—	5,463
Marketable securities:								
Securities of the U.S. government and its agencies	**8,235**	**9**	**(17)**	**8,227**	29,910	3	(54)	29,859
Commercial paper	**—**	**—**	**—**	**—**	1,000	—	—	1,000
Total marketable securities	**8,235**	**9**	**(17)**	**8,227**	30,910	3	(54)	30,859
Total cash, cash equivalents and marketable securities	**$17,377**	**$ 9**	**$(17)**	**$17,369**	$36,373	$ 3	$(54)	$36,322
Securities available-for-sale:								
Maturing within 1 year	**$ 7,236**			**$ 7,237**	$31,909			$31,869
Maturing between 1 to 2 years	**$ 999**			**$ 990**	$ 4,000			$ 3,995

There were no material gross realized gains or losses on sales of marketable securities for the years ended December 31, 2005 and 2004. For the year ended December 31, 2003, there were no gross realized gains and $17,000 of gross realized losses.

The aggregate amount of unrealized losses and the related fair value of investments with unrealized losses at December 31, 2005 were approximately $17,000 and $3.8 million, respectively. The unrealized losses were caused by fluctuation in market interest rates and are not considered other-than-temporary until a continuous decline has occurred.

We recorded charges totaling $8,000 related to other than temporary impairments of debt and equity securities for the year ended December 31, 2005.

3. PROPERTY AND EQUIPMENT

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

	2005	2004
Furniture and office equipment	**$ 565**	$ 540
Leasehold improvements	**459**	413
Laboratory equipment	**964**	935
Computer equipment	**920**	871
	2,908	2,759
Less accumulated depreciation and amortization	**(2,120)**	(1,715)
Property and equipment, net	**$ 788**	$ 1,044

Depreciation and amortization expense was $405,000, $466,000, and $436,000 for the years ended December 31, 2005, 2004, and 2003, 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 $700,000, $3.5 million, and $2.6 million in the years ended December 31, 2005, 2004, and 2003, respectively.

At December 31, 2005, the annual aggregate commitments we have under these agreements, including minimum license payments, are as follows (in thousands):

2006	$219
2007	156
2008	156
2009	156
2010	156
	$843

After 2010, we must make annual payments aggregating $156,000 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 sub-license 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 is pursuing 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 AG (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, 2005, 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 consolidated 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. No specific milestones have been achieved related to this acquisition as of December 31, 2005.

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 2009. Rental expense was $721,000, $832,000, and $825,000 for years ended December 31, 2005, 2004, and 2003, respectively.

The following is a schedule of future minimum lease payments at December 31, 2005 (in thousands):

2006	$ 778
2007	582
2008	589
2009	586
2010	296
Thereafter	—
	$2,831

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 our 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 our company's executive officers and directors and certain former directors seeking unspecified damages, injunctive relief and restitution. We were also named as a nominal defendant. The derivative action was 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 us had been dismissed without prejudice. In every case, the plaintiffs agreed to voluntarily dismiss the lawsuits after discussion of the facts with our 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, we have no other obligations in connection with the dismissals.

In March 2005, Dr. Bernard Sabel initiated an appraisal proceeding in the Court of Chancery of the State of Delaware relating to the merger of our subsidiary ProNeura, Inc. into Titan. The complaint indicates that Mr. Sabel wants the court to appraise the value of the 108,800 shares of the common stock of Proneura owned by him. The complaint does not specify an amount that Mr. Sabel considers the fair value of the shares. Discovery is proceeding in connection with this appraisal proceeding.

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, 2005.

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, 2005. 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, 2005.

Common Stock

On September 28, 2005, we entered into a Standby Equity Distribution Agreement with Cornell Capital Partners. Under the agreement, we can require Cornell to purchase up to $35.0 million of our common stock over a two year period following the effective date of a registration statement covering the shares of the common stock to be sold to Cornell Capital Partners. We can make draw-downs under the agreement in $2.0 million increments. At the closing of each draw-down (which will take place six days after our notification to Cornell Capital Partners) we will issue to Cornell Capital Partners a number of shares of our common stock equal to the amount of the draw-down divided by the lowest daily volume weighted average price of our common stock during the five trading days following the draw-down notice to Cornell Capital Partners. At each closing, we will pay 5% of the amount of the draw-down to Cornell Capital Partners and $500 to Yorkville Associates Management, the investment advisor to Cornell Capital Partners. We are not obligated to make any draw-downs under the agreement, and will not pay any additional fees to Cornell Capital Partners if we do not do so. We paid Cornell Capital Partners a one-time commitment fee equal to $140,000 in the form of 75,407 shares of common stock, Monitor Capital, Inc., a placement agent fee equal to $10,000 in the form of 5,386 shares of common stock and paid Yorkville Advisors Management a structuring fee of $10,000, all of which are underwriting discounts payable or paid to Cornell Capital Partners. As of December 31, 2005, we had completed a total of five draw-downs under the the Standby Equity Distribution Agreement selling a total of 3,050,435 shares of our common stock for gross proceeds of approximately $4.0 million. Net proceeds were approximately $3.8 million.

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, 2005, shares of common stock reserved by us for future issuance consisted of the following (shares in thousands):

Stock options	6,499
Preferred stock	222
DTI merger contingent shares	750
	7,471

12. STOCK OPTION PLANS

In October 2005, we repriced 223,134 non-executive employee options previously granted under the 1998 Stock Option Plan. The weighted average original exercise price of the repriced options was $23.89. The exercise price of the new options is $5.00.

In August 2005, we adopted an amendment to the 2002 Stock Option Plan (2002 Plan) to (i) permit the issuance of Shares of restricted stock and stock appreciation rights to participants under the 2002 Plan, and (ii) increase the number of Shares issuable pursuant to grants under the 2002 Plan from 2,000,000 to 3,000,000.

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. Commencing in 2005, the biennial grant of options to non-employee directors pursuant to our stockholder-approved stock option plans was increased from 15,000 options to 20,000 options.

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, 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
Increase in shares reserved	1,000	—	—
Options granted	(953)	953	$ 3.03
Options exercised	—	(145)	$ 1.24
Options cancelled	754	(754)	$10.14
Balance at December 31, 2005	2,266	6,499	$ 7.56

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 2005, 2004 and 2003, the number of Substitute Options cancelled was immaterial.

Options for 5.6 million and 5.0 million shares were exercisable at December 31, 2005 and 2004, respectively. The options outstanding at December 31, 2005 have been segregated into four 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 - $ 2.62	1,856	7.87	$ 2.00	1,050	$ 1.73
$ 2.83 - $ 5.77	1,630	5.51	$ 3.90	1,503	$ 3.95
$ 6.25 - $11.63	1,800	4.19	$ 8.85	1,800	$ 8.86
$12.68 - $43.63	1,213	4.21	$19.03	1,213	$19.03
$ 0.08 - $43.63	6,499	5.58	$ 7.56	5,566	$ 8.41

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 2005, 2004, and 2003: weighted-average volatility factor of 0.70, 0.70, and 0.70, respectively; no expected dividend payments; weighted-average risk-free interest rates in effect of 4.1%, 3.0%, and 2.2%, respectively; and a weighted-average expected life of 3.12, 3.97, and 3.01 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, 2005, 2004, and 2003 was $1.00, $1.65, and $0.89, 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 sheets. 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. INCOME TAXES

As of December 31, 2005, we had net operating loss carryforwards for federal income tax purposes of approximately $206.6 million that expire at various dates through 2025, and federal research and development tax credits of approximately $6.1 million that expire at various dates through 2025. We also had net operating loss carryforwards for state income tax purposes of approximately $63.7 million that expire at various dates through 2015, and state research and development tax credits of approximately $4.5 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, 2005	2004
Deferred tax assets:		
Net operating loss carryforwards	**$73,974**	$66,070
Research credit carryforwards	**9,112**	9,344
Other, net	**5,975**	1,732
Total deferred tax assets	**89,061**	77,146
Valuation allowance	**(89,061)**	(77,146)
Net deferred tax assets	**$ —**	$ —

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 $11.9 million, $7.6 million, and $17.6 million during 2005, 2004, and 2003, respectively. The valuation allowance at December 31, 2005 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.

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, except per share amount)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Total revenue	$ 14	13	1	$ 61
Net loss	$(6,296)	$(5,742)	$(6,378)	$(4,046)
Basic and diluted net loss per share	$ (0.19)	$ (0.18)	$ (0.20)	$ (0.12)
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)

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 Management's Annual Report on Internal Control 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, 2005, 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, 2005, 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, 2005, 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, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended and our report dated February 27, 2006 expressed an unqualified opinion thereon.

/s/ Odenberg Ullakko Muranishi & Co. LLP

San Francisco, California
February 27, 2006

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 sheets of Titan Pharmaceuticals, Inc. and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the consolidated financial position of Titan Pharmaceuticals, Inc. and its subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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, 2005, 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 27, 2006 expressed an unqualified opinion thereon.

/s/ Odenberg Ullakko Muranishi & Co. LLP

San Francisco, California
February 27, 2006

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Titan Pharmaceuticals, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Titan Pharmaceuticals, Inc for the year 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 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 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 referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Titan Pharmaceuticals, Inc. for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

/s/ 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, 2005:		
First Quarter	$ 3.24	$ 2.20
Second Quarter	$ 2.47	$ 1.80
Third Quarter	$ 2.31	$ 1.73
Fourth Quarter	$ 1.89	$ 1.19
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

(b) Approximate Number of Equity Security Holders

The number of record holders of our common stock as of March 1, 2006 was approximately 154. 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.

Executive Officers

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

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

Robert E. Farrell, J.D.
Executive Vice President, Chief Financial Officer

Corporate Office

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

General Counsel

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

Securities Listing

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

Independent Auditors

Odenberg Ullakko Muranishi & Co. LLP
San Francisco, California 94104

Transfer Agent and Registrar

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

Board of Directors

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

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

Sunil Bhonsle
Executive Vice President, Chief Operating Officer and Secretary

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

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

Joachim Friedrich Kapp, M.D., Ph.D.
Former President of the Global Business Unit on Specialized Therapeutics of Schering AG, Germany

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

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

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

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