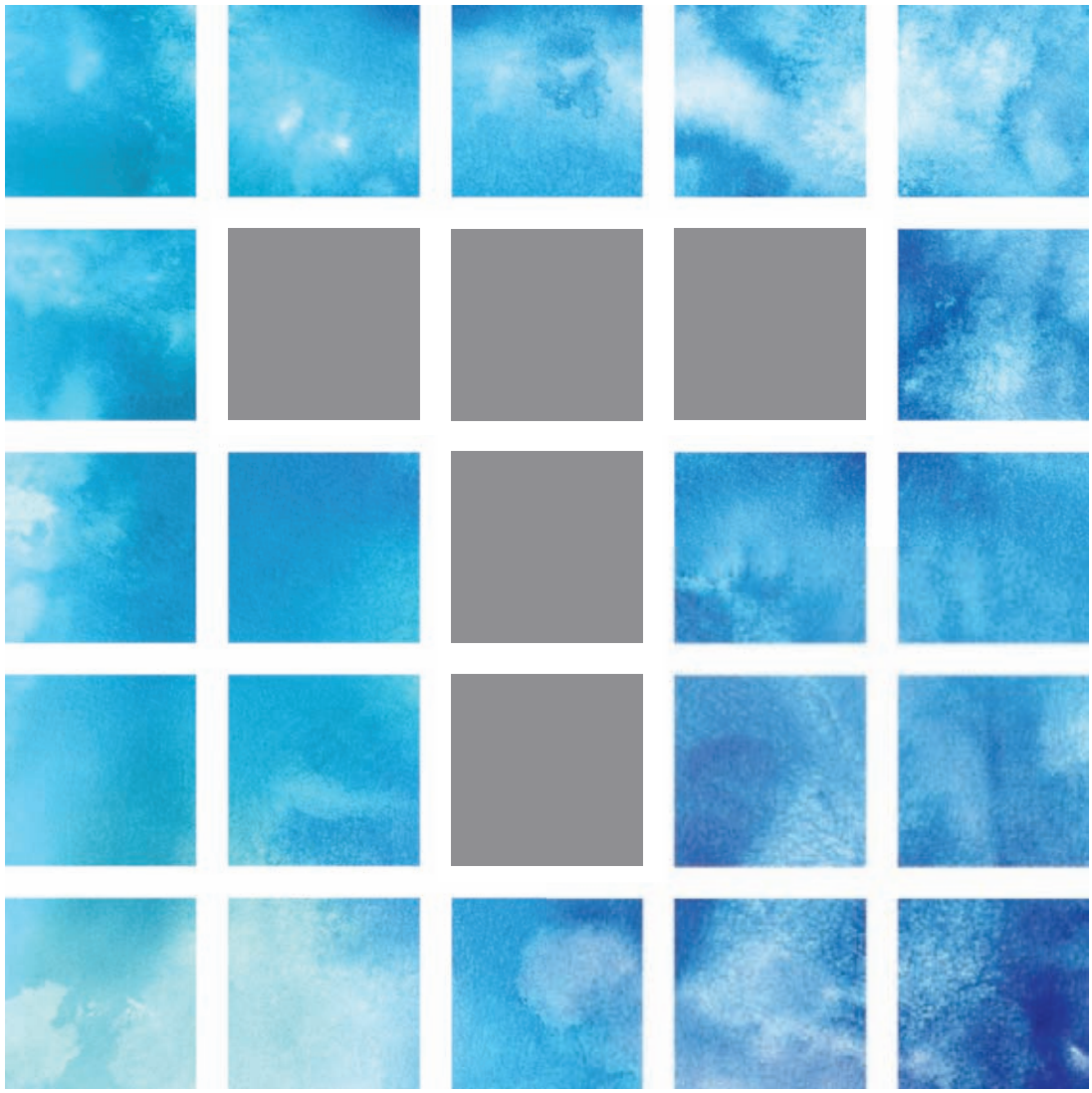
TITAN PHARMACEUTICALS, INC. 2006 ANNUAL REPORT



Innovations in Medicine™

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.

TO OUR SHAREHOLDERS:

Titan took important steps forward and achieved significant accomplishments this past year.

We launched an important Phase III clinical program, achieved positive results in another final Phase III pivotal study, completed enrollment in a core Phase IIb safety and efficacy study, raised capital efficiently and judiciously, and laid the groundwork for additional products by advancing further Phase II testing and achieving successful preclinical results with other product candidates. This progress was accompanied by consolidation in other areas to conserve resources and prepare for future growth.

Our Probuphine program took an important step forward with launch of our Phase III clinical program. This randomized, double blind, placebo controlled Phase III clinical study will evaluate the safety and efficacy of Probuphine in 150 patients in the treatment of opiate addiction. The Phase III program is scheduled to include an additional Phase III safety and efficacy study and an additional open label safety study. We also plan to evaluate Probuphine in the treatment of chronic pain.

Completion of the iloperidone Phase III clinical program with positive results in the final Phase III clinical study was another important achievement. In this study, iloperidone demonstrated statistically significant improvement compared to placebo on the Positive and Negative Symptoms Scale (PANSS), the study's primary endpoint. Iloperidone also achieved significant efficacy on the positive and negative symptom subscales of the PANSS. In addition, iloperidone demonstrated a potentially favorable side effect profile, with low potential for weight gain and induction of diabetes, low extrapyramidal symptoms including akathisia, and low incidence of sleepiness and effects on cognition.

Vanda, Titan's corporate partner for iloperidone, plans to file an NDA for iloperidone by the fourth quarter of 2007. Vanda plans to differentiate iloperidone from other currently marketed antipsychotic drugs based upon the product's potentially favorable side effects profile, as well as genetic tests that may help identify patients that may achieve enhanced safety and efficacy with iloperidone. Vanda is also developing a four-week injectable depot formulation of iloperidone.

Titan achieved another important goal this year with the completion of patient enrollment in the randomized, double-blind, controlled Phase IIb clinical study of Spheramine in the treatment of Parkinson's disease. Results from this study are expected to be available in the second half of 2008.

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

Spheramine is an innovative cell-therapy based product for the treatment of advanced Parkinson's disease designed to enhance levels of dopamine in the brain. Spheramine has been granted both Fast Track and Orphan Drug designations by the FDA. The Spheramine development program is jointly managed by Titan and its corporate partner for worldwide development and commercialization, Bayer Schering Pharma AG.

DITPA, Titan's analogue of thyroid hormone (T3), is currently being evaluated as a potential treatment for elevated cholesterol. DITPA is currently being studied in a randomized, double blind Phase II study at the Johns Hopkins Medical Institution in Baltimore. This Phase II study is evaluating DITPA in patients receiving standard lipid lowering therapy, whose LDL cholesterol levels are above National Cholesterol Education Program (NCEP) guidelines. Titan is also planning a second investigator sponsored study at Johns Hopkins to evaluate DITPA in weight reduction and treatment of elevated triglycerides in overweight patients.

Also this past year, Titan presented data on gallium maltolate, another product in development, that demonstrated in preclinical testing effectiveness in altering bacterial morphology and biofilm architecture. Further studies with gallium maltolate are planned.

Titan also advanced ProNeura product candidates in preclinical testing, demonstrating proof of principle with our ProNeura technology to deliver the

drug lisuride, an agent approved in Europe for the treatment of Parkinson's disease. In preclinical testing, a ProNeura formulation of lisuride was shown in an animal model to deliver lisuride continuously for an extended period after a single subcutaneous dose. This may provide a means to achieve around the clock, continuous dopaminergic therapy for Parkinson's patients. This is an important goal for therapy, particularly in earlier stage patients, and is thought to be important in slowing or preventing the onset of complications of current therapy, including motor fluctuations and other debilitating conditions. These early results suggest that application of ProNeura technology to the treatment of Parkinson's patients with dopaminergic agents may provide an approach to achieve this important goal.

Titan also advanced its financing and operating goals by consolidating and reducing non-core development expenses, reducing facilities expenses, and reducing other costs. We enhanced our financial resources through a successful $10 million financing, as well as establishment of an additional $25 million equity facility, that may be accessed at the company's option. These steps helped provide access to additional capital for advancement of the Company's development programs.

These combined steps and achievements have provided a further basis for future growth and success. These achievements were possible because of our shareholders' continued support, and the dedicated efforts of our employees and partners. We look forward to further progress together in our goal of developing new innovative treatments.

Sincerely,

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

TITAN PHARMACEUTICALS CURRENTLY HAS THREE PRODUCTS IN LATE STAGE CLINICAL DEVELOPMENT: ILOPERIDONE, PROBUPHINE AND SPHERAMINE.

ILOPERIDONE

ILOPERIDONE — FOR THE TREATMENT OF SCHIZOPHRENIA Iloperidone is Titan's novel agent in development for the treatment of schizophrenia and other psychotic disorders. Phase III clinical testing of iloperidone has been completed by Titan's partner, Vanda Pharmaceuticals, Inc. Vanda plans to file an NDA for iloperidone by the fourth quarter of 2007, and is targeting potential product launch in the U.S. in 2009. Upon potential commercialization, Titan will receive a royalty of 8-10% on worldwide sales of iloperidone.

SCHIZOPHRENIA Schizophrenia is a chronic, severe, and disabling mental disorder that affects approximately 2.2 million individuals in the U.S. The disease is characterized by positive symptoms such as delusions, hallucinations, disorganized and incoherent speech, and negative symptoms such as severe emotional abnormalities, and withdrawal.

The worldwide market for the treatment of schizophrenia and related psychotic disorders now exceeds $16 billion in annual sales. A number of medications are currently available for the treatment of schizophrenia. However, dissatisfaction with side effects caused by many current antipsychotic agents often results in switching medications to avoid these side effects.

LIMITATIONS OF CURRENT TREATMENTS There are a number of medications currently on the market for the treatment of schizophrenia. However, most of these products are known to induce substantial side effects, such as weight gain, diabetes, extrapyramidal symptoms, hyperlactinemia, increased somnolence and cognition difficulties. Patient dissatisfaction with side effects caused by current antipsychotic agents results in many patients discontinuing therapy within a year of initiating treatment.

PHASE III CLINICAL TESTING OF ILOPERIDONE COMPLETE, POTENTIALLY FAVORABLE TOLERABILITY PROFILE DEMONSTRATED Results from the final planned Phase III clinical study of iloperidone were positive, and demonstrated that iloperidone is potentially safe and effective in the treatment of schizophrenia. Specifically, the results demonstrated statistically significant improvement compared to placebo on the Positive and Negative Symptom Scale (PANSS), the trial's primary endpoint. Iloperidone also achieved significant efficacy on the positive and negative symptom subscales of the PANSS. Importantly, iloperidone also demonstrated a potentially favorable side effect profile, with low potential for weight gain and induction of diabetes, low extrapyramidal symptoms including akathisia, and low incidence of sleepiness and effects on cognition.

The tolerability profile of iloperidone provides an important potential source of additional value to doctors and patients.

Vanda is seeking to further differentiate iloperidone through the development of one time genetic tests that may be used to identify patients that are more likely to achieve better treatment results when using iloperidone. Vanda's market research studies indicate that physicians treating schizophrenia patients would welcome such information in making prescribing decisions. This potential ability to prospectively identify patients for whom iloperidone may be a preferable drug for the treatment of schizophrenia could provide an additional important advantage for this drug. Vanda is also developing a four-week injectable depot formulation of iloperidone. The four-week depot formulation for iloperidone may provide additional advantages.

Target: SCHIZOPHRENIA

PHASE III CLINICAL TESTING COMPLETE, NDA TO BE FILED BY FOURTH QUARTER 2007

PROBUPHINE

PROBUPHINE — FOR THE TREATMENT OF OPIATE ADDICTION Probuphine is a novel formulation of buprenorphine under development by Titan for the treatment of opiate addiction. Buprenorphine in a sublingual tablet formulation is approved in the U.S., Europe and Asia for the treatment of opiate addiction. Probuphine is designed to deliver buprenorphine for up to six months following a single treatment.

Continuous longer term delivery of buprenorphine may potentially address many challenges associated with daily oral therapy, including poor compliance, variable blood levels, risk of misuse and reduced therapeutic potential. Probuphine is currently being evaluated in a 150 patient Phase III clinical study with results expected in the second half of 2008. The Company also plans to subsequently initiate an additional controlled Phase III study and an open label safety study in the U.S. and Europe.

PROBUPHINE UTILIZES TITAN'S PROPRIETARY PRONEURA LONG-TERM DRUG DELIVERY TECHNOLOGY Probuphine is Titan's first product in clinical testing to utilize our proprietary ProNeura long-term drug delivery system. Titan's ProNeura drug delivery system consists of a small, solid rod made from a combination of ethylene vinyl acetate (EVA) and the selected drug substance, in this case, buprenorphine. The resulting product is a solid matrix that releases the drug slowly, through the process of diffusion, and maintains a continuous drug level for long-term treatment.

OPIATE ADDICTION Opiate dependence is a chronic medical condition that requires long-term treatment. An estimated 2.8 million individuals in the U.S. and Europe are addicted to illegal opioids such as heroin, and more than 1.5 million individuals in the U.S. alone are addicted to prescription opioid drugs 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 for the treatment of opiate addiction, is quickly becoming a preferred treatment, offering several advantages over methadone. We estimate that worldwide sales of buprenorphine for the treatment of opiate addiction were approximately $400 million in 2006.

POTENTIAL ADVANTAGES OF PROBUPHINE IN THE TREATMENT OF OPIATE ADDICTION Buprenorphine is currently administered to opioid addicted patients in a daily tablet formulation, which presents a number of challenges and limitations, including potential poor compliance, variable blood levels, risk of misuse, and overall reduced therapeutic value. Probuphine, which provides continuous long-term delivery of buprenorphine, may help reduce or eliminate many of these limitations.

CLINICAL EVALUATION OF PROBUPHINE IN THE TREATMENT OF OPIATE ADDICTION In a completed Phase I/II clinical study, 12 opiate-dependent patients were successfully switched from their daily tablet doses of buprenorphine to Probuphine, with maintenance of therapeutic benefit, and no significant signs of opioid withdrawal or craving. Pharmacokinetic data for all patients demonstrated steady state serum buprenorphine concentrations for the duration of the six month treatment period. Based on these encouraging results, Titan this year initiated a randomized, double-blind, placebo-controlled, multi-center Phase III clinical study of Probuphine in the treatment of opiate dependence. This 150 patient study will evaluate the safety and effectiveness of treatment with Probuphine versus placebo in reducing opiate dependence. Enrollment is this study is expected to be completed by the end of 2007, with results available in the second half of 2008. This study is part of a registration directed program intended to obtain marketing approval of Probuphine for the treatment of opiate addiction in Europe and the U.S. The Phase III program includes additional clinical studies scheduled to begin later this year and in 2008.

POTENTIAL FOR THE DEVELOPMENT OF PROBUPHINE FOR THE TREATMENT OF CHRONIC PAIN Buprenorphine, the active drug component of Probuphine, is an effective analgesic and is also approved for the treatment of pain in the U.S. and Europe. Titan is also planning to evaluate the potential use of Probuphine for the treatment of chronic pain.

Target: OPIATE ADDICTION

PHASE III CLINICAL TESTING ONGOING

SPHERAMINE

SPHERAMINE — FOR THE TREATMENT OF ADVANCED PARKINSON'S DISEASE
Spheramine is Titan's novel cell therapy product in development for the treatment of Parkinson's disease, a neurodegenerative disorder that affects over four million individuals world wide. Spheramine consists of normal human retinal pigment epithelial (RPE) cells placed on microscopic carrier beads. The product is delivered by stereotactic injection into specific brain regions. Treatment with Spheramine is intended to provide a localized continuous source of dopamine, an essential neurotransmitter that is deficient in specific brain regions in patients with Parkinson's disease. Phase I/II clinical testing has demonstrated initial favorable results, and enrollment in a Phase IIb clinical study is complete, with results expected in the second half of 2008. Spheramine is partnered with Bayer Schering Pharma AG for worldwide development and commercialization.

PARKINSON'S DISEASE Dopamine is a neurotransmitter that sends information to regions of the brain that control movement and coordination. Parkinson's disease results from progressive loss of neuronal cells in the substantia nigra, leading to reduced levels of dopamine production and associated neuronal activity in other specific brain regions. Some of the most common symptoms of Parkinson's disease are tremors, stiffness of the limbs and trunk, slowness of movement, and postural instability.

LIMITATIONS OF CURRENT TREATMENTS Current treatments for Parkinson's disease include daily administration of oral agents containing dopamine precursors or dopamine agonists which increase 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 period of time. Typically, within several years, most patients become refractory to treatment with worsening symptoms. 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.

PROOF-OF-PRINCIPLE ESTABLISHED IN PRECLINICAL AND INITIAL CLINICAL STUDIES Spheramine was initially evaluated in controlled studies in a validated primate model of Parkinson's disease and showed favorable results, demonstrating that after a single treatment, Spheramine was able to substantially reverse Parkinsonian symptoms and improve movement, with sustained efficacy throughout the 12 month duration of the study. Based on these encouraging data, an initial clinical study in humans was conducted.

In this open-label Phase I/II clinical study, six advanced Parkinson's patients were treated and all patients showed substantial and sustained improvement in motor function following treatment with Spheramine. The patients were assessed before and after treatment with Spheramine using the UPDRS rating scale, a standard measurement of Parkinson's disease severity. At 12 months post-treatment, patients had average improvement in motor function of 48% over their baseline UPDRS motor scores, the study's primary endpoint. This benefit was substantially sustained, with patients demonstrating average improvement in motor function of approximately 43% over baseline, four years after treatment with Spheramine. Patients also had improvements in quality of life and activities of daily living, and half of the patients had a reduction in preexisting dyskinesias (involuntary movements). Spheramine was also well tolerated, and use of Spheramine required no immunosuppression.

ENROLLMENT OF THE PHASE IIB CLINICAL STUDY IS COMPLETE Based on the encouraging results from the Phase I/II clinical study, Titan and its corporate partner for the worldwide development and commercialization of Spheramine, Bayer Schering Pharma AG, are conducting a randomized, double blind, controlled Phase IIb clinical study to further evaluate the safety and efficacy of Spheramine. Patient enrollment in this study was completed in mid-2007, and results from this study are expected in the second half of 2008. Bayer Schering Pharma is fully funding the Spheramine development program.

SPHERAMINE HAS BEEN GRANTED BOTH FAST TRACK AND ORPHAN DRUG The FDA has granted Fast Track designation for Spheramine. The FDA's Fast Track Program is designed to facilitate the development and expedite the review of drug candidates that demonstrate the potential to treat serious or life-threatening diseases and address unmet medical needs. The FDA has also approved Orphan Drug designation for Spheramine for the treatment of advanced Parkinson's disease.

Target: PARKINSON'S DISEASE

ENROLLMENT IN THE RANDOMIZED, DOUBLE-BLIND PHASE IIB CLINICAL STUDY OF SPHERAMINE IN THE TREATMENT OF PARKINSON'S DISEASE IS COMPLETE, WITH RESULTS EXPECTED TO BE AVAILABLE IN THE SECOND HALF OF 2008

OTHER PRODUCTS IN DEVELOPMENT

DITPA

FOR THE POTENTIAL TREATMENT OF HYPERLIPIDEMIA DITPA (3,5-diiodothyropropionic acid) is an analogue of thyroid hormone (T3). Thyroid hormone (T3) is known to play a central role in normal cardiovascular function and lipid metabolism. DITPA is currently being evaluated for the treatment of elevated cholesterol in an investigator sponsored Phase II clinical study at the Johns Hopkins Medical Institutions in Baltimore. This randomized, placebo-controlled study is enrolling patients receiving standard lipid-lowering therapy, whose LDL cholesterol levels are above National Cholesterol Education Program (NCEP) guidelines, and will evaluate DITPA as a cholesterol lowering agent in combination with such standard therapy.

Titan is also planning a second investigator sponsored Phase II clinical study at Johns Hopkins to evaluate the effectiveness of DITPA in weight reduction and the lowering of high triglycerides in obese patients.

GALLIUM MALTOLATE

FOR THE POTENTIAL TREATMENT OF CHRONIC BACTERIAL INFECTIONS, BONE DISEASE AND CANCER Gallium maltolate is Titan's novel oral agent in development for the potential treatment of chronic bacterial infections, bone disease and cancer. Data from recent preclinical testing demonstrating that treatment with gallium maltolate can alter biofilm architecture and bacterial morphology at the site of infection were presented at the American Society for Microbiology Biodefense and Emerging Diseases Research Meeting in March 2007. Studies with gallium maltolate in other preclinical settings are ongoing.

PRONEURA

LONG-TERM DRUG DELIVERY TECHNOLOGY Titan's proprietary ProNeura technology was developed to address the need for a simple, practical method to achieve continuous long-term drug delivery. This technology is designed to provide controlled drug release on an outpatient basis for several months. ProNeura can also potentially improve treatment results by avoiding the varying blood levels of drug that are usually seen throughout the day with many oral medications. The ProNeura system consists of a small, solid rod made from a combination of ethylene-vinyl acetate (EVA) and drug substance. The resulting product is a solid matrix that is placed subcutaneously, usually in the upper arm, in an office procedure.

Titan's first product to utilize our ProNeura drug delivery technology is Probuphine, a long-term dosage formulation of buprenorphine in development for the treatment of opiate addiction. Buprenorphine is also approved in Europe for the treatment of chronic pain, and Titan is also planning to develop Probuphine for the treatment of this condition.

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.

	Years Ended December 31,				
(in thousands, except per share data)	2006	2005	2004	2003	2002
Statement of Operations Data:					
Total revenue[1]	$ 32	$ 89	$ 31	$ 89	$ 2,892
Operating expenses:					
Research and development	11,620	17,770	20,415	22,258	29,819
Acquired/in-process research and development[2]	—	—	759	3,896	—
General and administrative	4,859	5,370	5,237	5,109	5,076
Other income, net	710	589	376	1,285	3,821
Net loss	$(15,737)	$(22,462)	$(26,004)	$(29,889)	$(28,182)
Basic and diluted net loss per share	$ (0.42)	$ (0.69)	$ (0.83)	$ (1.07)	$ (1.02)
Shares used in computing:					
Basic and diluted net loss per share	37,902	32,635	31,381	27,907	27,642

(1) Revenues for 2002 include a $2.0 million milestone payment from Bayer Schering Pharma AG.
(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)	2006	2005	2004	2003	2002
Balance Sheet Data:					
Cash, cash equivalents, and marketable securities	$13,715	$17,369	$36,322	$46,555	$73,450
Working capital	10,825	15,449	33,760	44,578	70,702
Total assets	15,040	19,737	38,626	49,008	75,926
Total stockholders' equity	10,405	15,360	33,713	44,426	70,740

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 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 Bayer Schering Pharma AG)
- DITPA: for the treatment of cardiovascular disease
- Gallium maltolate: for the treatment of bone related diseases, chronic bacterial infections and cancer

We are directly developing our product candidates and also utilizing corporate partnerships, including a collaboration with (i) Bayer Schering Pharma AG, Germany (Bayer Schering) for the development of Spheramine to treat Parkinson's disease, and (ii) Vanda Pharmaceuticals, Inc. (Vanda) for the development of iloperidone for the treatment of schizophrenia and related psychotic disorders. We also utilize grants from government agencies to fund development of our product candidates.

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	Titan
Iloperidone	Schizophrenia, psychosis	Phase III	Vanda Pharmaceuticals, Inc.
Spheramine	Parkinson's disease	Phase IIb	Bayer Schering Pharma AG
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 2006 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, 2006, to be applicable:

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 (SFAS 123R). This statement replaces FASB Statement 123, Accounting for Stock-Based Compensation (SFAS 123), 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 share-based payments at fair value in the consolidated statement of income.

Effective January 1, 2006, we adopted SFAS 123R using the modified-prospective-transition method. Under this transition method, stock compensation cost recognized beginning January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

RESULTS OF OPERATIONS

Comparison of Years Ended December 31, 2006 and 2005

Revenues in 2006 were $32,000 compared to $89,000 for 2005, a decrease of $57,000. Our revenues during 2006 and 2005 were derived from fees received under various licensing agreements.

Research and development expenses for 2006 were $11.6 million compared to $17.8 million for 2005, a decrease of $6.2 million. The decrease in research and development was primarily associated with the conclusion of certain clinical study related activities and cost reduction strategies initiated in the third quarter of 2005 resulting in lower internal expenditures in 2006. Of our 2006 research and development expenses, approximately 46%, or $5.3 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 2006, approximately $2.2 million of external R&D expenses were related to Probuphine, $2.6 million to DITPA, $0.4 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 October 2006, we determined to focus our resources on the Phase III development of Probuphine, and have discontinued further enrollment in our Phase II study of DITPA in congestive heart failure (CHF). We will subsequently analyze data collected to date. In addition, the Department of Veteran's Affairs indicated that it will discontinue its Cooperative Studies Program Phase II study of DITPA in CHF patients.

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 2006 were $4.9 million compared to $5.4 million for 2005, a decrease of $0.5 million.

Other income, net, for 2006 was $710,000 compared to $589,000 for 2005, an increase of $121,000.

As a result of the foregoing, we had a net loss of $15.8 million in 2006 compared to a net loss of $22.5 million in 2005.

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.

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.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	2006	2005	2004
As of December 31:			
Cash, cash equivalents and marketable securities	$ 13,715	$ 17,369	$ 36,322
Working capital	$ 10,825	$ 15,449	$ 33,760
Current ratio	4.2:1	5.9:1	10:1
Years Ended December 31:			
Cash used in operating activities	$(13,500)	$(22,921)	$(23,912)
Cash provided by investing activities	$ 4,081	$ 22,533	$ 7,977
Cash provided by financing activities	$ 9,890	$ 4,067	$ 14,566

At December 31, 2006, we had $13.7 million of cash, cash equivalents, and marketable securities compared to $17.4 million at December 31, 2005.

Our operating activities used $13.5 million during 2006. This consisted primarily of the net loss for the period of $15.8 million reduced by $1.0 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 and $0.9 million related to stock based compensation 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 $4.1 million during 2006 consisted primarily of maturities of marketable securities of $19.7 million, partially offset by purchases of marketable securities of $15.6 million and capital expenditures of approximately $0.1 million.

Net cash provided by financing activities during 2006 was $9.9 million, which consisted primarily of $9.3 million of net proceeds from the sale of common stock under an existing shelf registration statement and net proceeds from the exercise of stock options.

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, 2006, we completed a total of five draw-downs under 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. We did not make any draw-downs under this facility in 2006.

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 $9.3 million. This shelf registration statement expired in February 2007.

In February 2007, 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.

We expect to continue to incur substantial additional operating losses from costs related to continuation 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 the end of 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, we will need to seek additional financing sources to fund 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. 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.

The following table sets forth the aggregate contractual cash obligations as of December 31, 2006 (in thousands):

		Payments Due by Period			
	Total	< 1 year	1-3 years	3-5 years	5 years+
Contractual obligations					
Operating leases	$2,103	$636	$1,171	$296	—
Sponsored research & license agreements	$ 779	$133	$ 238	$272	$136
Total contractual cash obligations	$2,882	$769	$1,409	$568	$136

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 2006 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, 2006 (in thousands, except interest rate):

	Face Value			
	2007	2008	Total	Estimated Fair value
Cash equivalents and marketable securities:				
Variable rate securities	$7,560	—	$7,560	$7,560
Average interest rate	5.06%	—	5.06%	
Fixed rate securities	$3,400	$ 702	$4,102	$4,102
Average interest rate	4.09%	3.79%	4.04%	

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, 2006. 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, 2006, our internal control over financial reporting was effective.

Our independent registered public accounting firm, 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, 2006. 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 changes in our internal control over financial reporting during the year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)	December 31, 2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 9,613	$ 9,142
Marketable securities	4,102	8,227
Prepaid expenses, receivables and other current assets	504	1,216
Total current assets	14,219	18,585
Property and equipment, net	457	788
Investment in other companies	150	150
Other assets	214	214
	$ 15,040	$ 19,737
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 561	$ 518
Accrued clinical trials expenses	1,521	787
Other accrued liabilities	1,312	1,831
Total current liabilities	3,394	3,136
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, none issued and outstanding:	—	—
Common stock, at amounts paid in, $0.001 par value per share; 75,000,000 shares authorized, 38,975,040 and 35,584,269 shares issued and outstanding at December 31, 2006 and 2005, respectively	224,221	214,331
Additional paid-in capital	10,118	9,264
Deferred compensation	—	(19)
Accumulated deficit	(223,944)	(208,207)
Accumulated other comprehensive income (loss)	10	(9)
Total stockholders' equity	10,405	15,360
	$ 15,040	$ 19,737

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amount)	Years ended December 31, 2006	2005	2004
Revenue:			
License revenue	$ 32	$ 89	$ 31
Operating expenses:			
Research and development	11,620	17,770	20,415
Acquired research and development	—	—	759
General and administrative	4,859	5,370	5,237
Total operating expenses	16,479	23,140	26,411
Loss from operations	(16,447)	(23,051)	(26,380)
Other income (expense):			
Interest income	717	570	673
Other income (expense)	(7)	19	(297)
Other income, net	710	589	376
Net loss	$(15,737)	$(22,462)	$(26,004)
Basic and diluted net loss per share	$ (0.42)	$ (0.69)	$ (0.83)
Weighted average shares used in computing basic and diluted net loss per share	37,902	32,635	31,381

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount
Balances at December 31, 2003	222	$ —	28,903	$ 195,331
Comprehensive loss:				
Net loss				
Unrealized loss on marketable securities				
Comprehensive loss				
Issuance of common stock, net of issuance costs of $1,020			3,075	14,355
Issuance of common stock upon exercise of options			180	211
Issuance of common stock upon tender of Proneura, Inc. shares			150	367
Compensation related to stock options				
Amortization of deferred compensation				
Balances at December 31, 2004	222	—	32,308	210,264
Comprehensive loss:				
Net loss				
Unrealized gain on marketable securities				
Comprehensive loss				
Issuance of common stock, net of issuance costs of $263			3,131	3,887
Issuance of common stock upon exercise of options			145	180
Compensation related to stock options				
Amortization of deferred compensation				
Redemption of series C preferred stock	(222)			
Balances at December 31, 2005	—	$ —	35,584	$ 214,331
Comprehensive loss:				
Net loss				
Unrealized gain on marketable securities				
Comprehensive loss				
Issuance of common stock, net of issuance costs of $730			3,077	9,270
Issuance of common stock upon exercise of options			314	620
Compensation related to stock options				
Amortization of deferred compensation				
Balances at December 31, 2006	—	$ —	38,975	$ 224,221

See accompanying notes.

Additional Paid-In Capital	Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
$9,047	$(211)	$(159,741)	$ —	$ 44,426
		(26,004)		(26,004)
			(51)	(51)
				(26,055)
				14,355
				211
				367
280	(154)			126
	283			283
9,327	(82)	(185,745)	(51)	33,713
		(22,462)		(22,462)
			42	42
				(22,420)
				3,887
				180
(63)				(63)
	63			63
				—
$9,264	$ (19)	$(208,207)	$ (9)	$ 15,360
		(15,737)		(15,737)
			19	19
				(15,718)
				9,270
				620
854				854
	19			19
$10,118	$ —	$(223,944)	$ 10	$ 10,405

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	Years ended December 31, 2006	2005	2004
Cash flows from operating activities:			
Net loss	$(15,737)	$(22,462)	$(26,004)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	389	405	466
(Gain) loss on investment activities	—	(8)	261
Loss on disposition of property and equipment	5	—	4
Acquired research and development	—	—	759
Non-cash compensation related to stock options	873	—	409
Changes in operating assets and liabilities:			
Prepaid expenses, receivables and other current assets	712	(320)	254
Accounts payable	42	(171)	(816)
Accrued clinical trials and other liabilities	216	(365)	755
Net cash used in operating activities	(13,500)	(22,921)	(23,912)
Cash flows from investing activities:			
Purchases of property and equipment, net	(63)	(149)	(725)
Purchases of marketable securities	(15,596)	(7,202)	(12,098)
Proceeds from maturities of marketable securities	19,740	29,884	20,800
Net cash provided by investing activities	4,081	22,533	7,977
Cash flows from financing activities:			
Issuance of common stock, net	9,890	4,067	14,566
Net cash provided by financing activities	9,890	4,067	14,566
Net increase (decrease) in cash and cash equivalents	471	3,679	(1,369)
Cash and cash equivalents at beginning of year	9,142	5,463	6,832
Cash and cash equivalents at end of year	9,613	9,142	5,463
Marketable securities at end of year	4,102	8,227	30,859
Cash, cash equivalents and marketable securities at end of year	$ 13,715	$ 17,369	$ 36,322
Schedule of non-cash transaction:			
Issuance of common stock to acquire technologies, net	$ —	$ —	$ 367

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 Bayer Schering Pharma AG, Germany (Bayer Schering). These collaborations help fund product development and enable us to retain significant economic interest in our products. At December 31, 2006, we owned 81% of Ingenex, Inc. 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. We operate in only one business segment, the development of pharmaceutical products.

We expect to continue to incur substantial additional operating losses from costs related to continuation 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 the end of 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, we will need to seek additional financing sources to fund 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. 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.

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.

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

Effective January 1, 2006, we adopted SFAS 123R – "Share Based Payment" (SFAS 123R) using the modified-prospective-transition method. Under this transition method, stock compensation cost recognized beginning January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

We use the Black-Scholes-Merton option-pricing model with the following assumptions to estimate the share-based compensation expense for the year ended December 31, 2006: 1) weighted-average risk-free interest rate of 4.8%; 2) no expected dividend payments; 3) expected holding period of 5.8 years based on the simplified method provided in Staff Accounting Bulletin No.107 for "plain vanilla options"; 4) weighted-average volatility factor of 0.64 based on historical stock prices; and 5) an estimated forfeiture rate of 2% of options granted to management and 31% of options granted to non-management based on historical data.

The SFAS 123R share-based compensation expense recorded for awards under the stock option plans was approximately $873,000, net of estimated forfeitures, during the year ended December 31, 2006. The share-based compensation expense of $354,000 was recorded in research and development expense and $519,000 was recorded in general and administrative expense during the twelve month period ended December 31, 2006. No tax benefit was recognized related to share-based compensation expense since we have incurred operating losses and we have established a full valuation allowance to offset all the potential tax benefits associated with our deferred tax assets. Our basic and diluted loss per share for the year ended December 31, 2006 increased by $0.03, due to adopting SFAS 123R.

During the year ended December 31, 2006 we granted 1,157,650 options to employees, directors and consultants to purchase common stocks. The following table summarizes option activity for the year ended December 31, 2006:

(in thousands, except per share amounts)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	6,499	$ 7.56		
Granted	1,158	1.69		
Exercised	(314)	1.98		
Cancelled	(753)	4.68		
Outstanding at December 31, 2006	6,590	$ 7.12	5.24	$3,606
Options exercisable at December 31, 2006	5,282	$ 8.41	4.33	$1,752

As of December 31, 2006 there was approximately $778,000 of total unrecognized compensation expense related to non-vested stock options. This expense is expected to be recognized over a weighted-average period of 0.59 year.

Until December 31, 2005, we elected to follow Accounting Principles Board Opinion No.25 (APB 25), "Accounting for Stock Issued to Employees," rather than the alternative method of accounting prescribed by 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 share-based employee compensation during the year ended December 31, 2005 and 2004.

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

The fair value of options was estimated at the date of grant using a Black-Scholes-Merton option-pricing model with the following assumptions for the year ended December 31, 2005 and 2004, respectively: weighted-average volatility factor of 0.70 and 0.70; no expected dividend payments; weighted-average risk-free interest rate in effect of 4.1% and 3.0%; and a weighted-average expected life of 3.12 and 3.97 years. In the pro forma information for periods prior to 2006, we accounted for forfeitures as they occurred.

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 $27,000 in 2006, $45,000 in 2005, and $102,000 in 2004 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 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, 2006, these shares represent 3.7% of total equity in the company. 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 collections are reasonably expected. 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, 2006, 2005, and 2004, outstanding preferred stock, options and warrants totaled 6.6 million, 6.7 million, and

6.7 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, 2006, 2005, and 2004 was $15.7 million, $22.4 million, and $26.1 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 (SFAS 123R). This statement replaces FASB Statement 123, Accounting for Stock-Based Compensation (SFAS 123), 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 December15, 2005 and requires companies to measure and recognize compensation expense for all share-based payments at fair value in the consolidated statement of income.

Effective January 1, 2006, we adopted SFAS 123R using the modified-prospective-transition method. Under this transition method, stock compensation cost recognized beginning January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

In June 2006, the FASB issued Interpretation No.48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No.109" ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No.109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition: The Company determines whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the "more-likely-than-not" recognition threshold, the company presumes that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. The second step is measurement: A tax position that meets the "more-likely-than-not" recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined what impact this statement will have on its results of operations or financial position.

2. CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES

The following is a summary of our cash, cash equivalents and marketable securities at December 31, 2006 and 2005 (in thousands):

	2006				2005			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash	$ 2,053	$—	$—	$ 2,053	$ 1,444	$—	$ —	$ 1,444
Cash equivalents:								
Money market funds	7,560	—	—	7,560	7,698	—	—	7,698
Total cash and cash equivalents	9,613	—	—	9,613	9,142	—	—	9,142
Marketable securities:								
Securities of the U.S. government and its agencies	4,092	10	—	4,102	8,235	9	(17)	8,227
Total cash, cash equivalents and marketable securities	$13,705	$10	$—	$13,715	$17,377	$ 9	$(17)	$17,369
Securities available-for-sale:								
Maturing within 1 year	$ 3,392			$ 3,400	$ 7,236			$ 7,237
Maturing between 1 to 2 years	$ 700			$ 702	$ 999			$ 990

There were no material gross realized gains or losses on sales of marketable securities for the years ended December 31, 2006, 2005 and 2004.

3. PROPERTY AND EQUIPMENT

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

	2006	2005
Furniture and office equipment	$ 579	$ 565
Leasehold improvements	459	459
Laboratory equipment	852	964
Computer equipment	977	920
	2,866	2,908
Less accumulated depreciation and amortization	(2,409)	(2,120)
Property and equipment, net	$ 457	$ 788

Depreciation and amortization expense was $389,000, $405,000, and $466,000 for the years ended December 31, 2006, 2005, and 2004, 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 approximately $690,000, $700,000, and $3.5 million in the years ended December 31, 2006, 2005, and 2004, respectively.

At December 31, 2006, the annual aggregate commitments we have under these agreements, including minimum license payments, are as follows (in thousands):

2007	$133
2008	102
2009	136
2010	136
2011	136
	$643

After 2011, we must make annual payments aggregating $136,000 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 SANOFI-AVENTIS SA

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

6. ILOPERIDONE SUBLICENSE TO NOVARTIS PHARMA AG

We entered into an agreement with Novartis Pharma AG (Novartis) in 1997 pursuant to which we granted Novartis a sublicense for the worldwide (with the exception of Japan) development, manufacturing and marketing of iloperidone. In April 2001, we entered into an amendment to the agreement for the development and commercialization of iloperidone in Japan. Under the amendment, in exchange for rights to iloperidone in Japan, we received a $2.5 million license fee in May 2001. Novartis will make our milestone payments to Sanofi-Aventis during the life of the Novartis agreement, and will also pay to Sanofi-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 BAYER SCHERING PHARMA AG

In January 2000, we entered into a licensing and collaborative agreement with Bayer Schering Pharma AG (Bayer Schering), under which we will collaborate with Bayer 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, 2006, we have recognized $2.8 million under this agreement. In February 2002, we announced that we received a $2.0 million milestone payment from Bayer Schering. The milestone payment followed Bayer 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. Bayer 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 Bayer Schering agreement upon the achievement of specific milestones. We will also receive a royalty on future net sales of the product.

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, 2006. In October 2006, we discontinued further enrollment in our Phase II study of DITPA in CHF. We will subsequently analyze data collected to date. In addition to the discontinuation of our Phase II clinical study in CHF, the Department of Veteran's Affairs has indicated that it will discontinue its Cooperative Studies Program Phase II study of DITPA in CHF patients.

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 $703,000, $721,000, and $832,000 for years ended December 31, 2006, 2005, and 2004, respectively.

The following is a schedule of future minimum lease payments at December 31, 2006 (in thousands):

2007	$ 636
2008	587
2009	584
2010	296
Thereafter	—
	$ 2,103

Legal Proceedings

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, 2006.

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, 2006. 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. In February 2005, we redeemed 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. There were no accrued and unpaid dividends outstanding at the time of the redemption.

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, 2006, we had completed a total of five draw-downs under 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.

We can issue 3,344,059 additional shares under the agreement without receipt of the required shareholders' approval. We did not make any draw-downs under this facility in 2006.

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 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 $9.3 million. This registration statement expired in February 2007.

In February 2007, 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.

Shares Reserved for Future Issuance

As of December 31, 2006, shares of common stock reserved by us for future issuance consisted of the following (shares in thousands):

Stock options	6,590
DTI merger contingent shares	750
	7,340

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, 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
Options granted	(1,158)	1,158	$ 1.69
Options exercised	—	(314)	$ 1.98
Options cancelled	606	(753)	$ 4.68
Balance at December 31, 2006	1,714	6,590	$ 7.12

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 2006, 2005 and 2004, the number of Substitute Options cancelled was immaterial.

Options for 5.3 million and 5.6 million shares were exercisable at December 31, 2006 and 2005, respectively. The options outstanding at December 31, 2006 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 – $ 2.35	1,705	7.81	$ 1.64	769	$ 1.65
$ 2.36 – $ 3.69	1,668	6.29	$ 2.98	1,296	$ 3.09
$ 3.77 – $11.63	2,005	3.41	$ 8.02	2,004	$ 8.02
$12.68 – $43.63	1,212	3.21	$19.03	1,213	$19.03
$ 0.08 – $43.63	6,590	5.24	$ 7.12	5,282	$ 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.

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, 2006, 2005, and 2004 was $1.06, $1.00, and $1.65, 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, 2006, we had net operating loss carryforwards for federal income tax purposes of approximately $222.2 million that expire at various dates through 2026, and federal research and development tax credits of approximately $6.5 million that expire at various dates through 2026. We also had net operating loss carryforwards for state income tax purposes of approximately $87.6 million that expire at various dates through 2016, and state research and development tax credits of approximately $5.4 million which do not expire.

Current federal and California tax laws include substantial restrictions on the utilization of net operating losses and tax credits in the event of an ownership change of a corporation. Accordingly, the Company's ability to utilize net operating loss and tax credit carryforwards may be limited as a result of such ownership changes. Such a limitation could result in the expiration of carryforwards before they are utilized.

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,	
	2006	2005
Deferred tax assets:		
Net operating loss carryforwards	$ 75,769	$ 73,974
Research credit carryforwards	10,048	9,112
Other, net	5,902	5,975
Total deferred tax assets	91,719	89,061
Valuation allowance	(91,719)	(89,061)
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 $2.7 million, $11.9 million, and $7.6 million during 2006, 2005, and 2004, respectively.

Under SFAS 123R, the deferred tax asset for Net Operating Losses as of December 31, 2006 excludes deductions for excess tax benefits related to stock based compensation. The deferred tax asset pertaining to Net Operating Losses decreased approximately $4.2 million.

In November 2005, the FASB issued Financial Statement Position ("FSP") on SFAS No. 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. Effective upon issuance, FSP No. 123(R)-3 provides for an alternative transition method for calculating the tax effects of stock-based compensation expense pursuant to SFAS No. 123(R). The alternative transition method provides simplified approaches to establish the beginning balance of a tax benefit pool comprised of the additional paid-in capital ("APIC") related to the tax effects of employee stock-based compensation expense, and to determine the subsequent impact on the APIC tax benefit pool and the statement of cash flows of stock-based awards that were outstanding upon the adoption of SFAS No. 123(R). The Company has made the election to calculate the tax effects of stock-based compensation expense using the alternative transition method pursuant to FSP No. 123(R)-3 and computed the beginning balance of the APIC tax benefit pool by applying the simplified method. Based on the Company's historical losses, the Company did not have cumulative excess tax benefits from stock-based compensation available in APIC that could be used to offset an equal amount of future tax shortfalls (i.e., when the amount of the tax deductible stock-based compensation is less than the related stock-based compensation cost).

The provision for income taxes consists of state minimum taxes due. The effective tax rate of the Company's provision (benefit) for income taxes differs from the federal statutory rate as follows (in thousands):

	Year Ending December 31, 2006	2005
Computed at 34%	$(5,348)	$(7,637)
State Taxes	(909)	(1,301)
Book losses not currently benefited	6,219	8,926
Other	47	18
Total	$ 9	$ 6

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, except per share amount)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Total revenue	$ 1	1	1	$ 29
Net loss	$(4,705)	$(3,426)	$(4,340)	$(3,266)
Basic and diluted net loss per share	$ (0.13)	$ (0.09)	$ (0.11)	$ (0.09)
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)

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, 2006, 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, 2006, 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, 2006, 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 sheets of Titan Pharmaceuticals, Inc. and its subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 27, 2007 expressed an unqualified opinion thereon.

/s/ Odenberg, Ullakko, Muranishi& Co. LLP

San Francisco, California
February 27, 2007

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, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for share-based compensation in 2006 when it adopted SFAS No.123R, "Share Based Payment" starting January 1, 2006.

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, 2006, 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, 2007 expressed an unqualified opinion thereon.

/s/ Odenberg, Ullakko, Muranishi& Co. LLP

San Francisco, California
February 27, 2007

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, 2006:		
First Quarter	$ 4.99	$ 1.35
Second Quarter	$ 3.39	$ 1.69
Third Quarter	$ 2.52	$ 1.65
Fourth Quarter	$ 4.10	$ 1.92
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

(b) Approximate Number of Equity Security Holders

The number of record holders of our common stock as of March 1, 2007 was approximately 136. Based on the last ADP search, we believe there are in excess of 10,000 beneficial holders of our common stock.

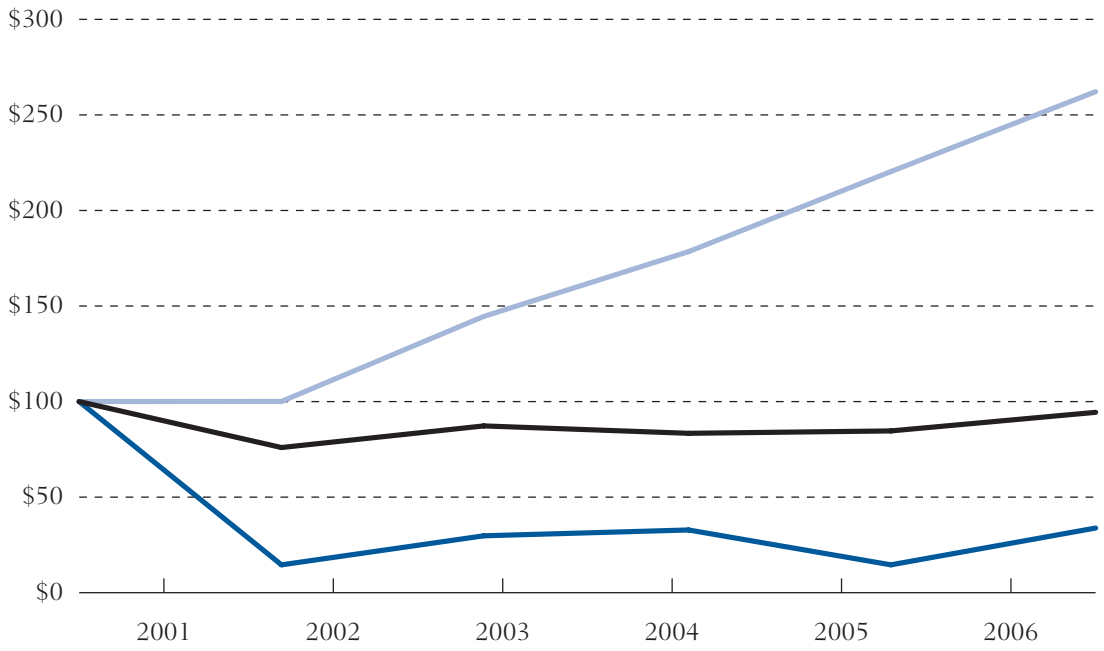
(c) Dividends

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.

STOCK PRICE PERFORMANCE PRESENTATION

The following chart compares the cumulative total stockholder return on the Company's Shares with the cumulative total stockholder return of (i) the Amex Market Index and (ii) a peer group index consisting of companies reporting under the Standard Industrial Classification Code 2834 (Pharmaceutical Preparations):

Compare Cumulative Total Return Among Titan Pharmaceuticals, Inc., Amex Market Index and SIC Code Index



Titan Pharmaceuticals, Inc.

Amex Market Index

SIC Code Index

Assumes $100 invested on December 31, 2001 and assumes dividends reinvested. Measurement points are at the last trading day of the fiscal years ended December 31, 2002, 2003, 2004, 2005 and 2006. The material in this chart is not soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act, whether made before or after the date of this annual report and irrespective of any general incorporation language in such filing.

CORPORATE INFORMATION

EXECUTIVE OFFICERS

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

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

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

CORPORATE OFFICE

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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

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