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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **DECEMBER 31, 2001**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-24274

LA JOLLA PHARMACEUTICAL COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0361285**
(State or Other Jurisdiction of Incorporation of Organization)	(I.R.S. Employer Identification No.)

6455 Nancy Ridge Drive, San Diego, CA 92121
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(858) 452-6600**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.01 per

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of such stock on the Nasdaq Stock Market on February 28, 2002, was $235,430,314. The number of shares of the Registrant's common stock, $.01 par value, outstanding at February 28, 2002 was 42,311,674.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the Registrant's definitive proxy statement for its annual meeting of stockholders to be held on May 22, 2002, which proxy statement will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended December 31, 2001.

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements, including without limitation those dealing with La Jolla Pharmaceutical Company's drug development plans and clinical trials, and other matters described in terms of our plans and expectations. The forward-looking statements in this report involve significant risks and uncertainties, and a number of factors, both foreseen and unforeseen, could cause actual results to differ materially from our current expectations. Our analyses of clinical results of LJP 394, our drug candidate for the treatment of systemic lupus erythematosus ("lupus"), and LJP 1082, our drug candidate for the treatment of antibody-mediated thrombosis ("thrombosis"), are ongoing and future analyses could result in a finding that these drug candidates are not effective in large patient populations or do not provide a meaningful clinical benefit. Our blood test to measure the binding affinity for LJP 394 is experimental, has not been validated by independent laboratories, may require regulatory approval and may be necessary for the approval and the commercialization of LJP 394. Our other potential drug candidates are at earlier stages of development and involve comparable risks. Analysis of our clinical trials could have negative or inconclusive results. Even if results are promising, the U.S. Food and Drug Administration ("FDA") may require additional clinical trials. Additional risk factors include the uncertainty of: obtaining required regulatory approvals; successfully marketing products; receiving future revenue from product sales or other sources such as collaborative relationships; future profitability; the need for additional financing; our dependence on patents and other proprietary rights; FDA approval of our manufacturing facilities; the increase in capacity of our manufacturing capabilities for possible commercialization; and our lack of marketing experience. Readers are cautioned to not place undue reliance upon forward-looking statements, which speak only as of the date hereof, and we undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date hereof. Interested parties are urged to review the risks described below under the heading "Risk Factors" and elsewhere in this report and in our other reports and registration statements filed with the Securities and Exchange Commission from time to time.

PART I

Item 1. Business.

Overview

La Jolla Pharmaceutical Company was incorporated in Delaware in 1989. We are a biopharmaceutical company focused on the research and development of highly specific therapeutic products for the treatment of certain life-threatening antibody-mediated diseases. These diseases, including autoimmune conditions such as lupus and antibody-mediated stroke, are caused by abnormal B cell production of antibodies that attack healthy tissues. Current treatments for these autoimmune disorders address only symptoms of the disease, or nonspecifically suppress the normal operation of the immune system, which often results in severe, negative side effects and hospitalization. We believe that our drug candidates, called Toleragens®, will treat the underlying cause of many antibody-mediated diseases without these severe, negative side effects. Our clinical drug candidate for the treatment of lupus is known as LJP 394, and is currently being evaluated in a Phase III clinical trial. Our clinical drug candidate for the treatment of antibody-mediated thrombosis, known as LJP 1082, is currently being evaluated in a Phase I/II clinical trial.

Antibody-Mediated Diseases

The immune system is the major biological defense mechanism responsible for recognizing and fighting disease. The immune system identifies antigens, such as bacteria, viruses and other disease-causing substances, and seeks to rid the body of these antigens. There are two fundamental types of immune responses: cell-mediated and antibody-mediated. Cell-mediated immunity is primarily responsible for ridding the body of cells that have become infected. Antibody-mediated immunity is primarily responsible for eliminating circulating antigens. These immune responses are controlled by the activities of white blood cells called T cells and B cells. T cells provide cell-mediated immunity and regulate B cells. B cells provide antibody-mediated immunity by producing antibodies that recognize and help to eliminate antigens.

Each B cell produces antibodies against a specific structure on the antigen's surface called an epitope. The B cell is triggered to produce antibodies when the specific epitope is recognized by and binds to the antibody receptors on the surface of the B cell, and only when the B cell receives an appropriate signal from a T cell. When an epitope binds to the B cell with no corresponding T cell signal, the B cell may become "tolerized" and cease to produce antibodies.

A properly functioning immune system distinguishes between foreign antigens and the body's healthy tissues. In a malfunctioning immune system, healthy tissue may trigger an immune response that causes B cells to produce disease-causing antibodies, resulting in antibody-mediated autoimmune disease. For example, B cells can produce disease-causing antibodies that are associated with the destruction of the kidneys in lupus and the wasting of muscles in myasthenia gravis. Other antibody-mediated disorders include antibody-mediated stroke, heart attack, deep vein thrombosis, recurrent fetal loss, organ rejection in xenotransplantation, and Rh hemolytic disease of the newborn.

Current therapies for antibody-mediated diseases have significant shortcomings, including severe side effects and a lack of specificity. Mild forms of antibody-mediated diseases are generally treated with drugs that address only the disease symptoms and fail to suppress disease progression, because such drugs do not control the production of disease-causing antibodies. Severe antibody-mediated diseases like lupus are generally treated with high levels of corticosteroids and immunosuppressive therapy (primarily anti-cancer or chemotherapy drugs), which broadly suppress the normal function of the entire immune system. These therapies can leave patients susceptible to potentially life-threatening infections that may require hospitalization. Repeated dosing with corticosteroids may cause other serious conditions, including diabetes, hypertension, cataracts, osteonecrosis and psychosis, and an increased risk of severe infections that may limit the use of this therapy. The use of chemotherapy may lead to acute problems, including weight loss, nausea, an increased risk of severe infections and long-term adverse effects, including sterility and an increased risk of malignancies.

Tolerance Technology®

Our Tolerance Technology program focuses on the discovery and development of proprietary therapeutics, called Toleragens, which target and suppress the production of specific disease-causing antibodies without affecting the protective functions of the immune system. We believe that Toleragens will be able to treat the underlying causes of antibody-mediated diseases, and that our Tolerance Technology may be applied broadly wherever specific antibodies are involved in causing diseases.

Since the 1970s, hundreds of papers have been published by the scientific community describing laboratory studies and a Nobel Prize was awarded for research in tolerance. The

underlying science supporting our Tolerance Technology is based on these discoveries as well as on our own patented research.

Toleragens are composed of disease-specific epitopes and a carrier platform, which are proprietary chemical structures that we have developed and synthesized. To mimic the unique epitopes on an antigen's surface, we identify and synthesize epitopes specific to particular antibody-mediated diseases and attach or conjugate these epitopes to the carrier platform, which serves as a vehicle for presenting the epitopes to the antibody receptors on the targeted B cell. When the epitope binds to the antibody receptors on the B cell in the absence of a T cell signal, the B cell may become tolerized and cease to produce disease-causing antibodies.

We design our Toleragens to bind selectively to *disease-causing* B cells without affecting the function of *disease-fighting* B cells. This process involves: (1) collecting and purifying the disease-causing antibodies from patients with the targeted disease; (2) generating and selecting an epitope that strongly binds to the purified antibodies; (3) modifying the epitope's structure to maximize its binding properties while eliminating, if necessary, structures that can activate a patient's T cells (this process is called "optimization"); and (4) linking the optimized epitope to the carrier platform. We believe this process enables us to create Toleragens that will preferentially tolerize and shut down B cells that generate antibodies with the highest binding affinity, and which are believed to be the most harmful.

Business Strategy

Our objective is to become the leading developer of highly specific therapeutics for the treatment of life-threatening, antibody-mediated diseases such as lupus; antibody-mediated stroke, heart attack, deep vein thrombosis and recurrent fetal loss; organ rejection in xenotransplantation; myasthenia gravis and Rh hemolytic disease of the newborn. Our strategy includes the following key elements:

Complete the Clinical Development of LJP 394 for Lupus Patients. Our primary near-term goal is to complete development of LJP 394 to treat lupus. Following our analysis of a Phase II/III clinical trial of LJP 394 and a positive meeting with the FDA in April 2000, we initiated a Phase III clinical trial of LJP 394 in September 2000. Our Phase III trial is ongoing.

Apply Tolerance Technology to Other Life-Threatening Antibody-Mediated Diseases. We are focusing on chronic, life-threatening diseases and conditions caused by antibodies, such as lupus and antibody-mediated thrombosis, for which there are no existing treatments or for which current therapeutics have significant limitations. We intend to use our Tolerance Technology to design therapeutics that specifically address other targeted antibody-mediated diseases without adversely affecting normal immune system function.

Utilize Strategic Collaborations to Develop and Commercialize Product Candidates. We intend to seek collaborative relationships with pharmaceutical companies to provide support for our research programs, and for the clinical development and commercialization of other drug candidates.

Expand Intellectual Property Leadership Position. Currently, we own 96 issued patents and have 82 pending patent applications covering our various technologies and drug candidates, including our Tolerance Technology, our lupus and antibody-mediated thrombosis drug candidates, and our platform and linkage technologies for our Toleragens. We hope to broaden our position with future discoveries and additional patent filings.

Products Under Development

The Lupus Program

Lupus is a life-threatening, antibody-mediated disease in which disease-causing antibodies damage various tissues. According to recent statistics compiled by the Lupus Foundation of America, epidemiological studies and other sources, the number of lupus patients in the United States is estimated to be between 250,000 and 1,000,000, and approximately 16,000 new cases are diagnosed each year. Approximately nine out of 10 lupus patients are women, who usually develop the disease during their childbearing years. Lupus is characterized by a multitude of symptoms, including chronic kidney inflammation, which can lead to kidney failure, serious episodes of cardiac and central-nervous-system inflammation, as well as extreme fatigue, arthritis and rashes. Approximately 80% of all lupus patients progress to serious symptoms. Approximately 50% of lupus patients have kidney disease.

Antibodies to double-stranded DNA ("dsDNA") can be detected in approximately 90% of lupus patients who are not receiving immunosuppressive therapy. These antibodies are widely believed to cause kidney disease (nephritis), often resulting in morbidity and mortality in lupus patients. These antibodies are also associated with episodes of potentially life-threatening kidney inflammation — called "renal flares" — that may occur more than once per year and usually require intensive-care hospitalization. Significant kidney destruction occurs during a renal flare. Lupus nephritis can lead to deterioration of kidney function and to end-stage kidney disease, requiring long-term renal dialysis or kidney transplantation to sustain the patient's life.

Current treatments for lupus patients with kidney disease and other serious symptoms usually include repeated administration of corticosteroids, often at high levels that can have toxic effects when used as a chronic treatment regimen. Many patients with advanced disease are also treated with immunosuppressive therapy, including anti-cancer drugs that have a general suppressive effect on the immune system and may be carcinogenic. This immunosuppressive treatment leaves the patient vulnerable to serious infection and is a significant cause of sickness and death.

We have designed LJP 394 to suppress the production of antibodies to dsDNA in lupus patients without suppressing the normal function of the immune system. The design of LJP 394 is based upon scientific evidence of the role of antibodies to dsDNA in lupus. Published studies of lupus patients indicate that a rise in the level of antibodies to dsDNA may be predictive of renal flares in lupus patients with renal involvement, and that suppressing antibodies to dsDNA by treating with corticosteroids prevents relapses in a majority of patients. In a mouse model of lupus nephritis that generates elevated levels of antibodies to dsDNA, administration of LJP 394 reduced the production of antibodies to dsDNA, reduced the number of antibody-forming cells, reduced kidney disease and extended the life of the animals. We believe that our own and other studies provide evidence that inhibiting antibodies to dsDNA may provide an effective therapy for lupus nephritis.

Certain studies of lupus patients indicate that antibodies to dsDNA with the highest binding affinity are associated with the most damage to the kidneys. We believe that LJP 394 preferentially targets these antibodies.

LJP 394 Clinical Trial History

Based on our preclinical findings, we filed an Investigational New Drug application for LJP 394 with the FDA in August 1994. In a double blind, placebo-controlled Phase I clinical trial conducted in December 1994, healthy volunteers received LJP 394 and displayed no significant

drug-related adverse effects and no immune reaction to the drug. Upon completion of our Phase I trial, we began four Phase II clinical trials. Our Phase II clinical trials included a single-dose trial, a repeat dose-escalating trial and two dose-ranging trials.

In 1994, the single-dose clinical trial was initiated to evaluate the safety of a single, 100 mg intravenous dose of LJP 394 in four female lupus patients. We monitored antibody levels, blood chemistry, vital signs and complement (inflammation-promoting proteins) levels for 28 days after dosing. LJP 394 was well tolerated by all four patients, with no drug-related adverse clinical symptoms and no clinically significant complement level changes. In addition, no clinically significant immune complex formation (inflammation-promoting accumulation of antibodies and antigens) was observed, indicating the absence of an adverse immune response to LJP 394. A transient reduction in antibodies to dsDNA levels was also observed. These results were presented at the Annual Scientific Meeting of the American College of Rheumatology in October 1995.

In 1995, a repeat dose-escalating clinical trial was initiated in which two female patients each received doses of 10, 10, 50, 50, 100 and 100 mg of LJP 394 at two-week intervals. After the 10-week dosing regimen was completed, the patients were followed for six weeks. LJP 394 was well tolerated by both patients with no drug-related adverse clinical symptoms, no clinically significant complement changes and no significant immune complex formation. Six weeks after the last dose, the antibodies to dsDNA levels in both patients remained suppressed below baseline levels.

In 1995, we conducted a first double-blind, placebo-controlled dose-ranging trial, in which 58 lupus patients (53 females and five males) with mild lupus symptoms were treated for a four-month period with LJP 394 or placebo, and then were monitored for two months. Patients were enrolled who were clinically stable and had antibodies to dsDNA levels exceeding those generally found in healthy individuals. The patients were organized into nine treatment groups at three dose levels (1 mg, 10 mg and 50 mg), and three frequencies (once per week, once every two weeks and once every four weeks). Patients were randomized to one of the nine treatment groups so that at each dose and frequency, four to seven patients received LJP 394 and one patient received a placebo.

Patients in the weekly treatment groups showed a dose-response correlation between increasing doses of LJP 394 and reductions of levels of antibodies to dsDNA. In patients treated weekly with 10 mg or 50 mg doses of LJP 394, antibodies to dsDNA were reduced by statistically significant levels and remained suppressed in certain patients for up to two months after the last dose. In the patient group treated weekly with 50 mg, the reductions in median levels of antibodies to dsDNA were accompanied by increases in median levels of two important inflammation-related complement proteins, C_3 and C_4, which normally increase with clinical improvement and decrease during active lupus renal disease. These study data suggested that complement levels and antibodies to dsDNA levels were normalizing in parallel in the LJP 394-treated.

Throughout this first dose-ranging trial, the drug was well tolerated with no clinically significant dose-related adverse reactions observed. Three patients experienced lupus renal flares, and three other patients were hospitalized as a result of transient adverse events that the treating clinicians believed were unrelated to the underlying disease or to LJP 394. Two of the patients with renal flares withdrew from the study, as did four patients who experienced exacerbations of lupus and one patient who experienced a herpes rash. However, no relationship was observed between the development of an adverse event and the dose or frequency of administration of LJP 394.

In 1999, we completed a second double-blind, placebo-controlled dose-ranging trial, in which 74 lupus patients received weekly injections of 10, 50, or 100 mg of LJP 394 or placebo

for a 12-week period. In patients treated weekly with placebo, 10 mg or 50 mg of LJP 394, antibodies to dsDNA increased by 100%, 53% and 10%, respectively, while in patients treated weekly with 100 mg of LJP 394, antibodies to dsDNA decreased by 43%, a statistically significant difference from placebo. Seven LJP 394-treated patients had serious adverse events, but none were considered related to LJP 394 treatment.

In December 1996, we initiated a double-blind, placebo-controlled multi-center Phase II/III clinical trial of LJP 394 in which patients received LJP 394 or placebo and were in the trial for up to 18 months. The purpose of this trial was to evaluate the safety of the drug and its potential to delay or reduce renal flares, to delay or reduce the need for immunosuppressive or corticosteroids and/or chemotherapy drugs and to improve patients' health-related quality of life. The trial enrolled more than 200 patients and was conducted by us and Abbott Laboratories ("Abbott") in more than 50 sites in North America and Europe as part of our joint development agreement with Abbott.

In May 1999, an interim analysis of the Phase II/III clinical trial of LJP 394 indicated that the trial was unlikely to reach statistical significance for the primary endpoint, time to renal flare, and it was decided to stop the study and evaluate the data. Although both the drug- and placebo-treated groups exhibited serious adverse events, there were no statistically significant differences in the number of events in the two groups, indicating the drug was well tolerated. In September 1999, the joint development agreement for LJP 394 between us and Abbott was terminated.

In November 1999, we announced encouraging initial results from the analysis of the data from the Phase II/III clinical trial showing a certain group of patients treated with LJP 394 had fewer renal flares and treatment with high-dose corticosteroids and/or cyclophosphamide. These results were based on an analysis of the trial using a new blood test that we developed and that appears to predict which patients will respond to drug treatment. Developed in 1998, the blood test measures the strength of the binding between LJP 394 and a patient's antibodies. Prior to using the blood test in the Phase II/III trial, we used it retrospectively to evaluate patients samples from the 1995 Phase II dose-ranging trial and found that the blood test predicted which patients would respond to drug treatment as measured by changes in antibody affinity following drug treatment.

In May 2000, we completed the analysis following the testing of more than 99% of the North American patients' samples from the Phase II/III clinical trial. The blood test showed that 89% of the patients had high-affinity antibodies to LJP 394 (high-affinity patients). The high-affinity patients treated with LJP 394 experienced significantly longer time to renal flare ($p = 0.008$), the primary endpoint of the trial, fewer renal flares ($p = 0.008$), longer time to treatments with high-dose corticosteroids and/or cyclophosphamide ($p = 0.002$) and fewer exposures to high-dose corticosteroids and/or cyclophosphamide ($p = 0.001$) when compared to the placebo-treated group.

Also in the Phase II/III study, mean levels of circulating antibodies to dsDNA in patients treated with LJP 394 were reduced by a statistically significant amount relative to placebo during drug treatment. Levels of an important complement protein, C_3, improved when antibodies were reduced. In lupus patients, this inflammation-related protein, C_3, decreases during active renal disease and increases with clinical improvement. The concurrent reduction of antibodies to dsDNA and increase in C_3 complement levels is biologically consistent. As noted earlier, this effect had been observed in the 1995 Phase II dose-ranging study of LJP 394 in 58 lupus patients.

The Phase II/III trial design included periods during which patients received no drug for approximately two months (the "off" periods) and weekly doses of 50 mg over three months (the "on" periods). When patients were on drug, mean levels of antibodies to dsDNA decreased. When patients were off drug, mean levels of antibodies to dsDNA increased. During the first

four months of the trial, when patients were treated with 100 mg per week, there were nine renal flares in the placebo-treated group and four in the drug-treated group — a 2:1 ratio in favor of drug treatment. Furthermore, in patients with high-affinity antibodies, during the first four months of the trial, there were eight renal flares in the placebo-treated group and only one renal flare in the drug-treated group ($p = 0.035$) — an 8:1 ratio in favor of drug treatment.

Results from the Phase II/III lupus study suggested three ways to improve the clinical trial design of a Phase III trial: eliminate "off" periods, use doses of 100 mg of LJP 394 per week and evaluate the drug in the patients with high-affinity antibodies.

Based on these observations and following discussions with the FDA, we initiated a Phase III clinical trial in September 2000 to demonstrate the safety and efficacy of LJP 394 for lupus. In this trial, the primary endpoint, time to renal flare, will be measured in patients with high-affinity antibodies who are treated with 100 mg per week of LJP 394 or placebo. There are no "off" periods.

The Phase III clinical trial is a double-blind, placebo-controlled study, which is being conducted at more than 60 major medical centers in North America and Europe. We plan to enroll approximately 300 high-affinity lupus patients to evaluate the potential of LJP 394 to delay and reduce the number of renal flares, and delay and reduce the need for treatment with high-dose corticosteroids and/or chemotherapy drugs. At year-end approximately 200 patients had been enrolled in the study. The trial is expected to be completed in late 2002.

We believe that the blood test we developed can identify lupus patients who are most likely to respond to LJP 394 and we will use this affinity assay to identify the patients to be included in the efficacy analysis of the Phase III trial. We have filed a patent application on this new blood assay.

In September 2000, the FDA granted us orphan drug designation for LJP 394 for the treatment of lupus kidney disease. The Orphan Drug Act provides for seven years of marketing exclusivity in the U.S. and enables us to obtain research funding, tax credits for certain research expenses, and a waiver of the application user fees.

In November 2001, European Commission granted orphan medicinal product designation in the European Union for LJP 394 on the recommendation of the Committee on Orphan Medical Products. Orphan designation in Europe enables us to receive significant fee reductions for scientific advice, marketing authorization and inspections, and provides 10 years of market exclusivity in the European Union.

Additional LJP 394 Clinical Trial Data

In October 2000, we presented additional data from the Phase II/III trial at the American College of Rheumatology Annual Scientific Meeting concerning the effect of LJP 394 treatment on patients with impaired renal function. In a predefined group of patients with poor renal function, there were more renal flares in the patients treated with placebo than in the patients treated with LJP 394 ($p = 0.046$). In a group of patients with poor renal function and with high-affinity antibodies to LJP 394, there were six renal flares in 10 patients treated with placebo and zero renal flares in 11 patients treated with drug ($p = 0.004$).

In January 2001, we announced that approximately 90% of patients in each of three previous clinical trials from whom sera specimens were available had high-affinity antibodies to LJP 394, prior to drug treatment. The ratios for the trials were: 89% of the 213 patients in the Phase II/III trial, 94% of the 31 patients in the Phase II trial completed in 1996 and 90% of the 60 patients in the Phase II trial completed in 1999. Patients in the Phase II/III trial had moderate to severe disease and a history of renal flares. Patients in the two Phase II trials had mild to moderate disease. Placebo- and drug-treated groups

had similar percentages at baseline in each clinical trial. These data suggest that the percentage of high-affinity patients in a larger population of lupus patients may be 90%, but a larger population of patients would need to be evaluated to confirm this result.

In October 2001, we presented additional data from the Phase II/III trial at the World Congress of Nephrology. Our study revealed that 70% of the patients in our study with biopsies had World Health Organization Classifications III (focal) or IV (diffuse) proliferative glomerulonephritis. We also reported that 83% of patients in our trial who had a renal flare required treatment with high-dose corticosteroids and/or cyclophosphamide and 48% required hospitalization. In patients who entered the trial with impaired renal function and who flared, serum creatinine levels worsened significantly and increased from an average of 1.9 mg/dL at baseline to 5.0 mg/dL at final visit.

In November 2001, we presented additional data from the Phase II/III trial at the American College of Rheumatology Annual Scientific Meeting indicating that treatment with LJP 394 appeared to be as effective as current immunosuppressive therapy in reducing antibodies to dsDNA. Patients on placebo who were treated with high-dose steroids and/or cyclophosphamide (HDCC) were compared to patients who received LJP 394. Following treatment with HDCC, levels of antibodies to dsDNA in 38 patients receiving placebo were reduced within four weeks by a mean of 25%. In 100 patients treated weekly with 100 mg of LJP 394, but not HDCC, antibodies to dsDNA were reduced within four weeks by a mean of 36%. In patients requiring HDCC, mean levels of antibodies to dsDNA decreased 37% in 22 patients receiving LJP 394 treatment compared with 25% in 38 patients receiving placebo. In patients receiving HDCC, the median dose of corticosteroids was 50 mg per day.

In January 2002, we presented additional data from the Phase II/III clinical trial at the National Institutes of Health Medical Conference on SLE: Targets for New Therapeutics, indicating that treatment with LJP 394 improved or sustained health-related quality of life in patients with lupus renal disease following 16 weeks of treatment with LJP 394 and following renal flares, when compared to placebo. Health-related quality of life is a measure of a patient's sense of mental and physical well-being or how he/she feels and was measured by a standard scoring instrument called the SF-36® Health Survey that categorizes results in eight domains. At the beginning of the study, the mean SF-36 scores for all lupus patients were significantly lower in all domains compared with normal individuals in the U.S. of similar age and sex.

In 190 patients with SF-36 measurements, LJP 394-treated patients reported a positive trend in their composite mental component score of 1.3, compared with a worsening of -0.8 for patients treated with placebo, a difference of 2.1. The largest mean change occurred in the role-emotional score where the drug-treated patient score improved by +7.7 points while the placebo-treated patient score decreased by -8.1. This was a relative difference of 15.8 and is of a magnitude that is generally believed to be clinically meaningful. The role-emotional assessment represents the patients' perception of limitations they experience in their daily routine attributed to emotional problems.

In 37 patients with SF-36 measurements before and after a renal flare, LJP 394-treated patients experienced an improved or stable health-related quality of life in all domains except one, while placebo-treated patients reported worsening in all domains. For example, the mean change in role-emotional score for LJP 394-treated patients improved by +2.1 points, compared with placebo-treated patients where it decreased by -20.6 points, a relative difference of 22.7 points. The changes in role-emotional and the mental component summary scores are of a magnitude that is generally believed to be clinically meaningful.

The Phase III clinical trial, and the development of LJP 394 in general, involve many risks and uncertainties, and there can be no assurance that any previous clinical results can be

replicated in further clinical testing or that LJP 394 will be effective in inducing and sustaining antibody suppression; will prove to be clinically safe or effective; will receive required regulatory approvals; or will require further FDA-mandated clinical testing in addition to a Phase III clinical trial. If the continued development of LJP 394 produces negative or inconclusive results, our business and financial condition will be adversely affected and it may be difficult or impossible for us to survive. Our blood test to measure the binding affinity for LJP 394 is experimental, has not been validated by independent laboratories, may require regulatory approval and may be necessary for the approval and the commercialization of LJP 394.

Antibody-Mediated Thrombosis, Including Stroke, Heart Attack, Deep Vein Thrombosis and Recurrent Fetal Loss

Researchers believe that antibodies called “antiphospholipid” antibodies promote arterial and venous blood clots, which can cause a variety of recurring and potentially life-threatening medical problems. For example, blood clots that lodge in the brain may cause stroke and those that lodge in the legs may cause deep vein thrombosis. There are multiple conditions associated with these antibodies that we collectively refer to as antibody-mediated thrombosis: antibody-mediated stroke, heart attack, deep vein thrombosis, recurrent fetal loss, and complications following cardiovascular surgery. Our program to develop a Toleragen to treat antibody-mediated thrombosis could be helpful in preventing these problems. We estimate that there are up to 2,000,000 patients in the United States and Europe with antibody-mediated thrombosis.

Stroke is a leading cause of death in the United States. In 2002, there are approximately 4,000,000 stroke patients in the United States and approximately 750,000 new episodes will occur. In 2002, approximately 160,000 people will die from stroke. This debilitating condition results from acute neurological injury caused by the blockage or rupture of blood vessels in the brain. Many of the blockages are caused by thromboses, or blood clots, which many clinicians believe may be caused by a number of factors, including antiphospholipid antibodies. It is estimated that these antibodies cause about 10% of the strokes in the United States (affecting about 200,000 to 400,000 patients). Antibody-mediated stroke is thought to occur in younger individuals and with greater frequency than non-antibody-mediated stroke. The cost of treatment to provide hospitalization and home nursing care for a survivor of a serious stroke is approximately $30,000 per year for life.

Antibody-mediated thrombosis is also associated with recurrent fetal loss, a syndrome of repeated miscarriage. Published clinical reports estimate that many women with elevated antiphospholipid antibody levels experience multiple miscarriages, delayed fetal development or premature childbirth. Recent academic research suggests that elevated levels of these antibodies are also found in approximately 10 to 30% of patients with other clotting disorders, including myocardial infarction (heart attack), deep vein thrombosis and cardiac valve lesion, as well as in approximately 30% of lupus patients. In myocardial infarction, recent research suggests the relative risk of a thrombotic event or death is twice as high in people with high antiphospholipid antibodies, and this risk is independent of other risk factors. In deep vein thrombosis, research indicates antiphospholipid antibody-positive patients have recurring deep vein thromboses twice as often as antiphospholipid antibody-negative patients.

Current treatments for antibody-mediated thrombosis involve the use of chronic, potentially life-long anticoagulant therapy with drugs such as heparin or warfarin to prevent the formation of blood clots. Patients must be carefully monitored to minimize serious bleeding episodes that can occur because of the therapy. If patients are removed from anticoagulant therapy, they are at an increased risk of stroke or another thrombotic episode. Warfarin is not recommended in the treatment of recurrent fetal loss because it is toxic to the developing fetus.

We believe that a Toleragen to treat antibody-mediated thrombosis would be a major step forward in specifically targeting the cause of this clotting disorder, thereby avoiding the side effects of current therapies.

Our research supports the finding that specific antibodies in antibody-mediated thrombosis enhance blood-clot formation by interfering with the natural breakdown of a blood component — Factor Va — that accelerates clotting. The true target of these clot-promoting antibodies is not cardiolipin, but a region on a blood protein called beta 2-glycoprotein I. To date, our scientists have shown that approximately 90% of patients studied with antibody-mediated thrombosis have antibodies that bind to this region. The identification of a disease target for antibody-mediated thrombosis has allowed us to begin building new drug candidates that bind to these antibodies with high affinity and are designed to tolerize, or shut down, the B cells that produce them.

We have synthesized a family of candidate antibody-mediated thrombosis Toleragens for testing. We have also developed a mouse model of the disease, where the animals produce antibodies to beta 2-glycoprotein I and develop a clotting defect similar to that seen in patients with antibody-mediated thrombosis. In this animal model, several candidate molecules have been shown to reduce the production of pathogenic antibodies, a key step in the development of a drug to treat this disorder.

LJP 1082 Clinical Trial History

In July 2000, we nominated LJP 1082 as our clinical drug candidate for the treatment of antibody-mediated thrombosis. Based on positive preclinical results in mice, rats and primates, we chose this candidate for planned toxicology studies required for the filing of an Investigational New Drug application. In September 2000, we presented positive preclinical results at the 9th International Symposium on Antiphospholipid Antibodies in Tours, France that showed LJP 1082 reduced disease-causing antibodies and the B cells involved in antibody-mediated thrombosis in an animal model of the disease.

In September 2001, we announced that we had filed an Investigational New Drug application with the FDA to begin a Phase I/II clinical trial of LJP 1082. In November 2001, we announced the initiation of the Phase I/II clinical trial. The objective of the study is to evaluate the safety of LJP 1082 and its ability to reduce disease-causing antibody levels in patients with antibody-mediated thrombosis. The trial is a double-blind, placebo-controlled study evaluating multiple doses in a small group of patients.

Other Antibody-Mediated Diseases

We believe our Tolerance Technology may be applicable to additional diseases and conditions caused by the production of disease-causing antibodies, including xenotransplantation, myasthenia gravis and Rh hemolytic disease of the newborn.

Xenotransplantation, the use of animals as a source of donor organs for human transplantation, has become an area of great interest due to the worldwide shortage of human organs available for transplantation. According to the American Society of Transplant Physicians, approximately 100,000 patients in the United States are on waiting lists for organ transplants. More than 5,000 patients die annually, many of whom are too sick to qualify for waiting lists. A typical organ transplant can cost more than $100,000.

Hyper acute rejection, or the immediate destruction of the transplanted animal organ by the recipient's antibodies, is a major barrier to xenotransplantation. Human antibodies recognize and bind to an epitope called alpha galactose found on the tissues of transplanted animal organs. This binding causes massive blood clots that block the blood supply to the transplanted organ, destroying it within minutes.

Myasthenia gravis is a form of muscular paralysis in which neuromuscular receptors are attacked by antibodies, which can lead to a wasting of muscles, progressive loss of strength and life-threatening respiratory arrest. This disease affects an estimated 20,000 people in the United States.

Rh hemolytic disease of the newborn is a life-threatening fetal condition characterized by the hemolysis, or destruction, of fetal red blood cells. This condition occurs in Rh-incompatible pregnancies in which maternal antibodies to Rh cross the placenta, bind to fetal red blood cells and cause their destruction. Each year approximately 500,000 women in the United States have Rh-incompatible pregnancies. We believe that a Toleragen that binds to the appropriate maternal B cells will suppress Rh antibody production, and that once the level of antibodies to Rh(+) red blood cells is reduced, the risk of life-threatening hemolysis will be reduced.

Collaborative Arrangements

As part of our business strategy, we attempt to pursue collaborations with pharmaceutical companies in an effort to access their research, drug development, manufacturing, marketing and financial resources. In December 1996, we entered into a collaborative relationship with Abbott for the worldwide development and commercialization of LJP 394. This agreement was terminated in September 1999 following the initial analysis of the Phase II/III lupus trial, and all rights to LJP 394 were returned to us.

Concurrent with the formation of the collaborative relationship, Abbott made an initial $4.0 million license payment to us and purchased a total of 3,369,604 shares of our common stock in December 1996, September 1997 and October 1998, for gross proceeds of $4.0 million on each purchase date. Under the collaborative agreement, Abbott paid us a total of approximately $23.2 million for the research and development costs we incurred for the development of LJP 394 from 1997 through 1999.

We intend to pursue collaborative arrangements with other pharmaceutical companies to assist in our research programs and the clinical development and commercialization of our drug candidates. There can be no assurance that we will be able to negotiate arrangements with any collaborative partner on acceptable terms, if at all. Once a collaborative relationship is established, there can be no assurance that the collaborative partner will continue funding any particular program or will not pursue alternative technologies or develop alternative drug candidates, either individually or in collaboration with others, including our competitors, as a means for developing treatments for the diseases we have targeted. Furthermore, competing products, either developed by a collaborative partner or to which a collaborative partner has rights, may result in the withdrawal of support by the collaborative partner with respect to all or a portion of our technology.

Failure to establish or maintain collaborative arrangements will require us to fund our own research and development activities, resulting in accelerated expenditure of capital, and will require us to develop our own marketing capabilities for any drug candidate that may receive regulatory approval. The failure of any collaborative partner to continue funding any particular program of ours, or to commercialize successfully any product, could delay or halt the development or commercialization of any products involved in such program. As a result, failure

to establish or maintain collaborative arrangements could hurt our business, financial condition and results of operations.

Manufacturing

We have constructed and are currently operating a pilot production facility for the manufacture of LJP 394 that is large enough to exceed anticipated research and clinical trial needs for LJP 394. Through internal development programs and external collaborations, we have made several improvements to the manufacturing process for LJP 394 that have reduced our costs and increased our manufacturing capacity. We have developed proprietary synthesis and conjugation technologies that are being used in the development of our other Toleragen candidates. We intend to further develop these technologies in order to increase our manufacturing efficiencies and apply our expertise to the development and manufacture of other potential products. There are currently a limited number of suppliers who produce raw materials or the DNA components for LJP 394.

While we believe that our current production facility will provide sufficient capacity for launch, as planned, additional capacity will be required to meet additional potential demand in the marketplace at sometime in the future. Following launch, we plan to increase capacity through contract manufacturing and additional capital investments in the expansion of our facilities. The manufacture of our potential products for clinical trials and the manufacture of any resulting products for commercial purposes are subject to current Good Manufacturing Practices, as defined by the FDA. We have never operated an FDA-approved manufacturing facility, and there can be no assurance that we will obtain the necessary approvals. We have limited manufacturing experience, and no assurance can be given that we will be able to make the transition to commercial production successfully. We may enter into arrangements with contract manufacturers to expand our own production capacity in order to meet requirements for our products or to attempt to improve our manufacturing efficiency. If we choose to contract for manufacturing services and encounter delays or difficulties in establishing relationships with manufacturers to produce, package and distribute finished products, clinical trials, market introduction and subsequent sales of such products would be adversely affected. Contract manufacturers must also operate in compliance with the FDA's manufacturing requirements. Our potential dependence upon others for the manufacture of our products may adversely affect our profit margins and our ability to develop and deliver such products on a timely and competitive basis.

Marketing and Sales

In order to commercialize any drug candidate approved by the FDA, we must either develop our own marketing and sales force or enter into marketing arrangements with others. These arrangements may be exclusive or nonexclusive and may provide for marketing rights worldwide or in a specific market. We currently have no arrangements with others for the marketing of any of our drug candidates. There can be no assurance that we will be able to enter into any marketing agreements on favorable terms, if at all, or that any such agreements that we may enter into will result in payments to us. Under any co-promotion or other marketing and sales arrangements that we may enter into with other companies, any revenues that we may receive will be dependent on the efforts of others and there can be no assurance that such efforts will be successful. To the extent that we choose to attempt to develop our own marketing and sales capability, we will compete with other companies that currently have experienced and well-funded marketing and sales operations. Furthermore, there can be no assurance that we or any collaborative partner will be able to establish sales and distribution capabilities without undue delays or expenditures, or gain market acceptance for any of our drug candidates.

Patents and Proprietary Technologies

We file patent applications in the United States and in foreign countries for the protection of our proprietary technologies and drug candidates as we deem appropriate. We currently own 96 issued patents and have 82 pending patent applications covering various technologies and drug candidates, including our Tolerance Technology, our lupus and antibody-mediated stroke drug candidates, and our linkage technologies for our Toleragens. Our issued patents include:

(1) four issued United States patents, one issued Australian patent, one granted Portuguese patent, one granted Norwegian patent, one granted European patent, which has been unbundled as 13 European national patents, two granted Canadian patents, one granted Finnish patent and one granted Irish patent concerning our lupus Toleragens (expiring in 2010, 2011, 2013, 2014, 2007, 2013, 2011, 2011, 2011, 2011, 2011 and 2011, respectively);

(2) three issued United States patents, two issued Australian patents, one granted European patent, which has been unbundled as 15 European national patents, one granted Japanese patent, one granted Canadian patent, one granted South Korean patent and one granted Irish patent concerning our Tolerance Technology (expiring in 2011, 2011, 2014, 2008, 2014**,** 2012, 2012, 2012, 2012 and 2012, respectively);

(3) four issued United States patents, four issued Australian patents, one granted European patent, which has been unbundled as 15 European national patents, two issued Japanese patents, one granted Hong Kong patent, and one granted Portuguese patent concerning linkage technologies for our Toleragens (expiring in 2012, 2015, 2015, 2016, 2014, 2012, 2012, 2017, 2012, 2012, 2012, 2012 and 2014**,** respectively); and

(4) two issued United States patents and one issued Australian patent concerning our antibody-mediated stroke drug candidates (expiring in 2016, 2015 and 2016, respectively).

We have received a Notice of Allowance from the United States Patent and Trademark Office for a patent application for our linkage technology.

Competition

The biotechnology and pharmaceutical industries are subject to rapid technological change. Competition from domestic and foreign biotechnology companies, large pharmaceutical companies and other institutions is intense and expected to increase. A number of companies are pursuing the development of pharmaceuticals in our targeted areas. These include companies that are conducting clinical trials and preclinical studies for the treatment of lupus, thrombosis and other antibody-mediated diseases.

In addition, there are many academic institutions, both public and private, engaged in activities relating to the research and development of therapeutics for autoimmune, inflammatory and other diseases. Most of these companies and institutions have substantially greater facilities, resources, research and development capabilities, regulatory compliance expertise, and manufacturing and marketing capabilities than we do. In addition, other technologies may in the future be the basis of competitive products. There can be no assurance that our competitors will not develop or obtain regulatory approval for products more rapidly than we can, or develop and

market technologies and products that are more effective than those being developed by us or that would render our technology and proposed products obsolete or noncompetitive.

We believe that our ability to compete successfully will depend upon our ability to attract and retain experienced scientists, develop patented or proprietary technologies and products, obtain regulatory approvals, manufacture and market products either alone or through third parties, and secure additional capital resources to fund anticipated net losses for at least the next several years. We expect that competition among products approved for marketing will be based in large part upon product safety, efficacy, reliability, availability, price and patent position.

Government Regulation

Our research and development activities and the future manufacturing and marketing of any products we develop are subject to significant regulation by numerous government authorities in the United States and other countries. In the United States, the Federal Food, Drug and Cosmetic Act and the Public Health Service Act govern the testing, manufacture, safety, efficacy, labeling, storage, record keeping, approval, advertising and promotion of any products we may develop. In addition to FDA regulations, we are subject to other federal, state and local regulations, such as the Occupational Safety and Health Act and the Environmental Protection Act, as well as regulations governing the handling, use and disposal of radioactive and other hazardous materials used in our research activities. Product development and approval within this regulatory framework takes a number of years and involves the expenditure of substantial resources. In addition, this regulatory framework is subject to changes that may affect approval, delay an application or require additional expenditures.

The steps required before a pharmaceutical compound may be marketed in the United States include (1) preclinical laboratory and animal testing; (2) submission to the FDA of an Investigational New Drug application, which must become effective before clinical trials may commence; (3) adequate and well-controlled clinical trials to establish the safety and efficacy of the drug; (4) submission to the FDA of a New Drug application; and (5) FDA approval of the New Drug application prior to any commercial sale or shipment of the drug. In addition to obtaining FDA approval for each product, each domestic drug-manufacturing establishment must be registered with, and approved by, the FDA. Drug product manufacturing establishments located in California also must be licensed by the State of California in compliance with separate regulatory requirements.

Preclinical testing includes laboratory evaluation of product chemistry and animal studies to assess the safety and efficacy of the product and its formulation. The results of preclinical testing are submitted to the FDA as part of an Investigational New Drug application and, unless the FDA objects, the Investigational New Drug application becomes effective 30 days following its receipt by the FDA.

Clinical trials involve administration of the drug to healthy volunteers or to patients diagnosed with the condition for which the drug is being tested under the supervision of a qualified clinical investigator. Clinical trials are conducted in accordance with protocols that detail the objectives of the study, the parameters to be used to monitor safety, and the efficacy criteria to be evaluated. Each protocol is submitted to the FDA as part of the Investigational New Drug application. Each clinical trial is conducted under the auspices of an independent Institutional Review Board. The board considers, among other matters, ethical factors, the safety of human subjects and the possible liability of the institution.

Clinical trials are typically conducted in three sequential phases, but the phases may overlap. In Phase I, the phase in which the drug is initially introduced into healthy human subjects, the drug is tested for adverse effects, dosage tolerance, metabolism, distribution,

excretion and clinical pharmacology. Phase II trials involve the testing of a limited patient population in order (1) to characterize the actions of the drug in targeted indications, (2) to determine drug tolerance and optimal dosage and (3) to identify possible adverse side effects and safety risks. When a compound is found to be effective and to have an acceptable safety profile in Phase II clinical trials, Phase III clinical trials are undertaken to further evaluate and confirm clinical efficacy and safety within an expanded patient population at multiple clinical trial sites. The FDA reviews the clinical plans and monitors the results of the trials and may discontinue the trials at any time if significant safety issues arise.

The results of preclinical testing and clinical trials are submitted to the FDA in the form of a New Drug application or Product License application for marketing approval. The testing and approval process is likely to require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. The approval process is affected by a number of factors, including the severity of the disease, the availability of alternative treatments and the risks and benefits demonstrated in clinical trials.

Additional preclinical testing or clinical trials may be requested during the FDA review period and may delay marketing approval. After FDA approval for the initial indications, further clinical trials may be necessary to gain approval for the use of the product for additional indications. The FDA mandates that adverse effects be reported to the FDA and may also require post-marketing testing to monitor for adverse effects, which can involve significant expense.

Among the conditions for FDA approval is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to the FDA's current Good Manufacturing Practices requirements. Domestic manufacturing facilities are subject to biannual FDA inspections and foreign manufacturing facilities are subject to periodic inspections by the FDA or foreign regulatory authorities.

We are also subject to numerous and varying foreign regulatory requirements governing the design and conduct of clinical trials and marketing approval for pharmaceutical products to be marketed outside of the United States. The approval process varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. The foreign regulatory approval process includes all of the risks associated with obtaining FDA approval, and approval by the FDA does not ensure approval by the health authorities of any other country.

Employees

We currently have 118 full-time employees (including 17 people who have earned Ph.D.s and one person who is an M.D.), 51 of whom are involved full-time in research, development and manufacturing activities. All of our management has had prior experience with pharmaceutical, biotechnology or medical product companies. We believe that we have been successful in attracting skilled and experienced personnel, but competition for such personnel is intense and there can be no assurance that we will be able to attract and retain the individuals needed. None of our employees is covered by collective bargaining agreements and management considers relations with our employees to be good.

Executive Officers of the Registrant

Our executive officers and key employees and their ages are set forth below.

Name	Age	Title
Steven B. Engle	47	Chairman of the Board and Chief Executive Officer
Matthew D. Linnik, Ph.D.	42	Executive Vice President of Research and Assistant Secretary
William J. Welch	40	Vice President of Marketing
Paul Jenn, Ph.D.	51	Vice President of Product Development
Bruce Bennett	50	Vice President of Manufacturing
Theodora Reilly	52	Vice President of Human Resources
Andrew Wiseman, Ph.D.	53	Senior Director of Business Development and Investor Relations
Gail A. Sloan, CPA	39	Controller and Secretary

Steven B. Engle, Chairman of the Board and Chief Executive Officer, joined the Company in 1993 as Executive Vice President and Chief Operating Officer. He assumed the offices of President, Director and Secretary in 1994, became Chief Executive Officer in 1995, and Chairman of the Board in 1997. From 1991 to 1993, Mr. Engle served as Vice President of Marketing and in other senior management positions while at Cygnus Inc., a publicly held company that develops drug-delivery systems for therapeutic drugs. From 1987 to 1991, he was Chief Executive Officer of Quantum Management Company, a privately held management consulting firm serving the pharmaceutical industry. From 1984 to 1987, he was Vice President of Marketing and Divisional General Manager for Micro Power Systems, Inc., a privately held company that manufactures high technology products, including medical devices, which was acquired by Exar Corporation. From 1979 to 1984, he was a management consultant at Strategic Decisions Group and SRI International where he advised pharmaceutical, high technology and other companies. Mr. Engle was the former Chairman of BIOCOM, a regional trade association for the biotechnology and medical devices industries, is a member of the Board of the Lupus Foundation of America, and is a Director of eGetgoing, a privately held company. Mr. Engle holds an M.S.E.E. and a B.S.E.E. with a focus in biomedical engineering from the University of Texas.

Matthew D. Linnik, Ph.D., Executive Vice President of Research, joined the Company in 1998 as Director of Research and Development, was promoted to Vice President of Research in 1999 and then to Executive Vice President of Research in 2000. Prior to joining the Company, from 1989 to 1998, Dr. Linnik served as Senior Pharmacologist, Scientist, Research Scientist and Project Leader for Hoechst Marion Roussel, formerly Marion Merrell Dow and Marion Laboratories, a pharmaceutical company. From 1996 to 1998, he also served as Adjunct Associate Professor of Neurosurgery at the University of Cincinnati School of Medicine. From 1986 to 1988, he served as Postdoctoral Fellow, then Instructor, in the Departments of Neurology and Neurosurgery at Massachusetts General Hospital and Harvard Medical School. Dr. Linnik

holds a B.A. in Physiology from Southern Illinois University and a Ph.D. in Physiology and Pharmacology from Southern Illinois University School of Medicine.

William J. Welch, Vice President of Marketing, rejoined the Company in May 2001. Prior to rejoining the Company, Mr. Welch was Vice President of Global Marketing for Dade Behring, a global diagnostic company. Mr. Welch previously worked for La Jolla Pharmaceutical from 1998 until 1999 as Vice President of Business Development. From 1993 until 1998, Mr. Welch worked for Abbott Laboratories, a pharmaceutical company, as General Manager of Abbott Ambulatory Infusion Systems, Senior Marketing Manager of Abbott Renal Care and as Manager of Strategic Planning, Corporate Planning and Development. From 1991 to 1993, Mr. Welch was Director of Business Development for In-Process Technology, a privately held company that manufactured processing systems for the pharmaceutical industry. Mr. Welch holds a B.S. in Chemical Engineering from the University of California, Berkeley and an M.B.A. from Harvard University.

Paul Jenn, Ph.D., Vice President of Product Development, joined the Company in 1994 as Associate Director of Production & Process Development. Dr. Jenn was promoted to Director of Operations in 1999, Senior Director of Operations in 2000, Vice President of Operations in 2001 and Vice President of Product Development in 2002. Prior to joining the Company, from 1992 to 1994, Dr. Jenn was Director of Peptide Manufacturing at Telios Pharmaceuticals, Inc., a pharmaceutical company, and held several other positions. From 1988 to 1992, he served as Senior Research Associate at Mallinckrodt Specialty Chemicals, a specialty chemical company. From 1984 to 1988, Dr. Jenn served as a Research Scientist at International Minerals and Chemical Corp., a chemical company. From 1982 to 1984, he performed his Post-doctoral research at the Lawrence Berkeley Laboratory at the University of California at Berkley. Dr. Jenn holds a B.S. in Chemistry from Fu-Jen Catholic University, Taipei, Taiwan and a Ph.D. in Chemistry from New York State University at Buffalo.

Bruce K. Bennett, Jr., Vice President of Manufacturing, joined the Company in January 2002. Prior to joining the Company, from 2000 to 2001, Mr. Bennett was Vice President of Operations at Provasis Therapeutics, Inc., a medical device company. From 1997 to 2000, he served as Vice President of Operations, Regulatory Affairs/Quality Assurance and Commercial Development at VIA Medical Corporation, a medical device company. From 1995 to 1996, he was Vice President of Manufacturing at Mulay Plastic, Inc., an injection molding company. From 1992 to 1995, Mr. Bennett served as Vice President of Operations at Cygnus Therapeutic Systems, Inc., a publicly held company that develops drug-delivery systems for therapeutic drugs. From 1989 to 1992, he was Vice President of Manufacturing at Progress Lighting, a manufacturer of decorative lighting fixtures. From 1987 to 1989, he was Vice President of Manufacturing at Sulzer Intermedics, Inc., a medical device company. From 1986 to 1987, Mr. Bennett served as Director of Manufacturing at Kendall Respiratory Care, a medical device company. From 1979 to 1986, he was Operations Director at Kendall McGaw Laboratories, and held several other positions. Mr. Bennett holds a B.S. in Industrial Technology from the California State University, Long Beach and an M.B.A. from Pepperdine University.

Theodora Reilly, Vice President of Human Resources, joined the Company in 1998 as Director of Human Resources and was promoted to Vice President of Human Resources in 2001. Prior to joining the Company, from 1997 to 1998, Ms. Reilly was Director of Human Resources at ThermoLase Corporation, a public subsidiary of Thermo Electron Corporation, which developed laser-based systems for laser-based skin resurfacing. From 1994 to 1997, Ms. Reilly served as Director of Human Resources at Solectek Corporation, a privately held high tech manufacturer of wireless interconnectivity products. Ms. Reilly received a B.S. in Psychology from the Christian Bible College and Seminary, Independence, Missouri.

Andrew Wiseman, Ph.D., Senior Director of Business Development, joined the Company in May 1989 as Director of Business Development and was one of the Company's original founders. Dr. Wiseman has also served as head of investor relations since 1994. From 1983 to 1989, Dr. Wiseman held several positions with Quidel Corporation, a manufacturer of diagnostic tests, including Manager of Business Development, Project Manager in Diagnostic Research and Development, and Senior Research Scientist. Dr. Wiseman was an Assistant Professor at the Medical Biology Institute and an Assistant Member at the Scripps Clinic and Research Foundation. He received a B.S. in Zoology and a Ph.D. in Genetics from Duke University.

Gail A. Sloan, Controller and Secretary, joined the Company in 1996 as Assistant Controller and was promoted to Controller in 1997. Prior to joining the Company, from 1993 to 1996, Ms. Sloan served as Assistant Controller at Affymax Research Institute, a drug-discovery research company and a part of the Glaxo Wellcome Group. From 1985 to 1993, she progressed to the position of Audit Manager with Ernst & Young, LLP. Ms. Sloan holds a B.S. in Business Administration from California Polytechnic State University at San Luis Obispo and is a Certified Public Accountant.

RISK FACTORS

In this section, all references to "we," "our," and "us" refer to La Jolla Pharmaceutical Company, a Delaware corporation.

I. Risk Factors Relating To La Jolla Pharmaceutical and The Industry in Which We Operate.

Our drug candidates may not perform well in clinical trials and we may not be permitted to conduct further clinical trials. Without successful clinical trials, we will not be able to market or sell any products.

If LJP 394 or LJP 1082 are ultimately not found to be safe and effective, we would be unable to obtain regulatory approval for their commercialization. Because LJP 394 is our only drug candidate that has advanced to Phase III clinical trials, and because there is no guarantee that we would be able to develop an alternate drug candidate, our inability to commercialize LJP 394 would have a severe negative effect on our business.

In order to sell our products that are under development, we must first receive regulatory approval. To obtain regulatory approval, we must conduct clinical studies demonstrating that our products are safe and effective. Although LJP 394 and LJP 1082 appear promising, they may not be successful in future clinical trials and results from previous trials and studies may not be observed in current or future trials and studies. Our Phase II/III clinical study of LJP 394, in collaboration with Abbott, terminated before it was completed. The ongoing Phase III clinical study of LJP 394 and the ongoing Phase I/II clinical study of LJP 1082 may also be delayed or halted for various reasons, including:

- the products are not effective,
- patients experience severe side effects during treatment,
- patients do not enroll in the study at the rate we expect, or
- supplies of either product are not sufficient to treat the patients in the studies.

In addition, the FDA and foreign regulatory authorities have substantial discretion in the approval process. The FDA and foreign regulatory authorities may not agree that we have demonstrated that LJP 394 or LJP 1082 is safe and effective after we complete clinical trials. Even if the results of either prior clinical trials are positive, the FDA and foreign regulatory authorities may require us to design and conduct additional studies, which may result in significant expense and delay. The FDA and foreign regulatory authorities may require new clinical trials because of inconclusive results from earlier clinical trials, a possible failure to conduct prior clinical trials in complete adherence to FDA good clinical practice standards and similar standards of foreign regulatory authorities, and identification of new clinical trial endpoints.

Our blood test to measure the binding affinity for LJP 394 is experimental and has not been validated by independent laboratories. It may require regulatory approval and may be necessary for the approval and commercialization of LJP 394.

In 1998, we developed a blood test that we believe can identify the lupus patients who are most likely to respond to LJP 394. The blood test measures the strength of the binding between LJP 394 and a patient's antibodies. We are developing an improved version of the assay for general use and will use this affinity assay to identify the patients to be included in the efficacy analysis of the Phase III trial.

The following factors can have a significant effect on the commercialization of LJP 394:

- we do not know if affinity results from previous trials will be observed in the current Phase III trial or in the broader lupus patient population,
- the affinity assay has not been reviewed by any regulatory authorities,
- we do not know if regulatory approval of the assay will be required,
- the assay has not been tested at full scale, and
- the testing laboratory conducting the assay may require additional regulatory approval.

The realization of any of the risk factors described in these "Risk Factors" could have a negative effect on the commercialization of LJP 394.

Results from our clinical trials may not be sufficient to obtain clearance to market LJP 394 in the United States or Europe on a timely basis, or at all.

Our drug candidates are subject to extensive government regulations related to development, clinical trials, manufacturing and commercialization. The process of obtaining FDA and other regulatory approvals is costly, time consuming, uncertain and subject to unanticipated delays. The FDA may refuse to approve an application for approval of a drug candidate if it believes that applicable regulatory criteria are not satisfied. The FDA may also require additional testing for safety and efficacy. Moreover, if the FDA grants regulatory approval of a product, the approval may be limited to specific indications or limited with respect to its distribution. Foreign regulatory authorities may apply similar limitations or may refuse to grant any approval.

Although LJP 394 appears promising, it may not be successful in future clinical trials. It is possible that the FDA or foreign regulatory authorities may not ultimately approve LJP 394 for commercial sale in any jurisdiction even if clinical results are positive. If LJP 394 does not meet applicable regulatory requirements for approval, we may not have the financial resources to

continue research and development of LJP 394, LJP 1082 or any other potential drug candidates and we may not be able to generate revenues from the commercial sale of any of our developed candidates.

Our products are in various stages of development and the technology underlying our products is uncertain and unproven. If our products cannot be successfully developed, we will never be able to generate meaningful sales.

All of our product development efforts are based on unproven technologies and therapeutic approaches that have not been widely tested or used. LJP 394 and LJP 1082 have not been proven to be effective in humans, and the technology on which they are based has been used only in our preclinical tests and clinical trials. If our products or technology are not effective, we will not generate meaningful sales. Application of our technology to antibody-mediated diseases other than lupus and antibody-mediated stroke is in earlier research stages.

LJP 394, LJP 1082 and our other potential drug candidates require significant additional research and development and are subject to significant risks. Potential products that appear to be promising at early stages of development may nevertheless fail to reach market or become profitable for any of the following reasons:

- products may be ineffective or cause harmful side effects during preclinical testing or clinical trials,
- products may fail to receive necessary regulatory approvals,
- products may be difficult to manufacture,
- products may be uneconomical to produce, particularly if high dosages are required,
- products may fail to achieve market acceptance,
- physicians may think that the products are not effective,
- products may be precluded from commercialization because of proprietary rights of third parties, and
- competitors may develop superior products.

The technology underlying LJP 394 appears effective in humans. However, no products have been commercialized to date that use our technology. There is no guarantee that LJP 394 or LJP 1082 will work as intended. Furthermore, clinical trials of LJP 394 and LJP 1082 may be viewed as a test of our entire approach to developing therapies for antibody-mediated diseases. If the data from our clinical trials indicate that LJP 394 or LJP 1082 is ineffective, the applicability of our technology to other antibody-mediated diseases will be highly uncertain. Therefore, there is significant risk that our therapeutic approaches will not prove to be successful, and there can be no guarantee that our drug discovery technologies will result in any commercially successful products.

Our success in developing our products and marketing them successfully depends significantly upon our ability to obtain patent protection for LJP 394, LJP 1082 and any other developed products. In addition, we will need to successfully preserve our trade secrets and operate without infringing on the rights of others.

We will depend upon patents and other unpatented intellectual property to prevent others from profiting from products or technologies that we may have developed. We currently own 96 issued patents and have 82 pending patent applications covering various technologies and drug candidates including LJP 394 and LJP 1082. However, there can be no assurance that any additional patents will be issued, that the scope of any patent protection will be sufficient, or that any current or future issued patent will be held valid if subsequently challenged. There is a substantial backlog of biotechnology patent applications at the United States Patent and Trademark Office that may delay the review and issuance of any patents. The patent position of biotechnology firms like ours generally is highly uncertain and involves complex legal and factual questions, and no consistent policy has emerged regarding the breadth of claims covered in biotechnology patents or protection afforded by these patents. Currently, we have a number of patent applications pending in the United States relating to our technology, as well as foreign counterparts to some of our United States patent applications. We intend to continue to file applications as believed appropriate for patents covering both our products and processes. There can be no assurance that patents will be issued from any of these applications, or that the scope of any issued patents will protect our technology.

We are aware of one United States patent grant that contains claims covering subject matter that may conflict with some of our key patents and patent applications, and that may affect our ability to develop and sell our products. Any conflict between our patents and patent applications, and patents or patent applications of third parties, could result in a significant reduction of the coverage of our existing patents or any future patents that may be issued. This could have a negative effect on our ability to prevent competitors from profiting from our products and technologies, and this could affect our future sales. In addition, we may have to incur significant expenses in defending or enforcing our patents.

If the United States Patent and Trademark Office or any foreign counterpart issues or has issued to a competitor patents containing competitive or conflicting claims, and if these claims are valid, there can be no guarantee that we would be able to obtain licenses to these patents, that any licensing fees would be reasonable, or that we would be able to develop or obtain alternative technology. We do not necessarily know if others, including competitors, have filed patent applications for technology covered by our pending applications, nor can we be certain that we were the first to invent or to file patent applications for our technologies. Competitors may have patents or patent applications pending that relate to compounds or processes that overlap or compete with our intellectual property.

We also rely on unpatented intellectual property such as trade secrets and improvements, know-how, and continuing technological innovation. While we seek to protect these rights, it is possible that:

- inventions relevant to our business will be developed by a person not bound by a La Jolla Pharmaceutical invention assignment agreement,
- binding confidentiality agreements will be breached and we will not have adequate remedies for such a breach, or
- our trade secrets will otherwise become known or be independently discovered by competitors.

We could incur substantial costs in defending suits brought against us by others for infringement of intellectual property rights or in prosecuting suits that we might bring against others to protect our intellectual property rights.

We have a history of losses and may not become profitable.

We have incurred operating losses each year since our inception in 1989 and had an accumulated deficit of approximately $110.2 million as of December 31, 2001. Our losses are likely to exceed those experienced in prior years due to costs for clinical trials and the termination of our collaborative relationship with Abbott in 1999, unless we are successful in establishing additional collaborative relationships to help finance our research and development costs. To achieve profitability we must, among other matters, complete the development of our products, obtain all necessary regulatory approvals and establish commercial manufacturing and marketing capabilities. We expect to incur significant losses each year for at least the next several years as our clinical trial, research, development and manufacturing activities increase. The amount of losses and the time required by us to reach sustained profitability are highly uncertain, and we do not expect to generate revenues from the sale of products, if any, for at least several years. We may never achieve product revenues or profitability.

We will need additional funds to support operations and may need to reduce operations, sell stock or assets, or merge with another entity to continue operations.

Our operations to date have consumed substantial capital resources, and we will continue to expend substantial and increasing amounts of capital for research, product development, preclinical testing and clinical trials of drug candidates, to establish commercial-scale manufacturing capabilities, and to market potential products. We will need to raise additional funds. If we are not able to do so, we will not be able to fund our operations.

Our future capital requirements will depend on many factors, including:

- continued scientific progress in our research and development programs,
- the size and complexity of our research and development programs,
- the scope and results of preclinical testing and clinical trials,
- the time and costs involved in applying for regulatory approvals,
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims,
- competing technological and market developments,
- our ability to establish and maintain collaborative research and development arrangements, and
- the cost of manufacturing scale-up and product commercialization.

We expect to incur substantial and increasing losses each year for at least the next several years as our clinical trial, research, development and manufacturing activities increase. We expect our existing capital resources, including the capital raised through the sale of 7,000,000 shares of our common stock in January 2002, will be sufficient to fund our activities, as currently planned and assuming that we do not engage a collaborative partner, into the fourth quarter of 2003. However, the amounts expended by us for various purposes such as building product inventory

may vary significantly, and it is possible that our cash requirements will exceed current projections and that we will therefore need additional financing sooner than currently expected. In the future, it is possible that we will not have adequate resources to support our business activities.

We actively seek additional funding, including through collaborative arrangements and public and private financings. Our choice of financing alternatives may vary from time to time depending upon various factors, including the market price of our securities, conditions in the financial markets and the interest of other entities in strategic transactions with us. There can be no guarantee that additional financing will be available on acceptable terms, if at all, whether through collaborative arrangement, issuance of securities, or otherwise. If adequate funds are not available, we may be required to delay, scale back or eliminate one or more of our research and development programs or obtain funds through arrangements with collaborative partners or others that require us to relinquish rights to certain technologies or potential products. This could have a negative impact on our ability to develop products, or to achieve profitability if our products are brought to market. If we obtain additional funding through sales of securities, your investment in us will be diluted.

We may not earn as much income as we hope due to possible changes in health care reimbursement policies.

The continuing efforts of government and health care insurance companies to reduce the costs of health care may reduce the amount of income we can generate from our products. For example, in certain foreign markets, pricing and profitability of prescription drugs are subject to government control. In the United States, we expect that there will continue to be a number of federal and state proposals to implement similar government controls. In addition, increasing emphasis on managed care in the United States will continue to put pressure on drug manufacturers to keep prices down. Cost control initiatives could reduce the revenue that we receive for any products we may develop and sell in the future. These cost control measures may also affect the profitability of companies with which we may transact business, such as manufacturers of our products, and thus may have a negative effect on our ability to continue to work with these companies.

Because a number of companies compete with us, many of which have greater resources than we do, and because we face rapid changes in technology in our industry, we cannot be certain that our products will be accepted in the marketplace or capture market share.

Competition from domestic and foreign biotechnology companies, large pharmaceutical companies and other institutions is intense and is expected to increase. A number of companies and institutions are pursuing the development of pharmaceuticals in our targeted areas, many of which are very large, and have financial, technical, sales and distribution and other resources substantially greater than ours. The greater resources of these competitors could enable them to develop competing products more quickly than we are able to, and to market any competing product more quickly or effectively so as to make it extremely difficult for us to develop a share of the market for these products. These competitors also include companies that are conducting clinical trials and preclinical studies for the treatment of lupus and thrombosis. Our competitors may develop or obtain regulatory approval for products more rapidly than we do. Also, the biotechnology and pharmaceutical industries are subject to rapid changes in technology. Our competitors may also develop and market technologies and products that are more effective than those being developed by us, or that would render our technology and proposed products obsolete or noncompetitive.

We may need to establish collaborative agreements, and this could have a negative effect on our freedom to operate our business, or profit fully from sales of our products.

We may seek to collaborate with pharmaceutical companies to gain access to their research, drug development, manufacturing, marketing and financial resources. However, we may not be able to negotiate arrangements with any collaborative partners on acceptable terms, if at all. Any collaborative relationships that we enter into may include restrictions on our freedom to operate our business or to profit fully from the sales of our products.

Once a collaborative arrangement is established, the collaborative partner may discontinue funding any particular program or may, either alone or with others, pursue alternative technologies or develop alternative drug candidates for the diseases we are targeting. Competing products, developed by a collaborative partner or to which a collaborative partner has rights, may result in the collaborative partner withdrawing support as to all or a portion of our technology.

Without collaborative arrangements, we must fund our own research and development activities, accelerating the expenditure of our capital and requiring us to develop our own marketing capabilities. Therefore, if we are unable to establish and maintain collaborative arrangements, we could experience a material adverse effect on our ability to develop products and, once developed, to market them successfully.

Our limited manufacturing capabilities could result in shortages of products for testing and future sale, and our revenues and profit margin could be negatively affected.

While we are producing limited quantities of LJP 394 and LJP 1082 for clinical trials, our current facilities must be approved by the FDA for commercial production of our potential products. Although we believe our current production facility will provide sufficient capacity for launch as planned, additional capacity for further growth will require additional funds. The manufacture of our potential products for clinical trials and the manufacture of any resulting products for commercial purposes are subject to FDA standards. Substantial capital investment in the expansion and build-out of our manufacturing facilities will be required to enable us to manufacture our products in commercial quantities. While we have initiated the process of obtaining FDA approval for our facilities, we have never operated an FDA-approved manufacturing facility and we may not obtain necessary approvals. We have limited manufacturing experience, and we may be unable to successfully transition to commercial production. We may enter into arrangements with contract manufacturing companies to expand our own production capacity in order to meet requirements for our products, or to attempt to improve manufacturing efficiency. If we choose to contract for manufacturing services and encounter delays or difficulties in establishing relationships with manufacturers to produce, package and distribute our finished products, the clinical trials, the introduction of our products into the market and the subsequent sales of these products would be negatively affected by the lack of available products, and our profit margins and our ability to develop and deliver products on a timely and competitive basis may be negatively affected.

We lack experience in marketing products for commercial sale and thus may have difficulty gaining acceptance for our products.

In order to commercialize any drug candidate approved by the FDA, we must either develop our own marketing and sales force or enter into marketing arrangements with others. If we cannot do either of these successfully, we will have difficulty generating sales for our products. We currently have no marketing arrangements with others, and there can be no guarantee that we will be able to enter into any marketing agreements on favorable terms, or that any such agreements will result in payments to us. To the extent that we enter into co-promotion or other marketing and sales arrangements with other companies, any revenues that we may

receive will be dependent on the efforts of others. There can be no guarantee that these efforts will be successful. If we attempt to develop our own marketing and sales capabilities, we will compete with other companies that have experienced and well-funded marketing and sales operations. Furthermore, if we attempt to establish sales and distribution capabilities, we may experience delays and expenditures and experience difficulty in gaining market acceptance for our drug candidates.

The use of LJP 394, LJP 1082 and other potential products in clinical trials, as well as the sale of any approved products, may expose us to lawsuits resulting from the use of these products.

The use and possible sale of LJP 394, LJP 1082 and other potential products may expose us to legal liability and generate negative publicity if we are subject to claims that people were harmed by our products. These claims might be made directly by consumers, pharmaceutical companies, or others. We currently maintain $10.0 million of product liability insurance for claims arising from the use of our products in clinical trials. However, coverage is becoming increasingly expensive, and there can be no guarantee that we will be able to maintain insurance or that insurance can be acquired at a reasonable cost or in sufficient amounts to protect us against possible losses. Furthermore, it is possible that our financial resources would be insufficient to satisfy potential product liability claims. A successful product liability claim or series of claims brought against us could negatively impact our business and financial condition.

Our research and development and operations depend in part upon certain key employees and consultants. Losing these employees or consultants would have a negative effect on our product development and operations.

We are highly dependent upon the principal members of our scientific and management staff, the loss of whose services would delay the achievement of our research and development objectives. This is because our key personnel, including Mr. Steven Engle, Dr. Matthew Linnik, Dr. Paul Jenn and Dr. Andrew Wiseman, have been involved in the development of LJP 394, LJP 1082 and other drug candidates for several years and have unique knowledge of our drug candidates and of the technology on which they are based. Our anticipated growth and expansion into areas requiring additional expertise, such as clinical trials, government approvals, manufacturing and marketing, are expected to place increased demands on our resources and require the addition of new management personnel as well as the development of additional expertise by existing management personnel.

Recruiting additional personnel in the future will be critical to our success.

Recruiting additional qualified personnel to perform research and development, clinical development and manufacturing work in the future will be critical to our success. Because competition for experienced scientific, clinical and manufacturing personnel among numerous pharmaceutical and biotechnology companies and research and academic institutions is intense, we may not be able to attract and retain these people. If we cannot attract and retain qualified people, our ability to conduct necessary clinical trials and to develop our products may be negatively affected because, for instance, the trials may not be conducted properly, or the trials or our manufacturing of products may be delayed. In addition, we rely upon consultants and advisors to assist us in formulating our research and development, clinical, regulatory and manufacturing strategies. All of our consultants and advisors have outside employment and may have commitments or consulting or advisory contracts with other entities that may affect their ability to contribute to our business.

We may face environmental liabilities related to certain hazardous materials used in our operations.

Due to the nature of our manufacturing processes, we are subject to stringent federal, state and local laws governing the use, handling and disposal of certain materials and wastes. We may have to incur significant costs to comply with environmental regulations if and when our manufacturing increases to commercial volumes. Our operations may be significantly affected by current or future environmental laws because, for instance, our ability to produce products may be slowed, thereby increasing our production costs. In our research activities, we use radioactive and other materials that could be hazardous to human health, safety or the environment. These materials and various wastes resulting from their use are stored at our facility pending ultimate use and disposal. The risk of accidental injury or contamination from these materials cannot be eliminated. In the event of such an accident, we could be held liable for any resulting damages, and any such liability could exceed our resources. While we maintain general liability insurance, we do not specifically insure against environmental liabilities.

II. Risk Factors Related Specifically To Our Stock.

Our common stock price is volatile and may decline even if our business is doing well.

The market price of our common stock has been and is likely to continue to be highly volatile. Market prices for securities of biotechnology and pharmaceutical companies, including ours, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. The following factors can have a significant effect on the market price of our securities:

- announcements of technological innovations or new therapeutic products by us or others,
- clinical trial results,
- developments concerning agreements with collaborators,
- government regulation,
- developments in patent or other proprietary rights,
- public concern as to the safety of drugs discovered or developed by us or others,
- future sales of substantial amounts of our common stock by existing stockholders, and
- comments by securities analysts and general market conditions.

The realization of any of the other risks described in these “Risk Factors” could also have a negative effect on the market price of our common stock.

In the future, our stock may be removed from listing on the Nasdaq quotation system and may not qualify for listing on any stock exchange, in which case it may be difficult to find a market in our stock.

If our stock is no longer traded on a national trading market, it may be more difficult for you to sell shares that you own, and the price of the stock may be negatively affected. Currently our securities are traded on the Nasdaq National Market. Nasdaq has certain continued listing

requirements, including a minimum trading price. Previously, we have received notice from Nasdaq that our stock price fell below this minimum trading price. While we have since come back into compliance with this Nasdaq requirement, it is possible that we will fall out of compliance with this and/or other Nasdaq continued listing criteria at some point in the future. Failure to comply with any one of several Nasdaq requirements may cause our stock to be removed from listing on Nasdaq. Should this happen, we may not be able to secure listing on other exchanges or quotation systems. This would have a negative effect on the price and liquidity of our stock.

Future sales of our stock by existing stockholders could negatively affect the market price of our stock and make it more difficult for us to sell stock in the future.

Sales of our common stock in the public market, or the perception that such sales could occur, could result in a drop in the market price of our securities and make it more difficult for us to complete future equity financings on acceptable terms, if at all. We have outstanding the following shares of common stock:

- 30,070,000 shares of common stock that have been issued in registered offerings and are freely tradable in the public markets.
- Approximately 1,722,000 shares of common stock currently eligible for resale in the public market pursuant to SEC Rule 144.
- In addition, as of March 28, 2002, there are an aggregate of 4,579,928 shares of common stock that may be issued on the exercise of outstanding stock options granted under our various stock option plans at a weighted average exercise price of $4.6402 per share.
- We have in effect registration statements under the Securities Act registering approximately 6,000,000 shares of common stock reserved under our incentive stock option and employee stock purchase plans. Approximately 162,700 shares of common stock that may be issued on the exercise of outstanding stock options will be available for public resale under SEC Rule 144 pursuant to Rule 701 under the Securities Act.

We cannot estimate the number of shares of common stock that may actually be resold in the public market since this will depend upon the market price for the common stock, the individual circumstances of the sellers and other factors. We also have a number of institutional stockholders that own significant blocks of our common stock. If these stockholders sell large portions of their holdings in a relatively short time, for liquidity or other reasons, the market price of our common stock could drop significantly.

Anti-takeover devices may prevent changes in our management.

We have in place certain anti-takeover devices, including a stockholder rights plan, that may have the effect of delaying or preventing changes in our management. For example, one anti-takeover device provides for a board of directors that is separated into three classes, with their terms in office staggered over three year periods. This has the effect of delaying a change in control of our board of directors without the cooperation of the incumbent board. In addition, our bylaws require stockholders to give us written notice of any proposal or director nomination within a certain period of time prior to the stockholder annual meeting, establish certain qualifications for a person to be elected or appointed to the board of directors during the pendency of certain business combination transactions, and do not allow stockholders to call a special meeting of stockholders.

We may also issue shares of preferred stock without stockholder approval and upon terms that our board of directors may determine in the future. The issuance of preferred stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding stock, and the holders of such preferred stock could have voting, dividend, liquidation and other rights superior to those of holders of our common stock.

We do not pay dividends and this may negatively affect the price of our stock.

We have not paid any cash dividends since our inception and do not anticipate paying any cash dividends in the foreseeable future. The future price of our common stock may be depressed by the fact that we have not paid dividends.

Item 2. Properties.

We lease two adjacent buildings in San Diego, California covering a total of approximately 54,000 square feet. One building contains our research and development labs and clinical manufacturing facilities and the other contains our general offices and warehouse. Both building leases expire in July 2004. Each includes an option to extend the term of the lease for an additional five years and each is subject to escalation clauses that provide for annual rent increases, one of which is based on the U.S. Consumer Price Index. We believe that these facilities will be adequate to meet our needs for the near term. Over the longer term, management believes additional space can be secured at commercially reasonable rates.

Item 3. Legal Proceedings.

We are currently not a party to any legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the three-month period ended December 31, 2001.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Our common stock trades on the Nasdaq National Market under the symbol "LJPC." Set forth below are the high and low sales prices for our common stock for each full quarterly period within the two most recent fiscal years.

	Prices	
	High	Low
Year Ended December 31, 2001		
First Quarter	8.25	4.44
Second Quarter	10.75	4.94
Third Quarter	9.50	3.40
Fourth Quarter	9.18	3.88
Year Ended December 31, 2000		
First Quarter	12.25	2.44
Second Quarter	6.63	2.63
Third Quarter	9.88	4.06
Fourth Quarter	10.00	4.00

We have not paid dividends on our common stock and we do not anticipate paying dividends in the foreseeable future.

The number of record holders of our common stock as of March 20, 2002 was 357.

On January 17, 2002, we sold 7,000,000 shares of our common stock to private investors for an aggregate price of $51.6 million. The sale was a privately negotiated sale to selected institutional investors and other accredited investors as defined in Rule 501(1) of Regulation D promulgated under the Securities Act of 1933. The shares were sold without registration under the Securities Act of 1933 in reliance on Rule 506. The sale was made for the purpose of financing working capital. We filed a registration statement covering the resale of these shares on Form S-3 that became effective on February 4, 2002.

Item 6. Selected Financial Data.

The following Selected Financial Data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 below and the financial statements of the Company and related notes thereto beginning at page F-1 of this report.

	Years Ended December 31,				
	1997	1998	1999	2000	2001
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue from collaborative agreements — related party	$ 9,860	$ 8,600	$ 4,690	$ —	$ —
Expenses:					
Research and development	14,676	14,627	11,686	12,933	23,228
General and administrative	2,937	3,076	2,944	2,706	4,268
Loss from operations	(7,753)	(9,103)	(9,940)	(15,639)	(27,496)
Interest expense	(56)	(6)	(20)	(6)	(30)
Interest income	1,441	1,232	811	1,846	2,843
Net loss	$ (6,368)	$ (7,877)	$ (9,149)	$(13,799)	$(24,683)
Basic and diluted net loss per share	$ (0.36)	$ (0.42)	$ (0.45)	$ (0.53)	$ (0.71)
Shares used in computing basic and diluted net loss per share	17,547	18,649	20,135	26,138	34,604
Balance Sheet Data:					
Working capital	$23,705	$19,911	$10,661	$ 37,215	$ 44,387
Total assets	$29,646	$25,815	$14,043	$ 43,016	$ 51,686
Noncurrent portion of obligations under capital leases	$ —	$ —	$ 44	$ —	$ —
Stockholders' equity	$25,715	$21,859	$12,793	$ 39,742	$ 48,545

Quarterly Results of Operations

The following is a summary of the quarterly results of operations for the years ended December 31, 2001 and 2000:

	Quarters Ended			
	Mar. 31,	Jun. 30,	Sept. 30,	Dec. 31,
2001				
Expenses:				
Research and development	$ 6,465	$ 5,949	$ 4,939	$ 5,875
General and administrative	884	1,024	1,042	1,318
Loss from operations	(7,349)	(6,973)	(5,981)	(7,193)
Interest expense	—	(13)	(10)	(7)
Interest income	800	880	645	518
Net loss	$ (6,549)	$ (6,106)	$ (5,346)	$ (6,682)
Basic and diluted net loss per share	$ (0.20)	$ (0.17)	$ (0.15)	$ (0.19)
Shares used in computing basic and diluted net loss per share	32,689	35,150	35,224	35,255
2000				
Expenses:				
Research and development	$ 2,435	$ 2,708	$ 4,184	$ 3,606
General and administrative	719	585	617	785
Loss from operations	(3,154)	(3,293)	(4,801)	(4,391)
Interest expense	(3)	(2)	(1)	—
Interest income	280	301	580	685
Net loss	$ (2,877)	$ (2,994)	$ (4,222)	$ (3,706)
Basic and diluted net loss per share	$ (0.13)	$ (0.12)	$ (0.15)	$ (0.13)
Shares used in computing basic and diluted net loss per share	22,249	24,401	28,037	29,293

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Since our inception in May 1989, we have devoted substantially all of our resources to the research and development of technology and potential drugs to treat antibody-mediated diseases. We have never generated any revenue from product sales and have relied upon private and public investors, revenue from collaborative agreements, equipment lease financings and interest income on invested cash balances for our working capital. We have been unprofitable since inception and we expect to incur substantial additional expenses and net operating losses for at least the next several years as we increase our clinical trial and manufacturing activities including the production of LJP 394 and LJP 1082 for clinical trials, and increase our research and development expenditures on additional drug candidates, as well as general and administrative expenditures to support increased clinical trial, manufacturing and research and development activities. Our activities to date are not as broad in depth or scope as the activities we must undertake in the future, and our historical operations and the financial information included in this report are not necessarily indicative of our future operating results or financial condition.

We expect losses to fluctuate from quarter to quarter as a result of differences in the timing of expenses incurred and potential revenues from collaborative arrangements. Some of these fluctuations may be significant. As of December 31, 2001, our accumulated deficit was approximately $110.2 million.

Our business is subject to significant risks including, but not limited to, the risks inherent in research and development efforts, including clinical trials, uncertainties associated with both obtaining and enforcing patents and with the potential enforcement of the patent rights of others, the lengthy, expensive and uncertain process of seeking regulatory approvals, uncertainties regarding government reforms and of product pricing and reimbursement levels, technological change and competition, manufacturing uncertainties, our lack of marketing experience and the uncertainty of receiving future revenue from product sales or other sources such as collaborative relationships, the uncertainty of future profitability and the need for additional financing. Even if our product candidates appear promising at an early stage of development, they may not reach the market for numerous reasons, including the possibilities that the products will be ineffective or unsafe during clinical trials, will fail to receive necessary regulatory approvals, will be difficult to manufacture on a large scale, will be uneconomical to market or will be precluded from commercialization by the proprietary rights of third parties or competing products.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis, including those related to revenue recognition, patent costs and income taxes. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

We believe the following critical accounting policy affects the significant judgments and estimates used in the preparation of our consolidated financial statements (see note 1 to our financial statements).

Patent Costs. We capitalize the costs incurred to file our patent applications. These costs are amortized using the straight-line method over the lesser of the remaining useful life of the related technology or the remaining patent life, commencing on the date the patent is issued. At December 31, 2001, capitalized costs related to issued patents totaled $0.6 million (net of accumulated amortization) and $1.4 million related to unissued patents. Our results of operations could be materially impacted when we begin amortizing the costs related to unissued patents. In addition, we expense all costs related to abandoned patent applications. If we elect to abandon any of our currently issued or unissued patents, the related expense could be material to our results of operations for the period of the abandonment.

Results of Operations
Years Ended December 31, 2001, 2000 and 1999

Revenue. We earned no revenue for the years ended December 31, 2001 and 2000 compared to $4.7 million for the year ended December 31, 1999. In December 1996, we entered into a collaborative agreement with Abbott for the worldwide development and commercialization of LJP 394, our lupus drug candidate. All revenue in 1999 was attributable to the funding from Abbott under this collaborative agreement for the development of LJP 394. Our collaborative agreement with Abbott granted Abbott the exclusive right to market and sell LJP 394 throughout the world in exchange for development funding, royalties on sales and milestone payments. Abbott's obligations to make payments to us and to conduct development activities were conditioned on the progress of clinical trials and the attainment of milestones related to regulatory approvals and sales levels. In May 1999, with the concurrence of Abbott, we elected to stop the enrollment and treatment of the more than 200 patients enrolled in the jointly conducted Phase II/III clinical trial of LJP 394. In September 1999, the collaborative agreement between us and Abbott was terminated and all rights to LJP 394 were returned to us. There can be no assurance that we will realize any further revenue from any other collaborative arrangement.

Research and Development Expense. Our research and development expense increased to $23.2 million for the year ended December 31, 2001 from $12.9 million in 2000 and $11.7 million in 1999. The increase in research and development expense in 2001 from 2000 and 1999 was primarily due to the initiation of the Phase III clinical trial for LJP 394 in September 2000 and the initiation of the Phase I/II clinical trial for LJP 1082 in November 2001.

Research and development expense of $23.2 million for the year ended December 31, 2001, consisted of $14.7 million for lupus research and development related expense, $5.9 million for thrombosis research and development related expense and $2.6 million for other research and development related expense. Total lupus related research and development expense consisted primarily of investigator fees, clinical research organization fees, salaries and other costs related to research, manufacturing and clinical personnel, clinical lab fees, facilities expense and raw materials for the production of LJP 394 for clinical trials. Total thrombosis related research and development expense consisted primarily of salaries for research and development personnel, raw materials for the production of LJP 1082 for clinical trials and facilities expense. Total other research and development expense consisted primarily of salaries for research and development personnel, facilities expense and research supplies.

Our research and development expense is expected to increase significantly in the future as our clinical trial and manufacturing activities, including the production of LJP 394 and LJP 1082 for clinical trials, are increased, efforts to develop additional drug candidates are intensified and other potential products progress into and through clinical trials.

General and Administrative Expense. Our general and administrative expense of $4.3 million for the year ended December 31, 2001 increased from $2.7 million in 2000 and from $2.9 million in 1999. The increase in general and administrative expense in 2001 as compared to 2000 was due to an increase in expenses to support increased clinical trial, manufacturing and research and development activities. The slight decrease in general and administrative expense in 2000 compared to 1999 was due to the reduction in expenses related to a restructuring completed in 1999. We expect general and administrative expense to increase in the future to support increased clinical trial, manufacturing and research and development activities.

Interest Income and Expense. Our interest income increased to $2.8 million for the year ended December 31, 2001 from $1.8 million in 2000 and from $0.8 million in 1999. The increase in interest income in 2001 was due to our maintenance of higher investment balances as a result of the net proceeds of $33.1 million received by us from the sale of our common stock in February 2001. The increase in interest income in 2000 was due to our maintenance of higher investment balances as a result of the net proceeds of $12.7 million and $27.5 million received by us from the sale of our common stock in February and July 2000, respectively. Interest expense increased to $30,000 for the year ended December 31, 2001 from $6,000 in 2000 and $20,000 in 1999. The increase in interest expense in 2001 was due to new capital lease obligations entered into in 2001. The decrease in interest expense in 2000 compared to 1999 was due to the termination of some capital leases in 2000.

Net Operating Loss Carryforwards. At December 31, 2001, we had available net operating loss carryforwards and research tax credit carryforwards of approximately $104.8 million and $5.8 million, respectively, for federal income tax purposes, which will begin to expire in 2004 unless previously utilized.

Liquidity and Capital Resources

From inception through December 31, 2001, we have incurred a cumulative net loss of approximately $110.2 million and have financed our operations through private and public offerings of securities, revenues from collaborative agreements, equipment lease financings and interest income on invested cash balances. As of December 31, 2001, we had raised $157.8 million in net proceeds since inception from sales of equity securities.

At December 31, 2001, we had $47.0 million in cash, cash equivalents and short-term investments, as compared to $39.9 million at December 31, 2000. Our working capital at December 31, 2001 was $44.4 million, as compared to $37.2 million at December 31, 2000. The increase in cash, cash equivalents and short-term investments resulted from net proceeds of $33.1 million received by us from the sale of 5,700,000 shares of our common stock to private investors in February 2001. We invest our cash in corporate and United States government-backed debt instruments. As of December 31, 2001, available-for-sale securities of $38.9 million mature in one year or less and $6.8 million are due after one year through two years.

As of December 31, 2001, we had acquired an aggregate of $6.2 million in property and equipment, of which $0.5 million of equipment is financed under capital lease obligations. In addition, we lease our office and laboratory facilities and certain equipment under operating leases. We currently have no material commitments for the acquisition of property and equipment. However, we anticipate increasing our investment in property and equipment in connection with the enhancement of our research and development and manufacturing facilities and capabilities.

We intend to use our financial resources to fund clinical trials and to increase our manufacturing activities, including the production of LJP 394 and LJP 1082 for clinical trials, research and development efforts, and for working capital and other general corporate purposes.

The amounts actually expended for each purpose may vary significantly depending upon numerous factors, including the results of clinical trials, the timing of regulatory applications and approvals, and technological developments. Expenditures also will depend upon the establishment and progression of collaborative arrangements and contract research as well as the availability of other financings. There can be no assurance that these funds will be available on acceptable terms, if at all.

We anticipate that our existing capital including the net proceeds of approximately $48.4 million received by us from the sale of 7,000,000 shares of our common stock to private investors in January 2002, and interest earned thereon, will be sufficient to fund our operations as currently planned, and assuming that we do not engage a collaborative partner, into the fourth quarter of 2003. Our future capital requirements will depend on many factors, including continued scientific progress in our research and development programs, the size and complexity of these programs, the scope and results of clinical trials, the analysis of data from the Phase III clinical trial for lupus and Phase I/II clinical trial for thrombosis, the time and costs involved in applying for regulatory approvals, the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims, competing technological and market developments, our ability to establish and maintain collaborative relationships, and the cost of manufacturing and effective commercialization activities and arrangements. We expect to incur significant net operating losses each year for at least the next several years as we expand our current research and development programs, including clinical trials and manufacturing activities, and increase our general and administrative expenses to support a larger, more complex organization. It is possible that our cash requirements will exceed current projections and that we will therefore need additional financing sooner than currently expected.

We have no current means of generating cash flow from operations. Our lead drug candidate, LJP 394, will not generate revenues, if at all, until it has been proven safe and effective, has received regulatory approval and has been successfully commercialized. This process is expected to take at least the next several years. Our other drug candidates are much less developed than LJP 394. There can be no assurance that our product development efforts with respect to LJP 394 or any other drug candidate will be successfully completed, that required regulatory approvals will be obtained or that any product, if introduced, will be successfully marketed or achieve commercial acceptance. Accordingly, we must continue to rely upon outside sources of financing to meet our capital needs for the foreseeable future.

We will continue to seek capital through any appropriate means, including issuance of our securities and establishment of additional collaborative arrangements. However, there can be no assurance that additional financing will be available on acceptable terms and our negotiating position in capital-raising efforts may worsen as we continue to use existing resources. There is no assurance that we will be able to enter into further collaborative relationships.

Item 7 A. Quantitative and Qualitative Disclosures about Market Risk.

We invest our excess cash in interest-bearing investment-grade securities that we hold for the duration of the term of the respective instrument. We do not utilize derivative financial instruments, derivative commodity instruments or other market-risk-sensitive instruments, positions or transactions in any material fashion. Accordingly, we believe that, while the investment-grade securities we hold are subject to changes in the financial standing of the issuer of such securities, we are not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices or other market changes that affect market-risk-sensitive instruments.

Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data required by this item are at the end of this report beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information for Item 10 is incorporated by reference from portions of our definitive proxy statement for the annual meeting of stockholders to be held on May 22, 2002, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended December 31, 2001.

Item 11. Executive Compensation.

Information for Item 11 is incorporated by reference from portions of our definitive proxy statement for the annual meeting of stockholders to be held on May 22, 2002 under the captions “Executive Compensation and Other Information,” “Report of the Compensation Committee on Executive Compensation,” “Compensation Committee Interlocks and Insider Participation,” and “Stock Performance Graph,” which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended December 31, 2001.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information for Item 12 is incorporated by reference from the portion of our definitive proxy statement for the annual meeting of stockholders to be held on May 22, 2002 entitled “Security Ownership of Certain Beneficial Owners and Management,” which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended December 31, 2001.

Item 13. Certain Relationships and Related Transactions.

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as part of this report.

1. Financial Statements.

   The following financial statements of La Jolla Pharmaceutical Company are included in Item 8:

2. Financial Statement Schedules.

   No financial statement schedules are required.

3. Exhibits.

Exhibit Number	Description
3.1	Intentionally omitted
3.2	Amended and Restated Bylaws of the Company(15)
3.3	Amended and Restated Certificate of Incorporation of the Company(13)
4.0	Rights Agreement dated as of December 3, 1998 between the Company and American Stock Transfer & Trust Company(11)
4.1	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Company(12)
4.2	Amendment to Rights Agreement, effective as of July 21, 2001, between the Company and American Stock Transfer & Trust Company(17)
10.1	Intentionally omitted
10.2	Stock Option Agreement dated February 4, 1993 entitling Joseph Stemler to purchase 35,000 shares of Common Stock(1) *
10.3	Intentionally omitted
10.4	Intentionally omitted
10.5	Intentionally omitted
10.6	Steven B. Engle Employment Agreement(1), Amendment No. 1(9) and Amendment No. 2(15)*
10.7	Form of Directors and Officers Indemnification Agreement(1)
10.8	Intentionally omitted
10.9	Intentionally omitted
10.10	Option and Collaborative Research Agreement dated June 10, 1991 regarding certain compounds for potential treatment of muscular dystrophies or myasthenia gravis between the Company and CepTor Corporation(1)
10.11	Intentionally omitted
10.12	Intentionally omitted
10.13	Form of Employee Invention and Confidential Information Agreement(1)
10.14	Industrial Real Estate Lease(1)
10.15	Intentionally omitted
10.16	Intentionally omitted
10.17	La Jolla Pharmaceutical Company 1989 Incentive Stock Option Plan and 1989 Nonstatutory Stock Option Plan(1) *
10.18	Form of Stock Option Agreement under the 1989 Nonstatutory Stock Option Plan(1)
10.19	La Jolla Pharmaceutical Company 1994 Stock Incentive Plan (Amended and Restated as of May 18, 2001)*
10.20	La Jolla Pharmaceutical Company 1995 Employee Stock Purchase Plan (Amended and Restated as of March 19, 2001)*
10.21	Letter of Agreement dated June 7, 1993 between the Company and Vector Securities International regarding Vector's engagement as financial advisor to the Company with respect to potential corporate strategic alliances(1)
10.22	Intentionally omitted
10.23	Intentionally omitted
10.24	Intentionally omitted

Exhibit Number	Description
10.25	Second Amendment to Lease dated June 30, 1994 by and between the Company and BRE Properties, Inc.(2)
10.26	Intentionally omitted
10.27	Third Amendment to Lease dated January 26, 1995 by and between the Company and BRE Properties, Inc.(3)
10.28	Intentionally omitted
10.29	Master Lease Agreement dated September 13, 1995 by and between the Company and Comdisco Electronics Group(4)
10.30	Intentionally omitted
10.31	Agreement dated September 22, 1995 between the Company and Joseph Stemler regarding option vesting(5) *
10.32	Intentionally omitted
10.33	Building Lease Agreement effective November 1, 1996 by and between the Company and WCB II-S BRD Limited Partnership(6)
10.34	Master Lease Agreement dated December 20, 1996 by and between the Company and Transamerica Business Credit Corporation(8)
10.35	License and Supply Agreement dated December 23, 1996 by and between the Company and Abbott Laboratories(7)(8)
10.36	Stock Purchase Agreement dated December 23, 1996 by and between the Company and Abbott Laboratories(8) and Waiver of Contractual Restrictions dated February 6, 2001(16)
10.37	Intentionally omitted
10.38	Master Lease Agreement No. 2 dated June 23, 1998 by and between the Company and Transamerica Business Credit Corporation(10)
10.39	Intentionally omitted
10.40	Supplement to employment offer letter for Matthew Linnik, Ph.D.(14)*
10.41	Supplement to employment offer letter for William J. Welch(18)*
10.42	Supplement to employment offer letter for Theodora Reilly(18)*
10.43	Supplement to employment offer letter for Paul Jenn, Ph.D.(18)*
23.1	Consent of Ernst & Young LLP, Independent Auditors

* This exhibit is a management contract or compensatory plan or arrangement.

(1) Previously filed with the Company's Registration Statement on Form S-1 (No. 33-76480) as declared effective by the Securities and Exchange Commission on June 3, 1994.

(2) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1994 and incorporated by reference herein.

(3) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended March 31, 1995 and incorporated by reference herein.

(4) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1995 and incorporated by reference herein.

(5) Previously filed with the Company's annual report on Form 10-K for the fiscal year ended December 31, 1995 and incorporated by reference herein.

(6) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1996 and incorporated by reference herein.

(7) Portions of the Exhibit 10.35 have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

(8) Previously filed with the Company's annual report on Form 10-K for the fiscal year ended December 31, 1996 and incorporated by reference herein.

(9) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1997 and incorporated by reference herein.
(10) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1998 and incorporated by reference herein.
(11) Previously filed with the Company's Registration Statement on Form 8-A (No. 000-24274) as filed with the Securities and Exchange Commission on December 4, 1998.
(12) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1999 and incorporated by reference herein.
(13) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1999 and incorporated by reference herein.
(14) Previously filed with the Company's annual report on Form 10-K for the fiscal year ended December 31, 1999 and incorporated by reference herein
(15) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2000 and incorporated by reference herein.
(16) Previously filed with the Company's annual report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated by reference herein.
(17) Previously filed with the Company's report on Form 8-K filed on January 26, 2001 and incorporated by reference herein. The changes effected by the Amendment are also reflected in the Amendment to Application for Registration on Form 8-A/A filed on January 26, 2001.
(18) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2001 and incorporated by reference herein.

(b) Reports on Form 8-K.

None.

Report of Independent Auditors

The Board of Directors and Stockholders
La Jolla Pharmaceutical Company

We have audited the accompanying balance sheets of La Jolla Pharmaceutical Company as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 financial statements referred to above present fairly, in all material respects, the financial position of La Jolla Pharmaceutical Company at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young, LLP

ERNST & YOUNG LLP

San Diego, California
February 8, 2002

La Jolla Pharmaceutical Company

Balance Sheets

(In thousands, except share and per share data)

	December 31,	
	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 9,932	$ 8,061
Short-term investments	37,028	31,838
Other current assets	568	590
Total current assets	47,528	40,489
Property and equipment, net	1,921	780
Patent costs and other assets, net	2,237	1,747
	$ 51,686	$ 43,016
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 743	$ 468
Accrued clinical expenses	703	1,914
Accrued pre-marketing expenses	536	—
Accrued expenses	541	560
Accrued payroll and related expenses	451	288
Current portion of obligations under capital leases	167	44
Total current liabilities	3,141	3,274
Commitments		
Stockholders' equity:		
Preferred stock, $.01 par value; 8,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.01 par value; 100,000,000 shares authorized, 35,281,753 and 29,393,078 shares issued and outstanding at December 31, 2001 and 2000, respectively	353	294
Additional paid-in capital	158,223	124,909
Other comprehensive income	218	105
Accumulated deficit	(110,249)	(85,566)
Total stockholders' equity	48,545	39,742
	$ 51,686	$ 43,016

See accompanying notes.

La Jolla Pharmaceutical Company

Statements of Operations

(In thousands, except per share data)

	Years Ended December 31,		
	2001	2000	1999
Revenues:			
Revenue from collaborative agreement - related party	$ —	$ —	$ 4,690
Expenses:			
Research and development	23,228	12,933	11,686
General and administrative	4,268	2,706	2,944
Total expenses	27,496	15,639	14,630
Loss from operations	(27,496)	(15,639)	(9,940)
Interest expense	(30)	(6)	(20)
Interest income	2,843	1,846	811
Net loss	$(24,683)	$(13,799)	$ (9,149)
Basic and diluted net loss per share	$ (0.71)	$ (0.53)	$ (0.45)
Shares used in computing basic and diluted net loss per share	34,604	26,138	20,135

See accompanying notes.

La Jolla Pharmaceutical Company

Statements of Stockholders' Equity
(In thousands)
For the Years Ended December 31, 1999, 2000 and 2001

	Common stock		Additional paid-in capital	Accumulated deficit	Other comprehensive income	Total stockholders' equity
	Shares	Amount				
Balance at December 31, 1998	20,106	$ 201	$ 84,276	$ (62,618)	$ —	$ 21,859
Issuance of common stock under Employee Stock Purchase Plan	78	1	53	—	—	54
Exercise of stock options	20	—	29	—	—	29
Net loss	—	—	—	(9,149)	—	(9,149)
Balance at December 31, 1999	20,204	202	84,358	(71,767)	—	12,793
Issuance of common stock, net	8,840	88	40,156	—	—	40,244
Issuance of common stock under Employee Stock Purchase Plan	186	2	189	—	—	191
Exercise of stock options	159	2	196	—	—	198
Exercise of warrants	4	—	10	—	—	10
Net loss	—	—	—	(13,799)	—	(13,799)
Net unrealized gains on available-for-sale securities	—	—	—	—	105	105
Comprehensive loss						(13,694)
Balance at December 31, 2000	29,393	294	124,909	(85,566)	105	39,742
Issuance of common stock, net	5,700	57	33,037	—	—	33,094
Issuance of common stock under Employee Stock Purchase Plan	145	2	226	—	—	228
Exercise of stock options	44	—	51	—	—	51
Net loss	—	—	—	(24,683)	—	(24,683)
Net unrealized gains on available-for-sale securities	—	—	—	—	113	113
Comprehensive loss						(24,570)
Balance at December 31, 2001	35,282	$ 353	$158,223	$ (110,249)	$ 218	$ 48,545

See accompanying notes.

La Jolla Pharmaceutical Company

Statements of Cash Flows
(In thousands)

	Years Ended December 31,		
	2001	2000	1999
Operating activities			
Net loss	$(24,683)	$(13,799)	$ (9,149)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	684	381	357
Write-off of property and equipment	96	—	—
Accretion of interest income	117	(634)	—
Changes in operating assets and liabilities:			
Other current assets	22	(126)	53
Accrued clinical expenses	(1,211)	1,914	—
Accrued pre-marketing expenses	536	—	—
Accounts payable and accrued expenses	256	283	(1,084)
Accrued payroll and related expenses	163	26	(93)
Deferred revenue — related party	—	—	(1,769)
Net cash used for operating activities	(24,020)	(11,955)	(11,685)
Investing activities			
Purchases of short-term investments	(33,886)	(40,716)	(12,289)
Sales of short-term investments	3,488	13,439	6,667
Maturities of short-term investments	25,204	3,172	10,802
Additions to property and equipment	(1,341)	(541)	(180)
Proceeds from sale of property and equipment	—	97	275
Increase in patent costs and other assets	(554)	(288)	(275)
Net cash (used for) provided by investing activities	(7,089)	(24,837)	5,000
Financing activities			
Net proceeds from issuance of common stock	33,373	40,643	83
Payments on obligations under capital leases	(393)	(199)	(165)
Net cash provided by (used for) financing activities	32,980	40,444	(82)
Increase (decrease) in cash and cash equivalents	1,871	3,652	(6,767)
Cash and cash equivalents at beginning of period	8,061	4,409	11,176
Cash and cash equivalents at end of period	$ 9,932	$ 8,061	$ 4,409
Supplemental disclosure of cash flow information:			
Interest paid	$ 30	$ 6	$ 20
Supplemental schedule of noncash investing and financing activities:			
Capital lease obligations incurred for property and equipment	$ 516	$ —	$ 405
Other comprehensive income on investments	$ 113	$ 105	$ —

See accompanying notes.

La Jolla Pharmaceutical Company

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization and Business Activity

La Jolla Pharmaceutical Company (the "Company") is a biopharmaceutical company focused on the research and development of highly specific therapeutics for the treatment of certain life-threatening antibody-mediated diseases. These diseases, including autoimmune conditions such as systemic lupus erythematosus ("lupus") and antibody-mediated stroke, are caused by abnormal B cell production of antibodies that attack healthy tissues. Current therapies for these autoimmune disorders target the symptoms of the disease or nonspecifically suppress the normal operation of the immune system, frequently resulting in severe, adverse side effects and hospitalization. The Company's drug candidates, called Toleragens®, are designed to treat the underlying cause of many antibody-mediated diseases without these severe, adverse side effects. The Company's clinical drug candidates are known as LJP 394, a lupus treatment drug which is currently in a Phase III clinical study, and LJP 1082, an antibody-mediated stroke treatment drug which is currently in a Phase I/II clinical study.

The Company actively seeks additional financing to fund its research and development efforts and commercialize its technologies. There is no assurance such financing will be available to the Company when required or that such financing would be available under favorable terms.

The Company believes that patents and other proprietary rights are important to its business. The Company's policy is to file patent applications to protect technology, inventions and improvements to its inventions that are considered important to the development of its business. The patent positions of biotechnology firms, including the Company, are uncertain and involve complex legal and factual questions for which important legal principles are largely unresolved. There can be no assurance that any additional patents will be issued, or that the scope of any patent protection will be sufficient, or that any current or future issued patent will be held valid if subsequently challenged.

Use of Estimates

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

Reclassification

Certain amounts in the 1999 and 2000 financial statements have been reclassified to conform to the 2001 presentation.

Cash, Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of cash and highly liquid investments which include debt securities with maturities from original issuance date of three months or less and are stated at market. Short-term investments mainly consist of debt securities with maturities from original issuance date of greater than

La Jolla Pharmaceutical Company

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (continued)

three months. Management has classified the Company's cash equivalents and short-term investments as available-for-sale securities in the accompanying financial statements. Available-for-sale securities are stated at fair market value, with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest income and have been immaterial for each of the years presented. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

Concentration of Risk

Cash, cash equivalents and short-term investments are financial instruments which potentially subject the Company to concentrations of credit risk. The Company deposits its cash in financial institutions. At times, such deposits may be in excess of insured limits. The Company invests its excess cash in United States government securities and debt instruments of financial institutions and corporations with strong credit ratings. The Company has established guidelines relative to the diversification of its cash investments and their maturities in an effort to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. To date, the Company has not experienced any impairment losses on its cash, cash equivalents and short-term investments.

Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). SFAS 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. SFAS 133 was amended in June 2000 by Statement of Financial Accounting Standard No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities — An Amendment of FASB Statement 133* ("SFAS 138"). SFAS 138 addresses a limited number of SFAS 133 implementation issues. SFAS 138 is effective for fiscal years beginning after June 15, 2000. The adoption of this statement did not have a significant effect on the financial position or results of operations of the Company.

Impairment of Long-Lived Assets and Assets to Be Disposed Of

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The Company also records the assets to be disposed of at the lower of their carrying amount or fair value less cost to sell. To date, the Company has not experienced any impairment losses on its long-lived assets used in operations. While the Company's current and historical operating and cash flow losses are indicators of impairment, the Company believes the future cash flows to be received support the carrying value of its long-lived assets and, accordingly, the Company has not recognized any impairment losses as of December 31, 2001.

La Jolla Pharmaceutical Company

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (continued)

In August 2001, FASB issued Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS 144"). SFAS 144 supersedes the provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* with regard to discontinued operations and eliminates the provisions of Statement of Financial Accounting Standard No. 121, *Accounting for the Impairment of Long-Lived Assets and for Assets to Be Disposed Of,* with regard to the requirement to test the allocation of goodwill to long-lived assets for impairment. SFAS 144 provides guidance on differentiating between assets held and used, held for sale, and held for disposal other than by sale (*e.g.*, abandonment, exchange and distribution). SFAS 144 is effective for fiscal years beginning after December 15, 2001. The adoption of this statement is not expected to have a significant effect on the financial position or results of operations of the Company.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets (primarily five years). Leasehold improvements and equipment under capital leases are stated at cost and amortized on a straight-line basis over the shorter of the estimated useful life or the lease term.

Property and equipment is comprised of the following (in thousands):

	December 31,	
	2001	2000
Laboratory equipment	$ 3,649	$ 3,274
Computer equipment	779	521
Furniture and fixtures	238	115
Leasehold improvements	1,578	740
	6,244	4,650
Less: Accumulated depreciation and amortization	(4,323)	(3,870)
	$ 1,921	$ 780

Depreciation and amortization expense for the periods ending December 31, 2001, 2000 and 1999 was $620,000, $322,000 and $311,000, respectively.

Business Combinations and Goodwill and Other Intangible Assets

In June 2001, FASB issued Statement of Financial Accounting Standard Nos. 141, *Business Combinations* ("SFAS 141") and 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). SFAS 141 replaces Accounting Principles Board Opinion No. 16, *Business Combinations,* and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. SFAS 141 and SFAS 142 are effective for all business combinations completed after June 30, 2001. Companies are required to adopt SFAS 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted under

La Jolla Pharmaceutical Company

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (continued)

certain circumstances. The adoption of these statements will not have a significant effect on the financial position or results of operations of the Company.

Patents

The Company has filed numerous patent applications with the United States Patent and Trademark Office and in foreign countries. Legal costs and expenses incurred in connection with pending patent applications have been deferred. Costs related to successful patent applications are amortized using the straight-line method over the lesser of the remaining useful life of the related technology or the remaining patent life, commencing on the date the patent is issued. Total cost and accumulated amortization were $2,313,000 and $288,000 at December 31, 2001 and $1,823,000 and $225,000 at December 31, 2000, respectively. Deferred costs related to patent applications are charged to operations at the time a determination is made not to pursue such applications.

Stock-Based Compensation

As allowed under Statement of Financial Accounting Standard No. 123, *Accounting and Disclosure of Stock-Based Compensation* ("SFAS 123"), the Company has elected to continue to account for stock option grants in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations. Pursuant to APB 25, compensation expense for employee or director stock options represents the difference between the exercise price and the fair value of the common stock on the date of grant. This compensation expense is amortized to expense in accordance with FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans,* over the vesting period of the options. The Company generally grants stock options for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant and therefore, under APB 25, recognized no compensation expense for such stock option grants.

Options or stock awards issued to non-employees have been determined in accordance with SFAS 123 and EITF 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.* Deferred charges for options granted to non-employees are periodically remeasured as the options vest. There were no options granted to non-employees or charges related to non-employee stock options in the current period.

In March 2000, FASB issued FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation* ("FIN 44"). FIN 44 clarifies certain issues in the application of APB 25. FIN 44 was effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998, or January 12, 2000. The adoption of FIN 44 did not have a material impact on the Company's financial statements.

La Jolla Pharmaceutical Company

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue from collaborative agreements typically consists of ongoing research and development funding and milestone, royalty and other payments, which are nonrefundable. Revenue from milestones is recognized when earned, as evidenced by written acknowledgement from the collaborator, provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement and (ii) the Company's performance obligations for on-going research and development after the milestone achievement will continue to be funded by the collaborator at a comparable level to that received prior to the milestone achievement. If both of these criteria are not met, the milestone payment is recognized over the remaining minimum period of the Company's performance obligations under the agreement.

Revenue from funded research and development is recognized ratably over the term of the agreement, and the Company believes that such recognition approximates the costs incurred to perform the research and development. The Company does not have an obligation to refund, nor does there exist the presumption of an obligation to refund, research and development payments.

In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"). SAB 101 formalizes the basic revenue recognition criteria that must be met in order to record revenue. In June 2000, SAB 101 was amended to delay the implementation date to the fourth quarter of 2000 to provide additional time to study the guidance. There were no up-front payments or license fees received during 2000 or in prior years which were subject to the adoption of SAB 101 as all fees received related to agreements under which the research portion of the collaboration had been completed, the scientific milestones had been achieved or the agreements had been terminated entirely.

Net Loss Per Share

Basic and diluted net loss per share is computed using the weighted-average number of common shares outstanding during the periods in accordance with Statement of Financial Accounting Standard No. 128, *Earnings per Share*. As the Company has incurred a net loss for all three years presented, stock options and warrants are not included in the computation of net loss per share since their effect is anti-dilutive.

Comprehensive Loss

In accordance with Statement of Financial Accounting Standard No. 130, *Reporting Comprehensive Income (Loss)*, unrealized gains and losses on available-for-sale securities are included in other comprehensive income (loss). The Company's comprehensive net loss totaled $24,570,000 and $13,694,000 for the years ended December 31, 2001 and 2000, respectively.

Segment Information

On January 1, 1998, the Company adopted Statement of Financial Accounting Standard No. 131, *Segment Information* ("SFAS 131"). SFAS 131 redefines segments and requires companies to report financial and

La Jolla Pharmaceutical Company

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies (continued)

descriptive information about their operating segments. The Company has determined that it operates in one business segment.

2. Collaborative Agreements

In September 1999, following the May 1999 suspension of the jointly conducted Phase II/III clinical trial of LJP 394, Abbott and the Company terminated the collaborative agreement which was entered into in December 1996 and all rights to LJP 394 were returned to the Company. Under the former agreement, in exchange for an exclusive, worldwide license to market and sell LJP 394, Abbott, a diversified health-care company, agreed to pay an initial nonrefundable license fee of $4,000,000 upon signing, and agreed to fund the development of the Company's lupus drug candidate, LJP 394, in accordance with a mutually agreed upon budget, and to make certain payments to the Company upon the attainment of specific milestones, as well as royalty and sales incentive payments to the Company on sales of LJP 394.

Under a separate stock purchase agreement, Abbott also purchased common stock of the Company in December 1996, September 1997 and October 1998 for an aggregate purchase price of $4,000,000 on each date at values based on the reported last sale price of the common stock on each of the 20 trading days immediately preceding each purchase date. The stock purchase agreement originally allowed Abbott certain registration rights and rights of first refusal and imposed transfer restrictions on the shares, among other matters, and allowed the Company certain rights of first refusal and imposed certain other continuing obligations on the Company. However, by waiver dated February 6, 2001, both Abbott and the Company have waived any material continuing obligations of the other party under the stock purchase agreement.

Until its termination in September 1999, the Company incurred research and development costs under the collaborative agreement with Abbott of approximately $4,690,000 during the year ended December 31, 1999, for the development of LJP 394. In 1999, the Company recorded revenue of $4,690,000 from Abbott for the development of LJP 394, of which $2,921,000 was received in cash in 1999 and $1,769,000 was revenue recognized from previously deferred revenue.

3. Restructuring Charges

As a result of the termination of the Company's collaborative agreement with Abbott in September 1999, the Company restructured its operations in order to reduce expenses and to focus its resources on its remaining potential drug candidates. In September 1999, the Company recorded estimated restructuring charges of approximately $742,000. When the restructuring was completed in December 1999, actual total restructuring expenses paid and charged against the restructuring liability were approximately $640,000 and approximately $108,000 of the estimated liability was reversed in November and December 1999. Total restructuring expenses paid consisted of termination benefits paid to 38 employees terminated from various Company departments, and are included in both research and development and general and administrative expense. There were no material changes to the restructuring liability subsequent to December 31, 1999.

La Jolla Pharmaceutical Company

Notes to Financial Statements

4. Cash Equivalents and Short-term Investments

The following is a summary of available-for-sale securities (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2001				
Money market accounts	$ 204	$ —	$ —	$ 204
United States corporate debt securities	34,931	225	60	35,096
Government-asset-backed securities	9,375	53	—	9,428
United States Treasury securities and obligations of the United States government agencies	1,016	—	—	1,016
	$45,526	$ 278	$ 60	$45,744
December 31, 2000				
Money market accounts	$ 1,093	$ —	$ —	$ 1,093
United States corporate debt securities	31,344	121	36	31,429
Government-asset-backed securities	4,968	14	—	4,982
United States Treasury securities and obligations of the United States government agencies	1,023	6	—	1,029
	$38,428	$ 141	$ 36	$38,533

The net adjustment to unrealized holding gains (losses) on available-for-sale securities included in comprehensive income totaled $113,000 and $105,000 in 2001 and 2000, respectively. Included in cash and cash equivalents at December 31, 2001 and 2000 were $8,716,000 and $6,695,000, respectively, of securities classified as available-for-sale. As of December 31, 2001, available-for-sale securities of $38,906,000 mature in one year or less and $6,838,000 are due after one year through two years.

5. Commitments

Leases

In July 1992, the Company entered into a non-cancellable operating lease for the rental of its office and research and development facilities, which expires in July 2004. The lease is subject to an escalation clause that provides for annual increases based on the Consumer Price Index. The lease also contains options to extend the lease term for an additional five years and a one-time cancellation option with the payment of certain penalties.

In November 2001, the Company extended its other non-cancellable operating lease for the rental of office facilities until July 2004. The lease contains a provision for scheduled annual rent increases and an option to extend the lease term for an additional five years.

La Jolla Pharmaceutical Company

Notes to Financial Statements

5. Commitments (continued)

Annual future minimum lease payments as of December 31, 2001, are as follows (in thousands):

	Operating Leases	Capital Leases
Years ended December 31,		
2002	$ 1,648	$ 173
2003	1,125	—
2004	617	—
2005	14	—
2006	—	—
Total	$ 3,404	173
Less amount representing interest		(6)
Present value of net minimum lease payments		167
Less current portion		(167)
Noncurrent portion of capital lease obligations		$ —

Rent expense under all operating leases totaled $2,330,000, $2,776,000, and $2,360,000 for the years ended December 31, 2001, 2000 and 1999, respectively. Equipment acquired under capital leases included in property and equipment totaled $168,000 and $36,000 (net of accumulated amortization of $348,000 and $293,000) at December 31, 2001 and 2000, respectively. Amortization expense associated with these assets is included in depreciation and amortization expense for each of the three years in the period ended December 31, 2001.

6. Stockholders' Equity

Preferred Stock

As of December 31, 2001, the Company is authorized to issue 8,000,000 shares of preferred stock with a par value of $0.01 per share, in one or more series.

The Board of Directors has designated 75,000 of preferred stock as nonredeemable Series A Junior Participating Preferred Stock ("Series A Preferred Stock"). In the event of liquidation, each share of Series A Preferred Stock is entitled to receive a preferential liquidation payment of $1,000 per share plus the amount of accrued unpaid dividends. The Series A Preferred Stock is subject to certain anti-dilution adjustments, and the holder of each share is entitled to 1,000 votes, subject to adjustments. Cumulative quarterly dividends of the greater of $0.25 or, subject to certain adjustments, 1,000 times any dividend declared on shares of common stock, are payable when, as and if declared by the Board of Directors, from funds legally available for this purpose.

La Jolla Pharmaceutical Company

Notes to Financial Statements

6. Stockholders' Equity (continued)

Stock Option Plans

In May 1989, the Company adopted the 1989 Stock Option Plan and the 1989 Nonstatutory Stock Option Plan (the "1989 Plan"), under which 904,000 shares of common stock have been authorized for issuance upon exercise of options granted by the Company. The 1989 Plan expired in 1999.

In June 1994, the Company adopted the 1994 Stock Incentive Plan (the "1994 Plan"), under which 5,200,000 shares of common stock have been authorized for issuance upon exercise of options granted by the Company. The 1994 Plan provides for the grant of incentive and non-qualified stock options, as well as other stock-based awards, to employees, directors, consultants and advisors of the Company with various vesting periods as determined by the compensation committee, as well as automatic fixed grants to non-employee directors of the Company.

A summary of the Company's stock option activity and related data follows:

		Outstanding Options	
	Options Available For Grant	Number of Shares	Weighted-Average Exercise Price
Balance at December 31, 1998	235,335	1,933,768	$ 3.75
Additional shares authorized	750,000	—	—
Expired	(225,743)	—	$ 1.00
Granted	(905,206)	905,206	$ 0.64
Exercised	—	(19,919)	$ 1.49
Cancelled	559,204	(559,204)	$ 3.89
Balance at December 31, 1999	413,590	2,259,851	$ 2.49
Additional shares authorized	1,000,000	—	—
Expired	(7,988)	—	$ 1.00
Granted	(1,081,544)	1,081,544	$ 5.28
Exercised	—	(159,170)	$ 1.34
Cancelled	66,688	(66,688)	$ 4.48
Balance at December 31, 2000	390,746	3,115,537	$ 3.47
Additional shares authorized	1,700,000	—	—
Expired	(2,260)	—	$ 1.00
Granted	(1,522,600)	1,522,600	$ 6.80
Exercised	—	(43,550)	$ 1.35
Cancelled	63,427	(63,427)	$ 6.61
Balance at December 31, 2001	629,313	4,531,160	$ 4.57

La Jolla Pharmaceutical Company

Notes to Financial Statements

6. Stockholders' Equity (continued)

	Years Ended December 31,					
	2001		2000		1999	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Exercisable at end of year	2,770,587	$ 3.20	2,121,134	$ 2.62	1,660,777	$ 2.43
Weighted-average fair value of options granted during the year	$ 5.42		$ 4.18		$ 0.52	

Exercise prices and weighted-average remaining contractual lives for the options outstanding as of December 31, 2001 follow:

Options Outstanding	Range of Exercise Prices	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
874,932	$ 0.34 - $1.00	6.65	$ 0.56	862,339	$ 0.56
881,417	$ 1.28 - $3.69	7.26	$ 3.21	859,754	$ 3.21
862,170	$ 3.75 - $5.03	6.53	$ 4.42	623,087	$ 4.37
766,642	$ 5.08 - $7.00	8.17	$ 6.51	301,508	$ 6.32
1,086,079	$ 7.10 - $7.65	9.69	$ 7.41	90,208	$ 7.61
59,920	$7.75 - $12.06	7.19	$ 8.71	33,691	$ 8.63
4,531,160	$0.34 - $12.06	7.74	$ 4.57	2,770,587	$ 3.20

At December 31, 2001, the Company has reserved 5,160,473 shares of common stock for future issuance upon exercise of options granted or to be granted under the 1989 and 1994 Plans.

Employee Stock Purchase Plan

Effective August 1, 1995, the Company adopted the 1995 Employee Stock Purchase Plan, as amended (the "Purchase Plan"). Under the amended Purchase Plan, a total of 800,000 shares of common stock are reserved for sale to employees, as defined. Employees may purchase common stock under the Purchase Plan every three months (up to but not exceeding 10% of each employee's earnings) over the offering

6. Stockholders' Equity (continued)

period at 85% of the fair market value of the common stock at certain specified dates. The offering period may not exceed 24 months. For the year ended December 31, 2001, 145,125 shares of common stock had been issued under the Purchase Plan (185,755 shares for the year ended December 31, 2000). To date, 520,773 shares of common stock have been issued under the Purchase Plan and 279,227 shares of common stock are available for issuance.

	Years Ended December 31,		
	2001	2000	1999
Weighted-average fair value of employee stock purchase plan purchases	$ 2.84	$ 2.70	$ 0.91

Stock-Based Compensation

Pro forma information regarding net loss and net loss per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its employee stock plans granted after December 31, 1994 under the fair value method of that statement. The fair value was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001, 2000 and 1999, respectively: risk-free interest rate of 4.4%, 5.6% and 6.8%; volatility factor of the expected market price of the Company's common stock of 1.109, 1.113 and 1.09; a weighted-average expected life of 4.8 years, 4.5 years and 5 years and a dividend yield of 0% for all three years presented.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which 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 the Company's 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 its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands except for net loss per share information):

	Years Ended December 31,		
	2001	2000	1999
Pro forma net loss	$(27,919)	$(15,423)	$(9,985)
Pro forma basic and diluted net loss per share	$ (0.81)	$ (0.59)	$ (0.50)

The effects of applying SFAS 123 for either recognizing compensation expense or providing pro forma disclosures are not likely to be representative of the effects on reported net loss for future years.

La Jolla Pharmaceutical Company

Notes to Financial Statements

6. Stockholders' Equity (continued)

Stockholder Rights Plan

The Company has adopted a Stockholder Rights Plan (the "Rights Plan") which was amended in July 2000. The Rights Plan provides for a dividend of one right (a "Right") to purchase fractions of shares of the Company's Series A Preferred Stock for each share of the Company's common stock. Under certain conditions involving an acquisition by any person or group of 15% or more of the common stock (or in the case of State of Wisconsin Investment Board, 20% or more), the Rights permit the holders (other than the 15% holder, or in the case of State of Wisconsin Investment Board, 20% holder) to purchase the Company's common stock at a 50% discount upon payment of an exercise price of $30 per Right. In addition, in the event of certain business combinations, the Rights permit the purchase of the common stock of an acquirer at a 50% discount. Under certain conditions, the Rights may be redeemed by the Board of Directors in whole, but not in part, at a price of $.001 per Right. The Rights have no voting privileges and are attached to and automatically trade with the Company's common stock. The Rights expire on December 2, 2008.

7. 401(k) Plan

The Company has established a 401(k) defined contribution retirement plan (the "401(k) Plan"), which was amended in May 1999 to cover all employees. The 401(k) Plan provides for voluntary employee contributions up to 20% of annual compensation (as defined). The Company does not match employee contributions or otherwise contribute to the 401(k) Plan.

8. Income Taxes

At December 31, 2001, the Company had federal and California income tax net operating loss carryforwards of approximately $104,827,000 and $30,348,000, respectively. The difference between the federal and California tax loss carryforwards is primarily attributable to the capitalization of research and development expenses for California income tax purposes and the 55% percent limitation on California loss carryforwards. The Company also had federal and California research tax credit carryforwards of approximately $5,774,000 and $3,311,000, respectively. The federal net operating loss and tax credit carryforwards will begin to expire in 2004 unless previously utilized. The California net operating loss carryforwards totaling approximately $834,000 expired in 2001.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of the Company's net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period.

La Jolla Pharmaceutical Company

Notes to Financial Statements

8. Income Taxes (continued)

Significant components of the Company's deferred tax assets are shown below (in thousands):

	December 31,	
	2001	2000
Deferred tax assets:		
Net operating loss carryforwards	$ 38,434	$ 29,462
Research and development credits	7,926	5,223
Capitalized research and development	4,010	3,760
Total deferred tax assets	50,370	38,445
Deferred tax liability	(825)	(152)
	49,545	38,293
Valuation allowance for deferred tax assets	(49,545)	(38,293)
Net deferred tax assets	$ —	$ —

A valuation allowance of $49,545,000 has been recognized to offset the deferred tax assets as realization of such assets is uncertain.

9. Subsequent Event

In January 2002, the Company issued 7,000,000 shares of common stock in a private placement to selected institutional investors and other accredited investors for gross proceeds to the Company of approximately $51,590,000 at a discounted per share value of the common stock on the purchase date.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LA JOLLA PHARMACEUTICAL COMPANY

By: /s/ Steven B. Engle

March 27, 2002

Steven B. Engle
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Steven B. Engle Steven B. Engle	Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director)	March 27, 2002
/s/ Gail A. Sloan Gail A. Sloan	Controller and Secretary (Principal Financial and Accounting Officer)	March 27, 2002
/s/ Thomas H. Adams Thomas H. Adams, Ph.D.	Director	March 27, 2002
/s/ William E. Engbers William E. Engbers	Director	March 27, 2002
/s/ Robert A. Fildes Robert A Fildes, Ph.D.	Director	March 27, 2002
/s/ Stephen M. Martin Stephen M. Martin	Director	March 27, 2002
/s/ William R. Ringo William R. Ringo	Director	March 27, 2002
/s/ W. Leigh Thompson W. Leigh Thompson, M.D., Ph.D.	Director	March 27, 2002

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Exhibit Index

Exhibit Number	Description
10.19	La Jolla Pharmaceutical Company 1994 Stock Incentive Plan (Amended and Restated as of May 18, 2001)
10.20	La Jolla Pharmaceutical Company 1995 Employee Stock Purchase Plan (Amended and Restated as of March 19, 2001)
23.1	Consent of Ernst & Young LLP, Independent Auditors

EXHIBIT 10.19

LA JOLLA PHARMACEUTICAL COMPANY
1994 STOCK INCENTIVE PLAN

ARTICLE I
GENERAL PROVISIONS

1.01 Purpose of the Plan.

La Jolla Pharmaceutical Company (the "Company"), by action of its Board of Directors and with the consent of its stockholders, has adopted this La Jolla Pharmaceutical Company Stock Incentive Plan (the "Plan") effective as of June 10, 1994 to advance the interests of the Company and its stockholders by (a) providing Eligible Persons with financial incentives to promote the success of the Company's business objectives, and to increase their proprietary interest in the success of the Company, and (b) giving the Company a means to attract and retain directors of appropriate experience and stature.

1.02 Definitions.

Terms used herein and not otherwise defined shall have the meanings set forth below:

(a) "Award" means an Incentive Award or a Nonemployee Director's Option.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended. Where the context so requires, a reference to a particular Code section shall also refer to any successor provision of the Code to such section.

(d) "Commission" means the Securities and Exchange Commission.

(e) "Committee" means the committee appointed by the Board to administer the Plan. The Committee shall be composed entirely of members who meet the requirements of Section 1.04(a).

(f) "Common Stock" means the common stock of the Company, $0.01 par value.

(g) "Dividend Equivalent" means a right granted by the Company under Section 2.07 to a holder of a Stock Option, Stock Appreciation Right, or other Incentive Award denominated in shares of Common Stock to receive from the Company during the Applicable Dividend Period (as defined in Section 2.07) payments equivalent to the amount of dividends

payable to holders of the number of shares of Common Stock underlying such Stock Option, Stock Appreciation Right, or other Incentive Award.

(h) "Eligible Person" means any director, officer or key employee, consultant, or advisor of the Company (as determined by the Committee) including Nonemployee Directors and members of the Committee.

(i) "Exchange Act" means the Securities Exchange Act of 1934, as amended. Where the context so requires, a reference to a particular section of the Exchange Act or rule thereunder shall also refer to any successor provision to such section or rule.

(j) "Fair Market Value" of capital stock of the Company shall be determined with reference to the closing price of such stock on the day in question (or, if such day is not a trading day in the U.S. securities markets, on the nearest preceding trading day), as reported with respect to the principal market or trading system on which such stock is then traded; or, if no such closing prices are reported, the mean between the high bid and low asked prices that day on the principal market or national quotation system on which such shares are then quoted; provided, however, that when appropriate, the Committee in determining Fair Market Value of capital stock of the Company may take into account such other factors as may be deemed appropriate under the circumstances.

Notwithstanding the foregoing, the Fair Market Value of capital stock for purposes of grants of Incentive Stock Options shall be determined in compliance with applicable provisions of the Code. The Fair Market Value of rights or property other than capital stock of the Company means the fair market value thereof as determined by the Committee on the basis of such factors as it may deem appropriate.

(k) "Incentive Award" means any Stock Option, Restricted Stock, Stock Appreciation Right, Stock Payment, Performance Award or Dividend Equivalent granted or sold to an Eligible Person under this Plan, but not a Nonemployee Director's Option.

(l) "Incentive Stock Option" means a Stock Option that qualifies as an incentive stock option under Section 422 (or any successor section) of the Code and the regulations thereunder.

(m) "Just Cause Dismissal" shall mean a termination of a Recipient's employment for any of the following reasons: (i) the Recipient violates any reasonable rule or regulation of the Board or the Recipient's superiors or the Chief Executive Officer or President of the Company that results in damage to the Company or which, after written notice to do so, the Recipient fails to correct within a reasonable time; (ii) any willful misconduct or gross negligence by the Recipient in the responsibilities assigned to him or her; (iii) any willful failure to perform his or her job as required to meet Company objectives; (iv) any wrongful conduct of a Recipient which has an adverse impact on the Company or which constitutes a misappropriation of Company assets; (v) the Recipient's performing services for any other person or entity which competes with the Company while he or she is employed by the Company, without the written approval of the Chief Executive Officer or President of the Company; or (vi) any other conduct that the Board or Committee determines constitutes Just Cause for Dismissal.

(n) "Nonemployee Director" means a director of the Company who qualifies as a "Nonemployee Director" under Rule 16b-3 under the Exchange Act.

(o) "Nonemployee Director's Option" means a Stock Option granted to a Nonemployee Director pursuant to Article III of the Plan.

(p) "Nonqualified Stock Option" means a Stock Option other than an Incentive Stock Option.

(q) "Option" or "Stock Option" means a right to purchase stock of the Company granted under this Plan, and can be an Incentive Stock Option or a Nonqualified Stock Option.

(r) "Payment Event" means the event or events giving rise to the right to payment of a Performance Award.

(s) "Performance Award" means an award, payable in cash, Common Stock or a combination thereof, which vests and becomes payable over a period of time upon attainment of performance criteria established in connection with the grant of the award.

(t) "Performance-Based Compensation" means performance-based compensation as described in Section 162(m) of the Code and the regulations thereunder. If the amount of compensation an Eligible Person will receive under any Incentive Award is not based solely on an increase in the value of Common Stock after the date of grant or award, the Committee, in order to qualify an Incentive Award as performance-based compensation under Section 162(m) of the Code and the regulations thereunder, can condition the grant, award, vesting, or exercisability of such an award on the attainment of a preestablished, objective performance goal. For this purpose, a preestablished, objective performance goal may include one or more of the following performance criteria: (i) cash flow, (ii) earnings per share (including earnings before interest, taxes, and amortization), (iii) return on equity, (iv) total stockholder return, (v) return on capital, (vi) return on assets or net assets, (vii) income or net income, (viii) operating margin, (ix) return on operating revenue, (x) attainment of stated goals related to the Company's research and development or clinical trials programs, (xi) attainment of stated goals related to the Company's capitalization, costs, financial condition, or results of operations, and (xii) any other similar performance criteria contemplated by the regulations under

Section 162(m).

(u) "Permanent Disability" shall mean that the Recipient becomes physically or mentally incapacitated or disabled so that he or she is unable to perform substantially the same services as he or she performed prior to incurring such incapacity or disability (the Company, at its option and expense, being entitled to retain a physician to confirm the existence of such incapacity or disability, and the determination of such physician to be binding upon the Company and the Recipient), and such incapacity or disability continues for a period of three consecutive months or six months in any twelve-month period or such other period(s) as may be determined by the Committee with respect to any Option.

(v) "Purchase Price" means the purchase price (if any) to be paid by a Recipient for Restricted Stock as determined by the Committee (which price shall be at least

equal to the minimum price required under applicable laws and regulations for the issuance of Common Stock which is nontransferable and subject to a substantial risk of forfeiture until specific conditions are met).

(w) "Recipient" means a person who has received an Award hereunder.

(x) "Restricted Stock" means Common Stock that is the subject of an award made under Section 2.04 and which is nontransferable and subject to a substantial risk of forfeiture until specific conditions are met as set forth in this Plan and in any statement evidencing the grant of such Incentive Award.

(y) "Securities Act" means the Securities Act of 1933, as amended.

(z) "Stock Appreciation Right" or "SAR" means a right granted under Section 2.05 to receive a payment that is measured with reference to the amount by which the Fair Market Value of a specified number of shares of Common Stock appreciates from a specified date, such as the date of grant of the SAR, to the date of exercise.

(aa) "Stock Payment" means a payment in shares of the Company's Common Stock to replace all or any portion of the compensation (other than base salary) that would otherwise become payable to a Recipient.

1.03 Common Stock Subject to the Plan.

(a) Number of Shares. Subject to Section 1.05(b), the maximum number of shares of Common Stock that may be issued pursuant to Awards under the Plan shall be 5,200,000.

(b) Source of Shares. The Common Stock to be issued under this Plan will be made available, at the discretion of the Board or the Committee, either from authorized but unissued shares of Common Stock or from previously issued shares of Common Stock reacquired by the Company, including shares purchased on the open market.

(c) Availability of Unused Shares. Shares of Common Stock subject to unexercised portions of any Award granted under this Plan that expire, terminate or are cancelled, and shares of Common Stock issued pursuant to an Award under this Plan that are reacquired by the Company pursuant to the terms of the Award under which such shares were issued, will again become available for the grant of further Awards under this Plan.

(d) Grant Limits. Notwithstanding any other provision of this Plan, no Eligible Person shall be granted Awards with respect to more than 600,000 shares of Common Stock in any one calendar year; provided, however, that this limitation shall not apply if it is not required in order for the compensation attributable to Incentive Awards hereunder to qualify as Performance-Based Compensation. The limitation set forth in this Section 1.03(d) shall be subject to adjustment as provided in Section 1.05(b), but only to the extent such adjustment would not affect the status of compensation attributable to Awards hereunder as Performance-Based Compensation.

1.04 Administration of the Plan.

(a) The Committee. The Plan will be administered by the Committee, which will consist of two or more members of the Board each of whom must be a Nonemployee Director; provided, however, that the number of members of the Committee may be reduced or increased from time to time by the Board. In addition, if Awards are to be made to persons subject to Section 162(m) of the Code and such awards are intended to constitute Performance-Based Compensation, then each of the Committee's members must also be an "outside director," as such term is defined in the regulations under Section 162(m) of the Code. Notwithstanding the foregoing or any provision of the Plan to the contrary, the Board may, in lieu of the Committee, exercise any authority granted to the Committee pursuant to the provisions of the Plan.

(b) Authority of the Committee. The Committee has authority in its discretion to select the Eligible Persons to whom, and the time or times at which, Incentive Awards shall be granted or sold, the nature of each Incentive Award, the number of shares of Common Stock or the number of rights that make up or underlie each Incentive Award, the period for the exercise of each Incentive Award, the performance criteria (which need not be identical) utilized to measure the value of Performance Awards, and such other terms and conditions applicable to each individual Incentive Award as the Committee shall determine. The Committee may grant at any time new Incentive Awards to an Eligible Person who has previously received Incentive Awards or other grants (including other stock options) whether such prior Incentive Awards or such other grants are still outstanding, have previously been exercised in whole or in part, or are cancelled in connection with the issuance of new Incentive Awards. The Committee may grant Incentive Awards singly or in combination or in tandem with other Incentive Awards as it determines in its discretion. The purchase price or initial value and any and all other terms and conditions of the Incentive Awards may be established by the Committee without regard to existing Incentive Awards or other grants. Further, the Committee may, with the consent of an Eligible Person, amend in a manner not inconsistent with the Plan the terms of any existing Incentive Award previously granted to such Eligible Person, provided that neither the Board nor the Committee shall reduce the Exercise Price of any outstanding Option without stockholder approval.

(c) Plan Interpretation. Subject to the express provisions of the Plan, the Committee has the authority to interpret the Plan and any agreements defining the rights and obligations of the Company and Recipients, to determine the terms and conditions of Incentive Awards and to make all other determinations necessary or advisable for the administration of the Plan. The Committee has authority to prescribe, amend and rescind rules and regulations relating to the Plan. All interpretations, determinations and actions by the Committee shall be final, conclusive and binding upon all parties. Any action of the Committee with respect to the administration of the Plan shall be taken pursuant to a majority vote or by the unanimous written consent of its members.

(d) Special Rules Regarding Article III. Notwithstanding anything herein to the contrary, the Committee shall have no authority or discretion as to the selection of persons eligible to receive Nonemployee Directors' Options granted under the Plan, the number of shares covered by Nonemployee Directors' Options granted under the Plan, the timing of such grants, or

the exercise price of Nonemployee Directors' Options granted under the Plan, which matters are specifically governed by the provisions of the Plan.

(e) No Liability. No member of the Board or the Committee or any designee thereof will be liable for any action or determination made in good faith by the Board or the Committee with respect to the Plan or any transaction arising under the Plan.

1.05 Other Provisions.

(a) Documentation. Each Award granted under the Plan shall be evidenced by an award agreement duly executed on behalf of the Company and by the Recipient or, in the Committee's discretion, a confirming memorandum issued by the Company to the Recipient (in either case an "Award Document") evidencing the Award and setting forth such terms and conditions applicable to the Award as the Committee may in its discretion determine consistent with the Plan, provided that the Committee shall exercise no discretion with respect to Nonemployee Directors' Options, which shall reflect only the terms of the Award as set forth

in Article III and certain administrative matters dictated by the Plan. Award Documents shall comply with and be subject to the terms and conditions of the Plan. A copy of the Plan shall be delivered to each Award Recipient together with the Award Document, and shall constitute a part thereof. In case of any conflict between the Plan and any Award Document, the Plan shall control. Various Award Documents covering the same types of Awards may but need not be identical.

(b) Adjustment Provisions.

If (1) the outstanding shares of Common Stock of the Company are increased, decreased or exchanged for a different number or kind of shares or other securities, or if additional shares or new or different shares or other securities are distributed in respect of such shares of Common Stock (or any stock or securities received with respect to such Common Stock), through merger, consolidation, sale or exchange of all or substantially all of the properties of the Company, reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, spin-off or other distribution with respect to such shares of Common Stock (or any stock or securities received with respect to such Common Stock), or (2) the value of the outstanding shares of Common Stock of the Company is reduced by reason of an extraordinary cash dividend, an appropriate and proportionate adjustment may be made in (x) the maximum number and kind of shares subject to the Plan as provided in Section 1.03, (y) the number and kind of shares or other securities subject to then outstanding Awards, and (z) the price for each share or other unit of any other securities subject to then outstanding Awards. No fractional interests will be issued under the Plan resulting from any such adjustments.

(c) Continuation of Employment.

(i) Nothing contained in this Plan (or in Award Documents or in any other documents related to this Plan or to Awards granted hereunder) shall confer upon any Eligible Person or Recipient any right to continue in the employ of the Company or constitute any contract or agreement of employment or engagement, or interfere in any way with the right of the Company to reduce such person's compensation or other benefits or to terminate the

employment of such Eligible Person or Recipient, with or without cause. Except as expressly provided in the Plan or in any statement evidencing the grant of an Award pursuant to the Plan, the Company shall have the right to deal with each Recipient in the same manner as if the Plan and any such statement evidencing the grant of an Award pursuant to the Plan did not exist, including, without limitation, with respect to all matters related to the hiring, discharge, compensation and conditions of the employment or engagement of the Recipient.

(ii) Any question(s) as to whether and when there has been a termination of a Recipient's employment, the reason (if any) for such termination, and/or the consequences thereof under the terms of the Plan or any statement evidencing the grant of an Award pursuant to the Plan shall be determined by the Committee and the Committee's determination thereof shall be final and binding.

(d) Restrictions. All Awards granted under the Plan shall be subject to the requirement that, if at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares subject to Awards granted under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such an Award or the issuance, if any, or purchase of shares in connection therewith, such Award may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. Unless the shares of stock to be issued upon exercise of an Award granted under the Plan have been effectively registered under the Securities Act, the Company shall be under no obligation to issue any shares of stock covered by any Award unless the person who exercises such Award, in whole or in part, shall give a written representation and undertaking to the Company satisfactory in form and scope to counsel to the Company and upon which, in the opinion of such counsel, the Company may reasonably rely, that he or she is acquiring the shares of stock issued to him or her pursuant to such exercise of the Award for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution of any such shares of stock, and

that he or she will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act, or any other applicable law, and that if shares of stock are issued without such registration, a legend to this effect may be endorsed upon the securities so issued.

(e) Additional Conditions. Any Incentive Award may also be subject to such other provisions (whether or not applicable to any other Award or Recipient) as the Committee determines appropriate including, without limitation, provisions to assist the Recipient in financing the purchase of Common Stock through the exercise of Stock Options, provisions for the forfeiture of or restrictions on resale or other disposition of shares of Common Stock acquired under any form of benefit, provisions giving the Company the right to repurchase shares of Common Stock acquired under any form of benefit in the event the Recipient elects to dispose of such shares, and provisions to comply with federal and state securities laws and federal and state income tax withholding requirements.

(f) Privileges of Stock Ownership. Except as otherwise set forth herein, a Recipient or a permitted transferee of an Award shall have no rights as a shareholder with respect

to any shares issuable or issued in connection with the Award until the date of the receipt by the Company of all amounts payable in connection with exercise of the Award and performance by the Recipient of all obligations thereunder. Status as an Eligible Person shall not be construed as a commitment that any Award will be granted under this Plan to an Eligible Person or to Eligible Persons generally. No person shall have any right, title or interest in any fund or in any specific asset (including shares of capital stock) of the Company by reason of any Award granted hereunder. Neither this Plan (or any documents related hereto) nor any action taken pursuant hereto shall be construed to create a trust of any kind or a fiduciary relationship between the Company and any person. To the extent that any person acquires a right to receive an Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

(g) Amendment and Termination of Plan: Amendment of Incentive Awards.

(i) The Board or the Committee may, insofar as permitted by law, from time to time suspend or discontinue the Plan or revise or amend it in any respect except that no such amendment shall alter or impair or diminish any rights or obligations under any Award theretofore granted under the Plan without the consent of the person to whom such Award was granted , and except that such amendments shall be subject to stockholder approval to the extent (A) required to comply with the listing requirements imposed by any exchange or trading system upon which the Company's securities trade or applicable provisions of or rules under the Code, or (B) the Board determines in good faith that such amendments are material to stockholders.

(ii) The Committee may from time to time, with the consent of a Recipient, make such modifications in the terms and conditions of an Incentive Award as it deems advisable, including to accelerate or extend the vesting or exercise period of any Incentive Award, provided that performance conditions to vesting of Restricted Stock shall not be waived, and provided further that neither the Board nor the Committee shall reduce the Exercise Price of any outstanding Option without stockholder approval.

(iii) Except as otherwise provided in this Plan or in the applicable Award Document, no amendment, suspension or termination of the Plan will, without the consent of the Recipient, alter, terminate, impair or adversely affect any right or obligation under any Award previously granted under the Plan.

(h) Nonassignability. No Award granted under the Plan shall be assignable or transferable except (i) by will or by the laws of descent and distribution, or (ii) subject to the final sentence of this subsection (h), upon dissolution of marriage pursuant to a qualified domestic relations order or, in the discretion of the Committee and under circumstances that would not adversely affect the interests of the Company. During the lifetime of a Recipient, an Award granted to him or her shall be exercisable only by the Recipient (or the Recipient's permitted transferee) or his or her guardian or legal

representative. Notwithstanding the foregoing, Incentive Stock Options (or other Awards subject to transfer restrictions under the Code) may not be assigned or transferred in violation of Section 422(b)(5) of the Code (or any comparable or successor provision) or the Treasury Regulations thereunder, and nothing herein is intended to allow such assignment or transfer.

(i) Other Compensation Plans. The adoption of the Plan shall not affect any other stock option, incentive or other compensation plans in effect for the Company, and the Plan shall not preclude the Company from establishing any other forms of incentive or other compensation for employees, directors, or advisors of the Company.

(j) Plan Binding on Successors. The Plan shall be binding upon the successors and assigns of the Company.

(k) Participation By Foreign Employees. Notwithstanding anything to the contrary herein, the Committee may, in order to fulfill the purposes of the Plan, modify grants of Incentive Awards to Recipients who are foreign nationals or employed outside of the United States to recognize differences in applicable law, tax policy or local custom.

(l) Effective Date And Duration of Plan. Awards may be granted under the Plan until the tenth anniversary of the effective date of the Plan, whereupon the Plan shall terminate. No Awards may be granted during any suspension of this Plan or after its termination. Notwithstanding the foregoing, each Award properly granted under the Plan shall remain in effect until such Award has been exercised or terminated in accordance with its terms and the terms of the Plan.

ARTICLE II
INCENTIVE AWARDS

2.01 Grants of Incentive Awards. Subject to the express provisions of this Plan, the Committee may from time to time in its discretion select from the class of Eligible Persons those individuals to whom Incentive Awards may be granted pursuant to its authority as set forth in Section 1.04(b). Each Incentive Award shall be subject to the terms and conditions of the Plan and such other terms and conditions established by the Committee as are not inconsistent with the purpose and provisions of the Plan. One or more Incentive Awards may be granted to any Eligible Person.

2.02 Stock Options.

(a) Nature of Stock Options. Stock Options may be Incentive Stock Options or Nonqualified Stock Options.

(b) Option Price. The exercise price per share for each Option (other than a Nonemployee Director's Option) (the "Exercise Price") shall be determined by the Committee at the date such Option is granted and shall not be less than the Fair Market Value of a share of Common Stock (or other securities, as applicable) at the time of grant, except that the Exercise Price for a Nonqualified Stock Option may reflect a discount of up to 15% of the Fair Market Value at the time of grant if the amount of such discount is expressly in lieu of a reasonable amount of salary or cash bonus. Notwithstanding the foregoing, however, in no event shall the exercise price be less than the par value of the shares of Common Stock subject to the Option, and the exercise price of an Incentive Stock Option shall be not less than such amount as is necessary to enable such Option to be treated as an "incentive stock option" within the meaning of Section 422 of the Code.

(c) Option Period and Vesting. Options (other than Nonemployee Directors' Options) hereunder shall vest and may be exercised as determined by the Committee, except that exercise of such Options after termination of the Recipient's employment shall be subject to Section 2.02(g). Each Option granted hereunder (other than a Nonemployee Directors Option) and all rights or obligations thereunder shall expire on such date as shall be determined by the Committee, but not later than ten years after the date the Option is granted and shall be subject to earlier termination as herein provided. The Committee may

in its discretion at any time and from time to time after the grant of an Option (other than a Nonemployee Director's Option) accelerate vesting of such Option in whole or part by increasing the number of shares then purchasable, provided that the total number of shares subject to such Option may not be increased.

(d) Exercise of Options. Except as otherwise provided herein, an Option may become exercisable, in whole or in part, on the date or dates specified by the Committee (or, in the case of Nonemployee Directors' Options, the Plan) at the time the Option is granted and thereafter shall remain exercisable until the expiration or earlier termination of the Option. No Option shall be exercisable except in respect of whole shares, and fractional share interests shall be disregarded. Not less than 100 shares of stock (or such other amount as is set forth in the applicable option agreement) may be purchased at one time unless the number purchased is the total number at the time available for purchase under the terms of the Option. An Option shall be deemed to be exercised when the Secretary of the Company receives written notice of such exercise from the Recipient, together with payment of the exercise price made in accordance with Section 2.02(e). Upon proper exercise, the Company shall deliver to the person entitled to exercise the Option or his or her designee a certificate or certificates for the shares of stock for which the Option is exercised. Notwithstanding any other provision of this Plan, the Committee may impose, by rule and in option agreements, such conditions upon the exercise of Options (including, without limitation, conditions limiting the time of exercise to specified periods) as may be required to satisfy applicable regulatory requirements, including without limitation Rule 16b-3 (or any successor rule) under the Exchange Act and any applicable section of or rule under the Internal Revenue Code.

(e) Exercise Price. The Exercise Price shall be payable upon the exercise of an Option by delivery of legal tender of the United States or payment of such other consideration as the Committee may from time to time deem acceptable in any particular instance, including without limitation delivery of capital stock of the Company (delivered by or on behalf of the person exercising the Option or retained by the Company from the Common Stock otherwise issuable upon exercise and valued at Fair Market Value as of the exercise date) or surrender of other Awards previously granted to the Recipient exercising the Option; provided, however, that the Committee may, in the exercise of its discretion, (i) allow exercise of an Option in a broker-assisted or similar transaction in which the Exercise Price is not received by the Company until immediately after exercise, and/or (ii) allow the Company to loan the Exercise Price to the person entitled to exercise the Option, if the exercise will be followed by an immediate sale of some or all of the underlying shares and a portion of the sales proceeds is dedicated to full payment of the Exercise Price. Any shares of Company stock or other non-cash consideration assigned and delivered to the Company in payment or partial payment of the Exercise Price will be valued at Fair Market Value on the exercise date. No fractional shares will be issued pursuant to the exercise of an Option.

(f) Limitation on Exercise of Incentive Stock Options. The aggregate Fair Market Value (determined as of the respective date or dates of grant) of the Common Stock for which one or more options granted to any Recipient under the Plan (or any other option plan of the Company or any of its subsidiaries or affiliates) may for the first time become exercisable as Incentive Stock Options under the federal tax laws during any one calendar year shall not exceed $100,000. Any Options granted as Incentive Stock Options pursuant to the Plan in excess of such limitation shall be treated as Nonqualified Stock Options.

(g) Termination of Employment.

(i) Termination for Cause. Except as otherwise provided in a written agreement between the Company and the Recipient, which may be entered into at any time before or after termination, in the event of a Just Cause Dismissal of a Recipient all of the Recipient's unexercised Options, whether or not vested, shall expire and become unexercisable as of the date of such Just Cause Dismissal.

(ii) Termination other than for Cause. Subject to subsection (i) above and subsection (iii) below, and except as otherwise provided in a written agreement between the Company and the Recipient, which may be entered into at any time before or after termination, in the event of a Recipient's termination

of employment for:

(A) any reason other than for Just Cause Dismissal, death, or Permanent Disability, or normal retirement, the Recipient's Options shall, whether or not vested, expire and become unexercisable as of the earlier of (1) the date such Options would expire in accordance with their terms if the Recipient remained employed or (2) three calendar months after the date of termination in the case of Incentive Stock Options, or six months after the date of termination, in the case of Nonqualified Stock Options.

(B) death or Permanent Disability, the Recipient's unexercised Options shall, whether or not vested, expire and become unexercisable as of the earlier of (1) the date such Options would expire in accordance with their terms if the Recipient remained employed or (2) twelve (12) months after the date of termination.

(C) normal retirement, the Recipient's unexercised Options shall, whether or not vested, expire and become unexercisable as of the earlier of (A) the date such Options expire in accordance with their terms or (B) twenty-four (24) months after the date of retirement.

(iii) Alteration of Exercise Periods. Notwithstanding anything to the contrary in subsections (i) or (ii) above, the Committee may in its discretion designate such shorter or longer periods to exercise Options (other than Nonemployee Directors' Options) following a Recipient's termination of employment; provided, however, that any shorter periods determined by the Committee shall be effective only if provided for in the instrument that evidences the grant to the Recipient of such Options or if such shorter period is agreed to in writing by the Recipient. Notwithstanding anything to the contrary herein, Options shall be exercisable by a Recipient (or his successor in interest) following such Recipient's termination of

employment only to the extent that installments thereof had become exercisable on or prior to the date of such termination; provided, however, that the Committee, in its discretion, may elect to accelerate the vesting of all or any portion of any Options that had not become exercisable on or prior to the date of such termination.

2.03 Performance Awards.

(a) Grant of Performance Award. The Committee shall determine the performance criteria (which need not be identical and may be established on an individual or group basis) governing Performance Awards, the terms thereof, and the form and time of payment of Performance Awards.

(b) Payment of Award; Limitation. Upon satisfaction of the conditions applicable to a Performance Award, payment will be made to the Recipient in cash or in shares of Common Stock valued at Fair Market Value or a combination of Common Stock and cash, as the Committee in its discretion may determine. Notwithstanding any other provision of this Plan, no Eligible Person shall be paid a Performance Award in excess of $1,000,000 in any one calendar year; provided, however, that this limitation shall not apply if it is not required in order for the compensation attributable to the Performance Award hereunder to qualify as Performance-Based Compensation.

(c) Expiration of Performance Award. If any Recipient's employment with the Company is terminated for any reason other than normal retirement, death, or Permanent Disability prior to the time a Performance Award or any portion thereof becomes payable, all of the Recipient's rights under the unpaid portion of the Performance Award shall expire and terminate unless otherwise determined by the Committee. In the event of termination of employment by reason of death, Permanent Disability or normal retirement, the Committee, in its discretion, may determine what portions, if any, of the Performance Award should be paid to the Recipient.

2.04 Restricted Stock.

(a) Award of Restricted Stock. The Committee may grant awards of Restricted Stock to Eligible Participants. The Committee shall determine the Purchase Price (if any), the terms of payment of the Purchase Price, the restrictions upon the Restricted Stock, and when such restrictions shall lapse, provided that the restriction period shall be at least one year for

performance-based grants and three years for non-performance-based grants.

(b) Requirements of Restricted Stock. All shares of Restricted Stock granted or sold pursuant to the Plan will be subject to the following conditions:

(i) No Transfer. The shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, alienated or encumbered until the restrictions are removed or expire;

(ii) Certificates. The Committee may require that the certificates representing Restricted Stock granted or sold to a Recipient pursuant to the Plan remain in the physical custody of an escrow holder or the Company until all restrictions are removed or expire;

(iii) Restrictive Legends. Each certificate representing Restricted Stock granted or sold to a Recipient pursuant to the Plan will bear such legend or legends making reference to the restrictions imposed upon such Restricted Stock as the Committee in its discretion deems necessary or appropriate to enforce such restrictions; and

(iv) Other Restrictions. The Committee may impose such other conditions on Restricted Stock as the Committee may deem advisable including, without limitation, restrictions under the Securities Act, under the Exchange Act, under the requirements of any stock exchange upon which such Restricted Stock or shares of the same class are then listed and under any blue sky or other securities laws applicable to such shares.

(c) Rights of Recipient. Subject to the provisions of Section 2.04(b) and any restrictions imposed upon the Restricted Stock, the Recipient will have all rights of a stockholder with respect to the Restricted Stock granted or sold to such Recipient under the Plan, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

(d) Termination of Employment. Unless the Committee in its discretion determines otherwise, upon a Recipient's termination of employment for any reason, all of the Recipient's Restricted Stock remaining subject to restrictions imposed pursuant to the Plan on the date of such termination of employment shall be repurchased by the Company at the Purchase Price (if any).

2.05 Stock Appreciation Rights.

(a) Granting of Stock Appreciation Rights. The Committee may approve the grant to Eligible Persons of Stock Appreciation Rights, related or unrelated to Options, at any time.

(b) SARs Related to Options.

(i) A Stock Appreciation Right granted in connection with an Option granted under this Plan will entitle the holder of the related Option, upon exercise of the Stock Appreciation Right, to surrender such Option, or any portion thereof to the extent unexercised, with respect to the number of shares as to which such Stock Appreciation Right is exercised, and to receive payment of an amount computed pursuant to Section 2.05(b)(iii). Such Option will, to the extent surrendered, then cease to be exercisable.

(ii) A Stock Appreciation Right granted in connection with an Option hereunder will be exercisable at such time or times, and only to the extent that, the related Option is exercisable, and will not be transferable except to the extent that such related Option may be transferable.

(iii) Upon the exercise of a Stock Appreciation Right related to an Option, the Holder will be entitled to receive payment of an amount determined by multiplying: (i) the difference obtained by subtracting the Exercise Price of a share of Common Stock specified in the related Option from the Fair Market Value of a share of Common Stock on the date of exercise of such Stock Appreciation Right (or as of such other date or as of the occurrence of

such event as may have been specified in the instrument evidencing the grant of the Stock Appreciation Right), by (ii) the number of shares as to which such Stock Appreciation Right is exercised.

(c) SARs Unrelated to Options. The Committee may grant Stock Appreciation Rights unrelated to Options to Eligible Persons. Section 2.05(b)(iii) shall be used to determine the amount payable at exercise under such Stock Appreciation Right, except that in lieu of the Option Exercise Price specified in the related Option the initial base amount specified in the Incentive Award shall be used.

(d) Limits. Notwithstanding the foregoing, the Committee, in its discretion, may place a dollar limitation on the maximum amount that will be payable upon the exercise of a Stock Appreciation Right under the Plan.

(e) Payments. Payment of the amount determined under the foregoing provisions may be made solely in whole shares of Common Stock valued at their Fair Market Value on the date of exercise of the Stock Appreciation Right or, alternatively, at the sole discretion of the Committee, in cash or in a combination of cash and shares of Common Stock as the Committee deems advisable. The Committee has full discretion to determine the form in which payment of a Stock Appreciation Right will be made and to consent to or disapprove the election of a Recipient to receive cash in full or partial settlement of a Stock Appreciation Right. If the Committee decides to make full payment in shares of Common Stock, and the amount payable results in a fractional share, payment for the fractional share will be made in cash.

(f) Rule 16b-3. The Committee may, at the time a Stock Appreciation Right is granted, impose such conditions on the exercise of the Stock Appreciation Right as may be required to satisfy the requirements of Rule 16b-3 under the Exchange Act (or any other comparable provisions in effect at the time or times in question).

(g) Termination of Employment. Section 2.02(g) will govern the treatment of Stock Appreciation Rights upon the termination of a Recipient's employment with the Company.

2.06 Stock Payments.

The Committee may approve Stock Payments of the Company's Common Stock to any Eligible Person for all or any portion of the compensation (other than base salary) or other payment that would otherwise become payable by the Company to the Eligible Person in cash.

2.07 Dividend Equivalents.

The Committee may grant Dividend Equivalents to any Recipient who has received a Stock Option, SAR, or other Incentive Award denominated in shares of Common Stock. Such Dividend Equivalents shall be effective and shall entitle the recipients thereof to payments during the "Applicable Dividend Period," which shall be (i) the period between the date the Dividend Equivalent is granted and the date the related Stock Option, SAR, or other Incentive Award is exercised, terminates, or is converted to Common Stock, or (ii) such other time as the Committee may specify in the written instrument evidencing the grant of the Dividend Equivalent. Dividend Equivalents may be paid in cash, Common Stock, or other

Incentive Awards; the amount of Dividend Equivalents paid other than in cash shall be determined by the Committee by application of such formula as the Committee may deem appropriate to translate the cash value of dividends paid to the alternative form of payment of the Dividend Equivalent. Dividend Equivalents shall be computed as of each dividend record date and shall be payable to recipients thereof at such time as the Committee may determine. Notwithstanding the foregoing, if it is intended that an Incentive Award qualify as Performance-Based Compensation and the amount of the compensation the Eligible Person could receive under the award is based solely on an increase in value of the underlying stock after the date of grant or award (i.e., the grant, vesting, or exercisability of the award is not conditioned upon the attainment of a preestablished, objective performance goal described in Section 1.02(t)), then the payment of any Dividend Equivalents related to the award shall not be made contingent on the exercise of the award.

ARTICLE III
NONEMPLOYEE DIRECTOR'S OPTIONS

3.01 Grants of Initial Options.

Each Nonemployee Director shall, upon first becoming a Nonemployee Director, receive a one-time grant of a Nonemployee Director's Option to purchase up to 40,000 shares of the Company's Common Stock at an exercise price per share equal to the Fair Market Value of the Company's Common Stock on the date of grant, subject to (i) vesting as set forth in Section 3.04, and (ii) adjustment as set forth in Section 1.05(b). Options granted under this Section 3.01 are "Initial Options" for purposes hereof.

3.02 Grants of Additional Options.

Immediately following the annual meeting of stockholders of the Company next following a Nonemployee Director becoming such, and immediately following each subsequent annual meeting of stockholders of the Company, in each case if the Nonemployee Director has served as a director since his or her election or appointment and has been re-elected as a director at such annual meeting or is continuing as a director without being re-elected due to the classification of the Board, such Nonemployee Director shall automatically receive an option to purchase up to 10,000 shares of the Company's Common Stock at an exercise price per share equal to the Fair Market Value of the Company's Common Stock on the date of grant, subject to (a) vesting as set forth in Section 3.04, and (b) adjustment as set forth in Section 1.05(b). Options granted under this Section 3.02 are "Additional Options" for purposes hereof.

3.03 Exercise Price.

The exercise price for Nonemployee Directors' Options shall be payable as set forth in Section 2.02(e). Neither the Board nor the Committee shall reduce the exercise price of any outstanding Initial Option or Additional Option without stockholder approval.

3.04 Vesting and Exercise.

Initial Options shall vest and become exercisable with respect to 25% of the underlying shares on the grant date and with respect to an additional 25% of the underlying

shares on the dates of each of the first three annual meetings of the Company's stockholders following the grant date, but only if on the date of each such annual meeting, the Recipient is continuing as a director of the Company for the ensuing year, provided, however, that if the grant date is within six months of the ensuing annual meeting of the Company's stockholders, then after vesting of the Option with respect to 25% of the underlying shares on the grant date, the Option will vest with respect to an additional 25% of the underlying shares on the dates of each of the second, third, and fourth annual meetings of the Company's stockholders following the grant date, but only if, on the date of each such annual meeting, the Recipient is continuing as a director for the ensuing year. Additional Options shall vest and become exercisable upon the earlier of (a) the first anniversary of the grant date or (b) immediately prior to the annual meeting of stockholders of the Company next following the grant date, if the optionee has remained a director for the entire period from the date of grant to such earlier date. Notwithstanding the foregoing, however, Initial Options and Additional Options that have not vested and become exercisable at the time the optionee ceases to be a director shall terminate.

3.05 Term of Options and Effect of Termination.

No Nonemployee Directors' Option shall be exercisable after the expiration of ten years from the effective date of its grant. In the event that the Recipient of a Nonemployee Director's Option shall cease to be a director of the Company, all Nonemployee Directors' Options granted to such Recipient shall be exercisable, to the extent already exercisable at the date such Recipient ceases to be a director and regardless of the reason the Recipient ceases to be a director, for a period of five (5) years after that date (or, if sooner, until the expiration of the option according to its terms). In the event of the death of a Recipient of a Nonemployee Director's Option while such Recipient is a director of the Company or within the period after termination of such status during which he or she is permitted to exercise such Option, such Option may be

exercised by any person or persons designated by the Recipient on a Beneficiary Designation Form adopted by the Company for such purpose or, if there is no effective Beneficiary Designation Form on file with the Company, by the executors or administrators of the Recipient's estate or by any person or persons who shall have acquired the option directly from the Recipient by his or her will or the applicable laws of descent and distribution.

ARTICLE IV
RECAPITALIZATIONS AND REORGANIZATIONS

4.01 Corporate Transactions.

If the Company shall be the surviving corporation in any merger or consolidation, each outstanding Option shall pertain and apply to the securities to which a holder of the same number of shares of Common Stock that are subject to that Option would have been entitled. In the event of a Change in Control (as defined below), all Nonemployee Directors' Options and any Incentive Awards specified by the Committee or the Board shall immediately vest and become exercisable, and all conditions thereto shall be deemed to have been met. For purposes hereof, a "Change in Control" means the following and shall be deemed to occur if any of the following events occur:

(i) Except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or "group," within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the effective date of the Plan, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than

(A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of another entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company and such other entity outstanding immediately after such merger or consolidation, or

(B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company's then outstanding voting securities; or

(iv) Approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company's assets.

Notwithstanding the preceding provisions of this Section 4.01, a Change in Control shall not be deemed to have occurred (l) if the "person" described in

the preceding provisions of this Section 4.01 is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company's then outstanding voting securities solely in connection with a public offering of the Company's securities, or (2) if the "person" described in the preceding provisions of this Paragraph is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

4.02 Determination by the Committee.

To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all of any part of its business or assets.

Amended in July 1996 to reduce the employment requirement for Eligible Employees to 180 days and to coordinate Offering and Purchase Periods with LJP's fiscal calendar. Amended in September 1996 to clarify the determination of Fair Market Value and Purchase Price. Amended in May 2000, with stockholder vote, to increase the number of shares available under the Plan by 200,000. Amended July 2000 to change the Purchase Periods to a quarterly period instead of a semi-annual period. Amended in September 2000 to eliminate any requirement that an employee be employed 180 days prior to enrolling in an offering period and to double the number of Offering Periods, by having 24-month offering periods begin every calendar quarter. Amended and restated on March 19, 2001. Amended on February 9, 2001 by Board, subject to stockholder approval, to increase the available shares by 300,000. Increase in available shares approved by stockholders on May 18, 2001.

LA JOLLA PHARMACEUTICAL COMPANY

1995 EMPLOYEE STOCK PURCHASE PLAN

The following constitutes the provisions of the La Jolla Pharmaceutical Company 1995 Employee Stock Purchase Plan (as amended and restated effective March 19, 2001) (the "Plan").

1. Purpose.

The purpose of the Plan is to maintain competitive equity compensation programs and to provide employees of La Jolla Pharmaceutical Company (the "Company") with an opportunity and incentive to acquire a proprietary interest in the Company through the purchase of the Company's Common Stock, thereby more closely aligning the interests of the Company's employees and stockholders. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended ("Section 423"). Accordingly, the provisions of the Plan shall be construed to extend and limit participation consistent with the requirements of Section 423.

2. Definitions.

Capitalized terms used in this Plan and not otherwise defined have the meanings set forth below.

"Administrator" means the Committee, or the Board if the Board asserts administrative authority over the Plan pursuant to Section 13.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means a committee of members of the Board meeting the qualifications described in Section 13 and appointed by the Board to administer the Plan.

"Common Stock" shall mean the Common Stock of the Company.

"Compensation" means base salary or hourly compensation and any cash bonus paid to a participant.

"Eligible Employee" means any employee of the Company whose customary employment is for more than five months per calendar year and for more than 20 hours per week. For purposes of the Plan, the employment relationship shall be treated as continuing while the individual is on sick leave or other leave of absence approved by the Company, except that when the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated on the 91st day of such leave.

"Enrollment Date" means the first day of each Offering Period.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exercise Date" means the last day of each Purchase Period.

"Fair Market Value" of the Common Stock as of the time of any determination

thereof means the value of Common Stock determined as follows:

(1) If the Common Stock is listed on any established stock exchange or trades on the Nasdaq National Market, its Fair Market Value shall be the most recent closing sales price for such stock (or the closing bid, if no sales were reported), as quoted on such exchange or system (or the exchange or system with the greatest volume of trading in the Common Stock) as of the time of such determination as reported in the Wall Street Journal or such other source as the Administrator deems reliable; or

(2) If the Common Stock is not listed on any established stock exchange or traded on the Nasdaq National Market its Fair Market Value shall be the mean between the most recent closing high and low asked prices for the Common Stock as of the time of such determination, as reported in the Wall Street Journal or such other source as the Administrator deems reliable; or

(3) In the absence of an established market for the Common Stock, the Fair Market Value of the Common Stock shall be determined in good faith by the Administrator.

"Offering Period" means (i) the period of twenty-three (23) months commencing on August 1, 1996 and terminating on June 30, twenty-three (23) months later; (ii) each period of twenty-four (24) months commencing on January 1, 1997 and each January 1 thereafter for the duration of the Plan and terminating on the December 31 twenty-four (24) months later; (iii) each period of twenty-four (24) months commencing on July 1, 1997 and each July 1 thereafter for the duration of the Plan and terminating on the June 30 twenty-four (24) months later; (iv) each period of twenty-four (24) months commencing on October 1, 2000 and each October 1 thereafter for the duration of the Plan and terminating on the September 30 twenty-four (24) months later; and (v) each period of twenty-four (24) months commencing on April 1, 2001 and each April 1 thereafter for the duration of the Plan and terminating on the March 31 twenty-four (24) months later. The Administrator shall have the power to change the duration of Offering Periods without stockholder approval as set forth in Section 12 or if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected.

"Option" means the option granted to each participant pursuant to Section 4 upon enrollment in an Offering Period.

"Periodic Exercise Limit" has the meaning set forth in Section 4(a).

"Plan Account" means an account maintained by the Company for each participant in the Plan, to which are credited the payroll deductions made for such participant pursuant to Section 5 and from which are debited amounts paid for the purchase of shares upon exercise of such participant's Option pursuant to Section 6.

"Purchase Price" as of any Exercise Date means an amount equal to 85% of the Fair Market Value of a share of Common Stock as of the close of business on the Exercise Date or the opening of business on the Enrollment Date for the Offering Period in which such Exercise Date occurs, whichever is lower.

"Purchase Period" means (i) the period of five (5) months commencing on August 1, 1996 and ending on December 31, 1996; (ii) with respect to the Offering Periods beginning on January and July 1, 1997, January and July 1, 1998, and January 1, 1999, each period of six (6) months within any such Offering Period, commencing January 1, 1997 and each July 1 and January 1 thereafter, and ending on the December 31 or June 30 following such commencement date; (iii) with respect to the Offering Period beginning on July 1, 1999, the period of six (6) months commencing July 1, 1999 and ending on December 31, 1999, the period of six (6) months commencing on January 1, 2000 and ending on June 30, 2000, the period of six (6) months commencing on July 1, 2000 and ending on December 31, 2000, the period of three (3) months commencing on January 1, 2001 and ending on March 31, 2001, and the period of three (3) months commencing on April 1, 2001 and ending on June 30, 2001, (iv) with respect to the Offering Period beginning on January 1, 2000, the period of six (6) months commencing on January 1, 2000 and ending on June 30, 2000, the period of six (6) months commencing on July 1, 2000 and ending on December 31, 2000, and each period of three (3) months commencing on January 1, 2001 and each April 1, July 1, and October 1 thereafter, and ending on the March 31, June 30, September 30

and December 31 following such commencement date; (v) with respect to the Offering Period beginning on July 1, 2000, the period of six (6) months commencing on July 1, 2000 and ending on December 31, 2000, and each period of three (3) months commencing on January 1, 2001 and each April 1, July 1, and October 1 thereafter, and ending on the March 31, June 30, September 30 and December 31 following such commencement date; and (vi) for any Offering Period commencing on or after October 1, 2000, each period of three (3) months within the Offering Period commencing on October 1, 2000 and each January 1, April 1, July 1, and October 1 thereafter, and ending on the December 31, March 31, June 30, and September 30 following such commencement date.

"Reserves" means the number of shares of Common Stock covered by each Option that has not yet been exercised and the number of shares of Common Stock that have been authorized for issuance under the Plan, but not yet placed under any Option.

"Rule 16b-3" means Rule 16b-3 under the Exchange Act and any successor provision.

"Subsidiary" has the meaning as set forth under SS 424(f) of the Code.

"Trading Day" means a day on which national stock exchanges and the National Association of Securities Dealers Automated Quotation System are open for trading.

3. Offering Periods and Participation.

The Plan shall be implemented through a series of consecutive and overlapping Offering Periods. An Eligible Employee may enroll in an Offering Period by delivering a subscription agreement in the form of Exhibit A hereto to the Company's payroll office at least five (5) business days prior to the Enrollment Date for that Offering Period. Eligible Employees shall participate in only one Offering Period at a time, and a subscription agreement in effect for a Plan participant for a particular Offering Period shall continue in effect for subsequent Offering Periods if the participant remains an Eligible Employee and has not withdrawn pursuant to Section 8.

4. Options.

(a) Grants. On the Enrollment Date for each Offering Period, each Eligible Employee participating in such Offering Period shall be granted an Option to purchase (i) on each Exercise Date for any six-month Purchase Period in such Offering Period (at the applicable Purchase Price) up to that number of shares of Common Stock determined by dividing $12,500 by the Fair Market Value of a share of Common Stock as of the opening of business on the Enrollment Date, and (ii) on each Exercise Date for any three-month Purchase Period in such Offering Period (at the applicable Purchase Price) up to that number of shares of Common Stock determined by dividing $6,250 by the Fair Market Value of a share of Common Stock as of the opening of business on the Enrollment Date (such number of shares being the "Periodic Exercise Limit"). The Option shall expire immediately after the last Exercise Date of the Offering Period.

(b) Grant Limitations. Any provisions of the Plan to the contrary notwithstanding, no participant shall be granted an Option under the Plan:

(i) if, immediately after the grant, such participant (or any other person whose stock would be attributed to such participant pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary; or

(ii) which permits such participant's rights to purchase stock under all employee stock purchase plans of the Company and its Subsidiaries to accrue at a rate that exceeds Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the Fair Market Value of the shares at the time such Option is granted) in any calendar year.

(c) No Rights in Respect of Underlying Stock. The participant will have no interest or voting right in shares covered by an Option until such Option has been exercised.

5. Payroll Deductions.

(a) Participant Designations. The subscription agreement applicable to an Offering Period shall designate payroll deductions to be made on each payday during the Offering Period as a whole number percentage not exceeding ten percent (10%) of such Eligible Employee's Compensation for the pay period preceding such payday, provided that the aggregate of such payroll deductions during the Offering Period shall not exceed ten percent (10%) of the participant's Compensation during said Offering Period.

(b) Plan Account Balances. The Company shall make payroll deductions as specified in each participant's subscription agreement on each payday during the Offering Period and credit such payroll deductions to such participant's Plan Account. A participant may not make any additional payments into such Plan Account. No interest will accrue on any payroll deductions. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

(c) Participant Changes. A participant may discontinue his or her participation in the Plan as provided in Section 8, or may increase or decrease (subject to such limits as the Administrator may impose) the rate of his or her payroll deductions during any Purchase Period by filing with the Company a new subscription agreement authorizing such a change in the payroll deduction rate. The change in rate shall be effective with the first full payroll period following five (5) business days after the Company's receipt of the new subscription agreement, unless the Company elects to process a given change in participation more quickly.

(d) Decreases. Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 4(b) herein, a participant's payroll deductions may be decreased to 0% at such time during any Purchase Period that is scheduled to end during a calendar year (the "Current Purchase Period") when the aggregate of all payroll deductions previously used to purchase stock under the Plan in a prior Purchase Period which ended during that calendar year plus all payroll deductions accumulated with respect to the Current Purchase Period equal $21,250. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Purchase Period that is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 8.

(e) Tax Obligations. At the time of each exercise of a participant's Option, and at the time any Common Stock issued under the Plan to a participant is disposed of, the participant must adequately provide for the Company's federal, state, or other tax withholding obligations, if any, that arise upon the exercise of the Option or the disposition of the Common Stock. At any time, the Company may, but will not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefit attributable to sale or early disposition of Common Stock by the participant.

(f) Statements of Account. The Company shall maintain each participant's Plan Account and shall give each Plan participant a statement of account at least annually. Such statements will set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any, for the period covered.

6. Exercise of Options.

(a) Automatic Exercise on Exercise Dates. Unless a participant withdraws as provided in Section 8, his or her Option for the purchase of shares will be exercised automatically on each Exercise Date within the Offering Period in which such participant is enrolled for the maximum number of shares of Common Stock, including fractional shares, as can then be purchased at the applicable Purchase Price with the payroll deductions accumulated in such participant's

Plan Account and not yet applied to the purchase of shares under the Plan, subject to the Periodic Exercise Limit. During a participant's lifetime, a participant's Options to purchase shares hereunder are exercisable only by the participant.

(b) Delivery of Shares. As promptly as practicable after each Exercise Date on which a purchase of shares occurs, the Company shall arrange the delivery to each participant, as appropriate, of a certificate or book entry transfer representing the shares purchased upon exercise of his or her Option, provided that the Company may in its discretion hold fractional shares for the accounts of the participants pending aggregation to whole shares.

(c) Compliance with Law. Shares shall not be issued with respect to an Option unless the exercise of such Option and the issuance and delivery of such shares pursuant thereto comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise of an Option, the Company may require the participant for whom an Option is exercised to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law. Shares issued upon purchase under the Plan may be subject to such transfer restrictions and stop-transfer instructions as the Administrator deems appropriate.

(d) Excess Plan Account Balances. If, due to application of the Periodic Exercise Limit, there remains in a participant's Plan Account immediately following exercise of such participant's Option on an Exercise Date any cash accumulated during the Purchase Period immediately preceding such Exercise Date and not applied to the purchase of shares under the Plan, such cash shall promptly be returned to the participant.

7. Automatic Transfer to Low Price Offering Period.

If the Fair Market Value of the Common Stock as of the close of business on any Exercise Date is lower than the Fair Market Value of the Common Stock as of the opening of business on the Enrollment Date for the Offering Period in which such Exercise Date occurs, then all participants in such Offering Period shall be automatically withdrawn from such Offering Period immediately after the exercise of their Options on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

8. Withdrawal; Termination of Employment.

(a) Voluntary Withdrawal. A participant may withdraw from an Offering Period by giving written notice to the Company's payroll office at least five (5) business days prior to the next Exercise Date. Such withdrawal shall be effective beginning five business days after receipt by the Company's payroll office of notice thereof. On or promptly following the effective date of any withdrawal, all (but not less than all) of the withdrawing participant's payroll deductions credited to his or her Plan Account and not yet applied to the purchase of shares under the Plan will be paid to such participant, and on the effective date of such withdrawal such participant's Option for the Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the Offering Period. If a participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of any succeeding Offering Period unless the participant delivers to the Company a new subscription agreement with respect thereto.

(b) Termination of Employment. Promptly after a participant's ceasing to be an Eligible Employee for any reason the payroll deductions credited to such participant's Plan Account and not yet applied to the purchase of shares under the Plan will be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 10, and such participant's Option will be automatically terminated, provided that, if the Company does not learn of such death more than five (5) business days prior to an Exercise Date, payroll deductions credited to such participant's

Plan account may be applied to the purchase of shares under the Plan on such Exercise Date.

9. Transferability.

Neither payroll deductions credited to a participant's Plan Account nor any rights with regard to the exercise of an Option or to receive shares under the Plan nor any Option itself may be assigned, transferred, pledged or otherwise disposed of by the participant in any way other than by will, the laws of descent and distribution or as provided in Section 10 hereof. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Administrator may treat such act as an election to withdraw from an Offering Period in accordance with Section 8.

10. Designation of Beneficiary.

A participant may file a written designation of a beneficiary who is to receive any cash from the participant's Plan Account in the event of such participant's death and any shares purchased for the participant upon exercise of his or her Option but not yet issued. If a participant is married and the designated beneficiary is not the spouse, spousal consent may be required for such designation to be effective. A designation of beneficiary may be changed by a participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

11. Stock.

The maximum number of shares of the Company's Common Stock that shall be made available for sale under the Plan shall be 800,000 shares, subject to adjustment upon changes in capitalization of the Company as provided in Section 12. If on a given Enrollment Date or Exercise Date the number of shares with respect to which Options are to be granted or exercised exceeds the number of shares then available under the Plan, the Administrator shall make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable. Shares of Common Stock subject to unexercised Options that expire, terminate or are cancelled will again become available for the grant of further Options under the Plan.

12. Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the Reserves as well as the Purchase Price, Periodic Exercise Limit, and other characteristics of the Options, shall be appropriately and proportionately adjusted for any increase or decrease or exchange in the issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, exchange or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option. The Administrator may, if it so determines in the exercise of its sole discretion, provide for adjusting the Reserves, as well as the Purchase Price, Periodic Exercise Limit, and other characteristics of the Options, in the event the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock.

(b) Dissolution or Liquidation. In the event of the proposed

dissolution or liquidation of the Company, all pending Offering Periods will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Administrator, and all Plan Account balances will be paid to participants as appropriate consistent with applicable law.

(c) Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger or other combination (the "Transaction") of the Company with or into another entity, each Option under the Plan shall be assumed or an equivalent option shall be substituted by such successor entity or a parent or subsidiary of such successor entity, unless the Administrator determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the Offering Periods then in progress by setting a new Exercise Date (the "New Exercise Date"). If the Administrator shortens the Offering Periods then in progress in lieu of assumption or substitution, the Administrator shall notify each participant in writing, at least ten (10) days prior to the New Exercise Date, that the Exercise Date for such participant's Option has been changed to the New Exercise Date and that such participant's Option will be exercised automatically on the New Exercise Date, unless prior to such date the participant has

withdrawn from the Offering Period as provided in Section 8 (provided that, in such case, the participant's withdrawal shall be effective if notice thereof is delivered to the Company's payroll office at least two (2) business days prior to the New Exercise Date). For purposes of this Section, an Option granted under the Plan shall be deemed to be assumed if, following the Transaction the Option confers the right to purchase at the Purchase Price (provided that for such purposes the Fair Market Value of the Common Stock on the New Exercise Date shall be the value per share of the consideration paid in the Transaction), for each share of stock subject to the Option immediately prior to the Transaction, the consideration (whether stock, cash or other securities or property) received in the Transaction by holders of Common Stock for each share of Common Stock held on the effective date of the transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration received in the Transaction was not solely common equity of the successor entity or its parent (as defined in Section 424(e) of the Code), the Administrator may, with the consent of the successor entity and the participant, provide for the consideration to be received upon exercise of the Option to be solely common equity of the successor entity or its parent equal in fair market value to the per share consideration received by holders of Common Stock in the Transaction.

13. Administration.

The Plan shall be administered by the Committee, which shall have the authority to construe, interpret and apply the terms of the Plan and any agreements defining the rights and obligations of the Company and participants under the Plan, to prescribe, amend, and rescind rules and regulations relating to the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The Administrator may, in its discretion, delegate ministerial responsibilities under the Plan to the Company. Every finding, decision and determination made by the Committee shall, to the full extent permitted by law, be final and binding upon all parties. Any action of the Committee shall be taken pursuant to a majority vote or by the unanimous written consent of its members. The Committee shall consist of three or more members of the Board, each of whom shall be disinterested within the meaning of Rule 16b-3, provided, however, that the number of members of the Committee may be reduced or increased from time to time by the Board to the number required or allowed by Rule 16b-3. The Board may from time to time in its discretion exercise any responsibilities or authority allocated to the Committee under the Plan. No member of the Committee or any designee thereof will be liable for any action or determination made in good faith with respect to the Plan or any transaction arising under the Plan.

14. Amendment or Termination.

(a) Administrator's Discretion. The Administrator may, at any time and for any reason, terminate or amend the Plan. Except as provided in Section 12, no such termination can affect Options previously granted, provided that an Offering Period may be terminated by the Administrator on any Exercise Date if

the Administrator determines that such termination is in the best interests of the Company and its stockholders. Except as provided herein, no amendment may make any change in any Option theretofore granted that adversely affects the rights of any participant. To the extent necessary to comply with and qualify under Rule 16b-3 or under Section 423 (or any successor rule or provision or any other applicable law or regulation), the Administrator shall obtain stockholder approval of amendments to the Plan in such a manner and to such a degree as required.

(b) Administrative Modifications. Without stockholder consent (except as specifically required by applicable law or regulation) and without regard to whether any participant rights may be considered to have been "adversely affected," the Administrator shall be entitled to amend the Plan to the extent necessary to comply with and qualify under Rule 16b-3 and Section 423, change the Purchase Periods and/or Offering Periods, limit the frequency and/or number of changes in payroll deductions during Purchase Periods and/or Offering Periods, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion to be advisable and which are consistent with the Plan.

15. Term of Plan.

The Plan shall become effective upon the first Enrollment Date after its approval by the stockholders of the Company and shall continue in effect for a term of twenty (20) years unless sooner terminated pursuant to Section 14.

16. Miscellaneous.

(a) Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

(b) Subsidiaries. The Administrator may from time to time in its discretion permit persons who are employees of any Subsidiary whose customary employment is for more than five months per calendar year and for more than 20 hours per week to participate in the Plan on the same terms as Eligible Employees hereunder.

(c) Stockholder Approval. The Plan shall be subject to approval by the stockholders of the Company within twelve months before or after the date the Board adopts the Plan. If such stockholder approval is not obtained, the Plan and all rights to the Common Stock purchased under the Plan shall be null and void and shall have no effect.

(d) Additional Restrictions of Rule 16b-3. The terms and conditions of Options granted hereunder to, and the purchase of shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such Options shall contain, and the shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(e) No Employment Rights. The Plan does not, directly or indirectly, create any right for the benefit of an employee or class of employees to purchase any shares under the Plan, or create in any employee or class of employees any right with respect to continuation of employment by the Company, and it shall not be deemed to interfere in any

way with the Company's right to terminate, or otherwise modify, an employee's

employment at any time.

(f) Applicable Law. The laws of the State of California shall govern all matters relating to the Plan, except to the extent (if any) superseded by the laws of the United States.

(g) Headings. Headings used herein are for convenience of reference only and do not affect the meaning or interpretation of the Plan.

EXHIBIT A

LA JOLLA PHARMACEUTICAL COMPANY
1995 EMPLOYEE STOCK PURCHASE PLAN
SUBSCRIPTION AGREEMENT

_____ Original Application Enrollment Date: _____

_____ Change in Payroll Deduction Rate

_____ Change of Beneficiary(ies)

1. I, _____, hereby elect to participate in the La Jolla Pharmaceutical Company 1995 Employee Stock Purchase Plan (the "Plan") and subscribe to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Plan.

2. I hereby authorize payroll deductions from each paycheck in the amount of ____% (not to exceed 10%) of my Compensation (as defined in the Plan) on each payday during the Offering Period in accordance with the Plan. (Please note that no fractional percentages are permitted.)

3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my Option on each Exercise Date within the Offering Period.

4. I have received a copy of the complete Plan. I understand that my participation in the Plan is in all respects subject to the terms of the Plan, that capitalized terms used herein have the same meanings as ascribed thereto in the Plan, and that in case of any inconsistency between this Subscription Agreement and the Plan, the Plan shall govern. I understand that the grant of the Option by the Company under this Subscription Agreement is subject to stockholder approval of the Plan.

5. Shares purchased for me under the Plan should be issued in the name(s) of (employee and/or spouse only):_____
_____.

6. I understand that if I dispose of any shares received by me pursuant to the Plan within two years after the Enrollment Date (the first day of the Offering Period during which I purchased such shares) or within one year after the Exercise Date (the date I purchased such shares), I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were delivered to me over the price which I paid for the shares, regardless of whether I disposed of the shares at a price less than their fair market value at the Exercise Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss. I hereby agree to notify the Company in writing within 30 days after the date of any disposition of my shares, and I will make adequate provision for Federal, State or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my Compensation or other amounts payable to me the amount necessary to meet any

applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the one-year and two-year holding periods

described above, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (a) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (b) 15% of the fair market value of the shares on the first day of the Offering Period. The remainder of the gain or loss, if any, recognized on such disposition will be taxed as capital gain or loss. I understand that this tax summary is only a summary for general information purposes and is subject to change and I agree to consult with my own tax advisors for definitive advice regarding the tax consequences to me of participation in the Plan and sale of shares purchased thereunder.

7. I agree to be bound by the terms of the Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive (in proportion to the percentages listed below) all payments and shares due me under the Plan (use additional sheets to add beneficiaries):

NAME: (Please print) _____
(First) (Middle) (Last)

_____ _____
Relationship

Percentage: _____ _____
(Address)

NAME: (Please print) _____
(First) (Middle) (Last)

_____ _____
Relationship

Percentage: _____ _____
(Address)

Employee's Social
Security Number: _____

Employee's Address: _____

_____

_____

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: _____ _____
Signature of Employee

_____
Spouse's Signature (If beneficiary other than spouse)

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-69104) pertaining to the 1994 Stock Incentive Plan and the 1995 Employee Stock Purchase Plan and in the Registration Statements on Form S-3 (Nos. 333-31142, 333-43066, 333-55370 and 333-81432) of La Jolla Pharmaceutical Company of our report dated February 8, 2002, with respect to the financial statements of La Jolla Pharmaceutical Company included in its Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ Ernst & Young, LLP

ERNST & YOUNG LLP

San Diego, California
March 27, 2002