UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the fiscal year ended DECEMBER 31, 1998

[x] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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)

Registrant's telephone number, including area code: (619) 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 Warrants

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. [X]

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 March 17, 1999, was $71,642,242. The number of shares of the Registrant's common stock, $.01 par value, outstanding at March 17, 1999 was 20,110,103.

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 13, 1999, which proxy statement will be filed on or about April 13, 1999.

FORWARD-LOOKING STATEMENTS

This Report includes forward-looking statements, including without limitation those dealing with La Jolla Pharmaceutical Company's (the "Company" or "LJP") drug development plans and clinical trials, its relationship with

Abbott Laboratories ("Abbott"), and other matters described in terms of the Company's plans and expectations. The forward-looking statements in this Report involve risks and uncertainties, and a number of factors, both foreseen and unforeseen, could cause actual results to differ from the Company's current expectations. The Company's ongoing Phase II/III clinical trial of LJP 394, the Company's drug candidate for the treatment of systemic lupus erythematosus ("lupus" or "SLE"), could result in a finding that LJP 394 is not effective in producing a sustained reduction of double-stranded DNA ("dsDNA") antibodies in large patient populations or does not provide a meaningful clinical benefit. The Company's other potential drug candidates are at earlier stages of development and involve comparable risks. Payments by Abbott to the Company are contingent upon progress of clinical trials and the Company's achievement of certain other milestones that might not be met. The Company's relationship with Abbott could be terminated by either party for various reasons. Clinical trials could be delayed and could have negative or inconclusive results. 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, the Company's dependence on patents and other proprietary rights, the Company's limited manufacturing capabilities and the Company's lack of marketing experience. Readers are cautioned not to place undue reliance upon forward-looking statements, which speak only as of the date hereof, and the Company undertakes 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 "Certain Risk Factors" and elsewhere in this Report and in other reports and registration statements of the Company filed with the Securities and Exchange Commission ("SEC") from time to time.

PART I

ITEM 1. BUSINESS.

OVERVIEW

La Jolla Pharmaceutical 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 lupus and antibody-mediated stroke, are caused by abnormal B cell production of antibodies that attack healthy tissues. Current therapies 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, adverse side effects and hospitalization. Founded in 1989, the Company believes that its drug candidates, called Toleragens(R), will treat the underlying cause of many antibody-mediated diseases without these severe, adverse side effects. The Company is currently conducting a Phase II/III clinical trial initiated in December 1996 for its lupus drug candidate, LJP 394.

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 produce 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, myasthenia gravis 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 are generally treated with high levels of corticosteroids and immunosuppressive therapy (primarily anti-cancer 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, which may limit the use of this therapy. The use of chemotherapy may lead to acute problems, including weight loss and nausea, and long-term adverse effects, including sterility and an increased risk of malignancies.

LJP'S TOLERANCE TECHNOLOGY(R) PROGRAM

The Company's 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. The Company believes that its Toleragens will treat the underlying causes of antibody-mediated diseases, and that its Tolerance Technology can be applied broadly wherever antibodies are involved in the disease process.

Since the 1970s, hundreds of papers have been published describing animal studies and a Nobel Prize was awarded for research in B cell tolerance. The underlying science supporting the

Company's Tolerance Technology is based on these discoveries as well as on the Company's own patented research.

Toleragens are composed of disease-specific epitopes and a carrier platform, which are proprietary chemical structures developed and synthesized by the Company. To mimic the unique epitopes on an antigen's surface, LJP identifies and synthesizes epitopes specific to particular antibody-mediated diseases and attaches or conjugates 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. The Company believes that the Toleragen carrier platform, or a modification thereof, can be used with epitopes specific to various diseases to create therapeutics targeted at different antibody-mediated diseases.

The Company designs its 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 (optimization) and (4) linking the optimized epitope to the carrier platform. The Company believes this

process enables the Company to create Toleragens that will preferentially tolerize and shut down B cells that generate antibodies with the highest binding affinity, which are believed to be the most harmful.

To achieve this process, the Company utilizes advanced technologies to identify suitable epitopes that will bind to targeted disease-causing B cells. These technologies include:

Disease-Specific Screening Methods and Assays. The Company clones and expresses receptors that are associated with the targeted disease to screen the disease-causing antibodies from patient blood. After screening, these antibodies are presented to the epitope libraries through a series of assays in order to identify suitable epitope candidates. Using these methods, the Company selects lead epitope candidates with the highest antibody-binding affinity.

Combinatorial Epitope Libraries. Since 1991, the Company has been developing epitope libraries to provide a large and diverse pool of epitope candidates for screening. The libraries contain a collection of billions of different epitopes.

Molecular Modeling Capabilities. The Company uses nuclear magnetic resonance spectroscopy (NMR) and molecular modeling software to determine and analyze important three-dimensional structural features of epitopes and the related disease-causing antibodies. These capabilities permit further optimization of epitopes to increase their binding to targeted B cells.

Chemical Optimization Expertise. The Company optimizes lead epitope candidates by changing their chemical structure. These changes to the molecule increase its binding affinity and stability. The Company then attaches multiple copies of the lead epitope to the carrier platform to create a Toleragen. The Company's carrier platform technology provides a stable presentation of multiple copies of the epitope in an optimal configuration that increases binding affinity and tolerization of B cells.

BUSINESS STRATEGY

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

Complete the Clinical Development of LJP 394. The Company's primary near-term goal is to complete development of LJP 394 to treat lupus. The Company, along with its strategic partner Abbott, is conducting a Phase II/III clinical trial to evaluate the safety and efficacy of the drug in a large population of patients in North America and Europe.

Apply Tolerance Technology to Life-threatening Antibody-mediated Diseases. The Company is focusing on chronic, life-threatening diseases and conditions caused by antibodies, such as lupus, antibody-mediated thrombosis and organ rejection in xenotransplantation, for which there are no existing treatments or for which current therapeutics have significant limitations. The Company intends to use its 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. The Company has a collaborative agreement with Abbott for the worldwide development and commercialization of LJP 394, and intends to seek appropriate collaborations with other pharmaceutical companies to provide support for its research programs and the clinical development and commercialization of other drug candidates.

Exploit Proprietary Manufacturing Technology. Through the production of LJP 394 for clinical trials, the Company has developed proprietary synthesis and conjugation technologies that are being used in the development of its other

Toleragen candidates. The Company intends to further develop these technologies to increase manufacturing efficiencies and apply its expertise to the development and manufacture of other potential products.

Expand Intellectual Property Leadership Position. The Company owns 60 issued patents and has 58 pending patent applications covering various technologies and drug candidates, including its Tolerance Technology, its lupus and antibody-mediated stroke drug candidates, and its linkage technologies for its Toleragens. The Company plans to broaden this position with future discoveries and patent filings.

PRODUCTS UNDER DEVELOPMENT

The Lupus Program

Systemic lupus erythematosus 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 between 250,000 and 1,000,000, and 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 will progress to even more serious symptoms. Approximately 50% of lupus patients suffer renal involvement.

Antibodies to dsDNA can be detected in approximately 90% of untreated lupus patients. 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 inflammation -- called "flares" -- that may occur more than once per year and usually require intensive-care hospitalization. Significant kidney destruction occurs during a 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 morbidity and mortality.

The Company has 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 flares in lupus patients with renal involvement, and that suppressing antibodies to dsDNA by treating with corticosteroids that non-specifically lower antibody levels 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. The Company believes that its 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. The Company believes that its Tolerance Technology drug candidate preferentially targets these antibodies.

Results of Clinical Trials

Based on its preclinical findings, the Company filed an Investigational New Drug ("IND") application for LJP 394 with the United States Food and Drug Administration ("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.

The Company's Phase II clinical trials included a single-dose trial; a repeat escalating-dose trial; and a dose-ranging trial.

The single-dose clinical trial evaluated the safety of a single, 100 mg intravenous dose of LJP 394 in four female lupus patients by monitoring 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 dsDNA antibody levels was also observed. These results were presented at the American College of Rheumatology's Annual International Conference in October 1996.

The repeat escalating-dose clinical trial involved two female patients, each receiving doses of 10, 10, 50, 50, 100 and 100 mg of LJP 394 at two-week intervals. After the 10-week dosing regimen, patients were followed for six weeks. LJP 394 was well tolerated 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 antibody levels in both patients remained suppressed below baseline levels.

The dose-ranging trial evaluated 58 patients with mild lupus symptoms (53 females and five males). All patients were clinically stable and had dsDNA antibody 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 dsDNA antibodies. 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 dsDNA antibodies were accompanied by increases in median levels of two important inflammation-related complement proteins, C3 and C4, which normally decrease during active lupus renal disease and increase with clinical improvement. These study data suggest that complement levels and antibody levels were normalizing in parallel.

Throughout the dose-ranging trial, the drug was well tolerated with no clinically significant dose-related adverse reactions observed. Three patients experienced lupus 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 flares withdrew from the study, as did four patients who experienced exacerbations of lupus, and one patient who experienced 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 December 1996, the Company initiated a multicenter Phase II/III clinical trial of LJP 394. The purpose of the trial is to evaluate the safety of

the drug and its potential to prevent renal flares, reduce disease severity and the need for immunosuppressive steroids/chemotherapy drugs and improve patients' quality of life. The trial is being conducted in collaboration with Abbott in North America and Europe. Trial completion is currently estimated to be some time in 2000. This is a double-blind, placebo-controlled trial and the Company does not expect to announce interim efficacy results.

The 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; or will receive required regulatory

approvals. If the Phase II/III trial produces negative or inconclusive results, the Company's business and financial condition will be adversely affected and it may be difficult or impossible for the Company to survive.

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

Researchers believe that anticardiolipin antibodies promote arterial and venous blood clots, which can cause a variety of 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: antibody-mediated stroke, heart attack, deep vein thrombosis, recurrent fetal loss, and complications following cardiovascular surgery. The Company's program to develop a Toleragen to treat anticardiolipin antibodies targets stroke, myocardial infarction, deep vein thrombosis, recurrent fetal loss, and post-operative complications. These antibodies are associated with the formation of blood clots leading to multiple, recurring, and potentially life-threatening conditions. The Company estimates that there are more than 500,000 patients world wide with antibody-mediated thrombosis.

Stroke is a leading cause of death in the United States. In 1996, there were approximately two million stroke patients in the United States, approximately 700,000 new episodes occurred, and in 1994, approximately 150,000 people died 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 (blood clots), which clinicians believe may be caused by a number of factors including a class of antibodies called anticardiolipin antibodies, which can be identified and measured by a clinical laboratory assay. It is estimated that 5 to 10% of the strokes in the United States (affecting 100,000 to 200,000 patients) are caused by these antibodies. Antibody-mediated stroke is thought to occur in younger individuals and with greater frequency than non-antibody-mediated stroke. The cost of treatment for a survivor of a serious stroke is approximately $30,000 per year for life, to provide hospitalization and home nursing care.

Anticardiolipin antibodies are also associated with recurrent fetal loss, a syndrome of repeated miscarriage. Published clinical reports estimate that many women with elevated anticardiolipin antibody levels experience multiple miscarriages, delayed fetal development or premature childbirth. Recent academic research suggests that elevated levels of anticardiolipin 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 having a thrombotic event or death is twice as high in people with high anticardiolipin antibodies, and this risk is independent of other risk factors. In deep vein thrombosis, research indicates anticardiolipin antibody-positive patients have recurring deep vein thromboses twice as often as anticardiolipin antibody-negative patients.

Current treatments for antibody-mediated thrombosis involve the use of corticosteroids and 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.

The Company believes that a Toleragen that binds to B cells producing anticardiolipin antibodies may suppress antibody production and prevent or reduce antibody-associated blood clots. To develop such a Toleragen, the Company established a supply of blood samples taken from patients who had experienced stroke, deep vein thrombosis and recurrent fetal loss and purified antibodies from these samples. The Company has used these blood samples to identify several epitopes that react with a subset of patients. LJP scientists believe they have localized the epitope to one antibody-binding region of the antigen and will continue to optimize this and other cross-reactive epitopes prior to developing a potential Toleragen candidate.

Xenotransplantation

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 100,000 patients die annually, many of whom are too sick to qualify for waiting lists. A typical organ transplant can cost more than $100,000.

Hyperacute 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 di-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.

The Company believes that a Toleragen that binds to B cells producing antibodies to di-galactose may suppress antibody production and prevent or reduce antibody-mediated organ rejection in xenotransplantation. The Company also believes that such a Toleragen may provide benefit on a long-term basis by reducing the amount of immunosuppressive drugs needed to control the B cell production of antibodies to di-galactose.

LJP has synthesized the di-galactose epitope and attached it to several proprietary platforms to create new Toleragen candidates. The Company has conducted in vitro studies indicating that an appropriate Toleragen candidate could have the potential to bind to the antibodies responsible for hyperacute rejection following xenotransplantation. The Company has initiated the testing of a series of Toleragen candidates in primates to assess their potential to arrest the production of antibodies responsible for hyperacute rejection in xenotransplantation. In 1998, LJP synthesized a new five-fold more potent Toleragen candidate. In a short-term placebo-controlled study in primates, this Toleragen reduced levels of antibodies associated with organ rejection and was well tolerated on a short-term basis. The Company plans to institute additional primate studies of these improved compounds in 1999.

Other Antibody-Mediated Diseases

The Company believes its Tolerance Technology may be applicable to additional diseases and conditions caused by the production of disease-causing antibodies, including myasthenia gravis and Rh hemolytic disease of the newborn.

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 affected an estimated 20,000 people in the United States in 1994. The Company is engaged in the development of antibody libraries derived from

myasthenia gravis patients. These libraries may provide antibodies that can be screened against the Company's epitope libraries in order to identify potential epitope mimics. These mimics may be useful as Toleragens to specifically suppress the disease-causing antibodies in myasthenia gravis.

Rh hemolytic disease of the newborn is a life-threatening fetal condition characterized by the hemolysis (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. The Company believes 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. LJP has identified a potentially broadly cross-reactive peptide epitope candidate that binds to antibodies from patients with Rh hemolytic disease. These blood donors are specifically immunized to Rh and several known pathogenic monoclonal Rh antibodies. The Company is currently improving the potency of this epitope while continuing to evaluate other potentially cross-reactive candidate epitopes, with the expectation of using them to synthesize lead Toleragens.

COLLABORATIVE ARRANGEMENTS

As part of its business strategy, the Company pursues collaborations with pharmaceutical companies in an effort to access their research, drug development, manufacturing, marketing and financial resources. In December 1996, the Company entered into a collaborative relationship with Abbott for worldwide development and commercialization of LJP 394. Under the terms of a license and supply agreement between Abbott and the Company, Abbott obtained the exclusive right to market and sell LJP 394 throughout the world, and the Company retained manufacturing rights and ownership of all of its patents relating to the drug. Abbott is obligated to pay escalating royalties to the Company on sales of LJP 394, with additional premiums payable if specified sales levels are achieved. Abbott is also contractually obligated to purchase the drug in bulk form from the Company at prices calculated as a percentage of Abbott's net sales.

Abbott is responsible for funding future clinical development costs and for obtaining worldwide regulatory approvals for LJP 394. Pending regulatory approval, the collaborative contract requires Abbott and the Company to cooperate in the development of and clinical trials for the drug. Abbott also pays development costs incurred by the Company in accordance with a development plan and budgets that are mutually agreed upon. Abbott is responsible for marketing activities throughout the world, with cooperation and assistance from the Company. The Company is obligated to develop appropriate manufacturing capabilities and conduct patent prosecution in the major markets of the world. In 1998, the Company earned revenues of $8.6 million attributable to funding under the collaborative agreement with Abbott.

Concurrently with the formation of the collaborative relationship, Abbott made an initial $4.0 million license payment to the Company and purchased 1,000,050 shares of LJP's common stock for gross proceeds of $4.0 million. In September 1997 and October 1998, Abbott also purchased 831,152 and 1,538,402 shares of LJP's common stock, respectively, for gross proceeds of $4.0 million on each purchase date. The Company incurred research and development costs for the development of LJP 394 of approximately $9.9 million in 1997 and $8.6 million in 1998 under the collaborative agreement with Abbott. Abbott is obligated to make milestone payments upon the attainment of various performance and regulatory objectives. Both Abbott and the Company have the right to terminate the agreement under certain circumstances.

The Company intends to pursue collaborative arrangements with other pharmaceutical companies to assist in its research programs and the clinical development and commercialization of other drug candidates. There can be no

assurance that the Company will be able to negotiate arrangements with any other collaborative partners on acceptable terms, if at all, and any additional collaborative relationships are likely to include contingencies comparable to those affecting the Abbott relationship. 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 the Company's competitors, as a means for developing treatments for the diseases targeted by the Company. 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 the Company's technology.

Failure to establish or maintain collaborative arrangements will require the Company to fund its own research and development activities, resulting in accelerated depletion of the Company's capital, and will require the Company to develop its 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 the Company, 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 have a material adverse effect on the Company's business, financial condition and results of operations.

MANUFACTURING

The Company has constructed and is currently operating a pilot production facility for the manufacture of LJP 394 that is large enough to exceed its anticipated research and clinical trial needs for LJP 394. Through internal development programs and external collaborations, the Company has made several improvements to the manufacturing process for LJP 394 that have reduced costs and increased capacity. The Company has developed proprietary synthesis and conjugation technologies that are being used in the development of its other Toleragen candidates. The Company intends to further develop these technologies in order to increase manufacturing efficiencies and apply its expertise to the development and manufacture of other potential products.

However, the Company's current facilities are not yet adequate for commercial production. In order to meet its obligations to supply all LJP 394 in bulk form to Abbott for packaging and commercial resale, the Company will be required to invest substantial amounts of capital in the expansion of its facilities. The manufacture of the Company's potential products for clinical trials and the manufacture of any resulting products for commercial purposes is subject to current Good Manufacturing Practices ("cGMP"), as defined by the FDA. The Company has never operated an FDA-approved manufacturing facility, and there can be no assurance that it will obtain the necessary approvals. The Company has limited manufacturing experience, and no assurance can be given that it will be able to make the transition to commercial production successfully. The Company may enter into arrangements with contract manufacturers to expand its own production capacity in order to meet requirements for its products, or to attempt to improve manufacturing efficiency. If the Company chooses to contract for manufacturing services and encounters delays or difficulties in establishing relationships with manufacturers to produce, package and distribute its finished products, clinical trials, market introduction and subsequent sales of such products would be adversely affected. Moreover, contract manufacturers must operate in compliance with the FDA's cGMP requirements. The Company's potential

dependence upon third parties for the manufacture of its products may adversely affect the Company's profit margins and its 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, the Company must either develop a marketing and sales force or enter into marketing arrangements with third parties. Such arrangements may be exclusive or

nonexclusive and may provide for marketing rights worldwide or in a specific market. Abbott is responsible for worldwide marketing of LJP 394, but the Abbott agreement may terminate under certain circumstances and the Company has no arrangements with third parties for the marketing of any other drug candidates. There can be no assurance that the Company will be able to enter into any additional marketing agreements on terms favorable to the Company, if at all, or that any such agreements that the Company may enter into will result in payments to the Company. Under the Abbott agreement and any co-promotion or other marketing and sales arrangements that may be entered into with other companies, any revenues to be received by the Company will be dependent on the efforts of others and there can be no assurance that such efforts will be successful. To the extent that the Company chooses to attempt to develop its own marketing and sales capability, it will compete with other companies that currently have experienced and well-funded marketing and sales operations. Furthermore, there can be no assurance that the Company 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 the Company's drug candidates.

PATENTS AND PROPRIETARY TECHNOLOGIES

The Company files patent applications in the United States and in foreign countries, as it deems appropriate, for protection of its proprietary technologies and drug candidates. The Company owns 60 issued patents and has 58 pending patent applications covering various technologies and drug candidates, including its Tolerance Technology, its lupus and antibody-mediated-stroke drug candidates, and its linkage technologies for its Toleragens. The Company's issued patents include (1) four issued United States patents, one issued Australian patent, one granted Portuguese patent, one granted Norwegian patent, and one granted European patent, which has been unbundled as thirteen European national patents concerning its lupus Toleragens (expiring in 2009, 2011, 2013, 2014, 2007, 2013, 2011 and 2011, respectively); (2) two issued United States patents, two issued Australian patents, one granted European patent, which has been unbundled as fifteen European national patents and one granted Japanese patent concerning its Tolerance Technology (expiring in 2010, 2014, 2008, 2014, 2012 and 2012, respectively); (3) four issued United States patents and two issued Australian patents concerning linkage technologies for its Toleragens (expiring in 2012, 2015, 2015, 2016, 2014 and 2012, respectively); and (4) one issued United States patent concerning its antibody-mediated-stroke drug candidates (expiring in 2016). The Company has received a Notice of Allowance from the United States Patent And Trademark Office ("USPTO") for a patent application for antibody-mediated-stroke drug candidates, and a Notice of Allowance from the Japanese Patent Office and the European Patent Office for patent applications for linkage technologies for its Toleragens.

The Company's success will depend upon its ability to obtain patent protection for its therapeutic approaches and for any developed products, to preserve its trade secrets and to operate without infringing the proprietary rights of third parties. While the Company has received patents covering certain aspects of its technology, 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 patents will be held valid if subsequently challenged.

There is a substantial backlog of biotechnology patent applications at the USPTO that may delay the review and issuance of any patents. The patent position of biotechnology firms in general 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 such patents. To date, the Company has rights to certain United States and foreign issued patents and has filed or participated as a licensee in the filing of a number of patent applications in the United States relating to the Company's technology, as well as foreign counterparts of certain of these applications in certain countries. The Company intends to continue to file applications as appropriate for patents covering both its products and processes. There can be no assurance that patents will issue from any of these applications, or that claims allowed under issued patents will be sufficient to

protect the Company's technology. Patent applications in the United States are maintained in secrecy until a patent issues, and the Company cannot be certain that others have not filed patent applications for technology covered by the Company's pending applications or that the Company was the first to invent, or to file patent applications for, such technology. Competitors may have filed applications for, or may have received, patents and may obtain additional patents and proprietary rights relating to compounds or processes that block or compete with those of the Company.

A number of pharmaceutical and biotechnology companies and research and academic institutions have filed or may file patent applications, and have received or may receive patents in the fields being pursued by the Company. Certain of these applications or patents may be competitive with the Company's applications or conflict in certain respects with claims made under the Company's applications. In particular, the Company is aware of one currently pending United States patent application that, if allowed, may contain claims covering subject matter that may be competitive or conflicting with the Company's patents and patent applications. In addition, the Company is aware of a United States patent that has been issued to a third party that contains claims that may adversely affect the ability of the Company to pursue one of its projects. Any conflict between the Company's patents and patent applications and patents or patent applications of third parties could result in a significant reduction of the coverage of the Company's existing patents or any future patents that may be issued. In addition, to determine the priority of inventions, the Company may have to participate in interference proceedings declared by the USPTO or in opposition, nullity or other proceedings before foreign agencies with respect to any of its existing patents or patent applications or any future patents or applications, which could result in substantial cost to the Company. Further, the Company may have to participate at substantial cost in International Trade Commission proceedings to abate importation of goods which would compete unfairly with products of the Company. If patents containing competitive or conflicting claims are issued to other parties and such claims are ultimately determined to be valid, there can be no assurance that the Company would be able to obtain licenses to these patents at a reasonable cost, if at all, or be able to develop or obtain alternative technology.

The Company also relies upon unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain its competitive position, which it seeks to protect, in part, by confidentiality agreements with its commercial partners, collaborators, employees and consultants. The Company also has invention or patent assignment agreements with its employees and certain consultants. There can be no assurance that relevant inventions will not be developed by a person not bound by an invention assignment agreement, or that binding agreements will not be breached, that the Company will have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or

be independently discovered by competitors. In addition, the Company could incur substantial costs in defending against suits brought against it by others for infringement of intellectual property rights or in prosecuting suits which the Company might bring against other parties to protect its intellectual property rights.

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 the Company's targeted areas. These include companies that are conducting clinical trials and preclinical studies for the treatment of lupus.

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 the Company. In addition, other technologies may in the future be the basis of competitive products. There can be no assurance that the Company's competitors will not develop or obtain regulatory approval for products more rapidly than the Company, or develop and market technologies and products that are more effective than those being developed by the Company or that would render the Company's technology and proposed products obsolete or noncompetitive.

The Company believes that its ability to compete successfully will depend upon its 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. The Company expects 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

The Company's research and development activities and the future manufacturing and marketing of any products developed by the Company 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 the Company may develop. In addition to FDA regulations, the Company is 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 by the Company in its 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 by the Company.

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 IND 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 ("NDA"); and (5) FDA approval of the NDA 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 IND and, unless the FDA objects, the IND will become 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 IND. Each clinical trial is conducted under the auspices of an independent Institutional Review Board ("IRB"). The IRB will consider, 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 initial introduction of the drug into healthy human subjects, the drug is tested for safety (adverse effects), dosage tolerance, metabolism, distribution, excretion and clinical pharmacology. Phase II involves trials in a limited patient population to (1) characterize the actions of the drug in targeted indications, (2) determine drug tolerance and optimal dosage and (3) 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 both the clinical plans and 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 an NDA 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. In addition, the Company will be required to obtain separate regulatory approval for each indicated use of a drug. 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 cGMP requirements. Domestic manufacturing facilities are subject to biennial FDA inspections and foreign manufacturing facilities are subject to periodic inspections by the FDA or foreign regulatory authorities.

The Company is 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 procedure 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

The Company has 109 full-time employees (including 26 Ph.D.s or M.D.s), 89 of whom are involved full-time in research, development and manufacturing scale-up activities. All of the Company's management have had prior experience with pharmaceutical, biotechnology or medical product companies. The Company believes that it has been successful in attracting skilled and experienced scientific personnel, but competition for such personnel is intense and there can be no assurance that the Company will be able to attract and retain the individuals needed. None of the Company's employees are covered by collective bargaining agreements, and management considers relations with the Company's employees to be good.

LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings.

CERTAIN RISK FACTORS

In this section, all references to "we," "our," and "us," refer to La

Jolla Pharmaceutical Company, a Delaware corporation.

LJP 394, OR ANY OTHER DRUG CANDIDATE, MAY NOT BE SAFE OR EFFECTIVE

We must demonstrate in clinical trials that LJP 394, our only drug candidate in the clinical trial stage, is safe and effective for use before we apply for any regulatory approvals. The completion of our clinical trials may be delayed by many factors including slower-than-anticipated patient enrollment, a slower timetable as determined by us or a collaborative partner or any other adverse event. It is possible that we may not successfully complete any clinical trials. Any delays in, or termination of, our clinical trial efforts would have a material adverse effect on our business, financial condition and results of operations. If LJP 394 is not found to be safe or effective, we would be unable to obtain regulatory approval for its commercialization. If that were to occur, there is no assurance that we would be able to develop an alternative drug candidate. Therefore, because LJP 394 is our only drug candidate in clinical trials, our inability to commercialize it would have a material adverse effect on our business, financial condition and results of operation.

OUR EARLY STAGE OF PRODUCT DEVELOPMENT MAKES SUCCESSFUL MARKETING OR COMMERCIAL ACCEPTANCE OF OUR PRODUCTS UNCERTAIN

All of our product development efforts are based on unproven technologies and therapeutic approaches that have not been widely tested or used. LJP 394 has not been proven to be effective in humans and its tolerance technology has been used only in our preclinical tests and

clinical trials. Application of LJP 394's tolerance technology to antibody-mediated diseases other than lupus is in even earlier research stages. Our therapeutic approaches may not be successful and may not result in any commercially successful products.

LJP 394 and our other potential drug candidates require significant additional research and development and are subject to significant risks. For example, potential products that appear to be promising at early stages of development may be ineffective or cause harmful side effects during preclinical testing or clinical trials, not receive necessary regulatory approvals, be difficult to manufacture, be uneconomical to produce, not be accepted by consumers, or be precluded from commercialization by the proprietary rights of others. We may not successfully complete development of LJP 394 or any other drug candidate or may not obtain required regulatory approvals. If introduced, LJP 394 or any other drug candidate may not generate sales.

WE MUST ESTABLISH OR MAINTAIN COLLABORATIVE ARRANGEMENTS

We seek to collaborate with pharmaceutical companies to access their research, drug development, manufacturing, marketing and financial resources. In December 1996, we entered into a collaborative agreement with Abbott. The agreement grants Abbott the exclusive right to market and sell LJP 394 throughout the world in exchange for royalties on sales, development financing, and milestone payments. Abbott's obligations to make payments to us and to conduct development activities are conditioned on the progress of clinical trials and the attainment of milestones related to regulatory approvals and sales levels. These conditions may not be met. In addition, Abbott has the right to terminate the relationship at any time based on documented safety or efficacy issues. Abbott may also terminate the relationship without cause within 90 days of receipt of the results of the pending Phase II/III clinical trial that was started in December 1996 and is expected to be completed in 2000. Furthermore, both Abbott and the Company may terminate the relationship under certain other circumstances.

We also intend to pursue collaborative arrangements with other pharmaceutical companies to assist in our research programs and the clinical development and commercialization of our other drug candidates. However, we may not be able to negotiate arrangements with any other collaborative partners on acceptable terms, if at all. Any additional collaborative relationships that we enter into probably will include conditions comparable to those in the Abbott agreement. Once a collaborative arrangement is established, the collaborative

partner may not continue funding any particular program or may pursue alternative technologies or develop alternative drug candidates, either alone or with others, to develop treatments 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 would need to fund our own research and development activities. This would accelerate the depletion of our capital and require us to develop our own marketing capabilities. Therefore, if we fail to establish or maintain collaborative arrangements, we could experience a material adverse effect on our business, financial condition and results of operations.

ADDITIONAL FINANCING MAY NOT BE AVAILABLE OR MAY NOT BE AVAILABLE ON ACCEPTABLE TERMS

Our operations have used substantial capital resources and we will continue to require substantial and increasing amounts of capital to support research, product development, preclinical testing and clinical trials of our drug candidates; to establish commercial-scale manufacturing capabilities; and to market our potential products. 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 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;
- The competing technological and market developments;
- Our ability to establish and maintain collaborative research and development arrangements; and
- The cost of manufacturing scale-up and effective commercialization activities and arrangements.

Additional drug development programs are expected to result in increased expenditures of our funds. Although we expect our capital resources will be sufficient to fund our currently planned activities into 2000, it is possible that we will need additional financing sooner than currently expected. If needed, additional financing may not be available or, if available, may not be available on acceptable terms. 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 may require us to relinquish rights to our technologies or potential products. Any of these scenarios could have a material adverse effect on our business, financial condition and results of operations.

HISTORY OF OPERATING LOSSES; UNCERTAINTY OF FUTURE PROFITABILITY

We have incurred operating losses each year since our inception in 1989 and had an accumulated deficit of approximately $62.6 million as of December 31, 1998. Our losses are likely to exceed those experienced in prior years if the scope of our programs reaches expected levels, if Abbott does not provide all the financing currently anticipated for the development of LJP 394, or if we are not successful in establishing additional collaborative relationships to help finance other drug discovery programs. To achieve profitability we must, among other things, 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 scale-up 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.

GOVERNMENT REGULATIONS; WE MAY NOT OBTAIN REGULATORY APPROVAL

We will need to obtain regulatory approval from the FDA and from health authorities in other countries prior to marketing any potential product that we develop. The regulatory approval process includes preclinical testing and clinical trials and may include post-marketing surveillance of each compound to establish its safety and efficacy. Regulatory approval for a

drug may include limitations on its indicated uses. In addition, we will be required to obtain separate regulatory approval for each indicated use of a drug. This regulatory process can take many years and require the expenditure of substantial resources. Even if regulatory approval is obtained, a marketed drug and its manufacturer are subject to continuing review. The discovery of previously unknown problems with a product may have adverse effects on our business, financial condition and results of operations, including withdrawal of the product from the market. A violation of regulatory requirements at any stage will result in various adverse consequences, including the FDA's delay in approving or its refusal to approve a product; withdrawal of an approved product from the market; and the imposition of criminal penalties against the manufacturer and new-drug-application holder. We have not submitted a new drug application for any drug candidate other than LJP 394, and none of our drug candidates have been approved for commercialization in the United States or elsewhere. We may not obtain regulatory approval for our drug candidates. If we do not obtain the requisite government approvals or approvals of the scope requested, we and any of our licensees and marketing partners will be delayed or precluded from marketing our drug candidate. Any delay will have a material adverse effect on our business, financial condition and results of operations.

UNCERTAINTY OF PATENTS PENDING AND VULNERABILITY OF PROPRIETARY TECHNOLOGY

We have rights to certain United States and foreign issued patents and have filed or participated as a licensee in the filing of a number of patent applications in the United States relating to our technology, as well as foreign counterparts of certain of these applications in certain countries. Patents may not issue from any of these applications, and claims allowed under issued patents may not be sufficient to protect our technology. In addition, the scope of any patent protection may not be sufficient, and current or future issued patents may not be held valid if subsequently challenged. Patent applications in the United States are maintained in secrecy until a patent issues, and we cannot be certain that others have not filed patent applications for technology covered by our pending applications or that we were the first to invent, or to file patent applications for, the technology.

Certain applications or patents filed by pharmaceutical and biotechnology companies and research and academic institutions may be competitive with our applications or conflict in certain respects with claims made under our applications, which could result in a reduction of the coverage of our existing patents or any future patents that may be issued. In particular, we are aware of one currently pending United States patent application that, if allowed, may contain claims covering subject matter that may be competitive or conflicting with our patents and patent applications. In addition, we are aware of a United States patent that has been issued to a third party that contains claims that may adversely affect our ability to pursue one of our projects. If patents containing competitive or conflicting claims are issued to other parties and such claims are ultimately determined to be valid, we may not be able to obtain licenses to these patents at a reasonable cost, if at all, or be able to develop or obtain alternative technology.

We also rely on unpatented trade secrets and improvements, know-how and continuing technological innovation to develop and maintain our competitive position. We seek to protect these trade secrets, in part, through confidentiality agreements with our commercial partners, collaborators,

employees and consultants. We also have invention or patent assignment agreements with our employees and consultants. Relevant inventions, however, may be developed by a person not bound by an invention assignment agreement; or binding agreements may be breached for which we may not have adequate remedies; and our trade secrets may otherwise become known or be independently discovered by competitors. In addition, we could incur substantial costs in defending suits brought against us by others for infringement of

intellectual property rights or in prosecuting suits which we might bring against other parties to protect our intellectual property rights.

INCREASED COMPETITION AND RAPID TECHNOLOGICAL CHANGE MAY ADVERSELY AFFECT THE MARKETABILITY OF OUR PRODUCTS

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 is expected to increase. A number of companies and institutions 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. Our competitors may develop or obtain regulatory approval for products more rapidly than we do, 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.

EXPANSION OF MANUFACTURING CAPABILITIES REQUIRED FOR COMMERCIALIZATION

The manufacture of our potential products for clinical trials and the manufacture of any resulting products for commercial purposes are subject to cGMP requirements as defined by the FDA. While we are producing limited quantities of LJP 394 for clinical trials, our current facilities are not adequate for commercial production of our potential products. Under our agreement with Abbott, we are responsible for manufacturing LJP 394 and selling it in bulk form to Abbott for packaging and commercial resale. Substantial capital investment in the expansion and build-out of our manufacturing facilities will be required to enable manufacture of any products in commercial quantities. We have never operated an FDA-approved manufacturing facility and 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 its 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, market introduction and subsequent sales of these products would be adversely affected. If we become dependent on third parties for the manufacture of our products, our profit margins and our ability to develop and deliver products on a timely and competitive basis may be adversely affected.

LACK OF MARKETING EXPERIENCE

In order to commercialize any drug candidate approved by the FDA, we must either develop a marketing and sales force or enter into marketing arrangements with third parties. Abbott has agreed to be responsible for the worldwide marketing of LJP 394, but the Abbott agreement may terminate under certain circumstances. We currently have no arrangements with any other third party for marketing of any of our drug candidates and we may be unable to enter into any additional marketing agreements on terms favorable to us, if at all. To the extent that we choose to attempt to develop our own marketing and sales capabilities, we will compete with other companies that already have experienced and well-funded marketing and sales operations. We or any collaborative partner may be unable to establish sales and distribution capabilities without undue delays or expenditures. Furthermore, it is possible that we may never achieve

commercial acceptance of any of our drug candidates. Our inability to successfully market our drug candidates would have a material adverse effect on our business, financial condition and results of operations.

UNCERTAINTIES RELATED TO PHARMACEUTICAL PRICING AND REIMBURSEMENT

The emphasis on managed care in the United States will continue to put pressure on pharmaceutical pricing. Cost control initiatives could decrease the price that we receive for any products we may develop and sell in the future. Further, to the extent that cost control initiatives have a material adverse effect on our commercial partners, our ability to commercialize our products may be adversely affected.

Our ability to commercialize pharmaceutical products may depend in part on the extent to which reimbursement for the products will be available from government health administration authorities, private health insurers and other third-party payers. Significant uncertainty exists as to the reimbursement status of newly approved health-care products. Third-party payers, including Medicare, are increasingly challenging the prices charged for medical products and services. Third-party insurance coverage may not be available to patients for any products developed by us. Government and other third-party payers are increasingly attempting to contain health-care costs by limiting both coverage and the level of reimbursement for new therapeutic products and by refusing in some cases to provide coverage for users of approved products for disease indications for which the FDA has not granted labeling approval. If adequate coverage and reimbursement levels are not provided by government and other third-party payers for our products, the market acceptance of these products would be adversely affected.

The continuing efforts of government and third-party payers to contain or reduce the costs of health care may have a material adverse effect on our business, financial condition and results of operations.

POTENTIAL PRODUCT LIABILITY; UNCERTAINTIES RELATED TO INSURANCE

We have not received marketing approval from the FDA for any of our drug candidates. We currently use LJP 394 only in clinical trials. The use of LJP 394 or any of our other potential products in clinical trials and the ultimate sale of any approved products will expose us to potential product liability claims. If any product liability claims were to be made against us, we would also be subject to negative publicity. Although we maintain product liability insurance coverage for claims arising from the use of our products in clinical trials in the amount of $15.0 million, we may not be able to maintain product liability insurance at a reasonable cost or in sufficient amounts to protect us against product liability losses. Therefore, both the filing of a product liability claim against us and the resulting negative publicity could have a material adverse effect on our business, financial condition and results of operations.

DEPENDENCE ON KEY EMPLOYEES AND CONSULTANTS

We believe that our ability to achieve our research and development objectives depends on the continued employment of the principal members of our scientific and management staff and the recruitment of additional qualified scientific personnel. We also rely on consultants and advisors to assist us in formulating our research and development, clinical, regulatory and manufacturing strategies. All of our consultants and advisors are independent contractors and may have commitments or consulting or advisory contracts with other entities that may affect their ability to contribute to our objectives.

ENVIRONMENTAL MATTERS AND HAZARDOUS MATERIALS

Due to the nature of our manufacturing processes, we are subject to stringent federal, state and local laws, rules, regulations and policies

governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. We may be required to incur significant costs to comply with environmental regulations as manufacturing is increased to commercial volumes. Our operations, business or assets may be materially and adversely affected by current or future environmental laws, rules, regulations and policies or by any releases or discharges of hazardous material.

In our research activities, we utilize 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.

ANTI-TAKEOVER DEVICES

There are certain anti-takeover devices in place that may discourage or deter a potential acquirer from attempting to gain control of us. Certain provisions of the Delaware General Corporation Law may have the effect of deterring hostile takeovers or delaying or preventing changes in the control or management of us, including transactions in which stockholders might otherwise receive a premium for their shares over then-current market prices. We may also issue shares of preferred stock without stockholder approval and upon such terms as our Board of Directors may determine. 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 the common stock. In 1998, we designated 75,000 shares of preferred stock as Series A Junior Participating Preferred Stock in connection with our Rights Plan. The Rights Plan could cause an unapproved takeover to be much more expensive to an acquirer, resulting in a strong incentive to negotiate with our Board of Directors. In addition, our bylaws do not allow stockholders to call a special meeting of stockholders, require stockholders to give written notice of any proposal or director nomination to us within a certain period of time prior to the stockholder annual meeting, and establish certain qualifications for a person to be elected or appointed to the Board of Directors during the pendency of certain business combination transactions.

ITEM 2. PROPERTIES.

The Company leases two adjacent buildings in San Diego, California for a total of approximately 54,000 square feet. One building contains research and development labs and clinical manufacturing facilities, and the other contains general offices and the Company's warehouse. Each building is subject to a lease, one that expires in 2001 and one that expires in 2004. Each lease includes an option exercisable by the Company to extend the term of the agreement for an additional five years and is subject to escalation clauses that provide for annual rent increases based on the U.S. Consumer Price Index. The Company believes that these facilities will be adequate to meet its needs for the near term. Over the longer term, management believes additional space can be secured at commercially reasonable rates.

ITEM 3. LEGAL PROCEEDINGS.

The Company is 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 the Company's security holders during the three month period ended December 31, 1998.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers and key employees of the Company and their ages are set forth below.

Steven B. Engle	44	Chairman of the Board, Chief Executive Officer, and Assistant Secretary
Mark T. Edgar, Ph.D.	48	Senior Vice President of Product Development and Operations
Bonnie Hepburn, M.D.	58	Vice President of Clinical Development
Richard Jack, Ph.D.	45	Vice President of Research
Matthew D. Linnik, Ph.D.	39	Vice President of Research
Wood C. Erwin, CPA	48	Vice President of Finance, Chief Financial Officer and Secretary
William J. Welch	37	Vice President of Business Development
Richard W. Krawiec, Ph.D.	51	Vice President of Investor Relations
Andrew Wiseman, Ph.D.	50	Director of Business Development

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, and 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. 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. Since 1998, Mr. Engle has served as a Director of CareLinc Corporation, a privately held developer of clinical information management systems, and of BIOCOM, a regional trade

association for the biotechnology and medical devices industries. 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.

MARK T. EDGAR, Ph.D., Senior Vice President of Product Development and Operations, joined the Company in May 1995 as Vice President of Manufacturing. Prior to joining the Company, Dr. Edgar was with Syntex Corp., a pharmaceutical company, for 15 years, during which time he served in a variety of capacities, including as Vice President and Director of the CNTF Program Management Team at Syntex Development Research from 1993 to 1995; Director of Operations at Syntex Bahamas Chemical from 1990 to 1993; and Director of Manufacturing Engineering and Materials at Syntex Laboratories, Inc. from 1987 to 1990. Dr. Edgar holds a Ph.D. in Organic Chemistry from Arizona State University and an M.B.A. from the University of Colorado.

BONNIE HEPBURN, M.D., a practicing rheumatologist, joined the Company in April 1996 as Vice President of Clinical Development. Prior to joining the Company, from 1994 to 1995, Dr. Hepburn served as Director of Immunology Clinical Research for Centocor, a biopharmaceutical company. From 1987 to 1994, Dr. Hepburn held several positions with Ciba-Geigy Ltd., a pharmaceutical company, including Head of Inflammation, Bone and Allergy Clinical Research, Executive Director of Anti-Inflammatory and Pulmonary Clinical Research, and Director of Regulatory Affairs. She served as a member and chairman of the FDA

Arthritis Advisory Committee from 1980 to 1983 and also on the Committee for Revision of FDA Antirheumatic Drug Guidelines. Since 1998, she has been Chief Medical Officer for Santarus, Inc., a pharmaceutical company. Dr. Hepburn is a Clinical Professor of Medicine at the University of California, San Diego. Dr. Hepburn received her B.A. from Wellesley College and her M.D. from the University of Pennsylvania School of Medicine, and completed her medical residency and fellowship in rheumatology at the Mayo Clinic.

RICHARD JACK, Ph.D., Vice President of Research, joined the Company in 1996 as Associate Director of Research and Development, was promoted to Director of Research and Development in 1998 and became Vice President of Research in 1999. Prior to joining the Company, from 1993 to 1996, Dr. Jack was a consultant with Alkermes, a drug-delivery company. From 1987 to 1997, he served as a faculty member in the Department of Medicine at Harvard Medical School. From 1988 to 1997, he also served as a Member of the Graduate School Immunology Program at Harvard Medical School, and was an Associate Immunologist in the Department of Rheumatology and Immunology at Brigham and Women's Hospital. From 1984 to 1987, Dr. Jack served as Instructor in Medicine at Harvard Medical School and from 1982 to 1984, he served as Research Fellow in the Department of Rheumatology and Immunology at Brigham and Women's Hospital and Harvard Medical School. Dr. Jack holds a B.A. in Biology from Bates College and a Ph.D. in Immunology from the University of Connecticut Health Center.

MATTHEW D. LINNIK, Ph.D., Vice President of Research, joined the Company in 1998 as Director of Research and Development and became Vice President of Research in 1999. 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.

WOOD C. ERWIN, Vice President of Finance and Chief Financial Officer, joined the Company in 1996. Prior to joining the Company, Mr. Erwin served during 1995 as Vice President of Finance and Chief Financial Officer of Resource Optimization, Inc., a software company. From 1992 to 1995 he served as Chief Financial Officer of MedClone, Inc., a biotechnology company developing therapeutics for autoimmune diseases. From 1991 to 1992, Mr. Erwin served as Vice President of Finance and Chief Financial Officer of Med Images, Inc., a provider of computerized services to hospitals; and from 1986 to 1991 as Chief Financial Officer and Director of Operations of LipoGen, Inc., a biotechnology company. Mr. Erwin was also the Controller of Plasti-Line, Inc., a publicly traded manufacturer of illuminated signs; Vice President of Finance of Kusan, Inc., a subsidiary of Bethlehem Steel Corp.; and Cost Analyst for Oscar Mayer Company. Mr. Erwin holds B.S. and M.B.A. degrees from the University of Tennessee and is a Certified Public Accountant and Certified Management Accountant.

WILLIAM J. WELCH joined the Company in 1998 as Vice President of Business Development. Prior to joining the Company, from 1993 to 1998, Mr. Welch worked for Abbott Laboratories, with positions advancing to General Manager of Abbott Ambulatory Infusion Systems. While at Abbott Laboratories, Mr. Welch was Senior Marketing Manager at Abbott Renal Care and Senior Manager of Corporate Planning, Development and Licensing. From 1991 to 1993, Mr. Welch was Director of Business Development for In-Process Technology, a privately held company that manufactured process equipment for the pharmaceutical industry. Mr. Welch holds an M.B.A. from Harvard University and a B.S. in Chemical Engineering from the University of California, Berkeley.

RICHARD W. KRAWIEC, Ph.D., Vice President of Investor Relations, joined the Company in February 1999. Prior to joining the Company, from 1994 to 1998, Dr. Krawiec served as Director of Corporate Communications for Amylin Pharmaceuticals, Inc., a publicly held company that develops drugs. From 1992 to

1994, he was Director of Investor Relations and Corporate Communications at IDEC Pharmaceuticals Corp., a publicly traded company that develops drugs. From 1991 to 1992, he was Editor-In-Chief of Biotechnology Week magazine at Cahners Publishing Co. From 1981 to 1991, he held several positions at McGraw-Hill Publications Co. including Managing Editor of Biotechnology Newswatch. Dr. Krawiec holds a Ph.D. in Biological Sciences from the University of Rhode Island and a B.S. in Biology from Boston University.

ANDREW WISEMAN, Ph.D., has served as Director of Business Development for the Company since its formation in May 1989 and also served as head of investor relations from 1994 until 1999. From 1983 to 1989, Dr. Wiseman held several positions with Quidel Corporation, including Senior Research Scientist, Project Manager in Diagnostic Research and Development, and Manager of Business Development. Dr. Wiseman was an Assistant Professor at the Medical Biology Institute and an Assistant Member at the Scripps Clinic and Research Foundation and holds a Ph.D. in Genetics from Duke University.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock trades on the Nasdaq National Market under the symbol "LJPC." Set forth below are the high and low sales prices for the Company's Common Stock for each full quarterly period within the two most recent fiscal years.

	Prices	
Year Ended December 31, 1998	High	Low
First Quarter	4-15/16	3-5/16
Second Quarter	4-5/16	3-7/16
Third Quarter	3-10/16	1-10/16
Fourth Quarter	5	2-1/4
Year Ended December 31, 1997		
First Quarter	6	4-31/64
Second Quarter	5-5/8	3-7/8
Third Quarter	5-1/2	3-7/8
Fourth Quarter	5-7/8	4-1/8

The Company has not paid dividends on its Common Stock and does not anticipate paying dividends in the foreseeable future.

The approximate number of record holders of the Company's Common Stock as of March 17, 1999 was 307.

In October 1998, the Company sold 1,538,402 shares of its Common Stock to Abbott for an aggregate price of $4.0 million. The sale was a privately negotiated sale to a single buyer and was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, and there were no underwriters involved.

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,				
	1994	1995	1996	1997	1998
	(In thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Revenue from collaborative agreements	$ --	$ 3,000	$ 4,000	$ 9,860	$ 8,600
Expenses:					
Research and development	8,499	9,804	11,663	14,676	14,627
General and administrative	2,049	2,390	2,920	2,937	3,076
Loss from operations	(10,548)	(9,194)	(10,583)	(7,753)	(9,103)
Interest expense	(364)	(301)	(183)	(56)	(6)
Interest income	599	941	1,170	1,441	1,232
Net loss	$(10,313)	$ (8,554)	$ (9,596)	$ (6,368)	$ (7,877)
Basic and diluted net loss per share	$ (1.44)	$ (0.79)	$ (0.63)	$ (0.36)	$ (0.42)
Shares used in computing basic and diluted net loss per share	7,137	10,883	15,150	17,547	18,649
BALANCE SHEET DATA:					
Working capital	$ 12,643	$ 21,949	$ 25,886	$ 23,705	$ 19,911
Total assets	$ 17,094	$ 26,375	$ 31,687	$ 29,646	$ 25,815
Noncurrent portion of obligations under capital leases	$ 1,628	$ 892	$ 168	$ --	$ --
Stockholders' equity	$ 13,810	$ 23,568	$ 27,938	$ 25,715	$ 21,859

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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

The Company expects that losses will 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, 1998, the Company's accumulated deficit was approximately $62.6 million.

The Company's business is subject to significant risks including, but not limited to, the risks inherent in its research and development efforts, including clinical trials, uncertainties associated with both obtaining and enforcing its patents and with 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 and dependence on its collaborative relationship with Abbott, a related party. Even if the

Company's product candidates appear promising at an early stage of development, they may not reach the market for numerous reasons. Such reasons include 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 proprietary rights of third parties.

RESULTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

Revenue. The Company had revenue of $8.6 million, $9.9 million and $4.0 million for the years ended December 31, 1998, 1997 and 1996, respectively. In December 1996, the Company entered into a collaborative agreement with Abbott for the worldwide development and commercialization of LJP 394, the Company's lupus drug candidate. Revenue in 1998 and 1997 was attributable to the funding from Abbott for the development of LJP 394. Revenue in 1996 was attributable solely to an up-front license fee upon the signing of the Company's collaborative agreement with Abbott. The collaborative agreement with Abbott obligates Abbott to make further development funding and milestone payments, however both Abbott and the Company have the right to terminate the agreement under certain circumstances. Accordingly, there is no assurance that the Company will realize any further revenue from this arrangement or any other collaborative arrangement.

Research and Development Expenses. The Company's research and development expenses of $14.6 million for the year ended December 31, 1998 were comparable to the expenses in 1997 of $14.7 million, which increased from $11.7 million in 1996. Although the research and development expenses for 1998 increased due to the expansion of the Company's research and development programs, these increases were offset by the decrease in expenses related to clinical trials which were paid directly by Abbott and the timing of purchases for the production of LJP 394 for use in clinical trials. Several factors contributed to the increase in research and development expenses from 1996 to 1997, including manufacturing scale-up activities, expansion of the Company's research and development programs and increased facilities expenditures. The Company's research and development expenses are expected to increase significantly in the future as manufacturing scale-up activities including the production of LJP 394 for clinical trials are increased, efforts to develop additional drug candidates are intensified, and potential products progress into and through clinical trials.

General and Administrative Expenses. The Company's general and administrative expenses of $3.1 million for the year ended December 31, 1998 increased slightly from expenses of $2.9 million in both 1997 and 1996. Several factors contributed to this increase from 1997, including expanded business development and investor relations activities. The Company expects general and administrative expenses to increase in the future to support increased manufacturing scale-up and research and development activities.

Interest Income and Expense. The Company's interest income decreased to $1.2 million for the year ended December 31, 1998 from $1.4 million in 1997 and was comparable to $1.2 million in 1996. The decrease in interest income in 1998 as compared to 1997 was due to lower investment balances. The increase in interest income in 1997 as compared to 1996 was due to the investment of the proceeds from the Company's additional stock issuance to Abbott in September 1997 and from the development funding received from Abbott throughout 1997. Interest expense decreased to $6,000 for the year ended December 31, 1998 from $56,000 in 1997 and $183,000 in 1996. The decreases in interest expense were the result of decreases in the Company's capital lease obligations.

Net Operating Loss Carryforwards. At December 31, 1998, the Company had available net operating loss carryforwards and research tax credit carryforwards of approximately $59.6 million and $2.6 million, respectively, for federal income tax purposes, which will begin to expire in 2004 unless previously utilized. Because of "change in ownership" provisions of the Tax Reform Act of 1986, the Company's net operating loss and tax credit carryforwards will be subject to an annual limitation regarding utilization against taxable income in

future periods. The Company believes that such limitation will not have a material impact on the benefits that may arise out of its net operating loss and tax credit carryforwards. However, there can be no assurance that additional limitations arising from any future changes in ownership will not have a material impact on the Company. For more information concerning the provision for income taxes, see Note 7 of the Notes to Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

From inception through December 31, 1998, the Company had incurred a cumulative net loss of approximately $62.6 million and financed its operations through private and public offerings of its securities, revenues from collaborative agreements, capital and operating lease transactions, and interest income on its invested cash balances. As of December 31, 1998, the Company had raised $83.7 million in net proceeds since its inception from sales of equity securities.

At December 31, 1998, the Company had $23.4 million in cash, cash equivalents and short-term investments, as compared to $27.0 million at December 31, 1997. The Company's working capital at December 31, 1998 was $19.9 million, as compared to $23.7 million at December 31, 1997. The decrease in cash, cash equivalents and short-term investments resulted from the decrease in funding received from Abbott for the development of LJP 394 and the increase in spending on non-lupus-related research and development programs. The Company received $11.1 million in funding and a $4.0 million up-front license fee, which was earned in 1996, from Abbott in 1997, as compared to $9.1 million in funding received in 1998. The decrease in payments received in 1998 was due to the direct payment of expenses related to clinical trials by Abbott beginning in the fourth quarter of 1997. The Company invests its cash in corporate and United States Government-backed debt instruments.

As of December 31, 1998, the Company had acquired an aggregate of $4.1 million in property and equipment, of which approximately $196,000 of total equipment costs is financed under capital lease obligations. In addition, the Company leases its office and laboratory facilities and certain equipment under operating leases. The Company has no material commitments for the acquisition of property and equipment. However, the Company anticipates increasing its investment in property and equipment in connection with the enhancement of its research and development and manufacturing facilities and capabilities.

The Company intends to use its financial resources to fund manufacturing scale-up activities including the production of LJP 394 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.

The Company anticipates that its existing capital and interest earned thereon and anticipated funding from the Abbott collaboration will be sufficient to fund the Company's operations as currently planned into 2000. The Company's future capital requirements will depend on many factors, including continued scientific progress in its research and development programs, the size and complexity of these programs, the scope and results of 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, the ability of the Company to maintain its collaborative arrangement with Abbott and to establish and maintain additional collaborative relationships, and the cost of manufacturing scale-up and effective commercialization activities and arrangements. The Company expects to incur significant net operating losses each year for at least the next several years as it expands its current research and development programs and increases its general and administrative expenses to support a larger, more complex organization. It is possible that the Company's cash requirements will exceed current projections and that the Company will therefore need additional

financing sooner than currently expected.

The Company has no current means of generating cash flow from operations. The Company's 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, a process that is expected to take at least the next several years. The Company's other drug candidates are much less developed than LJP 394. There can be no assurance that the

Company's 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, the Company must continue to rely upon outside sources of financing to meet its capital needs for the foreseeable future.

Abbott's funding of the development costs for LJP 394 and milestone payments are expected to continue to enhance the Company's short-term liquidity by minimizing the expenditure of the Company's own funds on further development of LJP 394. However, the Company anticipates increasing expenditures on the development of other drug candidates and, over time, the Company's consumption of cash will necessitate additional sources of financing. Furthermore, the Company has no internal sources of liquidity, and termination of the Abbott arrangement would have a serious adverse effect on the Company's ability to generate sufficient cash to meet its needs.

The Company will continue to seek capital through any appropriate means, including issuance of its securities and establishment of additional collaborative arrangements. However, there can be no assurance that additional financing will be available on acceptable terms and the Company's negotiating position in its capital-raising efforts may worsen as it continues to use its existing resources. Financing through collaborative arrangements is uncertain because payments under the Company's collaborative agreement with Abbott are subject to certain termination rights, including those related to progress in clinical trials for LJP 394, and there is no assurance that the Company will be able to enter into further collaborative relationships.

IMPACT OF YEAR 2000

The "Year 2000 Issue" is the result of computer programs written using two digits rather than four to define the applicable year. As a result, these computer programs may not properly recognize calendar dates beginning in the year 2000. This problem may cause systems to fail or miscalculate causing disruptions of operations, including a temporary inability to process transactions or engage in similar normal business activities.

Based on recent assessments, the Company believes that it has an effective program in place to resolve the Year 2000 Issue in a timely manner, that its total internal Year 2000 Issue costs for information technology and non-information technology systems will be less than $85,000 and will primarily be incurred in 1999. The Company's year 2000 conversion requirements are expected to be achieved through routine upgrades to its hardware and software programs and these upgrades are expected to be completed by the second quarter of 1999. These costs and the expected completion date are based on management's best estimates; therefore, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated.

The Company's plan to resolve the Year 2000 Issue involves the following four phases: assessment, remediation, testing and implementation. To date, the Company has completed the assessment phase for approximately 80% of the systems that could be significantly affected by the Year 2000 Issue and has determined that the majority of the systems assessed so far do not require remediation to be year 2000 compliant. In addition, the Company has initiated communications with most of its significant suppliers to determine the extent to which the Company's systems are vulnerable to those third parties' failure to remediate their own Year 2000 Issues. There can be no assurance that the systems of other companies on which the

Company's systems rely will be timely converted and will not have an adverse effect on the Company's systems.

The Company currently has no contingency plans in place in the event it does not complete all phases of the year 2000 program. The Company plans to evaluate the status of completion in the second quarter of 1999 and determine whether such a plan is necessary.

ITEM 7 A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company invests its excess cash in interest-bearing investment-grade securities that it holds for the duration of the term of the respective instrument. The Company does not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions in any material fashion. Accordingly, the Company believes that, while the investment-grade securities it holds are subject to changes in the financial standing of the issuer of such securities, the Company is not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity 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 concerning the Company's executive officers is included under the caption "Executive Officers" following Part I, Item 4 of this Report. Other information for Item 10 is incorporated by reference from the portions of the Registrant's definitive proxy statement for its annual meeting of stockholders to be held on May 13, 1999 entitled "Proposal 1 - Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," 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, 1998.

ITEM 11. EXECUTIVE COMPENSATION.

Information for Item 11 is incorporated by reference from the portions of the Registrant's definitive proxy statement for its annual meeting of stockholders to be held on May 13, 1999 entitled "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, 1998.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information for Item 12 is incorporated by reference from the portion of the Registrant's definitive proxy statement for its annual meeting of stockholders to be held on May 13, 1999 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, 1998.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

No disclosures are required.

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.

2. Financial Statement Schedules.

No financial statement schedules are required.

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3. Exhibits.

Exhibit Number	Description
3.1	Intentionally omitted
3.2	Amended and Restated Bylaws of the Company
3.3	Restated Certificate of Incorporation of the Company(3)
4.0	Rights Agreement dated as of December 3, 1998 between the Company and

American Stock Transfer & Trust Company(13)

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 Letter regarding terms of employment and potential severance of Stephen M. Coutts (1) and the modification to this letter(10)*

10.4 Intentionally omitted

10.5 Intentionally omitted

10.6 Steven B. Engle Employment Agreement(1) and Amendment No. 1(10) *

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 Master Lease Agreement dated June 22, 1993 with Aberlyn Capital Management Limited Partnership ("ACM") and related Agreements to Issue Warrant with Warrants issued to ACM and Aberlyn Holding Company, Inc.(1)

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 Amended La Jolla Pharmaceutical Company 1994 Incentive Stock Option Plan*

10.20 Intentionally omitted

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

Exhibit
Number Description
- ------- -----------

10.24 Intentionally omitted

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.(4)

10.28 Intentionally omitted

10.29 Master Lease Agreement dated September 13, 1995 by and between the Company and Comdisco Electronics Group(5)

10.30 Intentionally omitted

10.31 Agreement dated September 22, 1995 between the Company and Joseph Stemler regarding option vesting(6)*

10.32 Consulting Agreement dated January 1, 1996 between the Company and Joseph Stemler(6)*

10.33 Building Lease Agreement effective November 1, 1996 by and between the Company and WCB II-S BRD Limited Partnership(7)

10.34 Master Lease Agreement dated December 20, 1996 by and between the Company and Transamerica Business Credit Corporation(9)

10.35 License and Supply Agreement dated December 23, 1996 by and between the Company and Abbott Laboratories(8), (9)

10.36 Stock Purchase Agreement dated December 23, 1996 by and between the Company and Abbott Laboratories(9)

10.37 Option Amendment Agreement dated November 3, 1997 between the Company and Peter G. Ulrich(11)*

10.38 Master Lease Agreement No. 2 dated June 23, 1998 by and between the Company and Transamerica Business Credit Corporation(12)

10.39 William J. Welch Employment Agreement and Attachment A*

23.1 Consent of Ernst & Young LLP, Independent Auditors

27 Financial Data Schedule

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* 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 annual report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated by reference herein.

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

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

(6) 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.

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

herein.

(8) 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.

(9) 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.

(10) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1997 and incorporated by reference herein.

(11) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended September 30, 1997 and incorporated by reference herein.

(12) Previously filed with the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1998 and incorporated by reference herein.

(13) 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.

(b) Reports on Form 8-K:

During the quarter ended December 31, 1998, the Company filed a Current Report on Form 8-K dated November 19, 1998 reporting that the Company adopted a stockholder rights plan.

Report of Ernst & Young LLP, 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, 1998 and 1997, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

San Diego, California
January 28, 1999

La Jolla Pharmaceutical Company

Balance Sheets

(In thousands, except share and per share data)

	DECEMBER 31,	
	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,176	$ 11,999
Short-term investments	12,174	14,979
Other current assets	517	658
Total current assets	23,867	27,636
Property and equipment, net	659	946
Patent costs and other assets, net	1,289	1,064
	$ 25,815	$ 29,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,254	$ 1,256
Accrued expenses	575	880
Accrued payroll and related expenses	355	377
Deferred revenue --related party	1,769	1,277
Current portion of obligations under capital leases	3	141
Total current liabilities	3,956	3,931
Commitments		
Stockholders' equity:		
Preferred stock, $.01 par value; 8,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, $.01 par value; 32,000,000 shares authorized, 20,106,303 and 18,159,807 shares issued and outstanding at December 31, 1998 and 1997, respectively	201	182
Additional paid-in capital	84,276	80,304
Deferred compensation	--	(30)
Accumulated deficit	(62,618)	(54,741)
Total stockholders' equity	21,859	25,715
	$ 25,815	$ 29,646

See accompanying notes.

La Jolla Pharmaceutical Company

Statements of Operations

(In thousands, except per share data)

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Revenues:			
Revenue from collaborative agreement--related party	$ 8,600	$ 9,860	$ 4,000
Expenses:			
Research and development	14,627	14,676	11,663
General and administrative	3,076	2,937	2,920
Total expenses	17,703	17,613	14,583
Loss from operations	(9,103)	(7,753)	(10,583)
Interest expense	(6)	(56)	(183)
Interest income	1,232	1,441	1,170
Net loss	$ (7,877)	$ (6,368)	$ (9,596)
Basic and diluted net loss per share	$ (0.42)	$ (0.36)	$ (0.63)
Shares used in computing basic and diluted net loss per share	18,649	17,547	15,150

See accompanying notes.

La Jolla Pharmaceutical Company

Statements of Stockholders' Equity

For the Years Ended December 31, 1996, 1997 and 1998

(In thousands)	COMMON STOCK		ADDITIONAL PAID-IN	NOTE RECEIVABLE FROM	DEFERRED	ACCUMULATED	TOTAL STOCKHOLDERS'
	SHARES	AMOUNT	CAPITAL	STOCKHOLDER	COMPENSATION	DEFICIT	EQUITY
Balance at December 31, 1995	14,047	$ 140	$ 62,647	$(14)	$(428)	$(38,777)	$ 23,568
Issuance of common stock upon additional public offering, net of issuance costs	2,140	21	9,753	--	--	--	9,774
Issuance of common stock	1,000	10	3,790	--	--	--	3,800
Issuance of common stock under Employee Stock Purchase Plan	27	1	97	--	--	--	98
Exercise of stock options and warrants	65	1	85	--	--	--	86
Payment on note receivable	--	--	--	14	--	--	14
Amortization of deferred compensation	--	--	--	--	194	--	194
Adjustment to deferred compensation for terminations	--	--	(65)	--	65	--	--
Net loss	--	--	--	--	--	(9,596)	(9,596)
Balance at December 31, 1996	17,279	173	76,307	--	(169)	(48,373)	27,938

Issuance of common stock	831	8	3,852	--	--	--	3,860
Issuance of common stock under Employee Stock Purchase Plan	41	1	150	--	--	--	151
Exercise of stock options	9	--	11	--	--	--	11
Amortization of deferred compensation	--	--	--	--	123	--	123
Adjustment to deferred compensation for terminations	--	--	(16)	--	16	--	--
Net loss	--	--	--	--	--	(6,368)	(6,368)
Balance at December 31, 1997	18,160	182	80,304	--	(30)	(54,741)	25,715
Issuance of common stock	1,538	15	3,767	--	--	--	3,782
Issuance of common stock under Employee Stock Purchase Plan	43	--	128	--	--	--	128
Exercise of stock options	365	4	85	--	--	--	89
Amortization of deferred compensation	--	--	--	--	22	--	22
Adjustment to deferred compensation for terminations	--	--	(8)	--	8	--	--
Net loss	--	--	--	--	--	(7,877)	(7,877)
Balance at December 31, 1998	20,106	$ 201	$ 84,276	$ --	$ --	$(62,618)	$ 21,859

See accompanying notes

La Jolla Pharmaceutical Company

Statements of Cash Flows

(In thousands)

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
OPERATING ACTIVITIES			
Net loss	$ (7,877)	$ (6,368)	$ (9,596)
Adjustments to reconcile net loss to net cash used for operating activities:			
Write-off of patent costs	--	7	89
Write-off of property and equipment	8	76	--
Depreciation and amortization	367	642	754
Deferred compensation amortization	22	123	194
Changes in operating assets and liabilities:			
Receivable -- related party	--	4,000	(4,000)
Other current assets	141	434	(1,020)
Accounts payable and accrued expenses	(307)	(509)	1,819
Accrued payroll and related expenses	(22)	83	(16)
Deferred revenue -- related party	492	1,277	--
Net cash used for operating activities	(7,176)	(235)	(11,776)
INVESTING ACTIVITIES			
Purchases of short-term investments	(20,576)	(21,842)	(22,649)
Sales of short-term investments	2,500	5,493	5,028
Maturities of short-term investments	20,881	18,991	3,847
Additions to property and equipment	(55)	(124)	(161)
Increase in patent costs and other assets	(258)	(250)	(391)
Net cash provided by (used for) investing activities	2,492	2,268	(14,326)
FINANCING ACTIVITIES			
Payment on note receivable from stockholder	--	--	14
Net proceeds from issuance of common stock	217	162	9,958
Net proceeds from issuance of common stock to related party	3,782	3,860	3,800
Payments on obligations under capital leases	(138)	(669)	(861)
Net cash provided by financing activities	3,861	3,353	12,911
(Decrease) increase in cash and cash equivalents	(823)	5,386	(13,191)
Cash and cash equivalents at beginning of period	11,999	6,613	19,804
Cash and cash equivalents at end of period	$ 11,176	$ 11,999	$ 6,613
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	$ 6	$ 56	$ 183
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES:			
Adjustment to deferred compensation for terminations	$ 8	$ 16	$ 65

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. In the fourth quarter of 1996, the Company initiated a Phase II/III clinical trial for its lupus drug candidate, LJP 394.

All of the Company's revenues to date have been derived from its recent collaborative agreement with Abbott Laboratories ("Abbott"), a related party, signed in December 1996 and its former collaborative agreement with Leo Pharmaceutical Products Ltd., a Danish company ("Leo Pharmaceutical") (See Note 2). As part of its planned business operations, the Company pursues collaborations with pharmaceutical companies in an effort to access their research, drug development, manufacturing and financial resources. Prior to generating product revenues, the Company must complete the development of its products, including several years of clinical testing, and receive regulatory approvals prior to selling these products commercially. There can be no assurance that the Company's 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. In addition, there can be no assurance that the Company can successfully manufacture and market any such products at prices that would permit the Company to operate profitably.

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 generally accepted accounting principles 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATION

Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform with the 1998 presentation.

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of cash and highly liquid investments which include debt securities with remaining maturities when acquired of three months or less and are stated at market. Short-term investments mainly consist of debt securities with maturities greater than 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 value, with unrealized gains and losses reported as a separate component of stockholders' equity. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in interest income. 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 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 losses on its cash, cash equivalents and short-term investments.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board 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 is effective for years beginning after June 15, 1999. The adoption of this statement is not expected to have a significant effect on the Company's financial statements.

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 straignt-line basis over the shorter of the estimated useful life or the lease term.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	DECEMBER 31, 1998	1997
Laboratory equipment	$ 2,972	$ 2,943
Computer equipment	291	263
Furniture and fixtures	134	111
Leasehold improvements	718	751
	4,115	4,068
Less: Accumulated depreciation and amortization	(3,456)	(3,122)
	$ 659	$ 946

IMPAIRMENT OF LONG-LIVED ASSETS

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.

PATENTS

The Company has filed several 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. Accumulated amortization at December 31, 1998 and 1997 was $120,000 and $87,000, respectively. Deferred costs related to patent applications are charged to operations at the time a determination is made not to pursue such applications.

STOCK OPTIONS

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. The Company generally grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant and, under APB 25, recognizes no compensation expense for such stock option grants.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Revenue from collaborative agreements typically consists of nonrefundable up-front fees, ongoing research and development funding and milestone, royalty and other payments. Revenue from non-refundable up-front fees is recognized upon signing of the agreement. Revenue from ongoing research and development funding is recorded as the expenses are incurred. Revenue from milestone, royalty and other payments will be recognized as earned. Payments received in advance under these agreements are recorded as deferred revenue until earned.

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 February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 replaced the previously calculated primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options and warrants. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. The adoption of this statement did not have a material impact as the Company has incurred a net loss for all three years presented and therefore stock options and warrants are not included in the computation of net loss per share since their effect is anti-dilutive.

COMPREHENSIVE LOSS

On January 1, 1998, the Company adopted Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income (Loss)" ("SFAS 130"). SFAS 130 requires that all components of comprehensive income (loss), including net income (loss), be reported in the financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during the period from transactions and other events and circumstances from non-owner sources. Net income (loss) and other comprehensive income (loss), including unrealized gains and losses on investments, shall be reported, net of their related tax effect, to arrive at comprehensive income (loss). The Company's comprehensive net loss and net loss are the same and therefore the adoption of SFAS 130 did not have an impact on the financial statements.

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 descriptive information about their operating segments. The Company has determined that it operates in one business segment and therefore the adoption of SFAS 131 did not affect the Company's financial statements.

2. COLLABORATIVE AGREEMENTS

In December 1996, the Company entered into a collaborative agreement with Abbott, a diversified health-care company. Under this agreement, in exchange for an exclusive, worldwide license to market and sell LJP 394, Abbott agreed to pay an initial 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. In addition, Abbott has agreed to make royalty and sales incentive payments to the Company on sales of LJP 394, while the Company retains worldwide manufacturing rights and ownership rights of all of its patents relating to the drug. 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. Both Abbott and the Company have the right to terminate the collaborative agreement under certain circumstances.

Under the collaborative agreement with Abbott, the Company incurred research and development costs of approximately $8,600,000 and $9,860,000 during the years ended December 31, 1998 and 1997, respectively, for the development of LJP 394. In 1998, the Company received $9,077,000 from Abbott for the development of LJP 394, of which $8,600,000 was recorded as revenue. In 1997, the Company received $11,137,000 from Abbott for the development of LJP 394, of which $9,860,000 was recorded as revenue.

3. CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

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

	DECEMBER 31, 1998	1997
Money market accounts	$ 1,117	$ 8,424
United States corporate debt securities	16,181	9,202
Government-asset-backed securities	5,000	7,611
United States Treasury securities and obligations of the United States government agencies	--	249
	$22,298	$25,486

As of December 31, 1998 and 1997, the difference between cost and estimated fair value of available-for-sale securities was not significant. Included in cash and cash equivalents at December 31, 1998 and 1997 were $10,124,000 and $10,507,000, respectively, of securities classified as available-for-sale. As of December 31, 1998, available-for-sale securities of $22,298,000 are due in one year or less.

4. 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

4. COMMITMENTS (CONTINUED)

an option to extend the lease term for an additional five years and a one-time cancellation option effective any time after August 1, 1998 with the payment of certain penalties. The lease also contains a construction allowance in the amount of $1,434,000 for approved tenant improvements to the facility.

In October 1996, the Company entered into a non-cancellable operating lease for the rental of office and research and development facilities, which expires in October 2001. The lease contains a provision for scheduled annual rent increases and an option to extend the lease term for an additional five years. The lease also contains a construction allowance in the amount of $168,000 for approved tenant improvements to the facility.

The Company leases certain equipment under a capital lease. The total amount of equipment originally financed under this capital lease was $3,188,000, of which approximately $196,000 of equipment costs was remaining under this capital lease as of December 31, 1998.

The Company leases certain other equipment and leasehold improvements under operating leases. As of December 31, 1998, the total amount of equipment and leasehold improvements financed under these operating leases was $5,875,000.

Annual future minimum lease payments as of December 31, 1998, which include

$1,030,000 for the effect of exercising the facility operating lease cancellation option, are as follows (in thousands):

YEARS ENDED DECEMBER 31,	OPERATING LEASES	CAPITAL LEASES
1999	$ 2,883	$ 3
2000	1,867	--
2001	1,084	--
2002	72	--
2003	--	--
Total	$ 5,906	3
Less amount representing interest		--
Present value of net minimum lease payments		3
Less current portion		(3)
Noncurrent portion of capital lease obligations		$ --

Rent expense under all operating leases totaled $2,179,000, $1,853,000, and $952,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Equipment acquired under capital leases included in property and equipment totaled $44,000 and $290,000 (net of accumulated amortization of $152,000 and $666,000) at December 31, 1998 and 1997, respectively.

5. STOCKHOLDERS' EQUITY

PREFERRED STOCK

As of December 31, 1998, 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.

COMMON STOCK

In October 1998, the Company issued an additional 1,538,402 shares of common stock to Abbott for net proceeds of $3,782,000. (See Note 2.)

WARRANTS

In connection with the Company's initial public offering ("IPO") in June 1994, including the conversion of the principal and accrued interest on stockholder bridge notes, the Company issued 3,823,517 redeemable warrants. The redeemable warrant holders are entitled to purchase one-half of one share of common stock for each warrant at an exercise price of $3.00 per one-half share. The warrants are exercisable at any time until June 3, 1999. The Company is entitled to

redeem the warrants on not less than 30 days written notice at $0.05 per warrant if the average closing bid price of the common stock exceeds 150% of the then-effective warrant exercise price for one share of common stock, over a period of 20 consecutive trading days, ending within 15 days of the date of notice of redemption. At December 31, 1998, 3,822,617 redeemable warrants were outstanding.

The terms of the shareholder bridge notes also provided for the granting of additional warrants to the holders. Those additional warrants permit the holders to purchase 166,697 shares of common stock at $5.00 per share until June 3, 1999. At December 31, 1998, warrants to purchase 154,460 shares of common stock were outstanding.

Also in connection with the IPO, the Underwriter was granted the option to purchase up to 260,000 additional shares of common stock and 260,000 redeemable warrants to purchase one-half of one share of common stock at an exercise price of $3.60 per one-half share. The purchase option expires on June 3, 1999. At December 31, 1998, warrants to purchase 130,000 shares of common stock were outstanding.

5. STOCKHOLDERS' EQUITY (CONTINUED)

As of December 31, 1998, 4,237,077 warrants were outstanding and 2,195,769 shares of common stock are reserved for issuance upon exercise of warrants.

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.

In June 1994, the Company adopted the 1994 Stock Incentive Plan (the "1994 Plan"), under which 1,750,000 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, 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	PRICE PER SHARE
Balance at December 31, 1995	133,310	1,462,038	$1.00-$5.25
Additional shares authorized	500,000	--	--
Granted	(426,750)	426,750	$3.75-$8.31
Exercised	--	(52,722)	$1.00-$5.03
Cancelled	120,982	(120,982)	$1.00-$7.88
Balance at December 31, 1996	327,542	1,715,084	$1.00-$8.31
Additional shares authorized	500,000	--	--
Granted	(312,700)	312,700	$4.00-$5.38
Exercised	--	(8,620)	$1.00-$4.31

Cancelled	56,101	(56,101)	$1.00-$7.88
Balance at December 31, 1997	570,943	1,963,063	$1.00-$8.31
Granted	(723,800)	723,800	$2.41-$4.38
Exercised	--	(364,903)	$1.00-$3.75
Cancelled	388,192	(388,192)	$1.00-$7.88
Balance at December 31, 1998	235,335	1,933,768	$1.00-$8.31

Included in the table above are 100,000 options to purchase common stock at an exercise price of $3.63 per share that were granted in December 1998 and are subject to stockholder approval at the next annual stockholder meeting on May 13, 1999.

5. STOCKHOLDERS' EQUITY (CONTINUED)

	YEARS ENDED DECEMBER 31, 1998		1997		1996	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding - beginning of year	1,963,063	$3.25	1,715,084	$3.00	1,462,038	$2.40
Granted	723,800	$3.54	312,700	$4.82	426,750	$4.91
Exercised	(364,903)	$1.06	(8,620)	$1.38	(52,722)	$1.58
Forfeited	(388,192)	$3.37	(56,101)	$4.55	(120,982)	$2.98
Outstanding - end of year	1,933,768	$3.75	1,963,063	$3.25	1,715,084	$3.00
Exercisable at end of year	879,502	$3.55	1,171,376	$2.43	931,465	$2.07
Weighted-average fair value of options granted during the year	$1.62		$2.72		$3.08	

Exercise prices and weighted-average remaining contractual lives for the options outstanding as of December 31, 1998 follow:

OPTIONS OUTSTANDING	RANGE OF EXERCISE PRICES	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
421,275	$1.00 - $3.50	6.03	$1.74	302,499	$1.36
547,400	$3.63	9.92	$3.63	33,335	$3.63
526,645	$3.75 - $4.69	7.59	$4.16	269,180	$4.14
438,448	$4.75 - $8.31	6.97	$5.37	274,488	$5.39
1,933,768	$1.00 - $8.31	7.77	$3.75	879,502	$3.55

At December 31, 1998, the Company has reserved 2,162,297 shares of common stock for future issuance under the 1989 and 1994 Plans.

For certain options granted, the Company recognizes as compensation expense the excess of the deemed value for accounting purposes of the common stock issuable upon exercise over the aggregate exercise price of such options. Compensation

expense is amortized ratably over the vesting period of each option.

5. STOCKHOLDERS' EQUITY (CONTINUED)

EMPLOYEE STOCK PURCHASE PLAN

Effective August 1, 1995, the Company adopted the 1995 Employee Stock Purchase Plan (the "Purchase Plan") which was amended in July 1996. Under the amended Purchase Plan, a total of 300,000 shares of common stock are reserved for sale to full-time employees with six months of service. Employees may purchase common stock under the Purchase Plan every six months (up to but not exceeding 10% of each employee's earnings) over the offering 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, 1998, 43,191 shares of common stock had been issued under the Purchase Plan (40,840 shares for the year ended December 31, 1997). To date, 111,689 shares of common stock have been issued under the Purchase Plan and 188,311 shares of common stock are available for issuance.

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Weighted-average fair value of employee stock purchase plan purchases	$1.54	$1.87	$1.83

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 1998, 1997 and 1996, respectively: risk-free interest rate of 4.8%, 5.5% and 6.0%; volatility factor of the expected market price of the Company's common stock of 0.60, 0.60 and 0.70; and a dividend yield of 0% and a weighted-average expected life of five years 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.

5. STOCKHOLDERS' EQUITY (CONTINUED)

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,		
	1998	1997	1996
Pro forma net loss	$(8,500)	$(6,873)	$(9,970)
Pro forma basic and diluted net loss per share	$(0.46)	$(0.39)	$(0.66)

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.

STOCKHOLDER RIGHTS PLAN

The Company has adopted a Stockholder Rights Plan (the "Rights Plan"). 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, the Rights permit the holders (other than the 15% 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.

6. 401(k) PLAN

The Company has established a 401(k) defined contribution retirement plan (the "401(k) Plan"), which was amended in July 1997, to cover all employees with six months of service. 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.

7. INCOME TAXES

At December 31, 1998, the Company had federal and California income tax net operating loss carryforwards of approximately $59,600,000 and $4,400,000, 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 50% percent limitation on California loss carryforwards. The Company also had federal and California research tax credit carryforwards of $2,570,000 and $1,190,000, respectively. The federal net operating loss and tax credit carryforwards will

7. INCOME TAXES (CONTINUED)

begin to expire in 2004 unless previously utilized. A portion of the California net operating loss carryforwards totaling $520,000 expired in 1998, and will continue to expire in 1999.

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.

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

	DECEMBER 31,	
	1998	1997
Deferred tax assets:		
Net operating loss carryforwards	$21,100	$18,000
Research and development credits	3,300	3,000
Capitalized research and development	2,800	3,000
Total deferred tax assets	27,200	24,000
Valuation allowance for deferred tax assets	(27,200)	(24,000)
Net deferred tax assets	$ --	$ --

A valuation allowance of $27,200,000 has been recognized to offset the deferred tax assets as realization of such assets is uncertain.

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 29, 1999

Name: Steven B. Engle

Title: 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 29, 1999
/s/ Wood C. Erwin Wood C. Erwin	Chief Financial Officer and Secretary (PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)	March 29, 1999
/s/ Joseph Stemler	Director	March 29, 1999

- ---------- Joseph Stemler		
/s/ Thomas H. Adams - ---------- Thomas H. Adams, Ph.D.	Director	March 29, 1999
/s/ William E. Engbers - ---------- William E. Engbers	Director	March 29, 1999
/s/ Robert A. Fildes - ---------- Robert A Fildes, Ph.D.	Director	March 29, 1999
/s/ W. Leigh Thompson - ---------- W. Leigh Thompson, M.D., Ph.D.	Director	March 29, 1999

La Jolla Pharmaceutical Company

Exhibit Index

Exhibit Number	Description
3.2	Amended and Restated Bylaws of the Company
10.19	Amended La Jolla Pharmaceutical Company 1994 Incentive Stock Option Plan
10.39	William J. Welch Employment Agreement and Attachment A
23.1	Consent of Ernst & Young LLP, Independent Auditors
27	Financial Data Schedule

EXHIBIT 3.2

AMENDED AND RESTATED BYLAWS

FOR THE REGULATION OF

LA JOLLA PHARMACEUTICAL COMPANY,
a Delaware Corporation

ARTICLE I

Principal Executive Office

Section 1.01 Registered Office. The registered office of La Jolla Pharmaceutical Company (the "Corporation") in the State of Delaware shall be at 306 South State Street, City of Dover, County of Kent 19901, and the name of the registered agent in charge thereof shall be United States Corporation Company.

Section 1.02 Principal Office. The principal executive office of the Corporation shall be 6455 Nancy Ridge Drive, San Diego, California 92121.

ARTICLE II

Meeting of Shareholders

Section 2.01 Annual Meetings. The annual meeting of shareholders shall be held between 30 and 150 days following the end of the fiscal year of the Corporation at such time and on such date as the board of directors shall determine. At each annual meeting, directors shall be elected and any other proper business may be transacted.

Section 2.02 Special Meetings. A special meeting of the stockholders for the transaction of any proper business may be called at any time only by the board of directors, the chairman of the board (if there is such an officer) or the president and may be held at such time and place and on such date as is determined by the person calling the meeting, within the limits fixed by law.

Section 2.03 Place of Meetings. Each annual or special meeting of shareholders shall be held a such location as may be determined by the board of directors, or if no such determination is made, at such place as may be determined by the chief executive officer, or by any other officer authorized by the board of directors or the chief executive officer to make such determination. If no location is so determined, any annual or special meeting shall be held at the principal executive office of the Corporation.

Section 2.04 Notice of Meetings. Notice of each annual or special meeting of shareholders shall contain such information, and shall be given to such persons at such time, and in such manner, as the board of directors shall determine, or if no such determination is made, as the chief executive officer, or any other officer so authorized by the board of directors or the chief executive officer, shall determine, subject to the requirements of applicable law.

Section 2.05 Conduct of Meetings. Subject to the requirements of applicable law, all annual and special meetings of shareholders shall be conducted in accordance with such rules and procedures as the board of directors may determine and, as to matters not governed by such rules and procedures, as the chairman of such meeting shall determine. The chairman of any annual or special meeting of shareholders shall be designated by the board of directors and, in the absence of any such designation, shall be the chief executive officer of the Corporation.

Section 2.06 Advance Notice of Stockholder Proposals and Stockholder Nominations.

(a) At any meeting of the stockholders, only such business may be conducted, and only such proposals may be acted upon, as have been brought before the meeting (i) by or at the direction of the board of directors, or (ii) by any stockholder of the Corporation entitled to vote on such business who complies with the notice procedures set forth in this Section 2.06(a). For business to be properly brought before any meeting of the stockholders by a stockholder, the stockholder must have given notice thereof in writing which is received by the Secretary of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days in advance of such meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than ninety-five (95) days' notice or prior public disclosure of the date of the scheduled meeting is given or made, notice by the stockholder, to be timely, must be so delivered or received not later than the close of business on the seventh day following the earlier of the date of the first public announcement of the date of such meeting and the date on which such notice of the scheduled meeting was mailed. A stockholder's notice to the Secretary must set forth as to each matter the stockholder proposes to bring before the meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business and any stockholders known by such stockholder to be supporting such proposal, (iii) the class and number of shares of the Corporation that are beneficially owned by the stockholder and by any other stockholder known by such stockholder to be supporting such matter on the date of such stockholder notice, and (iv) any material interest of the stockholder in such business. In addition, the stockholder making such proposal shall promptly provide any other information reasonably requested by the Corporation. Notwithstanding anything in these Bylaws to the contrary, no business may be conducted at any meeting of the stockholders except in accordance with the procedures set forth in this Section 2.06(a). The presiding officer of the meeting shall determine and declare at the meeting whether the stockholder proposal was made in accordance with the terms of this Section 2.06(a). If the presiding officer determines that a stockholder proposal was not made in accordance with the terms of this Section 2.06(a), he or she shall so declare at the meeting and any such proposal will not be acted upon at the meeting. This provision will not prevent the consideration and approval or disapproval at the meeting of reports of officers, directors and committees of the board of directors, but, in connection with such reports, no new business may be acted upon at such meeting unless stated, filed and received as herein provided.

(b) Nominations for the election of directors may be made by the board of directors, any nominating committee or person appointed by the board of directors, or by any stockholder entitled to vote in the election of directors; provided, however, that, subject to the

rights, if any, of the holders of shares of Preferred Stock then outstanding, a stockholder may nominate a person for election as a director at a meeting only if written notice of such stockholder's intent to make such nomination has been received by the Secretary of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days in advance of such meeting regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, further, that if less than ninety-five (95) days' notice or prior public disclosure of the date of the scheduled meeting is given or made, notice by the stockholder, to be timely, must be so delivered or received not later than the close of business on the seventh day following the earlier of the date of the first public announcement of the date of such meeting and the date on which such notice of the scheduled meeting was mailed. Each such notice must set forth: (i) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) the class and number of shares of the Corporation's stock which are beneficially owned by the stockholder and a representation that such stockholder intends to appear in person or by proxy at the meeting and nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (iv) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy

statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, by the board of directors; and (v) the consent of each nominee to serve as a director of the Corporation if so elected. In addition, the stockholder making such nomination shall promptly provide any other information reasonably requested by the Corporation. No person will be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.06(b). The presiding officer of the meeting shall determine and declare at the meeting whether the nomination was made in accordance with the terms of this Section 2.06(b). If the presiding officer determines that a nomination was not made in accordance with the terms of this Section 2.06(b), he or she shall so declare at the meeting and any such defective nomination will be disregarded. No stockholder may nominate any person for election as a director to any Class for which such stockholder is not entitled to vote.

(c) Nothing herein is intended or will be construed to limit requirements imposed by applicable laws or regulations upon stockholder proposals, opposition thereto by the Corporation, or inclusion thereof in the Corporation's proxy materials.

ARTICLE III

Directors

Section 3.01 Number. The number of directors of the Corporation shall be not less than five (5) nor more than nine (9). Within the limits specified, the exact number of directors shall be fixed from time to time by resolution of the board of directors or the stockholders. Subject to the foregoing provisions for changing the exact number of directors, the number of directors of this Corporation shall be six (6).

Section 3.02 Meetings of the Board. Each regular and special meeting of the board shall be held at a location determined as follows: The board of directors may designate any place, within or without the State of Delaware, for the holding of any meeting. If no such designation is made, (i) any meeting called by a majority of the directors shall be held at such location, within the county of the Corporation's principal executive office, as the directors calling the meeting shall designate; and (ii) any other meeting shall be held at such location, within the county of the Corporation's principal executive office, as the chief executive officer may designate, or in the absence of such designation, at the Corporation's principal executive office. Subject to the requirements of applicable law, all regular and special meetings of the board of directors shall be conducted in accordance with such rules and procedures as the board of directors may approve and, as to matters not governed by such rules and procedures, as the chairman of such meeting shall determine. The chairman of any regular or special meeting shall be designated by the directors and, in the absence of any such designation, shall be the chief executive officer of the Corporation.

Section 3.03 Qualifications of Directors.

No person shall be qualified to be elected to, or appointed to fill a vacancy on, the board of the Corporation during the pendency of a Business Combination transaction, as defined herein, if such person is, or (in the case of a person described in clause (i), (ii) or (iii) below) was within the two years preceding the date of such election or appointment: (i) an officer, director, employee or affiliate (as defined in Rule 144 under the Securities Act of 1933, as amended) of a party to such transaction (an "Interested Party") or of any affiliate of an Interested Party; (ii) an agent subject to the direction of an Interested Party; (iii) a consultant or advisor to an Interested Party; (iv) a person having a material financial interest in the transaction (other than through the ownership of stock or securities of the Corporation); or (v) a person having any business, financial, or familial relationship with any person referred to in clauses (i)-(iv) above that would reasonably be expected to affect such person's judgment in a manner adverse to this Corporation. A person shall not be disqualified from election or appointment to the board by reason of this Section 3.03 solely because such person is a director or officer of this

Corporation who receives normal and customary compensation as such and/or is a stockholder or affiliate of this Corporation.

For the purpose of this Section 3.03, a Business Combination shall mean any of the following: (i) a merger or consolidation of this Corporation with another corporation, or a sale of all or substantially all of the business and assets of this Corporation; or (ii) an acquisition (including by tender offer or any other means) by any person (including any two or more persons comprising a group, within the meaning of Rule 13d-5 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of 15% or more of the outstanding common stock of this Corporation.

A Business Combination shall be deemed pending for purposes of this Section 3.03 commencing on the date any offer or proposal for such transaction shall be made and until such time as the proposed transaction is abandoned or until such time as: (i) the party proposing such

transaction shall have acquired beneficial ownership, as defined above, of 50% or more of this Corporation's outstanding voting stock; and (ii) 10 business days shall have elapsed thereafter. A business day shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of California are authorized or obligated by law or executive order to close.

ARTICLE IV

Indemnification

Section 4.01 Action, Etc. Other Than by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, that the person had reasonable cause to believe that such person's conduct was unlawful.

Section 4.02 Actions, Etc. by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such

other court shall deem proper.

Section 4.03 Determination of Right of Indemnification. Any indemnification under Section 4.01 or 4.02 (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 4.01 and 4.02. Such determination shall be made (i) by the Board by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders.

Section 4.04 Indemnification Against Expenses of Successful Party. Notwithstanding the other provisions of this Article, to the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 4.01 or 4.02, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 4.05 Prepaid Expenses. Expenses incurred by an officer or director in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board deems appropriate.

Section 4.06 Other Rights and Remedies. The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office.

Section 4.07 Continuation of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 4.08 Insurance. Upon resolution passed by the Board, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation

would have the power to indemnify such person against such liability under the provisions of this Article.

Section 4.09 Constituent Corporations. For the purposes of this Article, references to "the Corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation, so

that any person who is or was a director, officer, employee or agent of such a constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would if such person had served the resulting or surviving corporation in the same capacity.

Section 4.10 Other Enterprises, Fines, and Serving at Corporation's Request. For purposes of this Article, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article.

ARTICLE V

Officers

Section 5.01 Officers. The Corporation shall have a chairman of the board, a chief executive officer, a chief financial officer, a secretary, and such other officers as may be designated by the board. Officers shall have such powers and duties as may be specified by, or in accordance with, resolutions of the board of directors. In the absence of any contrary determination by the board of directors, the chief executive officer shall, subject to the power and authority of the board of directors, have general supervision, direction, and control of the officers, employees, business, and affairs of the Corporation.

Section 5.02 Limited Authority of Officers. No officer of the Corporation shall have any power or authority outside the normal day-to-day business of the Corporation to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable in connection with any transaction unless so authorized by the board of directors.

ARTICLE VI

Waiver of Annual Reports

(a) In the event the Corporation becomes subject to the provisions of Section 1501 of the California Corporations Code ("Code") by reason of the applicability of Section 2115 of the

Code, then so long as the Corporation has less than 100 holders of record of its shares (determined as provided in Section 605 of the Code), no annual report to shareholders shall be required, and the requirement to the contrary of Section 1501 of the Code is hereby expressly waived.

(b) If the Corporation is not subject to Section 2115 of the Code, Section 8.05(a) above shall not require or be interpreted to require the Corporation to provide an annual report to shareholders under any circumstances, and the Corporation shall not be under any such obligation unless the same is required by any applicable provision of the General Corporation Law of Delaware or any applicable federal laws.

ARTICLE VII

Amendments

New bylaws may be adopted or these bylaws may be amended or repealed by the shareholders or, except for Section 3.01, by the directors.

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" shall include officers or key employees, consultants, and advisors of the Company (as determined by the Committee) other than 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 1,750,000.

(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 250,000 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.

(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.

(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. Nonemployee Directors shall not be

eligible to receive Incentive Awards.

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.

Each Nonemployee director shall also receive, upon each re-election to the Company's Board of Directors, an automatic grant of a Nonemployee Director's Option to purchase up to 5,000 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 3.02 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).

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.

EXHIBIT 10.39

[LA JOLLA PHARMACEUTICAL COMPANY LETTERHEAD]

October 29, 1998

Mr. William J. Welch
4927 Riding Ridge Road
San Diego, CA 92130

Dear Bill,

On behalf of La Jolla Pharmaceutical Company, I am pleased to offer you the position of Vice President, Business Development reporting to me in my position as CEO. Upon joining the Company, as a regular employee on October 29, 1998 La Jolla Pharmaceutical Company will provide you base compensation at an annual rate of $160,000. Your compensation will be payable biweekly less payroll deductions and all required withholdings, effective your start date. You will also be eligible to participate in the discretionary Executive Bonus Plan based on a combination of subjective and objective factors, including personal and corporate performance goals, on a pro-rated basis. Please note that there are no bonus guarantees.

You will also receive a one time net signing bonus of $12,500, which will be grossed up to include applicable withholdings and payable by separate check at the end of ninety (90) days of regular full time employment at La Jolla Pharmaceutical Company

In addition, La Jolla Pharmaceutical Company will recommend to the Board of Directors that the Company grant you an incentive stock option to buy up to 60,000 shares of LJP common stock in accordance with the Company's stock option plan, with an exercise price equal to the closing price on the day you start with the company and vesting over 5 years at 20% per year.

Beginning the first of the month following your start date you are eligible for the company's vacation, sick leave, holidays, medical, dental and vision benefits as in effect from time to time. Details about these and other employee benefit plans are available for your review.

As a La Jolla Pharmaceutical Company employee, you will be expected to abide by the Company's rules and regulations, in accordance with our standard employment practices. You will be required to sign an agreement covering Company Confidential Information and Inventions.

You may terminate your employment with La Jolla Pharmaceutical Company at any time and for any reason whatsoever, simply by notifying La Jolla Pharmaceutical Company. Likewise, La Jolla Pharmaceutical Company may terminate your employment at any time whatsoever, with or without cause or advance notice and without any obligation to provide any severance benefits except as set forth in Attachment A or as otherwise agreed by notifying La Jolla Pharmaceutical Company in writing. Since La Jolla Pharmaceutical Company standard policy does not provide for agreements guaranteeing employment for any specific period of time, this offer is not intended to be construed as an employment contract or a guarantee of benefits.

The employment terms in this letter supersede any other agreements or promises made to you by anyone, whether oral or written. As required by law this offer is subject to satisfactory proof of your right to work in the United States.

To accept this offer of employment under the terms described above, please sign both copies of this letter, Attachment A and the Confidential Information and

Inventions Agreement, and return to me at La Jolla Pharmaceutical Company.

Should you have any questions, please do not hesitate to call me. We look forward to having you join our organization and are confident that this will result in a mutually advantageous relationship.

Sincerely,

/s/ Steven B. Engle
- ----------
Steven B. Engle
Chairman & CEO

/s/ William J. Welch 10/29/98
- ---------- --------
William J. Welch Date

ATTACHMENT A

As a supplement to the letter agreement dated October 29, 1998 between La Jolla Pharmaceutical Company ("LJP") and William J. Welch ("WELCH") related to Welch's employment by LJP, Welch and LJP hereby agree as follows:

In connection with Welch's employment with LJP, LJP's management will recommend to LJP's Board of Directors that LJP grant to Welch an option to purchase up to 60,000 shares of common stock of LJP. Such option, if granted, shall be the "OPTION" for purposes hereof.

If Welch's employment is terminated by LJP without Cause (as defined below), or if a Change in Control of LJP (as defined below) occurs and Welch's employment with LJP or its successor "terminates in connection with" (as defined below) that Change in Control and in the absence of any event or circumstance constituting Cause, then:

(i) Welch will be entitled to receive from LJP a severance payment equal to his then-current base salary for a period of nine full calendar months from the date of termination, payable consistent with LJP's normal payroll practices, provided that such payment will be contingent upon execution and delivery by Welch and LJP of a mutual release, in form satisfactory to LJP, of all claims arising in connection with Welch's employment with LJP and termination thereof, and

(ii) Notwithstanding anything to the contrary in the option plan pursuant to which the Option is granted (the "PLAN"), the Option (or any successor option received by Welch in connection with the Change in Control) shall automatically vest and become fully exercisable as of the date of termination of Executive's employment (the TERMINATION DATE"), notwithstanding any vesting or performance conditions applicable thereto, and shall remain exercisable for a period of one year following the Termination Date or such longer period as is provided by the Plan or grant pursuant to which the Option was granted. However, notwithstanding the foregoing, in no case will the Option be exercisable beyond the duration of the original term thereof, and if the Option qualifies as an incentive stock option under the Internal Revenue Code and applicable regulations thereunder, the exercise period thereof shall not be extended in such a manner as to cause the Option to cease to qualify as an incentive stock option unless Executive elects to forego incentive stock option treatment and extend the exercise period thereof as

provided herein.

For purposes hereof, "CHANGE IN CONTROL" of LJP has the meaning set forth in the Plan in its form as the date of grant of the Option.

For purposes hereof, "CAUSE" means Welch has (i) engaged in serious criminal activity or other wrongful conduct that has an adverse impact on LJP, (ii) disregarded instructions given to him under the authority of LJP's Board of Directors, (iii) performed services for

any person or entity other than LJP and appropriate civic organizations, or (iv) otherwise materially breached his employment or fiduciary responsibilities to LJP.

For purposes hereof, Welch's employment with LJP or its successor will be deemed to "TERMINATE IN CONNECTION WITH" a Change in Control if, within 180 days after the consummation of the Change of Control, (i) Welch is removed from Welch's employment by, or resigns his employment upon the request of, a person exercising practical voting control over LJP or its successor following the Change in Control or a person acting upon authority or at the instruction of such person; or (ii) Welch's position is eliminated as a result of a reduction in force made to reduce over-capacity or unnecessary duplication of personnel and Welch is not offered a replacement position with LJP or its successor as a Vice President with compensation and functional duties substantially similar to the compensation and duties in effect immediately before the Change in Control; or (iii) Welch resigns his employment with the Company or its successor rather than comply with a relocation of his primary work site more than 50 miles from LJP's headquarters.

In Witness Whereof, LJP and Welch have entered into this agreement as of October 29, 1998.

LA JOLLA PHARMACEUTICAL COMPANY

By: /s/ Steven B. Engle
Steven B. Engle
Chairman & CEO

/s/ William J. Welch
William J. Welch

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in (i) the Registration Statement (Form S-8 No. 33-82664) pertaining to the 1994 Stock Incentive Plan, (ii) the Registration Statement (Form S-8 No. 33-94830) pertaining to the 1995 Employee Stock Purchase Plan, and (iii) the Registration Statement (Form S-8 No. 333-14285) pertaining to the 1994 Stock Incentive Plan of La Jolla Pharmaceutical Company of our report dated January 28, 1999, with respect to the financial statements of La Jolla Pharmaceutical Company included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

ERNST & YOUNG LLP

San Diego, California
March 29, 1999

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