FIRST FINANCIAL BANCORP /OH/
Form DEF 14A
April 23, 2009

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant ¨

Check the appropriate box:
¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

First Financial Bancorp.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing fee (Check the appropriate box)

x No fee required.
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3) Filing party:

4) Date filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held June 15, 2009

Cincinnati, Ohio
April 23, 2009

To the Shareholders:

The Annual Meeting of Shareholders of First Financial Bancorp. (the "Corporation") will be held at the Manor House, 7440 Mason-Montgomery Road, Mason, Ohio 45040, on June 15, 2009, at 10:00 A.M., local time, for the following purposes:

1. To elect the following three nominees as directors with terms expiring in 2012 (Class II): Mark A. Collar, Murph Knapke and William J. Kramer;

2. To approve the 2009 Employee Stock Plan:

3. To approve the 2009 Non-Employee Director Stock Plan:

4. To approve an amendment to the Articles of Incorporation to allow for issuance of additional shares of preferred stock:

5. To consider and approve a non-binding advisory resolution on First Financial's executive compensation;

6. To ratify the appointment of Ernst & Young as the Corporation's independent registered accounting firm for the fiscal year ending December 31, 2009;

7. To act on a shareholder proposal described in the proxy statement;

8. To approve a proposal to adjourn the Annual Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Annual Meeting to approve proposals 1, 2, 3, 4, 5, and 6; and

To consider and act upon such other matters as may properly come before the Annual Meeting or any adjournment thereof.

Important notice regarding the availability of Proxy Materials for the Annual Meeting of Shareholders:
the Proxy Statement and 2008 Annual Report are available at: www.bankatfirst.com/Investor

Shareholders of record of the Corporation at the close of business on April 16, 2009, are entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. Each shareholder is entitled to one vote for each common share held regarding each matter properly brought before the Annual Meeting.

Your Board of Directors unanimously recommends that you vote "FOR" the election of each of the Director nominees listed in this proxy statement; "FOR" the 2009 Employee Stock Plan; "FOR" the 2009 Director Stock Plan; "FOR" the amendment to our Articles of Incorporation to allow for the issuance of additional shares of preferred stock; "FOR" the non-binding advisory proposal on executive compensation; "FOR" the ratification of auditors; and "AGAINST" the shareholder proposal.

By Order of the Board of
Directors,

Gregory A. Gehlmann
General Counsel and
Secretary

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4000 Smith Road, Suite 400
Cincinnati, Ohio 45209
(513) 979-5837

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
Approximate Date to Mail – April 24, 2009

INTRODUCTION

We are sending this Proxy Statement and the accompanying proxy card to you as a shareholder of First Financial Bancorp., an Ohio corporation ("First Financial"), in connection with the solicitation of proxies for the Annual Meeting of Shareholders (the "Annual Meeting") to be held at the Manor House, 7440 Mason-Montgomery Road, Mason, Ohio 45040, on Monday, June 15, 2009, at 10 a.m., local time. First Financial's Board of Directors is soliciting proxies for use at the Annual Meeting, or any adjournment thereof. Only shareholders of record as of the close of business on April 16, 2009, which we refer to as the record date, will be entitled to vote at the Annual Meeting.

INFORMATION ABOUT THE ANNUAL MEETING

What matters will be voted upon at the Annual Meeting?

You will be voting on the following:

- To elect the following three nominees as directors with terms expiring in 2012 (Class II): Mark A. Collar, Murph Knapke and William J. Kramer;
- To approve the 2009 Employee Stock Plan;
- To approve the 2009 Non-Employee Director Stock Plan;
- To approve an amendment to the Articles of Incorporation to allow for issuance of additional shares of preferred stock;
- To approve a non-binding advisory resolution on executive compensation;
- To act on a shareholder proposal described in the proxy statement, if it is properly introduced at the meeting;
- To ratify the appointment of Ernst & Young as the Corporation's independent registered accounting firm for the fiscal year ending December 31, 2009;
- To approve a proposal to adjourn the Annual Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Annual Meeting to approve proposals 1, 2, 3, 4, 5, and 6; and
- To consider and act upon such other matters as may properly come before the Annual Meeting or any adjournment thereof.

Who can vote?

You are entitled to vote if you held First Financial common shares as of the close of business on April 16, 2009, the record date for the Annual Meeting.

Each shareholder is entitled to one vote for each common share held on April 16, 2009. At the close of business on April 16, 2009, there were 37,474,422 common shares outstanding and entitled to vote. The common shares are First Financial's only voting securities entitled to vote at the meeting.

Regardless of the number of shares you own, it is important that you vote on the proposals.

How do I vote?

Your common shares may be voted by one of the following methods:

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- by traditional proxy card via the U.S. Mail;
- by submitting a proxy via the internet;
- by submitting a proxy by phone; or
- in person at the meeting.

Submitting a Proxy by Telephone or via the Internet. If you are a shareholder of record (that is, if your common shares are registered with First Financial in your own name), you may submit a proxy by telephone, or via the Internet. To vote via the Internet, access www.proxyvote.com and follow the on screen instructions. You will need your control number from your proxy card available when you vote via the Internet or by telephone. Telephone voting is available toll free at 1-800-VOTE (8683) from a touch tone phone.

If your common shares are registered in the name of a broker, a financial institution or another nominee (i.e., you hold your common shares in "street name"), your nominee may be participating in a program that allows you to submit a proxy by telephone or via Internet. If so, the voting form your nominee sent you will provide instructions for submitting your proxy by telephone or via the Internet. The last-dated proxy you submit (by any means) will supersede any previously submitted proxy. Also, if you submit a proxy by telephone or via the Internet, and later decide to attend the Annual Meeting, you may revoke your previously submitted proxy and vote in person at the Annual Meeting.

The deadline for submitting a proxy by telephone or via the Internet as a shareholder of record is 11:59 a.m., Eastern Time, on June 14, 2009. For shareholders whose common shares are registered in the name of a broker, a financial institution or another nominee, please consult the instructions provided by your nominee for information about the deadline for submitting a proxy by telephone or via the Internet.

Voting in Person. If you attend the Annual Meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the Annual Meeting.

If you hold your common shares in "street name" through a broker, a financial institution or another nominee, then that nominee is considered the shareholder of record for voting purposes and should give you instructions for voting your common shares. As a beneficial owner, you have the right to direct that nominee how to vote the common shares held in your account. Your nominee may only vote the common shares of First Financial that it holds for you in accordance with your instructions. If you have instructed a broker, a financial institution or another nominee to vote your common shares, the above-described options for revoking your proxy do not apply and instead you must follow the instructions provided by your nominee to change your vote.

If you hold your common shares in "street name" and wish to attend the Annual Meeting and vote in person, you must bring an account statement or letter from your broker, financial institution or other nominee authorizing you to vote on behalf of such nominee. The account statement or letter must show that you were the direct or indirect beneficial owner of the common shares on April 16, 2009, the record date for voting at the Annual Meeting.

How will my common shares be voted?

Those common shares represented by properly executed proxy cards that are received prior to the Annual Meeting or by properly authenticated Internet or telephone votes that are submitted prior to the deadline for doing so, and not subsequently revoked, will be voted in accordance with your instructions by your proxy. If you submit a valid proxy card prior to the Annual Meeting, or timely submit your proxy by telephone or via the Internet, but do not complete the voting instructions, your proxy will vote your common shares as recommended by the Board of Directors, except in the case of broker non-votes where applicable, as follows:

- " FOR" the election of the three nominees for director;
- " FOR" the 2009 Employee Stock Plan;
- " FOR" the 2009 Non-Employee Director Stock Plan;
- " FOR" the adoption of the amendment to Article FOURTH of First Financial's Articles of Incorporation to authorize First Financial to allow for the issuance of additional shares of preferred stock;
- " FOR" the non-binding resolution regarding executive compensation;
- " FOR" the ratification of Ernst & Young as our independent auditors;

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- " AGAINST" the shareholder proposal; and
- " FOR" the approval of the adjournment of the Annual Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Annual Meeting to approve proposals 1, 2, 3, 4, 5, and 6.

If you hold your shares in a bank or brokerage account you should be aware that if you fail to instruct your bank or broker how to vote within 10 days of the Annual Meeting, the bank or broker is not permitted to vote your shares in its discretion on your behalf on non-routine items. If you want to assure that your shares are voted in accordance with your wishes on the non-routine matters in this proxy statement, you should complete and return your voting instruction form before June 5, 2009.

No appraisal rights exist for any action proposed to be taken at the Annual Meeting. If any other matters are properly presented for voting at the Annual Meeting, the persons named as proxies will vote on those matters, to the extent permitted by applicable law, in accordance with their best judgment.

What if my common shares are held through the First Financial Bancorp 401(k) Savings Plan?

If you participate in the First Financial Bancorp 401(k) Savings Plan (the "401(k) Plan") and common shares have been allocated to your account in the 401(k) Plan, you will be entitled to instruct the trustee of the 401(k) Plan, confidentially, as to how to vote those common shares. You will receive your voting instructions card separately. If you give no voting instructions to the trustee of the 401(k) Plan, the trustee will vote the common shares allocated to your 401(k) Plan account pro rata in accordance with the instructions received from other participants in the 401(k) Plan who have voted.

Can the proxy materials be accessed electronically?

We are sending the proxy materials for the Annual Meeting to shareholders on or about April 24, 2009. Our proxy statement for the Annual Meeting and a sample of the form of proxy card sent to our shareholders by us are available at www.bankatfirst.com/Investor.

How do I change or revoke my proxy?

Shareholders who submit proxies retain the right to revoke them at any time before they are exercised. Unless revoked, the common shares represented by such proxies will be voted at the Annual Meeting and any adjournment thereof. You may revoke your proxy at any time before it is actually exercised at the Annual Meeting by giving notice of revocation to First Financial in writing, by accessing the Internet site prior to the deadline for submitting proxies electronically, by using the toll-free telephone number stated on the proxy card prior to the deadline for transmitting proxies electronically or by attending the Annual Meeting and giving notice of revocation in person. The last-dated proxy you submit (by any means) will supersede any previously submitted proxy. If you hold your common shares in "street name" and instructed your broker, financial institution or other nominee to vote your common shares and you would like to revoke or change your vote, then you must follow the instructions of your nominee.

If I vote in advance, can I still attend the Annual Meeting?

Yes. You are encouraged to vote promptly, by returning your signed proxy card by mail or by submitting your proxy electronically by telephone or via the Internet, so that your common shares will be represented at the Annual Meeting. However, voting your common shares does not affect your right to attend the Annual Meeting and vote your common shares in person.

What constitutes a quorum and how many votes are required for adoption of the proposals?

Under First Financial's Regulations, a quorum is a majority of the common shares outstanding. Common shares may be present in person or represented by proxy at the Annual Meeting. Both abstentions and broker non-votes are counted as being present for purposes of determining the presence of a quorum. There were 37,474,422 First Financial common shares outstanding and entitled to vote on April 16, 2009, the record date. A majority of the outstanding common shares, or 18,737,211 common shares, present in person or represented by proxy, will constitute a quorum. A quorum must exist to conduct business at the Annual Meeting.

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If a broker indicates on the form of Proxy that it does not have discretionary authority as to certain common shares to vote on a particular matter, those common shares will be considered as present for the purpose of determining the presence of a quorum but not entitled to vote with respect to that matter. New York Stock Exchange ("NYSE") rules determine whether proposals presented at shareholder meetings are routine or not routine. If a proposal is routine, a broker or other entity holding shares for an owner in street name may vote on the proposal without receiving voting instructions from the owner. If a proposal is not routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions. A broker non-vote occurs when the broker or other entity is unable to vote on a proposal because the proposal is not routine and the owner does not provide any instructions. We have been advised by the NYSE that the approval of the stock plans, the amendment to the Articles of Incorporation, the shareholder proposal, and the proposal to adjourn, postpone or continue the Annual Meeting are non-routine items.

Votes Required for the Approval of the Proposals. To approve the proposals, the following proportion of votes is required:

Item	Vote Required	Impact of Abstentions and Broker Non-Votes, if any
Election of Directors	Plurality vote – however, see our corporate governance policy on the majority election of directors (any director who received a greater number of "withhold" votes than "for" votes in an uncontested election must promptly tender an offer for resignation and a committee of the board will make a recommendation to the board whether to accept or reject it).	No Impact. However, see our corporate governance policy on the majority election of directors.
Approval of the 2009 Employee Stock Plan	Approval of a majority of the common shares present in person or represented by proxy and entitled to be cast on the proposal.	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.
Approval of the 2009 Non-Employee Director Stock Plan	Approval of a majority of the common shares present in person or represented by proxy and entitled to be cast on the proposal.	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.
Amendment to Article FOURTH of First Financial's Articles of Incorporation	Approval of two-thirds of the outstanding common shares.	Abstention will not count as a vote cast on the proposal but has the same effect as a vote

		"AGAINST" the proposal. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.
Approval of the non-binding advisory proposal on executive compensation	Approval of a majority of the common shares present in person or represented by proxy and entitled to be cast on the proposal.	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.
Ratification of the appointment of Ernst & Young	Approval of a majority of the common shares present in person or represented by proxy and entitled to be cast on the proposal.	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.
Consideration of the shareholder proposal on the annual election of directors	Approval of a majority of the common shares present in person or represented by proxy and entitled to be cast on the proposal.	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.
Adjournment of the Annual Meeting	Approval of a majority of the common shares present in person or represented by proxy and entitled to be cast on the proposal.	Abstention will not count as a vote cast on the proposal but has the same effect as a vote "AGAINST" the proposal. Broker non-votes will not count as a vote on the proposal and will not affect the outcome of the vote.

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It is our policy to keep confidential proxy cards, ballots and voting tabulations that identify individual shareholders. However, exceptions to this policy may be necessary in some instances to comply with legal requirements and, in the case of any contested proxy solicitation, to verify the validity of proxies presented by any person and the results of the voting. Inspectors of election and any employees associated with processing proxy cards or ballots and tabulating the vote must acknowledge their responsibility to comply with this policy of confidentiality.

Why is the amendment to Article FOURTH of First Financial's Articles of Incorporation necessary?

As a result of the Corporation's participation in the TARP Capital Purchase Program (the "Program") instituted under the Emergency Economic Stabilization Act of 2008 ("EESA"), the Corporation previously issued to the United States Department of the Treasury (the "Treasury") 80,000 shares of the Corporation's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share (the "Series A Preferred Stock"). Accordingly, no additional authorized preferred shares are currently eligible for future issuance by the Corporation. Recent challenges experienced as a result of turbulence in the financial markets make it necessary for financial institutions not only to preserve existing capital, but also be able to supplement such capital as a protection against further economic difficulties. The proposed amendment to Article FOURTH (the "Proposed Amendment") of the Corporation's Articles of Incorporation, as amended (the "Articles"), would increase the authorized number of preferred shares from 80,000 shares to 8,000,000 shares, and further permit the Corporation's Board the added flexibility to raise capital, including possible capital to repay the Treasury under the Program, as well as determine the designations, terms, relative rights, preferences, privileges and limitations of any future issuances of preferred shares, without the restriction that such issuance occur pursuant to the terms of any capital purchase program authorized by the EESA. The failure to approve the Proposed Amendment could limit us in connection with future capital raising transactions or other strategic transactions if such transactions require us to issue preferred shares. In such cases, we may lose opportunities due to the time delay and uncertainty of needing to hold a special meeting of shareholders in order to proceed with such transactions.

What is the recommendation of First Financial's Board of Directors?

First Financial's Board of Directors unanimously recommends you vote as follows:

- " FOR" the election of the three nominees for director;
- " FOR" the 2009 Employee Stock Plan;
- " FOR" the 2009 Non-Employee Director Stock Plan;
- " FOR" the adoption of the amendment to Article FOURTH of First Financial's Articles of Incorporation to authorize First Financial to allow for the issuance of additional shares of preferred stock;
- " FOR" the resolution regarding executive compensation;
- " FOR" the ratification of Ernst & Young as our independent auditors;
- " AGAINST" the shareholder proposal; and
- " FOR" the approval of the adjournment of the Annual Meeting, if necessary, to solicit additional proxies, in the event there are not sufficient votes at the time of the Annual Meeting to approve proposals 1, 2, 3, 4, 5, and 6.

Who pays the cost of proxy solicitation?

We will pay the costs of preparing, assembling, printing and mailing this Proxy Statement, the accompanying proxy card and other related materials and all other costs incurred in connection with the solicitation of proxies on behalf of the Board of Directors, other than the Internet access and telephone usage charges mentioned above. Although we are soliciting proxies by mailing these proxy materials to our shareholders, our directors, officers and employees also may

solicit proxies by further mailing, personal contact, telephone, facsimile or electronic mail without receiving any additional compensation for such solicitations. Arrangements will also be made with brokerage firms, financial institutions and other nominees who are record holders of common shares for the forwarding of solicitation materials to the beneficial owners of such common shares. We will reimburse these brokers, financial institutions and nominees for their reasonable out-of-pocket costs in connection therewith.

We have retained Morrow & Co., LLC to aid in the solicitation of proxies for the Annual Meeting. Morrow & Co. will receive a base fee of $12,500, plus reimbursement of out-of-pocket fees and expenses for its proxy solicitation services.

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Who should I call if I have questions concerning this proxy solicitation or the proposals to be considered at the Annual Meeting?

If you have any questions concerning the proposals to be considered at the Annual Meeting or voting your shares, please call our investor relations department at 513-979-5837.

Does First Financial send multiple proxy statements to two or more registered shareholders who share an address?

Only one copy of this Proxy Statement and the notice of the Annual Meeting for the Annual Meeting are being delivered to previously notified registered shareholders who share an address unless First Financial has received contrary instructions from one or more of the shareholders. A separate proxy card is being included for each account at the shared address.

Registered shareholders, who share an address and would like to receive a separate Proxy Statement for the Annual Meeting, may contact First Financial Bancorp Investor Relations to request a copy. Call 513-979-5837, or send a written request to: Patti Forsythe, Investor Relations, First Financial Bancorp, 4000 Smith Road, Suite 400, Cincinnati, Ohio 45209.

Are there any rules regarding admission to the annual meeting?

Yes. You are entitled to attend the annual meeting only if you were, or you hold a valid legal proxy naming you to act for, one of our stockholders on the record date. At the entrance we will verify that your name appears in our stock records or will verify appropriate information to verify you as a stockholder.

RECENT DEVELOPMENTS

On December 23, 2008, First Financial completed the sale to the United States Department of the Treasury (the "Treasury") of $80.0 million of newly issued non-voting preferred shares as part of the Company's participation in the Capital Purchase Program ("CPP"), which was created under the Troubled Assets Relief Program ("TARP") of the Emergency Economic Stabilization Act of 2008 ("EESA"). To finalize our participation in the Capital Purchase Program, we entered into a Letter Agreement with the Treasury dated December 23, 2009 (the "Letter Agreement"), including the Securities Purchase Agreement — Standard Terms which is attached thereto (the "Securities Purchase Agreement" and together with the Letter Agreement, the "UST Agreement"). Pursuant to the UST Agreement, First Financial issued and sold to the Treasury for an aggregate purchase price of $80.0 million in cash: (1) 80,000 shares of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value and having a liquidation preference of $1,000 per share (the "Series A Preferred Shares"); and (2) a warrant (the "Warrant") to purchase 930,233 First Financial common shares at an exercise price of $12.90 per share. The Warrant has a ten-year term. All of the proceeds from the sale of the Series A Preferred Shares and the Warrant to the Treasury qualified as Tier I capital for First Financial's regulatory purposes.

As a result of our participation in the CPP, we adopted the Treasury's standards for executive compensation and corporate governance. These requirements apply to our Senior Executive Officers (the "SEOs"), which presently are comprised of the Company's Named Executive Officers — Claude E. Davis, President and Chief Executive Officer ("CEO"), C. Douglas Lefferson, EVP and Chief Operating Officer ("COO"), J. Franklin Hall, EVP & Chief Financial Officer ("CFO"), Gregory A. Gehlmann, SVP & General Counsel, and Samuel J. Munafo, EVP, Banking Markets. As a condition to the closing the sale of the Series A Preferred Shares and Warrant to the Treasury, we agreed to implement the following executive compensation provisions, limitations and restrictions: (1) a prohibition on incentive compensation plans and arrangements for SEOs that encourage unnecessary and excessive risks that threaten the value

of First Financial; (2) a claw back of any bonus or incentive compensation paid (or under a legally binding obligation to be paid) to an SEO based on materially inaccurate financial statements or other materially inaccurate performance metric criteria; (3) a prohibition on making “golden parachute payments” to SEOs; and (4) an agreement not to claim a deduction, for federal income tax purposes, for compensation paid to any of the SEOs in excess of $500,000 per year.

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The American Recovery and Reinvestment Act of 2009 (the "ARRA") became law on February 17, 2009 and appears to retroactively amend the executive compensation provisions applicable to participants in the CPA. The ARRA executive compensation standards remain in effect with respect to CPP participants during the period in which any obligation arising from financial assistance provided under the CPP remains outstanding, excluding any period during which the Treasury holds only the Warrant (the "Covered Period"). The ARRA executive compensation standards apply to our SEOs as well as certain other employees. ARRA continues all of the same compensation and governance restrictions imposed under EESA and the CPP, and adds substantially to these restrictions in several areas. The new standards include (but are not limited to): (1) prohibitions on bonuses, retention awards and other incentive compensation, other than restricted stock grants which do not fully vest during the Covered Period, up to one-third of an employee's total annual compensation; (2) prohibitions on "golden parachute payments" upon certain executives' departure; (3) an expanded claw back of bonuses, retention awards, and incentive compensation if payment is based on materially inaccurate statements of earnings, revenues, gains or other criteria; (4) prohibitions on compensation plans that encourage manipulation of reported earnings; (5) retroactive review of bonuses, retention awards and other compensation previously provided by CPP participants if found by the Treasury to be inconsistent with the purposes of such program or otherwise contrary to public interest, (6) required establishment of a company-wide policy regarding "excessive or luxury expenditures;" and (7) inclusion in a participant's proxy statements for annual shareholder meetings of a non-binding "Say on Pay" proposal to allow a shareholder vote to approve the compensation of executives.

There is no stated effective date for each of ARRA's executive compensation standards. The Treasury is directed to issue regulations to implement these standards and the Securities and Exchange Commission (the "SEC") is required to issue regulations related to the "Say on Pay" requirements. Until such implementing regulations are adopted, it is unclear which aspects of ARRA are immediately effective but it is believed that ARRA requires inclusion of a non-binding "Say on Pay" proposal in our proxy materials for the annual meeting. Therefore, we have included a "Say on Pay" proposal to provide shareholders with the right to cast an advisory vote on our executive compensation policies and practices. For more information, see "Proposal 5 — Advisory Vote on Executive Compensation."

We will carefully review the remaining ARRA executive compensation standards and any Treasury and/or SEC regulations, once issued. To the extent that the Treasury amends the UST Agreement to make these standards applicable, the Treasury and/or the SEC issues regulations describing how we are to comply with these standards, or we determine that these standards apply, we will work with our SEOs and other affected employees to take such steps as it deems necessary to comply with the standards and adopt administrative and other procedures consistent with the foregoing.

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PRINCIPAL SHAREHOLDERS

The table below identifies all persons known to us to own beneficially more than 5% of our outstanding common shares.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Shares	Percentage of Class
First Financial Bank, National Association 300 High Street Hamilton, Ohio 45012-0476	4,165,789(1)	11.11%
Barclays Global Investors, NA Barclays Global Fund Advisors 45 Fremont Street San Francisco, California 9410		
Barclays Global Investors, LTD 1 Royal Mintt Court London, EC3N 4HH	3,065,290(2)	8.18%

(1) Information based upon a Schedule 13G filed on February 6, 2009.These shares are held by the trust department of First Financial Bank, National Association ("First Financial Bank") (the "Trustee") in its fiduciary capacity under various agreements. Trustee has sole voting power for 3,589,406 shares, shared voting power for 565,434 shares, sole dispositive power for 1,454,629 shares and shared dispositive power for 2,037,761 shares. Officers and directors of the Corporation disclaim beneficial ownership of the common shares beneficially owned by the Trustee. Included in the foregoing shares are 23,949 common shares that are directly owned by certain directors and executive officers of First Financial and are reported in the following table showing shareholdings of directors, executive officers, and nominees for director.

(2) Information based upon a Schedule 13G filed on February 5, 2009. Includes shares beneficially owned as follows: Barclays Global Investors (1,451,833 shares); Barclays Global Fund Advisors (1,591,403 shares); and Barclays Global Investors, LTD (22,054 shares). Other related interests with no beneficial ownership, include Barclays Global Investors Japan Limited, Barclays Global Investors Canada Limited, Barclays Global Investors Australia Limited, and Barclays Global Investors (Deutschland) AG.

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SHAREHOLDINGS OF DIRECTORS, EXECUTIVE OFFICERS AND NOMINEES FOR DIRECTOR

As of April 16, 2009, the directors of the Corporation, including the three nominees for election as directors, the executive officers of the Corporation named in the Summary Compensation Table who are not also directors, and all executive officers and directors of the Corporation as a group beneficially owned common shares of the Corporation as set forth below.

		Amount and Nature of Beneficial Ownership			
Name	Position	Common Shares Beneficially Owned Excluding Options (1)		Stock Options Exercisable within 60 Days of Record Date (2)	Total Common Shares Beneficially Owned (1)
J. Wickliffe Ach	Director	5,069	(3)	—	5,069
Donald M. Cisle, Sr.	Director	232,083	(4)	17,326	249,409
Mark A. Collar	Director	644		—	644
Claude E. Davis	Director, President & CEO	165,733	(7)	346,272	506,077
Corinne R. Finnerty	Director	32,745	(3)	17,363	50,108
Murph Knapke	Director	50,093	(5)	17,363	67,456
Susan L. Knust	Director	17,977	(6)	8,663	26,640
William J. Kramer	Director	13,251	(5)	8,663	21,914
Richard E. Olszewski	Director	19,428	(3)	8,633	28,061
Barry S. Porter	Director	41,834	(5)	17,326	59,160
J. Franklin Hall	EVP & CFO	37,587	(7)	79,519	117,106
C. Douglas Lefferson	EVP & COO	73,004	(7)	121,349	194,353
Samuel J. Munafo	EVP, Banking	90,191	(7)	83,192	173,383
Gregory A. Gehlmann	SVP & Gen Counsel	28,747	(7)	91,854	120,601
All executive officers, directors and nominees as a group (16 persons)		820,342	(7)	862,961	1,939,971

(1) Includes shares held in the name of spouses, minor children, trusts and estates as to which beneficial ownership may be disclaimed.

At April 16, 2009, the only director or executive officer who owned at least 1% of the Corporation's common shares was Donald Cisle, Sr. and Claude E. Davis each beneficially owned 1.35% respectively. However, all of the directors and executive officers as a group (16 persons) beneficially owned approximately 5.16% of the Corporation's outstanding common shares. Percent ownership numbers are computed based on the sum of (i) 37,474,422 common shares outstanding on April 16, 2009 and (b) the number of common shares to which the group has the right to acquire

beneficial ownership upon the exercise of options which are currently exercisable or will first become exercisable within 60 days after April 16, 2009. Fractional shares are rounded to the nearest whole number.

(2) All 862,961 options have a strike price above the closing price of First Financial common stock on April 16, 2009 which was $11.28 per share. Therefore, no options are “in the money” as of that date.

(3) Includes 4,035 restricted shares that vest 1/3 equally over a three-year period beginning May 1, 2008 of which 1,343 shares have vested. Director retains voting and dividend rights on unvested shares. See “Board Compensation.”

(4) Of these shares, 458,850 are owned by Seward-Murphy Inc. of which Mr. Cisle, Sr. has sole voting and investment power for 201,894 shares and shared voting power for 256,668 shares.

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(5) Includes 3,766 restricted shares that vest 1/3 equally over a three-year period beginning April 25, 2007 of which 2,508 shares have vested. Director retains voting and dividend rights on unvested shares. See "Board Compensation."

(6) Ms. Knust shares voting and investment power for 1,525 shares which are held by K.P. Properties of Ohio LLC, of which Ms. Knust and her husband are the only two members. Includes 4,445 restricted shares that vest 1/3 equally over a three-year period beginning April 24, 2009. Director retains voting and dividend rights on unvested shares.

(7) Includes unvested restricted shares (Davis – 65,550; Hall – 11,250; Lefferson –16,875: Munafo – 10,650; Gehlmann – 10,575; and all executive officers as a group (7) – 124,950) subject to a four year vesting schedule and certain performance triggers (with respect to awards granted 2005-2008). Officers retain voting and dividend rights on unvested shares. See "Compensation Discussion and Analysis."

PROPOSAL 1 - ELECTION OF DIRECTORS
(Item 1 on Proxy Card)

Our Board of Directors currently consists of ten members, nine of whom are non-employee directors. Our Regulations provide that the Board of Directors shall consist of not less than nine nor more than 25 persons, with the exact number to be fixed and determined from time to time by resolution of the Board of Directors or by resolution of the shareholders at any annual or special meeting of shareholders. Following the retirement of Barry Porter at the annual meeting, the Board of Directors has determined that the Board shall consist of nine members. We are grateful to Mr. Porter for his years of service, including the last two years as Chairman of the Board. His guidance and insight will be missed. Any vacancy may be filled by the Board of Directors in accordance with law and the Corporation's Regulations for the remainder of the full term of the vacant directorship. However, pursuant to the company's corporate governance principles, any new director appointed to fill a vacancy will be put up for election to fill the remaining term at the next meeting of shareholders after his/her appointment.

Our Board has approved the nomination of three persons as candidates for Class II Directors, each for a three-year term. The terms of the remaining directors in Classes I and III will continue as indicated below. It is intended that the accompanying Proxy will be voted for the election of Murph Knapke and Williams J. Kramer, both incumbent directors and Mark A. Collar, a new director nominee. The Corporate Governance and Nominating Committee recommended all three nominees to the Board of Directors, which approved the three nominees. In the event that any one or more of such nominees becomes unavailable or unable to serve as a candidate, the accompanying Proxy will be voted to elect the remaining nominees and any substitute nominee or nominees designated by the Board. The three nominees for Class II Directors receiving the most votes at the Annual Meeting will be elected as Class II Directors.

The Board of Directors unanimously recommends a vote "FOR" the election of each of the nominees.

Set forth below is certain information concerning the Corporation's nominees and directors. For information regarding ownership of shares of the Corporation by nominees and directors of the Corporation, see "Shareholdings of Directors, Executive Officers and Nominees for Director" above. There are no arrangements or understandings between any director or any nominee, and any other person pursuant to which such director or nominee is or was nominated to serve as director.

Name and Age (1)	Position with Corporation and/or Principal Occupation or Employment For the Last Five Years	Director Since

Nominees Class II Directors – Terms Expiring in 2012:

Murph Knapke 61	Partner of Knapke Law Office, Celina, Ohio; Director of First Financial Bank, N.A., Hamilton, Ohio; former Director and Chair of Community First Bank & Trust, Celina, Ohio. Mr. Knapke is Vice Chair of the Corporation's Board.	1983
William J. Kramer 48	Vice President of Operations, Val-Co Companies, Inc., Coldwater, Ohio (VP & General Manager 2002-2008); previously president of Pax Steel Products, Inc., from 1984-2002 (predecessor corporation to Val-Co); employed by Deloitte & Touche, LLP, Dayton, Ohio from 1982-1984. Director of First Financial Bank, N.A., Hamilton, Ohio.	2005

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Name and Age (1)	Position with Corporation and/or Principal Occupation or Employment For the Last Five Years	Director Since
Mark A. Collar 55	Chairman, Third Frontier Advisory Board (provides direction for State of Ohio's investment in high tech industry); Vice Chairman and Member of the Executive Committee, BioOhio, Inc. (non-profit organization which promotes the acceleration and growth of life science companies in Ohio); Trustee and Member of the Executive Committee for Health Alliance (hospital group serving the greater Cincinnati area); venture partner at Triathlon Medical Ventures, Cincinnati, Ohio; Director, AtriCure, Inc. , West Chester, Ohio. Previously held numerous positions within The Procter & Gamble Company since 1975 including: President, Global Pharmaceuticals & Personal Health from 2005-2007; President, Global Pharmaceuticals, from 2002-2005; and Vice President, Global Pharmaceuticals, from 1997-2002. Director of First Financial Bank, N.A., Hamilton, Ohio.	2009
Class III Directors – Terms Expiring in 2010:		
J. Wickliffe Ach 60	President and CEO of Hixson Inc, Cincinnati, Ohio, an architectural engineering firm since 1983. Directors of First Financial Bank, N.A., Hamilton, Ohio.	2007
Donald M. Cisle, Sr. 54	President of Don S. Cisle, Sr. Contractor, Inc. (construction contractor) and President of Seward Murphy, Inc. (family owned investment company); Director of First Financial Bank, N.A., Hamilton, Ohio.	1996
Corinne R. Finnerty 52	Partner in law firm of McConnell Finnerty Waggoner PC, North Vernon, Indiana (trial attorney); Director of First Financial Bank, N.A., Hamilton, Ohio; former Director and Chair of CPX, Inc., North Vernon, Indiana; former Director of Heritage Community Bank, Columbus, Indiana.	1998
Class I Directors – Terms Expiring in 2011:		
Claude E. Davis 48	President and Chief Executive Officer of the Corporation since October 1, 2004; Director and Chairman of the Board of First Financial Bank, N.A., Hamilton, Ohio; Trustee, Hamilton Community Foundation and Butler University; member, Cincinnati USA Partnership for Economic Development. Prior to joining First Financial, Mr. Davis was a senior vice president at Irwin Financial Corporation and chairman of Irwin Union Bank and Trust in Columbus, Indiana.	2004

Susan L. Knust 55	Managing Partner of K.P. Properties of Ohio LLC (industrial real estate); Managing Partner of Omega Warehouse Services LLC (public warehousing); former President of Precision Packaging and Services, Inc; Director of Middletown Regional Health System, Middletown, Ohio; Director of First Financial Bank, N.A., Hamilton, Ohio.	2005
Richard E. Olszewski 59	Operator of two 7-Eleven Food Stores, Griffith, Indiana. Director of First Financial Bank, N.A., Hamilton, Ohio.	2005

(1) Ages are listed as of December 31, 2008.

The Board of Directors unanimously recommends a vote “FOR” the election of each of the nominees.

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PROPOSAL 2 – APPROVAL OF THE 2009 EMPLOYEE STOCK PLAN (Item 2 on Proxy Card)

Shareholders are being asked to approve the adoption of the First Financial Bancorp. 2009 Stock Plan (the "Plan") to:

- qualify stock options as incentive stock options for purposes of Section 422 of the Code,
- qualify certain compensation under the Plan as performance-based compensation for purposes of Section 162(m) of the Code, and
- satisfy Nasdaq Stock Market ("Nasdaq") guidelines relating to equity compensation.

If approved by the shareholders, the Plan would become our only plan for providing new grants of stock-based incentive compensation to our eligible employees. If the Plan is not approved by the shareholders, our ability to provide future awards to attract, provide incentives to and retain key personnel would be limited significantly.

On April 26, 2009 the 1999 Employee Stock Plan (the "1999 Plan") expires and no further awards can be granted under the 1999 Plan after that date. The 1999 Plan will remain in effect with respect to awards already granted under the 1999 Plan until such awards have been exercised, forfeited, canceled, have vested, expired or otherwise terminated in accordance with the terms of such grants. As of April 15, 2009, approximately 2,296,445 shares remain available for grant under the 1999 Plan. As discussed above, no further grants can be made under the 1999 Plan after April 26, 2009. We have no intention at this time to make any additional awards under the 1999 Plan prior to its termination. For awards made in 2009 under the 1999 Plan, see "Compensation Discussion and Analysis – 2009 Executive Compensation Changes."

The Board believes the approval of the Plan is in the best interests of the Company because of the continuing essential need to attract, provide incentives to and retain key personnel and non-employee directors. The Compensation Committee approved the general terms of the Plan in January 2009, and the Board approved the Plan at its March meeting, delegating to the Compensation Committee the determination of any final adjustments to the terms and to set the number of shares to be authorized under the Plan. The Compensation Committee approved the final terms of the Plan on April 20, 2009, subject to approval by our shareholders. We have not made any awards under the Plan.

The total number of shares authorized and available for issuance under the Plan is 1,500,000. Under the terms of the Plan, the maximum amount of full value stock awards (restricted stock and RSUs) that may be granted is 750,000. We are asking you to authorize a number of shares available under the Plan to a level that we believe will, on the basis of current expectations, be sufficient during the Plan's proposed three-year term.

Effect of EESA and ARRA. ARRA directs the Treasury to adopt rules to implement "compensation standards" for CPP participants including a prohibition on bonus, retention or incentive pay other than a certain prescribed value of restricted stock. As a result, it is likely that these new legislative and regulatory restrictions will preclude the grant of any stock options and impose limits on restricted stock grants to the five highest paid executive officers (or named executive officers ("NEOs")) in the future until we are no longer subject to EESA. However, the Board believes it is important for the shareholders to approve the Plan so that options and restricted stock can be used for long-term incentive purposes within the new legal and regulatory limits.

Below is a summary of the material features of the Plan and its operation. This summary does not purport to be a complete description of all of the provisions of the Plan. It is qualified in its entirety by reference to the full text of the plan, a copy of which is attached hereto as Appendix A and incorporated by reference to this proposal.

Purpose of the Plan

The purpose of the Plan is to promote the interests of First Financial and its subsidiaries through grants to employees of stock options, stock appreciation rights, restricted stock and stock units. The stock-based incentive compensation available under the Plan is intended (1) to attract and retain employees, (2) to provide an additional incentive to each employee to work to increase the value of our stock, and (3) to provide each employee with a stake in our future which corresponds to the stake of each of our shareholders. The Plan provides an essential component of the total compensation package offered to our key employees. The Board of Directors continues to believe that these types of stock-based incentives are important factors in attracting, retaining and rewarding employees and directors and closely aligning their interests with those of shareholders. The Plan reflects the importance placed by us on motivating employees to achieve superior results over the long-term and paying employees based on that kind of achievement.

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The Plan is designed so that grants may qualify as performance-based compensation under Section 162(m) of the Code. The Plan does not allow options or stock appreciation rights ("SARs") to be issued with an exercise price lower than fair market value on the date of grant. Therefore, these grants automatically satisfy the performance measures of Section 162(m). The Committee may, if it so chooses, also make options and SARs subject to one or more of the performance criteria described in the section below entitled "Qualifying Performance-Based Compensation." Restricted stock and RSUs are generally called performance shares and performance units, respectively, when their vesting or payment is based on one or more of the performance measures. In the event that the Committee (as defined below in "Administration of the Plan") determines that it is advisable to grant performance shares or performance units based on measures other than those specified below, those awards will not qualify for the performance-based exception under Section 162(m) of the Code.

Key Features of the Plan

The Plan contains features that the Board believes are consistent with the interests of shareholders and sound governance principles. These features include the following:

- Flexibility and Performance Ties. The variety of equity and cash awards permitted under the Plan affords flexibility with respect to the design of long-term incentives that are responsive to evolving regulatory changes and compensation best practices and incorporate tailored, performance-based measures.

- Limit on Shares Authorized. The Plan authorizes the grant of up to 1,500,000 shares over its entire term, which represents approximately 4.0% of our issued and outstanding common shares as of April 16, 2009. We believe these shares will be sufficient for awards during the five-year period beginning in 2009.

- Shares Available for Awards Other Than Stock Options and SARs. Of the shares available for grand under the plan, only 750,000, or 50% may be used for full value awards, which are awards of other than stock options or SARs.

- No Discount Options. Stock options or SARs may not be granted or awarded with an exercise price less than 100% of the fair market value of our common stock on the date of grant or award.

- No Re-pricings. The direct or indirect re-pricing of stock options and stock appreciation rights is prohibited without shareholder approval. This prohibition applies both to re-pricings that involve lowering the exercise price of a stock option or SAR as well as re-pricings that are accomplished by canceling an existing award and replacing it with a lower-priced award.

- No Liberal Share Accounting. Shares withheld for tax payments or to pay the exercise price and shares not issued or delivered as a result of the net settlement of an outstanding award will not be added back into the Plan reserve.

- Compensation Committee Oversight. The Plan will be administered by our Compensation Committee which is comprised solely of non-employee, independent directors.

- No Annual "Evergreen" Provision. The Plan provides a specific number of shares of our common stock available for awards and does not contain an annual or automatic increase in the number of available shares.

- Performance-Based Compensation. The Plan is structured to permit awards to satisfy the performance-based compensation requirements of Section 162(m) of the Code so as to enhance deductibility of compensation provided under the Plan.

Administration of the Plan. The Plan is administered by a committee of the Board (the "Committee"). It consists of 2 or more "outside directors" who are also "non-employee directors" as required by Section 162(m) of the Code and Rule 16b-3. The Compensation Committee meets these requirements and the Board intends for the Compensation Committee to be the "Committee" under the Plan. The Committee has the power in its discretion to grant awards under the Plan, to determine the terms of such awards, to interpret the provisions of the Plan and to take action as it deems necessary or advisable for the administration of the Plan.

Number of Authorized Shares. The total number of shares authorized and available for issuance under the Plan is 1,500,000. Under the terms of the Plan, the maximum number of shares of full value stock awards (restricted stock and RSUs) that may be granted is 750,000.

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In the event we have certain changes in our capitalization, such as stock dividends or stock splits, or we have a corporate transaction, such as a reorganization, separation or liquidation, merger, consolidation, or acquisition of property or stock, the Committee will adjust in an equitable manner the number, kind or class of shares reserved under the Plan and the individual and aggregate limits imposed on grants. The Board will make similar adjustments to shares underlying any grant previously made of restricted stock or RSUs and any related grant or forfeiture conditions and to shares related to previously granted options and the option price and to SARs and the SAR share value. If we assume awards or grant substitute awards in a corporate transaction for awards previously granted by another company we acquire ("Substitute Awards"), our Substitute Awards will not reduce the shares authorized for issuance under the Plan or any individual or aggregate annual limits.

Payment of the exercise price or applicable taxes made by delivery of shares to, or withholding of shares by, the Committee in satisfaction of a participant's obligation, will not result in additional shares becoming available for subsequent awards under the Plan.

Termination and Amendment of the Plan. Unless earlier terminated by the Board or the Committee, the Plan will terminate three (3) years after the date it was approved by the shareholders of First Financial.

In addition, the Board or the Committee may, at any time and for any reason, suspend or terminate the Plan or from time to time amend the Plan, provided that any amendment to the Plan will be submitted to our shareholders for approval if such shareholder approval is required by any federal or state law or regulation or the rules of the Nasdaq (or any stock exchange on which the shares may then be listed or quoted). No amendment, modification, suspension or termination of the Plan shall have a materially adverse effect on any outstanding vested award, without the consent of the affected participant. Notwithstanding the preceding, no consent of any participant shall be needed if the Committee determines that such amendment, modification, or termination is necessary or advisable for us to comply with applicable law, regulation, rule or accounting standard. Even if the Plan is suspended or terminated, the Committee shall still retain authority to exercise powers given to it under the Plan with respect to awards granted under this Plan before the suspension or termination.

Eligibility and Participation. The Committee, in consultation with management, determines the employees and eligible to participate. An eligible employee is a selected employee of First Financial or a subsidiary whose performance, in the judgment of the Committee, is directly or indirectly responsible for, or contributes to, the management, growth and profitability of First Financial or a subsidiary. As of December 31, 2008, we had approximately 1,127 employees.

Types of Awards under the Plan. The Plan authorizes the Committee to grant awards to participants in any of the following forms, subject to such terms, conditions, and provisions as the Committee may determine to be necessary or desirable:

- stock options, either incentive stock options ("ISOs") or nonqualified stock options ("NQSOs");

Argentina	Biotoscana Farma S.A.	
Israel	Megapharm Ltd.	

In August 2012, the Israeli Ministry of Health granted market approval for Fanapt® for the treatment of schizophrenia.

Vanda may lose its rights to develop and commercialize Fanapt® outside the U.S. and Canada if it fails to comply with certain requirements in the amended and restated sublicense agreement regarding its financial condition, or if Vanda fails to comply with certain diligence obligations regarding its development or commercialization activities or if Vanda otherwise breaches the agreement and fails to cure such breach. Vanda s rights to develop and commercialize Fanapt® outside the U.S. and Canada may

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be impaired if it does not cure breaches by Novartis of similar obligations contained its sublicense agreement with Titan for Fanapt®. In addition, if Novartis breaches the amended and restated sublicense agreement with respect to its commercialization activities in the U.S. or Canada, Vanda may terminate Novartis commercialization rights in the applicable country and Vanda would no longer receive royalty payments from Novartis in connection with such country in the event of such termination.

Tasimelteon. In February 2004, the Company entered into a license agreement with Bristol-Myers Squibb (BMS) under which the Company received an exclusive worldwide license under certain patents and patent applications, and other licenses to intellectual property, to develop and commercialize tasimelteon. In partial consideration for the license, the Company paid BMS an initial license fee of $0.5 million. The Company is also obligated to make future milestone payments to BMS of less than $40.0 million in the aggregate (the majority of which are tied to sales milestones) as well as royalty payments based on the net sales of tasimelteon at a rate which, as a percentage of net sales, is in the low teens. The Company made a milestone payment to BMS of $1.0 million under this license agreement in 2006 relating to the initiation of its first Phase III clinical trial for tasimelteon. The Company is also obligated under this agreement to pay BMS a percentage of any sublicense fees, upfront payments and milestone and other payments (excluding royalties) that the Company receives from a third party in connection with any sublicensing arrangement, at a rate which is in the mid-twenties. The Company has agreed with BMS in the license agreement for tasimelteon to use commercially reasonable efforts to develop and commercialize tasimelteon and to meet certain milestones in initiating and completing certain clinical work. The license agreement with BMS was amended in May 2012 to, among other things, extend the deadline by which the Company must enter into a development and commercialization agreement with a third party for tasimelteon until the earliest of: (i) the date mutually agreed upon by the Company and BMS following the provision by the Company to BMS of a full written report of the Phase III clinical studies on which the Company intends to rely for filing for marketing authorization for tasimelteon in its first major market country (Phase III report); (ii) the date of the acceptance by a regulatory authority of the filing by the Company for marketing authorization for tasimelteon in a major market country following the provision by the Company to BMS of the Phase III report; or (iii) December 31, 2013.

If the Company has not entered into such a development and commercialization agreement with respect to certain major market countries by the foregoing deadline, then BMS will have the option to exclusively develop and commercialize tasimelteon on its own in those countries not covered by such an agreement on pre-determined financial terms, including milestone and royalty payments. In addition to the foregoing, pursuant to the May 2012 amendment, Vanda s deadline for filing an NDA for tasimelteon was extended until January 1, 2014.

Either party may terminate the tasimelteon license agreement under certain circumstances, including a material breach of the agreement by the other. In the event that BMS has not exercised its option to reacquire the rights to tasimelteon and the Company terminates the license, or if BMS terminates the license due to the Company s breach, all rights licensed and developed by the Company under this agreement will revert or otherwise be licensed back to BMS on an exclusive basis.

VLY-686. In April 2012, the Company entered into a license agreement with Eli Lilly and Company (Lilly) pursuant to which the Company acquired an exclusive worldwide license under certain patents and patent applications, and other licenses to intellectual property, to develop and commercialize an NK-1R antagonist, VLY-686, for all human indications. The patent describing VLY-686 as a new chemical entity expires in April 2023, except in the U.S., where it expires in June 2024 absent any applicable patent term adjustments.

Pursuant to the agreement, the Company paid Lilly an initial license fee of $1.0 million and will be responsible for all development costs. The initial license fee was recognized as an expense in the second quarter of 2012 and is presented as research and development expense on the condensed consolidated statement of operations for the nine months ended September 30, 2012. Lilly is also eligible to receive additional payments based upon achievement of specified development and commercialization milestones as well as tiered-royalties on net sales at percentage rates up to the low double digits. These milestones include $4.0 million for pre-NDA approval milestones and up to $95.0 million for future regulatory approval and sales milestones. Vanda has agreed to use its commercially reasonable efforts to develop and commercialize VLY-686.

Either party may terminate the agreement under certain circumstances, including a material breach of the agreement by the other. In the event that Vanda terminates the agreement, or if Lilly terminates due to Vanda s breach, all rights licensed and developed by Vanda under the agreement will revert or otherwise be licensed back to Lilly on an exclusive basis.

Future license payments. No amounts were recorded as liabilities nor were any contractual obligations relating to the license agreements included in the condensed consolidated financial statements as of September 30, 2012, since the amounts, timing and likelihood of these future payments are unknown and will depend on the successful outcome of future clinical trials, regulatory filings, favorable FDA regulatory approvals, growth in product sales and other factors.

Research and development and marketing agreements

In the course of its business, the Company regularly enters into agreements with clinical organizations to provide services relating to clinical development and clinical manufacturing activities under fee service arrangements. The Company s current agreements for clinical services may be terminated on no more than 60 days notice without incurring additional charges, other than charges for work completed but not paid for

through the effective date of termination and other costs incurred by the Company s contractors in closing out work in progress as of the effective date of termination.

11. Income Taxes

The tax benefit for the nine months ended September 30, 2012 and 2011 was $0 and $0.2 million, respectively. As of September 30, 2012, the Company has provided a valuation allowance for the full amount of its net deferred tax asset since realization of any future benefit from deductible temporary differences and NOLs could not be sufficiently assured. As of September 30, 2011, the Company reflected a net deferred tax asset of $1.8 million associated with the Company s ability to carryback taxable losses.

12. Fair Value Measurements

FASB guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1 defined as observable inputs such as quoted prices in active markets
Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable
Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions

Marketable securities classified in Level 1 and Level 2 at September 30, 2012 and December 31, 2011 consist of available-for-sale marketable securities. The valuation of Level 1 instruments is determined using a market approach, and is based upon unadjusted quoted prices for identical assets in active markets. The valuation of investments classified in Level 2 also is determined using a market approach based upon quoted prices for similar assets in active markets, or other inputs that are observable for substantially the full term of the financial instrument. Level 2 securities include certificates of deposit, commercial paper, corporate notes and U.S. government agency notes that use as their basis readily observable market parameters.

As of September 30, 2012, the Company held certain assets that are required to be measured at fair value on a recurring basis.

		Fair Value Measurements at Reporting Date Using		
(in thousands)	**September 30, 2012**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available-for-sale securities	$ 29,889	$ 7,643	$ 22,246	$

As of December 31, 2011, the Company held certain assets that are required to be measured at fair value on a recurring basis.

		Fair Value Measurements at Reporting Date Using		
(in thousands)	**December 31, 2011**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available-for-sale securities	$ 79,973	$ 42,767	$ 37,206	$

The Company also has financial assets and liabilities, not required to be measured at fair value on a recurring basis, which primarily consist of cash and cash equivalents, accounts receivable, restricted cash and accounts payable, the carrying value of which materially approximate their fair values.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Various statements in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may appear throughout this report. Words such as, but not limited to, believe, expect, anticipate, estimate, project goal, intend, plan, target, likely, will, would, and could, or the negative of these terms and similar expressions or words, identify for statements. Forward-looking statements are based upon current expectations that involve risks, changes in circumstances, assumptions and uncertainties. Important factors that could cause actual results to differ materially from those reflected in our forward-looking statements include, among others:

the inability to reach agreement with the U.S. Food and Drug Administration (FDA) regarding our regulatory approval strategy or proposed path to approval for tasimelteon;

the failure of our clinical trials to demonstrate the safety and/or efficacy of tasimelteon in the treatment of Non-24-Hour Disorder (N24HD) or Major Depressive Disorder (MDD);

our failure to obtain regulatory approval for our products or product candidates or to comply with ongoing regulatory requirements;

the extent and effectiveness of the development, sales and marketing and distribution support Fanapt® receives;

our ability to successfully commercialize Fanapt® outside of the U.S. and Canada;

delays in the completion of our or our partners clinical trials;

a failure of our products, product candidates or partnered products to be demonstrably safe and effective;

a lack of acceptance of our products, product candidates or partnered products in the marketplace, or a failure to become or remain profitable;

our expectations regarding trends with respect to our revenues, costs, expenses and liabilities;

our inability to obtain the capital necessary to fund our research and development activities;

our failure to identify or obtain rights to new products or product candidates;

our failure to develop or obtain sales, marketing and distribution resources and expertise or to otherwise manage our growth;

limitations on our ability to utilize some or all of our prior net operating losses (NOLs) and research and development credits;

a loss of any of our key scientists or management personnel;

losses incurred from product liability claims made against us; and

a loss of rights to develop and commercialize our products or product candidates under our license and sublicense agreements.

All written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We caution investors not to rely too heavily on the forward-looking statements we make or that are made on our behalf. We undertake no obligation, and specifically decline any obligation, to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

We encourage you to read management s discussion and analysis of financial condition and results of operations as well as our condensed consolidated financial statements contained in this quarterly report on Form 10-Q. We also encourage you to read Item 1A of Part II of this quarterly report on Form 10-Q entitled Risk Factors and Item 1A of Part I of our annual report on Form 10-K for the fiscal year ended December 31, 2011, which contain a more complete discussion of the risks and uncertainties associated with our business. In addition to the risks described above and in Item 1A of Part II of this report and Item 1A of Part I of our annual report on Form 10-K for the fiscal year ended December 31, 2011, other unknown or unpredictable factors also could affect our results. Therefore, the information in this report should be read together with other reports and documents that we file with the Securities and Exchange Commission (SEC) from time to time, including Forms 10-Q, 8-K and 10-K, which may supplement, modify, supersede or update those risk factors. There can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Therefore, no assurance can be given that the outcomes stated in such forward-looking statements and estimates will be achieved.

Overview

We are a biopharmaceutical company focused on the development and commercialization of products for the treatment of central nervous system disorders. We believe that each of our products and partnered products will address a large market with significant unmet medical needs by offering advantages over currently available therapies. Our product portfolio includes Fanapt® (iloperidone), a compound for the treatment of schizophrenia, the oral formulation of which is currently being marketed and sold in the U.S. by Novartis Pharma AG (Novartis), tasimelteon, a compound for the treatment of sleep and mood disorders, including circadian rhythm sleep disorders (CRSD), which is currently in clinical development, and VLY-686, a small molecule neurokinin-1 receptor (NK-1R) antagonist.

Pursuant to our amended and restated sublicense agreement with Novartis, we received an upfront payment of $200.0 million and are eligible for additional payments totaling up to $265.0 million upon Novartis achievement of certain commercial and development milestones for Fanapt® in the U.S. and Canada. Based on the current sales performance of Fanapt® in the U.S. and the decision by Novartis to cease development of the long-acting injectible (or depot) formulation of Fanapt®, we expect that some or all of these commercial and development milestones will not be achieved by Novartis. We also receive royalties, which, as a percentage of net sales, are in the low double-digits, on net sales of Fanapt® in the U.S. and Canada. We retain exclusive rights to Fanapt® outside the U.S. and Canada and we have exclusive rights to use any of Novartis data for Fanapt® for developing and commercializing Fanapt® outside the U.S. and Canada. For the nine months ended September 30, 2012, we incurred $1.2 million in research and development costs directly attributable to our development of Fanapt®.

We are conducting four clinical trials to pursue FDA approval of tasimelteon for the treatment of N24HD in blind individuals without light perception. Two of the clinical trials were initiated in the third quarter of 2010, the third was initiated in the third quarter of 2011 and the fourth was initiated in the fourth quarter of 2011. In addition, in the third quarter of 2011, we initiated a Phase IIb/III clinical trial to study the efficacy of tasimelteon for the treatment of MDD. During the nine months ended September 30, 2012, we incurred $30.9 million in research and development costs directly attributable to our development of tasimelteon.

Since we began our operations in March 2003, we have devoted substantially all of our resources to the in-licensing and clinical development of our compounds. Our ability to generate additional revenues largely depends on Novartis ability to successfully commercialize Fanapt® in the U.S. and to successfully develop and commercialize Fanapt® in Canada and upon our ability, alone or with others, to complete the development of our products or product candidates, and to obtain the regulatory approvals for and manufacture, market and sell our products and product candidates.

The results of our operations will vary significantly from year-to-year and quarter-to-quarter and depend on a number of factors, including risks related to our business, risks related to our industry, and other risks which are detailed in Item 1A of Part II of this quarterly report on Form 10-Q, entitled Risk Factors and in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2011.

Revenues. Our revenues are derived primarily from our amended and restated sublicense agreement with Novartis and include an upfront payment, product sales and future milestone and royalty payments. Revenue is considered both realizable and earned when each one of the following four conditions is met: (1) persuasive evidence of an arrangement exists, (2) the arrangement fee is fixed or determinable, (3) delivery or performance has occurred and (4) collectability is reasonably assured. Revenue related to the $200.0 million upfront payment will be recognized ratably on a straight-line basis from the date the amended and restated sublicense agreement became effective (November 2009) through the expected life of the U.S. patent for Fanapt®, which we expect to last until May 2017. This includes the Hatch-Waxman extension that extends patent protection for drug compounds for a period of five years to compensate for time spent in development and a six-month pediatric term extension. Fanapt® has qualified for the full five-year patent term Hatch-Waxman extension and we expect that Fanapt® will be eligible for six months of pediatric exclusivity. We recognize revenue from Fanapt® royalties and commercial and development milestones from Novartis when realizable.

Research and development expenses. Our research and development expenses consist primarily of fees paid to third-party professional service providers in connection with the services they provide for our clinical trials, costs of contract manufacturing services, costs of materials used in clinical trials and research and development, costs for regulatory consultants and filings, depreciation of capital resources used to develop our products, all related facilities costs, and salaries, benefits and stock-based compensation expense related to our research and development personnel. We expense research and development costs as incurred for compounds in the development stage, including certain payments made under our license agreements prior to FDA approval. Prior to FDA approval, all Fanapt® manufacturing-related and milestone costs were included in research and development expenses. Subsequent to FDA approval of Fanapt®, manufacturing and milestone costs related to this product are being capitalized. Costs related to the acquisition of intellectual property have been expensed as incurred since the underlying technology associated with these acquisitions was developed in connection with the Company s research and development efforts and has no alternative future use. Milestone payments are accrued in accordance with the Financial Accounting Standards Board (FASB) guidance on accounting for contingencies which requires that milestone payments be accrued when it is deemed probable that the milestone event will be achieved. We believe that significant investment in product development is a competitive necessity and plan to continue these investments in order to realize the potential of our products and product candidates and pharmacogenetics and pharmacogenomics expertise. For the nine months ended September 30, 2012, we incurred research and development expenses in

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the aggregate of $34.8 million, including stock-based compensation expense of $1.0 million. We expect our research and development expenses to increase as we continue to develop our products and product candidates. We expect to incur licensing costs in the future that could be substantial, as we continue our efforts to develop our products, product candidates and partnered products and to evaluate potential in-license product candidates or compounds.

The following table summarizes our product development initiatives for the three and nine months ended September 30, 2012 and 2011. Included in this table are the research and development expenses recognized in connection with the clinical development of Fanapt®, tasimelteon and VLY-686.

	Three Months Ended		Nine Months Ended	
(in thousands)	**September 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Direct project costs(1)				
Fanapt®	$ 423	$ 890	$ 1,173	$ 1,851
Tasimelteon	9,437	6,893	30,856	15,709
VLY-686	42		1,056	
Total direct project costs	9,902	7,783	33,085	17,560
Indirect project costs(1)				
Facility	114	280	1,216	591
Depreciation	57	78	295	147
Other indirect overhead	86	33	233	142
Total indirect project costs	257	391	1,744	880
Total research and development expenses	$ 10,159	$ 8,174	$ 34,829	$ 18,440

(1) Many of our research and development costs are not attributable to any individual project because we share resources across several development projects. We record direct costs, including personnel costs and related benefits and stock-based compensation, on a project-by-project basis. We record indirect costs that support a number of our research and development activities in the aggregate.

General and administrative expenses. General and administrative expenses consist primarily of salaries, other related costs for personnel, including stock-based compensation, related to executive, finance, accounting, information technology, marketing, and human resource functions. Other costs include facility costs not otherwise included in research and development expenses and fees for legal, accounting and other professional services. General and administrative expenses also include third-party expenses incurred to support business development, marketing and other business activities related to Fanapt®. For the nine months ended September 30, 2012, we incurred general and administrative expenses in the aggregate of $10.7 million, including stock-based compensation expense of $2.2 million.

Other income. Other income consists of interest income earned on our cash and cash equivalents, marketable securities and restricted cash and non-recurring income (expense) transactions which are outside of our normal business operations.

Critical Accounting Policies

The preparation of our condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of our financial statements, as well as the reported revenues and expenses during the reported periods. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in the notes to our audited consolidated financial statements for the year ended December 31, 2011 included in our annual report on Form 10-K. However, we believe that the following critical accounting policies are important to understanding and evaluating our reported financial results, and we have accordingly included them in this quarterly report on Form 10-Q.

Accrued liabilities. As part of the process of preparing financial statements, we are required to estimate accrued expenses. The estimation of accrued expenses involves identifying services that have been performed on our behalf, and then estimating the level of service performed and the associated cost incurred for such services as of each balance sheet date in the financial statements. Accrued expenses include professional service fees, such as lawyers and accountants, contract service fees, such as those under contracts with clinical monitors, data management organizations and investigators in conjunction with clinical trials, fees to contract manufacturers in conjunction with the production of clinical materials, and fees for marketing and other commercialization activities. Pursuant to our assessment of the services that have been performed on clinical trials and other contracts, we recognize these expenses as the services are provided. Our assessments include, but are not limited to: (1) an evaluation by the project manager of the work that has been completed during the period, (2) measurement of progress prepared internally and/or provided by the third-party service provider, (3) analyses of data that justify the progress, and (4) our judgment. In the event that we do not identify certain costs that have begun to be incurred or we under- or over-estimate the level of services performed or the costs of such services, our reported expenses for such period would be too low or too high.

Revenue recognition. Our revenues are derived primarily from our amended and restated sublicense agreement with Novartis and include an upfront payment, product revenue and future milestone and royalty revenues. Revenue related to the upfront payment will be recognized ratably from the date the amended and restated sublicense agreement became effective (November 2009) through the expected life of the U.S. patent for Fanapt®, which we expect to last until May 2017. This includes the Hatch-Waxman extension that extends patent protection for drug compounds for a period of five years to compensate for time spent in development and a six-month pediatric term extension. Fanapt® has qualified for the full five-year patent term Hatch-Waxman extension and we expect that Fanapt® will be eligible for six months of pediatric exclusivity. We recognize revenue related to Fanapt® royalties and commercial and development milestones as they are realizable and earned.

Stock-based compensation. We currently use the Black-Scholes-Merton option pricing model to determine the fair value of stock options. The determination of the fair value of stock options on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the expected stock price volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. Due to the limited historical information on our publicly traded common stock, expected volatility rates are based on the historical volatility of our publicly traded common stock blended with the historical volatility of the common stock of comparable entities and other factors. The expected term of options granted is based on the transition approach provided by FASB guidance as the options meet the plain vanilla criteria required by this method. The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. We have not paid dividends to our stockholders since our inception (other than a dividend of preferred share purchase rights which was declared in September 2008) and do not plan to pay dividends in the foreseeable future. The stock-based compensation expense for a period is also affected by the expected forfeiture rate for the respective option grants. If our estimates of the fair value of these equity instruments or expected forfeitures are too high or too low, it would have the effect of overstating or understating expenses.

Total employee stock-based compensation expense related to all of our stock-based awards during the three and nine months ended September 30, 2012 and 2011 was comprised of the following:

	Three Months Ended		Nine Months Ended	
(in thousands)	**September 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Research and development	$ (110)	$ 558	$ 1,003	$ 1,896
General and administrative	686	704	2,152	2,278
Total employee stock-based compensation expense	$ 576	$ 1,262	$ 3,155	$ 4,174

The research and development portion of employee stock-based compensation expense for the three and nine months ended September 30, 2012 was impacted by the termination of our Chief Medical Officer in the third quarter of 2012 and the reversal of employee stock-based compensation expense resulting from the cancellation of certain of his outstanding equity awards.

Income taxes. On a periodic basis, we evaluate the realizability of our deferred tax assets and liabilities and will adjust such amounts in light of changing facts and circumstances, including but not limited to future projections of taxable income, the reversal of deferred tax liabilities, tax legislation, rulings by relevant tax authorities and tax planning strategies. Settlement of filing positions that may be challenged by tax authorities could impact our income taxes in the year of resolution.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences becomes deductible or the NOLs and credit carryforwards can be utilized. When considering the reversal of the valuation allowance, we consider the level of past and future taxable income, the reversal of deferred tax liabilities, the utilization of the carryforwards and other factors. Revisions to the estimated net realizable value of the deferred tax asset could cause our provision for income taxes to vary significantly from period to period.

Recent Accounting Pronouncements

There are no new accounting pronouncements that have had or that we expect will have a material effect on our condensed consolidated financial statements.

Results of Operations

We have a limited history of operations. We anticipate that our results of operations will fluctuate for the foreseeable future due to several factors, including any possible payments made or received pursuant to license or collaboration agreements, progress of our research and development efforts, the timing and outcome of clinical trials and related possible regulatory approvals and our and our partners ability to successfully commercialize our products, product candidates and partnered products. Our limited operating history makes predictions of future operations difficult or impossible. Since our inception, we have incurred significant losses. As of September 30, 2012, we had an accumulated deficit of $284.7 million.

Three months ended September 30, 2012 compared to three months ended September 30, 2011

Revenues. Revenues were $8.3 million for the three months ended September 30, 2012, compared to revenues of $8.0 million for the three months ended September 30, 2011. Revenues for the three months ended September 30, 2012 included $6.8 million recognized from Novartis related to straight-line recognition of up-front license fees and $1.5 million in royalty revenue based on third quarter 2012 sales of Fanapt®. Revenues for the three months ended September 30, 2011 included $6.8 million recognized from Novartis related to straight-line recognition of upfront license fees and $1.2 million in royalty revenue based on third quarter 2011 sales of Fanapt®.

Intangible asset amortization. Intangible asset amortization was $0.4 million for both the three months ended September 30, 2012 and the three months ended September 30, 2011. Intangible amortization relates to the capitalized intangible asset related to the $12.0 million milestone payment to Novartis in May 2009.

Research and development expenses. Research and development expenses increased by $2.0 million, or 24.3%, to $10.2 million for the three months ended September 30, 2012 compared to $8.2 million for the three months ended September 30, 2011.

The following table discloses the components of research and development expenses reflecting all of our project expenses for the three months ended September 30, 2012 and 2011:

	Three Months Ended	
	September 30, 2012	**September 30, 2011**
(in thousands)		
Direct project costs:		
Clinical trials	$ 6,794	$ 4,698
Contract research and development, consulting, materials and other direct costs	1,759	1,460
Salaries, benefits and related costs	1,459	1,067
Employee stock-based compensation expense	(110)	558
Total direct costs	9,902	7,783
Indirect project costs	257	391
Total research and development expenses	$ 10,159	$ 8,174

Direct costs increased by $2.1 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 primarily as a result of increases in clinical trial costs, contract research and development, consulting, materials and other direct costs, salaries, benefits and related costs partially offset by lower stock based compensation. Clinical trials costs increased by $2.1 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 primarily due to costs related to the tasimelteon trials for the treatment of N24HD in blind individuals without light perception and the tasimelteon trial for the treatment of MDD. Contract research and development consulting, materials and other direct costs increased by $0.3 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 due to costs related to the tasimelteon N24HD and MDD trials and costs related to the preparation of a future tasimelteon New Drug Application (NDA) filing with the FDA. Salaries, benefits and related costs increased by $0.4 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 due to new employees hired in 2011 and 2012 and the termination of our Chief Medical Officer in the third quarter 2012 and the severance costs associated with his termination. Employee stock-based compensation expense decreased by $0.7 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 due to the termination of our Chief Medical Officer in the third quarter of 2012 and the reversal of employee stock-based compensation expense resulting from the cancellation of certain of his outstanding equity awards and the lower fair value of equity awards granted during 2011 and 2012 compared to equity awards granted in prior periods.

General and administrative expenses. General and administrative expenses increased by $0.4 million, or 16.1%, to $3.1 million for the three months ended September 30, 2012 from $2.7 million for the three months ended September 30, 2011.

The following table discloses the components of our general and administrative expenses for the three months ended September 30, 2012 and 2011:

(in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011
Salaries, benefits and related costs	$ 808	$ 433
Employee stock-based compensation expense	686	704
Marketing, legal, accounting and other professional expenses	847	918
Other expenses	806	656
Total general and administrative expenses	$ 3,147	$ 2,711

Salaries, benefits and related costs increased by $0.4 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 primarily due to the hiring of an executive in the fourth quarter of 2011 and other new hires made in the fourth quarter of 2011 and throughout 2012.

Nine months ended September 30, 2012 compared to nine months ended September 30, 2011

Revenues. Revenues were $24.8 million for the nine months ended September 30, 2012, compared to revenues of $22.9 for the nine months ended September 30, 2011. Revenues for the nine months ended September 30, 2012 included $20.0 million recognized

from Novartis related to straight-line recognition of up-front license fees and $4.8 million in royalty revenue based on sales of Fanapt® in the nine months ended September 30, 2012. Revenues for the nine months ended September 30, 2011 included $20.0 million recognized from Novartis related to the straight-line recognition of up-front license fees and $2.9 million in royalty revenue based on sales of Fanapt® in the nine months ended September 30, 2011.

Intangible asset amortization. Intangible asset amortization was $1.1 million for both the nine months ended September 30, 2012 and the nine months ended September 30, 2011. Intangible amortization relates to the capitalized intangible asset related to the $12.0 million payment to Novartis in May 2009.

Research and development expenses. Research and development expenses increased by $16.4 million, or 88.9%, to $34.8 million for the nine months ended September 30, 2012 compared to $18.4 million for the nine months ended September 30, 2011.

The following table discloses the components of research and development expenses reflecting all of our project expenses for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended	
(in thousands)	**September 30, 2012**	**September 30, 2011**
Direct project costs:		
Clinical trials	$ 21,831	$ 9,086
Contract research and development, consulting, materials and other direct costs	6,511	3,635
Salaries, benefits and related costs	3,740	2,943
Employee stock-based compensation expense	1,003	1,896
Total direct costs	33,085	17,560
Indirect project costs	1,744	880
Total research and development expenses	$ 34,829	$ 18,440

Direct costs increased by $15.5 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 primarily as a result of increases in clinical trial costs, contract research and development, consulting, materials and other direct costs and salaries, benefits and related costs partially offset by lower stock-based compensation. Clinical trials costs increased by $12.7 million for the nine months ended September 30, 2012 relative to the nine months ended September 30, 2011, primarily due to costs related to the tasimelteon trials for the treatment of N24HD in blind individuals without light perception and the tasimelteon trial for the treatment of MDD. Contract research and development, consulting, materials and other direct costs increased $2.9 million for the nine months ended September 30, 2012 relative to the nine months ended September 30, 2011, primarily due to costs related to the tasimelteon N24HD and MDD trials, costs related to the preparation of a future tasimelteon NDA filing with the FDA, and the $1.0 initial license fee associated with VLY-686. Salaries, benefits and related costs increased by $0.8 million due to new employees hired in 2011 and 2012 and the termination of our Chief Medical Officer in the third quarter of 2012 and the severance costs associated with his termination. Employee stock-based compensation expense decreased by $0.9 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 due to the termination of our Chief Medical Officer in the third quarter of 2012 and the reversal of employee stock-based compensation expense resulting from the cancellation of certain of his outstanding equity awards and the lower fair value of equity awards granted during 2011 and 2012 compared to equity awards granted in prior periods. Indirect project costs increased by $0.9 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 primarily as a result of lease exit costs for our former headquarters in Rockville, Maryland and the related accelerated depreciation recognized in the first quarter of 2012.

General and administrative expenses. General and administrative expenses increased by $2.5 million, or 30.9%, to $10.7 million for the nine months ended September 30, 2012 from $8.1 million for the nine months ended September 30, 2011.

The following table discloses the components of our general and administrative expenses for the nine months ended September 30, 2012 and 2011:

Nine Months Ended

(in thousands)	September 30, 2012	September 30, 2011
Salaries, benefits and related costs	$ 2,314	$ 1,436
Employee stock-based compensation expense	2,152	2,278
Marketing, legal, accounting and other professional expenses	3,589	2,530
Other expenses	2,602	1,897
Total general and administrative expenses	$ 10,657	$ 8,141

Salaries, benefits and related costs increased by $0.9 million primarily due to the hiring of an executive in the fourth quarter of 2011 and other new hires made in the 2011 and 2012. Marketing, legal, accounting and other professional expenses increased by $1.1 million primarily due to increased legal costs associated with developing Fanapt® outside the U.S. and Canada and increased marketing expenses associated with tasimelteon. Other expenses increased by $0.7 million primarily as a result of lease exit costs for our former headquarters in Rockville, Maryland and the related accelerated depreciation recognized in the first quarter of 2012.

Other income. Other income increased by $0.1 million to $0.5 million for the nine months ended September 30, 2012 from $0.4 million for the nine months ended September 30, 2011 primarily as a result of a legal settlement related to a lawsuit filed against one of our shareholders partially offset by lower interest income. While we did not participate in the lawsuit proceedings, we received a portion of the settlement.

Liquidity and Capital Resources

As of September 30, 2012, our total cash and cash equivalents and marketable securities were $134.4 million compared to $167.9 million at December 31, 2011. Our cash and cash equivalents are deposits in operating accounts and highly liquid investments with an original maturity of 90 days or less at date of purchase and consist of time deposits, investments in money market funds with commercial banks and financial institutions, asset-backed commercial paper and commercial paper of high-quality corporate issuers. Our marketable securities consist of investments in U.S. government sponsored enterprises and commercial paper. As of September 30, 2012, we also held current deposits and non-current deposits totaling $0.4 million and $0.6 million, respectively. The current deposit of $0.4 million was used to collateralize a letter of credit issued for our office lease in Rockville, Maryland, which expires in 2013. The non-current deposit of $0.6 million consists of $0.1 million used to collateralize a letter of credit issued as a requirement for our license renewal with the Maryland Board of Pharmacy, and $0.5 million used to collateralize a letter of credit issued for our office lease in Washington, D.C., which expires in 2023.

As of September 30, 2012, we maintained all of our cash and cash equivalents in two financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits, but we do not anticipate any losses with respect to such deposits.

We expect to continue to incur substantial expenses relating to our research and development efforts, as we focus on clinical trials and manufacturing required for the development of our product candidates. The duration and cost of clinical trials are a function of numerous factors such as the number of patients to be enrolled in the trial, the amount of time it takes to enroll them, the length of time they must be treated and observed, and the number of clinical sites and countries for the trial. In addition, orphan clinical trials create an additional challenge due to the limited number of available patients afflicted with the disease.

We must receive regulatory approval to launch any of our products commercially. In order to receive such approval, the appropriate regulatory agency must conclude that our clinical data establish safety and efficacy and that our products and the manufacturing facilities meet all applicable regulatory requirements. We cannot be certain that we will establish sufficient safety and efficacy data to receive regulatory approval for any of our compounds or that our compounds and the manufacturing facilities will meet all applicable regulatory requirements.

Because of the uncertainties discussed above, the costs to advance our research and development projects are difficult to estimate and may vary significantly. We expect that our existing funds will be sufficient to fund our currently planned operations. Our future capital requirements and the adequacy of our available funds will depend on many factors, primarily including the scope and costs of our clinical development programs, the scope and costs of our manufacturing and process development activities, the magnitude of our discovery and preclinical development programs and the level of our pre-commercial launch activities. There can be no assurance that any additional financing required in the future will be available on acceptable terms, if at all.

Cash Flow

The following table summarizes our cash flows for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended	
(in thousands)	**September 30, 2012**	**September 30, 2011**
Net cash provided by (used in):		
Operating activities	$ (31,068)	$ (16,053)
Investing activities	47,660	33,815
Financing activities		5
Net increase in cash and cash equivalents	$ 16,592	$ 17,767

Net cash used in operations was $31.1 million and $16.1 million for the nine months ended September 30, 2012 and 2011, respectively. The increase in net cash used in operations for the nine months ended September 30, 2012 as compared to September 30, 2011 was primarily due to the costs associated with four Phase III clinical trials for tasimelteon in N24HD, which were initiated in 2010 and 2011, and one Phase IIb/III clinical trial for tasimelteon in MDD, which was initiated in the third quarter of 2011. Adjustments to reconcile net loss to net cash used in operating activities for the nine months ended September 30, 2012, included non-cash charges for depreciation and amortization of $2.1 million and stock-based compensation of $3.2 million, a net increase of $3.9 million in inventory, prepaid expenses and other assets, accounts payable, accrued liabilities and other liabilities, an increase in landlord contributions for tenant improvements of $1.8 million, a decrease in accounts receivable of $0.1 million and a decrease in deferred revenue of $20.0 million. Net cash provided by investing activities for the nine months ended September 30, 2012 was $47.7 million and consisted of net purchases, sales and maturities of marketable securities of $49.7 million and

purchases of property and equipment of $2.0 million.

Effects of Inflation

Inflation does not have a material impact on our results of operations.

Off-balance sheet arrangements

We have no off-balance sheet arrangements, as defined in Item 303(a)(4) of the Securities and Exchange Commission s Regulation S-K.

Contractual Obligations and Commitments

The following is a summary of our long-term contractual cash obligations and commitments as of September 30, 2012:

		Cash payments due by period					
(in thousands)	**Total**	**October to December 2012**	**2013**	**2014**	**2015**	**2016**	**After 2016**
Operating leases	$ 11,550	$	$ 859	$ 1,052	$ 1,079	$ 1,106	$ 7,454
Lease exit liability	798	182	616				
Total	$ 12,348	$ 182	$ 1,475	$ 1,052	$ 1,079	$ 1,106	$ 7,454

Operating leases

Our commitments related to operating leases shown above consist of payments relating to a real estate lease for our current headquarters located in Washington, D.C. In July 2011, we entered into a lease with Square 54 Office Owner LLC (the Landlord) for our current headquarters, consisting of 21,400 square feet at 2200 Pennsylvania Avenue, N.W. in Washington, D.C. (the Lease). Under the Lease, which has an 11-year term that commenced in April 2012, we will pay $1.6 million in annual rent over the term of the Lease; however, rent is abated for the first 12 months. The Landlord agreed to provide us with an allowance of $1.9 million for leasehold improvements. As of September 30, 2012, we had received $1.8 million of the allowance. Subject to the prior rights of other tenants in the building, we will have the right to renew the Lease for five years following the expiration of its original term. We will also have the right to sublease or assign all or a portion of the premises, subject to standard conditions. The Lease may be terminated early by us or the Landlord upon certain conditions. We paid a security deposit of $0.5 million upon execution of the Lease.

As a result of our relocation from Rockville, Maryland to Washington, D.C., we provided notice to our previous landlord that we were terminating our prior lease effective June 2013. As a result of terminating this lease, we recognized expenses of $0.7 million in the fourth quarter of 2011 related to a lease termination penalty. Of this amount, $0.6 million was presented as research and development expense on the consolidated statement of operations for the year ended December 31, 2011 and $0.1 million is presented as general and administrative expense on the consolidated statement of operations for the year ended December 31, 2011. In the first quarter of 2012, we ceased using the Rockville, Maryland location and, as a result, recognized additional rent expense of $0.8 million. This $0.8 million consisted of a lease exit liability of $1.3 million for the remaining payments required under the lease and the reversal of the deferred rent liability of $0.5 million related to the Rockville, Maryland lease. The remaining costs associated with the lease exit liability are included in the table above. Of the $0.8 million, $0.6 million is presented as research and development expense on the condensed consolidated statement of operations for the nine months ended September 30, 2012 and $0.2 million is presented as general and administrative expense on the condensed consolidated statement of operations for the nine months ended September 30, 2012.

The following is a summary of our lease exit activity:

(in thousands)	**Balance At Beginning Of Period**	**Costs Incurred and Charged to Expense**	**Costs Paid or Otherwise Settled**	**Adjustments**	**Balance At End Of Period**
Three months ended December 31, 2011	$	$ 740	$	$	$ 740
Nine months ended September 30, 2012	$ 740	$ 1,344	$ 1,232	$ (54)	$ 798

Rent expense, including lease exit costs, for the nine months ended September 30, 2012 and 2011 was $1.8 million and $0.9 million, respectively.

Consulting fees

We have engaged a regulatory consultant to assist in our efforts to prepare, file and obtain FDA approval of a New Drug Application (NDA) for tasimelteon. As part of this engagement, and subject to certain conditions, we will be obligated to make milestone payments in the aggregate amount of $2.8 million upon the achievement of certain milestones, including $2.0 million in the event that a tasimelteon NDA is approved by the FDA. In addition to these fees and milestone payments, we are obligated to reimburse the consultant for ordinary and necessary business expenses incurred in connection with the engagement. We may terminate the engagement at any time upon prior notice; however, subject to certain conditions, we will remain obligated to make some or all of the milestone payments if the milestones are achieved following such termination.

Clinical research organization contracts and other contracts

Other contracts. We have entered into agreements for tasimelteon with clinical supply manufacturing organizations and other outside contractors who will be responsible for additional services supporting our ongoing clinical development processes. These contractual obligations are not reflected in the table above because we may terminate them on no more than 60 days notice without incurring additional charges (other than charges for work completed but not paid for through the effective date of termination and other costs incurred by our contractors in closing out work in progress as of the effective date of termination).

License agreements. In February 2004, we entered into a license agreement with Bristol-Myers Squibb (BMS) for the exclusive rights to develop and commercialize tasimelteon. The license agreement with BMS was most recently amended in May 2012. In June 2004, we entered into a sublicense agreement with Novartis for the exclusive rights to develop and commercialize Fanapt®. In October 2009, we entered into an amended and restated sublicense agreement with Novartis. In April 2012, we entered into a license agreement with Eli Lilly and Company (Lilly) for the exclusive rights to develop and commercialize VLY-686. We are obligated to make (in the case of tasimelteon and VLY-686 and, in the case of Fanapt® in the U.S. and Canada, are entitled to receive) payments under the conditions in the agreements upon the achievement of specified clinical, regulatory and commercial milestones. If the products are successfully commercialized, we will be required to pay (and in the case of Fanapt® in the U.S. and Canada, will be entitled to receive) certain royalties based on net sales for each of the licensed products.

As a result of the successful commencement of a Phase III clinical study of tasimelteon in March 2006, we met the first milestone specified in our license agreement with BMS and subsequently paid a license fee of $1.0 million. We are also obligated to make future milestone payments of less than $40.0 million in the aggregate (the majority of which are tied to sales milestones) as well as royalty payments based on the net sales of tasimelteon at a rate which, as a percentage of net sales, is in the low teens. We are also obligated under this license agreement to pay BMS a percentage of any sublicense fees, upfront payments and milestone and other payments (excluding royalties) that we receive from a third party in connection with any sublicensing arrangement, at a rate which is in the mid-twenties.

As a result of the acceptance by the FDA of the NDA for Fanapt® in October 2007, we met a milestone under our original sublicense agreement with Novartis and subsequently paid a $5.0 million milestone fee. As a result of the FDA s approval of the NDA for Fanapt® in May 2009, we met an additional milestone under the original sublicense agreement with Novartis which required us to make a payment of $12.0 million to Novartis. The $12.0 million was capitalized and will be amortized over the remaining life of the U.S. patent for Fanapt®, which we expect to last until May 2017. This includes the Hatch-Waxman extension that provides patent protection for drug compounds for a period of five years to compensate for time spent in development and a six-month pediatric term extension. Fanapt® has qualified for the full five-year patent term Hatch-Waxman extension and we expect that Fanapt® will be eligible for six months of pediatric exclusivity. This term is our best estimate of the life of the patent; if, however, the pediatric extension is not granted, the intangible asset will be amortized over a shorter period. No amounts were recorded as liabilities relating to the license agreements included in the condensed consolidated financial statements as of September 30, 2012, since the amounts, timing and likelihood of these payments are unknown and will depend on the successful outcome of future clinical trials, regulatory filings, favorable regulatory approvals, growth in product sales and other factors.

Pursuant to the amended and restated sublicense agreement, Novartis has exclusive commercialization rights to all formulations of Fanapt® in the U.S. and Canada. Novartis is responsible for the further clinical development activities in the U.S. and Canada, including the development of a long-acting injectable (or depot) formulation of Fanapt®. In October 2012, Novartis informed us that it had determined to cease the development of the long-acting injectable (or depot) formulation of Fanapt®. Pursuant to the amended and restated sublicense agreement, we received an upfront payment of $200.0 million and are eligible for additional payments totaling up to $265.0 million upon Novartis achievement of certain commercial and development milestones for Fanapt® in the U.S. and Canada. Based on the current sales performance of Fanapt® in the U.S. and the decision by Novartis to cease development of the long-acting injectible (or depot) formulation of Fanapt®, we expect that some or all of these commercial and development milestones will not be achieved by Novartis. We also receive royalties, which, as a percentage of net sales, are in the low double-digits, on net sales of Fanapt® in the U.S. and Canada. We retain exclusive rights to Fanapt® outside the U.S. and Canada and have exclusive rights to use any of Novartis data for Fanapt® for developing and commercializing Fanapt® outside the U.S. and Canada. At Novartis option, we will enter into good faith discussions with Novartis relating to the co-commercialization of Fanapt® outside of the U.S. and Canada or, alternatively, Novartis will receive a royalty on net sales of Fanapt® outside of the U.S. and Canada. Novartis has chosen not to co-commercialize Fanapt® with us in Europe and certain other countries and will instead receive a royalty on net sales in those countries. These include, but are not limited to, the countries in the European Union as well as Switzerland, Norway, Liechtenstein and Iceland. We have entered into agreements with the following partners for the commercialization of Fanapt® in the countries set forth below:

Country	Partner
Mexico	Probiomed S.A. de C.V.
Argentina	Biotoscana Farma S.A.
Israel	Megapharm Ltd.

In August 2012, the Israeli Ministry of Health granted market approval for Fanapt® for the treatment of schizophrenia.

Pursuant to our license agreement with Lilly for VLY-686, we paid an initial license fee of $1.0 million and will be responsible for all development costs. Lilly is also eligible to receive additional payments based upon achievement of specified

development and commercialization milestones as well as tiered-royalties on net sales at percentage rates up to the low double digits. These milestones include $4.0 million for pre-NDA approval milestones and up to $95.0 million for future regulatory approval and sales milestones.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rates

Our exposure to market risk is currently confined to our cash and cash equivalents, marketable securities and restricted cash. We currently do not hedge interest rate exposure. We have not used derivative financial instruments for speculation or trading purposes. Because of the short-term maturities of our cash and cash equivalents and marketable securities, we do not believe that an increase in market rates would have any significant impact on the realized value of our investments.

Marketable Securities

We deposit our cash with financial institutions that we consider to be of high credit quality and purchase marketable securities, which are generally investment grade, liquid, short-term fixed income securities and money-market instruments denominated in U.S. dollars.

Item 4. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of September 30, 2012. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2012, the end of the period covered by this quarterly report, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the third quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

In our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission on March 9, 2012, we identify under Part I, Item 1A important factors which could affect our business, financial condition, results of operations and future operations and could cause our actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this quarterly report on Form 10-Q. Except as set forth below, there have been no material changes in our risk factors subsequent to the filing of our annual report on Form 10-K for the fiscal year ended December 31, 2011.

Novartis began selling, marketing and distributing our first approved product, Fanapt®, in the U.S. in the first quarter of 2010 and we will depend heavily on the success of this product in the marketplace.

Our ability to generate revenue for the next few years will depend substantially on the success of Fanapt® and the sales of this product by Novartis in the U.S. and Canada. The ability of Fanapt® to generate revenue at the levels we expect will depend on many factors, including the following:

- the extent and effectiveness of the sales and marketing and distribution support Fanapt® receives
- the amount of resources and efforts utilized by Novartis in relation to the commercialization of Fanapt®
- the ability of patients to be able to afford Fanapt® or obtain health care coverage that covers Fanapt®
- acceptance of, and ongoing satisfaction, with Fanapt® by the medical community, patients receiving therapy and third party payers
- a satisfactory efficacy and safety profile as demonstrated in a broad patient population
- the size of the market for Fanapt®
- successfully expanding and sustaining manufacturing capacity to meet demand
- cost and availability of raw materials
- safety concerns in the marketplace for schizophrenia therapies
- regulatory developments relating to the manufacture or continued use of Fanapt®

decisions as to the timing of product launches, pricing and discounts

the competitive landscape for approved and developing therapies that will compete with Fanapt®

Novartis ability to expand the indications for which Fanapt® can be marketed in the U.S.

Novartis ability to obtain regulatory approval in Canada for Fanapt® and our or our partners ability to obtain regulatory approval for Fanapt® in countries outside the U.S. and Canada

our ability to successfully develop and commercialize Fanapt®, including a long-acting injectable (or depot) formulation of Fanapt®, outside of the U.S. and Canada

the unfavorable outcome or other negative effects of any potential litigation relating to Fanapt®

We entered into an amended and restated sublicense agreement with Novartis to commercialize Fanapt® in the U.S. and Canada. As such, we are not directly involved in the marketing or sales efforts for Fanapt® in the U.S. and Canada. Our future revenues depend substantially on royalties and milestone payments we may receive from Novartis. Pursuant to the amended and restated sublicense agreement with Novartis, we received an upfront payment of $200.0 million and are eligible for additional payments totaling up to $265.0 million upon Novartis achievement of certain commercial and development milestones for Fanapt® in the U.S. and Canada. Based on the current sales performance of Fanapt® in the U.S. and the decision by Novartis to cease development of the long-acting injectable (or depot) formulation of Fanapt®, we expect that some or all of these commercial and development milestones will not be achieved by Novartis. We also receive royalties, which, as a percentage of net sales, are in the low double-digits, on net sales of Fanapt® in the U.S. and Canada. Such royalties may not be significant and will depend on numerous factors. We cannot control the amount and timing of resources that Novartis may devote to Fanapt®. If Novartis fails to successfully commercialize Fanapt® in the U.S. or fails to develop and commercialize Fanapt® in Canada, if Novartis efforts are not effective, or if Novartis focuses its efforts on other schizophrenia therapies or schizophrenia drug candidates, our business will be negatively affected. If Novartis does not successfully commercialize Fanapt® in the U.S. or Canada, we will receive limited revenues from them. Although we have developed and continue to develop additional products and product candidates for commercial introduction, we expect to be substantially dependent on sales from Fanapt® for the foreseeable future. For reasons outside of our control, including those mentioned above, sales of Fanapt® may not meet our or financial or industry analysts expectations. Any significant negative developments relating to Fanapt®, such as safety or efficacy issues, the introduction or greater acceptance of competing products or adverse regulatory or legislative developments, will have a material adverse effect on our financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit	Description

Number	
10.49	Separation and Release Agreement for John Feeney, M.D. dated September 18, 2012.
31.1	Certification of the Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer), as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from this quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011; (iii) Condensed Consolidated Statement of Comprehensive Loss for the three and nine months ended September 30, 2012 and 2011; (iv) Condensed Consolidated Statement of Changes in Stockholders Equity for the nine months ended September 30, 2012; (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011; and (vi) Notes to Condensed Consolidated Financial Statements.

The certification attached as Exhibit 32.1 that accompanies this quarterly report on Form 10-Q is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Vanda Pharmaceuticals Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this quarterly report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements 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.

Vanda Pharmaceuticals Inc.

November 8, 2012 /s/ Mihael H. Polymeropoulos, M.D.
Mihael H. Polymeropoulos, M.D.

President and Chief Executive Officer

(Principal Executive Officer)

November 8, 2012 /s/ James P. Kelly
James P. Kelly

Senior Vice President, Chief Financial Officer, Secretary and Treasurer

(Principal Financial Officer and Principal Accounting Officer)

VANDA PHARMACEUTICALS INC.

EXHIBIT INDEX

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