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DELTA REPORT

10-Q

VNDA - VANDA PHARMACEUTICALS INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1994
CHANGES	226
DELETIONS	1123
ADDITIONS	645

REFINITIV

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

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023 March 31, 2024
or

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

For the transition period from _____to _____
Commission File Number: 001-34186

VANDA PHARMACEUTICALS INC.
(Exact name of registrant as specified in its charter)

Delaware	**03-0491827**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2200 Pennsylvania Avenue NW, Suite 300E
Washington, DC 20037
(202) 734-3400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Trading Symbol(s)	Name of Exchange on Which Registered
Common Stock, par value $0.001 per share	**VNDA**	**The Nasdaq Global Market**
Series A Junior Participating Preferred Stock Purchase Right, par value $0.001 per share	**-**	**The Nasdaq Global Market**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x ☐	Accelerated filer	☐ x
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x

As of November 2, 2023 May 2, 2024, there were 57,531,999 58,198,273 shares of the registrant's common stock issued and outstanding.

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Vanda Pharmaceuticals Inc.

Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2023 March 31, 2024

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q (Quarterly Report) contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). Words such as, but not limited to, "believe," "expect," "anticipate," "estimate," "intend," "plan," "project," "target," "goal," "likely," "will," "would," and "could," or the negative of these terms and similar expressions or words, identify forward-looking statements.

Forward-looking statements are based upon current expectations and assumptions that involve risks, changes in circumstances and uncertainties. If the risks, changes in circumstances or uncertainties materialize or the assumptions prove incorrect, the results of Vanda Pharmaceuticals Inc. (we, our, the Company or Vanda) may differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The forward-looking statements in this Quarterly Report may include, but are not limited to, statements about:

- our ability to commercialize Fanapt® (iloperidone) oral tablets for the acute treatment of manic or mixed episodes associated with bipolar I disorder;
- our ability to continue to generate United States (U.S.) sales of Fanapt® oral tablets for the treatment of schizophrenia;
- our ability to continue to commercialize HETLIOZ® (tasimelteon) capsules for the treatment of Non-24-Hour Sleep-Wake Disorder (Non-24) in the United States (U.S.) U.S., in light of existing and potential generic competition, and Europe and HETLIOZ® capsules and oral suspension (HETLIOZ LQ®) for the treatment of nighttime sleep disturbances in Smith-Magenis Syndrome (SMS) in the U.S.;
- our ability to obtain approval from the U.S. Food and Drug Administration (FDA) for HETLIOZ® beyond the currently approved indications;
- our ability to increase market awareness of Non-24 and SMS and market acceptance of HETLIOZ®;
- our ability to commercialize PONVORY® (ponesimod) tablets for the treatment of adults with relapsing forms of multiple sclerosis, to include clinically isolated syndrome, relapsing-remitting disease and active secondary progressive disease in the U.S. and Canada and our ability to transition regulatory and manufacturing responsibility to us;
- our ability to obtain approval from the FDA for PONVORY® beyond the currently approved indications;
- our ability to obtain regulatory approval for tradipitant from the FDA;
- our level of success in commercializing Fanapt® and HETLIOZ® in new markets;
- our ability to overcome the continued reimbursement and patient access challenges we face as a result of third-party payor coverage;
- our ability to continue to generate U.S. sales of Fanapt® (iloperidone) oral tablets for the treatment of schizophrenia;
- our ability to obtain approval from the FDA for Fanapt® beyond the currently approved indications;
- our ability to obtain regulatory approval for tradipitant from the U.S. Food and Drug Administration (FDA);
- the impact of public health crises, epidemics, pandemics or similar events on our business and operations, including our revenue, our supply chain, our commercial activities, our ongoing and planned clinical trials and our regulatory activities;
- our dependence on third-party manufacturers to manufacture Fanapt®, HETLIOZ®, HETLIOZ LQ®, and Fanapt PONVORY® in sufficient quantities and quality;
- our ability to prepare, file, prosecute, defend and enforce any patent claims and other intellectual property rights;
- our ability to maintain rights to develop and commercialize our products under our license agreements;
- our ability to obtain and maintain regulatory approval of our products, and the labeling for any approved products;
- our ability to obtain approval from the FDA for HETLIOZ® beyond the currently approved indications;
- our expectations regarding the timing and success of preclinical studies and clinical trials;
- the safety and efficacy of our products;
- regulatory developments in the U.S., Europe and other jurisdictions;
- limitations on our ability to utilize some or all of our prior net operating losses and orphan drug and research and development credits;
- the size and growth of the potential markets for our products and our ability to serve those markets;
- our expectations regarding trends with respect to our revenues, costs, expenses, liabilities and cash, cash equivalents and marketable securities;
- our ability to identify or obtain rights to new products;

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- our ability to attract and retain key scientific or management personnel;
- our expectations regarding the cost, time frame, outcome, insurance coverage and effects of litigation; any litigation or other dispute;
- our ability to obtain the capital necessary to fund our research and development or commercial activities;
- potential losses incurred from product liability claims made against us; and
- the use of our existing cash, cash equivalents and marketable securities.

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All forward-looking statements in this report are expressly qualified in their entirety by the cautionary statements contained throughout this report. We caution you not to rely too heavily on such forward-looking statements. Each forward-looking statement speaks only as of the date of this Quarterly Report, and 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, except as required by law.

We encourage you to read *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our unaudited condensed consolidated financial statements contained in this Quarterly Report. In addition to the risks described in Part I, Item 1A, *Risk Factors*, of our annual report on Form 10-K (Annual Report) for the fiscal year ended December 31, 2022 December 31, 2023 and Item 1A, *Risk Factors*, of this Quarterly Report, 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 from time to time, including on Form 10-Q and Form 8-K, which may supplement, modify, supersede or update those risk factors. As a result of these factors, we cannot assure you that the forward-looking statements in this report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all.

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Part I — FINANCIAL INFORMATION

ITEM 1 Financial Statements (Unaudited)

VANDA PHARMACEUTICALS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands, except for share and per share amounts)	*(in thousands, except for share and per share amounts)*	September 30, 2023	December 31, 2022	*(in thousands, except for share and per share amounts)*	March 31, 2024	December 31, 2023
ASSETS	**ASSETS**					
Current assets:	**Current assets:**					
Current assets:						
Current assets:						
Cash and cash equivalents						
Cash and cash equivalents						
Cash and cash equivalents	Cash and cash equivalents	$183,186	$135,029			
Marketable securities	Marketable securities	306,672	331,830			
Accounts receivable, net	Accounts receivable, net	29,272	33,512			
Inventory	Inventory	1,006	1,194			
Prepaid expenses and other current assets	Prepaid expenses and other current assets	16,436	17,727			
Total current assets	Total current assets	536,572	519,292			
Property and equipment, net	Property and equipment, net	2,128	2,573			
Operating lease right-of-use assets	Operating lease right-of-use assets	7,428	8,400			
Intangible assets, net	Intangible assets, net	17,428	18,565			
Deferred tax assets	Deferred tax assets	67,772	74,039			
Non-current inventory and other	Non-current inventory and other	10,277	11,378			
Total assets	Total assets	$641,605	$634,247			
LIABILITIES AND STOCKHOLDERS' EQUITY	**LIABILITIES AND STOCKHOLDERS' EQUITY**					
Current liabilities:	**Current liabilities:**					
Current liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities						
Accounts payable and accrued liabilities						

Accounts payable and accrued liabilities	Accounts payable and accrued liabilities	$ 32,595	$ 45,551
Product revenue allowances	Product revenue allowances	52,242	45,885
Total current liabilities	Total current liabilities	84,837	91,436
Total current liabilities	Total current liabilities		
Operating lease non-current liabilities	Operating lease non-current liabilities	7,472	8,813
Other non-current liabilities	Other non-current liabilities	6,196	6,800
Total liabilities	Total liabilities	98,505	107,049
Commitments and contingencies (Notes 8 and 13)			
Commitments and contingencies (Notes 9 and 14)			
Stockholders' equity:	**Stockholders' equity:**		
Preferred stock, $0.001 par value; 20,000,000 shares authorized, and no shares issued or outstanding at September 30, 2023 and December 31, 2022		—	—
Common stock, $0.001 par value; 150,000,000 shares authorized; 57,529,499 and 56,783,764 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively		58	57
Preferred stock, $0.001 par value; 20,000,000 shares authorized, and no shares issued or outstanding at March 31, 2024 and December 31, 2023			
Preferred stock, $0.001 par value; 20,000,000 shares authorized, and no shares issued or outstanding at March 31, 2024 and December 31, 2023			
Preferred stock, $0.001 par value; 20,000,000 shares authorized, and no shares issued or outstanding at March 31, 2024 and December 31, 2023			
Common stock, $0.001 par value; 150,000,000 shares authorized; 58,196,523 and 57,534,499 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively			
Additional paid-in capital	Additional paid-in capital	697,001	686,235
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(967)	(1,193)
Accumulated deficit	Accumulated deficit	(152,992)	(157,901)

Total stockholders' equity	Total stockholders' equity	543,100	527,198
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	$641,605	$634,247

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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VANDA PHARMACEUTICALS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except for share and per share amounts)	*(in thousands, except for share and per share amounts)*	Three Months Ended		Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
(in thousands, except for share and per share amounts)					
(in thousands, except for share and per share amounts)					
Revenues:					
Revenues:					
Revenues:	Revenues:				
Net product sales	Net product sales	$ 38,815	$ 65,318	$ 147,369	$ 189,900
Net product sales					
Net product sales					
Total revenues					
Total revenues					
Total revenues	Total revenues	38,815	65,318	147,369	189,900
Operating expenses:	Operating expenses:				
Operating expenses:					
Operating expenses:					
Cost of goods sold excluding amortization					
Cost of goods sold excluding amortization					
Cost of goods sold excluding amortization	Cost of goods sold excluding amortization	3,063	6,320	11,336	18,044
Research and development	Research and development	16,600	24,857	52,484	67,316
Research and development					
Research and development					
Selling, general and administrative					
Selling, general and administrative					
Selling, general and administrative	Selling, general and administrative	24,767	29,854	89,270	103,703
Intangible asset amortization	Intangible asset amortization	380	379	1,137	1,137
Intangible asset amortization					
Intangible asset amortization					
Total operating expenses					
Total operating expenses					

Total operating expenses	Total operating expenses	44,810	61,410	154,227	190,200
Income (loss) from operations	Income (loss) from operations	(5,995)	3,908	(6,858)	(300)
Other income	Other income	5,875	1,553	14,858	1,987
Income (loss) before income taxes	Income (loss) before income taxes	(120)	5,461	8,000	1,687
Provision (benefit) for income taxes	Provision (benefit) for income taxes	(257)	2,191	3,091	2,273
Net income (loss)	Net income (loss)	$ 137	$ 3,270	$ 4,909	$ (586)
Net income (loss) per share:	Net income (loss) per share:				
Basic	Basic	$ 0.00	$ 0.06	$ 0.09	$ (0.01)
Diluted	Diluted	$ 0.00	$ 0.06	$ 0.09	$ (0.01)
Weighted average shares outstanding:	Weighted average shares outstanding:				
Basic	Basic	57,519,031	56,574,503	57,329,969	56,397,805
Diluted	Diluted	57,595,344	56,969,033	57,512,225	56,397,805

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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VANDA PHARMACEUTICALS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

		Three Months Ended		Nine Months Ended	
(in thousands)	*(in thousands)*	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022

Net income (loss)					
Net income (loss)					
Net income (loss)	Net income (loss)	$ 137	$ 3,270	$ 4,909	$ (586)
Other comprehensive income (loss):	Other comprehensive income (loss):				
Net foreign currency translation loss		(18)	(37)	(6)	(83)
Other comprehensive income (loss):					
Other comprehensive income (loss):					
Net foreign currency translation gain (loss)					
Net foreign currency translation gain (loss)					
Net foreign currency translation gain (loss)					
Change in net unrealized gain (loss) on marketable securities					
Change in net unrealized gain (loss) on marketable securities					
Change in net unrealized gain (loss) on marketable securities	Change in net unrealized gain (loss) on marketable securities	(109)	(24)	301	(1,594)
Tax benefit (provision) on other comprehensive income (loss)	Tax benefit (provision) on other comprehensive income (loss)	25	7	(69)	367
Tax benefit (provision) on other comprehensive income (loss)					
Tax benefit (provision) on other comprehensive income (loss)					
Other comprehensive income (loss), net of tax					
Other comprehensive income (loss), net of tax					
Other comprehensive income (loss), net of tax	Other comprehensive income (loss), net of tax	(102)	(54)	226	(1,310)
Comprehensive income (loss)	Comprehensive income (loss)	$ 35	$ 3,216	$ 5,135	$ (1,896)
Comprehensive income (loss)					
Comprehensive income (loss)					

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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VANDA PHARMACEUTICALS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
(in thousands, except for share amounts)	Shares	Par Value	Capital	Loss	Deficit	Total
Balances at December 31, 2022	56,783,764	$ 57	$ 686,235	$ (1,193)	$ (157,901)	$ 527,198
Issuance of common stock from the exercise of stock options and settlement of restricted stock units	657,228	—	—	—	—	—
Stock-based compensation expense	—	—	4,351	—	—	4,351
Net income	—	—	—	—	3,252	3,252
Other comprehensive income, net of tax	—	—	—	938	—	938
Balances at March 31, 2023	57,440,992	$ 57	$ 690,586	$ (255)	$ (154,649)	$ 535,739
Issuance of common stock from the exercise of stock options and settlement of restricted stock units	55,921	—	—	—	—	—
Stock-based compensation expense	—	—	3,249	—	—	3,249
Net income	—	—	—	—	1,520	1,520

Other comprehensive loss, net of tax	—	—	—	(610)	—	(610)
Balances at June 30, 2023	57,496,913	$ 57	$ 693,835	$ (865)	$ (153,129)	$ 539,898
Issuance of common stock from the exercise of stock options and settlement of restricted stock units	32,586	1	(1)	—	—	—
Stock-based compensation expense	—	—	3,167	—	—	3,167
Net income	—	—	—	—	137	137
Other comprehensive loss, net of tax	—	—	—	(102)	—	(102)
Balances at September 30, 2023	57,529,499	$ 58	$ 697,001	$ (967)	$ (152,992)	$ 543,100

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
(in thousands, except for share amounts)	Shares	Par Value	Capital	Loss	Deficit	Total
Balances at December 31, 2023	57,534,499	$ 58	$ 700,274	$ (30)	$ (155,392)	$ 544,910
Issuance of common stock from the exercise of stock options and settlement of restricted stock units	662,024	—	—	—	—	—
Stock-based compensation expense	—	—	3,584	—	—	3,584
Net loss	—	—	—	—	(4,146)	(4,146)
Other comprehensive loss, net of tax	—	—	—	(353)	—	(353)
Balances at March 31, 2024	58,196,523	$ 58	$ 703,858	$ (383)	$ (159,538)	$ 543,995

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VANDA PHARMACEUTICALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited) (Continued)

(in thousands, except for share amounts)	*(in thousands, except for share amounts)*	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balances at December 31, 2021		55,900,855	$ 56	$669,223	$ (175)	$(164,176)	$504,928
Balances at December 31, 2022							
Balances at December 31, 2022							
Balances at December 31, 2022							
Issuance of common stock from the exercise of stock options and settlement of restricted stock units	Issuance of common stock from the exercise of stock options and settlement of restricted stock units	585,857	—	—	—	—	—
Stock-based compensation expense		—	—	4,778	—	—	4,778
Net loss		—	—	—	—	(6,430)	(6,430)
Other comprehensive loss, net of tax		—	—	—	(1,153)	—	(1,153)
Balances at March 31, 2022		56,486,712	$ 56	$674,001	$ (1,328)	$(170,606)	$502,123
Issuance of common stock from the exercise of stock options and settlement of restricted stock units							

Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total

Issuance of common stock from the exercise of stock options and settlement of restricted stock units	Issuance of common stock from the exercise of stock options and settlement of restricted stock units	65,750	1	124	—	—	125
Stock-based compensation expense	Stock-based compensation expense	—	—	3,830	—	—	3,830
Net income	Net income	—	—	—	—	2,574	2,574
Other comprehensive loss, net of tax		—	—	—	(103)	—	(103)
Balances at June 30, 2022		56,552,462	$ 57	$677,955	$ (1,431)	$(168,032)	$508,549
Issuance of common stock from the exercise of stock options and settlement of restricted stock units		36,086	—	4	—	—	4
Stock-based compensation expense		—	—	3,888	—	—	3,888
Net income		—	—	—	—	3,270	3,270
Other comprehensive loss, net of tax		—	—	—	(54)	—	(54)
Balances at September 30, 2022		56,588,548	$ 57	$681,847	$ (1,485)	$(164,762)	$515,657
Other comprehensive income, net of tax							
Balances at March 31, 2023							

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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VANDA PHARMACEUTICALS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

		Nine Months Ended			Three Months Ended	
(in thousands)	*(in thousands)*	September 30, 2023	September 30, 2022	*(in thousands)*	March 31, 2024	March 31, 2023
Cash flows from operating activities	**Cash flows from operating activities**					
Net income (loss)	Net income (loss)	$ 4,909	$ (586)			
Net income (loss)						
Net income (loss)						
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation of property and equipment						

Depreciation of property and equipment			
Depreciation of property and equipment	Depreciation of property and equipment	715	933
Stock-based compensation	Stock-based compensation	10,767	12,496
Amortization of premiums and accretion of discounts on marketable securities	Amortization of premiums and accretion of discounts on marketable securities	(7,053)	(1,160)
Loss on sale of marketable securities	Loss on sale of marketable securities	655	—
Intangible asset amortization	Intangible asset amortization	1,137	1,137
Deferred income taxes	Deferred income taxes	6,198	713
Other non-cash adjustments, net	Other non-cash adjustments, net	2,772	1,612
Changes in operating assets and liabilities:	Changes in operating assets and liabilities:		
Accounts receivable	Accounts receivable	4,129	2,982
Accounts receivable			
Accounts receivable			
Prepaid expenses and other assets	Prepaid expenses and other assets	1,333	(9,583)
Inventory	Inventory	(344)	(3,349)
Accounts payable and other liabilities	Accounts payable and other liabilities	(14,315)	15,070
Product revenue allowances	Product revenue allowances	5,630	2,303
Net cash provided by operating activities	Net cash provided by operating activities	16,533	22,568
Cash flows from investing activities	**Cash flows from investing activities**		
Asset acquisition			
Asset acquisition			
Asset acquisition			

Purchases of property and equipment	Purchases of property and equipment	(130)	(416)
Purchases of marketable securities	Purchases of marketable securities	(457,628)	(344,949)
Sales and maturities of marketable securities	Sales and maturities of marketable securities	489,485	319,862
Net cash provided by (used in) investing activities	Net cash provided by (used in) investing activities	31,727	(25,503)
Cash flows from financing activities			
Proceeds from exercise of stock options		—	129
Net cash provided by financing activities		—	129
Effect of exchange rate changes on cash, cash equivalents and restricted cash			
Effect of exchange rate changes on cash, cash equivalents and restricted cash			
Effect of exchange rate changes on cash, cash equivalents and restricted cash	Effect of exchange rate changes on cash, cash equivalents and restricted cash	(103)	82
Net change in cash, cash equivalents and restricted cash	Net change in cash, cash equivalents and restricted cash	48,157	(2,724)
Cash, cash equivalents and restricted cash	**Cash, cash equivalents and restricted cash**		
Beginning of period	Beginning of period	135,498	52,590
Beginning of period			
Beginning of period			
End of period	End of period	$183,655	$ 49,866

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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VANDA PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Business Organization and Presentation

Business Organization

Vanda Pharmaceuticals Inc. (the Company) is a global biopharmaceutical company focused on the development and commercialization of innovative therapies to address high unmet medical needs and improve the lives of patients. The Company commenced its operations in 2003 and operates in one reporting segment.

The Company's commercial portfolio is currently comprised of two three products, Fanapt® for the acute treatment of manic or mixed episodes associated with bipolar I disorder and the treatment of schizophrenia, HETLIOZ® for the treatment of Non-24-Hour Sleep-Wake Disorder (Non-24) and for the treatment of nighttime sleep disturbances in Smith-Magenis

Syndrome (SMS), and Fanapt PONVORY® for the treatment of schizophrenia. relapsing forms of multiple sclerosis (MS) to include clinically isolated syndrome, relapsing-remitting disease and active secondary progressive disease, in adults. HETLIOZ® is the first product approved by the United States Food and Drug Administration (FDA) for patients with Non-24 and for patients with SMS. In addition, the Company has a number of drugs in development, including:

- Milsaperidone (VHX-896), the active metabolite of Fanapt® (iloperidone), for the acute treatment of manic or mixed episodes associated with bipolar I disorder and for the treatment of schizophrenia;
- Fanapt® (iloperidone) long acting injectable (LAI) formulation for the treatment of schizophrenia;
- HETLIOZ® (tasimelteon) for the treatment of jet lag disorder, insomnia, delayed sleep phase disorder (DSPD) and pediatric Non-24;
- Fanapt PONVORY® (iloperidone) (ponesimod) for the treatment of bipolar I disorder psoriasis and a long acting injectable (LAI) formulation for the treatment of schizophrenia; ulcerative colitis;
- Tradipitant (VLY-686), a small molecule neurokinin-1 (NK-1) receptor antagonist, for the treatment of gastroparesis, motion sickness and atopic dermatitis;
- VTR-297, a small molecule histone deacetylase (HDAC) inhibitor for the treatment of hematologic malignancies and with potential use as a treatment for several oncology indications;
- Portfolio of Cystic Fibrosis Transmembrane Conductance Regulator (CFTR) activators and inhibitors, including VSJ-110 for the treatment of dry eye and ocular inflammation and VPO-227 for the treatment of secretory diarrhea disorders, including cholera;
- VTR-297, a small molecule histone deacetylase (HDAC) inhibitor for the treatment of onychomycosis and hematologic malignancies and with potential use as a treatment for several oncology indications;
- VQW-765, a small molecule nicotinic acetylcholine receptor partial agonist, for the treatment of social/performance anxiety and psychiatric disorders;
- VHX-896, the active metabolite of iloperidone; and
- Antisense oligonucleotide (ASO) molecules. molecules, including VCA-894A for the treatment of Charcot-Marie-Tooth Disease, Type 2S (CMT2S), caused by cryptic slice site variants within the IGHMBP2 gene.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Vanda Pharmaceuticals Inc. and its wholly-owned subsidiaries and have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K (Annual Report) for the fiscal year ended December 31, 2022 December 31, 2023. The financial information as of September 30, 2023 March 31, 2024 and for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 is unaudited, but in the opinion of management, all adjustments considered necessary for a fair statement of the results for these interim periods have been included. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated balance sheet data as of December 31, 2022 December 31, 2023 was derived from audited financial statements but does not include all disclosures required by GAAP. The results of the Company's operations for any interim period are not necessarily indicative of the results that may be expected for any other interim period or any future year or period.

2. Summary of Significant Accounting Policies

There have been no material changes to the significant accounting policies previously disclosed in the Annual Report.

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Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Management continually re-evaluates its

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estimates, judgments and assumptions, and management's evaluation could change. Actual results could differ from those estimates.

Cash, Cash Equivalents and Restricted Cash

For purposes of the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Cash Flows, cash equivalents represent highly-liquid investments with a maturity date of three months or less at the date of purchase. Cash and cash equivalents include investments in money market funds with commercial banks and financial institutions, and commercial paper of high-quality corporate issuers. Restricted cash relates primarily to amounts held as collateral for letters of credit for leases for office space at the Company's Washington, D.C. headquarters.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the total end of period cash, cash equivalents and restricted cash reported within the Condensed Consolidated Statements of Cash Flows:

(in thousands)	(in thousands)	September 30, 2023	September 30, 2022	(in thousands)	March 31, 2024	March 31, 2023
Cash and cash equivalents	Cash and cash equivalents	$183,186	$49,397			
Restricted cash included in non-current inventory and other	Restricted cash included in non-current inventory and other	469	469			
				Restricted cash included in non-current inventory and other		
				Restricted cash included in non-current inventory and other		
Total cash, cash equivalents and restricted cash	Total cash, cash equivalents and restricted cash	$183,655	$49,866			

Revenue from Net Product Sales

The Company's net product sales consist of sales of Fanapt®, HETLIOZ® and Fanapt PONVORY®. Net sales by product for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 were as follows:

(in thousands)	(in thousands)	Three Months Ended		Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
(in thousands)					
(in thousands)					
Fanapt® net product sales					
Fanapt® net product sales					
Fanapt® net product sales					
HETLIOZ® net product sales	HETLIOZ® net product sales	$ 17,500	$ 41,335	$ 79,095	$ 119,554
Fanapt® net product sales		21,315	23,983	68,274	70,346
HETLIOZ® net product sales					
HETLIOZ® net product sales					
PONVORY® net product sales					
PONVORY® net product sales					
PONVORY® net product sales					
Total net product sales	Total net product sales	$ 38,815	$ 65,318	$ 147,369	$ 189,900
Total net product sales					
Total net product sales					

The Company's HETLIOZ® net product sales as reported for the three months ended March 31, 2023 reflected higher unit sales as compared to recent prior periods. The higher unit sales during the three months ended March 31, 2023 resulted in a significant increase of inventory stocking at specialty pharmacy customers at March 31, 2023 and September 30, 2023. During the remainder of 2023, HETLIOZ® net product sales during the three months ended September 30, 2023 reflect reflected lower unit sales as a result of the continued reduction of the elevated inventory levels at specialty pharmacy customers. During the three months ended March 31, 2024, net product sales for HETLIOZ® reflected higher unit sales as compared to the most recent three quarters of 2023. The higher unit sales during the three months ended March 31, 2024 again resulted in an increase of inventory stocking at specialty pharmacy customers at March 31, 2024. During 2023 and as a result the three months ended March 31, 2024, inventory levels at specialty pharmacy customers have remained elevated relative to inventory levels prior to the entrance of the impact of continued generic competition. Going forward, HETLIOZ® net product sales may continue to reflect lower unit sales as a result of continued reduction of the elevated inventory levels at specialty pharmacy customers. Further, HETLIOZ® net product sales will

likely decline in future periods, potentially significantly, related to the at-risk launch of a continued generic version of HETLIOZ® competition in the U.S. Additionally, the The Company constrained HETLIOZ® net product sales for the three and nine months ended September 30, 2023 March 31, 2024 and 2023 to an amount not probable of significant revenue reversal. The amount of revenue recognized during the three months ended September 30, 2023 March 31, 2024 related to changes in estimates on revenue constrained during the six months year ended June 30, 2023 December 31, 2023 was not material. HETLIOZ® net product sales could experience variability in future periods as the remaining uncertainties associated with variable consideration related to inventory stocking by specialty pharmacy customers are resolved.

Major Customers

HETLIOZ® is available in the U.S. for distribution through a limited number of specialty pharmacies and is not available in retail pharmacies. Fanapt® is available in the U.S. for distribution through a limited number of wholesalers and is available in retail pharmacies. HETLIOZ® is available in the United States (U.S.) for distribution through a limited number of specialty pharmacies and is not available in retail pharmacies. PONVORY® is available in the U.S. for distribution primarily through specialty distributors. The

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Company invoices and records revenue when its customers, wholesalers, specialty pharmacies and wholesalers, specialty distributors, receive product from the third-party logistics warehouse, which is the point at which control is transferred to the customer. Outside the U.S., the Company has a distribution agreement for the commercialization of Fanapt® in Israel and sells HETLIOZ® in Germany. There were six five major customers that each accounted for more than 10% of total revenues and, as a group, represented 89% 72% of total revenues for the nine three months ended September 30, 2023 March 31, 2024. There were four five major customers that each accounted for more than 10% of accounts receivable and, as a group, represented 90% 71% of total accounts receivable at September 30, 2023 March 31, 2024. Receivables are carried at transaction price net of allowance for credit losses. Allowance for credit losses is measured using historical loss rates based on the aging of receivables and incorporating current conditions and forward-looking estimates.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which is intended to provide enhanced segment disclosures. The standard will require disclosures about significant segment expenses and other segment items and identifying the Chief Operating Decision Maker and how they use the reported segment profitability measures to assess segment performance and allocate resources. These enhanced disclosures are required for all entities on an interim and annual basis, even if they have only a single reportable segment. The standard is effective for years beginning after December 15, 2023, and interim periods within annual periods beginning after December 15, 2024 and early adoption is permitted. The Company is evaluating this standard to determine if adoption will have a material impact on the Company's consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which is intended to provide enhancements to annual income tax disclosures. The standard will require more detailed information in the rate reconciliation table and for income taxes paid, among other enhancements. The standard is effective for years beginning after December 15, 2024 and early adoption is permitted. The Company is evaluating this standard to determine if adoption will have a material impact on the Company's consolidated financial statements.

3. PONVORY® Acquisition

On December 7, 2023, the Company entered into an Asset Purchase Agreement (the Purchase Agreement) to acquire the U.S. and Canadian rights to PONVORY® from Actelion Pharmaceuticals Ltd. (Janssen), a Johnson & Johnson Company, and the closing of the transaction took place simultaneously with signing. PONVORY® is a once-daily oral selective sphingosine-1-phosphate receptor 1 modulator, indicated to treat adults with relapsing forms of multiple sclerosis, to include clinically isolated syndrome, relapsing-remitting disease and active secondary progressive disease. The total consideration for the acquisition was $104.9 million consisting of cash paid to Janssen and acquisition-related transaction costs, of which $1.5 million of the consideration remained accrued as of March 31, 2024 and recorded in the accounts payable and accrued liabilities balance of the Condensed Consolidated Balance Sheets. The Purchase Agreement includes customary representations, warranties and covenants, as well as standard mutual indemnities covering losses arising from any material breach of the Purchase Agreement or inaccuracy of representations and warranties. Janssen has agreed to indemnify the Company against losses arising from its activities prior to the closing, and the Company has agreed to indemnify Janssen against losses arising from the Company's activities pertaining to PONVORY® after the closing. Simultaneously and in connection with the Purchase Agreement, the parties have also entered into certain supporting agreements, including a customary transition agreement, pursuant to which, during a transition period, Janssen will continue PONVORY® operations and the Company and Janssen will transition regulatory and supply responsibility for PONVORY® to the Company.

The acquisition of PONVORY® has been accounted for as an asset acquisition in accordance with ASC 805-50 because substantially all of the fair value of the assets acquired is concentrated in a single asset, the PONVORY® product rights. The PONVORY® products rights consist of certain patents and trademarks, regulatory approvals, marketing assets, and other records, and are considered a single asset as they are inextricably linked. The total consideration of $104.9 million was fully allocated to the acquired intangible asset for the U.S. and Canada rights to PONVORY®. The straight-line method is used to amortize the intangible asset, as disclosed in Note 7, *Intangible Assets*.

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Recent Accounting Pronouncements

There are no recent accounting pronouncements that are expected to have a material impact on the Company's condensed consolidated financial statements or related disclosures.

3. 4. Marketable Securities

The following is a summary of the Company's available-for-sale marketable securities as of September 30, 2023 March 31, 2024, which all have contractual maturities of less than two years:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. Treasury and government agencies				
U.S. Treasury and government agencies				
U.S. Treasury and government agencies	$ 209,419	$ 1	$ (1,078)	$208,342
Corporate debt	98,490	—	(160)	98,330
Total marketable securities	$ 307,909	$ 1	$ (1,238)	$306,672
Total marketable securities				
Total marketable securities				

The following is a summary of the Company's available-for-sale marketable securities as of December 31, 2022 December 31, 2023, which all have contractual maturities of less than two years:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. Treasury and government agencies				
U.S. Treasury and government agencies				
U.S. Treasury and government agencies	$ 178,351	$ —	$ (1,181)	$177,170
Corporate debt	155,017	14	(371)	154,660
Total marketable securities	$ 333,368	$ 14	$ (1,552)	$331,830
Total marketable securities				
Total marketable securities				

4. 5. Fair Value Measurements

Authoritative 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

The Company's assets classified in Level 1 and Level 2 as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 consist of cash equivalents and 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 Level 2 instruments is also 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 and corporate notes that use as their basis readily observable market parameters.

The Company held certain assets that are required to be measured at fair value on a recurring basis as of September 30, 2023 March 31, 2024, as follows:

		Fair Value Measurement as of September 30, 2023 Using				Fair Value Measurement as of March 31, 2024 Using			
(in thousands)	Total Fair Value	Total Fair Value *(in thousands)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value *(in thousands)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury and government agencies	U.S. Treasury and government agencies	Total Fair Value $ 208,342	$ —	$	—				
Corporate debt	Corporate debt	98,330	—	98,330	—				
Total assets measured at fair value	Total assets measured at fair value	$ 306,672	$ 208,342	$ 98,330	$ —				
Total assets measured at fair value									
Total assets measured at fair value									

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The Company held certain assets that are required to be measured at fair value on a recurring basis as of December 31, 2022 December 31, 2023, as follows:

		Fair Value Measurement as of December 31, 2022 Using				Fair Value Measurement as of December 31, 2023 Using			
(in thousands)	Total Fair Value	Total Fair Value *(in thousands)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value *(in thousands)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury and government agencies	U.S. Treasury and government agencies	Total Fair Value $ 177,170	$ —	$	—				
Corporate debt	Corporate debt	154,660	—	154,660	—				

Total assets measured at fair value	Total assets measured at fair value	$ 331,830	$ 177,170	$ 154,660	$ —
Total assets measured at fair value					
Total assets measured at fair value					

Total assets measured at fair value as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 include no $38.4 million and $63.8 million cash equivalents. equivalents, respectively.

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, accounts receivable, restricted cash, accounts payable and accrued liabilities, and product revenue allowances, the carrying values of which materially approximate their fair values.

5. 6. Inventory

Inventory consisted of the following as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(in thousands)	*(in thousands)*	September 30, 2023	December 31, 2022	*(in thousands)*	March 31, 2024	December 31, 2023
Current assets	**Current assets**					
Work-in-process				Work-in-process		
Work-in-process	Work-in-process	$ —	$ 23			
Finished goods	Finished goods	1,006	1,171			
Total inventory, current	Total inventory, current	$ 1,006	$ 1,194			
Non-Current assets	**Non-Current assets**					
Raw materials	Raw materials	$ 935	$ 1,043			
Raw materials				Raw materials		
Work-in-process	Work-in-process	7,532	8,212			
Finished goods	Finished goods	770	1,041			
Total inventory, non-current	Total inventory, non-current	9,237	10,296			
Total inventory	Total inventory	$10,243	$11,490			

Inventory, which is recorded at the lower of cost or net realizable value, includes the cost of third-party manufacturing and other direct and indirect costs and is valued using the first-in, first-out method. The Company evaluates the risk of excess inventory and product expiry by evaluating current and future product demand relative to product shelf life. The Company builds demand forecasts by considering factors such as, but not limited to, overall market potential, market share, market acceptance, patient usage, and generic competition. The Company's inventory balance consisted of $7.2 million $2.7 million and $8.0 million $3.0 million of Fanapt® product and $7.3 million and $7.2 million of HETLIOZ® product and $3.0 million and $3.4 million of Fanapt® product as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

6. 7. Intangible Assets

HETLIOZ®. In January 2014, the Company announced that the FDA had approved the New Drug Application (NDA) for HETLIOZ®. As a result of this approval, the Company met a milestone under its license agreement with Bristol-Myers Squibb (BMS) that required the Company to make a license payment of $8.0 million to BMS. In April 2018, the Company met its final milestone under its license agreement with BMS when cumulative worldwide sales of HETLIOZ® reached $250.0 million. As a result of the achievement of this

milestone, the Company made a payment to BMS of $25.0 million in 2018. These milestone payments were determined to be additional consideration for the acquisition of HETLIOZ® and capitalized as an intangible asset and are being amortized on a straight-line basis over the estimated economic useful life of the related product patents.

PONVORY®. On December 7, 2023, the Company acquired the U.S. and Canadian rights to PONVORY® from Janssen. The total purchase price was allocated to the acquired intangible for the U.S. and Canada rights to PONVORY®. See Note 3, *PONVORY® Acquisition*, for additional details. The PONVORY® intangible asset is being amortized on a straight-line basis over the estimated economic useful life of the related product rights. During the first quarter of 2024, the estimated useful life

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The following is for the PONVORY® intangible asset was changed from 2035 to 2042 based on a summary change in the estimated economic useful life of the Company's intangible assets as of September 30, 2023:

		September 30, 2023		
(in thousands)	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
HETLIOZ®	2035	$ 33,000	$ 15,572	$ 17,428

related product rights.

The following is a summary of the Company's amortizing intangible assets as of December 31, 2022 March 31, 2024:

		December 31, 2022				March 31, 2024			
(in thousands)	*(in thousands)*	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	*(in thousands)*	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
HETLIOZ®	HETLIOZ®	2035	$33,000	$ 14,435	$18,565					
PONVORY®										
PONVORY®										
PONVORY®										
Total amortizing intangible assets										

The following is a summary of the Company's amortizing intangible assets as of December 31, 2023:

		December 31, 2023		
(in thousands)	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
HETLIOZ®	2035	$ 33,000	$ 15,937	$ 17,063
PONVORY®	2035	104,894	588	104,306
Total amortizing intangible assets		$ 137,894	$ 16,525	$ 121,369

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company also had $27.9 million of fully amortized intangible assets related to Fanapt®.

Intangible assets are amortized over their estimated useful economic life using the straight-line method. Amortization expense was $2.0 million and $0.4 million for each of the three months ended September 30, 2023 March 31, 2024 and 2022. Amortization expense was $1.1 million for each of the nine months ended September 30, 2023 and 2022. 2023, respectively. The following is a summary of the future intangible asset amortization schedule as of September 30, 2023 March 31, 2024:

(in thousands)	Total	2023	2024	2025	2026	2027	Thereafter
HETLIOZ®	$17,428	$366	$1,463	$1,463	$1,463	$1,463	$11,210
PONVORY®							
Total amortizing intangible assets							

(in thousands)	Total	2024	2025	2026	2027	2028	Thereafter
HETLIOZ®							
PONVORY®							
Total amortizing intangible assets							

7. 8. Accounts Payable and Accrued Liabilities

The following is a summary of the Company's accounts payable and accrued liabilities as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(in thousands)	September 30, 2023	December 31, 2022
Research and development expenses	$ 13,079	$ 9,474
Consulting and other professional fees	6,293	9,241
Compensation and employee benefits	5,081	6,839
Royalties payable	2,280	4,979
Operating lease liabilities	2,374	2,328
Accounts payable and other accrued liabilities	3,488	12,690
Total accounts payable and accrued liabilities	$ 32,595	$ 45,551

As of December 31, 2022, the prepaid expenses and other current assets and accounts payable and accrued liabilities balances included $11.5 million related to the case *Gordon v. Vanda Pharmaceuticals Inc.* In January 2023, the settlement related to the case was fully and finally approved. As a result, the Company removed the associated prepaid and liability balances. (See Note 16, *Legal Matters*, in Part II, Item 8 of the Annual Report for additional information.)

(in thousands)	March 31, 2024	December 31, 2023
Research and development expenses	$ 15,008	$ 15,691
Consulting and other professional fees	11,398	4,404
Operating lease liabilities	2,410	2,398
Compensation and employee benefits	2,378	6,413
Royalties payable	2,237	2,409
Accounts payable and other accrued liabilities	4,342	7,145
Total accounts payable and accrued liabilities	$ 37,773	$ 38,460

8. 9. Commitments and Contingencies

Guarantees and Indemnifications

The Company has entered into a number of standard intellectual property indemnification agreements in the ordinary course of its business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company's business partners or customers, in connection with any U.S. patent or any copyright or other intellectual property infringement claim by any third party with respect to the Company's products. The term of these indemnification agreements is generally perpetual from the date of execution of the agreement. The maximum potential amount of future payments the Company could be required to make under

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these indemnification agreements is unlimited. Since inception, the Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements. The Company also indemnifies its officers and directors for certain events or occurrences, subject to certain conditions.

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License Agreements

The Company's rights to develop and commercialize its products are subject to the terms and conditions of licenses granted to the Company by other pharmaceutical companies.

Fanapt®. Pursuant to the terms of a settlement agreement with Novartis Pharma AG (Novartis), Novartis transferred all U.S. and Canadian rights in the Fanapt® franchise to the Company on December 31, 2014. The Company paid directly to Sanofi S.A. (Sanofi) a fixed royalty of 3% of net sales through December 2019 related to manufacturing know-how. The Company is also obligated to pay Sanofi a fixed royalty on Fanapt® net sales equal to 6% on Sanofi know-how not related to manufacturing under certain conditions for a period of up to 10 years in markets where the new chemical entity (NCE) patent has expired or was not issued. The Company is obligated to pay this 6% royalty on net sales in the U.S. through November 2026.

HETLIOZ®. In February 2004, the Company entered into a license agreement with BMS under which it received an exclusive worldwide license under certain patents and patent applications, and other licenses to intellectual property, to develop and commercialize HETLIOZ®. As of September 30, 2023 March 31, 2024, the Company has paid BMS $37.5 million in upfront fees and milestone obligations, including $33.0 million of regulatory approval and commercial milestones capitalized as intangible assets (see Note 6, 7, *Intangible Assets*). The Company has no remaining milestone obligations to BMS. Additionally, the Company is obligated to make royalty payments on HETLIOZ® net sales to BMS. The royalty period in each territory where the Company commercializes HETLIOZ® is 10 years following the first commercial sale in the territory. In territories outside the U.S., the royalty is 5% on net sales. In the U.S., the royalty on net sales in the U.S. decreased from 10% to 5% in December 2022. This U.S. royalty will end in April 2024. The Company is also obligated under the license agreement to pay BMS a percentage of any sublicense fees, upfront payments and milestone and other payments (excluding royalties) that it receives

from a third party in connection with any sublicensing arrangement, at a rate which is in the mid-twenties. The Company is obligated to use its commercially reasonable efforts to develop and commercialize HETLIOZ®.

Fanapt®. Pursuant to the terms of a settlement agreement with Novartis Pharma AG (Novartis), Novartis transferred all U.S. and Canadian rights in the Fanapt® franchise to the Company on December 31, 2014. The Company paid directly to Sanofi S.A. (Sanofi) a fixed royalty of 3% of net sales through December 2019 related to manufacturing know-how. The Company is also obligated to pay Sanofi a fixed royalty on Fanapt® net sales equal to 6% on Sanofi know-how not related to manufacturing under certain conditions for a period of up to 10 years in markets where the new chemical entity (NCE) patent has expired or was not issued. The Company is obligated to pay this 6% royalty on net sales in the U.S. through November 2026.

Tradipitant. 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-1 receptor antagonist, tradipitant, for all human indications. Lilly is eligible to receive future payments based upon achievement of specified development, regulatory approval and commercialization milestones as well as tiered-royalties on net sales at percentage rates up to the low double digits. As of September 30, 2023 March 31, 2024, the Company has paid Lilly $3.0 million $5.0 million in upfront fees and development milestones. As of September 30, 2023, remaining milestone obligations These payments for upfront fees and development milestones include a $2.0 million development milestone due upon paid to Lilly during the year ended December 31, 2023 for the filing of the first application for marketing authorization for tradipitant in either the U.S. or European Union (E.U.). As of March 31, 2024, remaining milestone obligations include $10.0 million and $5.0 million milestones for the first approval of an application for marketing authorization for tradipitant in the U.S. and E.U., respectively, and up to $80.0 million for sales milestones. The Company is obligated to use its commercially reasonable efforts to develop and commercialize tradipitant.

Portfolio of CFTR activators and inhibitors. In March 2017, the Company entered into a license agreement with the University of California San Francisco (UCSF), under which the Company acquired an exclusive worldwide license to develop and commercialize a portfolio of CFTR activators and inhibitors. Pursuant to the license agreement, the Company will develop and commercialize the CFTR activators and inhibitors and is responsible for all development costs, including current pre-investigational new drug development work. UCSF is eligible to receive future payments based upon achievement of specified development and commercialization milestones as well as single-digit royalties on net sales. As of September 30, 2023 March 31, 2024, the Company has paid UCSF $1.6 million in upfront fees and development milestones. As of September 30, 2023 March 31, 2024, remaining milestone obligations include $11.9 million for development milestones and $33.0 million for future regulatory approval and sales milestones. Included in the $11.9 million of development milestones are $1.1 million of milestone obligations due upon the conclusion of clinical studies for each licensed product but not to exceed $3.2 million in total for the CFTR portfolio.

VQW-765. In connection with a settlement agreement with Novartis relating to Fanapt®, the Company received an exclusive worldwide license under certain patents and patent applications, and other licenses to intellectual property, to develop and commercialize VQW-765, a Phase II alpha-7 nicotinic acetylcholine receptor partial agonist. Pursuant to the license agreement, the Company is obligated to use its commercially reasonable efforts to develop and commercialize VQW-765 and is responsible for all development costs. The Company has no milestone obligations; however, Novartis is eligible to receive tiered-royalties on net sales at percentage rates up to the mid-teens.

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Other Agreements

In September 2022, the Company entered into an agreement with OliPass Corporation (OliPass) to jointly develop a set of ASO molecules based on OliPass' proprietary modified peptide nucleic acids. As consideration for entering into the arrangement, the Company paid OliPass an upfront fee of $3.0 million, which was recorded as research and development expense during the quarter ended September 30, 2022. in 2022. The Company is funding the research and development activities and has the option to license jointly developed intellectual property upon successful development.

Purchase Commitments

In the course of its business, the Company regularly enters into agreements with third-party vendors under fee service arrangements, which generally may be terminated on 90 days' notice without incurring additional charges, other than charges for work completed or materials procured 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. The Company's non-cancellable purchase commitments for agreements longer than one year are not material. Various other long-term agreements entered into for services with other third-party vendors, such as inventory purchase commitments, are cancellable in nature or contain variable commitment terms within the agreement.

9. 10. Accumulated Other Comprehensive Loss

The accumulated balances related to each component of other comprehensive loss, net of taxes, were as follows as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

(in thousands)	*(in thousands)*	September 30, 2023	December 31, 2022	*(in thousands)*	March 31, 2024	December 31, 2023
Foreign currency translation	Foreign currency translation	$ (13)	$ (7)			
Unrealized loss on marketable securities	Unrealized loss on marketable securities	(954)	(1,186)			

Accumulated other comprehensive loss	Accumulated other comprehensive loss	$ (967)	$(1,193)

10. 11. Stock-Based Compensation

As of September 30, 2023 March 31, 2024, there were 6,963,943 7,497,782 shares subject to outstanding options and restricted stock units (RSUs) under the 2006 Equity Incentive Plan (2006 Plan) and the Amended and Restated 2016 Equity Incentive Plan (2016 Plan, and together with the 2006 Plan, Plans). The 2006 Plan expired by its terms in April 2016, and the Company adopted the 2016 Plan. Outstanding options under the 2006 Plan remain in effect and the terms of the 2006 Plan continue to apply, but no additional awards can be granted under the 2006 Plan. In June 2016, the Company's stockholders approved the 2016 Plan. The 2016 Plan has been amended a number of times since to increase the number of shares reserved for issuance, among other administrative changes. Each of the amendments to the 2016 Plan was approved by the Company's stockholders. There is a total of 13,790,000 shares of common stock authorized for issuance under the 2016 Plan, 4,529,226 3,059,300 shares of which remained available for future grant as of September 30, 2023 March 31, 2024.

Stock Options

The Company has granted option awards under the Plans with service conditions (service option awards) that are subject to terms and conditions established by the compensation committee of the board of directors. Service option awards have 10-year contractual terms. Service option awards granted to employees and new directors upon their election vest and become exercisable over four years, with the first 25% of the shares subject to service option awards vesting on the first anniversary of the grant date and the remaining 75% of the shares subject to the service option awards in 36 equal monthly installments thereafter. Subsequent annual service option awards granted to directors vest and become exercisable in full on the first anniversary of the grant date. Service option awards granted to executive officers and certain other employees provide for partial acceleration of vesting if the executive officer or employee is subject to an involuntary termination, and full acceleration of vesting if the executive officer or employee is subject to an involuntary termination within 24 months after a change in control of the Company. Service option awards granted to directors provide for accelerated vesting if there is a change in control of the Company or if the director's service terminates as a result of the director's death or total and permanent disability.

As of September 30, 2023 March 31, 2024, $7.1 million $5.0 million of unrecognized compensation costs related to unvested service option awards are expected to be recognized over a weighted average period of 1.2 1.0 years. No option awards are classified as a liability as of September 30, 2023 March 31, 2024.

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A summary of option activity under the Plans for the nine three months ended September 30, 2023 March 31, 2024 follows:

(in thousands, except for share and per share amounts)	Number of Shares	Weighted Average Exercise Price at Grant Date	Weighted Average Remaining Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2022	4,232,210	$ 14.19	5.81	$ —
Granted	944,776	6.92		
Expired	(130,417)	12.38		
Outstanding at September 30, 2023	5,046,569	12.88	5.94	—
Exercisable at September 30, 2023	3,436,844	14.26	4.60	—
Vested and expected to vest at September 30, 2023	4,837,998	13.08	5.81	—

(in thousands, except for share and per share amounts)	Number of Shares	Weighted Average Exercise Price at Grant Date	Weighted Average Remaining Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2023	4,792,506	$ 12.95	6.00	$ —
Expired	(16,000)	12.28		
Outstanding at March 31, 2024	4,776,506	12.95	5.77	—
Exercisable at March 31, 2024	3,586,512	14.05	4.89	—
Vested and expected to vest at March 31, 2024	4,670,652	13.06	5.70	—

There were no options granted for the three months ended March 31, 2024. The weighted average grant date fair value of options granted was $3.53 and $5.18 $3.57 per share for the nine three months ended September 30, 2023 and 2022, respectively. March 31, 2023. There were no proceeds from the exercise of stock options for the nine three months ended September 30, 2023. Proceeds from the exercise of stock options amounted to $0.1 million for the nine months ended September 30, 2022. March 31, 2024 and 2023.

Restricted Stock Units

An RSU is a stock award that entitles the holder to receive shares of the Company's common stock as the award vests. The fair value of each RSU is based on the closing price of the Company's stock on the date of grant. The Company has granted RSUs under the Plans with service conditions (service RSUs) that are subject to terms and conditions

established by the compensation committee of the board of directors. Service RSUs granted to employees and new directors upon their election vest in four equal annual installments. Subsequent annual service RSUs granted to directors vest on the first anniversary of the date of grant. Service RSUs granted to executive officers and certain other employees provide for accelerated vesting if the executive officer or employee is subject to an involuntary termination within 24 months after a change in control. Service RSUs granted to directors provide for accelerated vesting if there is a change in control of the Company.

As of September 30, 2023 March 31, 2024, $16.1 million $17.6 million of unrecognized compensation costs related to unvested service RSUs are expected to be recognized over a weighted average period of 1.5 1.8 years. No RSUs are classified as a liability as of September 30, 2023 March 31, 2024.

A summary of RSU activity for the Plans for the nine three months ended September 30, 2023 March 31, 2024 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2022	1,915,546	$ 14.41

		Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2023			
Granted	Granted	868,243	6.96
Forfeited	Forfeited	(119,680)	12.92
Vested	Vested	(746,735)	15.05
Unvested at September 30, 2023		1,917,374	10.88
Unvested at March 31, 2024			

The grant date fair value for the 746,735 662,024 shares underlying RSUs that vested during the nine three months ended September 30, 2023 March 31, 2024 was $11.2 million $8.1 million.

Stock-Based Compensation Expense

Stock-based compensation expense recognized for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 was comprised of the following:

		Three Months Ended		Nine Months Ended	
(in thousands)	*(in thousands)*	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
(in thousands)	*(in thousands)*				
Research and development	Research and development				
Research and development	Research and development	$ 739	$ 981	$ 2,538	$ 3,040
Selling, general and administrative	Selling, general and administrative	2,428	2,907	8,229	9,456
Selling, general and administrative	Selling, general and administrative				
Total stock-based compensation expense	Total stock-based compensation expense	$ 3,167	$ 3,888	$ 10,767	$ 12,496
Total stock-based compensation expense	Total stock-based compensation expense				

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model that uses the assumptions noted in the following table. Expected volatility rates are based on the historical volatility of the Company's publicly traded common stock and other factors. The expected terms are determined based on a combination of

historical exercise data and hypothetical exercise data for unexercised stock options. 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. The Company

has never paid cash dividends to its stockholders and does not plan to pay dividends in the foreseeable future. No options were granted during the three months ended March 31, 2024. Assumptions used in the Black-Scholes-Merton option pricing model for employee and director stock options granted during the nine three months ended September 30, 2023 and 2022 March 31, 2023 were as follows:

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Expected dividend yield	0 %	0 %
Weighted average expected volatility	47 %	46 %
Weighted average expected term (years)	6.16	6.05
Weighted average risk-free rate	3.89 %	2.03 %

	Three Months Ended
	March 31, 2023
Expected dividend yield	0 %
Weighted average expected volatility	47 %
Weighted average expected term (years)	6.15
Weighted average risk-free rate	3.92 %

11. 12. Income Taxes

For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, the Company recorded an income tax benefit of $0.3 million $0.5 million and a provision for income taxes of $2.2 million $2.3 million, respectively. The income tax expense (benefit) for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was primarily driven by the estimated effective tax rate for the year, as well as discrete income tax expense of $0.2 $0.5 million and $0.4 $1.1 million, respectively.

For the nine months ended September 30, 2023 and 2022, the Company recorded a provision for income taxes of $3.1 million and $2.3 million, respectively. The income tax expense for the nine months ended September 30, 2023 and 2022 was primarily driven by the estimated effective tax rate for the year, as well as discrete income tax expense of $2.1 million and $1.8 million, respectively.

12. 13. Earnings per Share

Basic earnings per share (EPS) is calculated by dividing the net income (loss) by the weighted average number of shares of common stock outstanding. Diluted EPS is computed by dividing the net income (loss) by the weighted average number of shares of common stock outstanding, plus potential outstanding common stock for the period. Potential outstanding common stock includes stock options and shares underlying RSUs, but only to the extent that their inclusion is dilutive, as calculated using the treasury stock method.

The following table presents the calculation of basic and diluted net income (loss) per share of common stock for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

		Three Months Ended		Nine Months Ended	
(in thousands, except for share and per share amounts)	*(in thousands, except for share and per share amounts)*	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
(in thousands, except for share and per share amounts)					
(in thousands, except for share and per share amounts)					
Numerator:					
Numerator:					
Numerator:	Numerator:				
Net income (loss)	Net income (loss)	$ 137	$ 3,270	$ 4,909	$ (586)
Net income (loss)					
Net income (loss)					
Denominator:					

Denominator:					
Denominator:	Denominator:				
Weighted average shares outstanding, basic	Weighted average shares outstanding, basic	57,519,031	56,574,503	57,329,969	56,397,805
Weighted average shares outstanding, basic					
Weighted average shares outstanding, basic					
Effect of dilutive securities					
Effect of dilutive securities					
Effect of dilutive securities	Effect of dilutive securities	76,313	394,530	182,256	—
Weighted average shares outstanding, diluted	Weighted average shares outstanding, diluted	57,595,344	56,969,033	57,512,225	56,397,805
Weighted average shares outstanding, diluted					
Weighted average shares outstanding, diluted					
Net income (loss) per share, basic and diluted:					
Net income (loss) per share, basic and diluted:					
Net income (loss) per share, basic and diluted:	Net income (loss) per share, basic and diluted:				
Basic	Basic	$ 0.00	$ 0.06	$ 0.09	$ (0.01)
Basic					
Basic					
Diluted					
Diluted					
Diluted	Diluted	$ 0.00	$ 0.06	$ 0.09	$ (0.01)
Antidilutive securities excluded from calculations of diluted net income (loss) per share	Antidilutive securities excluded from calculations of diluted net income (loss) per share	6,724,127	5,238,283	6,526,562	5,199,487
Antidilutive securities excluded from calculations of diluted net income (loss) per share					
Antidilutive securities excluded from calculations of diluted net income (loss) per share					

The Company incurred a net loss for the nine three months ended September 30, 2022 March 31, 2024 causing inclusion of any potentially dilutive securities to have an anti-dilutive effect, resulting in dilutive loss per share and basic loss per share attributable to common stockholders being equivalent.

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13. 14. Legal Matters

HETLIOZ®. Between April 2018 and March 2021, the Company filed numerous Hatch-Waxman lawsuits in the U.S. District Court for the District of Delaware (Delaware District Court) against Teva Pharmaceuticals USA, Inc. (Teva), MSN Pharmaceuticals Inc. and MSN Laboratories Private Limited (MSN) and Apotex Inc. and Apotex Corp. (Apotex, and collectively with Teva and MSN, the HETLIOZ® Defendants) asserting that U.S. Patent Nos. RE46,604 ('604 Patent), 9,060,995, 9,539,234, 9,549,913, 9,730,910 ('910 Patent),

9,844,241, 10,071,977, 10,149,829 (‘829 Patent), 10,376,487 (‘487 Patent), 10,449,176, 10,610,510, 10,610,511, 10,829,465, and 10,611,744 will be infringed by the HETLIOZ® Defendants’

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generic versions of HETLIOZ® for which they were seeking FDA approval. As initially disclosed in the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 14, 2022, in January 2022, the Company entered into a license agreement with MSN and Impax Laboratories LLC (Impax) resolving the lawsuits against MSN (the MSN/Impax License Agreement). The MSN/Impax License Agreement grants MSN and Impax a non-exclusive license to manufacture and commercialize MSN’s generic version of HETLIOZ® in the U.S. effective as of March 13, 2035, unless prior to that date the Company obtains pediatric exclusivity for HETLIOZ®, in which case the license will be effective as of July 27, 2035. The MSN/Impax License Agreement also provides that MSN and Impax may launch a generic version of HETLIOZ® earlier under certain limited circumstances. In January 2023, MSN and its commercial partner, Amneal Pharmaceuticals, Inc., informed the Company of their belief that such circumstances have occurred and have since launched their generic version. The Company disagrees with this position and continues to aggressively defend its legal rights to exclusivity for HETLIOZ®. The consolidated lawsuits against the remaining HETLIOZ® Defendants were tried in March 2022.

On December 13, 2022, In December 2022, the Delaware District Court ruled that Teva and Apotex did not infringe the ‘604 Patent, and that the asserted claims of the ‘604, ‘910, ‘829 and ‘487 Patents were invalid. In December 2022, the Company appealed the Delaware District Court’s decision to the U.S. Court of Appeals for the Federal Circuit (Federal Circuit) and an oral argument for the appeal was held in March 2023. On May 10, 2023, In May 2023, a three-judge panel of the Federal Circuit affirmed the Delaware District Court’s ruling, and on June 9, 2023, in June 2023, the Company requested a rehearing or rehearing en banc from the Federal Circuit. On August 16, 2023, In August 2023, the Federal Circuit denied the Company’s petition for a rehearing. The In January 2024, the Company intends to file filed a petition for a writ of certiorari with the U.S. Supreme Court to review the Federal Circuit’s decision, and on October 13, 2023, decision. In April 2024, the Company filed an application for an extension of time to file a U.S. Supreme Court denied the Company’s petition for a writ of certiorari to the U.S. Supreme Court to review the Federal Circuit’s decision. Chief Justice Roberts granted the application, extending the time to file to January 12, 2024. certiorari.

On December 27, 2022, In December 2022, the Company filed patent infringement lawsuits, including Hatch-Waxman Act claims, against each of Teva and Apotex in the U.S. District Court for the District of New Jersey (NJ District Court) asserting that U.S. Patent No. 11,285,129, a method of administration patent that was not litigated in the Delaware District Court cases (‘129 Patent), will be infringed by Teva’s and Apotex’ generic versions of HETLIOZ®, each of which was approved by the FDA. The Company asked the NJ District Court to, among other things, order that the effective date of the FDA’s approval of Teva’s and Apotex’ generic versions of HETLIOZ® be a date that is no earlier than the expiration of the ‘129 Patent, or such later date that the NJ District Court may determine, and enjoin each of Teva and Apotex from the commercial manufacture, use, import, offer for sale and/or sale of their generic versions of HETLIOZ® until the expiration of the ‘129 Patent, or such later date that the NJ District Court may determine. In February 2023, the case was transferred to the Delaware District Court, where the Company’s lawsuit remains pending.

In January 2023, the Company filed a lawsuit in the NJ District Court against Teva challenging Teva’s advertising and marketing practices related to its at-risk at risk launch of its generic version of HETLIOZ® for the single indication of Non-24. The Company believes that Teva’s advertising and marketing practices related to its generic version of HETLIOZ® promote its product for uses beyond the limited labeling that Teva sought, and the FDA approved. The Company seeks to, among other things, enjoin Teva from engaging in false and misleading advertising and recover monetary damages. In March December 2023, Teva filed a motion to dismiss or to transfer the case was transferred to the Delaware District Court, which Court. The Company’s lawsuit remains pending.

In January 2023, the Company filed a lawsuit in the U.S. District Court for the District of Columbia (DC District Court) against the FDA challenging the FDA’s approval of Teva’s Abbreviated New Drug Application (ANDA) for its generic version of HETLIOZ® capsules under the Administrative Procedure Act, (APA), the Food, Drug, and Cosmetic Act (FDCA), and FDA regulations. Under the FDCA, every ANDA must contain information to show that the labeling proposed for the generic drug is the same as the labeling approved for the listed drug. The labeling and packaging for HETLIOZ® includes Braille, but Teva’s generic tasimelteon version does not. On this basis, the Company believes that Teva’s approved labeling does not comply with applicable requirements. The Company has asked the DC District Court to, among other things, vacate the FDA’s approval of Teva’s ANDA, declare that the approval of the ANDA was unlawful, arbitrary, and capricious and compel the FDA to order Teva to recall its generic HETLIOZ® product. In February 2023, Teva intervened in the lawsuit as a defendant. In September 2023, the Company amended its lawsuit to request that the DC District Court set aside the FDA’s July 2023 denial of the Company’s citizen petition, originally filed with the FDA in January 2023. In April 2024, the Company filed a motion for summary judgment. The Company’s lawsuit remains pending.

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In September 2023, the Company filed a lawsuit in the DC District Court against the FDA challenging the FDA’s approval of MSN’s ANDA for its generic version of HETLIOZ® capsules under the APA, the FDCA, and FDA regulations. The Company believes that MSN’s underlying approval data, particularly its bioequivalence studies, are faulty. On this basis, the Company has asked the DC District Court to, among other things, vacate the FDA’s approval of MSN’s ANDA, declare that the approval of the ANDA was unlawful, arbitrary, and capricious and compel the FDA to order MSN to recall its generic HETLIOZ® product. In December 2023, the Company filed a motion for summary judgment. In January 2024, the FDA opposed the Company’s motion and moved to waive the administrative record, following which the court held an oral argument on the

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cross-motions. The DC District Court issued an order compelling the FDA to serve the administrative record and has set deadlines for further proceedings. In April 2024, the Company filed a motion for summary judgment. The Company’s lawsuit remains pending.

In April 2024, the Company filed a lawsuit in the Delaware District Court against MSN Pharmaceuticals, Inc., MSN Laboratories Private Limited, Amneal Pharmaceuticals, Inc., and Impax Laboratories LLC alleging claims for false advertising in violation of the Lanham Act and unfair competition under several state laws as well as claims for breach of express representation and fraudulent inducement of a license agreement. The Company's lawsuit remains pending.

Other Matters. From April 2022 to October 2023, February 2024, the Company filed twelve fourteen lawsuits in the DC District Court against the FDA to compel the FDA to produce records under the Freedom of Information Act (FOIA) regarding, among other matters: the FDA's denial of the Company's supplemental New Drug Application (sNDA) for HETLIOZ® in the treatment of jet lag disorder; cases in which the FDA waived its putative requirement of a 9-month non-rodent toxicity study before drugs can be tested on human patients for extended durations; communications external to and within the FDA relating to tradipitant, HETLIOZ®and HETLIOZ Fanapt®; a warning letter that the FDA sent to Vanda the Company concerning Vanda's its webpages for HETLIOZ® and Fanapt®; the FDA's removal of a clinical trials design presentation from its website; discipline reviews relating to the FDA's evaluations of the Company's sNDA for HETLIOZ® and a third-party sNDA for jet lag; internal standard operating procedures or guidance relating to the FDA's processing of incoming FOIA requests; and bioequivalence and other study reports submitted relating to the FDA's consideration of Teva's ANDA. Two tasimelteon ANDAs. Four of these lawsuits were resolved in the Company's favor in June 2023, and August 2023, January 2024 and April 2024, respectively, one is pending resolution and the other nine remain outstanding. The FDA has failed to respond and provide the requested documents within the statutory timeframe with respect to each of these nine ten outstanding requests. The Company has asked the DC District Court to, among other things, compel the FDA to comply with its obligations and declare that its lack of compliance violates FOIA.

In April 2022, the Company filed a lawsuit in the U.S. District Court for the District of Maryland (the MD (MD District Court) against the Centers for Medicare & Medicaid Services (CMS) and the Administrator of CMS challenging CMS' rule broadly interpreting the defined terms "line extension" and "new formulation" under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (ACA), which went into effect in January 2022 (the Rule). The Company believes that the Rule is unlawful and contrary to the intent of Congress when it passed the ACA. Under the Rule, certain of the Company's products would be treated as line extensions and new formulations subject to enhanced rebates, despite the statutory text and CMS' own long-standing practice, under which such products would not constitute line extensions or new formulations. In March 2023, the MD District Court ruled that CMS' interpretation of the terms was reasonable and consistent with Congress' intent. In April 2023, the Company appealed the ruling to the U.S. Court of Appeals for the Fourth Circuit which has tentatively scheduled (Fourth Circuit). In January 2024, the Fourth Circuit held an oral argument for argument. In April 2024, the week of January 22, 2024. Fourth Circuit ruled against the Company. The Company is currently evaluating future options with respect to this litigation.

In May 2022, the Company filed a lawsuit in the DC District Court against the FDA challenging the FDA's denial of Fast Track designation for tradipitant. In October 2021, the Company submitted to the FDA a request for Fast Track designation for tradipitant under the Food and Drug Administration Modernization Act of 1997 (FDAMA). The FDAMA provides for expedited development and review of drugs that receive Fast Track designation from the FDA. Under the FDAMA, the FDA must designate a drug as a Fast Track product if it both (1) is intended to treat a serious or life-threatening disease or condition and (2) demonstrates the potential to address unmet medical needs for such disease or condition. Although Fast Track designation is non-discretionary when the criteria are satisfied, the FDA denied the Company's request for Fast Track designation. The Company does not believe that the FDA based its decision on the relevant criteria. Therefore, among other reasons, the Company maintains that the FDA's denial is unlawful. The Company has asked the DC District Court to, among other things, set aside and vacate the FDA's denial. An oral argument was held in January 2023. In August 2023, the DC District Court ruled against the Company. In September 2023, the Company appealed the ruling to the U.S. Court of Appeals for the District of Columbia Circuit, where the Company's lawsuit remains pending.

In September 2022, the Company filed a lawsuit in the DC District Court against the FDA to compel the FDA to comply with two separate nondiscretionary non-discretionary obligations under the FDCA and its implementing regulations: an obligation to publish a notice of an opportunity for a hearing on the Company's sNDA for HETLIOZ® in the treatment of jet lag disorder in the Federal Register within 180 days of the filing of the sNDA, and a separate obligation to publish the same notice within 60 days of the request for a hearing. The FDA published the notice of an opportunity for a hearing on October 11, 2022. The Company has asked the DC District Court to, among other things, compel the FDA to comply with its obligations and declare that its lack of compliance violates the FDCA and the FDA regulations. In January 2024, the DC District Court held an oral argument on dispositive cross-motions, following which the DC District Court granted in part the Company's motion for summary judgment. The DC District Court ruled that the FDA violated the statute and ordered the FDA to either finally resolve the Company's lawsuit remains pending. application or commence a hearing on or before March 5, 2024. In March 2024, the Company and the FDA filed a consent

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motion for entry of final judgment in the Company's favor on its Administrative Procedure Act claim for the FDA's unreasonable delay in resolving the hearing request.

In May 2023, the Company filed a lawsuit in the U.S. Court of Federal Claims (Federal Claims Court) against the federal government for the uncompensated taking and misuse of the Company's trade secrets and confidential information. The Company believes that the FDA violated the Fifth Amendment's due process clause by improperly providing confidential details from the Company's drug master files for HETLIOZ® and Fanapt® to generic drug manufacturers during the FDA's review of the manufacturers' ANDAs. The Company has asked the Federal Claims Court to, among other things, declare that

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the FDA's disclosure of the Company's confidential commercial information constitutes a taking for purposes of the Fifth Amendment and award just compensation. The federal government has filed a motion to dismiss the complaint, which the Company has opposed. In January 2024, the Federal Claims Court held an oral argument on the motion to dismiss, following which the Federal Claims Court issued a decision denying in part the government's motion, allowing the Company's takings claim to proceed. The Company's lawsuit remains pending.

In February 2024, the Company filed a lawsuit in the DC District Court against the FDA to compel the FDA to comply with its statutory obligations under the FDCA and its implementing regulations, and to challenge the FDA's complete response letter and 60-day filing regulations, which the Company believes do not absolve the FDA of its statutory

responsibilities. Under the FDCA, the FDA has an obligation to either approve the Company's sNDA for HETLIOZ® in the treatment of insomnia characterized by difficulties with sleep initiation within 180 days of the filing of the sNDA or give the Company a notice of an opportunity for a hearing. The Company submitted the sNDA on May 4, 2023. The Company has asked the DC District Court to, among other things, compel the FDA to comply with its obligations, declare that its lack of compliance violates the FDCA and the FDA regulations and declare the FDA's complete response letter and 60-day filing regulations unlawful. The Company's lawsuit remains pending.

In March 2024, the Company filed a petition for review in the U.S. Court of Appeals for the District of Columbia Circuit seeking review of the FDA's final order refusing to hold a hearing or to approve Vanda's sNDA for HETLIOZ® in the treatment of jet lag disorder. Under the FDCA, the FDA has an obligation to either approve an sNDA or to hold a hearing on the application's approvability. The Company's petition asks the DC Circuit to set aside the FDA's order refusing to hold a hearing and refusing approval. The Company's petition remains pending.

On April 22, 2024, a purported stockholder of the Company filed a lawsuit in the Court of Chancery of the State of Delaware against the members of the Company's board of directors and the Rights Agent, along with the Company as nominal defendant (collectively, the Defendants), captioned *Steamfitters Local 449 Pension Fund v. Mihael H. Polymeropoulos, et al., CA No. 2024-0416-KSJM*. The lawsuit contends, among other things, that the members of the Company's board of directors breached their fiduciary duties in instituting the Rights Agreement. See Note 15, *Subsequent Events*, for additional details on the Rights Agent and Rights Agreement. The lawsuit seeks relief declaring, in part, that provisions of the Rights Agreement be deemed unenforceable and seeks to enjoin the use of such provisions as well as damages, costs, and other remedies, and also seeks to enjoin for 30 days the Company's 2024 Annual Meeting of Stockholders (the Annual Meeting) to be held on May 17, 2024. At a hearing on May 7, 2024, the Delaware Chancery Court denied the plaintiff's request to enjoin the Annual Meeting. A trial in the case is expected to be set later this year. The Defendants believe the claims are without merit and intend to vigorously defend the matter. The Company does not anticipate that this litigation will have a material adverse effect on its business, results of operations or financial condition. However, this lawsuit is subject to inherent uncertainties, the actual cost may be significant, and the Company may not prevail. The Company believes it is entitled to coverage under its relevant insurance policies, subject to a retention, but coverage could be denied or prove to be insufficient.

15. Subsequent Events

On April 17, 2024, the Company's board of directors authorized and declared a dividend distribution of one right (each, a Right) for each outstanding share of common stock of the Company to stockholders of record as of the close of business on April 29, 2024 (the Record Date). Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.001 per share (the Preferred Stock), of the Company at an exercise price of $25.00 (the Exercise Price), subject to adjustment. The complete terms of the Rights are set forth in a Rights Agreement, dated as of April 17, 2024, between the Company and Equiniti Trust Company, LLC, as rights agent (the Rights Agent), as amended by that certain Amendment No. 1 to the Rights Agreement, by and between the Company and the Rights Agent (as amended, the Rights Agreement).

In general terms, subject to certain enumerated exceptions, the Rights Agreement works by imposing a significant penalty upon any person or group that acquires beneficial ownership of 10% or more of the shares of common stock without the prior approval of the board of directors. In general, any person will be deemed to beneficially own any securities (a) as to which such

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person has any agreement, arrangement or understanding with another person for the purpose of acquiring, holding, voting or disposing of any shares of Common Stock or (b) that are the subject of a derivative transaction or constitute a derivative security. As a result, the overall effect of the Rights Agreement and the issuance of the Rights may be to render more difficult or discourage a merger, tender or exchange offer or other business combination involving the Company that is not approved by the Board. However, neither the Rights Agreement nor the Rights should interfere with any merger, tender or exchange offer or other business combination approved by the Board.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Vanda Pharmaceuticals Inc. (we, our or Vanda) is a leading global biopharmaceutical company focused on the development and commercialization of innovative therapies to address high unmet medical needs and improve the lives of patients.

We strive to advance novel approaches to bring important new medicines to market through responsible innovation. We are committed to the use of technologies that support sound science, including genetics and genomics, in drug discovery, clinical trials and the commercial positioning of our products.

Our commercial portfolio is currently comprised of two three products, Fanapt® for the acute treatment of manic or mixed episodes associated with bipolar I disorder and the treatment of schizophrenia, HETLIOZ® for the treatment of Non-24-Hour Sleep-Wake Disorder (Non-24) and for the treatment of nighttime sleep disturbances in Smith-Magenis Syndrome (SMS), and Fanapt PONVORY® for the treatment of schizophrenia. relapsing forms of multiple sclerosis (MS) to include clinically isolated syndrome, relapsing-remitting disease and active secondary progressive disease, in adults. HETLIOZ® is the first product approved by the U.S. United States Food and Drug Administration (FDA) for patients with Non-24 and for patients with SMS. In addition, we have a number of drugs in development, including:

- Milsaperidone (VHX-896), the active metabolite of Fanapt® (iloperidone), for the acute treatment of manic or mixed episodes associated with bipolar I disorder and for the treatment of schizophrenia;
- Fanapt® (iloperidone) long acting injectable (LAI) formulation for the treatment of schizophrenia;
- HETLIOZ® (tasimelteon) for the treatment of jet lag disorder, insomnia, delayed sleep phase disorder (DSPD) and pediatric Non-24;

- Fanapt PONVORY® (iloperidone) (ponesimod) for the treatment of bipolar I disorder psoriasis and a long acting injectable (LAI) formulation for the treatment of schizophrenia; ulcerative colitis;
- Tradipitant (VLY-686), a small molecule neurokinin-1 (NK-1) receptor antagonist, for the treatment of gastroparesis, motion sickness and atopic dermatitis;
- VTR-297, a small molecule histone deacetylase (HDAC) inhibitor for the treatment of hematologic malignancies and with potential use as a treatment for several oncology indications;
- Portfolio of Cystic Fibrosis Transmembrane Conductance Regulator (CFTR) activators and inhibitors, including VSJ-110 for the treatment of dry eye and ocular inflammation and VPO-227 for the treatment of secretory diarrhea disorders, including cholera;
- VTR-297, a small molecule histone deacetylase (HDAC) inhibitor for the treatment of onychomycosis and hematologic malignancies and with potential use as a treatment for several oncology indications;
- VQW-765, a small molecule nicotinic acetylcholine receptor partial agonist, for the treatment of social/performance anxiety and psychiatric disorders;
- VHX-896, the active metabolite of iloperidone; and
- Antisense oligonucleotide (ASO) molecules. molecules, including VCA-894A for the treatment of Charcot-Marie-Tooth Disease, Type 2S (CMT2S), caused by cryptic slice site variants within the IGHMBP2 gene.

Operational Highlights

Psychiatry Portfolio

- Fanapt®
- The supplemental New Drug Application (sNDA) for : We announced in April 2024 that the FDA approved Fanapt® in as a first line treatment of acute bipolar I disorder in adults was accepted adults. This approval of Fanapt® for filing acute bipolar I disorder significantly expands the addressable patient population. Patent exclusivity is expected to last at least through late 2027. We are initiating a host of commercial activities, including the expansion of our existing sales force, a prescriber awareness program and a comprehensive marketing program.
- Milsaperidone: We expect to submit a New Drug Application (NDA) for milsaperidone (also known as VHX-896 and P-88), the active metabolite of Fanapt®, in schizophrenia and acute bipolar I disorder to the FDA in early-2025. If approved, there are pending patent applications that, if issued, could extend exclusivity into the 2040s.
- Fanapt® LAI: We expect to initiate a Phase III program for the LAI formulation of Fanapt® by the FDA with a Prescription Drug User Fee Act (PDUFA) target action date end of April 2, 2024. 2024. Fanapt® LAI could reach the United States (U.S.) market after 2026 and there are pending patent applications that, if issued, could extend exclusivity into the 2040s.
- We are currently planning clinical programs to test the efficacy of Fanapt® and milsaperidone in the treatment of depressive symptoms which, if successful, will significantly expand the addressable patient population.

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HETLIOZ®

- The sNDA We are currently planning to initiate a HETLIOZ LQ® program in pediatric insomnia. Although exact estimates of prevalence of insomnia in children are difficult to quantify, it is estimated that 20-40% of children experience significant sleep problems. There are currently no approved treatments for pediatric insomnia. If ultimately approved for marketing, the addressable patient population for HETLIOZ LQ® would be significantly expanded and market exclusivity would be expected to last into the 2040s.
- We announced in March 2024 that we received a complete response letter (CRL) from the FDA related to the supplemental New Drug Application (sNDA) for HETLIOZ® in insomnia was accepted for filing by the FDA with a PDUFA target action date treatment of March 4, 2024. insomnia. We are continuing reviewing the CRL and evaluating our next steps. In addition to insomnia, we continue to pursue FDA approval for of HETLIOZ® in the treatment of jet lag disorder. disorder where the final agency rejection of our application is being challenged in the U.S. Court of Appeals for the D.C. Circuit.
- We intend to file a petition to announced in April 2024 that the U.S. Supreme Court denied our petition for a writ of certiorari to review the decision of the U.S. Court of Appeals for the Federal Circuit in our HETLIOZ® Abbreviated New Drug Application (ANDA) litigation against Teva Pharmaceuticals USA, Inc. (Teva) and , Apotex Inc. and Apotex Corp. (Apotex) Corp (together, Apotex). Chief Justice Roberts extended The lower court decision held that certain claims of our U.S. Patent Nos. RE46,604; 9,730,910; 10,149,829; and 10,376,487 were invalid. Our suit asserting U.S. Patent No. 11,285,129 will be infringed by Teva's and Apotex's generic versions of HETLIOZ® is currently pending in the time U.S. District Court for the filing District of our forthcoming petition, which we Delaware.

PONVORY®

- We expect to complete the transition of PONVORY® from Janssen and commercially launch the product for multiple sclerosis in the third quarter of 2024. We are initiating a host of commercial activities including the creation of a specialty sales force, a prescriber awareness program and a comprehensive marketing program. Currently approved as a once-a-day oral treatment for people with multiple sclerosis, PONVORY® has a differentiated profile from other drugs in the class with high specificity and rapid reversibility, making for a versatile use to address the needs of people with multiple sclerosis and exclusivity is expected to last into the 2040s.

- Positive results from a Phase II clinical study for PONVORY® in the treatment of psoriasis were previously published in Lancet where PONVORY® demonstrated significant effects in both induction and maintenance of response. We expect to file an Investigational New Drug (IND) application with the FDA for PONVORY® in the treatment of psoriasis. We expect to initiate a Phase III study for PONVORY® in the treatment of psoriasis by January 12, 2024. the end of 2024. If ultimately approved for marketing, PONVORY® would be the first oral sphingosine-1-phosphate (S1P) analog approved for the treatment of psoriasis and would significantly expand the addressable patient population of PONVORY®, with over 8 million people diagnosed with psoriasis in the U.S.
- We expect to file an IND application with the FDA for PONVORY® in the treatment of ulcerative colitis. We expect to initiate a Phase III study for PONVORY® in the treatment of ulcerative colitis by the end of 2024. If ultimately approved for marketing, PONVORY® would follow other oral sphingosine-1-phosphate (S1P) analogs approved for the treatment of ulcerative colitis and would significantly expand the addressable patient population of PONVORY®, with an estimated prevalence in the U.S. of approximately 2 million individuals.

Tradipitant

- We continue to pursue FDA approval of a New Drug Application (NDA) The NDA for tradipitant for patients the treatment of symptoms of gastroparesis is under review by the FDA with gastroparesis. a PDUFA target action date of September 18, 2024. Gastroparesis is a significant unmet medical need with the last treatment option approved over 40 years ago and an estimated prevalence in the U.S. of over 6 million individuals.
- We initiated a The second Phase III clinical study of tradipitant in the treatment of motion sickness is fully enrolled and results are expected in the study is over 20% enrolled. We previously announced positive results in our first Phase III study second quarter of 2024. The efficacy of tradipitant in the treatment of motion sickness. sickness has previously been demonstrated in two clinical studies in which tradipitant was effective in preventing vomiting associated with motion. We plan expect to pursue submit an NDA for the treatment of motion sickness to the FDA in the fourth quarter of 2024. An eventual NDA approval upon completion of tradipitant in the treatment of motion sickness would significantly expand the addressable patient population, with approximately 30% of the U.S. population reported to suffer from motion sickness under ordinary travel conditions that include sea, air and land.

Early-Stage Programs

- The Phase II study of VSJ-110 for the treatment of dry eye is ongoing and more than 50% enrolled.

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- The Phase I clinical study for VCA-894A in the treatment of a patient with Charcot-Marie-Tooth disease, axonal, type 2S (CMT2S), an inherited peripheral neuropathy for which there is no available treatment, expects to enroll the patient in mid-2024.
- The Phase I clinical study of VTR-297 for the treatment of onychomycosis, a fungal infection of the nail, was initiated in April 2024.
- VQW-765, an alpha-7 nicotinic acetylcholine receptor partial agonist, is currently in clinical development program. for treatment of acute performance anxiety in social situations.

Since we began operations, we have devoted substantially all of our resources to the in-licensing, clinical development and commercialization of our products. Our ability to generate meaningful product sales and achieve profitability largely depends

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on our level of success in commercializing HETLIOZ Fanapt® and Fanapt HETLIOZ® in the U.S. and Europe and PONVORY® in the U.S. and Canada, on our ability, alone or with others, to complete the development of our products, and to obtain the regulatory approvals for and to manufacture, market and sell our products. 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 that are detailed in Part I, Item 1A, *Risk Factors*, of our annual report on Form 10-K (Annual Report) for the year ended December 31, 2022. December 31, 2023and Item 1A, *Risk Factors*, of this Quarterly Report.

Critical Accounting Policies and Estimates

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.

There have been no significant changes in our critical accounting policies including estimates, assumptions and judgments from those described in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in the Annual Report. A summary of our significant accounting policies appears in the notes to our audited consolidated financial statements included in the Annual Report. However, we believe that the following accounting policies are important to understanding and evaluating our reported financial results as they involve the most significant judgments and estimates used in the preparation of our condensed consolidated financial statements, and we have accordingly included them in this discussion.

Revenue from net product sales. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. We recognize revenue when control of the product is transferred to the customer in an amount that reflects the consideration we expect to be entitled to in exchange for those product sales, which is typically once the product physically arrives at the customer.

Fanapt® is available in the U.S. for distribution through a limited number of wholesalers and is available in retail pharmacies. HETLIOZ® is available in the U.S. for distribution through a limited number of specialty pharmacies and is not available in retail pharmacies. Fanapt PONVORY® is available in the U.S. for distribution primarily through a limited number of wholesalers and is available in retail pharmacies. specialty distributors. We invoice and record revenue when customers, wholesalers, specialty pharmacies and wholesalers, specialty distributors, receive product from the third-party logistics warehouse, which is the point at which control is transferred to the customer. Revenues and accounts receivable are concentrated with these customers. Outside the U.S., we sell HETLIOZ® in Germany and have a distribution agreement with Megapharm Ltd. for the commercialization of Fanapt® in Israel. Israel and sell HETLIOZ® in Germany. Receivables are carried at transaction price net of allowance for credit losses. Allowance for credit losses is measured using historical loss rates based on the aging of receivables and incorporating current conditions and forward-looking estimates.

The transaction price is determined based upon the consideration to which we will be entitled in exchange for transferring product to the customer. Our product sales are recorded net of applicable product revenue allowances for which reserves are established and include discounts, rebates, chargebacks, service fees, co-pay assistance and product returns that are applicable for various government and commercial payors. Where appropriate, our estimates of variable consideration included in the transaction price consider a range of possible outcomes. Allowances for rebates, chargebacks and co-pay assistance are based upon the insurance benefits of the end customer, which are estimated using historical activity and, where available, actual and pending prescriptions for which we have validated the insurance benefits. Variable consideration may be constrained and is

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included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Overall, these reserves reflect our best estimates of the amount of consideration to which we are entitled based on the terms of the respective underlying contracts. If actual results in the future vary from our estimates, we adjust our estimate in the period identified, which would affect net product sales in the period such variances become known. During the nine three months ended September 30, 2023, March 31, 2024 and 2023, we constrained the variable consideration for HETLIOZ® net product sales. The constrained revenue relates to the uncertainties of payor utilization, patient demand and chargeback and rebate amounts, including Medicaid, and other reserves related to the transactions that resulted in elevated levels of inventory on hand at the specialty pharmacies. pharmacy customers.

Reserves for variable consideration are classified as product revenue allowances on the Condensed Consolidated Balance Sheets, with the exception of prompt-pay discounts, which are classified as reductions of accounts receivable. The reserve for product returns for which the product may not be returned for a period of greater than one year from the balance sheet date is included as a component of other non-current liabilities in the Condensed Consolidated Balance Sheets. Uncertainties related to variable consideration are generally resolved in the quarter subsequent to period end, with the exception of Medicaid rebates, which are dependent upon the timing of when states submit reimbursement claims, Medicare inflationary rebates, and product

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returns that are resolved during the product expiry period specified in the customer contract. Due to transactions that resulted in increased inventory stocking at specialty pharmacy customers of HETLIOZ® in 2024 and 2023, the time for it takes to resolve these uncertainties is expected to be resolved could be longer than we have historically experienced. We currently record sales allowances for the following:

Prompt-pay: Specialty pharmacies and wholesalers are generally offered discounts for prompt payment. We expect that the specialty pharmacies and wholesalers will earn prompt payment discounts and, therefore, deduct the full amount of these discounts from total product sales when revenues are recognized.

Rebates: Allowances for rebates include mandated discounts under the Medicaid Drug Rebate Program as well as contracted rebate programs with other payors, including the new Medicare Part D inflationary rebate effective October 1, 2022. Rebate amounts owed after the final dispensing of the product to a benefit plan participant are based upon contractual agreements or legal requirements with public sector benefit providers, such as Medicaid and Medicare. The allowances for rebates are based on statutory or contracted discount rates and estimated patient utilization.

Chargebacks: Chargebacks are discounts that occur when contracted indirect customers purchase directly from specialty pharmacies and wholesalers. Contracted indirect customers, which currently consist primarily of Public Health Service institutions and federal government entities purchasing via the Federal Supply Schedule, generally purchase the product at a discounted price. The specialty pharmacy or wholesaler, in turn, charges back the difference between the price initially paid by the specialty pharmacy or wholesaler and the discounted price paid to the specialty pharmacy or wholesaler by the contracted customer.

Medicare Part D coverage gap: The Medicare Part D prescription drug benefit requires manufacturers to fund approximately 70% of the Medicare Part D insurance coverage gap for prescription drugs sold to eligible patients for applicable drugs. We account for the Medicare Part D coverage gap using a point of sale model. Estimates for expected Medicare Part D coverage gap are based in part on historical activity and, where available, actual and pending prescriptions when we have validated the insurance benefits. Beginning January 1, 2025, the Medicare Part D coverage gap discount program will be replaced with a new discounting program under the Inflation Reduction Act.

Service fees: We receive sales order management, data and distribution services from certain customers, for which we are assessed fees. These fees are based on contracted terms and are known amounts. We accrue service fees at the time of revenue recognition, resulting in a reduction of product sales and the recognition of an accrued liability, unless it is a payment for a distinct good or service from the customer in which case the fair value of those distinct goods or services are recorded as selling, general and administrative expense.

Co-pay assistance: Patients who have commercial insurance and meet certain eligibility requirements may receive co-pay assistance. Co-pay assistance utilization is based on information provided by our third-party administrator.

Product returns: We generally offer direct customers a limited right to return as contractually defined with our customers. We consider several factors in the estimation process, including expiration dates of product shipped to customers, inventory levels within the distribution channel, product shelf life, historical return activity, including activity for product sold for which the return period has past, prescription trends and other relevant factors. We do not expect returned goods to be resalable. There was no right of return asset as of September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023.

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The following table summarizes sales discounts and allowance activity as of and for the nine three months ended September 30, 2023 March 31, 2024:

(in thousands)	*(in thousands)*	Rebates & Chargebacks	Discounts, Returns and Other	Total	*(in thousands)*	Rebates & Chargebacks	Discounts, Returns and Other	Total
Balances at December 31, 2022		$ 37,459	$ 10,024	$47,483				
Balances at December 31, 2023								
Provision related to current period sales	Provision related to current period sales	67,866	21,193	89,059				
Adjustments for prior period sales	Adjustments for prior period sales	513	533	1,046				
Credits/payments made	Credits/payments made	(63,043)	(21,556)	(84,599)				
Balances at September 30, 2023		$ 42,795	$ 10,194	$52,989				
Balances at March 31, 2024								

The provision of $67.9 million $21.2 million for rebates and chargebacks for the nine three months ended September 30, 2023 March 31, 2024 and its ending balance at March 31, 2024 primarily represents Medicaid rebates applicable to sales of HETLIOZ Fanapt® and, Fanapt to a lesser extent, HETLIOZ®. The provision of $21.2 million $7.1 million for discounts, returns and other for the nine three months ended September 30, 2023 March 31, 2024 primarily represents wholesaler distribution fees applicable to sales of Fanapt® and estimated product returns of Fanapt®, and co-pay assistance costs and prompt-pay discounts applicable to the sales of both HETLIOZ Fanapt® and Fanapt HETLIOZ®.

Stock-based compensation. Compensation costs for all stock-based awards to employees and directors are measured based on the grant date fair value of those awards and recognized over the period during which the employee or director is required to perform service in exchange for the award. We use the Black-Scholes-Merton option pricing model to determine the fair value

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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. Expected volatility rates are based on the historical volatility of our publicly traded common stock and other factors. 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 never paid cash dividends to our stockholders and do not plan to pay dividends in the foreseeable future. As stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Research and development expenses. Research and development expenses consist primarily of fees for services provided by third parties in connection with the clinical trials, costs of contract manufacturing services for clinical trial use, milestone payments made under licensing agreements prior to regulatory approval, costs of materials used in clinical trials and research and development, costs for regulatory consultants and filings, depreciation of capital resources used to develop products, related facilities costs, and salaries, other employee-related costs and stock-based compensation for research and development personnel. We expense research and development costs as they are incurred for products in the development stage, including manufacturing costs and milestone payments made under license agreements prior to FDA approval. Upon and subsequent to FDA approval, manufacturing and milestone payments made under license agreements are capitalized. Milestone payments are accrued when it is deemed probable that the milestone event will be achieved. Costs related to the acquisition of intellectual property are expensed as incurred if the underlying technology is developed in connection with our research and development efforts and has no alternative future use.

Clinical trials are inherently complex, often involve multiple service providers, and can include payments made to investigator physicians at study sites. Because billing for services often lags delivery of service by a substantial amount of time, we often are required to estimate a significant portion of our accrued clinical expenses. Our assessments include, but are not limited to: (i) an evaluation by the project manager of the work that has been completed during the period, (ii) measurement of progress prepared internally and/or provided

by the third-party service provider, (iii) analyses of data that justify the progress, and (iv) management's 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.

Intangible assets and impairment of long-lived assets. Our intangible assets consist of capitalized license costs for products approved by the FDA. FDA or costs to acquire already commercialized products. We amortize our intangible assets on a straight-line basis over the estimated useful economic life of the related product patents. We assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, a significant adverse change in legal or regulatory factors that could affect the value or patent life including our ability to defend and enforce patent claims and other intellectual property rights and significant negative industry or economic trends. When we determine that the carrying value of our intangible assets may not be recoverable based

upon the existence of one or more of the indicators of impairment, we measure any impairment based on the amount that carrying value exceeds fair value.

As a result of the unfavorable events and subsequent developments in the fourth quarter of 2022 and second quarter of 2023 related to the HETLIOZ® patent litigation (see Note 13, 14, *Legal Matters*, to the condensed consolidated financial statements included in Part I of this Quarterly Report) we performed impairment reviews for our HETLIOZ® asset group in those years and determined, based upon our review of undiscounted cash flows, that the carrying value of our HETLIOZ® asset group, inclusive of the intangible asset, is recoverable. Accordingly, we did have not record recorded an intangible asset impairment charge for the periods ended September 30, 2023 and December 31, 2022. in any period. The litigation and subsequent developments do not affect the sale of HETLIOZ® in the E.U. and there is no generic litigation pending outside of the U.S. with respect to HETLIOZ®. Furthermore, the litigation and subsequent events do not relate to the HETLIOZ LQ® oral suspension formulation. Our expected cash flows continue to support our estimated useful economic life of the intangible asset through 2035.

Income taxes. We assess the need for a valuation allowance against our deferred tax asset each quarter through the review of all available positive and negative evidence. Deferred tax assets are reduced by a tax valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. The analysis is highly dependent upon historical and projected taxable income. Projected taxable income includes significant assumptions related to revenue, commercial expenses and research and development activities, which could be affected by the HETLIOZ® generic competition and our ability to obtain regulatory approval from the FDA for products or new indications in development, amongst among other factors. Tax benefits are recognized from an uncertain tax position only if it is more likely than not that the tax

position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefit recognized in the financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized upon settlement.

Recent Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies,* to the condensed consolidated financial statements included in Part I of this quarterly report on Form 10-Q (Quarterly Report) for information on recent accounting pronouncements.

Results of Operations

We anticipate that our results of operations will fluctuate for the foreseeable future due to several factors, including our and our partners' ability to continue to successfully commercialize our products, including activities related to the recent approval of Fanapt® for the acute treatment of manic or mixed episodes associated with bipolar I disorder in adults and recently acquired rights to PONVORY® in the U.S. and Canada, any possible payments made or received pursuant to license agreements, progress of our research and development efforts, the timing and outcome of clinical trials and related possible regulatory approvals and the status of existing and future potential litigation involving our products and intellectual property.

For HETLIOZ®, the FDA has approved ANDAs for Teva and Apotex, both of which have since launched their generic versions of HETLIOZ® at risk in the U.S. In December 2022, the U.S. District Court for the District of Delaware (Delaware District Court) ruled in favor of Teva and Apotex in our patent litigation relating to their filing of ANDAs for generic versions of HETLIOZ® in the U.S., The Federal Circuit affirmed this ruling, and in May 2023, the U.S. Supreme Court of Appeals for the Federal Circuit (Federal Circuit) affirmed this ruling. We disagree with the Federal Circuit's ruling and on June 9, 2023, we requested a rehearing or rehearing en banc from the Federal Circuit. On August 16, 2023, the Federal Circuit denied our petition for a rehearing. The FDA approved Teva's ANDA writ of certiorari in December 2022, and Teva has since launched its generic version April 2024. See Note 14, *Legal Matters*, to the condensed consolidated financial statements in Part I of HETLIOZ® at risk in the U.S. this Quarterly Report. The FDA has also approved the ANDAs ANDA for Apotex and MSNPharmaceuticals, Inc. and MSN Laboratories Private Limited (MSN), and HETLIOZ® could face even more competition from generic companies in the U.S. in the near term in light of the patent litigation rulings against us. . The license agreement that we entered into when we settled our patent litigation with MSN (MSN/Impax License Agreement) grants MSN and Impax Laboratories LLC (Impax) a non-exclusive license to manufacture and commercialize MSN's generic version of HETLIOZ® in the U.S. effective as of March 13, 2035, unless prior to that date we obtain pediatric exclusivity for HETLIOZ®, in which case the license will be effective as of July 27, 2035. The MSN/Impax License Agreement also provides that MSN and Impax may launch a generic version of HETLIOZ®, or earlier under certain limited circumstances. In January 2023, MSN and its commercial partner, Amneal Pharmaceuticals, Inc., have informed us of their belief that such circumstances had occurred and have occurred. We disagree with since launched their generic version. In April 2024, we filed litigation against MSN, Impax, and Amneal alleging fraudulent inducement of the license agreement. See Note 14, *Legal Matters*, to the condensed consolidated financial statements in Part I of this position and intend to aggressively defend our legal rights to exclusivity for Quarterly Report. HETLIOZ®. Sales could face even more competition from other generic companies in the U.S. in the near term in light of the patent litigation rulings against us. In addition, sales of generic versions of HETLIOZ® have

resulted in and could continue to result in a reduction in the demand for HETLIOZ® and/or the price at which we can sell it and/or create volatility in net product sales in future periods, which would could have a material and adverse impact on our revenues and results of operations. Unless and until we are able to successfully enforce our legal rights to exclusivity, we may reduce the amount we spend with the intention

Table of retaining the capability to ramp-up promptly.Contents

Three months ended September 30, 2023 March 31, 2024 compared to three months ended September 30, 2022 March 31, 2023

Revenues. Total revenues decreased by $26.5 million $15.0 million, or 41% 24%, to $38.8 million $47.5 million for the three months ended September 30, 2023 March 31, 2024 compared to $65.3 million $62.5 million for the three months ended September 30, 2022 March 31, 2023. Revenues were as follows:

		Three Months Ended					Three Months Ended			
(in thousands)	*(in thousands)*	September 30, 2023	September 30, 2022	Net Change	Percent	*(in thousands)*	March 31, 2024	March 31, 2023	Net Change	Percent
Fanapt® net product sales						Fanapt® net product sales	$ 20,579	$ 22,882	$ (2,303)	(10) %
HETLIOZ® net product sales	HETLIOZ® net product sales	$ 17,500	$ 41,335	$ (23,835)	(58) %	HETLIOZ® net product sales	20,053 39,616	39,616 (19,563)	(19,563) (49)	(49) %
Fanapt® net product sales		21,315	23,983	(2,668)	(11) %					
PONVORY® net product sales						PONVORY® net product sales	6,830	—	6,830	N/A
Total net product sales	Total net product sales	$ 38,815	$ 65,318	$ (26,503)	(41) %	Total net product sales	$ 47,462 $	$ 62,498 $	$ (15,036)	(24) (24) %

HETLIOZ Fanapt® net product sales decreased by $23.8 million $2.3 million, or 58% 10%, to $17.5 million $20.6 million for the three months ended September 30, 2023 March 31, 2024 compared to $41.3 million $22.9 million for the three months ended September 30, 2022 March 31, 2023. The decrease to net product sales was attributable to a decrease in volume. Our

HETLIOZ® net product sales decreased by $19.6 million, or 49%, to $20.1 million for the three months ended March 31, 2024 compared to $39.6 million for the three months ended March 31, 2023. The decrease to net product sales was attributable to a decrease in volume, partially offset by an increase in price net of deductions. The Company's HETLIOZ® net product sales as reported for the three months ended March 31, 2023 reflected higher unit sales as compared to recent prior periods. The higher unit sales during the three months ended March 31, 2023 resulted in a significant increase of inventory stocking at specialty pharmacy customers at March 31, 2023 and September 30, 2023. During the remainder of 2023, HETLIOZ® net product sales during the three months ended September 30, 2023 reflect reflected lower unit sales as a result of the continued reduction of the elevated inventory levels at specialty pharmacy customers. During the three months ended March 31, 2024, net product sales for HETLIOZ® reflected higher unit sales as compared to the most recent three quarters of 2023. The higher unit sales during the three months ended March 31, 2024 again resulted in an increase of inventory stocking at specialty pharmacy customers at March 31, 2024. During 2023 and as a result the three months ended March 31, 2024, inventory levels at specialty pharmacy customers have remained elevated relative to inventory levels prior to the entrance of the impact of continued generic competition. Going forward, HETLIOZ® net product sales may continue to reflect lower unit sales as a result of continued reduction of the elevated inventory levels at specialty pharmacy customers. Further, HETLIOZ® net product sales will likely decline in future periods, potentially significantly, related to the at-risk launch of a continued generic version of HETLIOZ® competition in the U.S. Additionally, we We constrained HETLIOZ® net product sales for the three and nine months ended September 30, 2023 March 31, 2024 and 2023 to an amount not probable of significant revenue reversal. The amount of revenue recognized during the three months ended September 30, 2023

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March 31, 2024 related to changes in estimates on revenue constrained during the six months ended June 30, 2023 2023 was not material. HETLIOZ® net product sales could experience variability in future periods as the remaining uncertainties associated with variable consideration related to inventory stocking by specialty pharmacy customers are resolved.

Fanapt In December 2023, we purchased the right to market and sell PONVORY® in the U.S. and Canadian markets from Actelion Pharmaceuticals Ltd. (Janssen), a Johnson & Johnson Company. PONVORY® net product sales decreased by $2.7 million, or 11%, to $21.3 million were $6.8 million for the three months ended September 30, 2023 compared to $24.0 million for the three months ended September 30, 2022 March 31, 2024. The decrease to net product sales was attributable to a decrease in volume.

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Cost of goods sold. Cost of goods sold decreased by $3.3 million $1.3 million, or 52% 28%, to $3.1 million $3.4 million for the three months ended September 30, 2023 March 31, 2024 compared to $6.3 million $4.8 million for the three months ended September 30, 2022 March 31, 2023. Cost of goods sold includes third-party manufacturing costs of product sold, third-party royalty costs and distribution and other costs. Third-party royalty costs were 6% of Fanapt® net product sales and 5% of HETLIOZ® net product sales in Germany and 6% of Fanapt® net product sales. Germany. Third-party royalty costs on HETLIOZ® net product sales in the U.S. decreased from 10% to 5% in December 2022 and are expected to end in the second quarter of 2024. We evaluate the risk of excess inventory and product expiry by evaluating current and future product demand relative to product shelf life and build demand forecasts by considering factors such as, but not limited to, overall market potential, market share, market acceptance, patient usage, and generic competition. Our inventory balance consisted of $7.2 million $2.7 million and $8.0 million $3.0 million of Fanapt® product and $7.3 million and $7.2 million of HETLIOZ® product and $3.0 million and $3.4 million of Fanapt® product as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Research and development expenses. Research and development expenses decreased increased by $8.3 million $1.9 million, or 33% 10%, to $16.6 million $21.2 million for the three months ended September 30, 2023 March 31, 2024 compared to $24.9 million $19.2 million for the three months ended September 30, 2022 March 31, 2023. The decrease increase was primarily due to a decrease an increase in expenses associated with our Fanapt®CFTR development program and our other development programs. Expenses for our other development programs, which include expenses incurred on product discovery, for the three months ended September 30, 2022 included a $3.0 million upfront fee expensed in the third quarter program.

Table of 2022 in consideration for entering into a research and development agreement.Contents

The following table summarizes the costs of our product development initiatives for the three months ended September 30, 2023 March 31, 2024 and 2022: 2023:

(in thousands)	(in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	(in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Direct project costs (1)	Direct project costs (1)					
Fanapt®						
Fanapt®						
Fanapt®						
Milsaperidone						
HETLIOZ®	HETLIOZ®	$ 2,150	$ 3,008			
Fanapt®		3,316	6,599			
Tradipitant	Tradipitant	6,903	7,742			
VTR-297	VTR-297	390	431			
CFTR	CFTR	310	332			
VQW-765	VQW-765	165	866			
Other	Other	1,626	3,987			
Total direct project costs	Total direct project costs	14,860	22,965			
Indirect project costs (1)	Indirect project costs (1)					
Stock-based compensation	Stock-based compensation	739	981			
Stock-based compensation						
Stock-based compensation						
Other indirect overhead	Other indirect overhead	1,001	911			
Total indirect project costs	Total indirect project costs	1,740	1,892			
Total research and development expense	Total research and development expense	$16,600	$24,857			

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

We expect to incur significant research and development expenses as we continue to develop our products. In addition, we expect to incur licensing costs in the future that could be substantial, as we continue our efforts to expand our product pipeline.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased by $5.1 million $6.0 million, or 17%, to $24.8 million $30.1 million for the three months ended September 30, 2023 March 31, 2024 compared to $29.9 million $36.1 million for the three months ended

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September 30, 2022. March 31, 2023. The decrease in selling, general and administrative expenses was primarily the result of a decrease in spending on marketing sales and sales other corporate activities.

Intangible asset amortization. Intangible asset amortization was $2.0 million and $0.4 million for each of the three months ended September 30, 2023 March 31, 2024 and 2022. 2023, respectively. Amortization expense increased in 2024 due to amortization on the intangible asset from the rights to PONVORY® in the U.S. and Canada which were acquired in December 2023.

Other income. Other income was $5.9 million $4.6 million for the three months ended September 30, 2023 March 31, 2024 compared to $1.6 million $3.5 million for the three months ended September 30, 2022 March 31, 2023. Other income primarily consists of investment income on our marketable securities, which increased in 2023 as a result of higher yields on our marketable securities.

Provision for income taxes. An income tax benefit of $0.3 $0.5 million and a provision for income taxes of $2.2 $2.3 million was recorded for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The income tax expense (benefit) for each of the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was primarily driven by the estimated effective tax rate for the year as well as discrete income tax expense of $0.2 $0.5 million and $0.4 $1.1 million, respectively.

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022

Revenues. Total revenues decreased by $42.5 million, or 22%, to $147.4 million for the nine months ended September 30, 2023 compared to $189.9 million for the nine months ended September 30, 2022. Revenues were as follows:

	Nine Months Ended			
(in thousands)	September 30, 2023	September 30, 2022	Net Change	Percent
HETLIOZ® net product sales	$ 79,095	$ 119,554	$ (40,459)	(34)%
Fanapt® net product sales	68,274	70,346	(2,072)	(3)%
Total net product sales	$ 147,369	$ 189,900	$ (42,531)	(22)%

HETLIOZ® net product sales decreased by $40.5 million, or 34%, to $79.1 million for the nine months ended September 30, 2023 compared to $119.6 million for the nine months ended September 30, 2022. The decrease to net product sales was attributable to a decrease in price net of deductions, partially offset by an increase in volume. Our HETLIOZ® net product sales for the three months ended March 31, 2023 reflected higher unit sales as compared to recent prior periods and resulted in a significant increase of inventory stocking at specialty pharmacy customers at March 31, 2023 and September 30, 2023. HETLIOZ® net product sales may continue to reflect lower unit sales as a result of continued reduction of the elevated inventory levels at specialty pharmacy customers. Further, HETLIOZ® net product sales will likely decline in future periods, potentially significantly, related to the at-risk launch of a generic version of HETLIOZ® in the U.S. Additionally, we constrained HETLIOZ® net product sales for the three and nine months ended September 30, 2023 to an amount not probable of significant revenue reversal. HETLIOZ® net product sales could experience variability in future periods as the remaining uncertainties associated with variable consideration related to inventory stocking by specialty pharmacy customers are resolved.

Fanapt® net product sales decreased by $2.1 million, or 3%, to $68.3 million for the nine months ended September 30, 2023 compared to $70.3 million for the nine months ended September 30, 2022. The decrease to net product sales was attributable to a decrease in volume.

Cost of goods sold. Cost of goods sold decreased by $6.7 million, or 37%, to $11.3 million for the nine months ended September 30, 2023 compared to $18.0 million for the nine months ended September 30, 2022. Cost of goods sold includes third-party manufacturing costs of product sold, third-party royalty costs and distribution and other costs. Third-party royalty costs on HETLIOZ® net product sales in the U.S. decreased from 10% to 5% in December 2022 and are expected to end in the second quarter of 2024. We evaluate the risk of excess inventory and product expiry by evaluating current and future product demand relative to product shelf life and build demand forecasts by considering factors such as, but not limited to, overall market potential, market share, market acceptance, patient usage, and generic competition. Our inventory balance consisted of $7.2 million and $8.0 million of HETLIOZ® product and $3.0 million and $3.4 million of Fanapt® product as of September 30, 2023 and December 31, 2022, respectively.

Research and development expenses. Research and development expenses decreased by $14.8 million, or 22%, to $52.5 million for the nine months ended September 30, 2023 compared to $67.3 million for the nine months ended September 30, 2022. The decrease in research and development expenses was associated with our Fanapt® and VQW-765 development programs, partially offset by an increase in expenses associated with our tradipitant development program and our other development programs. Expenses for our other development programs, which include expenses incurred on product discovery, for the nine

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months ended September 30, 2022 included a $3.0 million upfront fee expensed in the third quarter of 2022 in consideration for entering into a research and development agreement.

The following table summarizes the costs of our product development initiatives for the nine months ended September 30, 2023 and 2022:

(in thousands)	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Direct project costs (1)		
HETLIOZ®	$ 7,078	$ 9,275
Fanapt®	7,934	22,987
Tradipitant	21,269	18,257
VTR-297	1,203	1,368
CFTR	1,066	918
VQW-765	805	3,089
Other	7,141	5,612
Total direct project costs	46,496	61,506
Indirect project costs (1)		
Stock-based compensation	2,538	3,040
Other indirect overhead	3,450	2,770
Total indirect project costs	5,988	5,810
Total research and development expense	$ 52,484	$ 67,316

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

We expect to incur significant research and development expenses as we continue to develop our products. In addition, we expect to incur licensing costs in the future that could be substantial, as we continue our efforts to expand our product pipeline.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased by $14.4 million, or 14%, to $89.3 million for the nine months ended September 30, 2023 compared to $103.7 million for the nine months ended September 30, 2022. The decrease in selling, general and administrative expenses was primarily the result of a decrease in spending on marketing, sales and commercial support activities for our commercial products.

Intangible asset amortization. Intangible asset amortization was $1.1 million for each of the nine months ended September 30, 2023 and 2022.

Other income. Other income was $14.9 million for the nine months ended September 30, 2023 compared to $2.0 million for the nine months ended September 30, 2022. Other income primarily consists of investment income on our marketable securities, which increased in 2023 as a result of higher yields on our marketable securities.

Provision for income taxes. We recorded a provision for income taxes of $3.1 million and $2.3 million for the nine months ended September 30, 2023 and 2022, respectively. The income tax expense for the nine months ended September 30, 2023 and 2022 was primarily driven by the estimated effective tax rate for the year, as well as discrete income tax expense of $2.1 million and $1.8 million, respectively.

Liquidity and Capital Resources

As of September 30, 2023 March 31, 2024, our total cash and cash equivalents and marketable securities were $489.9 million $394.1 million compared to $466.9 million $388.3 million at December 31, 2022 December 31, 2023. 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 investments in money market funds with commercial banks and financial institutions and commercial paper of high-quality corporate issuers. Our marketable securities consist of investments in government sponsored and corporate enterprises and commercial paper.

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Our liquidity resources as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 are summarized as follows:

(in thousands)	*(in thousands)*	September 30, 2023	December 31, 2022	*(in thousands)*	March 31, 2024	December 31, 2023
Cash and cash equivalents	Cash and cash equivalents	$183,186	$135,029			
Marketable securities:	Marketable securities:					

U.S. Treasury and government agencies	U.S. Treasury and government agencies	208,342	177,170
U.S. Treasury and government agencies	U.S. Treasury and government agencies		
Corporate debt	Corporate debt	98,330	154,660
Total marketable securities	Total marketable securities	306,672	331,830
Total marketable securities	Total marketable securities		
Total cash, cash equivalents and marketable securities	Total cash, cash equivalents and marketable securities	$489,858	$466,859

As of September 30, 2023 March 31, 2024, we maintained all of our cash, cash equivalents and marketable securities 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.

In the normal course of our business, we regularly enter into agreements with third-party vendors under fee service arrangements which generally may be terminated on 90 days' notice without incurring additional charges, other than charges for work completed or materials procured 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. Our non-cancellable purchase commitments for agreements longer than one year are not material. Various other long-term agreements entered into for services with other third-party vendors, such as inventory purchase arrangements, are cancellable in nature or contain variable commitment terms within the agreement that are within our control.

We also have long-term contractual obligations related to our operating leases and license agreements. There have been no material changes to our long-term contractual obligations as disclosed in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of our Annual Report. For further information regarding our license agreements, see Note 8, 9, *Commitments and Contingencies*, to the condensed consolidated financial statements included in Part I of this Quarterly Report.

We do not have any off-balance sheet arrangements.

Based on our current operating plans, which include costs and expenses in connection with our continued clinical development of tradipitant and our other products, pursuit of regulatory approval of tradipitant, U.S. commercial activities for Fanapt®, HETLIOZ® and Fanapt PONVORY®, pursuit of further regulatory approval approvals of Fanapt®, HETLIOZ® and Fanapt PONVORY® in other regions and in other indications, , and payments due upon achievement of milestones under our license agreements, we believe that our cash, cash equivalents and marketable securities and cash received from product sales will be sufficient for at least the next 12 months. Our future cash requirements and the adequacy of our available funds will depend on many factors, primarily including our ability to generate revenue, the scope and costs of our commercial, manufacturing and process development activities, the magnitude of our discovery, preclinical and clinical development programs, and potential costs to acquire or license the rights to additional products.

We may need or desire to obtain additional capital to finance our operations through debt, equity or alternative financing arrangements. We may also seek capital through collaborations or partnerships with other companies. The issuance of debt could require us to grant liens on certain of our assets that may limit our flexibility and debt securities may be convertible into common stock. If we raise additional capital by issuing equity securities, the terms and prices for these financings may be much more favorable to the new investors than the terms obtained by our existing stockholders. These financings also may significantly dilute the ownership of our existing stockholders. If we are unable to obtain additional financing, we may be required to reduce the scope of our future activities, which could harm our business, financial condition and operating results. There can be no assurance that any additional financing required in the future will be available on acceptable terms, if at all.

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Cash Flow

The following table summarizes our net cash flows from operating, investing and financing activities for the nine three months ended September 30, 2023 March 31, 2024 and 2022: 2023:

		Nine Months Ended				Three Months Ended		
(in thousands)	*(in thousands)*	September 30, 2023	September 30, 2022	Net Change	*(in thousands)*	March 31, 2024	March 31, 2023	Net Change

Net cash provided by (used in):	**Net cash provided by (used in):**			
Operating activities:	Operating activities:			
Operating activities:				
Operating activities:				
Net income (loss)				
Net income (loss)				
Net income (loss)	Net income (loss)	$ 4,909	$ (586)	$ 5,495
Non-cash charges	Non-cash charges	15,191	15,731	(540)
Net change in operating assets and liabilities	Net change in operating assets and liabilities	(3,567)	7,423	(10,990)
Operating activities	Operating activities	16,533	22,568	(6,035)
Investing activities:	Investing activities:			
Asset acquisition				
Asset acquisition				
Asset acquisition				
Purchases of property and equipment	Purchases of property and equipment	(130)	(416)	286
Net purchases, sales and maturities of marketable securities	Net purchases, sales and maturities of marketable securities	31,857	(25,087)	56,944
Investing activities	Investing activities	31,727	(25,503)	57,230
Financing activities:				
Proceeds from the exercise of stock options		—	129	(129)
Financing activities		—	129	(129)
Effect of exchange rate changes on cash, cash equivalents and restricted cash				
Effect of exchange rate changes on cash, cash equivalents and restricted cash				
Effect of exchange rate changes on cash, cash equivalents and restricted cash	Effect of exchange rate changes on cash, cash equivalents and restricted cash	(103)	82	(185)
Net change in cash, cash equivalents and restricted cash	Net change in cash, cash equivalents and restricted cash	$48,157	$ (2,724)	$50,881

Operating Activities: Cash flows provided by operating activities during the nine three months ended September 30, 2023 March 31, 2024 were $16.5 million $7.6 million, a decrease of $6.0 million $24.2 million compared to $22.6 million $31.8 million during the nine three months ended September 30, 2022 March 31, 2023. The decrease reflects a decrease of $11.0 million $15.1 million from the net change in operating assets and liabilities primarily as a result of an increase in prepaid expenses and other assets due to the changes in our accounts receivable and product revenue allowances due to timing of payments as well as the impact of inventory stocking of HETLIOZ® at specialty pharmacy customers, and expense, partially offset by an increase a decrease of $5.5 million $7.4 million in net income.

Investing Activities: Cash flows used in investing activities during the three months ended March 31, 2024 were $18.2 million, a decrease of $205.5 million compared to cash flows provided by investing activities of $187.3 million during the nine three months ended September 30, 2023 were $31.7 million, an increase of $57.2 million compared to cash flows used in investing activities of $25.5 million during the nine months ended September 30, 2022 March 31, 2023. The change in investing activities primarily reflects the timing of net reinvestment of available cash and cash equivalents in our portfolio of marketable securities.

Financing Activities: Financing activities include proceeds from exercises of stock options. Cash flows provided by financing activities Additionally, the $2.7 million asset acquisition cash flow during the nine three months ended September 30, 2022 were $0.1 million. There were no exercises March 31, 2024 relates to the payment of stock options during consideration for the nine months ended September 30, 2023 PONVORY® acquisition that was accrued as of December 31, 2023.

ITEM 3 Quantitative and Qualitative Disclosures about Market Risk

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.

We deposit our cash with financial institutions that we consider to be of high credit quality and purchase marketable securities that are generally investment grade, liquid, short-term fixed income securities and money-market instruments denominated in U.S. dollars. Our marketable securities consist of commercial paper, corporate notes and U.S. government agency notes and have maturities of less than two years. We do not believe that an increase in market rates would have any significant impact on the realized value of our cash equivalents and marketable securities.

We are also exposed to risks related to changes in foreign currency exchange rates relating to our foreign operations. The functional currency of our international subsidiaries is the local currency. We are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our subsidiaries' respective functional currencies. We are also exposed to unfavorable fluctuations of the U.S. dollar, which is our reporting currency, against the currencies of our

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operating subsidiaries when their respective financial statements are translated into U.S. dollars for inclusion in our condensed consolidated financial statements. We do not currently hedge our foreign currency exchange rate risk. Foreign currency has not had, nor do we believe that a decrease or increase in any foreign currency exchange rates would have, a material impact on our results of operations.

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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, as amended (Exchange Act)) as of September 30, 2023 March 31, 2024. 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, 2023 March 31, 2024, the end of the period covered by this quarterly report on Form 10-Q, 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) under the Exchange Act) during the third first quarter of 2023 2024 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

Information with respect to this item may be found in Note 13, 14, *Legal Matters,* to the condensed consolidated financial statements in Part I of this quarterly report on Form 10-Q, which is incorporated herein by reference.

ITEM 1A Risk Factors

We previously disclosed in Part I, Item 1A of our annual report on Form 10-K (Annual Report) for the year ended December 31, 2022 December 31, 2023, filed with the Securities and Exchange Commission on February 9, 2023 February 8, 2024, important factors which could affect our business, financial condition, results of operations and future operations under the heading *Risk Factors.* Factors. Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described as risk factors, any one or more of which could, directly or indirectly, cause our actual operating results and financial condition to vary materially from past, or anticipated future, operating results and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and the price of our common stock. Other than as set forth below, there have been no material changes in our risk factors subsequent to the filing of our Annual Report for the fiscal year ended December 31, 2022 December 31, 2023.

Anti-takeover provisions in our charter and bylaws and under Delaware law, and the adoption of a rights plan, could prevent or delay a change in control of our company.

We are a Delaware corporation and the anti-takeover provisions of Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our amended and restated certificate of incorporation and bylaws:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;

Adverse developments affecting the financial services industry, including events or concerns involving liquidity, defaults or non-performance by financial institutions or transactional counterparties, could adversely affect our business, financial condition or results of operations.

Events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies- do not provide for cumulative voting in the financial services industry or election of directors, which would allow holders of less than a majority of the financial services industry generally, or concerns or rumors about any events stock to elect some directors;

- establish a classified board of these kinds or other similar risks, directors, as a result of which the successors to the directors whose terms have in expired will be elected to serve from the past time of election and may in qualification until the future lead to market-wide liquidity problems. On March 10, 2023, Silicon Valley Bank was closed by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation as receiver. Similarly, on March 12, 2023, Signature Bank and Silvergate Capital Corp. were each swept into receivership. Although we assess our banking and customer relationships as we believe necessary or appropriate, our access to funding sources and other credit arrangements in amounts adequate to finance or capitalize our current and projected future business operations could be significantly impaired by factors that affect us, the financial services industry or economy in general. These factors could include, among others, third annual meeting following their election;

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events- require that directors only be removed from office for cause;

- provide that vacancies on the board of directors, including newly created directorships, may be filled only by a majority vote of directors then in office;
- limit who may call special meetings of stockholders;
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; and
- establish advance notice requirements for nominating candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Moreover, in April 2024, our board of directors adopted a rights agreement which provided each stockholder of record as of the close of business on April 29, 2024 a right for each outstanding share of common stock of the Company held by such as liquidity constraints or failures, stockholder (each, a Right), which entitles the ability registered holder to perform obligations under various types purchase from the Company one one-thousandth of financial, credit or liquidity agreements or arrangements, disruptions or instability a share of Series A Junior Participating Preferred Stock, par value $0.001 per share, of the Company at an exercise price of $25.00, subject to adjustment. The complete terms of the Rights are set forth in the financial services industry rights agreement, dated as of April 17, 2024, between the Company and Equiniti Trust Company, LLC, as rights agent (Rights Agent), as amended by that certain Amendment No. 1 to the Rights Agreement, by and between the Company and the Rights Agent (as amended, the Rights Agreement). The Rights Agreement has a one-year term, expiring on April 16, 2025, and could have the effect of discouraging, delaying or financial markets, preventing a change in management or concerns or negative expectations about the prospects for companies control over us. While there is no plan to do so at this time, our board of directors may choose to adopt a new rights plan in the financial services industry.

In addition, investor concerns regarding the U.S. or international financial systems could result in less favorable commercial financing terms, including higher interest rates or costs and tighter financial and operating covenants, or systemic limitations on access to credit and liquidity sources, thereby making it more difficult for us to acquire financing on acceptable terms or at all. Any decline in available funding or access to our cash and liquidity resources could, among other risks, adversely impact our ability to meet our operating expenses, financial obligations or fulfill our other obligations, result in breaches of our contractual obligations or result in violations of federal or state wage and hour laws. Any of these impacts, or any other impacts resulting from the factors described above or other related or similar factors not described above, could have material adverse impacts on our liquidity and our business, financial condition or results of operations. future.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

None None.

ITEM 3 **Defaults Upon Senior Securities**

None None.

ITEM 4 **Mine Safety Disclosures**

Not applicable applicable.

ITEM 5 **Other Information**

None On April 25, 2024, our board of directors approved, subject to stockholder approval, an amendment to our Amended and Restated 2016 Equity Incentive Plan, as amended (the 2016 Plan). The amendment to the 2016 Plan, if approved by the stockholders, will increase the aggregate number of shares of common stock that may be issued by us pursuant to awards under the 2016 Plan by 1,900,000 shares.

During the fiscal quarter ended March 31, 2024, none of our directors or officers informed us of the adoption, modification or termination of a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Regulation S-K, Item 408. Furthermore, during the fiscal quarter ended March 31, 2024, we did not adopt or terminate a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as those terms are defined in Regulation S-K, Item 408.

ITEM 6 **Exhibits**

Exhibit Number	Description
3.1	Form of Amended and Restated Certificate of Incorporation of the registrant (filed as Exhibit 3.8 to Amendment No. 2 to the registrant's registration statement on Form S-1 (File No. 333-130759) on March 17, 2006 and incorporated herein by reference).
3.2	Fourth Amended and Restated Bylaws of the registrant, as amended and restated on December 17, 2015 December 13, 2023 (filed as Exhibit 3.1 to the registrant's current report on Form 8-K (File No. 001-34186) on December 21, 2015 December 15, 2023 and incorporated herein by reference).
10.1†*3.3	Form of Restricted Stock Unit Award Agreement for U.S. Employees under Amended and Restated 2016 Equity Incentive Plan, Certificate of Designation of Rights, Preferences and Privileges of Series A Junior Participating Preferred Stock of Vanda Pharmaceuticals Inc. (filed as amended. Exhibit 3.1 to the registrant's current report on Form 8-K (File No. 001-34186) on April 17, 2024 and incorporated herein by reference).
10.2†*4.1	Rights Agreement, dated as of April 17, 2024, by and between Vanda Pharmaceuticals Inc. and Equiniti Trust Company, LLC as rights agent (filed as Exhibit 4.1 to the registrant's current report on Form of Restricted Stock Unit Award Agreement for Senior Management under Amended 8-K (File No. 001-34186) on April 17, 2024 and Restated 2016 Equity Incentive Plan, as amended. incorporated herein by reference).
10.3†*4.2	Amendment No. 1 to the Rights Agreement, dated as of May 3, 2024, by and between Vanda Pharmaceuticals Inc. and Equiniti Trust Company, LLC as rights agent (filed as Exhibit 4.1 to the registrant's current report on Form of Restricted Stock Unit Award Agreement for Outside Directors under Amended 8-K (File No. 001-34186) on May 3, 2024 and Restated 2016 Equity Incentive Plan, as amended. incorporated herein by reference).
10.4†*	Form of Restricted Stock Unit Award Agreement for UK Employees under the UK Sub Plan under Amended and Restated 2016 Equity Incentive Plan, as amended.
10.5†*	Form of Notice of Stock Option Grant and Stock Option Agreement for U.S. Employees under Amended and Restated 2016 Equity Incentive Plan, as amended.
10.6†*	Form of Notice of Stock Option Grant and Stock Option Agreement for Senior Management under Amended and Restated 2016 Equity Incentive Plan, as amended.
10.7†*	Form of Notice of Stock Option Grant and Stock Option Agreement for Outside Directors under Amended and Restated 2016 Equity Incentive Plan, as amended.
10.8†*	Form of Notice of Stock Option Grant and Stock Option Agreement for UK Employees under the UK Sub Plan under Amended and Restated 2016 Equity Incentive Plan, as amended.
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, 2023 March 31, 2024 formatted in Inline Extensible Business Reporting Language (iXBRL) and filed electronically herewith: (i) Condensed Consolidated Balance Sheets as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2023 March 31, 2024 and 2022; 2023; (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2023 March 31, 2024 and 2022; 2023; (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2023 March 31, 2024 and 2022; 2023; (v) Condensed Consolidated Statements of Cash Flows for the nine three months ended September 30, 2023 March 31, 2024 and 2022; 2023; and (vi) Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).
†	Indicates management contract or compensatory plan or arrangement.
*	Filed herewith.
**	Furnished herewith.

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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 May 9, 2023 2024

/s/ Mihael H. Polymeropoulos, M.D.

Mihael H. Polymeropoulos, M.D.

President, Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

November May 9, 2023 2024

/s/ Kevin Moran

Kevin Moran

Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 10.1

Vanda Pharmaceuticals Inc.
Amended and Restated 2016 Equity Incentive Plan:
Notice of Restricted Stock Unit Award

You have been granted units representing shares of Common Stock of Vanda Pharmaceuticals Inc. (the "Company") on the following terms:

Name of Recipient: [Name]

Total Number of Units Granted: [Number of Shares]

Date of Grant: [Date]

Vesting Schedule: 25% of the units subject to this award will vest on each of [Date], [Year +1], [Date], [Year +2], [Date], [Year +3] and [Date], [Year +4].

You and the Company agree that these units are granted under and governed by the terms and conditions of the Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan, as amended to date (the "Plan"), and the Restricted Stock Unit Award Agreement, both of which are attached to and made a part of this document.

You further agree that the Company may deliver by email all documents relating to the Plan or this award (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by email.

Recipient:

[Name]

Vanda Pharmaceuticals Inc.

By:

Title:

Vanda Pharmaceuticals Inc.
Amended and Restated 2016 Equity Incentive Plan:

Restricted Stock Unit Award Agreement

Payment for Units

No payment is required for the units that you are receiving.

Vesting

The units vest in installments, as shown in the Notice of Stock Unit Award, provided that you have provided continuous Service (as defined in the Plan) to the Company through the date of such installment.

Forfeiture

If your Service terminates for any reason, then your units will be forfeited to the extent that they have not vested before the termination date. This means that any units that have not vested under this Agreement will be cancelled immediately. You receive no payment for units that are forfeited.

The Company determines when your Service terminates for this purpose.

Settlement of Units

Each unit will be settled on the first trading day that occurs on or after the day when the unit vests. However, each unit must be settled not later than March 15 of the calendar year after the calendar year in which the unit vests.

At the time of settlement, you will receive one share of the Company's Common Stock for each vested unit. But the Company, at its sole discretion, may substitute an equivalent amount of cash if the distribution of stock is not reasonably practicable due to the requirements of applicable law. The amount of cash will be determined on the basis of the market value of the Company's Common Stock at the time of settlement.

"Permissible Trading Day"

"Permissible Trading Day" means a day that satisfies each of the following requirements:

- The Nasdaq Global Market is open for trading on that day,
- You are permitted to sell shares of the Company's Common Stock on that day without incurring liability under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"),
- Under the Company's Policy Memorandum Concerning Securities Trading, you would be permitted to sell shares of the Company's Common Stock on that day without reliance on the "Same Day Sale-to-Cover Transactions" exclusion therein, and
- You are not prohibited from selling shares of the Company's Common Stock on that day by a written agreement between you and the Company or a third party.

Section 409A	This paragraph applies only if the Company determines that you are a “specified employee,” as defined in the regulations under Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), at the time of your “separation from service,” as defined in those regulations. If this paragraph applies, then any units that otherwise would have been settled during the first six months following your separation from service will instead be settled during the seventh month following your separation from service, unless the settlement of those units is exempt from Section 409A of the Code.
Nature of Units	Your units are mere bookkeeping entries. They represent only the Company’s unfunded and unsecured promise to issue shares of Common Stock (or distribute cash) on a future date. As a holder of units, you have no rights other than the rights of a general creditor of the Company.
No Voting Rights or Dividends	Your units carry neither voting rights nor rights to cash dividends. You have no rights as a stockholder of the Company unless and until your units are settled by issuing shares of the Company's Common Stock.
Units Nontransferable	You may not sell, transfer, assign, pledge or otherwise dispose of any units. For instance, you may not use your units as security for a loan.
Withholding Taxes- Default “Same Day Sale”	As a condition to acceptance of this Award, to the greatest extent permitted under the Plan and applicable law, except as otherwise permitted below, applicable withholding taxes will be satisfied through the sale of a number of the shares subject to the Award and the remittance of the cash proceeds of such sale to the Company, pursuant to a “same day sale.” You authorize the Company to make payment from the cash proceeds of this sale directly to the appropriate taxing authorities in an amount equal to the withholding taxes. It is the Company’s intent that the default “same day sale to cover withholding taxes transaction requirement imposed by the Company on you herein comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and be interpreted to comply with the requirements of Rule 10b5-1(c).

	At the Company's discretion, you may be permitted to elect prior to the vesting event, provided such election is made on a Permissible Trading Day, to make arrangements to satisfy the withholding taxes under one or more of the following alternative methods: (i) withholding from any compensation otherwise payable to you by the Company or an Affiliate or (ii) tendering a cash payment (which may be in the form of a check, electronic wire transfer or other method permitted by the Company). Additionally, if for any reason, the "same day sale" commitment does not result in sufficient proceeds to satisfy the withholding taxes, the Company or an Affiliate may, in its sole discretion, satisfy all or any portion of the withholding taxes by one or more of the foregoing alternative methods. Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to deliver to you any Common Stock. Withholding taxes shall be equal to the Company's required tax withholding obligations using (i) the maximum statutory withholding rates for state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income and (ii) the minimum statutory withholding rate for federal tax purposes, including payroll taxes, that are applicable to supplemental taxable income unless you instruct the Company to use a higher withholding rate in a written notice delivered to the Company on a Permissible Trading Day.
Restrictions on Resale	You agree not to sell any shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
Employment at Will	Your award or this Agreement does not give you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of your units will be adjusted accordingly, as the Company may determine pursuant to the Plan.
Beneficiary Designation	You may dispose of your units in a written beneficiary designation. A beneficiary designation must be filed with the Company on the proper form. It will be recognized only if it has been received at the Company's headquarters before your death. If you file no beneficiary designation or if none of your designated beneficiaries survives you, then your estate will receive any vested units that you hold at the time of your death.
Effect of Merger	If the Company is a party to a merger, consolidation or reorganization, then your units will be subject to the applicable provision of the Plan, provided that any action taken must either (a) preserve the exemption of your units from Section 409A of the Code or (b) comply with Section 409A of the Code.

Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its choice-of-law provisions).
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. The Plan, this Agreement, the Notice of Restricted Stock Unit Award constitute the entire understanding between you and the Company regarding this award. Any prior agreements, commitments or negotiations concerning this award are superseded. This Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 10.2

Vanda Pharmaceuticals Inc.
Amended and Restated 2016 Equity Incentive Plan:
Notice of Restricted Stock Unit Award

You have been granted units representing shares of Common Stock of Vanda Pharmaceuticals Inc. (the "Company") on the following terms:

Name of Recipient: [Name]

Total Number of Units Granted: [Number of Shares]

Date of Grant: [Date]

Vesting Schedule: 25% of the units subject to this award will vest on each of [Date], [Year +1], [Date], [Year +2], [Date], [Year +3] and [Date], [Year +4].

This award may vest on an accelerated basis, as set forth in the Restricted Stock Unit Award Agreement.

You and the Company agree that these units are granted under and governed by the terms and conditions of the Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan, as amended to date (the "Plan"), and the Restricted Stock Unit Award Agreement, both of which are attached to and made a part of this document.

You further agree that the Company may deliver by email all documents relating to the Plan or this award (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by email.

Recipient:

_____

[Name]

Vanda Pharmaceuticals Inc.

By: _____

Title: _____

Vanda Pharmaceuticals Inc.
Amended and Restated 2016 Equity Incentive Plan:

Restricted Stock Unit Award Agreement

Payment for Units	No payment is required for the units that you are receiving.
Vesting	The units vest in installments, as shown in the Notice of Stock Unit Award, provided that you have provided continuous Service (as defined in the Plan) to the Company through the date of such installment. In addition, all of the units subject to this award will vest if (a) the Company is subject to a Change in Control (as defined in your [Amended and Restated]Employment Agreement with the Company, dated as of [Date], as the same may be amended from time to time (the "Employment Agreement")) before your Service with the Company terminates and (b) you are subject to an Involuntary Termination (as defined in the Employment Agreement) within 24 months after such Change in Control. No additional units vest after your Service has terminated for any reason.
Forfeiture	If your Service terminates for any reason then your units will be forfeited to the extent that they have not vested before the termination date. This means that any units that have not vested under this Agreement will be cancelled immediately. You receive no payment for units that are forfeited. The Company determines when your Service terminates for this purpose.
Settlement of Units	Each unit will be settled on the first trading day that occurs on or after the day when the unit vests. However, each unit must be settled not later than March 15 of the calendar year after the calendar year in which the unit vests. At the time of settlement, you will receive one share of the Company's Common Stock for each vested unit. But the Company, at its sole discretion, may substitute an equivalent amount of cash if the distribution of stock is not reasonably practicable due to the requirements of applicable law. The amount of cash will be determined on the basis of the market value of the Company's Common Stock at the time of settlement.
"Permissible Trading Day"	"Permissible Trading Day" means a day that satisfies each of the following requirements: • The Nasdaq Global Market is open for trading on that day, • You are permitted to sell shares of the Company's Common Stock on that day without incurring liability under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"),

- Under the Company's Policy Memorandum Concerning Securities Trading, you would be permitted to sell shares of the Company's Common Stock on that day without reliance on the "Same Day Sale-to-Cover Transactions" exclusion therein, and
- You are not prohibited from selling shares of the Company's Common Stock on that day by a written agreement between you and the Company or a third party.

Section 409A

This paragraph applies only if the Company determines that you are a "specified employee," as defined in the regulations under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), at the time of your "separation from service," as defined in those regulations. If this paragraph applies, then any units that otherwise would have been settled during the first six months following your separation from service will instead be settled during the seventh month following your separation from service, unless the settlement of those units is exempt from Section 409A of the Code.

Nature of Units

Your units are mere bookkeeping entries. They represent only the Company's unfunded and unsecured promise to issue shares of Common Stock (or distribute cash) on a future date. As a holder of units, you have no rights other than the rights of a general creditor of the Company.

No Voting Rights or Dividends

Your units carry neither voting rights nor rights to cash dividends. You have no rights as a stockholder of the Company unless and until your units are settled by issuing shares of the Company's Common Stock.

Units Nontransferable

You may not sell, transfer, assign, pledge or otherwise dispose of any units. For instance, you may not use your units as security for a loan.

Withholding Taxes-Default "Same Day Sale"

As a condition to acceptance of this Award, to the greatest extent permitted under the Plan and applicable law, except as otherwise permitted below, applicable withholding taxes will be satisfied through the sale of a number of the shares subject to the Award and the remittance of the cash proceeds of such sale to the Company, pursuant to a "same day sale." You authorize the Company to make payment from the cash proceeds of this sale directly to the appropriate taxing authorities in an amount equal to the withholding taxes. ***It is the Company's intent that the default "same day sale" to cover withholding taxes transaction requirement imposed by the Company on you herein comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and be interpreted to comply with the requirements of Rule 10b5-1(c).***

	At the Company's discretion, you may be permitted to elect prior to the vesting event, provided such election is made on a Permissible Trading Day, to make arrangements to satisfy the withholding taxes under one or more of the following alternative methods: (i) withholding from any compensation otherwise payable to you by the Company or an Affiliate or (ii) tendering a cash payment (which may be in the form of a check, electronic wire transfer or other method permitted by the Company). Additionally, if for any reason, the "same day sale" commitment does not result in sufficient proceeds to satisfy the withholding taxes, the Company or an Affiliate may, in its sole discretion, satisfy all or any portion of the withholding taxes by one or more of the foregoing alternative methods. Unless the tax withholding obligations of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to deliver to you any Common Stock. Withholding taxes shall be equal to the Company's required tax withholding obligations using the maximum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income or, solely with respect to federal income tax, such lower withholding rate as you instruct the Company to use in a written notice delivered to the Company on a Permissible Trading Day.
Restrictions on Resale	You agree not to sell any shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
Employment at Will	Your award or this Agreement does not give you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of your units will be adjusted accordingly, as the Company may determine pursuant to the Plan.
Beneficiary Designation	You may dispose of your units in a written beneficiary designation. A beneficiary designation must be filed with the Company on the proper form. It will be recognized only if it has been received at the Company's headquarters before your death. If you file no beneficiary designation or if none of your designated beneficiaries survives you, then your estate will receive any vested units that you hold at the time of your death.
Effect of Merger	If the Company is a party to a merger, consolidation or reorganization, then your units will be subject to the applicable provision of the Plan, provided that any action taken must either (a) preserve the exemption of your units from Section 409A of the Code or (b) comply with Section 409A of the Code.
Recoupment Policy	This award, and the shares acquired upon settlement of this award, shall be subject to any Company recoupment or clawback policy in effect from time to time.

Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its choice-of-law provisions).
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. The Plan, this Agreement, the Notice of Restricted Stock Unit Award and your Employment Agreement constitute the entire understanding between you and the Company regarding this award. Any prior agreements, commitments or negotiations concerning this award are superseded. This Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 10.3

Vanda Pharmaceuticals Inc.
Amended and Restated 2016 Equity Incentive Plan:
Notice of Restricted Stock Unit Award

You have been granted units representing shares of Common Stock of Vanda Pharmaceuticals Inc. (the "Company") on the following terms:

Name of Recipient: [Name]

Total Number of Units Granted: [Number of Shares]

Date of Grant: [Date]

Vesting Schedule: [1 Year or 4 Year Vesting Schedule Depending Upon Type of Grant (e.g., Annual or Initial)]

This award may vest on an accelerated basis, as set forth in the Restricted Stock Unit Award Agreement.

You and the Company agree that these units are granted under and governed by the terms and conditions of the Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan (the "Plan") and the Restricted Stock Unit Award Agreement, both of which are attached to and made a part of this document.

You further agree that the Company may deliver by email all documents relating to the Plan or this award (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by email.

Recipient:

_____

[Name]

Vanda Pharmaceuticals Inc.

By: _____

Title: _____

Exhibit 10.3

Vanda Pharmaceuticals Inc.
Amended and Restated 2016 Equity Incentive Plan:

Restricted Stock Unit Award Agreement

Payment for Units	No payment is required for the units that you are receiving.
Vesting	The units vest in installments, as shown in the Notice of Stock Unit Award, provided that you have provided continuous Service (as defined in the Plan) to the Company through the date of such installment. In addition, all of the units subject to this award will vest if the Company is subject to a Change in Control (as defined in the Plan) before your Service with the Company terminates. No additional units vest after your Service has terminated for any reason.
Forfeiture	If your Service terminates for any reason, then your units will be forfeited to the extent that they have not vested before the termination date. This means that any units that have not vested under this Agreement will be cancelled immediately. You receive no payment for units that are forfeited. The Company determines when your Service terminates for this purpose.
Settlement of Units	Each unit will be settled on the first trading day that occurs on or after the day when the unit vests. However, each unit must be settled not later than March 15 of the calendar year after the calendar year in which the unit vests. At the time of settlement, you will receive one share of the Company's Common Stock for each vested unit. But the Company, at its sole discretion, may substitute an equivalent amount of cash if the distribution of stock is not reasonably practicable due to the requirements of applicable law. The amount of cash will be determined on the basis of the market value of the Company's Common Stock at the time of settlement.
Nature of Units	Your units are mere bookkeeping entries. They represent only the Company's unfunded and unsecured promise to issue shares of Common Stock (or distribute cash) on a future date. As a holder of units, you have no rights other than the rights of a general creditor of the Company.
No Voting Rights or Dividends	Your units carry neither voting rights nor rights to cash dividends. You have no rights as a stockholder of the Company unless and until your units are settled by issuing shares of the Company's Common Stock.
Units Nontransferable	You may not sell, transfer, assign, pledge or otherwise dispose of any units. For instance, you may not use your units as security for a loan.

Restrictions on Resale	You agree not to sell any shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of your units will be adjusted accordingly, as the Company may determine pursuant to the Plan.
Beneficiary Designation	You may dispose of your units in a written beneficiary designation. A beneficiary designation must be filed with the Company on the proper form. It will be recognized only if it has been received at the Company's headquarters before your death. If you file no beneficiary designation or if none of your designated beneficiaries survives you, then your estate will receive any vested units that you hold at the time of your death.
Effect of Merger	If the Company is a party to a merger, consolidation or reorganization, then your units will be subject to the applicable provision of the Plan.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its choice-of-law provisions).
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. The Plan, this Agreement and the Notice of Restricted Stock Unit Award constitute the entire understanding between you and the Company regarding this award. Any prior agreements, commitments or negotiations concerning this award are superseded. This Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

3

Exhibit 10.4

UK Sub-Plan to the Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan: Notice of Restricted Stock Unit Award

You have been granted units representing shares of Common Stock of Vanda Pharmaceuticals Inc. (the "Company") on the following terms:

Name of Recipient: [Name]

Total Number of Units Granted: [Number of Shares]

Date of Grant: [Date]

Vesting Schedule: 25% of the units subject to this award will vest on each of [Date], [Year +1], [Date], [Year +2], [Date], [Year +3] and [Date], [Year +4].

You and the Company agree that these units are granted under and governed by the terms and conditions of the UK Sub-Plan to the Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan (the "Plan"), and the Restricted Stock Unit Award Agreement, both of which are attached to and made a part of this document.

You further agree that the Company may deliver by email all documents relating to the Plan or this award (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by email.

Recipient:

_____

[Name]

Vanda Pharmaceuticals Inc.

By: _____

Title: _____

Exhibit 10.4

UK Sub-Plan to the Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan:

Restricted Stock Unit Award Agreement

Payment for Units

No payment is required for the units that you are receiving.

Vesting

The units vest in installments, as shown in the Notice of Stock Unit Award, provided that you have provided continuous Service (as defined in the Plan) to the Company through the date of such installment.

Forfeiture

If your Service terminates for any reason, then your units will be forfeited to the extent that they have not vested before the termination date. This means that any units that have not vested under this Agreement will be cancelled immediately. You receive no payment for units that are forfeited.

The Company determines when your Service terminates for this purpose.

Settlement of Units

Each unit will be settled on the first trading day that occurs on or after the day when the unit vests. However, each unit must be settled not later than March 15 of the calendar year after the calendar year in which the unit vests.

At the time of settlement, you will receive one share of the Company's Common Stock for each vested unit.

"Permissible Trading Day"

"Permissible Trading Day" means a day that satisfies each of the following requirements:

- The Nasdaq Global Market is open for trading on that day,
- You are permitted to sell shares of the Company's Common Stock on that day without incurring liability under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"),
- Under the Company's Policy Memorandum Concerning Securities Trading, you would be permitted to sell shares of the Company's Common Stock on that day without reliance on the "Same Day Sale-to-Cover Transactions" exclusion therein, and
- You are not prohibited from selling shares of the Company's Common Stock on that day by a written agreement between you and the Company or a third party.

Section 409A	This paragraph applies only if the Company determines that you are a "specified employee," as defined in the regulations under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), at the time of your "separation from service," as defined in those regulations. If this paragraph applies, then any units that otherwise would have been settled during the first six months following your separation from service will instead be settled during the seventh month following your separation from service, unless the settlement of those units is exempt from Section 409A of the Code.
Nature of Units	Your units are mere bookkeeping entries. They represent only the Company's unfunded and unsecured promise to issue shares of Common Stock on a future date. As a holder of units, you have no rights other than the rights of a general creditor of the Company.
No Voting Rights or Dividends	Your units carry neither voting rights nor rights to cash dividends. You have no rights as a stockholder of the Company unless and until your units are settled by issuing shares of the Company's Common Stock.
Units Nontransferable	You may not sell, transfer, assign, pledge or otherwise dispose of any units. For instance, you may not use your units as security for a loan.
Withholding Taxes - Default "Same Day Sale"	As a condition to acceptance of this Award, to the greatest extent permitted under the Plan and applicable law, except as otherwise permitted below, any Award Tax Liability and any Secondary NIC Liability will be satisfied through the sale of a number of the shares subject to the Award and the remittance of the cash proceeds of such sale to the Company, pursuant to a "same day sale." You authorize the Company to make payment from the cash proceeds of this sale directly to the appropriate taxing authorities in an amount equal to the Award Tax Liability and any Secondary NIC Liability. ***It is the Company's intent that the default "same day sale to cover withholding taxes transaction requirement imposed by the Company on you herein comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and be interpreted to comply with the requirements of Rule 10b5-1(c).***
	At the Company's discretion, you may be permitted to elect prior to the vesting event, provided such election is made on a Permissible Trading Day, to make arrangements to satisfy the Award Tax Liability and any Secondary NIC Liability under one or more of the following alternative methods: (i) to the extent permitted by applicable law, withholding from any compensation otherwise payable to you by the Company or an Affiliate or (ii) tendering a cash payment (which may be in the form of a check, electronic wire transfer or other method permitted by the Company). Additionally, if for any reason, the "same day sale" commitment does not result in sufficient proceeds to satisfy the Award Tax Liability and any Secondary NIC Liability, the Company or an Affiliate may, in its sole discretion, satisfy all or any portion of the Award Tax Liability and any Secondary NIC Liability by one or more of the foregoing alternative methods. Unless the Award Tax Liability and any Secondary NIC Liability of the Company and/or any Affiliate are satisfied, the Company shall have no obligation to deliver to you any Common Stock.

Tax Consultation

You understand that you may suffer adverse tax consequences as a result of your purchase or disposition of the Shares. You represent that you will consult with any tax advisors you deem appropriate in connection with the purchase or disposition of the Shares and that you are not relying on the Company or any Affiliate for any tax advice.

Section 431 Election

As a further condition of the settlement of this Award, you shall have signed a Section 431 Election in the form set out in Appendix A or in such other form as may be determined by HM Revenue & Customs from time to time.

Your Tax Indemnity

- To the extent permitted by law, you hereby agree to indemnify and keep indemnified the Company, and the Company as trustee for and on behalf of any related corporation, for any Award Tax Liability and Secondary NIC Liability.
- The Company shall not be obliged to allot and issue any Shares or any interest in Shares pursuant to the settlement of this Award unless and until you have paid to the Company such sum as is, in the opinion of the Company, sufficient to indemnify the Company in full against the Award Tax Liability and the Secondary NIC Liability, or you have made such other arrangement as in the opinion of the Company will ensure that the full amount of any Award Tax Liability and any Secondary NIC Liability will be recovered from you within such period as the Company may then determine.
- In the absence of any such other arrangement being made, the Company shall have the right to retain out of the aggregate number of shares to which you would have otherwise been entitled upon the settlement of this Award, such number of Shares as, in the opinion of the Company, will enable the Company to sell as agent for you (at the best price which can reasonably expect to be obtained at the time of the sale) and to pay over to the Company sufficient monies out of the net proceeds of sale, after deduction of all fees, commissions and expenses incurred in relation to such sale, to satisfy your liability under such indemnity.

Data Protection

By entering into this Agreement, you acknowledge the necessity of the collection, use, and transfer of personal data as described in this paragraph to the full extent permitted by and in full compliance with applicable laws.

You understand that the Company and its Subsidiaries hold Data about you for the purpose of managing and administering the Plan and for the performance the contractual arrangements under this Agreement, to which you are a party.

You further understand that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purposes of implementation, administration, and management of your participation in the Plan, and that the Company and/or its Subsidiary may each further transfer Data to any Data Recipients.

	You understand that these Data Recipients may be located in your country of residence or elsewhere, such as the United States. You acknowledge that the Data Recipients to receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing your participation in the Plan, including any transfer of such Data, as may be required for the administration of the Plan and/or the subsequent holding of Shares on your behalf, to a broker or third party with whom the Shares acquired on exercise may be deposited. Where the transfer is to be to a destination outside the European Economic Area, the Company shall take reasonable steps to ensure that your personal data continues to be adequately protected and securely held. You understand that you may, at any time, review the Data or request that any necessary amendments be made to it.
Restrictions on Resale	You agree not to sell any shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
Employment	Your award or this Agreement does not give you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of your units will be adjusted accordingly, as the Company may determine pursuant to the Plan.
Personal Representative	Your Personal Representative will receive any vested units that you hold at the time of your death.
Effect of Merger	If the Company is a party to a merger, consolidation or reorganization, then your units will be subject to the applicable provision of the Plan, provided that any action taken must either (a) preserve the exemption of your units from Section 409A of the Code or (b) comply with Section 409A of the Code.

Additional Terms

You have no right to compensation or damages for any loss in respect of this Award where such loss arises (or is claimed to arise), in whole or in part, from the termination of your employment; or notice to terminate employment given by or to you. This exclusion of liability shall apply however termination of employment, or the giving of notice, is caused other than in a case where a competent tribunal or court, from which there can be no appeal (or which the relevant employing company has decided not to appeal), has found that the cessation of your employment amounted to unfair or constructive dismissal of you and however compensation or damages may be claimed.

You have no right to compensation or damages for any loss in respect of this Award where such loss arises (or is claimed to arise), in whole or in part, from any company ceasing to be a Subsidiary of the Company; or the transfer of any business from a Subsidiary of the Company to any person which is not a Subsidiary of the Company. This exclusion of liability shall apply however the change of status of the relevant company, or the transfer of the relevant business, is caused, and however compensation or damages may be claimed.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its choice-of-law provisions). The Section 431 Election shall be governed by the laws of England and Wales.

The Plan and Other Agreements

The text of the Plan and the Section 431 Election are incorporated in this Agreement by reference. Any defined term not defined within this Agreement shall have the meaning as defined in the Plan.

The Plan, this Agreement, the Notice of Restricted Stock Unit Award and the Section 431 Election constitute the entire understanding between you and the Company regarding this award. Any prior agreements, commitments or negotiations concerning this award are superseded. This Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Appendix A
Section 431 Election

Exhibit 10.5

Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan
Notice of Stock Option Grant

You have been granted the following option to purchase shares of the Common Stock of Vanda Pharmaceuticals Inc. (the “Company”):

Name of Optionee: [Name]

Total Number of Shares: [Number of Shares]

Type of Option: Nonstatutory Stock Option

Exercise Price Per Share: $[Exercise Price]

Date of Grant: [Date]

Vesting Commencement Date: [Date]

Vesting Schedule: This option vests and may be exercised with respect to 25% of the Shares subject to this option when the Optionee completes one year of continuous Service (as defined in the Plan) after the Vesting Commencement Date and with respect to 2.08334% of the Shares subject to this option when the Optionee completes each month of continuous Service thereafter.

Expiration Date: [Date +10 minus 1 Day]. This option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement.

You and the Company agree that this option is granted under and governed by the terms and conditions of the Amended and Restated 2016 Equity Incentive Plan, as amended to date (the "Plan"), and of the Stock Option Agreement, which is attached to and made a part of this document.

You further agree that the Company may deliver by email all documents relating to the Plan or this option (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a web site maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a web site, it will notify you by email.

Optionee:

_____

[Name]

Vanda Pharmaceuticals Inc.

By: _____

Title: _____

Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan

Stock Option Agreement

Tax Treatment	This option is intended to be an incentive stock option under section 422 of the Internal Revenue Code or a nonstatutory stock option, as provided in the Notice of Stock Option Grant.
Vesting	This option vests and becomes exercisable in installments, as shown in the Notice of Stock Option Grant, provided that you have provided continuous Service to the Company through the date of such installment. This option will in no event vest or become exercisable for additional shares after your Service has terminated for any reason.
Term	This option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Grant, as shown in the Notice of Stock Option Grant. (It will expire earlier if your Service terminates, as described below.)
Regular Termination	If your Service terminates for any reason except death or total and permanent disability, then this option will expire at the close of business at Company headquarters on the date three months after your termination date. The Company determines when your Service terminates for this purpose.
Death	If you die before your Service terminates, then this option will expire at the close of business at Company headquarters on the date 12 months after the date of death.
Disability	If your Service terminates because of your total and permanent disability, then this option will expire at the close of business at Company headquarters on the date 12 months after your termination date. For all purposes under this Agreement, "total and permanent disability" means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.
Leaves of Absence and Part-Time Work	For purposes of this option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work. If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.

Restrictions on Exercise

The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

Notice of Exercise

When you wish to exercise this option, you must notify the Company by filing the proper “Notice of Exercise” form at the address given on the form. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered. The notice will be effective when the Company receives it.

If someone else wants to exercise this option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Form of Payment

Except as set forth below in “Default Same Day Sale at Expiration”, when you submit your notice of exercise, you must include payment of the option exercise price for the shares that you are purchasing. To the extent permitted by applicable law, payment may be made in one (or a combination of two or more) of the following forms (each, a “Permissible Form of Payment”):

- Cash payment (including check, electronic wire transfer or other method permitted by the Company).
- Withholding from any compensation (on an after-tax basis) otherwise payable to you by the Company or an Affiliate; provided the Company has consented to such withholding.
- Withholding shares subject to the option that would otherwise be issued to you upon exercising the option (i.e., net exercise). The value of such shares, determined as of the effective date of the option exercise, will be applied to the option exercise price.
- Certificates for shares of Company stock that you own, along with any forms needed to effect a transfer of those shares to the Company. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option exercise price. Instead of surrendering shares of Company stock, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the option shares issued to you.
- Irrevocable directions to a securities broker approved by the Company to sell all or part of your option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the option exercise price and any withholding taxes, such sale, a “same day sale”. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing a special “Notice of Exercise” form provided by the Company and delivered to the securities broker (with a copy to the Company) on a Permissible Trading Day (as defined below).

“Permissible Trading Day”	“Permissible Trading Day” means a day that satisfies each of the following requirements: • The Nasdaq Global Market is open for trading on that day, • You are permitted to sell shares of the Company’s Common Stock on that day without incurring liability under Section 16(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), • Under the Company’s Policy Memorandum Concerning Securities Trading, you would be permitted to sell shares of the Company’s Common Stock on that day without reliance on the “Same Day Sale-to-Cover Transactions” exclusion therein, and • You are not prohibited from selling shares of the Company’s Common Stock on that day by a written agreement between you and the Company or a third party.
Default “Same Day Sale” at Expiration	If (i) you submit your notice of exercise on a day that is not a Permissible Trading Day (other than by reason of The Nasdaq Global Market not being open for trading on that day), and (ii) you are then exercising this option because it would otherwise expire if not exercised on such day or within 5 business days thereafter (such exercise, an “Expiration Exercise”), then, unless you have previously made arrangements on a Permissible Trading Day for the payment of the option exercise price by one (or a combination of two or more) of the Permissible Forms of Payment, the aggregate exercise price shall be paid from the sale proceeds of a “same day sale” as described above (other than the requirement to deliver the Notice of Exercise on a Permissible Trading Day).
Withholding Taxes and Stock Withholding	You will not be allowed to exercise this option unless you make arrangements acceptable to the Company to pay any withholding taxes that may be due as a result of the option exercise. With the Company’s consent, these arrangements may include withholding shares of Company stock that otherwise would be issued to you when you exercise this option. The value of these shares, determined as of the effective date of the option exercise, will be applied to the withholding taxes. If, however, the exercise is an Expiration Exercise, then, unless you have previously made arrangements on a Permissible Trading Day for the payment of the withholding taxes by one (or a combination of two or more) of the Permissible Forms of Payment, the withholding taxes that may be due as a result of such exercise shall be paid from the sale proceeds of a “same day sale” as described above (other than the requirement to deliver the Notice of Exercise on a Permissible Trading Day). Withholding taxes due upon any exercise of this option shall be equal to the Company's required tax withholding obligations using (i) the maximum statutory withholding rates for state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income and (ii) the minimum statutory withholding rate for federal tax purposes, including payroll taxes, that are applicable to supplemental taxable income unless you instruct the Company to use a higher withholding rate in a written notice delivered to the Company on a Permissible Trading Day.
Rule 10b5-1(c)	***It is the Company’s intent that the default “same day sale” to cover exercise price and withholding tax transaction requirements imposed by the Company on you herein with respect to Expiration Exercises comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and be interpreted to comply with the requirements of Rule 10b5-1(c).***

Restrictions on Resale	You agree not to sell any option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
Transfer of Option	Prior to your death, only you may exercise this option. You cannot transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will or a beneficiary designation. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your option in any other way.
Retention Rights	Your option or this Agreement does not give you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.
Stockholder Rights	You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this option by giving the required notice to the Company, paying the exercise price and satisfying any applicable withholding taxes. No adjustments are made for dividends or other rights if the applicable record date occurs before you exercise this option, except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of shares covered by this option and the exercise price per share will be adjusted pursuant to the Plan.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its choice-of-law provisions).
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. This Agreement, the Notice of Stock Option Grant and the Plan constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 10.6

Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan
Notice of Stock Option Grant

You have been granted the following option to purchase shares of the Common Stock of Vanda Pharmaceuticals Inc. (the “Company”):

Name of Optionee: [Name]

Total Number of Shares: [Number of Shares]

Type of Option: Nonstatutory Stock Option

Exercise Price Per Share: $[Exercise Price]

Date of Grant: [Date]

Vesting Commencement Date: [Date]

Vesting Schedule: This option vests and may be exercised with respect to 25% of the Shares subject to this option when the Optionee completes one year of continuous Service (as defined in the Plan) after the Vesting Commencement Date and with respect to 2.08334% of the Shares subject to this option when the Optionee completes each month of continuous Service thereafter. This option may become exercisable on an accelerated basis, as set forth in the Stock Option Agreement.

Expiration Date: [Date +10 minus 1 Day]. This option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement.

You and the Company agree that this option is granted under and governed by the terms and conditions of the Amended and Restated 2016 Equity Incentive Plan, as amended to date (the “Plan”), and of the Stock Option Agreement, which is attached to and made a part of this document.

You further agree that the Company may deliver by email all documents relating to the Plan or this option (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a web site maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a web site, it will notify you by email.

Optionee:

_____

[Name]

Vanda Pharmaceuticals Inc.

By: _____

Title: _____

Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan

Stock Option Agreement

Tax Treatment

This option is intended to be an incentive stock option under section 422 of the Internal Revenue Code or a nonstatutory stock option, as provided in the Notice of Stock Option Grant.

Vesting

This option vests and becomes exercisable in installments, as shown in the Notice of Stock Option Grant, provided that you have provided continuous Service to the Company through the date of such installment.

This option will in no event vest or become exercisable for additional shares after your Service has terminated for any reason.

Acceleration

If you are subject to an Involuntary Termination, then the vested and exercisable portion of this option shall be determined by adding three months to your actual Service.

In addition, if the Company is subject to a Change in Control before your Service terminates and you are subject to an Involuntary Termination within 24 months after such Change in Control, then this option shall become exercisable with respect to all of the Shares.

“Change in Control” and “Involuntary Termination” are defined in your Amended and Restated Employment Agreement with the Company, dated as of [Date], as the same may be amended from time to time (the “Employment Agreement”).

Term

This option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Grant, as shown in the Notice of Stock Option Grant. (It will expire earlier if your Service terminates, as described below.)

Termination Other than Due to Death or Disability

If (a) your Service terminates due to your resignation other than for Good Reason or (b) the Company terminates your Service for Cause, then this option will expire at the close of business at Company headquarters on the date three months after your termination date. If you are subject to an Involuntary Termination, then this option will expire at the close of business at Company headquarters on the date six months after your termination date.

The Company determines when your Service terminates for purposes of this section.

“Good Reason” and “Cause” are defined in your Employment Agreement.

Death

If you die before your Service terminates, then this option will expire at the close of business at Company headquarters on the date 12 months after the date of death.

Disability

If your Service terminates because of your Permanent Disability, then this option will expire at the close of business at Company headquarters on the date 12 months after your termination date.

"Permanent Disability" is defined in your Employment Agreement.

Leaves of Absence and Part-Time Work

For purposes of this option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work.

If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.

Restrictions on Exercise

The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

Notice of Exercise

When you wish to exercise this option, you must notify the Company by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered. The notice will be effective when the Company receives it.

If someone else wants to exercise this option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Form of Payment

Except as set forth below in "Default Same Day Sale at Expiration", when you submit your notice of exercise, you must include payment of the option exercise price for the shares that you are purchasing. To the extent permitted by applicable law, payment may be made in one (or a combination of two or more) of the following forms (each, a "Permissible Form of Payment"):

- Cash payment (including check, , electronic wire transfer or other method permitted by the Company).
- Withholding from any compensation (on an after-tax basis) otherwise payable to you by the Company or an Affiliate; provided the Company has consented to such withholding.

- Withholding shares subject to the option that would otherwise be issued to you upon exercising the option (i.e., net exercise). The value of such shares, determined as of the effective date of the option exercise, will be applied to the option exercise price.
- Certificates for shares of Company stock that you own, along with any forms needed to effect a transfer of those shares to the Company. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option exercise price. Instead of surrendering shares of Company stock, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the option shares issued to you.
- Irrevocable directions to a securities broker approved by the Company to sell all or part of your option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the option exercise price and any withholding taxes, such sale, a "same day sale". (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing a special "Notice of Exercise" form provided by the Company and delivered to the securities broker (with a copy to the Company) on a Permissible Trading Day (as defined below).

"Permissible Trading Day"

"Permissible Trading Day" means a day that satisfies each of the following requirements:

- The Nasdaq Global Market is open for trading on that day,
- You are permitted to sell shares of the Company's Common Stock on that day without incurring liability under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"),
- Under the Company's Policy Memorandum Concerning Securities Trading, you would be permitted to sell shares of the Company's Common Stock on that day without reliance on the "Same Day Sale-to-Cover Transactions" exclusion therein, and
- You are not prohibited from selling shares of the Company's Common Stock on that day by a written agreement between you and the Company or a third party.

Default "Same Day Sale" at Expiration

If (i) you submit your notice of exercise on a day that is not a Permissible Trading Day (other than by reason of The Nasdaq Global Market not being open for trading on that day), and (ii) you are then exercising this option because it would otherwise expire if not exercised on such day or within 5 business days thereafter (such exercise, an "Expiration Exercise"), then, unless you have previously made arrangements on a Permissible Trading Day for the payment of the option exercise price by one (or a combination of two or more) of the Permissible Forms of Payment, the aggregate exercise price shall be paid from the sale proceeds of a "same day sale" as described above (other than the requirement to deliver the Notice of Exercise on a Permissible Trading Day).

Withholding Taxes and Stock Withholding	You will not be allowed to exercise this option unless you make arrangements acceptable to the Company to pay any withholding taxes that may be due as a result of the option exercise. With the Company's consent, these arrangements may include withholding shares of Company stock that otherwise would be issued to you when you exercise this option. The value of these shares, determined as of the effective date of the option exercise, will be applied to the withholding taxes. If, however, the exercise is an Expiration Exercise, then, unless you have previously made arrangements on a Permissible Trading Day for the payment of the withholding taxes by one (or a combination of two or more) of the Permissible Forms of Payment, the withholding taxes that may be due as a result of such exercise shall be paid from the sale proceeds of a "same day sale" as described above (other than the requirement to deliver the Notice of Exercise on a Permissible Trading Day). Withholding taxes due upon any exercise of this option shall be equal to the Company's required tax withholding obligations using the maximum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income or, solely with respect to federal income tax, such lower withholding rate as you instruct the Company to use in a written notice delivered to the Company on a Permissible Trading Day.
Rule 10b5-1(c)	***It is the Company's intent that the default "same day sale" to cover exercise price and withholding tax transaction requirements imposed by the Company on you herein with respect to Expiration Exercises comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and be interpreted to comply with the requirements of Rule 10b5-1(c).***
Restrictions on Resale	You agree not to sell any option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
Transfer of Option	Prior to your death, only you may exercise this option. You cannot transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will or a beneficiary designation. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your option in any other way.
Retention Rights	Your option or this Agreement does not give you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.
Stockholder Rights	You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this option by giving the required notice to the Company, paying the exercise price and satisfying any applicable withholding taxes. No adjustments are made for dividends or other rights if the applicable record date occurs before you exercise this option, except as described in the Plan.

Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of shares covered by this option and the exercise price per share will be adjusted pursuant to the Plan.
Recoupment Policy	This option, and the shares acquired upon exercise of this option, shall be subject to any Company recoupment or clawback policy in effect from time to time.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to its choice-of-law provisions).
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. This Agreement, the Notice of Stock Option Grant, the Plan and your Employment Agreement constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 10.7

Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan
Notice of Stock Option Grant

You have been granted the following option to purchase shares of the Common Stock of Vanda Pharmaceuticals Inc. (the "Company"):

Name of Optionee: [Name]

Total Number of Shares: [Number of Shares]

Type of Option: Nonstatutory Stock Option

Exercise Price Per Share: $[Exercise Price]

Date of Grant: [Date]

Vesting Commencement Date: [Date]

Vesting Schedule: [1 Year or 4 Year Vesting Schedule Depending Upon Type of Grant (e.g., Annual or Initial)]

Expiration Date: [Date +10 minus 1 Day]. This option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement.

You and the Company agree that this option is granted under and governed by the terms and conditions of the Amended and Restated 2016 Equity Incentive Plan, as amended to date (the "Plan"), and of the Stock Option Agreement, which is attached to and made a part of this document.

You further agree that the Company may deliver by email all documents relating to the Plan or this option (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a web site maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a web site, it will notify you by email.

Optionee:

_____

[Name]

Vanda Pharmaceuticals Inc.

By: _____

Title: _____

Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan
Stock Option Agreement

Tax Treatment	This option is intended to be a nonstatutory stock option, as provided in the Notice of Stock Option Grant, and is not intended to qualify as an incentive stock option under section 422 of the Internal Revenue Code.
Vesting	This option becomes exercisable in installments, as shown in the Notice of Stock Option Grant. In addition, this option becomes exercisable in full if the Company is subject to a Change in Control before your Service terminates or if your Service terminates because of your death or total and permanent disability. This option will in no event become exercisable for additional shares after your Service has terminated for any reason. For all purposes under this Agreement, "total and permanent disability" means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.
Term	This option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Grant, as shown in the Notice of Stock Option Grant. (It will expire earlier if your Service terminates, as described below.)
Termination of Service	If your Service terminates for any reason, then this option will expire at the close of business at Company headquarters on the date 12 months after your termination date. The Company determines when your Service terminates for this purpose.
Leaves of Absence	For purposes of this option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work. If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave.
Restrictions on Exercise	The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

Notice of Exercise

When you wish to exercise this option, you must notify the Company or its agent in the prescribed manner. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered. The notice will be effective when the Company or its agent receives it.

If someone else wants to exercise this option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Form of Payment

Except as set forth below in "Default Same Day Sale at Expiration", when you submit your notice of exercise, you must include payment of the option exercise price for the shares that you are purchasing. To the extent permitted by applicable law, payment may be made in one (or a combination of two or more) of the following forms (each, a "Permissible Form of Payment"):

- Cash payment (including check, electronic wire transfer or other method permitted by the Company).
- Withholding from any after-tax compensation otherwise payable to you by the Company or an Affiliate; provided the Company has consented to such withholding.
- Withholding shares subject to the option that would otherwise be issued to you upon exercising the option (i.e., net exercise). The value of such shares, determined as of the effective date of the option exercise, will be applied to the option exercise price.
- Certificates for shares of Company stock that you own, along with any forms needed to effect a transfer of those shares to the Company. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option exercise price. Instead of surrendering shares of Company stock, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the option shares issued to you.
- Irrevocable directions to a securities broker approved by the Company to sell all or part of your option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the option exercise price and any withholding taxes, such sale, a "same day sale". (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing a special "Notice of Exercise" form provided by the Company and delivered to the securities broker (with a copy to the Company) on a Permissible Trading Day (as defined below).

"Permissible Trading Day"

"Permissible Trading Day" means a day that satisfies each of the following requirements:

- The Nasdaq Global Market is open for trading on that day,
- You are permitted to sell shares of the Company's Common Stock on that day without incurring liability under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"),
- Under the Company's Policy Memorandum Concerning Securities Trading, you would be permitted to sell shares of the Company's Common Stock on that day without reliance on the "Same Day Sale-to-Cover Transactions" exclusion therein, and
- You are not prohibited from selling shares of the Company's Common Stock on that day by a written agreement between you and the Company or a third party.

Default "Same Day Sale" at Expiration	If (i) you submit your notice of exercise on a day that is not a Permissible Trading Day (other than by reason of The Nasdaq Global Market not being open for trading on that day), and (ii) you are then exercising this option because it would otherwise expire if not exercised on such day or within 5 business days thereafter (such exercise, an "Expiration Exercise"), then, unless you have previously made arrangements on a Permissible Trading Day for the payment of the option exercise price by one (or a combination of two or more) of the Permissible Forms of Payment, the aggregate exercise price shall be paid from the sale proceeds of a "same day sale" as described above (other than the requirement to deliver the Notice of Exercise on a Permissible Trading Day).
Rule 10b5-1(c)	***It is the Company's intent that the default "same day sale" to cover exercise price transaction requirements imposed by the Company on you herein with respect to Expiration Exercises comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and be interpreted to comply with the requirements of Rule 10b5-1(c).***
Restrictions on Resale	You agree not to sell any option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.
Transfer of Option	Prior to your death, only you may exercise this option. You cannot transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will or a beneficiary designation. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your option in any other way.
Retention Rights	Your option or this Agreement does not give you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time, with or without cause.
Stockholder Rights	You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this option by giving the required notice to the Company and paying the exercise price. No adjustments are made for dividends or other rights if the applicable record date occurs before you exercise this option, except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of shares covered by this option and the exercise price per share may be adjusted pursuant to the Plan.

Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to their choice-of-law provisions).
The Plan and Other Agreements	The text of the Plan is incorporated in this Agreement by reference. Capitalized terms not otherwise defined in this Agreement shall be defined as set forth in the Plan. This Agreement and the Plan constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 10.8

UK Sub-Plan to the
Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan
Notice of Stock Option Grant

You have been granted the following option to purchase shares of the Common Stock of Vanda Pharmaceuticals Inc. (the "Company"):

Name of Optionee: [Name]

Total Number of Shares: [Number of Shares]

Type of Option: Unapproved Option

Exercise Price Per Share: $[Exercise Price]

Date of Grant: [Date]

Vesting Commencement Date: [Date]

Vesting Schedule: This option vests and may be exercised with respect to 25% of the Shares subject to this option when the Optionee completes one year of continuous Service (as defined in the Plan) after the Vesting Commencement Date and with respect to 2.08334% of the Shares subject to this option when the Optionee completes each month of continuous Service thereafter.

Expiration Date: [Date + 10 years minus 1 Day]. This option expires earlier if your Service terminates earlier, as described in the Stock Option Agreement.

You and the Company agree that this option is granted under and governed by the terms and conditions of the UK Sub-Plan to the Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan, as amended to date (the "Plan"), and of the Stock Option Agreement, which is attached to and made a part of this document.

You further agree that the Company may deliver by email all documents relating to the Plan or this option (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a web site maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a web site, it will notify you by email.

Optionee:

_____

[Name]

Vanda Pharmaceuticals Inc.

By: _____

Title: _____

UK Sub-Plan to the Vanda Pharmaceuticals Inc. Amended and Restated 2016 Equity Incentive Plan
Stock Option Agreement

Tax Treatment	This option is intended to be an Unapproved Option, as provided in the Notice of Stock Option Grant.
Vesting	This option vests and becomes exercisable in installments, as shown in the Notice of Stock Option Grant, provided that you have provided continuous Service to the Company through the date of such installment. This option will in no event vest or become exercisable for additional shares after your Service has terminated for any reason.
Term	This option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Grant, as shown in the Notice of Stock Option Grant. (It will expire earlier if your Service terminates, as described below.)
Regular Termination	If your Service terminates for any reason except death or total and permanent disability, then this option will expire at the close of business at Company headquarters on the date three months after your termination date. The Company determines when your Service terminates for this purpose.
Death	If you die before your Service terminates, then this option will expire at the close of business at Company headquarters on the date 12 months after the date of death.
Disability	If your Service terminates because of your total and permanent disability, then this option will expire at the close of business at Company headquarters on the date 12 months after your termination date. For all purposes under this Agreement, "total and permanent disability" means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.
Leaves of Absence and Part-Time Work	For purposes of this option, your Service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the leave was approved by the Company in writing and if continued crediting of Service is required by the terms of the leave or by applicable law. But your Service terminates when the approved leave ends, unless you immediately return to active work. If you go on a leave of absence, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Stock Option Grant may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.

Restrictions on Exercise

The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

Notice of Exercise

In the event of your death, this option may be exercised by your Personal Representative (provided evidence is produced by such Personal Representative that they are so authorized and entitled to do so) only.

When you wish to exercise this option, you must notify the Company by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase. Your notice must also specify how your shares should be registered. The notice will be effective when the Company receives it, together with the signed Section 431 Election.

Form of Payment

Except as set forth below in "Default Same Day Sale at Expiration", when you submit your notice of exercise, together with the signed Section 431 Election, you must include payment of the option exercise price for the shares that you are purchasing (together with any Award Tax Liability and Secondary NIC Liability). To the extent permitted by applicable law, payment may be made in one (or a combination of two or more) of the following forms (each, a permissible Form of Payment"):

- Cash payment (including cheque, electronic wire transfer or other method permitted by the Company).
- To the extent permissible by law, withholding from any compensation (on an after-tax basis) otherwise payable to you by the Company or an Affiliate; provided the Company has consented to such withholding.
- Withholding shares subject to the option that would otherwise be issued to you upon exercising the option (i.e., net exercise). The value of such shares, determined as of the effective date of the option exercise, will be applied to the option exercise price.
- Irrevocable directions to a securities broker approved by the Company to sell all or part of your option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the option exercise price and any Award Tax Liability and Secondary NIC Liability, such sale, a "same day sale". (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing a special "Notice of Exercise" form provided by the Company and delivered to the securities broker (with a copy to the Company) on a Permissible Trading Day (as defined below).

"Permissible Trading Day"

"Permissible Trading Day" means a day that satisfies each of the following requirements:

- The Nasdaq Global Market is open for trading on that day,
- You are permitted to sell shares of the Company's Common Stock on that day without incurring liability under Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"),
- Under the Company's Policy Memorandum Concerning Securities Trading, you would be permitted to sell shares of the Company's Common Stock on that day without reliance on the "Same Day Sale-to-Cover Transactions" exclusion therein, and
- You are not prohibited from selling shares of the Company's Common Stock on that day by a written agreement between you and the Company or a third party.

Default "Same Day Sale" at Expiration

If (i) you submit your notice of exercise on a day that is not a Permissible Trading Day (other than by reason of The Nasdaq Global Market not being open for trading on that day), and (ii) you are then exercising this option because it would otherwise expire if not exercised on such day or within 5 business days thereafter (such exercise, an "Expiration Exercise"), then, unless you have previously made arrangements on a Permissible Trading Day for the payment of the option exercise price by one (or a combination of two or more) of the Permissible Forms of Payment, the aggregate exercise price shall be paid from the sale proceeds of a "same day sale" as described above (other than the requirement to deliver the Notice of Exercise on a Permissible Trading Day).

Withholding Taxes and Stock Withholding	In the event that the Company determines that it or any Subsidiary is required to account to HM Revenue & Customs for the Award Tax Liability and any Secondary NIC Liability or to withhold any other tax as a result of the exercise of this option you, as a condition to the exercise of this option, shall make arrangements satisfactory to the Company to enable it or any Subsidiary to satisfy all withholding liabilities. You shall also make arrangements satisfactory to the Company to enable it to satisfy any withholding requirements that may arise in connection with the vesting or disposition of Shares purchased by exercising this option.If, however, the exercise is an Expiration Exercise, then, unless you have previously made arrangements on a Permissible Trading Day for the payment of the withholding taxes by one (or a combination of two or more) of the Permissible Forms of Payment, the withholding taxes that may be due as a result of such exercise shall be paid from the sale proceeds of a “same day sale” as described above (other than the requirement to deliver the Notice of Exercise on a Permissible Trading Day). Withholding taxes due upon any exercise of this option shall be equal to the Company’s required tax withholding obligations using (i) the maximum statutory withholding rates for state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income and (ii) the minimum statutory withholding rate for federal tax purposes, including payroll taxes, that are applicable to supplemental taxable income unless you instruct the Company to use a higher withholding rate in a written notice delivered to the Company on a Permissible Trading Day.
Rule 10b5-1(c)	It is the Company’s intent that the default “same day sale” to cover exercise price and withholding tax transaction requirements imposed by the Company on you herein with respect to Expiration Exercises comply with the requirements of Rule 10b5-1(c)(1)(i)(B) under the Exchange Act and be interpreted to comply with the requirements of Rule 10b5-1(c).
Tax Consultation	You understand that you may suffer adverse tax consequences as a result of your purchase or disposition of the Shares. You represent that you will consult with any tax advisors you deem appropriate in connection with the purchase or disposition of the Shares and that you are not relying on the Company or any Affiliate for any tax advice.
Section 431 Election	As a further condition of the exercise of this option, you shall have signed a Section 431 Election in the form set out in Appendix A or in such other form as may be determined by HM Revenue & Customs from time to time.

Your Tax Indemnity

- To the extent permitted by law, you hereby agree to indemnify and keep indemnified the Company, and the Company as trustee for and on behalf of any related corporation, for any Award Tax Liability and Secondary NIC Liability.
- The Company shall not be obliged to allot and issue any Shares or any interest in Shares pursuant to the exercise of this option unless and until you have paid to the Company such sum as is, in the opinion of the Company, sufficient to indemnify the Company in full against the Award Tax Liability and the Secondary NIC Liability, or you have made such other arrangement as in the opinion of the Company will ensure that the full amount of any Award Tax Liability and any Secondary NIC Liability will be recovered from you within such period as the Company may then determine.
- In the absence of any such other arrangement being made, the Company shall have the right to retain out of the aggregate number of shares to which you would have otherwise been entitled upon the exercise of this option, such number of Shares as, in the opinion of the Company, will enable the Company to sell as agent for you (at the best price which can reasonably expect to be obtained at the time of the sale) and to pay over to the Company sufficient monies out of the net proceeds of sale, after deduction of all fees, commissions and expenses incurred in relation to such sale, to satisfy your liability under such indemnity.

Data Protection

By entering into this Stock Option Agreement, you acknowledge the necessity of the collection, use, and transfer of personal data as described in this paragraph to the full extent permitted by and in full compliance with applicable laws.

You understand that the Company and its Subsidiaries hold Data about you for the purpose of managing and administering the Plan and for the performance the contractual arrangements under this Agreement, to which you are a party.

You further understand that the Company and/or its Subsidiaries will transfer Data among themselves as necessary for the purposes of implementation, administration, and management of your participation in the Plan, and that the Company and/or its Subsidiary may each further transfer Data to any Data Recipients.

You understand that these Data Recipients may be located in your country of residence or elsewhere, such as the United States. You acknowledge that the Data Recipients to receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing your participation in the Plan, including any transfer of such Data, as may be required for the administration of the Plan and/or the subsequent holding of Shares on your behalf, to a broker or third party with whom the Shares acquired on exercise may be deposited. Where the transfer is to be to a destination outside the European Economic Area, the Company shall take reasonable steps to ensure that your personal data continues to be adequately protected and securely held.

You understand that you may, at any time, review the Data or request that any necessary amendments be made to it,.

Restrictions on Resale

You agree not to sell any option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as your Service continues and for such period of time after the termination of your Service as the Company may specify.

Transfer of Option	Prior to your death, only you may exercise this option. You cannot transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, transfer this option in your will to your Personal Representative. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your option in any other way.
Retention Rights	Your option or this Agreement does not give you the right to be retained by the Company or a subsidiary of the Company in any capacity. The Company and its subsidiaries reserve the right to terminate your Service at any time.
Stockholder Rights	You or your Personal Representative have no rights as a stockholder of the Company until you have exercised this option by giving the required notice to the Company and paying the exercise price and satisfying any applicable Option Tax Liability and Secondary NIC Liability. No adjustments are made for dividends or other rights if the applicable record date occurs before you exercise this option, except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in Company stock, the number of shares covered by this option and the exercise price per share will be adjusted pursuant to the Plan.
Additional Terms	You have no right to compensation or damages for any loss in respect of this option where such loss arises (or is claimed to arise), in whole or in part, from the termination of your employment; or notice to terminate employment given by or to you. This exclusion of liability shall apply however termination of employment, or the giving of notice, is caused other than in a case where a competent tribunal or court, from which there can be no appeal (or which the relevant employing company has decided not to appeal), has found that the cessation of your employment amounted to unfair or constructive dismissal of you and however compensation or damages may be claimed. You have no right to compensation or damages for any loss in respect of this option where such loss arises (or is claimed to arise), in whole or in part, from any company ceasing to be a Subsidiary of the Company; or the transfer of any business from a Subsidiary of the Company to any person which is not a Subsidiary of the Company. This exclusion of liability shall apply however the change of status of the relevant company, or the transfer of the relevant business, is caused, and however compensation or damages may be claimed.

Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to their choice-of-law provisions). The Section 431 Election shall be governed by the laws of England and Wales.
The Plan and Other Agreements	This Agreement, the Notice of Stock Option Grant, the Plan and the Section 431 Election are incorporated in this Agreement by reference. Any defined term not defined within this Agreement shall have the meaning as defined in the Plan. This Agreement, the Section 431 Election, and the Plan constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Appendix A
Section 431 Election
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EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mihael H. Polymeropoulos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vanda Pharmaceuticals Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November May 9, 2023 2024

/s/ Mihael H. Polymeropoulos, M.D.

Mihael H. Polymeropoulos, M.D.

President, Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

ht:100%">

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin Moran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vanda Pharmaceuticals Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November May 9, 2023 2024

/s/ Kevin Moran

Kevin Moran

Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Vanda Pharmaceuticals Inc. (the Company), does hereby certify, to the best of such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 (the Form 10-Q) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Form 10-Q fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

November May 9, 2023 2024

/s/ Mihael H. Polymeropoulos, M.D.

Mihael H. Polymeropoulos, M.D.

President, Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

November May 9, 2023 2024

/s/ Kevin Moran

Kevin Moran

Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission (SEC) or its staff upon request. This certification "accompanies" the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company 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 the Form 10-Q), irrespective of any general incorporation language contained in such filing.

DISCLAIMER

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