

Vanda Pharmaceuticals Inc.
Form 424B5
August 07, 2013
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**Filed Pursuant to Rule 424(b)(5)
Registration No. 333-171963
and No. 333-190401**

PROSPECTUS SUPPLEMENT

(to Prospectus dated February 11, 2011)

4,680,000 Shares

Common Stock

We are offering 4,680,000 shares of our common stock. Our common stock is listed on The NASDAQ Global Market under the symbol VNDA. The last sale price of our common stock on August 6, 2013, as reported by The NASDAQ Global Market, was \$11.14 per share.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page S-6 of this prospectus supplement and page 6 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$ 11.1400	\$ 52,135,200
Underwriting discount	\$ 0.6684	\$ 3,128,112
Proceeds, before expenses, to Vanda Pharmaceuticals Inc.	\$ 10.4716	\$ 49,007,088

Delivery of the shares of common stock is expected to be made on or about August 12, 2013. We have granted the underwriters an option for a period of 30 days to purchase up to an additional 702,000 shares of our common stock. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be \$3,597,328.80 and the total proceeds to us, before expenses, will be \$56,358,151.20.

Joint Book-Running Managers

Lazard Capital Markets

Piper Jaffray & Co.

Co-Manager

JMP Securities

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and related matters. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering of common stock. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement shall control.

All references in this prospectus supplement and the accompanying prospectus to Vanda, Vanda Pharmaceuticals, the Company, we, us, or our, and similar references refer to Vanda Pharmaceuticals Inc. and its subsidiaries on a consolidated basis, except where the context otherwise requires or as otherwise indicated.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free-writing prospectus that we authorize to be distributed to you. We have not, and the underwriters have not, authorized anyone to provide you with different information. This prospectus supplement and the accompanying prospectus are not an offer to sell, nor are they seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus supplement and the accompanying prospectus are complete and accurate as of the date the information is presented, but the information may have changed since that date.

Vanda is a trademark of Vanda Pharmaceuticals Inc. This prospectus may also include other registered and unregistered trademarks of Vanda Pharmaceuticals Inc. and other persons.

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SUMMARY

The following summary is qualified in its entirety by, and should be read together with, the more detailed information and financial statements and related notes thereto appearing elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. Before you decide to invest in our common stock, you should read the entire prospectus supplement and the accompanying prospectus carefully, including the risk factors and the financial statements and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

Vanda Pharmaceuticals Inc.

Company Overview

Vanda Pharmaceuticals Inc. is a biopharmaceutical company focused on the development and commercialization of products for the treatment of central nervous system disorders. We commenced operations in 2003. Our product portfolio includes tasimelteon, a compound for the treatment of circadian rhythm sleep disorders, which is currently in clinical development for Non-24-Hour Disorder (Non-24) and for which a New Drug Application (NDA) is under review by the U.S. Food and Drug Administration (FDA), Fanapt®, a compound for the treatment of schizophrenia, the oral formulation of which is currently being marketed and sold in the U.S. by Novartis Pharma AG (Novartis), and VLY-686, a small molecule neurokinin-1 receptor (NK-1R) antagonist.

In December 2012 and January 2013, we announced positive results for two Phase III studies for tasimelteon in the treatment of Non-24. The SET Phase III study demonstrated that tasimelteon was able to entrain the master body clock as measured by melatonin and cortisol circadian rhythms. Tasimelteon was also shown to significantly improve clinical symptoms across a number of sleep and wake measures. These results provided robust evidence of direct and clinically meaningful benefits to patients with Non-24. The RESET Phase III study demonstrated the maintenance effect of 20 milligrams (mg) of tasimelteon to entrain melatonin and cortisol circadian rhythms in individuals with Non-24. Patients treated with tasimelteon maintained their clinical benefits while patients receiving placebo showed significant deterioration in measures of nighttime sleep, daytime naps and timing of sleep. We held a pre-NDA meeting with the FDA's Division of Neurology Products in the first quarter of 2013 to discuss the regulatory filing path for an NDA for tasimelteon in the treatment of patients with Non-24. At the pre-NDA meeting, the FDA confirmed that the efficacy and safety data that we proposed to submit in the tasimelteon NDA for the treatment of Non-24 was adequate to support filing. The NDA supporting package that included data from clinical pharmacology, pre-clinical pharmacology program, chemistry and manufacturing was also deemed adequate to support filing. In May 2013, we submitted an NDA to the FDA for tasimelteon for the treatment of Non-24. In July 2013, we announced that the FDA accepted the filing and granted a priority review classification to its NDA for tasimelteon for the treatment of Non-24 in the totally blind. The FDA determined the action target date under the Prescription Drug User Fee Act (PDUFA-V) to be January 31, 2014. The FDA has also tentatively scheduled an advisory committee meeting to discuss the tasimelteon application on November 14, 2013. As a result of achieving this regulatory milestone, we will incur certain costs in the third quarter of 2013 including a \$3.0 million cash milestone obligation under our license agreement with Bristol-Meyers Squibb, a \$0.5 million cash milestone obligation under a regulatory consulting agreement and additional non-cash stock-based compensation expense of \$0.3 million for performance-based stock options and \$0.2 million for performance-based restricted stock unit awards. In January 2013, we reported top-line results of the Phase IIb/III clinical study (MAGELLAN) in Major Depressive Disorder (MDD), investigating the efficacy and safety of tasimelteon as a monotherapy in the treatment of patients with MDD. The clinical study did not meet the primary endpoint of change from baseline in the Hamilton Depression Scale (HAM-D-17) after eight weeks of treatment as compared to placebo. As a result, all activities have been discontinued related to the MDD indication for tasimelteon. We incurred \$12.3 million in research and development costs for the six months ended June 30, 2013 directly attributable to our development of tasimelteon.

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In December 2012, the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) issued a negative opinion recommending against approval of Fanaptum® (oral iloperidone tablets) for the treatment of schizophrenia in adult patients in the European Union. The CHMP was of the opinion that the benefits of Fanaptum® did not outweigh its risks and recommended against marketing authorization. We initiated an appeal of this opinion and requested a re-examination of the decision by the CHMP, but withdrew our Marketing Authorization Application in the first quarter of 2013 because the additional clinical data requested by the CHMP will not be available in the timeframe allowed by the EMA's Centralized Procedure. We intend to reassess our European regulatory strategy for Fanaptum® once the results from the Relapse Prevention Study in Patients with Schizophrenia (REPRIEVE) being conducted by Novartis, become available. We incurred \$0.3 million in research and development costs for the six months ended June 30, 2013 directly attributable to our development of Fanapt®.

In the second half of 2013, we plan to initiate a proof of concept study for VLY-686 in treatment resistant pruritus in atopic dermatitis. We incurred \$0.8 million in research and development costs for the six months ended June 30, 2013 directly attributable to our development of VLY-686.

Since we began operations in March 2003, we have devoted substantially all of our resources to the in-licensing and clinical development of our compounds. Our ability to generate revenue and achieve profitability largely depends on our ability, alone or with others, to complete the development of our products or product candidates, and to obtain the regulatory approvals for and manufacture, market and sell our products and product candidates, including tasimelteon for the treatment of Non-24 and Novartis' ability to successfully commercialize Fanapt® in the U.S. The results of our operations will vary significantly from year-to-year and quarter-to-quarter and depend on a number of factors, including risks related to our business, risks related to our industry, and other risks which are detailed in "Risk Factors" starting on page S-6 of this prospectus supplement.

Our founder and Chief Executive Officer, Mihael H. Polymeropoulos, M.D., started Vanda's operations early in 2003 after establishing and leading the Pharmacogenetics Department at Novartis. In acquiring and developing our compounds, we have relied upon our deep expertise in the scientific disciplines of pharmacogenetics and pharmacogenomics. These scientific disciplines examine both genetic variations among people that influence response to a particular drug, and the multiple pathways through which drugs affect people.

Our products target prescription markets with significant unmet medical needs. We believe that tasimelteon may represent an important new treatment option for patients with circadian rhythm sleep disorders based on its potential to be the first compound approved as a circadian regulator with a demonstrated ability to reset the master body clock and align it to a constant 24-hour day. We believe that Fanapt® may address some of the shortcomings of other currently available drugs, based on its observed safety profile.

Corporate Information

Vanda was incorporated in Delaware in 2002. Our principal executive offices are located at 2200 Pennsylvania Avenue N.W., Suite 300E, Washington D.C. 20037, and our telephone number is (202) 734-3400. Our website address is www.vandapharma.com. We do not incorporate the information on our website into this prospectus supplement and the accompanying prospectus and you should not consider it part of this prospectus supplement and the accompanying prospectus.

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THE OFFERING

Common stock we are offering	4,680,000 shares of common stock.
Option to purchase additional shares	We have granted the underwriters an option for a period of up to 30 days from the date of this prospectus supplement to purchase up to 702,000 additional shares of common stock at the public offering price less the underwriting discounts and commissions to cover over-allotments, if any.
Offering price	\$11.14 per share of common stock.
Common stock to be outstanding after this offering	33,163,231 shares (or 33,865,231 shares if the underwriters exercise in full their option to purchase additional shares).
Use of proceeds	We intend to use the net proceeds from this offering for sales and marketing expenditures, which may include commercial launch activities for tasimelteon for the treatment of Non-24 following receipt of regulatory approval, if any, research and development activities and other general corporate purposes. We may also use a portion of the net proceeds to acquire or invest in businesses, products or technologies that we believe are complementary to our own, although we are not currently planning or negotiating any such transactions. See the section titled "Use of Proceeds."
Risk Factors	You should read the "Risk Factors" section of this prospectus supplement and in the documents incorporated by reference in this prospectus supplement for a discussion of factors to consider before deciding to purchase shares of our common stock.
NASDAQ Global Market symbol	VNDA
The number of shares of common stock that will be outstanding immediately after this offering as shown above is based on 28,483,231 shares of common stock outstanding as of June 30, 2013 and excludes:	

670,744 shares of common stock issuable upon the exercise of outstanding options as of June 30, 2013 under our Second Amended and Restated Management Equity Plan (the 2004 Plan), with a weighted average exercise price of \$1.79 per share;

4,718,721 shares of common stock issuable upon the exercise of outstanding options as of June 30, 2013 under our 2006 Equity Incentive Plan (the 2006 Plan), with a weighted average exercise price of \$10.76 per share;

602,565 shares of common stock issuable upon the vesting of outstanding restricted stock units as of June 30, 2013; and

2,301,263 shares of common stock reserved for future issuance as of June 30, 2013 under our 2006 Plan.

Unless otherwise indicated, all information in this prospectus assumes:

that the underwriters do not exercise their option to purchase up to 702,000 additional shares of our common stock to cover over-allotments, if any; and

no options, restricted stock units, warrants, or shares of common stock were issued after June 30, 2013, and no outstanding options or warrants were exercised after June 30, 2013 and no outstanding restricted stock units vested after such date.

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The following tables present our Summary Consolidated Statements of Operations data for the years ended December 31, 2010 through 2012 as well as for the six months ended June 30, 2012 and 2013 and consolidated balance sheet data as of June 30, 2013. You should read this information in conjunction with our consolidated financial statements, including the related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013. Our historical results are not necessarily indicative of the results that may be expected in the future.

Consolidated Statement of Operations Data: <i>(in thousands, except for share and per share amounts)</i>	Year Ended December 31,			Six Months Ended June 30,	
	2010	2011 (Audited)	2012	2012 (Unaudited)	2013
Revenues:					
Licensing agreement	\$ 26,789	\$ 26,789	\$ 26,789	\$ 13,284	\$ 13,284
Royalty revenue	3,141	4,481	5,938	3,235	3,103
Product sales	5,290				
Grant revenue	489				
Total revenues	35,709	31,270	32,727	16,519	16,387
Operating expenses:					
Cost of sales	2,891		129		
Research and development	12,338	28,996	45,446	24,670	13,942
General and administrative	10,147	11,486	13,882	7,510	9,032
Intangible asset amortization	1,495	1,495	1,495	741	741
Total operating expenses	26,871	41,977	60,952	32,921	23,715
Income (loss) from operations	8,838	(10,707)	(28,225)	(16,402)	(7,328)
Other income	431	461	561	433	76
Income (loss) before tax benefit	9,269	(10,246)	(27,664)	(15,969)	(7,252)
Tax provision (benefit)	2,077	(444)			
Net income (loss)	\$ 7,192	\$ (9,802)	\$ (27,664)	\$ (15,969)	\$ (7,252)
Net income (loss) per share:					
Basic	0.26	(0.35)	(0.98)	(0.57)	(0.26)
Diluted	0.25	(0.35)	(0.98)	(0.57)	(0.26)
Shares used in calculation of net income					
(loss) per share:					
Basic	27,916,388	28,106,831	28,228,409	28,226,743	28,361,340
Diluted	27,534,617	28,106,831	28,228,409	28,226,743	28,361,340

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The following table presents selected consolidated balance sheet data as of June 30, 2013 on an actual basis and on an as adjusted basis to reflect the sale of 4,680,000 shares of our common stock in this offering at the public offering price of \$11.14 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

Consolidated Balance Sheet Data: <i>(in thousands, except for share and per share amounts)</i>	June 30, 2013 Actual (Unaudited)	June 30, 2013 As Adjusted (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 103,633	\$ 151,890
Accounts receivable	1,641	1,641
Prepaid expenses and other current assets	2,651	2,651
Restricted cash, current	430	430
Total current assets	108,355	156,612
Property and equipment, net	2,208	2,208
Intangible asset, net	5,791	5,791
Restricted cash, non-current	600	600
Total assets	\$ 116,954	\$ 165,211
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,167	\$ 1,167
Accrued liabilities	3,770	3,770
Deferred rent, current	209	209
Deferred revenue, current	26,789	26,789
Total current liabilities	31,935	31,935
Deferred rent, non-current	3,002	3,002
Deferred revenue, non-current	76,991	76,991
Total liabilities	\$ 111,928	\$ 111,928
Stockholders equity:		
Preferred stock, \$0.001 par value; 20,000,000 shares authorized and none issued and outstanding		
Common stock, \$0.001 par value; 150,000,000 shares authorized and 28,483,231 shares issued and outstanding, actual; 33,163,231 shares issued and outstanding, as adjusted	28	33
Additional paid-in capital	303,357	351,609
Accumulated deficit	(298,359)	(298,359)
Total stockholders equity	5,026	53,283
Total liabilities and stockholders equity	\$ 116,954	\$ 165,211

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described under **Risk Factors** in our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, and all of the other information contained in this prospectus supplement and the accompanying prospectus, and incorporated by reference into this prospectus supplement and the accompanying prospectus, including our financial statements and related notes, before investing in our common stock. If any of the possible events described below or in those sections actually occur, our business, business prospects, cash flow, results of operations or financial condition could be harmed, the trading price of our common stock could decline, and you might lose all or part of your investment in our common stock. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations and results.

Risks related to our business and industry

If the FDA does not approve the NDA that we submitted for tasimelteon for the treatment of Non-24, continued development of tasimelteon will be significantly delayed or terminated, our business will be significantly harmed, and the market price of our stock could decline.

We commenced our Phase III program for tasimelteon for the treatment of Non-24-Hour Disorder (Non-24) in the third quarter of 2010. In December 2012, we reported positive top-line results in a randomized, double-blind, multi-center, placebo-controlled Phase III trial (SET study) that enrolled 84 patients. In January 2013, we announced positive results for the second Phase III study of tasimelteon for the treatment of Non-24 (RESET study). In addition, we have two ongoing open-label safety studies for tasimelteon in treatment of Non-24. We met with the U.S. Food and Drug Administration (FDA) in the first quarter of 2013 for a pre-NDA meeting on tasimelteon in the treatment of patients with Non-24 and submitted a New Drug Application (NDA) with the FDA in May 2013. In July 2013, we announced that the FDA accepted the filing and granted a priority review classification to our NDA and that the FDA tentatively scheduled an advisory committee meeting to discuss the NDA. Any adverse developments or results or perceived adverse developments or results with respect to our regulatory submission, the advisory committee meeting or the tasimelteon Phase III program will significantly harm our business and could cause the market price of our stock to decline. Examples of such adverse developments include, but are not limited to:

the FDA determining that additional clinical studies are required with respect to the Phase III program in Non-24;

safety, efficacy or other concerns arising from clinical or non-clinical studies in this program, or the manufacturing processes or facilities used for the program; and

the FDA determining that the Phase III program in Non-24 raises safety concerns or does not demonstrate adequate efficacy.

We and our partners face heavy government regulation. FDA regulatory approval of our compounds is uncertain and we and our partners are also continually at risk of the FDA requiring us or them to discontinue marketing any compounds that have obtained, or in the future may obtain, regulatory approval.

The research, testing, manufacturing and marketing of compounds such as those that we have developed or we or in regard to partnered products, our partners, are developing are subject to extensive regulation by federal, state and local government authorities, including the FDA. To obtain regulatory approval of such compounds, we or our partners must demonstrate to the satisfaction of the applicable regulatory agency that, among other things, the compound is safe and effective for its intended use. In addition, we or our partners must show that the manufacturing facilities used to produce such compounds are in compliance with current Good Manufacturing Practices regulations or cGMP.

The process of obtaining FDA and other required regulatory approvals and clearances can take many years and will require us and, in the case of partnered products, our partners to expend substantial time and capital. Despite

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the time and expense expended, regulatory approval is never guaranteed. The number of pre-clinical and clinical trials that will be required for FDA approval varies depending on the compound, the disease or condition that the compound is in development for, and the requirements applicable to that particular compound. The FDA can delay, limit or deny approval of a compound for many reasons, including that:

a compound may not be shown to be safe or effective;

the FDA may interpret data from pre-clinical and clinical trials in different ways than we or our partners do;

the FDA may not approve our or our partners' manufacturing processes or facilities;

a compound may not be approved for all the indications we or our partners request;

the FDA may change its approval policies or adopt new regulations;

the FDA may not meet, or may extend, the Prescription Drug User Fee Act (PDUFA-V) date with respect to a particular NDA; and

the FDA may not agree with our or our partners' regulatory approval strategies or components of the regulatory filings, such as clinical trial designs.

For example, if certain of our or our partners' methods for analyzing trial data are not accepted by the FDA, we or our partners may fail to obtain regulatory approval for our compounds.

Moreover, the marketing, distribution and manufacture of approved products remain subject to extensive ongoing regulatory requirements. Failure to comply with applicable regulatory requirements could result in, among other things:

warning letters;

fines;

civil penalties;

injunctions;

recall or seizure of products;

total or partial suspension of production;

refusal of the government to grant future approvals;

withdrawal of approvals; and

criminal prosecution.

Any delay or failure to obtain regulatory approvals for our compounds will result in increased costs, could diminish competitive advantages that we may attain and would adversely affect the marketing and sale of our compounds. Other than Fanapt® in the U.S., Israel and Argentina, we have not received regulatory approval to market any of our compounds in any jurisdiction.

Even following regulatory approval of our compounds, the FDA may impose limitations on the indicated uses for which such compounds may be marketed, subsequently withdraw approval or take other actions against us, our partners or such compounds that are adverse to our business. The FDA generally approves drugs for particular indications. An approval for a more limited indication reduces the size of the potential market for the product. Product approvals, once granted, may be withdrawn or modified if problems occur after initial marketing.

We and our partners also are subject to numerous federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the environment and the use and

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disposal of hazardous substances used in connection with discovery, research and development work. In addition, we cannot predict the extent to which new governmental regulations might significantly impede the discovery, development, production and marketing of our compounds. We or our partners may be required to incur significant costs to comply with current or future laws or regulations, and we may be adversely affected by the cost of such compliance or the inability to comply with such laws or regulations.

We intend to seek regulatory approvals for our compounds in foreign jurisdictions, but we may not obtain any such approvals.

Pursuant to our amended and restated sublicense agreement with Novartis, we retained the right to develop and commercialize Fanapt® outside the U.S. and Canada. We intend to market our compounds outside the U.S. and Canada with one or more commercial partners. In order to market our compounds in foreign jurisdictions, we or our partners may be required to obtain separate regulatory approvals and to comply with numerous and varying regulatory requirements. The approval procedure varies among countries and jurisdictions and can involve additional trials, and the time required to obtain approval may differ from that required to obtain FDA approval. Additionally, the foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. For all of these reasons, we or our partners may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or jurisdictions or by the FDA. We or our partners may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our compounds in any market. The failure to obtain these approvals could harm our business materially.

We continue to explore the regulatory path and commercial opportunity for Fanapt® oral formulation outside of the U.S. and Canada. In December 2012, the European Medicines Agency's (EMA) Committee for Medicinal Product for Human Use (CHMP) issued a negative opinion recommending against approval of Fanaptum (oral iloperidone tablets) for the treatment of schizophrenia in adult patients in the European Union. The CHMP was of the opinion that the benefits of Fanaptum did not outweigh its risks and recommended against marketing authorization at this point in time. In January 2013, we formally appealed the EMA's negative opinion and requested a re-examination of the decision by the CHMP, but subsequently withdrew our marketing authorization application because the additional clinical data requested by the CHMP will not be available in the timeframe allowed by the EMA's Centralized Procedure. We intend to reassess our European regulatory strategy for Fanaptum once the results from the Relapse Prevention Study in Patients with Schizophrenia (REPRIEVE) being conducted by Novartis, become available. Even if the results of the REPRIEVE study are positive, however, we may determine not pursue foreign regulatory approvals for Fanaptum or, if we do, we still may not be able to obtain such approval.

Even after we or our partners obtain regulatory approvals of a product, acceptance of such compound in the marketplace is uncertain and failure to achieve market acceptance will prevent or delay our ability to generate revenues.

Even after obtaining regulatory approvals for the sale of our compounds, the commercial success of these compounds will depend, among other things, on their acceptance by physicians, patients, third-party payors and other members of the medical community as a therapeutic and cost-effective alternative to competing products and treatments. The degree of market acceptance of any compound will depend on a number of factors, including the demonstration of its safety and efficacy, its cost-effectiveness, its potential advantages over other therapies, the reimbursement policies of government and third-party payors with respect to such compound, our ability to attract and maintain corporate partners, including pharmaceutical companies, to assist in commercializing our compounds, receipt of regulatory clearance of marketing claims for the uses that we or our partners are developing and the effectiveness of our and our partners' marketing and distribution capabilities. If our approved compounds fail to gain market acceptance, we may be unable to earn sufficient revenue to continue our business. If our approved compounds do not become widely accepted by physicians, patients, third-party payors and other members of the medical community, it is unlikely that we will ever become profitable on a sustained basis or achieve significant revenues.

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If we fail to obtain the capital necessary to fund our research and development activities and commercialization efforts, we may be unable to continue operations or we may be forced to share our rights to commercialize our products and product candidates with third parties on terms that may not be attractive to us.

Our activities will necessitate significant uses of working capital throughout 2013 and beyond. As of June 30, 2013, our total cash and cash equivalents and marketable securities were \$103.6 million. Our long term capital requirements are expected to depend on many factors, including, among others:

our ability to commercialize tasimelteon globally;

the amount of royalty and milestone payments received from our commercial partners;

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

costs of developing and maintaining sales, marketing and distribution channels and our ability to sell our products;

costs involved in establishing manufacturing capabilities for commercial quantities of our products;

the number of potential formulations, products and product candidates in development;

progress with pre-clinical studies and clinical trials;

time and costs involved in obtaining regulatory (including FDA) approval;

costs involved in preparing, filing, prosecuting, maintaining and enforcing patent, trademark and other intellectual property claims;

competing technological and market developments;

market acceptance of our products;

costs for recruiting and retaining employees and consultants;

costs for training physicians; and

legal, accounting, insurance and other professional and business related costs.

We expect to continue to receive royalty payments and hope to receive commercial and development milestone payments relating to Fanapt® in connection with our amended and restated sublicense agreement with Novartis. Based on the current sales performance of Fanapt® in the U.S.

and the decision by Novartis to cease development of the long-acting injectable (or depot) formulation of Fanapt®, we expect that some or all of these commercial and development milestones will not be achieved by Novartis. As a result, we may need to raise additional capital to fund our anticipated operating expenses and execute on our business plans. In our capital-raising efforts, we may seek to sell debt securities or additional equity securities or obtain a bank credit facility, or enter into partnerships or other collaboration agreements. The sale of additional equity or debt securities, if convertible, could result in dilution to our stockholders and may also result in a lower price for our common stock. The incurrence of indebtedness would result in increased fixed obligations and could also result in covenants that could restrict our operations. However, we may not be able to raise additional funds on acceptable terms, or at all. If we are unable to secure sufficient capital to fund our planned activities, we may not be able to continue operations, or we may have to enter into partnerships or other collaboration agreements that could require us to share commercial rights to our products to a greater extent or at earlier stages in the drug development process than is currently intended. These partnerships or collaborations, if consummated prior to proof-of-efficacy or safety of a given product, could impair our ability to realize value from that product. If additional financing is not available when required or is not available on acceptable terms, we may be unable to fund our operations and planned growth, develop or enhance our technologies or products, take advantage of business opportunities or respond to competitive market pressures, any of which would materially harm our business, financial condition and results of operations.

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We face substantial competition which may result in others developing or commercializing products before or more successfully than we do.

Our future success will depend on our or our partners' ability to demonstrate and maintain a competitive advantage with respect to our compounds and our ability to identify and develop additional products or product candidates through the application of our pharmacogenetics and pharmacogenomics expertise. Large, fully integrated pharmaceutical companies, either alone or together with collaborative partners, have substantially greater financial resources and have significantly greater experience than we do in:

developing products and product candidates;

undertaking pre-clinical testing and clinical trials;

obtaining FDA and other regulatory approvals of products and product candidates; and

manufacturing, marketing and selling products.

These companies may invest heavily and quickly to discover and develop novel products that could make our compounds obsolete. Accordingly, our competitors may succeed in obtaining patent protection, receiving FDA or foreign regulatory approval or commercializing superior products or other competing products before we do. Technological developments or the FDA or foreign regulatory approval of new therapeutic indications for existing products may make our compounds obsolete or may make them more difficult to market successfully, any of which could have a material adverse effect on our business, results of operations and financial condition.

Fanapt[®], and our other compounds, if successfully developed and approved for commercial sale, will compete with a number of drugs and therapies currently manufactured and marketed by major pharmaceutical and other biotechnology companies. Our compounds may also compete with new products currently under development by others or with products which may cost less than our compounds. Physicians, patients, third party payors and the medical community may not accept or utilize any of our compounds that may be approved. If Fanapt[®] and our other compounds (if and when approved) do not achieve significant market acceptance, our business, results of operations and financial condition would be materially adversely affected. We believe the primary competitors for Fanapt[®] and tasimelteon are as follows:

For tasimelteon in the treatment of Non-24, there are no approved direct competitors. Insomnia treatments include, Rozerem[®] (ramelteon) by Takeda Pharmaceuticals Company Limited, hypnotics such as Ambien[®] (zolpidem) by sanofi-aventis (including Ambien CR[®]), Lunesta[®] (eszopiclone) by Daiippon Sumitomo Pharma, Sonata[®] (zaleplon) by Pfizer Inc., Silenor[®] (doxepin) by Somaxon Pharmaceuticals, Inc., generic compounds such as zolpidem, trazodone and doxepin, and over-the-counter remedies such as Benadryl[®] and Tylenol PM[®]. The class of melatonin agonists includes Rozerem[®] (ramelteon) by Takeda Pharmaceuticals Company Limited, Valdoxan[®] (agomelatine) by Servier, Circadin[®] (long-acting melatonin) by Neurim Pharmaceuticals and the food supplement melatonin.

For Fanapt[®] in the treatment of schizophrenia, the atypical antipsychotics Risperdal[®] (risperidone), including the depot formulation Risperdal[®] Consta[®], and Invega[®] (paliperidone), including the depot formulation Invega[®] Sustenna[®], each by Ortho-McNeil-Janssen Pharmaceuticals, Inc., Zyprexa[®] (olanzapine), including the depot formulation Zyprexa[®] Relprevv[®], by Eli Lilly and Company, Seroquel[®] (quetiapine) by AstraZeneca PLC, Abilify[®] (aripiprazole) by BMS/Otsuka Pharmaceutical Co., Ltd., Geodon[®] (ziprasidone) by Pfizer Inc., Saphris[®] (asenapine) by Schering-Plough, Latuda[®] (lurasidone) by Daiippon Sumitomo Pharma, and generic clozapine, as well as the typical antipsychotics haloperidol, chlorpromazine, thioridazine, and sulpiride (all of which are generic).

Additionally, our ability to compete may be affected because insurers and other third-party payors in some cases seek to encourage the use of cheaper, generic products, which could make our compounds less attractive.

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We have no experience selling, marketing or distributing products, other than providing assistance to Novartis relating to the U.S. commercialization of Fanapt®, which may make commercializing our products and product candidates difficult.

At present, we have no marketing experience, other than providing assistance to Novartis relating to the U.S. commercialization of Fanapt®. Therefore, in order for us to commercialize Fanapt®, outside the U.S. and Canada, or our other compounds, including tasimelteon, we must either acquire or internally develop sales, marketing and distribution capabilities, or enter into collaborations with partners to perform these services for us. We may, in some instances, rely significantly on sales, marketing and distribution arrangements with our collaborative partners and other third parties. For example, we rely completely on Novartis to market, sell and distribute Fanapt® in the U.S. and Canada.

For the commercialization of Fanapt® outside the U.S. and Canada or our other compounds, we may not be able to establish, other than those currently established, sales and distribution partnerships on acceptable terms or at all. In regard to our current foreign partners and any additional distribution arrangements or other agreements we may enter into, our success will be materially dependent upon the performance of our partner. In the event that we attempt to acquire or develop our own in-house sales, marketing and distribution capabilities, factors that may inhibit our efforts to commercialize our products and product candidates without partners or licensees include:

our inability to recruit and retain adequate numbers of effective sales and marketing personnel;

the inability of sales personnel to obtain access to or persuade adequate numbers of physicians to prescribe our products;

the lack of complementary products to be offered by our sales personnel, which may put us at a competitive disadvantage against companies with broader product lines; and

unforeseen costs associated with creating our own sales and marketing team or with entering into a partnering agreement with an independent sales and marketing organization.

The cost of establishing and maintaining a sales, marketing and distribution organization may exceed its cost effectiveness. If we fail to develop sales and marketing capabilities, if sales efforts are not effective or if costs of developing sales and marketing capabilities exceed their cost effectiveness, our business, results of operations and financial condition could be materially adversely affected.

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

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

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

the amount of resources and efforts utilized by Novartis in relation to the commercialization of Fanapt®;

the ability of patients to be able to afford Fanapt® or obtain health care coverage that covers Fanapt®;

acceptance of, and ongoing satisfaction, with Fanapt® by the medical community, patients receiving therapy and third party payers;

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a satisfactory efficacy and safety profile as demonstrated in a broad patient population;

the size of the market for Fanapt®;

successfully expanding and sustaining manufacturing capacity to meet demand;

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cost and availability of raw materials;

safety concerns in the marketplace for schizophrenia therapies;

regulatory developments relating to the manufacture or continued use of Fanapt®;

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

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

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

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

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

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

If our compounds are determined to be unsafe or ineffective in humans, whether commercially or in clinical trials, our business will be materially harmed.

Despite the FDA's approval of the NDA for Fanapt® in May 2009 and the positive results of our completed trials for Fanapt® and tasimelteon, we are uncertain whether either of these products will ultimately prove to be effective and safe in humans. Frequently, products that have shown promising results in clinical trials have suffered significant setbacks in later clinical trials or even after they are approved for commercial sale. Future uses of our compounds, whether in clinical trials or commercially, may reveal that the compound is ineffective, unacceptably toxic, has other undesirable side effects, is difficult to manufacture on a large scale, is uneconomical, infringes on proprietary rights of another party or is otherwise not fit for further use. If our compounds are determined to be unsafe or ineffective in humans, our business will be materially harmed.

Clinical trials for our compounds are expensive and their outcomes are uncertain. Any failure or delay in completing clinical trials for our compounds could severely harm our business.

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Pre-clinical studies and clinical trials required to demonstrate the safety and efficacy of our compounds are time-consuming and expensive and together take several years to complete. Before obtaining regulatory approvals for

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the commercial sale of any of our compounds, we or our partners must demonstrate through preclinical testing and clinical trials that such compound is safe and effective for use in humans. We have incurred, and we will continue to incur, substantial expense for, and devote a significant amount of time to, preclinical testing and clinical trials.

Historically, the results from preclinical testing and early clinical trials often have not predicted results of later clinical trials. A number of new drugs have shown promising results in clinical trials, but subsequently failed to establish sufficient safety and efficacy data to obtain necessary regulatory approvals. Clinical trials conducted by us, by our partners or by third parties on our or our partners' behalf may not demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals for our compounds. Regulatory authorities may not permit us or our partners to undertake any additional clinical trials for our compounds, may force us to stop any ongoing clinical trials and it may be difficult to design efficacy studies for our compounds in new indications.

Clinical development efforts performed by us or our partners may not be successfully completed. Completion of clinical trials may take several years or more. The length of time can vary substantially with the type, complexity, novelty and intended use of the compounds and the size of the prospective patient population. The commencement and rate of completion of clinical trials for our compounds may be delayed by many factors, including:

the inability to manufacture or obtain from third parties materials sufficient for use in pre-clinical studies and clinical trials;

delays in beginning a clinical trial;

delays in patient enrollment and variability in the number and types of patients available for clinical trials;

difficulty in maintaining contact with patients after treatment, resulting in incomplete data;

poor effectiveness of our compounds during clinical trials;

unforeseen safety issues or side effects; and

governmental or regulatory delays and changes in regulatory requirements and guidelines.

If we or our partners fail to complete successfully one or more clinical trials for our compounds, we or they may not receive the regulatory approvals needed to market that compound. Therefore, any failure or delay in commencing or completing these clinical trials would harm our business materially.

Our compounds may cause undesirable side effects or have other properties that could delay, prevent or result in the revocation of their regulatory approval or limit their marketability.

Undesirable side effects caused by our compounds could interrupt, delay or halt clinical trials and could result in the denial of regulatory approval by the FDA or other regulatory authorities for any or all targeted indications, and in turn prevent us or our partners from commercializing or continuing the commercialization of such compounds and generating revenues from their sale. We and our partners, as applicable, will continue to assess the side effect profile of our compounds in ongoing clinical development programs. However, we cannot predict whether the commercial use of our approved compounds (or our compounds in development, if and when they are approved for commercial use) will produce undesirable or unintended side effects that have not been evident in the use of, or in clinical trials conducted for, such compounds to date. Additionally, incidents of product misuse may occur. These events, among others, could result in product recalls, product liability actions or withdrawals or additional regulatory controls, all of which could have a material adverse effect on our business, results of operations and financial condition.

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In addition, if after receiving marketing approval of a compound, we, our partners or others later identify undesirable side effects caused by such compound, we or our partners could face one or more of the following:

regulatory authorities may require the addition of labeling statements, such as a black box warning or a contraindication;

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regulatory authorities may withdraw their approval of the compound;

we or our partners may be required to change the way the compound is administered, conduct additional clinical trials or change the labeling of the compound; and

our, our partner's or the compound's reputation may suffer.

Any of these events could prevent us or our partners from achieving or maintaining market acceptance of the affected compound or could substantially increase the costs and expenses of commercializing the compound, which in turn could delay or prevent us from generating significant revenues from its sale.

We have a history of operating losses, anticipate future losses and may never become profitable on a sustained basis.

We have been engaged in identifying and developing compounds since March 2003, which has required, and will continue to require, significant research and development expenditures. If the NDA for tasimelteon is approved, the commercial launch for tasimelteon will require substantial additional expenditures.

As of June 30, 2013, we had an accumulated deficit of \$298.4 million, and we cannot estimate with precision the extent of our future losses. Our ability to generate revenue and achieve profitability largely depends on Novartis' and our ability to sell Fanapt®. Novartis launched Fanapt® in the U.S. in the first quarter of 2010 and sales to date have not met our expectations. Fanapt® may continue to not be as commercially successful as we expected, Novartis may not succeed in gaining additional market acceptance of Fanapt® in the U.S. or developing and commercializing Fanapt® in Canada, and we may not succeed in commercializing Fanapt® outside of the U.S. and Canada. In addition, we may not succeed in commercializing any other compounds. Tasimelteon is presently in development for Non-24 and will require significant resources prior to market approval. We may not be profitable even if our compounds are successfully commercialized. We may be unable to fully develop, obtain regulatory approval for, commercialize, manufacture, market, sell and derive revenue from our compounds in the timeframes we project, if at all, and our inability to do so would materially and adversely impact the market price of our common stock and our ability to raise capital and continue operations.

There can be no assurance that we will achieve sustained profitability. Our ability to achieve sustained profitability in the future depends, in part, upon:

our and our partners' ability to obtain and maintain regulatory approval for our compounds, both in the U.S. and in foreign countries;

Novartis' ability to successfully market and sell Fanapt® in the U.S. and Canada and achieve certain product development and sales milestones;

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

our ability to enter into and maintain agreements to develop and commercialize our products and product candidates;

our and our partners' ability to develop, have manufactured and market our products and product candidates;

our and our partners' ability to obtain adequate reimbursement coverage for our compounds from insurance companies, government programs and other third party payors; and

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our ability to obtain additional research and development funding from collaborative partners or funding for our products and product candidates.

In addition, the amount we spend will impact our profitability. Our spending will depend, in part, upon:

the progress of our research and development programs for our products and product candidates, including clinical trials;

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the time and expense that will be required to pursue FDA and/or foreign regulatory approvals for our compounds and whether such approvals are obtained on a timely basis, if at all;

the time and expense required to prosecute, enforce and/or challenge patent and other intellectual property rights;

the cost of operating and maintaining development and research facilities;

the cost of third party manufacturers;

the number of product candidates we pursue;

how competing technological and market developments affect our compounds;

the cost of possible acquisitions of technologies, compounds, product rights or companies;

the cost of obtaining licenses to use technology owned by others for proprietary products and otherwise;

the costs and effects of potential litigation; and

the costs associated with recruiting and compensating a highly skilled workforce in an environment where competition for such employees may be intense.

We may not achieve all or any of these goals and, thus, we cannot provide assurances that we will ever be profitable on a sustained basis or achieve significant revenues. Even if we do achieve some or all of these goals, we may not achieve significant or sustained commercial success.

Our ability to use net operating loss carryforwards and tax credit carryforwards to offset future taxable income may be limited as a result of transactions involving our common stock.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended (Code), a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, and certain other tax assets to offset future taxable income. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period (generally three years). Transactions involving our common stock, even those outside our control, such as purchases or sales by investors, within the testing period could result in an ownership change. A limitation on our ability to utilize some or all of our NOLs could have a material adverse effect on our results of operations and cash flows.

If our contract research organizations do not successfully carry out their duties or if we lose our relationships with contract research organizations, our drug development efforts could be delayed.

Our arrangements with contract research organizations are critical to our success in bringing our products and product candidates to the market and promoting such marketed products profitably. We are dependent on contract research organizations, third-party vendors and investigators for pre-clinical testing and clinical trials related to our drug discovery and development efforts and we will likely continue to depend on them to assist in our future discovery and development efforts. These parties are not our employees and we cannot control the amount or timing of resources that they devote to our programs. As such, they may not complete activities on schedule or may not conduct our clinical trials in accordance with regulatory requirements or our stated protocols. The parties with which we contract for execution of our clinical trials play a significant role in the conduct of the trials and the subsequent collection and analysis of data. If they fail to devote sufficient time and resources to our drug development programs or if their performance is substandard, it will delay the development, approval and commercialization of our

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products and product candidates. Moreover, these parties may also have relationships with other commercial entities, some of which may compete with us. If they assist our competitors, it could harm our competitive position.

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Our contract research organizations could merge with or be acquired by other companies or experience financial or other setbacks unrelated to our collaboration that could, nevertheless, materially adversely affect our business, results of operations and financial condition.

If we lose our relationship with any one or more of these parties, we could experience a significant delay in both identifying another comparable provider and then contracting for its services. We may be unable to retain an alternative provider on reasonable terms, if at all. Even if we locate an alternative provider, it is likely that this provider may need additional time to respond to our needs and may not provide the same type or level of service as the original provider. In addition, any provider that we retain will be subject to current Good Laboratory Practices or cGLP, and similar foreign standards and we do not have control over compliance with these regulations by these providers. Consequently, if these practices and standards are not adhered to by these providers, the development and commercialization of our products or product candidates could be delayed.

We rely on a limited number of third party manufacturers to formulate and manufacture our products and product candidates and our business will be seriously harmed if these manufacturers are not able to satisfy our demand and alternative sources are not available.

Our expertise is primarily in the research and development and pre-clinical and clinical trial phases of product development. We do not have an in-house manufacturing capability and depend completely on a small number of third-party manufacturers and active pharmaceutical ingredient formulators for the manufacture of our products and product candidates. Therefore, we are dependent on third parties for our formulation development and manufacturing of our products and product candidates. This may expose us to the risk of not being able to directly oversee the production and quality of the manufacturing process and provide ample commercial supplies to successfully launch and maintain the marketing of our products and product candidates. Furthermore, these third party contractors, whether foreign or domestic, may experience regulatory compliance difficulty, mechanical shut downs, employee strikes, or other unforeseeable events that may delay or limit production. Our inability to adequately establish, supervise and conduct (either ourselves or through third parties) all aspects of the formulation and manufacturing processes would have a material adverse effect on our ability to develop and commercialize our products and product candidates.

We do not have long-term agreements with any of these third parties, and if they are unable or unwilling to perform for any reason, we may not be able to locate alternative acceptable manufacturers or formulators or enter into favorable agreements with them. Any inability to acquire sufficient quantities of our products or product candidates in a timely manner from these third parties could adversely affect sales of our products, delay clinical trials and prevent us from developing our products and product candidates in a cost-effective manner or on a timely basis. In addition, manufacturers of our products and product candidates are subject to cGMP and similar foreign standards and we do not have control over compliance with these regulations by our manufacturers. If one of our contract manufacturers fails to maintain compliance, the production of our products or product candidates could be interrupted, resulting in delays and additional costs. In addition, if the facilities of such manufacturers do not pass a pre-approval or post-approval plant inspection, the FDA will not grant approval and may institute restrictions on the marketing or sale of our products or product candidates.

Our manufacturing strategy presents the following additional risks:

because most of our third-party manufacturers and formulators are located outside of the U.S., there may be difficulties in importing our products and product candidates or their components into the U.S. as a result of, among other things, FDA import inspections, incomplete or inaccurate import documentation or defective packaging; and

because of the complex nature of our products and product candidates, our manufacturers may not be able to successfully manufacture our products and product candidates in a cost-effective and/or timely manner.

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Materials necessary to manufacture our compounds may not be available on commercially reasonable terms, or at all, which may delay the development, regulatory approval and commercialization of our compounds.

We and our partners rely on manufacturers to purchase from third-party suppliers the materials necessary to produce our compounds for clinical trials and commercialization. Suppliers may not sell these materials to such manufacturers at the times we or our partners need them or on commercially reasonable terms. We do not have any control over the process or timing of the acquisition of these materials by these manufacturers. Moreover, we currently do not have any agreements for the commercial production of these materials. If the manufacturers are unable to obtain these materials for our or our partners' clinical trials, product testing, potential regulatory approval of our compounds and commercial scale manufacturing could be delayed, significantly affecting our and our partners' ability to further develop and commercialize our compounds. If we, our manufacturers or, in the case of our partnered products, our partners are unable to purchase these materials for our products or partnered products, as applicable, there would be a shortage in supply or the commercial launch of such products or partnered products would be delayed, which would materially and adversely affect our or our partners' ability to generate revenues from the sale of such products or partnered products.

If we cannot identify, or enter into licensing arrangements for, new products or product candidates, our ability to develop a diverse product portfolio will be limited.

A component of our business strategy is acquiring rights to develop and commercialize compounds discovered or developed by other pharmaceutical and biotechnology companies for which we may find effective uses and markets through our unique pharmacogenetics and pharmacogenomics expertise for the treatment of central nervous system disorders. Competition for the acquisition of these compounds is intense. If we are not able to identify opportunities to acquire rights to commercialize additional products or product candidates, we may not be able to develop a diverse portfolio of products and product candidates and our business may be harmed. Additionally, it may take substantial human and financial resources to secure commercial rights to promising products or product candidates. Moreover, if other firms develop pharmacogenetics and pharmacogenomics capabilities, we may face increased competition in identifying and acquiring additional products or product candidates.

We may not be successful in the development of products for our own account.

In addition to our business strategy of acquiring rights to develop and commercialize products and product candidates, we may develop products and product candidates for our own account by applying our technologies to off-patent drugs as well as developing our own proprietary molecules. Because we will be funding the development of such programs, there is a risk that we may not be able to continue to fund all such programs to completion or to provide the support necessary to perform the clinical trials, obtain regulatory approvals or market any approved products. We expect the development of products for our own account to consume substantial resources. If we are able to develop commercial products on our own, the risks associated with these programs may be greater than those associated with our programs with collaborative partners.

If we lose key scientists or management personnel, or if we fail to recruit additional highly skilled personnel, it will impair our ability to identify, develop and commercialize products.

We are highly dependent on principal members of our management team and scientific staff, including our Chief Executive Officer, Mihael H. Polymeropoulos, M.D. These executives each have significant pharmaceutical industry experience. The loss of any such executives, including Dr. Polymeropoulos, or any other principal member of our management team or scientific staff, would impair our ability to identify, develop and market new products. Our management and other employees may voluntarily terminate their employment with us at any time. The loss of the services of these or other key personnel, or the inability to attract and retain additional qualified personnel, could result in delays to development or approval, loss of sales and diversion of management resources. In addition, we depend on our ability to attract and retain other highly skilled personnel, including

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research scientists. Competition for qualified personnel is intense, and the process of hiring and integrating such qualified personnel is often lengthy. We may be unable to recruit such personnel on a timely basis, if at all, which would negatively impact our development and commercialization programs.

Additionally, we do not currently maintain key person life insurance on the lives of our executives or any of our employees. This lack of insurance means that we may not have adequate compensation for the loss of the services of these individuals.

Product liability lawsuits could divert our resources, result in substantial liabilities and reduce the commercial potential of our compounds.

The risk that we may be sued on product liability claims is inherent in the development and sale of pharmaceutical products. For example, we face a risk of product liability exposure related to the testing of our products and product candidates in clinical trials and will face even greater risks upon commercialization by us or our partners of our compounds. We believe that we may be at a greater risk of product liability claims relative to other pharmaceutical companies because our compounds are intended to treat central nervous system disorders, and it is possible that we may be held liable for the behavior and actions of patients who use our compounds. These lawsuits may divert our management from pursuing our business strategy and may be costly to defend. In addition, if we are held liable in any of these lawsuits, we may incur substantial liabilities and we or our partners may be forced to limit or forego further commercialization of one or more of our compounds. Although we maintain product liability insurance, our aggregate coverage limit under this insurance is \$10.0 million, and while we believe this amount of insurance is sufficient to cover our product liability exposure, these limits may not be high enough to fully cover potential liabilities. As our development activities and commercialization efforts progress and we and our partners sell our compounds, this coverage may be inadequate, we may be unable to obtain adequate coverage at an acceptable cost or we may be unable to get adequate coverage at all or our insurer may disclaim coverage as to a future claim. This could prevent the commercialization or limit the commercial potential of our compounds. Even if we are able to maintain insurance that we believe is adequate, our results of operations and financial condition may be materially adversely affected by a product liability claim. Uncertainties resulting from the initiation and continuation of products liability litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Product liability litigation and other related proceedings may also require significant management time.

Legislative or regulatory reform of the healthcare system in the U.S. and foreign jurisdictions may affect our or our partners' ability to sell our products or partnered products profitably.

The continuing efforts of the U.S. and foreign governments, insurance companies, managed care organizations and other payors of health care services to contain or reduce health care costs may adversely affect our or our partners' ability to set prices for our products or partnered products which we or our partners believe are fair, and our ability to generate revenues and achieve and maintain profitability.

Specifically, in both the U.S. and some foreign jurisdictions there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our or our partners' ability to sell our products or partnered products profitably. In the U.S., the Medicare Prescription Drug Improvement and Modernization Act of 2003 reformed the way Medicare covered and provided reimbursement for pharmaceutical products. This legislation could decrease the coverage and price that we or our partners may receive for our products or partnered products. Other third-party payors are increasingly challenging the prices charged for medical products and services. It will be time-consuming and expensive for us or our partners to go through the process of seeking reimbursement from Medicare and private payors. Our products or partnered products may not be considered cost effective, and coverage and reimbursement may not be available or sufficient to allow the sale of such products on a competitive and profitable basis. Further federal and state proposals and healthcare reforms are likely which could limit the prices that can be charged for the drugs we develop and may further limit

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our commercial opportunity. Our results of operations could be materially adversely affected by the Medicare prescription drug coverage legislation, by the possible effect of this legislation on amounts that private insurers will pay and by other healthcare reforms that may be enacted or adopted in the future.

The Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act of 2010, or PPACA, is a sweeping measure intended to expand healthcare coverage within the U.S., primarily through the imposition of health insurance mandates on employers and individuals and expansion of the Medicaid program, and the establishment of health care exchanges. Several provisions of the new law, which have varying effective dates, may affect us, and will likely increase certain of our costs. For example, an increase in the Medicaid rebate rate from 15.1% to 23.1% was effective as of January 1, 2010, and the volume of rebated drugs was expanded to include beneficiaries in Medicaid managed care organizations effective as of March 23, 2010. The PPACA also imposes an annual fee on pharmaceutical manufacturers which began in 2011, based on the manufacturer's sale of branded pharmaceuticals and biologics (excluding orphan drugs); expands the 340B drug discount program (excluding orphan drugs) including the creation of new penalties for non-compliance; and includes a 50% discount on brand name drugs for Medicare Part D participants in the coverage gap, or "doughnut hole". The law also revised the definition of "average manufacturer price" for reporting purposes (effective October 1, 2010), which could increase the amount of Medicaid drug rebates to states. Substantial new provisions affecting compliance also have been added, which may require us to modify our business practices with health care practitioners.

The reforms imposed by the new law will significantly impact the pharmaceutical industry; however, the full effects of the PPACA cannot be known until these provisions are implemented and the Centers for Medicare & Medicaid Services and other federal and state agencies issue applicable regulations or guidance. Moreover, in the coming years, additional changes could be made to governmental healthcare programs that could significantly impact the success of our products or product candidates. We will continue to evaluate the PPACA, as amended, the implementation of regulations or guidance related to various provisions of the PPACA by federal agencies, as well as trends and changes that may be encouraged by the legislation and that may potentially impact on our business over time. These developments could, however, have a material adverse effect on our business, financial condition and results of operations.

In some foreign countries, including major markets in the European Union and Japan, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take nine to twelve months or longer after the receipt of regulatory marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product to other available therapies. Our business could be materially harmed if reimbursement of our products is unavailable or limited in scope or amount or if pricing is set at unsatisfactory levels.

Our business is subject to extensive governmental regulation and oversight and changes in laws could adversely affect our revenues and profitability.

Our business is subject to extensive government regulation and oversight. As a result, we may become subject to governmental actions which could materially and adversely affect our business, results of operations and financial condition, including:

new laws, regulations or judicial decisions, or new interpretations of existing laws, regulations or decisions, related to patent protection and enforcement, health care availability, method of delivery and payment for health care products and services or our business operations generally;

changes in the FDA and foreign regulatory approval processes that may delay or prevent the approval of new products and result in lost market opportunity;

new laws, regulations and judicial decisions affecting pricing or marketing; and

changes in the tax laws relating to our operations.

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In addition, the Food and Drug Administration Amendments Act of 2007 or the FDAAA included new authorization for the FDA to require post-market safety monitoring, along with a clinical trials registry, and expanded authority for the FDA to impose civil monetary penalties on companies that fail to meet certain commitments. The amendments, among other things, require some new drug applicants to submit risk evaluation and minimization strategies to monitor and address potential safety issues for products upon approval, grant the FDA the authority to impose risk management measures for marketed products and to mandate labeling changes in certain circumstances, and establish new requirements for disclosing the results of clinical trials. Companies that violate the law are subject to substantial civil monetary penalties. Additional measures have also been enacted to address the perceived shortcomings in the FDA's handling of drug safety issues, and to limit pharmaceutical company sales and promotional practices. While the FDAAA has had, and is expected to have, a substantial effect on the pharmaceutical industry, the full extent of that effect is not yet known. As the FDA issues further regulations, guidance and interpretations relating to this legislation, the impact on the industry as well as our business will become clearer. The requirements and other changes that the FDAAA imposes may make it more difficult, and likely more costly, to obtain approval of new pharmaceutical products and to produce, market and distribute existing products. Our and our partners' ability to commercialize approved products successfully may be hindered, and our business may be harmed as a result.

Failure to comply with government regulations regarding the sale and marketing of our products or partnered products could harm our business.

Our and our partners' activities, including the sale and marketing of our products or partnered products, are subject to extensive government regulation and oversight, including regulation under the federal Food, Drug and Cosmetic Act and other federal and state statutes. We are also subject to the provisions of the Federal Anti-Kickback Statute and several similar state laws, which prohibit payments intended to induce physicians or others either to purchase or arrange for or recommend the purchase of healthcare products or services. While the federal law applies only to products or services for which payment may be made by a federal healthcare program, state laws may apply regardless of whether federal funds may be involved. These laws constrain the sales, marketing and other promotional activities of manufacturers of drugs and biologicals, such as us, by limiting the kinds of financial arrangements, including sales programs, with hospitals, physicians, and other potential purchasers of drugs and biologicals. Other federal and state laws generally prohibit individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third party payors that are false or fraudulent, or are for items or services that were not provided as claimed. Anti-kickback and false claims laws prescribe civil and criminal penalties for noncompliance that can be substantial, including the possibility of exclusion from federal healthcare programs (including Medicare and Medicaid).

Pharmaceutical and biotechnology companies have been the target of lawsuits and investigations alleging violations of government regulation, including claims asserting antitrust violations, violations of the Federal False Claim Act, the Anti-Kickback Statute, the Prescription Drug Marketing Act and other violations in connection with off-label promotion of products and Medicare and/or Medicaid reimbursement or related to environmental matters and claims under state laws, including state anti-kickback and fraud laws.

While we continually strive to comply with these complex requirements, interpretations of the applicability of these laws to marketing practices are ever evolving. If any such actions are instituted against us or our partners and we or they are not successful in defending such actions or asserting our rights, those actions could have a significant and material adverse impact on our business, including the imposition of significant fines or other sanctions. Even an unsuccessful challenge could cause adverse publicity and be costly to respond to, and thus could have a material adverse effect on our business, results of operations and financial condition.

Future transactions may harm our business or the market price of our stock.

We regularly review potential transactions related to technologies, products or product rights and businesses complementary to our business. These transactions could include:

mergers;

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acquisitions;

strategic alliances;

licensing agreements; and

co-promotion and similar agreements.

We may choose to enter into one or more of these transactions at any time, which may cause substantial fluctuations in the market price of our stock. Moreover, depending upon the nature of any transaction, we may experience a charge to earnings, which could also materially adversely affect our results of operations and could harm the market price of our stock.

We may undertake strategic acquisitions in the future, and difficulties integrating such acquisitions could damage our ability to achieve or sustain profitability.

Although we have no experience in acquiring businesses, we may acquire businesses or assets that complement or augment our existing business. If we acquire businesses with promising product candidates or technologies, we may not be able to realize the benefit of acquiring such businesses if we are unable to move one or more products or product candidates through preclinical and/or clinical development to regulatory approval and commercialization. Integrating any newly acquired businesses or technologies could be expensive and time-consuming, resulting in the diversion of resources from our current business. We may not be able to integrate any acquired business successfully. We cannot assure you that, following an acquisition, we will achieve revenues, specific net income or loss levels that justify the acquisition or that the acquisition will result in increased earnings, or reduced losses, for the combined company in any future period. Moreover, we may need to raise additional funds through public or private debt or equity financing to acquire any businesses, which would result in dilution for stockholders or the incurrence of indebtedness and may not be available on terms which would otherwise be acceptable to us. We may not be able to operate acquired businesses profitably or otherwise implement our growth strategy successfully.

Our quarterly operating results may fluctuate significantly.

Our operating results will continue to be subject to quarterly fluctuations. The revenues we generate, if any, and our operating results will be affected by numerous factors, including:

our addition or termination of development programs;

variations in the level of expenses related to our products, product candidates or future development programs;

our execution of collaborative, licensing or other arrangements, and the timing of payments we may make or receive under these arrangements;

the timing and amount of royalties or milestone payments;

regulatory developments affecting our compounds or those of our competitors;

product sales;

cost of product sales;

marketing and other expenses;

manufacturing or supply issues;

any intellectual property infringement or other lawsuit in which we may become involved; and

the timing and recognition of stock-based compensation expense.

If our quarterly operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Furthermore, any quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

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Risks related to intellectual property and other legal matters

Our rights to develop and commercialize our product and product candidates are subject in part to the terms and conditions of licenses or sublicenses granted to us by other pharmaceutical companies. With respect to tasimelteon, these terms and conditions include an option in favor of the licensor to reacquire rights to commercialize and develop this product in certain circumstances.

Tasimelteon is based in part on patents that we have licensed on an exclusive basis and other intellectual property licensed from Bristol-Myers Squibb Company (BMS). BMS holds certain rights with respect to tasimelteon in the license agreement. BMS may terminate our license if we fail to meet certain milestones or if we otherwise breach our royalty or other obligations in the agreement. In the event that we terminate our license, or if BMS terminates our license due to our breach, all of our rights to tasimelteon (including any intellectual property we develop with respect to tasimelteon) will revert back to BMS or otherwise be licensed back to BMS on an exclusive basis. Any termination or reversion of our rights to develop or commercialize tasimelteon, including any reacquisition by BMS of our rights, may have a material adverse effect on our business.

Fanapt® (iloperidone) is based in part on patents and other intellectual property owned by sanofi-aventis and Novartis. Titan Pharmaceuticals, Inc. (Titan) holds an exclusive license from sanofi-aventis to the intellectual property owned by sanofi-aventis, and Titan has sublicensed its rights under such license on an exclusive basis to Novartis. We acquired exclusive rights to this and other intellectual property through a further sublicense from Novartis. The sublicense with Novartis was amended and restated in October of 2009 to provide Novartis with exclusive rights to commercialize Fanapt® in the U.S. and Canada and further develop and commercialize a long-acting injectable or depot formulation of Fanapt® in the U.S. and Canada. In October 2012, Novartis informed us that it had determined to cease development of the long-acting (or depot) formulation of Fanapt®. We retained exclusive rights to Fanapt® outside the U.S. and Canada and we have exclusive rights to use any of Novartis' data for Fanapt® for developing and commercializing Fanapt® outside the U.S. and Canada. At Novartis' option, we will enter into good faith discussions with Novartis relating to the co-commercialization of Fanapt® outside of the U.S. and Canada or, alternatively, Novartis will receive a royalty on net sales of Fanapt® outside of the U.S. and Canada. Novartis has chosen not to co-commercialize Fanapt® in Europe and certain other countries and will instead receive a royalty on net sales in those countries. These include, but are not limited to, the countries in the European Union, as well as Switzerland, Norway, Liechtenstein and Iceland. We may lose our rights to develop and commercialize Fanapt® outside the U.S. and Canada if we fail to comply with certain requirements in the amended and restated sublicense agreement regarding our financial condition, or if we fail to comply with certain diligence obligations regarding our development or commercialization activities or if we otherwise breach the amended and restated sublicense agreement and fail to cure such breach. Our rights to develop and commercialize Fanapt® outside the U.S. and Canada may be impaired if we do not cure breaches by Novartis of similar obligations contained in its sublicense agreement with Titan. Our loss of rights in Fanapt® to Novartis would have a material adverse effect on our business, financial condition and results of operations. In addition, if Novartis breaches the amended and restated sublicense agreement with respect to its commercialization activities in the U.S. or Canada, we may terminate Novartis' commercialization rights in the applicable country. We would no longer receive royalty payments from Novartis in connection with such country in the event of such termination.

VLY-686 is based in part on patents that we have licensed on an exclusive basis and other intellectual property licensed from Lilly. Lilly may terminate our license if we fail to use our commercially reasonable efforts to develop and commercialize VLY-686 or if we materially breach the agreement and fail to cure that breach. In the event that we terminate our license, or if Lilly terminates our license for the reasons stated above, all of our rights to VLY-686 (including any intellectual property we develop with respect to VLY-686) will revert back to Lilly, subject to payment by Lilly to us of a royalty on net sales of products that contain VLY-686.

If our efforts to protect the proprietary nature of the intellectual property related to our compounds are not adequate, we may not be able to compete effectively in our markets.

In addition to the rights we have licensed from Novartis, BMS and Lilly relating to our compounds, we rely upon intellectual property we own relating to these compounds, including patents, patent applications and trade

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secrets. As of June 30, 2013, excluding in-licensed patents and patent applications, we had 24 patent and patent application families, most of which have been filed in key markets including the U.S., relating to Fanapt® and tasimelteon. In addition, we had five other patent applications relating to compounds not presently in clinical studies. Our patent applications may be challenged or fail to result in issued patents and our existing or future patents may be too narrow to prevent third parties from developing or designing around these patents. In addition, we generally rely on trade secret protection and confidentiality agreements to protect certain proprietary know-how that is not patentable, for processes for which patents are difficult to enforce and for any other elements of our drug development processes that involve proprietary know-how, information and technology that is not covered by patent applications. While we require all of our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information and technology to enter into confidentiality agreements, we cannot be certain that this know-how, information and technology will not be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. Further, the laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the U.S. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the U.S. and abroad. If we are unable to protect or defend the intellectual property related to our technologies, we will not be able to establish or maintain a competitive advantage in our market.

If we do not obtain protection under the Hatch-Waxman Act and similar foreign legislation to extend our patents and to obtain market exclusivity for our products and partnered products, our business will be harmed.

The United States Drug Price Competition and Patent Term Restoration Act of 1984, more commonly known as the Hatch-Waxman Act, provides for an extension of patent term for drugs for a period of up to five years to compensate for time spent in development. Assuming we gain a five-year patent term restoration for tasimelteon, and that we continue to have rights under our license agreement with respect to this product, we would have exclusive rights to tasimelteon's U.S. new chemical entity patent (the primary patent covering the compound as a new composition of matter) until 2022. In August 2011, the U.S. Patent and Trademark Office issued a certificate of extension under the Hatch-Waxman Act, extending by five years the term of sanofi-aventis' new chemical entity patent relating to Fanapt® to November 2016. Fanapt® will also be eligible for 6 months of additional protection for successfully completing studies in the pediatric population potentially extending the term of the new chemical entity patent in the U.S. until May 2017. The patent for the microsphere long-acting injectable (or depot) formulation of Fanapt® expires in 2024 in the U.S. and 2022 in most of the major markets in Europe. The pending patent application for the aqueous microcrystals long acting injectable (or depot) formulation of Fanapt® will expire in 2023 in the U.S. The patent for the aqueous microcrystals long acting injectable (or depot) formulation of Fanapt® will expire in 2023 in most of the major markets in Europe. A directive in the European Union provides that companies that receive regulatory approval for a new compound will have a 10-year period of market exclusivity for that compound (with the possibility of a further one-year extension) in most countries in Europe, beginning on the date of such European regulatory approval, regardless of when the European new chemical entity patent covering such compound expires. A generic version of the approved drug may not be marketed or sold in Europe during such market exclusivity period. This directive is of material importance with respect to Fanapt®, since the European new chemical entity patent for Fanapt® has expired.

However, there is no assurance that we will receive the extensions of our patents or other exclusive rights available under the Hatch-Waxman Act or similar foreign legislation. If we fail to receive such extensions and exclusive rights, our ability or our partners' ability to prevent competitors from manufacturing, marketing and selling generic versions of our products or partnered products will be materially impaired.

Litigation or third-party claims of intellectual property infringement could require us to divert resources and may prevent or delay our drug discovery and development efforts.

Our commercial success depends in part on our not infringing the patents and proprietary rights of third parties. Third parties may assert that we are employing their proprietary technology without authorization. In addition,

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third parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. Furthermore, parties making claims against us may obtain injunctive or other equitable relief, which could effectively block our ability to develop and commercialize one or more of our products. Defense of these claims, regardless of their merit, would divert substantial financial and employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, obtain one or more licenses from third parties or pay royalties. In addition, even in the absence of litigation, we may need to obtain additional licenses from third parties to advance our research or allow commercialization of our products. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In that event, we would be unable to develop and commercialize further one or more of our products.

In addition, in the future we could be required to initiate litigation to enforce our proprietary rights against infringement by third parties. Prosecution of these claims to enforce our rights against others could divert substantial financial and employee resources from our business. If we fail to enforce our proprietary rights against others, our business will be harmed.

If we use hazardous and biological materials in a manner that causes injury or violates applicable law, we may be liable for damages.

Our research, development and commercialization activities involve the controlled use of potentially hazardous substances, including toxic chemical and biological materials. Although our goal is for our safety procedures for handling and disposing of such materials to comply with state and federal standards, there will always be the risk of contamination, injury or other damages resulting from these hazardous substances. If we were to become liable for an accident, or if we or our partners or manufacturers were to suffer an extended facility shutdown, we could incur significant costs, damages and penalties that could materially harm our business, results of operations and financial condition.

In addition, our operations produce hazardous waste products. While third parties are responsible for disposal of our hazardous waste, we could be liable under environmental laws for any required cleanup of sites at which our waste is disposed. Federal, state, foreign and local laws and regulations govern the use, manufacture, storage, handling and disposal of these hazardous materials. If we fail to comply with these laws and regulations at any time, or if they change, we may be subject to criminal sanctions and substantial civil liabilities, which may adversely affect our business.

Even if we continue to comply with all applicable laws and regulations regarding hazardous materials, we cannot eliminate the risk of accidental contamination or discharge and our resultant liability for any injuries or other damages caused by these accidents. Although we maintain pollution liability insurance, our coverage limit under this insurance is \$2.0 million, and while we believe this amount and type of insurance is sufficient to cover risks typically associated with our handling of materials, the insurance may not cover all environmental liabilities, and these limits may not be high enough to cover potential liabilities for these damages fully. The amount of uninsured liabilities may exceed our financial resources and materially harm our business.

Risks related to the offering and our common stock

Our stock price has been highly volatile and may be volatile in the future, and purchasers of our common stock could incur substantial losses.

The realization of any of the risks described in these risk factors or other unforeseen risks could have a dramatic and adverse effect on the market price of our common stock. Between January 1, 2013 and June 30, 2013, the high and low sale prices of our common stock as reported on The NASDAQ Global Market varied between \$3.57 and \$13.30. Additionally, market prices for securities of biotechnology and pharmaceutical companies, including ours, have historically been very volatile. The market for these securities has from time to time experienced significant price and volume fluctuations for reasons that were unrelated to the operating performance of any one company.

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The following factors, in addition to the other risk factors described in this section, may also have a significant impact on the market price of our common stock:

publicity regarding actual or potential testing or trial results relating to products under development by us or our competitors;

the outcome of regulatory review relating to products under development by us or our competitors;

regulatory developments in the U.S. and foreign countries;

developments concerning any collaboration or other strategic transaction we may undertake;

announcements of patent issuances or denials, technological innovations or new commercial products by us or our competitors;

termination or delay of development or commercialization program(s) by our partners;

safety issues with our products or those of our competitors;

our partners' ability to successfully commercialize our partnered products;

our ability to successfully execute our commercialization strategies;

announcements of technological innovations or new therapeutic products or methods by us or others;

actual or anticipated variations in our quarterly operating results;

changes in estimates of our financial results or recommendations by securities analysts or failure to meet such financial expectations;

changes in government regulations or policies;

changes in patent legislation or patent decisions or adverse changes to patent law;

additions or departures of key personnel or members of our board of directors;

the publication of negative research or articles about our company, our business or our compounds by industry analysts or others;

publicity regarding actual or potential transactions involving us; and

economic, political and other external factors beyond our control.

We may be subject to litigation, which could harm our stock price, business, results of operations and financial condition.

We have been the subject of litigation in the past and may be subject to litigation in the future. In the past, following periods of volatility in the market price of their stock, many companies, including us, have been the subjects of securities class action litigation. Any such litigation can result in substantial costs and diversion of management's attention and resources and could harm our stock price, business results of operations and financial condition. As a result of these factors, holders of our common stock might be unable to sell their shares at or above the price they paid for such shares. On June 24, 2013, a securities class action complaint was filed in the United States District Court for the District of Columbia, naming the Company and certain of our officers as defendants seeking to assert violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, in connection with allegedly false and misleading statements and alleged omissions regarding our Phase III trial results for tasimelteon and other disclosures between December 18, 2012 and June 18, 2013. A similar complaint was filed on July 8, 2013. Our management believes that we have meritorious defenses and intends to defend these lawsuits vigorously. We do not anticipate that this litigation will have a material adverse effect on our business, results of operations or financial condition. However, the lawsuits are subject to inherent uncertainties, the actual cost may be significant, and we may not prevail. We believe we are entitled to coverage under our relevant insurance policies, subject to a retention, but coverage could be denied or prove to be insufficient.

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If there are substantial sales of our common stock, our stock price could decline.

A small number of institutional investors and private equity funds hold a significant number of shares of our common stock. Sales by these stockholders of a substantial number of shares, or the expectation of such sales, could cause a significant reduction in the market price of our common stock.

In addition to our outstanding common stock, as of June 30, 2013, there were a total of 5,992,030 shares of common stock that we have registered and that we are obligated to issue upon the exercise of currently outstanding options and settlement of restricted stock unit awards granted under our Second Amended and Restated Management Equity Plan and 2006 Equity Incentive Plan. Upon the exercise of these options or settlement of the shares underlying these restricted stock units, as the case may be, in accordance with their respective terms, these shares may be resold freely, subject to restrictions imposed on our affiliates under Rule 144. If significant sales of these shares occur in short periods of time, these sales could reduce the market price of our common stock. Any reduction in the trading price of our common stock could impede our ability to raise capital on attractive terms, if at all.

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.

Our management will have broad discretion to use the net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. They might not apply the net proceeds of this offering in ways that increase the value of your investment. Our management might not be able to yield a significant return, if any, on any investment of these net proceeds. You will not have the opportunity to influence our decisions on how to use the proceeds.

If we fail to maintain the requirements for continued listing on The NASDAQ Global Market, our common stock could be delisted from trading, which would adversely affect the liquidity of our common stock and our ability to raise additional capital.

Our common stock is currently listed for quotation on The NASDAQ Global Market. We are required to meet specified listing criteria in order to maintain our listing on The NASDAQ Global Market. If we fail to satisfy The NASDAQ Global Market's continued listing requirements, our common stock could be delisted from The NASDAQ Global Market, in which case we may transfer to The NASDAQ Capital Market, which generally has lower financial requirements for initial listing or, if we fail to meet its listing requirements, the over-the-counter bulletin board. Any potential delisting of our common stock from The NASDAQ Global Market would make it more difficult for our stockholders to sell our stock in the public market and would likely result in decreased liquidity and increased volatility for our common stock.

If securities or industry analysts do not publish research or reports or publish unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We currently have research coverage by securities and industry analysts. If one or more of the analysts who covers us downgrades our stock, our stock price would likely decline. If one or more of these analysts ceases coverage of our Company or fails to regularly publish reports on us, interest in the purchase of our stock could decrease, which could cause our stock price or trading volume to decline.

You will experience immediate and substantial dilution.

The offering price per share in this offering exceeds the net tangible book value per share of our common stock outstanding prior to this offering. Based on the sale of 4,680,000 shares of our common stock at the public offering price of \$11.14 per share, for aggregate gross proceeds of approximately \$52.1 million, and after

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deducting underwriting discounts and commissions and estimated aggregate offering expenses payable by us, you will experience immediate dilution of \$9.71 per share, representing the difference between our as adjusted net tangible book value per share as of June 30, 2013 after giving effect to this offering and the offering price. In addition, we are not restricted from issuing additional securities in the future, including shares of common stock, securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or substantially similar securities. The issuance of these securities may cause further dilution to our stockholders. The exercise of outstanding stock options and the vesting of outstanding restricted stock units may also result in further dilution of your investment. See the section entitled "Dilution" on page S-35 below for a more detailed illustration of the dilution you may incur if you participate in this offering.

You may experience future dilution as a result of future equity offerings.

In order to raise additional capital, we may in the future offer additional shares of our common stock or other securities convertible into or exchangeable for our common stock at prices that may not be the same as the price per share in this offering. We may sell shares or other securities in any other offering at a price per share that is less than the price per share paid by investors in this offering, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, in future transactions may be higher or lower than the price per share paid by investors in this offering.

Our business could be negatively affected as a result of the actions of activist stockholders.

Proxy contests have been waged against many companies in the biopharmaceutical industry, including us, over the last few years. If faced with a proxy contest or other type of shareholder activism, we may not be able to respond successfully to the contest or dispute, which would be disruptive to our business. Even if we are successful, our business could be adversely affected by a proxy contest or shareholder dispute involving us or our partners because:

responding to proxy contests and other actions by activist stockholders can be costly and time-consuming, disrupting operations and diverting the attention of management and employees;

perceived uncertainties as to future direction may result in the loss of potential acquisitions, collaborations or in-licensing opportunities, and may make it more difficult to attract and retain qualified personnel and business partners; and

if individuals are elected to a board of directors with a specific agenda, it may adversely affect our ability to effectively and timely implement our strategic plan and create additional value for our stockholders.

These actions could cause our stock price to experience periods of volatility.

Anti-takeover provisions in our charter and bylaws, and in Delaware law, and our 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;

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do not provide for cumulative voting in the election of directors, which would allow holders of less than a majority of the stock to elect some directors;

establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following their election;

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 September 2008, our board of directors adopted a rights agreement, the provisions of which could result in significant dilution of the proportionate ownership of a potential acquirer and, accordingly, could discourage, delay or prevent a change in our management or control over us.

Prolonged economic uncertainties or downturns, as well as unstable market, credit and financial conditions, may exacerbate certain risks affecting our business and have serious adverse consequences on our business.

The global economic downturn and market instability has made the business climate more volatile and more costly. These economic conditions, and uncertainty as to the general direction of the macroeconomic environment, are beyond our control and may make any necessary debt or equity financing more difficult, more costly, and more dilutive. While we believe we have adequate capital resources to meet current working capital and capital expenditure requirements, a lingering economic downturn or significant increase in our expenses could require additional financing on less than attractive rates or on terms that are excessively dilutive to existing stockholders. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our stock price and could require us to delay or abandon clinical development plans.

Sales of our products and partnered products will be dependent, in large part, on reimbursement from government health administration authorities, private health insurers, distribution partners and other organizations. As a result of negative trends in the general economy in the U.S. or other jurisdictions in which we may do business, these organizations may be unable to satisfy their reimbursement obligations or may delay payment. In addition, federal and state health authorities may reduce Medicare and Medicaid reimbursements, and private insurers may increase their scrutiny of claims. A reduction in the availability or extent of reimbursement could negatively affect our or our partners' product sales and revenue.

In addition, we rely on third parties for several important aspects of our business. For example, we depend upon Novartis for Fanapt® royalty revenue, we use third party contract research organizations for many of our clinical trials, and we rely upon several single source providers of raw materials and contract manufacturers for the manufacture of our products and product candidates. During challenging and uncertain economic times and in tight credit markets, there may be a disruption or delay in the performance of our third party contractors, suppliers or partners. If such third parties are unable to satisfy their commitments to us, our business and results of operations would be adversely affected.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference in these documents contain forward-looking statements. Words such as, but not limited to, believe, expect, anticipate, estimate, intend, plan, project, target, 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 that involve risks, changes in circumstances, assumptions and uncertainties. Important factors that could cause actual results to differ materially from those reflected in our forward-looking statements include, among others:

the failure to obtain, or any delay in obtaining, regulatory approval for our products or product candidates, particularly tasimelteon for the treatment of Non-24-Hour Disorder (Non-24), or to comply with ongoing regulatory requirements;

our ability to successfully commercialize tasimelteon following the receipt of regulatory approval, if any;

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

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

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

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

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

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

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

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

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

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

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

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

the cost and effects of current or potential litigation; and

losses incurred from product liability claims made against us.

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

In addition, you should refer to the section of this prospectus supplement entitled "Risk Factors" as well as the documents we have incorporated by reference for a discussion of other important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this prospectus supplement 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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USE OF PROCEEDS

We estimate that the net proceeds from the sale of 4,680,000 shares of our common stock in this offering will be approximately \$48.3 million, or approximately \$55.6 million if the underwriters exercise in full their option to purchase additional shares of common stock, based on the public offering price of \$11.14 per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering for sales and marketing expenditures, which may include commercial launch activities for tasimelteon for the treatment of Non-24 following receipt of regulatory approval, if any, research and development activities and other general corporate purposes. We may also use a portion of the net proceeds to acquire or invest in businesses, products or technologies that we believe are complementary to our own, although we are not currently planning or negotiating any such transactions. We have not yet determined the amount of net proceeds to be used specifically for any of the foregoing purposes. Accordingly, our management will have significant discretion and flexibility in applying the net proceeds from the sale of these securities. Pending any use, as described above, we intend to invest the net proceeds in high-quality, short-term, interest-bearing securities.

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DESCRIPTION OF SECURITIES

Capital Stock

We are authorized to issue 150,000,000 shares of common stock, \$0.001 par value per share, and 20,000,000 shares of preferred stock, \$0.001 par value per share.

The transfer agent for our common stock is American Stock Transfer & Trust Company, LLC.

For more information regarding our capital stock, including a summary of the rights of our common stock and preferred stock, please read the information discussed under the heading "Description of Securities" beginning on page 27 of the accompanying prospectus dated February 11, 2011.

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PRICE RANGE OF OUR COMMON STOCK

Our common stock is traded on The NASDAQ Global Market under the symbol VNDA. The following table summarizes the high and low closing sales prices for our common stock as reported by The NASDAQ Global Market for the period indicated:

	High	Low
2011		
First Quarter	\$ 9.98	\$ 6.81
Second Quarter	8.05	6.84
Third Quarter	7.54	4.95
Fourth Quarter	6.00	4.36
2012		
First Quarter	\$ 5.46	\$ 4.47
Second Quarter	4.78	4.02
Third Quarter	4.50	3.91
Fourth Quarter	4.16	3.03
2013		
First Quarter	\$ 4.37	\$ 3.68
Second Quarter	13.00	3.93
Third Quarter (through August 6, 2013)	12.07	8.05

The last reported sale price for our common stock on The NASDAQ Global Market on August 6, 2013 was \$11.14.

DIVIDEND POLICY

We have not paid dividends to our stockholders since our inception (other than a dividend of preferred share purchase rights, which was declared in September 2008) and do not plan to pay dividends in the foreseeable future.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash, cash equivalents and capitalization as of June 30, 2013,

on an actual basis; and

on an as adjusted basis to give effect to the issuance and sale by us of 4,680,000 shares of common stock in this offering, and the receipt of the net proceeds from the sale of these shares, at the public offering price of \$11.14, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table in conjunction with the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing in our most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, which are incorporated by reference in this prospectus supplement and the accompanying prospectus.

Consolidated Balance Sheet Data: <i>(in thousands, except for share and per share amounts)</i>	June 30, 2013 Actual (Unaudited)	June 30, 2013 As Adjusted (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 103,633	\$ 151,890
Accounts receivable	1,641	1,641
Prepaid expenses and other current assets	2,651	2,651
Restricted cash, current	430	430
Total current assets	108,355	156,612