

ARENA PHARMACEUTICALS INC

Form DEF 14A

April 29, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

.. Soliciting Material Pursuant to §240.14a-12

## **Arena Pharmaceuticals, Inc.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:



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**ARENA PHARMACEUTICALS, INC.**

April 29, 2014

Dear Arena Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders of Arena Pharmaceuticals, Inc., a Delaware corporation. The Annual Meeting will be held on Friday, June 13, 2014, at 9:00 a.m. (Pacific Time), at our offices located at 6154 Nancy Ridge Drive, San Diego, California 92121. I look forward to meeting with as many of our stockholders as possible.

At the Annual Meeting, we will discuss each item of business described in the Notice of Annual Meeting of Stockholders and proxy statement. You will also have an opportunity to ask questions.

If you would like directions to our offices, please visit our website at [www.arenapharm.com](http://www.arenapharm.com), where you will find directions and a map locator under [contact us](#). For further information about the Annual Meeting, please call 858.453.7200 and ask for Investor Relations.

On behalf of our employees and Board of Directors, I would like to express our appreciation for your continued interest in Arena.

Sincerely,

Jack Lief

*Chairman, President and Chief Executive Officer*

6154 Nancy Ridge Drive, San Diego, CA 92121

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**Notice of Annual Meeting of Stockholders**

**To be held on June 13, 2014**

**ARENA PHARMACEUTICALS, INC.**

**6154 Nancy Ridge Drive**

**San Diego, CA 92121**

April 29, 2014

To the Stockholders of Arena Pharmaceuticals, Inc.:

The Annual Meeting of Stockholders of Arena Pharmaceuticals, Inc., a Delaware corporation, will be held on Friday, June 13, 2014, at 9:00 a.m. (Pacific Time), at our offices located at 6154 Nancy Ridge Drive, San Diego, California 92121, for the following purposes, which are more fully described in the proxy statement accompanying this notice:

1. To elect the nine nominees for director named herein to our Board of Directors to serve until the next annual meeting of stockholders and until their respective successors are elected and qualified or until their earlier resignation or removal;
2. To approve, on an advisory basis, the compensation of our named executive officers, as disclosed in the proxy statement accompanying this notice;
3. To ratify the appointment of KPMG LLP, an independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2014; and
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

We have elected to provide access to our proxy materials over the Internet under the Securities and Exchange Commission's notice and access rules. On or about April 29, 2014, we mailed certain of our stockholders a Notice of Internet Availability of Proxy Materials, or Internet Notice, containing instructions on how to access our 2014 proxy statement and annual report and vote online. In addition, on or about April 29, 2014, we sent a printed copy of our proxy materials to our stockholders of record as of April 15, 2014. Our proxy statement and annual report are available on the home page of our website at [www.arenapharm.com](http://www.arenapharm.com).

Only stockholders of record at the close of business on April 15, 2014, are entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

Whether or not you expect to attend in person, we urge you to submit your proxy on the Internet or by telephone or, if applicable, complete, sign, date and return the enclosed proxy card at your earliest convenience. This will ensure the presence of a quorum at the meeting. **Promptly submitting your vote will save us the expense and extra work of**

**additional solicitation.** If you received a printed copy of these materials by mail, you may return your proxy card in the enclosed envelope, which does not require postage if mailed in the United States. You may also vote on the Internet or by telephone pursuant to the instructions that accompanied your proxy card or were included in the Internet Notice. Sending in your proxy card or voting on the Internet or by telephone will not prevent you from voting at the Annual Meeting if you desire to do so, as your proxy may be cancelled at your option. Please note, however, that if your shares are held of record by a bank, broker or other agent and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

By Order of our Board of Directors

Steven W. Spector

*Executive Vice President, General Counsel and*

*Secretary*

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In this proxy statement, Arena Pharmaceuticals, Arena, we, us and our refer to Arena Pharmaceuticals, Inc., unless the context otherwise provides. Arena Pharmaceuticals®, Arena® and our corporate logo are registered service marks of Arena. BELVIQ® is a registered trademark of Arena Pharmaceuticals GmbH.

BELVIQ® (pronounced BEL-VEEK ) is the trade name for the finished drug product containing the active pharmaceutical ingredient lorcaserin hydrochloride, or lorcaserin, that is marketed for chronic weight management in the United States. Lorcaserin may in the future be marketed in the United States or in other countries under a different trade name for chronic weight management. Lorcaserin may also be marketed as BELVIQ or under a different trade name for a different indication, in a different formulation or in combination with another drug. In this proxy statement, we use BELVIQ to refer to the finished drug product containing lorcaserin and/or, depending on the context, the active pharmaceutical ingredient lorcaserin, and without regard to the current or potential indication, formulation or combination.

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**ARENA PHARMACEUTICALS, INC.**

**6154 Nancy Ridge Drive**

**San Diego, CA 92121**

**PROXY STATEMENT FOR ANNUAL MEETING  
OF STOCKHOLDERS**

**To Be Held on Friday, June 13, 2014, at 9:00 a.m. (Pacific Time)**

**GENERAL INFORMATION**

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to Be Held on June 13, 2014**

We have elected to provide access to our proxy materials over the Internet under the notice and access rules of the Securities and Exchange Commission, or SEC. On or about April 29, 2014, we mailed certain of our stockholders a Notice of Internet Availability of Proxy Materials, or Internet Notice, containing instructions on how to access our 2014 proxy statement and annual report and vote online. In addition, on or about April 29, 2014, we sent a printed copy of our proxy materials to our stockholders of record as of April 15, 2014, or Record Date. Our proxy statement and annual report are available on the home page of our website at [www.arenapharm.com](http://www.arenapharm.com).

**Information Concerning Solicitation and Voting**

**1. Why am I receiving these materials?**

We have provided you these proxy materials because our Board of Directors is soliciting your proxy to vote at our 2014 Annual Meeting of Stockholders, or 2014 Annual Meeting, which is to be held on Friday, June 13, 2014, at 9:00 a.m. (Pacific Time), or at any adjournments or postponements thereof, for the purposes set forth in this proxy statement. You are invited to attend our 2014 Annual Meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares.

If you have received a printed copy of these materials by mail, you may complete, sign and return the enclosed proxy card or follow the instructions below to submit your proxy on the Internet or by telephone. If you did not receive a printed copy of these materials by mail and are accessing them on the Internet, you may submit your proxy on the Internet or by telephone, as described below.

**2. Why did I receive a Notice Regarding the Availability of Proxy Materials?**

In accordance with rules and regulations adopted by the SEC, we make our proxy materials available to our stockholders on the Internet. We are sending certain of our stockholders an Internet Notice. If you received the Internet Notice, such notice will instruct you how you may access and review all of the important information contained in the proxy materials. The Internet Notice also instructs you how you may submit your proxy on the Internet. If you would like to receive a printed copy of the proxy materials, including a proxy card, you should follow

the instructions for requesting such materials included in the Internet Notice.

**3. How can I attend our 2014 Annual Meeting?**

Our 2014 Annual Meeting will be held on Friday, June 13, 2014, at 9:00 a.m. (Pacific Time) at our offices located at 6154 Nancy Ridge Drive, San Diego, California 92121. Directions to our 2014 Annual Meeting may be found at [www.arenapharm.com](http://www.arenapharm.com), where you will find directions and a map locator under contact us. For further information about our 2014 Annual Meeting, please call 858.453.7200 and ask for Investor Relations. Information on how to vote in person at our 2014 Annual Meeting is described below.

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### **4. Who can vote at our 2014 Annual Meeting?**

Each person who owns or has the right to vote shares of our common stock as of the Record Date has the right to vote at our 2014 Annual Meeting. As of the Record Date, there were 219,555,989 shares of our common stock outstanding, and each of such shares is entitled to one vote.

*Stockholder of Record: Shares Registered in Your Name.*

If on the Record Date your shares of common stock were registered directly in your name with our transfer agent, Computershare, then you are a stockholder of record. As a stockholder of record, you may vote by proxy or vote in person at our 2014 Annual Meeting. Whether or not you plan to attend our 2014 Annual Meeting, we urge you to vote by proxy on the Internet or by telephone as instructed below or to complete, sign, date and return a proxy card to ensure your vote is counted.

*Beneficial Owner: Shares Registered in the Name of a Bank, Broker or Other Agent.*

If on the Record Date your shares of common stock were held in an account by a bank, broker or other agent, then you are the beneficial owner of shares held in street name and these proxy materials or the Internet Notice are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at our 2014 Annual Meeting. As a beneficial owner, you have the right to direct your bank, broker or other agent on how to vote the shares in your account. You are also invited to attend our 2014 Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at our 2014 Annual Meeting unless you obtain a legal proxy from your bank, broker or other agent.

### **5. What is a proxy?**

If you vote on the Internet or by telephone or return a signed and dated proxy card, you will be appointing Jack Lief, our Chairman, President and Chief Executive Officer, and Steven W. Spector, our Executive Vice President, General Counsel and Secretary, as your representatives at our 2014 Annual Meeting and authorizing them, or each of them, to vote your shares at the meeting as indicated by you. This way, you can vote your shares whether or not you attend the meeting.

### **6. What am I voting on?**

We are asking you to vote on the following proposals:

1. Election of the nine nominees for director named herein to our Board of Directors to serve until the next annual meeting of stockholders and until their respective successors are elected and qualified or until their earlier resignation or removal;
2. Advisory approval of the compensation of our named executive officers, as disclosed in this proxy statement in accordance with rules of the SEC;

3. Ratification of the appointment of KPMG LLP, an independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2014; and
  
4. Such other proposals as may properly come before the meeting or any adjournment or postponement thereof.

**7. What if another matter is properly brought before our 2014 Annual Meeting?**

Our Board of Directors knows of no other matters that will be presented for consideration at our 2014 Annual Meeting. If any other matters are properly brought before our 2014 Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on those matters in accordance with their best judgment.

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**8. What if I return a proxy card or otherwise vote but do not make specific choices?**

If you vote on the Internet or by telephone or mark your voting instructions on the proxy card, your shares will be voted as you instruct, or in the best judgment of Mr. Lief or Mr. Spector if a new proposal comes up for a vote at our 2014 Annual Meeting.

If you return a signed and dated proxy card or otherwise vote without marking voting selections, your shares will be voted as follows: FOR the nine named nominees as directors; FOR the approval, on an advisory basis, of the compensation of our named executive officers; FOR the ratification of the appointment of KPMG LLP as our independent auditors for the fiscal year ending December 31, 2014; and according to the best judgment of Mr. Lief or Mr. Spector if a proposal that is not on the proxy card comes up for a vote at our 2014 Annual Meeting.

**9. How do I vote?**

*Stockholder of Record: Shares Registered in Your Name.*

**BY INTERNET:** Please follow the vote by Internet instructions that are on your proxy card. If you vote by Internet, you do not have to mail in your proxy card. Your vote must be received before 11:00 p.m. (Pacific Time) on June 12, 2014, to be counted.

**BY TELEPHONE:** Please follow the vote by telephone instructions that are on your proxy card. If you vote by telephone, you do not have to mail in your proxy card. Your vote must be received before 11:00 p.m. (Pacific Time) on June 12, 2014, to be counted.

**BY MAIL:** If you have received a printed copy of these materials by mail, you may complete, sign and date your proxy card and mail it in the enclosed pre-addressed envelope, which does not require postage if mailed in the United States.

**IN PERSON:** We will pass out written ballots to anyone who wants to vote in person at our 2014 Annual Meeting. However, if you hold your shares in street name, you must obtain a legal proxy from your bank, broker or other agent to vote at our 2014 Annual Meeting.

*Beneficial Owner: Shares Registered in the Name of a Bank, Broker or Other Agent.*

If you are a beneficial owner of shares registered in the name of a bank, broker or other agent, you should have received the Internet Notice (or a proxy card and voting instructions with these proxy materials) from that organization rather than from us. Simply follow the instructions you received from that organization to vote on the Internet or, if you received a proxy card by mail, complete, sign and return the proxy card to ensure that your vote is counted. Please contact that organization if you did not receive the Internet Notice or such materials, as applicable.

To vote in person at our 2014 Annual Meeting, you must obtain a legal proxy from your bank, broker or other agent. Follow the instructions from your bank, broker or other agent included with the Internet Notice or these proxy materials, or contact such agent to obtain a proxy form.

Internet proxy voting may be provided to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.

**10. What does it mean if I receive more than one Internet Notice or proxy card?**

It likely means that you hold our shares in multiple accounts at the transfer agent or with brokers or other custodians of your shares. Please follow the voting instructions included in **each** Internet Notice and proxy card you receive to ensure that all of your shares are voted.

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### **11. Can I change my vote after submitting my proxy?**

*Stockholder of Record: Shares Registered in Your Name.*

If you are a stockholder of record, you can revoke your proxy and change your vote at any time before the polls close at our 2014 Annual Meeting by: (i) voting on the Internet or by telephone before 11:00 p.m. (Pacific Time) on June 12, 2014 (your *latest* Internet or telephone vote is counted), (ii) signing a proxy card with a later date and returning it before the polls close at our 2014 Annual Meeting, (iii) returning a written notice before the polls close at our 2014 Annual Meeting that you are revoking your proxy, or (iv) voting at the meeting. Please note, however, that simply attending our 2014 Annual Meeting will not, by itself, revoke your proxy.

*Beneficial Owner: Shares Registered in the Name of a Bank, Broker or Other Agent.*

If you are a beneficial owner of shares registered in the name of a bank, broker or other agent, you should follow their instructions on how to change your vote. Please contact your bank, broker or other agent if you did not receive such instructions.

### **12. How many shares must be present to hold our 2014 Annual Meeting?**

To hold our 2014 Annual Meeting and conduct business, the holders of a majority of our outstanding common stock as of the Record Date must be present, either in person or represented by proxy, at our 2014 Annual Meeting. This is called a quorum.

A stockholder's shares are counted towards a quorum if the stockholder either:

is present and votes in person at the meeting, or

has properly submitted a proxy (including voting on the Internet or by telephone).

Both abstentions and broker non-votes are counted as present for the purposes of determining the presence of a quorum at our 2014 Annual Meeting.

### **13. What are broker non-votes?**

Broker non-votes occur when a broker who holds shares for a stockholder in street name submits a proxy for those shares but does not vote. In general, this occurs when the broker has not received voting instructions from the stockholder, and the broker lacks discretionary voting authority under the rules of the New York Stock Exchange, or NYSE, or otherwise to vote the shares for a particular proposal. The bank, broker or other agent can register your shares as being present at a meeting for purposes of determining the presence of a quorum, but will not be able to vote on those items for which specific authorization is required under the rules of the NYSE.

### **14. When do brokers have discretionary voting authority to vote my shares without my instruction?**



If you are a beneficial owner whose shares are held of record by a bank, broker or other agent, such entity has discretionary voting authority, under the rules of the NYSE, to vote your shares on certain routine matters for which it does not receive voting instructions from you by the 10th day before the meeting. For example, such entity has discretionary voting authority with regard to the ratification of the appointment of KPMG LLP (Proposal 3).

The election of directors (Proposal 1) and the say-on-pay vote (Proposal 2) are not considered routine.

When a proposal is not a routine matter and the entity holding the shares has not received voting instructions from the beneficial holder of the shares with respect to that proposal, the entity cannot vote the shares on that proposal. Accordingly, it is important that beneficial owners instruct their brokers how they wish to vote their shares.

**15. How many votes must the nominees receive to be elected as directors?**

Directors are elected by a plurality of votes of common stock present, either in person or represented by proxy, at our 2014 Annual Meeting and entitled to vote. This means that the nine nominees receiving the highest number of votes FOR election will be elected. Only votes FOR or WITHHELD will affect the outcome.

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**16. How many votes must be received to approve the compensation of our named executive officers, as disclosed in this proxy statement in accordance with SEC rules?**

A majority of the votes cast by stockholders entitled to vote on the proposal must vote FOR approval. Abstentions and broker non-votes will have no effect on the outcome.

**17. How many votes must be received to ratify the appointment of KPMG LLP as Arena's independent auditors for the fiscal year ending December 31, 2014?**

A majority of the votes cast by stockholders entitled to vote on the proposal must vote FOR ratification. Abstentions and broker non-votes will have no effect on the outcome.

**18. How are votes counted?**

Votes will be counted by the inspector or inspectors of election appointed for our 2014 Annual Meeting, who will separately count, for the proposal to elect directors, votes FOR and WITHHOLD and broker non-votes; and, with respect to other proposals, votes FOR, AGAINST and ABSTAIN and broker non-votes. Abstention and broker non-votes will not affect the outcome of the voting on any of the proposals described in this proxy statement.

Our transfer agent, Computershare, will tabulate and certify the voting results.

**19. Who will bear the cost of soliciting votes for our 2014 Annual Meeting?**

We are paying for the distribution and solicitation of the proxies. As a part of this process, we reimburse brokers, nominees, fiduciaries and other custodians for reasonable fees and expenses in forwarding proxy materials to our stockholders. Original solicitation of proxies by mail may be supplemented by other mailings, telephone calls, personal solicitation, or use of the Internet by our directors, officers, other employees or, if we choose to engage one, an independent proxy solicitation firm. No additional compensation will be paid to our directors, officers or other employees for such services, and in the event we engage such a proxy solicitation firm, the fees paid by us would not likely exceed \$20,000.

**20. How can I find out the results of the voting at our 2014 Annual Meeting?**

Preliminary voting results will be announced at our 2014 Annual Meeting. In addition, final voting results will be published in a current report on Form 8-K that we expect to file within four business days after our 2014 Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after our 2014 Annual Meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

**21. How can I obtain the company's corporate governance information?**

Our website is [www.arenapharm.com](http://www.arenapharm.com) and we have included various corporate governance materials under the Investors tab. Included in such information are the charters of the following standing committees of our Board of Directors: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating

Committee. Also included under that tab are our Board of Directors Corporate Governance Guidelines, our Code of Business Conduct and Ethics and our Policy on Filing, Receipt and Treatment of Complaints.

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The persons named in the table below are nominees for director at our 2014 Annual Meeting to serve until the next annual meeting of stockholders and until their respective successors are elected and qualified or until their earlier resignation or removal. Our Bylaws provide that the authorized number of directors shall be determined by a resolution of our Board of Directors.

All of the nominees for director at our 2014 Annual Meeting were elected at our 2013 Annual Meeting of Stockholders and were recommended by the Corporate Governance and Nominating Committee for election to our Board of Directors at our 2014 Annual Meeting. Directors are elected by a plurality of votes of common stock present, either in person or represented by proxy, at the annual meeting and entitled to vote. Unless otherwise instructed to withhold a vote for a particular nominee or all of the nominees, the proxy holders will vote the proxies received by them for the nominees named below. In the event that any of these nominees is unavailable to serve as a director at the time of our 2014 Annual Meeting, the proxies will be voted for any substitute nominee who shall be designated by our Board of Directors, unless our Board reduces the number of directors. We have no reason to believe that any nominee will be unavailable to serve.

Following is information, as of March 31, 2014, regarding the nominees for director at our 2014 Annual Meeting. Such information includes biographical and other information about the nominees, including information concerning the specific experience, qualifications, attributes or skills that led our Board of Directors and the Corporate Governance and Nominating Committee to conclude that the nominees should serve as our directors.

<b>Name</b>	<b>Positions and Offices Held</b>	<b>Year First Elected or Appointed Director</b>	<b>Age</b>
Jack Lief	Chairman, President and Chief Executive Officer	1997	68
Dominic P. Behan, Ph.D., D.Sc.	Executive Vice President, Chief Scientific Officer and Director	2000	50
Donald D. Belcher	Director	2003	75
Scott H. Bice	Director	2003	71
Harry F. Hixson, Jr., Ph.D.	Director	2004	75
Tina S. Nova, Ph.D.	Director	2004	60
Phillip M. Schneider	Director	2007	57
Christine A. White, M.D.	Director	2006	62
Randall E. Woods	Director	2007	62

**Business Experience of Nominees**

**Jack Lief** is a co-founder of Arena and has served as a director and our President and Chief Executive Officer since April 1997. Mr. Lief has also served as the Chairman of our Board of Directors since October 2007. Mr. Lief served as an advisor and consultant to numerous biopharmaceutical organizations from 1995 to April 1997; as Senior Vice President, Corporate Development and Secretary of Cephalon, Inc., a biopharmaceutical company, from 1989 to 1994; as Director of Business Development and Strategic Planning for Alpha Therapeutic Corporation, a manufacturer of biological products, from 1983 to 1989; and in various positions at Abbott Laboratories, a pharmaceutical company,

from 1972 to 1983, most recently as the head of International Marketing Research. Mr. Lief serves as the Chairman of the board of directors of Mast Therapeutics, Inc., a biopharmaceutical company. Mr. Lief is also an Executive Board Member of BIOCOM, a life science association representing more than 600 member companies in Southern California, and was the Chair of the board of directors of BIOCOM from March 2005 to March 2006. Mr. Lief holds a B.A. from Rutgers University and an M.S. in Psychology (Experimental and Neurobiology) from Lehigh University.

We believe that Mr. Lief's role as a co-founder, President and Chief Executive Officer of our company, combined with his extensive leadership, strategic planning, business, financial, and international pharmaceutical industry expertise, provides our Board of Directors with critical knowledge and in-depth

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insight into our strategic planning and operations and give him the qualifications, attributes and skills to serve as one of our directors.

**Dominic P. Behan, Ph.D., D.Sc.**, is a co-founder of Arena and has served as a director since April 2000 and as our Executive Vice President and Chief Scientific Officer since February 2012. Dr. Behan served as our Senior Vice President and Chief Scientific Officer from June 2004 to February 2012, and as our Vice President, Research from April 1997 to June 2004. Dr. Behan directed various research programs at Neurocrine Biosciences, Inc., a biopharmaceutical company, from 1993 to 1997, and was engaged in research at the Salk Institute from 1990 to 1993. Dr. Behan holds a B.Sc. in Biochemistry from Leeds University, England, and a Ph.D. in Biochemistry and a higher doctorate D.Sc. from the University of Reading, England.

We believe that Dr. Behan's extensive scientific expertise, his role as a co-founder, Executive Vice President and Chief Scientific Officer of our company, and his leadership and scientific experience at other scientific and biopharmaceutical entities give him a deep understanding of pharmaceutical research and development and the qualifications, attributes and skills to serve as one of our directors.

**Donald D. Belcher** has served as a member of our Board of Directors since December 2003. Mr. Belcher served as Chairman of the board of directors of Banta Corporation, a printing and supply-chain management company, from 1995 to 2004, Chief Executive Officer from 1995 to 2002 and President from 1994 to 2001. Mr. Belcher holds a B.A. from Dartmouth College and an M.B.A. from the Stanford University Graduate School of Business.

We believe that Mr. Belcher's extensive leadership, business and financial expertise, including his background as a Chairman, Chief Executive Officer and President of a large, publicly held company, and his experience in marketing, global operations, international business, and strategic planning give him the qualifications, attributes and skills to serve as one of our directors.

**Scott H. Bice** has served as a member of our Board of Directors since December 2003. Mr. Bice has been the Robert C. Packard Professor at the University of Southern California Law School since 2000, where he served as Dean from 1980 to 2000. Mr. Bice has experience on several corporate boards, including Imagine Films, from 1992 to 1994; Western and Residence Mutual Insurance Companies, from 1996 to 2003; and Jenny Craig, from 1996 to 2002. Mr. Bice holds a B.S. in finance and a J.D. from the University of Southern California.

We believe that Mr. Bice's extensive legal, corporate governance, and business ethics expertise, his background as a professor and former Dean of a leading law school, and his service on other boards, including for a company involved in developing and commercializing a weight-loss program, give him an important perspective to contribute and the qualifications, attributes and skills to serve as one of our directors.

**Harry F. Hixson, Jr., Ph.D.**, has served as a member of our Board of Directors since September 2004. Dr. Hixson has served as the Chief Executive Officer of Sequenom, Inc., a genomics company, since September 2009, and as Chairman of its board of directors since 2003. Dr. Hixson is scheduled to retire as Sequenom's Chief Executive Officer, effective as of Sequenom's 2014 annual stockholders' meeting on June 10, 2014, but will continue to serve as the Chairman of its board of directors. Dr. Hixson served as Chief Executive Officer of BrainCells Inc., a neurogenesis-based drug discovery and development company, from 2004 to 2005; as Chief Executive Officer of Elitra Pharmaceuticals Inc., a biopharmaceutical company, from 1998 to 2003; and in various management positions with Amgen Inc., a biopharmaceutical company, from 1985 to 1991, most recently as President and Chief Operating Officer. Within the past five years, Dr. Hixson also served as a member of the board of directors of NovaBay Pharmaceuticals, Inc., a biopharmaceutical company, and Infinity Pharmaceuticals, Inc., a cancer drug discovery and development company. Dr. Hixson holds a B.S. in Chemical Engineering from Purdue University, an M.B.A. from the

University of Chicago and a Ph.D. in Physical Biochemistry from Purdue University.

We believe that Dr. Hixson's extensive leadership, business and scientific expertise, including his background in the development and commercialization of biopharmaceuticals in the United States and

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internationally, his senior management experience, including as President and Chief Operating Officer of a pioneering company in the biopharmaceutical industry, and his service on other boards give him the qualifications, attributes and skills to serve as one of our directors.

**Tina S. Nova, Ph.D.**, has served as a member of our Board of Directors since September 2004. Dr. Nova was a co-founder of Genoptix, Inc., a medical laboratory diagnostics company, and served as its President from 2000 to April 2014. Dr. Nova also served as the Chief Executive Officer of Genoptix and as a member of its board of directors from 2000 until Novartis AG acquired Genoptix in March 2011. Dr. Nova was a co-founder of Nanogen, Inc., a provider of molecular diagnostic tests, and she served as its Chief Operating Officer and President from 1994 to 2000. Dr. Nova served as Chief Operating Officer of Selective Genetics, a targeted therapy, biotechnology company, from 1992 to 1994, and in various director-level positions with Ligand Pharmaceuticals Incorporated, a drug discovery and development company, from 1988 to 1992, most recently as Executive Director of New Leads Discovery. Dr. Nova has also held various research and management positions with Hybritech, Inc., a former subsidiary of Eli Lilly & Company, a pharmaceutical company. Dr. Nova also serves on the board of directors of Adamis Pharmaceuticals Corporation, a commercial-stage specialty pharmaceutical company targeting allergy, respiratory and pediatric medicine market segments. Within the past five years, Dr. Nova also served as a member of the board of directors of Cypress Biosciences, Inc., a company focused on developing drugs for functional somatic syndromes. Dr. Nova was the Chair of the board of directors of BIOCUM from March 2001 to March 2002. Dr. Nova holds a B.S. in Biological Sciences from the University of California, Irvine and a Ph.D. in Biochemistry from the University of California, Riverside.

We believe that Dr. Nova's extensive leadership, business and scientific expertise, including her background of founding, financing, developing and operating companies in the healthcare industry, including her background as the President and Chief Executive Officer of a publicly held company in the healthcare industry, her experience in successfully developing, launching and commercializing medical products, and her service on other boards give her the qualifications, attributes and skills to serve as one of our directors.

**Phillip M. Schneider** has served as a member of our Board of Directors since December 2007. Mr. Schneider held various positions with IDEC Pharmaceuticals Corporation, a biopharmaceutical company, from 1987 to 2002, most recently as Senior Vice President and Chief Financial Officer. Prior to his association with IDEC, Mr. Schneider held various management positions at Syntex Pharmaceuticals Corporation and was previously with KPMG LLP. Mr. Schneider serves as a member of the board of directors of Auspex Pharmaceuticals, Inc., a biopharmaceutical company focused on medicines for the treatment of orphan diseases. Within the past five years, Mr. Schneider also served as a member of the board of directors of Gen-Probe Incorporated, a medical diagnostics company. Mr. Schneider holds a B.S. in Biochemistry from the University of California, Davis and an M.B.A. from the University of Southern California.

We believe that Mr. Schneider's extensive leadership, business, financial and accounting expertise, including his background as the Chief Financial Officer of a publicly held biopharmaceutical company during the successful development, launch and commercialization of its first product, his experience at a large financial and accounting firm, and his service on other boards in our industry give him an important financial and accounting perspective and the qualifications, attributes and skills to serve as one of our directors.

**Christine A. White, M.D.**, has served as a member of our Board of Directors since August 2006. Dr. White served in various senior positions with Biogen Idec Inc., a biopharmaceutical company, from 1996 to 2005, most recently as Senior Vice President, Global Medical Affairs; as the Director of Clinical Oncology Research at the Sidney Kimmel Cancer Center in San Diego from 1994 to 1996; and on the clinical staff and in various positions in the Department of Medicine at Scripps Memorial Hospitals in La Jolla and Encinitas, California, from 1984 to 1994, most recently as



Chairman, Department of Medicine. Dr. White serves as a member of the board of directors of MEI Pharma, Inc., an oncology company focused on the clinical development of novel anti-cancer therapeutics. Within the past five years, Dr. White also served as a member of the board of directors of Genoptix, Inc., a medical laboratory diagnostics company, and Monogram Biosciences,

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Inc., a life sciences company. Dr. White holds a B.A. in Biology and an M.D. from the University of Chicago and is Board certified in both Internal Medicine and Medical Oncology.

We believe that Dr. White's extensive medical, scientific and business expertise, including her background in the clinical practice of medicine, basic science and clinical research, clinical development and regulatory affairs, her experience with the successful development, launch and commercialization of medicinal products, her senior management experience at a publicly held company in our industry, and her service on other boards give her a deep understanding of pharmaceutical development and commercialization and the qualifications, attributes and skills to serve as one of our directors.

**Randall E. Woods** has served as a member of our Board of Directors since December 2007. Mr. Woods has served as the President and Chief Executive Officer of Sophiris Bio Inc., a urology company, since August 2012, and as a member of its board of directors since October 2012. Mr. Woods served as the President and Chief Executive Officer and a member of the board of directors of Sequel Pharmaceuticals, Inc., a pharmaceutical company, from September 2007 to June 2011; as the President and Chief Executive Officer of NovaCardia, Inc., a pharmaceutical company that was acquired by Merck & Co., Inc., from April 2004 to September 2007; as the President and Chief Executive Officer of Corvas International, Inc., a biopharmaceutical company, from 1996 to 2003; in various senior positions at Boehringer Mannheim's US pharmaceutical operations, from 1993 to 1996, most recently as President; and before then served more than 20 years at Eli Lilly & Company in sales and marketing positions. Mr. Woods is the chairman emeritus of the advisory board of the University of California, San Diego's Sulpizio Cardiovascular Center. Mr. Woods is also an Executive Board Member of BIOCUM, and was the Chair of the board of directors of BIOCUM for 2009. Mr. Woods holds a B.S. in Biology and Chemistry from Ball State University and an M.B.A. from Western Michigan University.

We believe that Mr. Woods' extensive leadership, business and financial expertise, including his background of founding, financing and developing companies in our industry, and his senior management experience, including as Chief Executive Officer and President of multiple biopharmaceutical companies, his background in sales, marketing and pharmaceutical operations, and his service on other boards give him the qualifications, attributes and skills to serve as one of our directors.

## ***THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS***

### ***VOTE FOR EACH NAMED NOMINEE.***

## **Director Independence**

Our common stock is listed on the NASDAQ Global Select Market, which requires that a majority of a listed company's board of directors qualify as independent under the applicable NASDAQ listing standards. The board of directors must affirmatively make this determination. In addition, under our Corporate Governance Guidelines, it is our policy that at least two-thirds of the members of our Board of Directors be independent directors.

Our Board of Directors consults with its legal advisors to ensure that its independence determinations, including with respect to directors, director nominees and members of its committees, comply with all applicable securities and other laws and regulations regarding the definition of independent, including but not limited to those set forth in pertinent listing standards of NASDAQ, as in effect from time to time. Consistent with these considerations, our Board of Directors has reviewed relevant transactions and relationships between each non-employee director and Arena, other

non-employee directors, our senior management and our independent auditors and has affirmatively determined that all of our non-employee directors are independent directors under the applicable NASDAQ listing standards.

Under our Corporate Governance Guidelines, directors who have been deemed independent directors by our Board of Directors will inform the Chairman and lead independent director in writing if he or she believes there has been a change in his or her status as an independent director. The lead independent director, in turn, will advise the Corporate Governance and Nominating Committee of such potential change of status so that the committee,

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with the aid of the Chairman, can determine whether the director continues to qualify as an independent director and whether to recommend to the full Board of Directors to ask for the resignation of such director.

### **Corporate Governance Guidelines**

Our Board of Directors has adopted Corporate Governance Guidelines for the conduct and operation of our Board. The guidelines cover such topics as board composition and selection, the board's role, director orientation and education, director compensation, board meetings, board committees, board access to management and use of outside advisors, succession planning, and the evaluation of the board and our Chief Executive Officer.

### **Board Leadership Structure; Lead Independent Director**

Our Board of Directors believes that there is no single, generally accepted approach to providing board leadership and that, given the dynamic and competitive environment in which we operate, the appropriate board leadership structure may vary as circumstances change. As such, our Board of Directors periodically reviews its leadership structure to confirm that it is an appropriate structure for our company at such time.

In considering its leadership structure, our Board of Directors has taken into account that it consists of a substantial majority of independent directors who are highly qualified and experienced, the Board's Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee are each comprised entirely of independent directors and that, as described below, it has a lead independent director with a clear mandate and authority. In addition, a number of Board and committee processes and procedures, including regular executive sessions of independent directors, conference calls with our Chief Executive Officer outside of Board and committee meetings, and annual evaluations of our executive officers' performance, including against pre-established goals, provide substantial independent oversight over our management. Our Board of Directors believes that these factors provide an appropriate balance between the authority of those who oversee our company and those who manage it on a day-to-day basis.

As set forth in our Corporate Governance Guidelines, our Board of Directors currently combines the role of chairman of the board with the role of chief executive officer. We also have a lead independent director with defined corporate governance responsibilities. Our Board of Directors believes that this structure provides an efficient and effective leadership model for our company at this time, and that combining the chairman and chief executive officer roles fosters accountability, effective decision-making and alignment on corporate strategy. However, as set forth in our Corporate Governance Guidelines, by the end of 2014, we expect to either separate the positions of chairman and chief executive officer or eliminate or not fill the position of chairman and instead have only a lead independent director.

The performance of the Chairman is evaluated each year by our Board of Directors. If, in the judgment of our Board of Directors, the Chairman is not sufficiently active or successful in providing meaningful leadership for the Board, he or she will be replaced. Once our current Chairman, Mr. Lief, no longer serves in that capacity, the position of chairman, if any, will be held by an independent director appointed by a majority of the independent directors and with a maximum tenure of six years. If there is no chairman after Mr. Lief ceases to serve in that capacity, these policies will apply to the lead independent director.

Our Board of Directors' lead independent director is elected by our independent directors to serve for a minimum of one year or until replaced by the independent directors. It is generally expected that the lead independent director will serve for more than a year, and Dr. White has been our lead independent director since November 2008. As detailed in our Corporate Governance Guidelines, the lead independent director's responsibilities and authority include the

following:

With the Chairman, establish the schedule and agenda for Board meetings and approve information to be sent to our Board;

Serve as chair of Board meetings in the absence of the Chairman, including during executive sessions of the independent directors;

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Preside over any portion of Board meetings at which the performance of our Board is presented or discussed;

Establish the agenda for meetings of the independent directors and preside over such meetings;

Coordinate with the committee chairs, as needed, regarding meeting agendas, informational requirements and other matters;

Serve as liaison between the Chairman and the independent directors;

Be available for communications with our stockholders, as appropriate and in accordance with our policy on stockholder communications with our Board; and

Perform such other duties as may be established or delegated by the Chairman or our Board.

## **Board's Role in Risk Oversight**

Our management has the primary responsibility for identifying and managing our business risks, including by overseeing and implementing our enterprise risk management program. Our Board of Directors actively oversees potential risks and our risk management activities, including by discussing with management our risks and the management of such risks at meetings of the Board and its committees. Our Board of Directors also makes use of the independent understanding and knowledge of many of such risks possessed by our directors. Our Board of Directors regularly reviews our corporate strategy in light of the evolving nature of such risks and makes adjustments to that strategy when appropriate. Our Board of Directors also regularly considers risks facing us when it approves the annual plan and budget and throughout the year as it monitors developments and reviews our financial and other periodic reports.

Our Board of Directors has also delegated risk oversight to the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee within their areas of responsibility. The Audit Committee assists our Board of Directors in its risk oversight function with regard to, among other things, our internal control over financial reporting, periodic filings with the SEC, investment policy, procedures relating to the receipt and treatment of complaints, and policies and procedures designed to ensure adherence to applicable laws and regulations. The Compensation Committee assists our Board of Directors in its risk oversight function with regard to, among other things, assessing risk created by current and proposed compensation policies and practices for all of our employees. The Corporate Governance and Nominating Committee assists our Board of Directors in its risk oversight function with regard to, among other things, our management succession plans, the agendas for our Board's strategy sessions, and our compliance-related policies and practices that are not within the purview of the Audit Committee or are referred to the committee by our Board.

We have assessed our compensation policies and practices on a company-wide basis to determine if such programs or practices create undesirable or unintentional risks of a material nature. Based on such assessment, we concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on our company.

## **Annual Performance Evaluations; Assessment of Charters; Director Education**

Our Board of Directors, as well as each of its standing committees, conducts an annual self-evaluation, which includes a review of its performance and, in the case of each of the committees, an assessment of the adequacy and appropriateness of its charter. Our Board of Directors also reviews each of our directors. The Corporate Governance and Nominating Committee is responsible for overseeing this evaluation process, evaluating all standing committees and their charters and recommending to our Board of Directors any changes to our Board and the authority, charters, compositions and chairs of such committees.

Each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director. At least twice per year, our Board of Directors devotes at least one hour during regularly scheduled board meetings to director training on recent developments in legal standards related to corporate governance, disclosure obligations or industry-specific issues. In addition, we may, from time to time and depending on the

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circumstances, pay for all or a portion of outside continuing education programs to assist our directors in maintaining such level of expertise. It is our Board of Directors' policy for us to reimburse each director for attending one of such continuing education programs per year (and, when possible, for such cost to be shared if the director is a member of more than one board of directors).

## **Code of Business Conduct and Ethics**

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to our directors and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller), and we have posted the text of the policy on our website ([www.arenapharm.com](http://www.arenapharm.com)) under Investors Corporate Governance. To facilitate compliance with this policy, we periodically conduct a program of awareness, training and review. The Code of Business Conduct and Ethics complies with the applicable NASDAQ listing standards and SEC rules and regulations, and includes procedures for (i) the filing, receipt and treatment of complaints regarding suspected improper conduct by our employees, directors, collaborators, vendors and others associated with us and (ii) the confidential, anonymous submission by employees of concerns regarding any matter covered by the policy. In addition, we intend to promptly disclose on our website in the future (i) the date and nature of any amendment (other than technical, administrative or other non-substantive amendments) to the policy that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and relates to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K, and (ii) the nature of any waiver, including an implicit waiver, from a provision of the policy that is granted to one of these specified individuals that relates to one or more of the elements of the code of ethics definition enumerated in Item 406(b) of Regulation S-K, the name of such person who is granted the waiver and the date of the waiver.

## **Non-employee Director Meetings**

Our independent directors meet in regularly scheduled executive sessions without management. These executive sessions occur in conjunction with regularly scheduled meetings of our Board of Directors and its standing committees and otherwise as needed.

## **Director Meeting Attendance**

Our Board of Directors held six meetings during the fiscal year ended December 31, 2013. Each incumbent director attended at least 75% of the aggregate of the total number of meetings of our Board of Directors and the total number of meetings held by all committees of our Board on which such director served, in each case during the periods in which he or she served. In addition to regularly scheduled meetings, the directors participate in telephone interactions, including telephone calls among the independent directors and Mr. Lief, and other communications with each other and certain of our officers, as well as with our independent auditors and external advisors, such as legal counsel, consultants and investment bankers.

As stated in our Corporate Governance Guidelines, our directors are encouraged to attend our annual meetings of stockholders, and eight of our nine directors attended our 2013 Annual Meeting of Stockholders.

## **Term Limits**

Under our Corporate Governance Guidelines, independent directors serving on our Board of Directors as of December 29, 2011, are not to serve more than a total of 16 years. Independent directors who are elected to our Board of Directors after December 29, 2011, are not to serve more than a total of 10 years; provided, however, that if our



Board determines, in anticipation of the 10-year term limit of an independent director elected after December 29, 2011, that such new director should continue to serve on our Board, then the 16-year term limit shall apply.

Our Board of Directors does not believe it should further limit the number of terms for which an individual may serve as a director. Directors who have served on our Board of Directors for an extended period of time are

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able to provide continuity and valuable insight into our company, our operations and prospects based on their experience with, and understanding of, our history, policies and objectives. Our Board of Directors believes that, as an alternative to further limiting the number of terms, it can ensure that our Board continues to evolve and adopt new ideas and viewpoints through the director nomination process, through periodic rotation of committee assignments and through the above term limits.

**Committees of the Board**

The standing committees of our Board of Directors include the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. Each of these committees is comprised entirely of independent directors under the applicable NASDAQ listing standards. The members and chairs of our Board of Directors committees are appointed by our Board and may change in the future. Our Board of Directors has no set policy for rotation of committee members or chairs, but it annually reviews committee composition and chair positions, seeking the appropriate blend of continuity and fresh perspectives on the committees. The authority and responsibility of each of these committees are summarized below, and more detailed descriptions of their functions are included in their written charters, which are available on our website at [www.arenapharm.com](http://www.arenapharm.com).

Pursuant to their charters, each of the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee is authorized to access, at our expense, such internal and external resources as the particular committee deems necessary or appropriate to fulfill its defined responsibilities. Each committee has sole authority to approve fees, costs and other terms of engagement of such outside resources.

Below is a chart showing the composition of the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee as of March 31, 2014.

<b>Member</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Corporate Governance and Nominating Committee</b>
Donald D. Belcher			
Scott H. Bice			
Harry F. Hixson, Jr., Ph.D.			
Tina S. Nova, Ph.D.			
Phillip M. Schneider			
Christine A. White, M.D.			
Randall E. Woods			

= Committee member

= Committee chair

***Audit Committee***

The Audit Committee's responsibilities include:

selecting and evaluating the performance of our independent auditors;

reviewing the scope of the audit to be conducted by our independent auditors, as well as the results of their audit, and approving audit and non-audit services to be provided by them;

reviewing and assessing our financial reporting activities and disclosure, including our financial results press releases and periodic reports, and the accounting standards and principles followed;

reviewing the scope, adequacy and effectiveness of our internal control over financial reporting;

reviewing management's assessment of our compliance with our disclosure controls and procedures;

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reviewing our public disclosure policies and procedures;

reviewing our guidelines and policies with respect to risk assessment and management, our tax strategy and our investment policy;

reviewing and approving related-party transactions;

overseeing our Code of Business Conduct and Ethics and our Policy on Filing, Receipt and Treatment of Complaints; and

reviewing threatened or pending litigation matters and investigating matters brought to the committee's attention that are within the scope of its duties.

Our Board of Directors has determined that each of the Audit Committee members meets the independence and experience requirements included in the applicable NASDAQ listing standards and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our Board of Directors has also determined that Mr. Schneider, the Chair of the Audit Committee, is an audit committee financial expert as defined in Item 407(d) of Regulation S-K.

The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Exchange Act. Our Board of Directors has adopted a written charter for the Audit Committee, which is available on our website at [www.arenapharm.com](http://www.arenapharm.com). The Audit Committee held five meetings in 2013. The Audit Committee's report is set forth below under Audit Committee Report.

***Compensation Committee***

The Compensation Committee's responsibilities include:

reviewing, modifying and approving our overall compensation strategy and policies;

assessing risk created by current and proposed compensation policies and practices for all of our employees;

reviewing and approving performance goals relevant to the compensation of our executive officers;

evaluating and recommending to our Board of Directors compensation plans and programs for us, as well as modifying or terminating existing plans and programs;

reviewing and approving compensation and benefits for our non-employee directors and executive officers, and making recommendations to our Board of Directors regarding these matters;

authorizing and approving equity grants under our equity compensation plans; and

overseeing preparation and review of the committee's report and the compensation discussion and analysis included in our proxy statement.

Our Board of Directors has adopted a written charter for the Compensation Committee, which is available on our website at [www.arenapharm.com](http://www.arenapharm.com). Dr. Nova is the Chair of the Compensation Committee. The Compensation Committee held six meetings in 2013. The Compensation Committee's report is set forth below under Compensation Committee Report.

### ***Corporate Governance and Nominating Committee***

The Corporate Governance and Nominating Committee's responsibilities include:

recommending guidelines to our Board of Directors for our corporate governance;

overseeing director orientation and continuing education;

establishing criteria for membership on our Board of Directors;

identifying, evaluating, reviewing and recommending to our Board of Directors qualified director candidates;

reviewing and assessing the performance of our Board of Directors and its standing committees;

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reviewing and approving a management succession plan and related procedures;

making recommendations to our Board of Directors regarding the appointment of officers;

establishing the process for receiving and considering stockholder proposals and suggestions for director nominations;

making recommendations regarding the agenda for our Board of Directors strategy discussions; and

overseeing compliance related policies and practices that are not within the purview of the Audit Committee or are referred by our Board of Directors.

The Corporate Governance and Nominating Committee uses many sources to identify potential director candidates, including the network of contacts among our directors, officers and other employees, and may engage outside consultants and recruiters in this process. As set forth below under Stockholder Director Recommendations, the Corporate Governance and Nominating Committee will consider director candidates recommended by our stockholders.

The Corporate Governance and Nominating Committee believes that candidates for director should have certain minimum qualifications, including being able to understand basic financial statements. In considering candidates for director, the Corporate Governance and Nominating Committee will consider all relevant factors, which may include, among others, the candidate's experience and accomplishments, the relevance of such experience to our business, the availability of the candidate to devote sufficient time and attention to our company, the candidate's reputation for integrity and ethics and the candidate's ability to exercise sound business judgment. Director candidates are reviewed in the context of the then current composition of our Board of Directors, our requirements and the interests of our stockholders. In conducting this assessment, our Board of Directors considers skills, diversity, age, and such other factors as it deems appropriate given the current needs of our Board of Directors and our company, to maintain a balance of knowledge, experience and capability. Our Board of Directors believes that its membership should reflect diversity in a broad sense that includes such things as differences of viewpoint, background, professional experience, expertise, education, skills, specialized knowledge, and other individual qualities and attributes. In the case of incumbent directors whose terms of office are set to expire, when determining whether such directors should be nominated for reelection, our Board of Directors reviews such directors' overall service to us during their term, including the number of meetings attended, level of participation, quality of performance, and any relationships and transactions that might impair such directors' independence. In the case of new director candidates, our Board of Directors also determines whether the nominee is independent for NASDAQ purposes. The Corporate Governance and Nominating Committee retains the right to modify these qualifications from time to time.

The Corporate Governance and Nominating Committee recommended the nominations of each of the director nominees for election at our 2014 Annual Meeting.

Our Board of Directors has adopted a written charter for the Corporate Governance and Nominating Committee, which is available on our website at [www.arenapharm.com](http://www.arenapharm.com). Mr. Belcher is the Chair of the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee held three meetings in 2013.

## ***Science Committee***

In early 2014, our Board of Directors established its Science Committee. The purpose of the Science Committee is to assist the Board in its oversight of matters pertaining to our strategies and activities for research and development. The Science Committee is to consist of at least two members of our Board of Directors who have a scientific or medical background and our Chief Scientific Officer. As of March 31, 2014, the members of the Science Committee are Drs. Behan, Hixson, Nova and White, and Dr. Hixson is the Chair of the committee.

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### **Stockholder Director Recommendations**

The Corporate Governance and Nominating Committee will consider director candidates recommended by our stockholders. A candidate must be highly qualified and be willing and expressly interested in serving on our Board of Directors. The Corporate Governance and Nominating Committee does not intend to alter the manner in which it evaluates candidates, including the minimum qualifications set forth above, based on whether or not the candidate was recommended by a stockholder. To be considered by the Corporate Governance and Nominating Committee, a stockholder recommendation for director candidates for an annual meeting of stockholders must be received by the committee by December 31 of the year before such annual meeting. A stockholder who wishes to recommend a candidate for the Corporate Governance and Nominating Committee's consideration should forward the candidate's name and information about the candidate's qualifications to Corporate Secretary, Arena Pharmaceuticals, Inc., 6154 Nancy Ridge Drive, San Diego, California 92121. **Submissions must include a representation that the nominating stockholder is a beneficial or record owner of our stock. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected.** This procedure does not affect the deadline for submitting other stockholder proposals for inclusion in the proxy statement, nor does it apply to questions a stockholder may wish to ask at an annual meeting. Additional information regarding submitting stockholder proposals is set forth in our Bylaws. Stockholders may request a copy of the bylaw provisions relating to stockholder proposals from our Corporate Secretary.

### **Stockholder Communications with our Board of Directors**

Our Board of Directors has a formal process by which stockholders may communicate with our Board or any of our directors or officers. Stockholders who wish to communicate with our Board of Directors or any of our directors or officers may do so by sending written communications addressed to such person or persons in care of Corporate Secretary, Arena Pharmaceuticals, Inc., 6154 Nancy Ridge Drive, San Diego, California 92121. All such communications will be compiled by our Corporate Secretary and submitted to the addressees on a periodic basis. If our Board of Directors modifies this process, we will post the revised process on our website.

### **Compensation Committee Interlocks and Insider Participation**

Drs. Nova and White and Mr. Woods are the members of the Compensation Committee, and they served on the Compensation Committee for all of 2013. No director serving on the Compensation Committee during any part of 2013 was, at any time during or before such fiscal year, one of our employees. None of our executive officers served during any part of 2013 as a member of the board of directors or compensation committee of any other entity that had one or more of its executive officers serving as members of our Board of Directors or the Compensation Committee.

### **Certain Relationships and Related Transactions**

Except for the compensation arrangements between us and our executive officers and directors described below under Compensation Discussion and Analysis, since January 1, 2013, we have not been a party to any transactions involving more than \$120,000 and in which any director, nominee for director, executive officer, holder of more than 5% of our common stock or any immediate family member of the foregoing has a direct or indirect material interest, nor are any such transactions currently proposed.

The Audit Committee's charter requires that it reviews and approves any related-party transactions. In considering related-party transactions, the Audit Committee considers the relevant available facts and circumstances, including, but not limited to, (i) the risks, costs and benefits to us, (ii) the impact on a director's independence in the event the related party is a director, immediate family member of a director or an entity with which a director is affiliated,



(iii) the terms of the transaction, (iv) the availability of other sources for comparable services or products, and (v) the terms available to or from, as the case may be, unrelated third

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parties or to or from employees generally. In the event a director has an interest in the proposed transaction, the director must recuse himself or herself from the deliberations and approval. In determining whether to approve, ratify or reject a related-party transaction, the Audit Committee evaluates whether, in light of known circumstances, the transaction is in, or is not inconsistent with, our best interests and those of our stockholders.

**ADVISORY VOTE ON EXECUTIVE COMPENSATION (*PROPOSAL 2*)**

At our 2011 Annual Meeting of Stockholders, the stockholders indicated their preference that we solicit a non-binding advisory vote on the compensation of the named executive officers, commonly referred to as a say-on-pay vote, every year. Our Board of Directors has adopted a policy that is consistent with that preference. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement.

The compensation of our named executive officers subject to the vote is disclosed in the Compensation Discussion and Analysis, the compensation tables and the related narrative disclosure contained in this proxy statement. As discussed in those disclosures, we believe that our compensation policies and decisions are focused on pay-for-performance principles, aligned with our stockholders' interests and consistent with current market practices. Compensation of our named executive officers is intended to enhance stockholder value by attracting, motivating and retaining qualified individuals to perform at the highest of professional levels and to contribute to our growth and success.

We urge stockholders to read the below Compensation Discussion and Analysis, as well as the related compensation tables and narrative that follow such section, which describes in more detail how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives. Our Board of Directors and the Compensation Committee believe that our compensation policies and practices are effective in implementing our compensation philosophy and in helping us achieve our strategic goals.

Accordingly, our Board of Directors is asking the stockholders to indicate their support for the compensation of our named executive officers as described in this proxy statement by casting a non-binding advisory vote FOR the following resolution:

RESOLVED, that the compensation paid to Arena Pharmaceuticals, Inc.'s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.

Because the vote is advisory, it is not binding on us or our Board of Directors. Nevertheless, the views expressed by our stockholders, whether through this vote or otherwise, are important to us and our Board of Directors and, accordingly, our Board and the Compensation Committee intend to consider the results of this vote in making determinations in the future regarding executive compensation arrangements.

Advisory approval of this proposal requires a majority of the votes cast by stockholders entitled to vote on the proposal voting FOR approval. Abstentions and broker non-votes will have no effect on the outcome.

***THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS***

***DISCLOSED IN THIS PROXY STATEMENT.***

**Table of Contents****Compensation and Other Information****Concerning Executive Officers, Directors and Certain Stockholders****Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of March 31, 2014, by:

Each person, group or entity who is the beneficial owner of 5% or more of our common stock;

Each director and nominee for director;

Our Named Executive Officers (as defined below in Compensation Discussion and Analysis ); and

All directors and executive officers as a group.

Unless otherwise indicated in the footnotes below, the address for the beneficial owners listed in this table is in care of Corporate Secretary, Arena Pharmaceuticals, Inc., 6154 Nancy Ridge Drive, San Diego, California 92121. This table is based on information supplied by executive officers, directors and principal stockholders and Schedules 13D, 13G and other filings made with the SEC on or before March 31, 2014. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that the stockholders named in this table have sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 219,484,734 shares of common stock outstanding on March 31, 2014, as adjusted as required by the rules promulgated by the SEC. This table includes shares issuable pursuant to stock options and other rights to purchase shares of our common stock exercisable within 60 days of March 31, 2014.

<b>Name and Address of Beneficial Owner</b>	<b>Shares Beneficially Owned</b>	<b>Percentage of Total</b>
Wellington Management Company, LLP (1)	30,024,014	13.68%
BlackRock, Inc. (2)	16,016,015	7.30%
The Vanguard Group (3)	13,964,493	6.36%
Jack Lief (4)	2,023,234	*
Dominic P. Behan, Ph.D., D.Sc. (5)	1,093,616	*
Steven W. Spector, J.D. (6)	739,688	*
William R. Shanahan, Jr., M.D., J.D. (7)	531,250	*
Harry F. Hixson, Jr., Ph.D. (8)	369,911	*
Donald D. Belcher (9)	323,848	*
Christine A. White, M.D. (10)	275,721	*
Phillip M. Schneider (11)	231,277	*
Randall E. Woods (12)	222,277	*

Scott H. Bice (13)	190,580	*
Tina S. Nova, Ph.D. (14)	189,000	*
Robert E. Hoffman (15)	144,570	*
All directors and executive officers as a group (13 persons) (16)	6,416,222	2.85%

\* Less than one percent

- (1) Wellington Management Company, LLP, had shared voting power with respect to 19,972,159 shares and shared dispositive power with respect to 30,024,014 shares. The principal business office of Wellington Management Company, LLP, is 280 Congress Street, Boston, Massachusetts 02210.
- (2) BlackRock, Inc., had sole voting power with respect to 15,214,455 shares. The principal business office of BlackRock, Inc., is 40 East 52nd Street, New York, New York 10022.
- (3) The Vanguard Group had sole voting power with respect to 321,731 shares, sole dispositive power with respect to 13,662,762 shares and shared dispositive power with respect to 301,731 shares. The principal business office of The Vanguard Group is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

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- (4) Includes 1,564,100 shares issuable to Mr. Lief upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (5) Includes 663,116 shares issuable to Dr. Behan upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (6) Includes 690,001 shares issuable to Mr. Spector upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (7) Includes 527,500 shares issuable to Dr. Shanahan upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (8) Includes 305,763 shares issuable to Dr. Hixson upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (9) Includes 273,848 shares issuable to Mr. Belcher upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (10) Includes 255,721 shares issuable to Dr. White upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (11) Includes 221,277 shares issuable to Mr. Schneider upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (12) Includes 221,277 shares issuable to Mr. Woods upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (13) Includes 185,680 shares issuable to Mr. Bice upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (14) Includes 189,000 shares issuable to Dr. Nova upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.
- (15) Includes 133,750 shares issuable to Mr. Hoffman upon the exercise of stock options that are exercisable within 60 days of March 31, 2014.

(16) Includes 5,308,533 shares issuable upon the exercise of stock options held by our directors and executive officers that are exercisable within 60 days of March 31, 2014.

### Executive Officers

Our executive officers are appointed by our Board of Directors and serve at the discretion of our Board. The following table sets forth information as of March 31, 2014, regarding our executive officers.

Name	Age	Position
Jack Lief	68	Chairman, President and Chief Executive Officer
Craig M. Audet, Ph.D.	50	Senior Vice President, Operations and Head of Global Regulatory Affairs
Dominic P. Behan, Ph.D., D.Sc.	50	Executive Vice President and Chief Scientific Officer
Robert E. Hoffman	48	Senior Vice President, Finance and Chief Financial Officer
William R. Shanahan, Jr., M.D., J.D.	65	Senior Vice President and Chief Medical Officer
Steven W. Spector, J.D.	49	Executive Vice President, General Counsel and Secretary

See ELECTION OF DIRECTORS (*PROPOSAL 1*) for biographical information regarding Mr. Lief and Dr. Behan, who are also directors nominated for reelection at our 2014 Annual Meeting.

**Craig M. Audet, Ph.D.**, has served as our Senior Vice President, Operations and Head of Global Regulatory Affairs since June 2012. Dr. Audet served as our Vice President, Global Regulatory Affairs from

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June 2011 to June 2012 and as our Vice President, Regulatory Affairs from April to June 2011. Dr. Audet has approximately 30 years of experience in global pharmaceutical and medical device registration and marketing support activities, and extensive experience with clinical trials, registrations, labeling development, product defense, business development and promotion and advertising activities. From December 2003 to August 2010, Dr. Audet served in various positions, and most recently as Vice President, US Regulatory Affairs, for Sanofi-Aventis, US, a pharmaceutical company, where he built and lead a department of 40 regulatory professionals. Dr. Audet served in various positions, and most recently as Senior Director, Global Therapeutic Area Leader, for the Pfizer Pharmaceuticals Group of Pfizer, Inc., a pharmaceutical company, from March 1998 to December 2003. Dr. Audet also served as Adjunct Associate Professor in the School of Pharmacy Graduate Program in Quality Assurance/Regulatory Affairs at Temple University from 2002 to 2011. Dr. Audet holds a BS in Biology/Pre-Medicine from Boston College, and a Ph.D. from Walden University.

**Robert E. Hoffman** has served as our Senior Vice President, Finance and Chief Financial Officer since June 2012. Mr. Hoffman served as our Vice President, Finance and Chief Financial Officer from August 2011 to June 2012 and previously from December 2005 to March 2011; our Vice President, Finance and Chief Accounting Officer from June 2004 to December 2005; our Vice President, Finance from April 2000 to June 2004; and as our Controller from August 1997 to April 2000. From March 2011 to August 2011, Mr. Hoffman served as Chief Financial Officer for Polaris Group, a biopharmaceutical drug company. Mr. Hoffman is a member of the board of directors of CombiMatrix Corporation, a molecular diagnostics company. He also serves as a member of the Financial Accounting Standards Board's Small Business Advisory Committee and the steering committee of the Association of Bioscience Financial Officers. In addition, Mr. Hoffman is a member and a former director and President of the San Diego Chapter of Financial Executives International. Mr. Hoffman holds a B.B.A. from St. Bonaventure University, and is licensed as a C.P.A. (inactive) in the State of California.

**William R. Shanahan, Jr., M.D., J.D.**, has served as our Senior Vice President and Chief Medical Officer since June 2010. Dr. Shanahan served as our Vice President and Chief Medical Officer from March 2004 to June 2010. Dr. Shanahan served as Chief Medical Officer for Tanox, Inc., a biopharmaceutical company, from 2000 to March 2004; in various positions at Isis Pharmaceuticals, Inc., a biopharmaceutical company, from 1994 to 2000, most recently as Vice President, Drug Development; as Director, Clinical Research for Pfizer Central Research, a pharmaceutical company, from 1989 to 1994; and in various positions at Searle Research & Development, a pharmaceutical company subsequently acquired by Pfizer, from 1986 to 1989, most recently as Director, Clinical Research. Dr. Shanahan holds an A.B. from Dartmouth College, an M.D. from the University of California, San Francisco and a J.D. from Loyola University, Chicago.

**Steven W. Spector, J.D.**, has served as our Executive Vice President and General Counsel since February 2012. Mr. Spector served as our Senior Vice President and General Counsel from June 2004 to February 2012, and as our Vice President and General Counsel from October 2001 to June 2004. Mr. Spector has also served as our Secretary since November 2001. Mr. Spector is a member of the board of directors and a former President of the Association of Corporate Counsel, San Diego. Prior to joining Arena, Mr. Spector was a partner with the law firm of Morgan, Lewis & Bockius LLP, where he worked from 1991 to October 2001. Mr. Spector was our outside corporate counsel from 1998 to October 2001. Mr. Spector holds a B.A. and a J.D. from the University of Pennsylvania.

## **Compensation Discussion and Analysis**

This section provides an overview and analysis of our compensation program and policies, decisions we have made under such program and policies, and our rationale for such decisions with respect to 2013 and the following individuals, whom we refer to as our Named Executive Officers: Messrs. Lief, Hoffman and Spector, and Drs. Behan and Shanahan. Later in this proxy statement, you will find a series of tables containing specific information about the



compensation earned or paid in 2013 to these individuals. The below discussion is intended to help you understand the detailed information provided in those tables and to put that information into context with our overall compensation program for our Named Executive Officers.

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### *Executive Summary*

Our compensation program is intended to align our Named Executive Officers' interests with those of our stockholders by incentivizing and rewarding performance. Our Named Executive Officers' total compensation is comprised of different components, including base salary, cash incentives and stock-based compensation. Consistent with our pay-for-performance philosophy, the Compensation Committee links the compensation of our Named Executive Officers to performance by emphasizing equity compensation opportunities and cash incentives. Also consistent with this philosophy, the total compensation received by our Named Executive Officers will vary from year to year and among our Named Executive Officers based on corporate and individual performance, including as measured against annual goals that are pre-established by the Compensation Committee.

In June 2012, the US Food and Drug Administration, or FDA, approved our first drug, BELVIQ, and, in June 2013, BELVIQ became commercially available to patients in the United States. The approval and commercial availability of BELVIQ began our evolution from a purely research and development stage company to a research and development company with a marketed product. Before the FDA approval, we did not know whether or when BELVIQ would be approved, and nearly all of the Compensation Committee's decisions prior to such approval regarding our 2012 executive compensation program were oriented around focusing our efforts on the approval of BELVIQ.

At the end of 2012, the Compensation Committee reviewed the entire compensation program for our Named Executive Officers in light of the expected long-term significance of the FDA approval of BELVIQ. As a result of this review, the Compensation Committee made several changes to our compensation program, including increases (beginning in January 2013) in base salaries for our Named Executive Officers for the first time since January 2009; increases in the cash incentive opportunities for our Named Executive Officers under our Annual Incentive Plan for 2013; and changes to the mix and timing of equity compensation provided to our Name Executive Officers to further emphasize performance-based compensation. For 2013, the committee changed the mix of equity compensation to include, in addition to stock options, a performance restricted stock unit, or PRSU, award (which vests, if at all, depending on our relative stock performance versus a biotech industry index over a three-year period) and a restricted stock unit, or RSU, award. The committee also determined to split the expected annual equity compensation into two grant periods: granting PRSUs in early 2013, and waiting until near the end of 2013 to grant options and RSUs in connection with evaluating 2013 performance.

The Compensation Committee established goals for 2013 that we believed were important for potentially creating longer-term stockholder value. We achieved 82.5% of these goals during 2013, including expanding our BELVIQ collaboration with Eisai to most of the world, entering into a new BELVIQ collaboration for Taiwan, advancing development programs related to BELVIQ, managing our financial resources, and advancing other research and development programs.

Our Compensation Committee generally does not target the amount of compensation for individual Named Executive Officers relative to a peer group of companies, but it does consider peer data for purposes of assessing the competitiveness of the executive compensation program. An individual Named Executive Officer may earn more or less than the market median depending on factors described below, including the individuals' experience and background, role, and past and future performance. With respect to 2013, the overall compensation program for our Named Executive Officers was around the market median of a peer group of companies.

The compensation program for our Named Executive Officers includes other aspects that the Compensation Committee views as consistent with good corporate governance, including having a clawback policy to seek repayment of incentive-based compensation in the event we experience certain accounting restatements, having stock ownership guidelines to promote executive stock ownership, prohibiting speculative and short-term trading, including

double-trigger mechanisms in change-in-control arrangements, and not providing for gross-ups.

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At our 2013 Annual Meeting of Stockholders, approximately 93% of the votes cast on the say-on-pay proposal voted in support of the compensation paid to our named executive officers for 2012. While this vote was only advisory and not binding, the Compensation Committee considered the results of the vote in the context of our overall compensation philosophy, as well as our compensation policies and decisions. The Compensation Committee believes that this 2013 stockholder vote endorsed our compensation philosophy and the decisions we made for 2012. After reflecting on this vote, the Compensation Committee decided that no changes to compensation policies, decisions or approach were necessary for 2013 based on the results of such vote. The Compensation Committee believes that its decisions for 2013 compensation, including to continue emphasizing performance-based cash and performance-based equity compensation, are consistent with our pay-for-performance philosophy and further aligns the interests of our executive officers and our stockholders.

### ***Compensation Philosophy, Objectives and Development***

Our overall compensation philosophy and objective is to maintain a compensation program for our Named Executive Officers that helps us attract, motivate and retain qualified individuals to perform at the highest of professional levels and to contribute to our growth and success, which we believe will result in enhancing stockholder value. The compensation program for our Named Executive Officers is designed to provide them with compensation opportunities that are tied to our overall corporate performance, as well as their individual performance. Each of their compensation packages includes three key elements: (i) base salary; (ii) performance-based cash incentives; and (iii) stock-based compensation. Our Named Executive Officers are also entitled to health and welfare benefits, and, as described below, they may be entitled to receive additional benefits upon termination of their employment.

The main principles of our compensation strategy include the following:

Compensation decisions are driven by a pay-for-performance philosophy;

Compensation should reflect corporate and individual performance; and

Higher compensation can be earned through an individual's and the company's extraordinary performance. Our Compensation Committee generally does not target the amount of compensation for our Named Executive Officers relative to a peer group of companies, but it does consider peer data for purposes of assessing the competitiveness of the executive compensation program. An individual Named Executive Officer may earn more or less than the market median depending on factors described below, including the individual's experience and background, role, and past and future performance. With respect to 2013, the overall compensation program for our Named Executive Officers was around the market median of a peer group of companies.

The Compensation Committee may consult with compensation consultants, legal counsel and other advisors in designing our compensation program, including in evaluating the competitiveness of individual compensation packages and in relation to our performance goals.

### **Program Development and Role of Compensation Committee, Compensation Consultants and Management**

As part of the process for setting the compensation of our Named Executive Officers, our Chief Executive Officer provides the Compensation Committee with his performance assessments of the company and these individuals. He

also recommends to the Compensation Committee base salaries, cash incentive opportunities, cash incentive awards and stock-based compensation for our Named Executive Officers other than himself. The Compensation Committee can accept, reject or modify such recommendations in its discretion. The Compensation Committee also considers the recommendations and views of its independent compensation consultant, peer company data, and factors such as the past, current and expected contributions of each Named Executive Officer, our corporate performance, global economic conditions, the mix of compensation that would be most appropriate for each Named Executive Officer and such officer's particular responsibilities, experience, level of accountability and decision authority.

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The Compensation Committee meets regularly in executive session without management. Various members of management, including our Chief Executive Officer, Chief Financial Officer and General Counsel, attend committee meetings, and they and other employees as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, provide financial or other background information or advice or otherwise participate in the meetings. Our General Counsel also serves as the Secretary for Compensation Committee meetings, but is not present for executive session discussions. Our Chief Executive Officer is not present during any deliberations or determinations of the Compensation Committee regarding his compensation.

The Compensation Committee has retained Frederic W. Cook & Co., Inc., or FWC, as its compensation consultant from time to time since 2003. FWC reports directly to the Compensation Committee and takes its direction from the Chair of the Compensation Committee, working with management on select issues under the Compensation Committee's oversight. The Compensation Committee has continued to choose FWC as a compensation consultant because of its national reputation as a leading compensation consultant, the Committee's familiarity with FWC through past consulting engagements, FWC's familiarity with our company and compensation policies and practices, and FWC's knowledge of our industry. In addition, the Compensation Committee engaged Barney & Barney LLC to also review the executive compensation program for 2013, and Barney & Barney concurred with the appropriateness of the program.

Following the June 2012 approval of BELVIQ, the Compensation Committee engaged FWC in 2012 to help conduct an overall review of our executive officer compensation program in anticipation of our transition from a purely research and development stage company to a research and development company with a marketed product. As described below, the Compensation Committee followed FWC's recommendation to alter the timing and mix of equity compensation granted to our Named Executive Officers. In the second half of 2013, the Compensation Committee again engaged FWC to help conduct another overall review of our executive officer compensation program, and, following FWC's recommendation, the Compensation Committee determined to continue such compensation program. In addition, the Compensation Committee retained FWC in 2012 and 2013 to review and make recommendations regarding our equity compensation plans, non-employee director compensation, and legislative and regulatory changes and corporate governance trends affecting compensation, and to perform compensation risk assessments.

**Peer Groups Used in Program Development**

In the second half of 2012, the Compensation Committee changed our peer group to the group of companies set forth below to reflect the FDA approval of BELVIQ and the resulting increase in our market capitalization as well as to include two potential competitors in the weight-management drug market. (We refer to this peer group as the 2012 Peer Group.) At that time, these companies had market capitalizations of between \$316 million and \$3.4 billion, with a median market capitalization of \$1.1 billion. Our market capitalization at such time was \$1.9 billion. This peer group was considered in determining salary increases that took effect at the start of 2013, as well as the 2013 PRSUs.

Acorda Therapeutics, Inc.	Anylam Pharmaceuticals, Inc.	ARIAD Pharmaceuticals, Inc.
Auxilium Pharmaceuticals, Inc.	Halozyme Therapeutics, Inc.	Idenix Pharmaceuticals, Inc.
ImmunoGen, Inc.	Incyte Corporation	Isis Pharmaceuticals, Inc.
Lexicon Pharmaceuticals, Inc.	Nektar Therapeutics	Optimer Pharmaceuticals, Inc.

Orexigen Therapeutics, Inc.

Questcor Pharmaceuticals, Inc.  
Theravance, Inc.

Rigel  
Pharmaceuticals, Inc.  
VIVUS, Inc.

Seattle Genetics, Inc.

In the last quarter of 2013, the Compensation Committee changed our peer group to the group of companies set forth below to replace companies that had been acquired or no longer met the objective size criteria. (We refer to this peer group as the *Current Peer Group*.) At that time, these companies had market capitalizations of between \$625 million and \$4.5 billion, with a median market capitalization of \$1.3 billion. Our market capitalization at such

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time was \$1.4 billion. This peer group was considered in reviewing our executive compensation program and in determining the stock option and RSU grants and the cash incentive awards for 2013.

Acorda Therapeutics, Inc.		Alnylam Pharmaceuticals, Inc.
ARIAD Pharmaceuticals, Inc.	Aegerion Pharmaceuticals, Inc.	Exelixis, Inc.
Halozyme Therapeutics, Inc.	Avanir Pharmaceuticals, Inc.	ImmunoGen, Inc.
Ironwood Pharmaceuticals, Inc.	Idenix Pharmaceuticals, Inc.	Lexicon Pharmaceuticals, Inc.
Nektar Therapeutics	Isis Pharmaceuticals, Inc.	Optimer Pharmaceuticals, Inc.
Orexigen Therapeutics, Inc.	NPS Pharmaceuticals, Inc.	VIVUS, Inc.
	Theravance, Inc.	

**Compensation Consultant Conflicts of Interest Analysis**

The Compensation Committee has determined that the work of each of FWC and Barney & Barney and the individual compensation advisors employed by each of FWC and Barney & Barney does not create any conflict of interest. In making that determination, the Compensation Committee took into consideration the following factors: (i) the provision of other services to Arena by the consultant; (ii) the amount of fees Arena paid the consultant as a percentage of the consultant's total revenue; (iii) the consultant's policies and procedures that are designed to prevent conflicts of interest; (iv) any business or personal relationship of the consultant or the individual compensation advisors employed by the firm with an Arena executive officer; (v) any business or personal relationship of the individual compensation advisors with any member of the Compensation Committee; and (vi) any Arena stock owned by the consultant or the individual compensation advisors employed the consultant.

***Elements of Our Compensation Program*****1. Base Salary**

The purpose of base salary is to provide fixed compensation to attract and retain an employee with the qualifications desired for the particular position. The base salary for any particular Named Executive Officer depends on various factors, such as the individual's responsibilities and position, the individual's past performance and expected future contribution, the individual's overall mix of base salary, performance-based cash incentives and stock-based compensation, the individual's experience and background, our corporate performance and the individual's historical base salary.

Prior to 2013, the Compensation Committee had not changed the base salaries of any of our Named Executive Officers since January 2009. Instead of changing base salary, the committee emphasized cash incentive opportunities and stock-based compensation to more closely link executive compensation to corporate performance, including as measured against pre-established corporate goals, and their view of individual performance. In late 2012, and in light of the FDA approval of BELVIQ and the time elapsed since the last salary increases, the Compensation Committee approved for 2013 an approximately 5% increase in the base salaries of each of our Named Executive Officers, with exception of Mr. Hoffman. The Compensation Committee approved for 2013 an approximately 10% increase in Mr. Hoffman's base salary as his previous salary was determined to be further below the median of comparable executives in the 2012 Peer Group than any of the other Named Executive Officers.

**2. Performance-based Cash Incentives**



Under the Annual Incentive Plan for 2013, each participant was assigned an incentive target that was expressed as a percentage of annual base salary, and the participant's actual incentive award would be based on the level of achievement of pre-established goals, the quality of such achievement, the participant's role in goal achievement and the weighting of the goals. All participants' potential incentive awards were based on the same corporate goals, which we believed would align the interests of our executive officers with one another and with our stockholders. The corporate goals were intended to reflect a mix of short-term (less than one year) and long-term (one year or more) performance objectives, and the relative weighting of the goals was intended to reflect

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our corporate priorities. The corporate goals were approved by the Compensation Committee after taking into account the views and recommendations of our Board of Directors (which includes our Chief Executive Officer).

The maximum potential incentive award under the Annual Incentive Plan for 2013 was 150% of the targeted award amount for extraordinary goal achievement in 2013. The Compensation Committee did not establish individual goals for the participants in the Annual Incentive Plan for 2013 to focus the participants on the corporate goals for the year.

Mr. Lief's incentive target under the Annual Incentive Plan for 2013 was expressed as 65% of his annual base salary (which was an increase from the 55% for 2012), and the other Named Executive Officers had incentive targets expressed as 50% of their annual base salaries (which was an increase from the 40% for 2012). The Compensation Committee determined to increase the incentive cash targets so that the greatest amount of any total compensation increase in 2013 for Named Executive Officers would depend on performance. The Compensation Committee considered in this regard that if 100% of the goals under the Annual Incentive Plan was achieved, the total annual cash compensation of the Named Executive Officers would be higher than the peer group median but less than the 75<sup>th</sup> percentile.

Our 2013 corporate goals, and the weighting and achievement of such goals, are described as follows:

<b>Corporate Goals</b>	<b>Weighting</b>	<b>Achievement</b>
Approval of BELVIQ in the European Union	15%	0%
Establish new collaborations or similar arrangements for BELVIQ	15%	15%
Development progress for new BELVIQ products	20%	20%
Manufacture and deliver drug product to collaborators; supply-chain planning	15%	15%
Establish a new collaboration or similar arrangement other than for BELVIQ	2.5%	0%
End 2013 with a cash balance equal to or greater than our plan	7.5%	7.5%
Manage expenditures consistent with our plan	7.5%	7.5%
Additional development progress	10%	10%
Research progress	7.5%	7.5%
<b>Total</b>	<b>100%</b>	<b>82.5%</b>

In determining that 82.5% of our 2013 corporate goals was achieved, the Compensation Committee considered the following:

**Corporate Goals****Considerations for Achievement****Approval of BELVIQ in the European Union**

We filed an application for marketing approval of BELVIQ for the European Union. The relevant regulatory authority notified us in 2013 that we had not yet satisfactorily addressed their concerns, and we determined to withdraw such marketing application.

**Establish new collaborations or similar arrangements for BELVIQ**

We entered into an expanded marketing and supply agreement for BELVIQ with Eisai Inc. and Eisai Inc.'s parent company, Eisai Co., Ltd., in all of the countries in the world, except for South Korea, Taiwan, Australia, New Zealand and Israel. We also entered into a marketing and supply agreement with CY Biotech Company Limited for BELVIQ in Taiwan.

**Development progress for new BELVIQ products**

We and Eisai initiated investigational clinical trials evaluating co-administration of BELVIQ and phentermine and different formulations of BELVIQ 20 mg extended release tablets.

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<b>Corporate Goals</b>	<b>Considerations for Achievement</b>
<b>Manufacture and deliver drug product to collaborators; supply-chain planning</b>	We timely manufactured and delivered drug product to our collaborators. We also further developed our supply-chain contingency plan.
<b>Establish a new collaboration or similar arrangement other than for BELVIQ</b>	We did not enter into any non-BELVIQ collaborations or similar arrangements in 2013.
<b>End 2013 with a cash balance equal or greater than our plan</b>	We ended 2013 with a cash balance greater than the plan approved by our Board of Directors.
<b>Manage expenditures consistent with our plan</b>	We managed expenditures consistent with the plan approved by our Board of Directors.
<b>Additional development progress</b>	We advanced our development programs, including completing dosing in a Phase 1b clinical trial of APD811 (our internally discovered, orally available agonist of the prostacyclin receptor intended for the treatment of pulmonary arterial hypertension), and completing dosing in a Phase 1 clinical trial for APD334 (our internally discovered, orally available agonist of the sphingosine 1-phosphate subtype 1, or S1P <sub>1</sub> , receptor intended for the treatment of a number of conditions related to autoimmune diseases).

**Research progress** We advanced earlier-stage programs in our pipeline, which the Compensation Committee and our Board of Directors believe is strategically important to our long-term plan of identifying and advancing multiple drug candidates.

In determining cash incentive awards for 2013, the Compensation Committee considered the level of goal achievement and the relative weighting of the goals, and, in early 2014, the committee approved cash incentive awards for our Named Executive Officers other than Dr. Behan and Mr. Spector that were calculated based solely on the percentage of goal achievement. Considering the high quality of Dr. Behan's and Mr. Spector's performance and roles in achieving the 2013 goals, the Compensation Committee approved cash incentive awards for Dr. Behan and Mr. Spector of \$207,900 and \$203,673, respectively, which were higher than the \$173,250 and \$162,938, respectively, they would have received if their awards were calculated based solely on the percentage of goal achievement.

The below Grants of Plan-Based Awards table shows the target and maximum incentives that could have been earned under the Annual Incentive Plan, and the awards earned are included in the below Summary Compensation Table.

**3. Stock-based Compensation***General*

We believe that equity grants provide our Named Executive Officers with the opportunity to share in increases, if any, in the value of our common stock and encourage their ownership in our company. We believe that equity grants reinforce a long-term interest in our corporate performance and directly motivate our Named Executive Officers to maximize long-term stockholder value. As described below, the potential realized value of certain grants depend our stock performance in general or versus an industry index, all of our equity grants utilize vesting and, in the case of

stock options, exercisability periods that encourage our Named Executive Officers to continue working for us long term.

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The Compensation Committee determines the size and type of equity awards after evaluating various factors applicable at the time of each such grant in their totality, which may include, among other things: each Named Executive Officer's role and responsibilities and the Compensation Committee's view of the officer's individual performance; the prior equity awards granted to such individuals; retentive value of awards; our corporate performance; the value of equity grants; comparative peer data provided by its compensation consultant; and total stockholder return, or TSR.

The exercise prices of our stock options are set at the closing price of our common stock on the date of grant as reported on the NASDAQ Global Select Market (or if there is no closing price on such date, on the last preceding date on which a closing price was reported).

All grants to executive officers require the approval of the Compensation Committee. The Compensation Committee may delegate authority to grant options to a committee of one or more members of our Board of Directors or one or more of our executive officers or a committee of our executive officers. The Compensation Committee has delegated to our Chief Executive Officer the authority to grant stock options to non-executive employees and consultants for up to an aggregate of 250,000 shares each quarter. It is the Compensation Committee's policy for our Chief Executive officer to report to it any such stock option grants at its next regularly scheduled committee meeting following such grants.

### *2013 Equity Grants*

Following the June 2012 FDA approval of BELVIQ, the Compensation Committee determined to change the mix and timing of equity awards to our Named Executive Officers to support the company's next stage of commercialization and development, as well as its expected growth. As diagramed below, instead of granting only stock options as the form of equity compensation for our Named Executive Officers, the committee determined to also grant (i) PRSUs, which are time and performance based, and (ii) time-based RSUs. The committee also determined that our Named Executive Officers would receive approximately 50% of the valuation of the total expected annual equity grant in the first quarter of the year (in the form of PRSUs), and would have the opportunity to potentially receive another set of grants (in the form of RSUs and stock options), depending on performance, for approximately 50% of the valuation of the total expected annual equity grant near the end of the fiscal year. This allows the time-vested portion to be granted once we have had the ability to consider our performance and the results of the previous stockholder vote on our executive compensation.

### **Summary of 2013 Equity Grants**

The Compensation Committee believes the mix and timing of these equity awards will help retain and motivate our Named Executive Officers, as well as further align them with our stockholders. Stock options retain and motivate executive officers to build stockholder value over the life of the stock option since stock options deliver value only if our stock price appreciates after grant; time-vested RSUs retain and provide alignment with stockholders' interest during the vesting term and for so long as the executive officer holds the underlying shares; and relative TSR PRSUs helps to retain and reward our Named Executive Officers for longer-term performance as compared to a broader index of similar drug development investments.



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The amount, mix and timing of equity awards going forward will continue to be in the discretion of the Compensation Committee and depend on various factors, including, among other factors, our corporate performance for the year, the total other compensation awarded to our executive officers for that year, compensation paid to comparable executive officers at other companies and other factors described in this section.

*Additional Grant Details*

The table below sets forth the target number of shares of common stock that may be earned under the PRSUs the Compensation Committee granted to our Named Executive Officers in March 2013.

<b>Named Executive Officer</b>	<b>Target Number of Shares Under PRSUs Granted in March 2013 (1)</b>
Jack Lief	240,000
Robert E. Hoffman	80,000
Dominic P. Behan, Ph.D., D.Sc.	150,000
William R. Shanahan, Jr., M.D., J.D.	80,000
Steven W. Spector, J.D.	150,000

(1) Represents a target number of shares. The actual number of shares that may vest under the PRSUs may increase or decrease based on actual performance.

The PRSUs may be earned and converted into our common stock based on the TSR of our common stock relative to the TSR over a three-year period beginning March 1, 2013, of the other companies in the NASDAQ Biotechnology Index as of March 1, 2013. The Compensation Committee chose the NASDAQ Biotechnology Index so that the PRSUs will reward the Named Executive Officers based on objective measurement of the three-year TSR of our stock compared to similar companies in which our stockholders might reasonably be expected to invest (as opposed to our peer group, which includes a smaller number of companies and reflects companies of a similar size with which we compete for talent). The Compensation Committee believes that the larger number of companies in the NASDAQ Biotechnology Index ensures that, in spite of mergers or acquisitions, we will maintain a robust group of companies against which it can measure our TSR. During the three-year performance period, companies added to the NASDAQ Biotechnology Index or cease being publicly traded (other than any that become bankrupt) are not considered part of the index for the comparison, and companies that fall out of the NASDAQ Biotechnology Index, but continue publicly trading, remain part of the index for comparison. Companies that become bankrupt during the three-year performance period remain part of the index for comparison, but with a TSR of negative 100%.

The PRSU Funding Schedule depicted above provides the threshold, target and maximum amount of shares of common stock that may be earned as a percentage of the target number of PRSUs, and there is linear interpolation for performance and funding between the relative TSR percentiles shown. The Named Executive Officers will receive no shares under the PRSUs if our TSR is below the 40<sup>th</sup> percentile of TSR relative to the other companies in the index. In addition, there is a cap on the number of shares that can be earned equal to six times the grant date fair value of the award, and funding is capped at 100% if the absolute 3-year TSR is negative even if performance is above the median.

In December 2013, the Compensation Committee granted RSUs and stock options to our Named Executive Officers as the second set of their 2013 annual equity grant. Such equity grants vest 25% per year over four years from the date



of grant, and the stock options have a maximum term of seven years.

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The table below sets forth the number of shares underlying stock options and the RSUs granted to our Named Executive Officers in December 2013.

Named Executive Officer	Equity Granted in December 2013	
	Shares Subject to Stock Options	Shares Subject to Restricted Stock Units
Jack Lief	180,000	60,000
Robert E. Hoffman	60,000	20,000
Dominic P. Behan, Ph.D., D.Sc.	100,000	30,000
William R. Shanahan, Jr., M.D., J.D.	60,000	20,000
Steven W. Spector, J.D.	100,000	30,000

The committee valued each RSU as equivalent to a stock option to purchase three shares of stock, which is a discount to the Black-Scholes valuation of the options to recognize that RSUs have a lower performance requirement than the options. The committee valued each PRSU based on the Monte Carlo valuation, which made the target number of PRSU shares equal to about 1.3 options. Taking into account these valuations, the aggregate PRSUs, RSUs and stock options granted in 2013 to our Named Executive Officers, as a group, was viewed as equivalent to an aggregate of approximately 1,890,000 option-equivalent shares. The committee considered data (as adjusted to reflect differences in our capitalization) from the Current Peer Group that indicated this aggregate grant was approximately 95% of the median aggregate grant of approximately 2,000,000 option shares provided to comparable executive officers as a group. Although the committee did not target a particular percentile for individual awards, the individual awards to our Named Executive Officers, with the exception of Mr. Lief, were near the median grants reflected in the Current Peer Group for respective positions. Mr. Lief's aggregate grant was less the median aggregate grant for his position because the committee felt that the grant value of the awards was high enough to be motivational and to reward future high performance.

#### 4. Other Benefits and Post-Termination Compensation

All of our Named Executive Officers, as well as our other regular, full-time US employees, are eligible for a variety of health and welfare benefits. We believe that competitive health and welfare benefits help ensure that we have a productive and focused workforce.

##### *Paid Time Off*

Our regular, full-time US employees can accrue Paid Time Off, or PTO, during the year. In 2012, the Compensation Committee changed our PTO policy to provide that the maximum amount of PTO any employee may accrue is 240 hours. Any employee with more than 240 hours of PTO at the time of such change received a cash payout, and the payouts with respect to our Named Executive Officers are set forth in the below Summary Compensation Table.

##### *401(k) Plan and Company Match*

Our US employees are eligible to participate in our 401(k) plan beginning on their hire date. Employees may make pre-tax or after-tax (Roth) contributions of up to 50% of gross cash compensation into the plan, up to the annual limit under the Code. Subject to limits under the Code, we match 100% of each of the employee's contributions, up to a maximum match of 6% of the employee's gross cash compensation. This match vests over a five-year period from the

individual's date of hire.

*Life and Disability Coverage*

We provide all regular, full-time US employees with a life insurance policy equal to four times the employee's annual base salary, up to a maximum coverage of \$750,000. Such employees are also covered by short- and long-term disability plans that coordinate with the California State Disability plan.

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### *Perquisites and Other Benefits*

We did not provide any of our Named Executive Officers or other senior members of management with perquisites in 2013 that exceeded \$10,000 in the aggregate for any person, and do not expect to do so in 2014.

### *Post-Termination Compensation*

Below is a summary of potential post-termination compensation for our Named Executive Officers. More details regarding such arrangements, including potential payouts, are provided below under Potential Post-Employment Payments Table. These termination benefits are intended to keep our Named Executive Officers focused on corporate interests while employed and to ease the consequences to an executive officer of a termination of employment. As another advantage to us, any of the benefits described below (with the exception of those under the stock option and RSU grant forms) require that the applicable executive officer must execute a waiver and release of claims in our favor.

*Termination Protection Agreements and Severance Benefit Plan.* We have entered into Termination Protection Agreements, as amended, and have an Amended and Restated Severance Benefit Plan, as amended, or Severance Benefit Plan, that may require us to provide compensation and benefits to our Named Executive Officers.

We entered into Termination Protection Agreements because we determined that it was appropriate to provide certain of our executive officers severance compensation in the event of a double trigger in which there is a change-in-control transaction and the executive officer's employment is terminated under certain circumstances. Messrs. Lief and Spector and Dr. Behan are parties to the Termination Protection Agreements. In addition, we maintain a Severance Benefit Plan for all of our Named Executive Officers. Separation benefits are payable if the Named Executive Officer's employment is terminated under certain circumstances. Any payments payable under the Severance Benefit Plan are reduced by severance benefits payable by us under the Termination Protection Agreements or any other agreement, policy, plan, program or arrangement.

*PRSU's.* Under the PRSU grant form, a portion of the PRSUs may vest in the case of a qualifying termination, death, disability or a change-in-control transaction in which the award is not assumed, continued or substituted. No PRSUs vest solely based on the occurrence of a change in control. The portion of the PRSUs that may vest depends on the amount of time the person provided us service prior to termination as well as our performance, and the timing of any such vesting depends on the termination and whether it was in connection with, or followed by, a change in control.

*Retirement Provisions in Other Equity Grants.* From August 15, 2009, to December 12, 2012, our form of stock option grants to employees (including our Named Executive Officers) provided that, upon the retirement of the participant, unless the option had earlier terminated, the option would continue in effect (and continue vesting) until the earlier of (i) two years after the participant's retirement (or, if later, the fifth anniversary of the date of the option grant) or (ii) the expiration of the option's term. Mr. Lief and Dr. Shanahan are our only Named Executive Officers currently eligible for such retirement benefit. The Compensation Committee eliminated this retirement provision from the grant form beginning on December 13, 2012. The Compensation Committee has since approved new forms for the grant of stock options as well as RSUs to our employees. Such forms do not include a retirement provision, with the exception that each of such forms for Mr. Lief provides that his award will vest pro rata for the year in which he ceases to provide us with continuous service.

### *Tax Considerations*

We intend that all incentive payments be deductible for tax purposes unless it would undermine our ability to meet our primary compensation objectives. We also take into account the tax effects of various forms of

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compensation and the potential for excise taxes to be imposed on our executive officers. There are various provisions of the Code, which we consider in determining compensation, including the following:

*Section 162(m).* We consider the potential impact of Section 162(m) of the Internal Revenue Code, or Code, which denies a Federal income tax deduction for any individual compensation exceeding \$1,000,000 in any taxable year for the chief executive officer and the three highest compensated executive officers other than the chief executive officer and chief financial officer. This limitation does not, however, apply to compensation that is performance-based under a plan that is approved by the stockholders and that meets other requirements. Based on these requirements, we attempt to limit the impact Section 162(m) will have on our ability to deduct compensation, but in appropriate circumstances we will pay compensation that is not deductible under Section 162(m) if necessary and in the best interests of our stockholders.

*Sections 280G and 4999.* Any payment or benefit provided under our Termination Protection Agreements or our Severance Benefit Plan in connection with a change-in-control transaction may be subject to an excise tax under Section 4999 of the Code. These payments also may not be eligible for a company tax deduction pursuant to Section 280G of the Code. If any of these payments or benefits are subject to the excise tax, they may be reduced to provide the individual with the best after-tax result. Specifically, the individual will receive either a reduced amount so that the excise tax is not triggered, or the individual will receive the full amount of the payments and benefits and then be liable for any excise tax.

***Additional Executive Compensation Practices, Policies and Procedures***

*Clawback Policy.* We maintain a clawback policy that applies to current and former executive officers. Under the policy, following an accounting restatement that is required to be prepared due to material noncompliance with any financial reporting requirements under the securities laws, we will seek repayment from any current or former executive officer of any incentive-based compensation that was: (i) based on the erroneous data; (ii) paid during the three-year period preceding the date on which the accounting restatement is required to be prepared; and (iii) in excess of what would have been paid under the accounting restatement. In addition, in the event that legislation is enacted or the SEC adopts rules or promulgates regulations defining the circumstances under which we are entitled to seek repayment from a current or former executive officer, such legislation, rules or regulations shall apply.

*Stock Ownership Guidelines.* In 2013, the Compensation Committee established ownership guidelines for our Named Executive Officers. Within five years after the 2013 Annual Meeting of Stockholders (or, with respect to any individual becoming an executive officer after such meeting, within five years after the date such individual became an executive officer), each Named Executive Officer will hold ownership or equivalent with an aggregate value equal to the amount (or, in the case of the Chief Executive Officer, three times the amount) of the executive officer's annual base salary.

*Prohibition of Speculative or Short-term Trading.* We prohibit our Named Executive Officers (and other employees) and non-employee directors from engaging in short sales, transactions in put or call options, hedging transactions, margin accounts, pledges, or other inherently speculative transactions with respect to our securities at any time.

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**Compensation Committee Report**

*The material in this report is not soliciting material, is furnished to, but not deemed filed with, the SEC and is not deemed to be incorporated by reference in any of our filings under the Securities Act or the Exchange Act, other than our Annual Report on Form 10-K (where it shall be deemed to be furnished ), whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.*

The Compensation Committee, comprised of independent directors, reviewed and discussed the above Compensation Discussion and Analysis with our management. Based on such review and discussions, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and included into our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**THE COMPENSATION COMMITTEE**

Tina S. Nova, Ph.D.

Christine A. White, M.D.

Randall E. Woods

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The table below summarizes the total compensation of our Named Executive Officers for the fiscal years ended December 31, 2013, 2012 and 2011.

Name and Principal Position	Year	Salary (\$ (1))	Stock Awards (\$ (2) (3))	Option Awards (\$ (4))	Non-Equity Incentive Plan	All Other Compensation	Total (\$)
					Compensation (\$ (5))	(\$ (6))	
<b>Jack Lief</b>	2013	\$ 725,000	\$ 2,131,200	\$ 706,122	\$ 388,781	\$ 16,041	\$ 3,967,144
President, Chief Executive Officer and Chairman of the Board	2012	690,000	532,200	2,116,650	569,250	81,485 (7)	3,989,585
	2011	690,000		321,570	227,700	15,315	1,254,585
<b>Robert E. Hoffman</b>	2013	360,000	710,400	235,374	148,500	16,041	1,470,315
Senior Vice President, Finance	2012	327,000	133,050	692,179	196,200	15,636	1,364,065
and Chief Financial Officer	2011	180,898		226,680	27,005	54,314 (8)	488,897
<b>Dominic P. Behan, Ph.D., D.Sc.</b>	2013	420,000	1,290,600	392,290	207,900	16,041	2,326,831
Executive Vice President, Chief	2012	400,000	266,100	1,289,200	240,000	15,636	2,210,936
Scientific Officer and Director	2011	400,000		321,570	114,000	15,315	850,885
<b>William R. Shanahan, Jr., M.D., J.D.</b>	2013	375,000	710,400	235,374	154,688	16,041	1,491,503
Senior Vice President and Chief	2012	357,000	133,050	576,630	214,200	69,701 (9)	1,350,581
Medical Officer	2011	357,000		214,380	98,532	15,315	685,227
<b>Steven W. Spector, J.D.</b>	2013	395,000	1,290,600	392,290	203,673	16,041	2,297,604
Executive Vice President, General	2012	375,000	266,100	1,289,200	225,000	86,399 (10)	2,241,699
Counsel and Secretary	2011	375,000		321,570	114,000	15,315	825,885

- (1) In accordance with SEC rules, the compensation described in this table does not include various health and welfare or other benefits received by our Named Executive Officers that are available generally to all of our regular, full-time employees, except as described in footnote 6 in this table. This table also does not include any perquisites and other personal benefits received by our Named Executive Officers that, in the aggregate, were less than \$10,000 for any officer. Amounts earned but deferred at the election of our Named Executive Officer pursuant to our 401(k) plan are included in the salary column.
- (2) Represents the aggregate grant-date fair value of PRSUs and RSUs, in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 718, Stock Compensation, formerly SFAS 123R. The fair value of the RSUs granted in 2013 was calculated based on the closing market price of our common stock on the grant date of December 17, 2013, while the RSUs granted in 2012 were



calculated based on the closing market price of our common stock on the grant date of December 13, 2012.

- (3) The fair value of the PRSUs granted in 2013 was calculated using a Monte Carlo simulation model. For the relevant assumptions used, refer to Note 11 to our audited consolidated financial statements included in our Annual Report on Form 10-K as filed with the SEC on March 3, 2014. Amounts included in this column for the PRSUs are based on a target number of shares, which is consistent with the compensation cost to be recognized in accordance with ASC Topic 718. The actual number of shares that may be earned may increase or decrease based on actual performance. The table below sets forth the grant date fair value of such PRSUs assuming (i) the threshold number of shares, (ii) the target number of shares (which are assumed in this column) and (iii) the maximum number of shares.

Named Executive Officer	Grant-Date Fair Value Based On		
	Threshold Number of Shares	Target Number of Shares	Maximum Number of Shares
Jack Lief	\$ 900,000	\$ 1,800,000	\$ 3,600,000
Robert E. Hoffman	300,000	600,000	1,200,000
Dominic P. Behan, Ph.D., D.Sc.	562,500	1,125,000	2,250,000
William R. Shanahan, Jr., M.D., J.D.	300,000	600,000	1,200,000
Steven W. Spector, J.D.	562,500	1,125,000	2,250,000

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- (4) Represents the aggregate grant date fair value of options granted in accordance with ASC Topic 718. For the relevant assumptions used in determining these amounts, refer to Note 11 to our audited consolidated financial statements included in our Annual Report on Form 10-K as filed with the SEC on March 3, 2014.
- (5) Represents cash awards earned pursuant to our annual incentive plans for 2013, 2012 and 2011, as further described below in the Grants of Plan-Based Awards table and the above Compensation Discussion and Analysis.
- (6) Represents matching contributions to our 401(k) plan made on behalf of our Named Executive Officers and group-term life insurance premiums paid by us for our Named Executive Officers.
- (7) In addition to the items noted in footnote 6 above, all other compensation in 2012 includes \$65,849 of unused PTO paid to Mr. Lief in the form of additional salary.
- (8) Mr. Hoffman resigned in March 2011 and rejoined us in August 2011 with the same annual base salary of \$327,000 that was in effect prior to his departure. In addition to items noted in footnote 6 above, all other compensation in 2011 reflects that we paid Mr. Hoffman \$37,049 for accrued PTO upon his resignation and \$1,950 for consulting fees after his resignation.
- (9) In addition to the items noted in footnote 6 above, all other compensation in 2012 includes \$54,065 of unused PTO paid to Dr. Shanahan in the form of additional salary.
- (10) In addition to the items noted in footnote 6 above, all other compensation in 2012 includes \$70,763 of unused PTO paid to Mr. Spector in the form of additional salary.

Table of Contents**Grants of Plan-Based Awards During Fiscal Year Ended December 31, 2013**

The table below provides information on estimated future payouts under non-equity and equity incentive plans, stock awards and options granted to our Named Executive Officers during the fiscal year ended December 31, 2013.

Name	Grant Date (3)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)		Estimated Future Payouts Under Equity Incentive Plan Awards (2)		All Other Stock Awards: Number of Shares of All Other Securities Underlying Awards (4)		Exercise or Base Price of Options (\$/sh) (5)	Grant Date Fair Value of Stock and Option Awards (\$) (6)
		Target (\$)	Maximum (\$)	Target (#)	Maximum (#)	Units (#)	Options (#)		
<b>Jack Lief</b>	3/5/13 (7)	\$ 471,250	\$ 706,875	240,000	480,000			\$	\$
	12/17/13 (8)								1,800,000
	12/17/13 (8)								706,122
<b>Robert E. Hoffman</b>	3/5/13 (7)	180,000	270,000	80,000	160,000			5.52	331,200
	12/17/13 (8)								600,000
	12/17/13 (8)								235,374
<b>Dominic P. Behan, Ph.D., D.Sc.</b>	3/5/13 (7)	210,000	315,000	150,000	300,000			5.52	110,400
	12/17/13 (8)								1,125,000
	12/17/13 (8)								392,290
<b>William R. Shanahan, Jr., M.D., J.D.</b>	3/5/13 (7)	187,500	281,250	80,000	160,000			5.52	600,000
	12/17/13 (8)								600,000
	12/17/13 (8)								235,374
<b>Steven W. Spector, J.D.</b>	3/5/13 (7)	197,500	296,250	150,000	300,000			5.52	110,400
	12/17/13 (8)								1,125,000
	12/17/13 (8)								392,290

(1) Our Annual Incentive Plan was our only non-equity incentive plan for 2013. The amounts shown in the target column reflect a percentage of each Named Executive Officer's 2013 annual base salary as specified under the Annual Incentive Plan. The amounts shown in the maximum column are 150% of the respective target amounts. There is no minimum amount payable for a certain level of performance.

(2)

The PRSUs granted on March 5, 2013, may be earned and converted into outstanding shares of our common stock based on the TSR of our common stock relative to the TSR over a three-year performance period beginning March 1, 2013, of the NASDAQ Biotechnology Index. In the aggregate, the target number of shares of common stock that may be earned under all of the PRSUs granted to our executive officers is 780,000; however, the actual number of shares that may be earned ranges from none to a maximum of 200% of such amount based on our TSR performance, and no shares would be earned under the PRSUs if our relative TSR is below the 40<sup>th</sup> percentile. In addition, there is a cap on the number of shares that can be earned under the PRSUs equal to six times the grant-date fair value of the award, and funding is capped at 100% if the absolute 3-year TSR is negative even if performance is above the median. All of the PRSUs were outstanding and unvested at December 31, 2013. See Compensation Discussion and Analysis above for additional information.

- (3) Our Compensation Committee approved and granted PRSUs to our executive officers on March 5, 2013, and approved and granted stock options and RSUs to our executive officers on December 17, 2013.
- (4) The stock options granted to our Named Executive Officers in 2013 vest 25% per year over four years from the date of grant, are exercisable for up to 7 years from the date of grant, and are incentive stock options to the extent permissible under the Code.

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- (5) In all cases, the exercise price of the option awards was equal to the closing market price of our common stock on the grant date as reported on the NASDAQ Global Select Market.
  
- (6) Represents the aggregate grant date fair value of PRSUs, RSUs and stock options granted in accordance with FASB ASC Topic 718. For the relevant assumptions used in determining these amounts, refer to Note 11 to our audited consolidated financial statements included in our Annual Report on Form 10-K as filed with the SEC on March 3, 2014. The grant date fair value for the PRSUs is based upon the target number of shares.
  
- (7) All PRSUs granted on March 5, 2013, were granted under our 2012 Long-Term Incentive Plan, or 2012 LTIP.
  
- (8) All options and RSUs granted on December 17, 2013, were granted under our 2013 Long-Term Incentive Plan, or 2013 LTIP.

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The table below provides information on all stock options and unvested RSUs and PRSUs held by our Named Executive Officers on December 31, 2013.

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
<b>Jack Lief</b>	100,000		\$ 6.00	1/18/14		\$		\$
	124,350		6.16	1/17/15				
	89,000		16.80	1/20/16				
	21,000		10.52	7/28/16				
	180,000		13.50	2/26/17				
	180,000		6.99	3/3/18				
	180,000		4.01	3/17/19				
	108,563	36,187	3.25	3/17/20				
	150,000	150,000	1.49	3/15/21				
	187,500	562,500	1.81	3/19/22				
	45,000	135,000	8.87	12/13/19	45,000	263,250	120,000	702,000
		180,000	5.52	12/17/20	60,000	351,000		
<b>Robert E. Hoffman</b>	50,000	100,000	1.48	9/15/21				
		213,750	1.81	3/19/22				
	12,500	37,500	8.87	12/13/19	11,250	65,813	40,000	234,000
		60,000	5.52	12/17/20	20,000	117,000		
<b>Dominic P. Behan, Ph.D., D.Sc.</b>	33,332		6.00	1/18/14				

	33,116		6.16	1/17/15				
	40,000		16.80	1/20/16				
	10,000		10.52	7/28/16				
	60,000		13.50	2/26/17				
	60,000		6.99	3/3/18				
	60,000		4.01	3/17/19				
	75,000	25,000	3.25	3/17/20				
		150,000	1.49	3/15/21				
	75,000	375,000	1.81	3/19/22				
	25,000	75,000	8.87	12/13/19				
					22,500	131,625		
							75,000	438,750
		100,000	5.52	12/17/20				
					30,000	175,500		
<b>William R. Shanahan, Jr., M.D., J.D.</b>								
	60,000		6.30	4/18/14				
	45,000		6.16	1/17/15				
	25,000		16.80	1/20/16				
	45,000		13.50	2/26/17				
	45,000		6.99	3/3/18				
	40,000		4.01	3/17/19				
	48,750	16,250	3.25	3/17/20				
	100,000	100,000	1.49	3/15/21				
	50,000	150,000	1.81	3/19/22				
	12,500	37,500	8.87	12/13/19				
					11,250	65,813		
							40,000	234,000
		60,000	5.52	12/17/20				
					20,000	117,000		
<b>Steven W. Spector, J.D.</b>								
	33,334		6.00	1/18/14				
	45,000		6.16	1/17/15				
	40,000		16.80	1/20/16				
	10,000		10.52	7/28/16				
	60,000		13.50	2/26/17				
	60,000		6.99	3/3/18				
	15,001		4.01	3/17/19				
	45,000	25,000	3.25	3/17/20				
	65,000	150,000	1.49	3/15/21				
	125,000	375,000	1.81	3/19/22				
	25,000	75,000	8.87	12/13/19				
					22,500	131,625		
							75,000	438,750
		100,000	5.52	12/17/20				
					30,000	175,500		

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- (1) Generally stock options vest 25% per year over four years from the date of grant. Stock options granted prior to December 13, 2012, are exercisable for up to 10 years from the date of grant; stock options granted on or after December 13, 2012, are exercisable for up to 7 years from the date of grant. The options granted on December 17, 2013, were granted under our 2013 LTIP.
- (2) The RSUs granted on December 17, 2013, were granted under our 2013 LTIP. The outstanding RSUs vest 25% per year over four years from the date of grant.
- (3) Computed by multiplying the closing market price of our common stock on December 31, 2013, of \$5.85 by the number of outstanding awards set forth in this table.
- (4) The PRSUs granted on March 5, 2013, were granted under our 2012 LTIP and may be earned and converted into outstanding shares of our common stock based on the TSR of our common stock relative to the TSR over a three-year performance period beginning March 1, 2013, of the NASDAQ Biotechnology Index. Amounts included in this column are based on achieving a threshold number of shares. The actual number of shares that may be earned may increase or decrease based on actual performance. In addition, there are caps on the number of shares that can be earned. All of the PRSUs were unvested at December 31, 2013. See Compensation Discussion and Analysis above for additional information.

**Option Exercises and Stock Vested During Fiscal Year Ended December 31, 2013**

The table below provides information on stock option exercises and stock awards vested during the fiscal year ended December 31, 2013.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (2)
<b>Jack Lief</b>			15,000	\$ 83,400
<b>Robert E. Hoffman</b>	71,250	\$ 456,165	3,750	20,850
<b>Dominic P. Behan, Ph.D., D.Sc.</b>	200,000	947,020	7,500	41,700
<b>William R. Shanahan, Jr., M.D., J.D.</b>			3,750	20,850
<b>Steven W. Spector, J.D.</b>	40,000	174,836	7,500	41,700

- (1) Computed by multiplying the number of options exercised by the difference between the market price of our common stock at exercise and the exercise price of the stock options.



- (2) Computed by multiplying the number of shares vested by the closing market price of our common stock on the vesting date of December 13, 2013.

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**Table of Contents****Nonqualified Deferred Compensation Table for Fiscal Year Ended December 31, 2013**

In 2003, we established a deferred compensation plan for our executive officers, whereby they may elect to defer the shares of restricted stock we have awarded them. Shares deferred in the plan become restricted stock units. This deferral opportunity was established in part to encourage the participants to continue to hold rights to own common stock in the future that may otherwise be sold to satisfy the participant's tax withholding or other financial obligations upon vesting, and for the purpose of rewarding and incentivizing the participants. Participants can choose to receive distributions under the plan as a lump sum distribution or in installments. A participant's election to defer restricted stock under the plan is irrevocable, but the participant may modify their election to provide for a later distribution date, add additional shares under the plan or to provide for a different form of distribution. In addition, the plan allows for hardship withdrawals, early withdrawals with a penalty, and withdrawals by beneficiaries following the death of a participant. Also, unless in connection with a change in control, no distributions are permitted under the plan to a participant in any taxable year to the extent such distribution would result in the participant receiving an amount of compensation that cannot be deducted by us pursuant to the limitations imposed on the deduction of certain compensation payments under Section 162(m) of the Code. At December 31, 2013, 79,169 shares of restricted stock were held in the deferred compensation plan, and the table below provides information about the activity in the deferred compensation plan for our Named Executive Officers as of December 31, 2013.

<b>Name</b>	<b>Aggregate Earnings in Last FY (\$ (1))</b>	<b>Aggregate Withdrawals/ Distributions (\$)</b>	<b>Aggregate Balance at Last FYE (\$ (2))</b>
<b>Jack Lief</b>			
<b>Robert E. Hoffman</b>			
<b>Dominic P. Behan, Ph.D., D.Sc.</b>	\$ (250,966)		\$ 463,139
<b>William R. Shanahan, Jr., M.D., J.D.</b>			
<b>Steven W. Spector, J.D.</b>			

- (1) Any earnings in the last fiscal year represent a change in the closing market price of our common stock. Neither the company nor any of the Named Executive Officers made additional contributions to the deferred compensation plan in 2013. Accordingly, the amounts included in this column are not included in the above Summary Compensation Table.
- (2) Aggregate balance at last fiscal year-end was computed by multiplying the closing market price of our common stock on December 31, 2013, of \$5.85 by the number of shares issuable under the deferred compensation plan.

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**Table of Contents****Potential Post-Employment Payments Table as of Fiscal Year Ended December 31, 2013**

As described below, Messrs. Lief and Spector and Dr. Behan are each a party to a Termination Protection Agreement, dated December 20, 2002, as amended, and all of our Named Executive Officers are participants under the Severance Benefit Plan we established in 2006. Any payments payable under the Severance Benefit Plan are reduced by severance benefits payable by us under the Termination Protection Agreements or any other agreement, policy, plan, program or arrangement. The severance and other benefits payable in connection with a change in control are due only in the event of a double trigger in which (i) there is a change in control and (ii) the executive officer's employment is terminated under certain circumstances or equity awards are not continued, assumed or substituted. In addition, certain equity grants to our Named Executive Officers include additional vesting and time to exercise in connection with retirement.

*Termination Protection Agreements*

Under the Termination Protection Agreements, if the participating executive officer is terminated without cause or resigns for good reason (as defined in the agreement) within two years following a change in control or if the executive officer is terminated within one year prior to a change in control in anticipation of the change in control, we are required to provide such executive officer (i) a payment equal to the executive officer's annual compensation, (ii) continuation of health insurance coverage until the second anniversary of the executive officer's termination, (iii) accelerated vesting of all outstanding unvested stock options and restricted shares, with any stock options remaining exercisable until the first anniversary of the executive officer's termination (but not beyond the original contractual life of the option), and (iv) continuation of our indemnification obligations until at least the sixth anniversary of the executive officer's termination. The cash severance benefits are equal to (i) the executive officer's annual rate of base salary in effect on the date of the change in control or the termination date, whichever is higher, and (ii) any bonus paid or payable to the executive officer for the year preceding the change in control or the termination date, whichever is higher. Following our receipt of an effective waiver and release of claims, we are required to pay the cash benefits in a lump sum within five business days after the earlier of (i) the first business day that is six months following the executive officer's termination or (ii) following the executive officer's termination, the executive officer's death.

*Severance Benefit Plan*

The Severance Benefit Plan provides severance benefits upon involuntary termination without cause or voluntary termination with good reason (as defined in the plan). In contrast to the Termination Protection Agreements, the Severance Benefit Plan applies to qualifying terminations regardless of whether there has been a change in control. The benefits under the Severance Benefit Plan include cash severance benefits, continuation of health insurance coverage for the severance period, acceleration of stock options and awards that would otherwise have vested through the end of the severance period, and continued stock option exercisability until the later of (i) the original post-termination exercise period provided in the applicable stock option agreement or (ii) the number of months equal to the severance period (but not beyond the original contractual life of the option). The cash severance benefits are equal to the number of months in the executive officer's severance period multiplied by the executive officer's monthly base salary in effect immediately prior to the termination plus one-twelfth of the greater of (i) the average of the three annual bonuses we paid to the executive officer prior to his termination and (ii) the last annual bonus paid to the executive officer prior to termination. Following our receipt of an effective waiver and release of claims and return of company property, we are required to pay the cash benefits in a lump sum within five business days after the earlier of (i) the first business day that is six months following the executive officer's termination or (ii) following the executive officer's termination, the executive officer's death.

At December 31, 2013, which is the assumed date of the triggering event for the table below, the severance period was 18 months for Messrs. Lief and Spector and Dr. Behan and 12 months for Mr. Hoffman and Dr. Shanahan.

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**Table of Contents***PRSU*s

A portion of the PRSU's may vest in the case of death, disability, a qualifying termination, or a change-in-control transaction in which the award is not assumed, continued or substituted. No PRSU's vest solely based on the occurrence of a change in control. A qualifying termination means the participant's (i) termination due to retirement, (ii) termination by us without cause (as defined in the form), or (iii) resignation for good reason (as defined in the form). To be eligible for retirement, the participant must (i) be at least age 60, (b) have provided us with at least 10 years of continuous service, and (c) have provided us at least six months advance written notice.

In the event of a change in control that occurs prior to the scheduled end of the performance period, the number of PRSU's that may potentially vest is determined based on our relative performance immediately prior to the change in control. If the award is assumed, continued or substituted as part of the change in control, the PRSU's that are earned based on our relative performance would be converted immediately to time-based vesting awards. In general, the vesting of such equity would depend on the participant remaining in continuous service until the scheduled end of the performance period, and any vested shares would not be issued until the scheduled end of the performance period.

In the case of a qualifying termination prior to a change in control, the number of PRSU's that may potentially vest in the future when the Compensation Committee determines our relative performance during the performance period would be a pro-rata portion (determined by the percentage of the performance period the participant provided service prior to termination) of the number of PRSU's that would have vested had the participant provided us continuous service through such determination date. The pro-rata vesting may be accelerated if there is a change in control following the qualifying termination but before the scheduled end of the performance period.

*Retirement Provisions in Other Equity Grants*

From August 15, 2009, to December 12, 2012, our form of stock option grants provided that, upon the retirement of the participant, unless the option had earlier terminated, the option would continue in effect (and continue vesting) until the earlier of (i) two years after the participant's retirement (or, if later, the fifth anniversary of the date of the option grant) or (ii) the expiration of the option's term. Mr. Lief and Dr. Shanahan are our only Named Executive Officers that are currently eligible for such retirement benefit, with Dr. Shanahan first becoming eligible in March 2014. The Compensation Committee eliminated this retirement provision from the grant form beginning on December 13, 2012.

On December 13, 2012, the Compensation Committee approved new forms for the grant of stock options as well as RSU's to our employees. Such forms do not include a retirement provision, with the exception that each of such forms for Mr. Lief provides that his award will vest pro rata for the year he ceases to provide us with continuous service.

To be eligible for retirement under these grants forms, the participant must be at least age 60 and have provided us with at least 10 years of continuous service.

**Table of Contents***Potential Payable Upon Termination or Resignation for Good Reason*

In accordance with SEC rules, the table below provides information on the amounts payable upon termination of our Named Executive Officers assuming the triggering event (which would be the participants' separations) took place on December 31, 2013. Information on certain tax implications of post-termination payments is included above under Tax Considerations.

Name and Benefit	Potential Payable Upon Termination Without Cause or Resignation for Good Reason	
	Without a Change in Control (1)	With a Change in Control (1)
<b>Jack Lief</b>		
Salary	\$ 1,087,500	\$ 1,087,500
Bonus	592,866	592,866
Benefit continuation	31,744	42,325
Accelerated vesting of RSUs (2)	175,500	614,250
Accelerated vesting of PRSUs (3) (4)		0
Accelerated vesting of stock options (5)	2,277,936	3,079,986
Total	4,165,546	5,416,927
<b>Robert E. Hoffman</b>		
Salary	360,000	360,000
Bonus	148,500	148,500
Benefit continuation	27,994	27,994
Accelerated vesting of RSUs (2)	51,188	51,188
Accelerated vesting of PRSUs (3) (4)		0
Accelerated vesting of stock options (5)	511,300	511,300
Total	1,098,982	1,098,982
<b>Dominic P. Behan, Ph.D., D.Sc.</b>		
Salary	630,000	630,000
Bonus	311,850	311,850
Benefit continuation	41,991	55,988
Accelerated vesting of RSUs (2)	87,750	307,125
Accelerated vesting of PRSUs (3) (4)		0
Accelerated vesting of stock options (5)	1,737,250	2,267,000
Total	2,808,841	3,571,963
<b>William R. Shanahan, Jr., M.D., J.D.</b>		
Salary	375,000	375,000
Bonus	155,807	155,807

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Benefit continuation	23,494	23,494
Accelerated vesting of RSUs (2)	51,188	51,188
Accelerated vesting of PRSUs (3) (4)		0
Accelerated vesting of stock options (5)	467,200	467,200
Total	1,072,689	1,072,689

**Steven W. Spector, J.D.**

Salary	592,500	592,500
Bonus	305,510	305,510
Benefit continuation	41,991	55,988
Accelerated vesting of RSUs (2)	87,750	307,125
Accelerated vesting of PRSUs (3) (4)		0
Accelerated vesting of stock options (5)	1,737,250	2,267,000
Total	2,765,001	3,528,123

- (1) For purposes of this table, change in control means a change in control or other corporate event that triggers payments under one or more arrangements described above.
- (2) Computed based on the closing market price of our common stock on December 31, 2013, of \$5.85.
- (3) In the case of a termination without a change in control, in general, a pro-rata portion of the PRSUs (determined by the percentage of the performance period the participant provided service prior to the termination) could potentially vest in the future based on the relative performance of our stock during the

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performance period. We cannot predict if any PRSUs would vest because we do not know the relative performance of our stock during the performance period. If at the end of the performance period, or earlier determination period, our relative performance is the same as it was on December 31, 2013, none of the PRSUs would vest. The actual number of PRSUs that may vest ranges from none to a maximum of 200% of the target number of PRSUs. In addition, the number of PRSUs that may vest is capped at six times the market value of our shares on the date of grant subject to the target number of PRSUs, which may result in fewer than the maximum number of PRSUs vesting, regardless of our TSR performance. The table below provides the range of potential payments for a termination without a change in control, taking such cap into consideration:

Name	Without a Change in Control	
	Assuming Minimum Number of PRSUs Vested	Assuming Maximum Number of PRSUs Vested
<b>Jack Lief</b>	\$ 0	\$ 3,416,000
<b>Robert E. Hoffman</b>	0	1,138,667
<b>Dominic P. Behan, Ph.D., D.Sc.</b>	0	2,135,000
<b>William R. Shanahan, Jr., M.D., J.D.</b>	0	1,138,667
<b>Steven W. Spector, J.D.</b>	0	2,135,000

(4) In the case of a termination with a change in control, the number of PRSUs vested as of the assumed date of the triggering event on December 31, 2013, is zero.

(5) Computed by multiplying the difference between the closing market price of our common stock on December 31, 2013, of \$5.85 and the exercise price of each stock option vested as a result of the termination by the number of accelerated stock options.

**Director Compensation**

In early 2013, the Compensation Committee approved the following compensation program for our non-employee directors, effective January 1, 2013:

*Equity*

Continuing directors and new directors elected at our annual stockholders meeting: A number of RSUs determined by dividing \$165,000 by the fair market value of our common stock on the grant date. The RSUs are granted effective on the date of our annual stockholders meeting, and vest in equal monthly installments over one year from the date of grant, subject to vesting conditions set forth below.

New directors appointed or elected other than at our annual stockholders meeting: A prorated number of RSUs determined by (a) dividing \$165,000 by the fair market value of our common stock on the applicable grant date for the new director and (b) multiplying that number by a fraction, the numerator of which is the number of months following the applicable grant date until the one-year anniversary of our most recent



preceding annual stockholders meeting, or Prior Meeting, and the denominator of which is 12. The RSUs are granted to such new director effective on the Prior Meeting monthly anniversary date that coincides with or first follows the date of the new director's appointment or election, and vest in equal monthly installments beginning on the grant date and ending on the one-year anniversary of the Prior Meeting, subject to vesting conditions set forth below.

*RSU Vesting Conditions.* Except in the event of a director's separation from our service due to death or disability, (a) vesting of the RSUs is subject to the director's provision of continued service to us through the applicable vesting date, and (b) unvested RSUs terminate upon the director's separation

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from our service for any reason. In the event of a director's separation from our service due to death or disability, or a change in control of Arena that occurs upon or prior to a separation from our service, all of the director's RSUs become fully vested.

*Issuance of Shares.* Each RSU covers one share of our common stock, subject to capitalization adjustments in certain circumstances in accordance with the applicable long-term incentive plan. The issuance of the shares of common stock underlying the vested RSUs will be mandatorily delayed until the earliest of the following dates: (a) the three-year anniversary of the grant date; (b) the director's separation from our service (for any reason); or (c) a change in control of Arena. It is intended that the issuance of shares in settlement of the RSUs will be in compliance with the requirements of Section 409A of the Code.

*Cash*

Annual retainer: \$10,000 per quarter, paid in advance, subject to continuing service as a director. New directors will receive a prorated amount of the quarterly payment for the quarter within which they are appointed or elected.

Additional annual retainer for lead independent director: An additional \$5,000 per quarter, paid in advance, subject to continuing service as lead independent director. New lead independent directors will receive a prorated amount of the quarterly payment for the quarter within which they are appointed to such position.

Meeting attendance fees:

General: \$1,000

Exceptions:

Audit chair meeting attendance fee: \$3,500

Audit member attendance fee: \$2,000

Other chair meeting attendance fee: \$2,500

*General*

Our Board of Directors and the Compensation Committee may also authorize additional fees for significant work in informal meetings or for other service to us in the recipient's capacity as a director or committee member. Each non-employee director is also entitled to reimbursement for all of such director's reasonable out-of-pocket expenses incurred in connection with performing Board business.

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**Table of Contents*****Director Compensation Table for Fiscal Year Ended December 31, 2013***

As described more fully above, the table below summarizes the compensation for our non-employee directors serving during the fiscal year ended December 31, 2013.

Name	Fees Earned or Paid in Cash (\$ (1))	Stock Awards (\$ (2))	Total (\$)
<b>Donald D. Belcher (3)</b>	\$ 50,000	\$ 164,994	\$ 214,994
<b>Scott H. Bice (4)</b>	59,000	164,994	223,994
<b>Harry F. Hixson, Jr., Ph.D. (5)</b>	49,000	164,994	213,994
<b>Tina S. Nova, Ph.D. (6)</b>	61,000	164,994	225,994
<b>Phillip M. Schneider (7)</b>	63,500	164,994	228,494
<b>Christine A. White, M.D. (8)</b>	82,000	164,994	246,994
<b>Randall E. Woods (9)</b>	52,000	164,994	216,994

- (1) For each director, includes cash retainer and all meeting attendance and other fees earned or paid in the fiscal year ended December 31, 2013.
- (2) Represents the aggregate grant date fair value of RSUs granted in accordance with FASB ASC Topic 718. The fair value was calculated based on the closing market price of our common stock on the grant date of June 10, 2013.
- (3) Mr. Belcher had a total of 305,753 options and 18,728 RSUs outstanding at December 31, 2013.
- (4) Mr. Bice had a total of 210,680 options and 18,728 RSUs outstanding at December 31, 2013.
- (5) Dr. Hixson had a total of 305,763 options and 18,728 RSUs outstanding at December 31, 2013.
- (6) Dr. Nova had a total of 189,000 options and 18,728 RSUs outstanding at December 31, 2013.
- (7) Mr. Schneider had a total of 221,277 options and 18,728 RSUs outstanding at December 31, 2013.
- (8) Dr. White had a total of 255,721 options and 18,728 RSUs outstanding at December 31, 2013.

(9) Mr. Woods had a total of 221,277 options and 18,728 RSUs outstanding at December 31, 2013. All RSUs granted to non-employee directors in 2013 were granted under our 2013 LTIP, and vest in approximately equal monthly installments over one year. The RSUs will convert to the underlying common shares at the earliest of (i) the three-year anniversary of the grant date, (ii) the director's separation from service or (iii) a change in control of Arena.

See Compensation Discussion and Analysis above for additional information regarding our grant timing, dating and pricing policies and the discussion above under Director Compensation regarding the 2013 compensation for our non-employee directors.

### **Director Ownership Guidelines**

In early 2013, the Compensation Committee established ownership guidelines for non-employee directors. Within five years after the 2013 Annual Meeting (or, with respect to any director joining our Board of Directors after such meeting, within five years after the date such director joins our Board), each director will hold ownership or equivalent with an aggregate value equal to five times the amount of the annual cash retainer for directors.

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**Audit Committee**

**Audit Committee Report**

*The material in this report required by Item 407(d)(3) of Regulation S-K is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.*

Our management has the primary responsibility for our financial reporting process, accounting principles and internal controls as well as the preparation of our financial statements. The Audit Committee oversees our financial reporting process on behalf of our Board of Directors.

In fulfilling its responsibilities, the Audit Committee appointed KPMG LLP, an independent registered public accounting firm, or KPMG, as our independent auditors for the 2013 fiscal year. The Audit Committee reviewed and discussed with the independent auditors the overall scope and specific plans for their audit. The Audit Committee also reviewed and discussed with the independent auditors and with management our audited consolidated financial statements and the adequacy of our internal control over financial reporting. The Audit Committee met with the independent auditors, without management present, to discuss the results of the independent auditors' audit, the independent auditors' evaluations of our internal control over financial reporting, and the overall quality of our financial reporting. The meetings were also designed to facilitate any desired private communication between the Audit Committee and the independent auditors.

The Audit Committee monitored the independence and performance of the independent auditors. The Audit Committee discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board, or PCAOB, in Rule 3200T. The Audit Committee received the written disclosures and the letter from the independent auditors required by applicable requirements of the PCAOB regarding the independent auditors' communications with the Audit Committee concerning independence, and discussed with the independent auditors the independent auditors' independence.

Based on the review and discussions referred to above, the Audit Committee recommended to our Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed with the SEC. The Audit Committee has also appointed KPMG as our independent auditors for the fiscal year ending December 31, 2014.

**THE AUDIT COMMITTEE**

Scott H. Bice

Phillip M. Schneider

Christine A. White, M.D.

**Table of Contents****Independent Registered Public Accounting Firm****Independent Auditors Fees**

The following table presents aggregate fees for the fiscal years ended December 31, 2013, and 2012, for professional services rendered by KPMG:

	<b>Fiscal Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Audit Fees (1)	\$ 677,577	\$ 442,000
Audit-Related Fees	54,953 (2)	126,074 (3)
Tax Fees	448,907 (4)	215,152 (5)
All Other Fees (6)	0	0
<b>Total</b>	<b>\$ 1,181,437</b>	<b>\$ 783,226</b>

- (1) Consisted of fees paid for professional services for the integrated audit of our annual financial statements and review of financial statements included in our quarterly reports.
- (2) Fees were related to review of a registration statement on Form S-8, services provided in conjunction with the statutory audit for our Swiss subsidiary, Arena Pharmaceuticals GmbH, or Arena GmbH, and our subscription to an online accounting research service.
- (3) Fees were related to comfort letter procedures in connection with public offering, services provided in conjunction with the statutory audit for Arena GmbH and our subscription to an online accounting research service.
- (4) Fees were primarily related to services for studies regarding research and development tax credit carryforwards, services in connection with international tax matters and tax preparation services.
- (5) Fees were primarily related to services in connection with international tax matters, tax preparation services, services related to Section 382 studies for net operating loss utilization and consultations regarding our transactions with entities affiliated with Deerfield Capital, L.P.
- (6) There were no fees billed in either of the years ended December 31, 2013, or 2012, for products or services provided by KPMG other than those disclosed in this table.

**Pre-approval Policies and Procedures**

The Audit Committee has adopted a policy and procedures for pre-approving all audit and non-audit services to be performed by our independent auditors. The policy requires pre-approval of all services rendered by our independent auditors either as part of the Audit Committee's approval of the scope of the engagement of the independent auditors or on a case-by-case basis. The Audit Committee has authorized its Chair to pre-approve individual expenditures of audit and non-audit services. Any pre-approval decision must be reported to the Audit Committee at the next regularly scheduled Audit Committee meeting. All audit, audit-related and tax fees for 2013 and 2012 described above were pre-approved by the Audit Committee.

### **RATIFICATION OF INDEPENDENT AUDITORS (*PROPOSAL 3*)**

The Audit Committee has appointed KPMG as our independent registered public accounting firm for the fiscal year ending December 31, 2014. Our Board of Directors is submitting the appointment of KPMG to the stockholders for ratification as a matter of good corporate practice.



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Stockholders are requested in this Proposal 3 to ratify the appointment of KPMG. To ratify the appointment of KPMG, a majority of the votes cast by stockholders entitled to vote on the proposal must vote FOR ratification. Abstentions and broker non-votes will have no effect on the outcome.

In the event that the stockholders fail to ratify the appointment, the Audit Committee will reconsider its selection of our independent auditors, but may decide not to change its selection. Even if the appointment is ratified, the Audit Committee may appoint different independent auditors at any time if it determines that such a change would be in the stockholders' best interest.

Representatives of KPMG are expected to be present at our 2014 Annual Meeting. They will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

***THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP TO SERVE AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2014.***

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors, our executive officers, our 10% or greater stockholders, and certain other persons to file reports of ownership of our equity securities and changes in such ownership with the SEC and NASDAQ and to furnish us with copies of such reports.

To our knowledge, based on a review of the copies of such reports furnished to us and written representations that no other reports were required, all Section 16(a) filing requirements applicable to our directors, our executive officers, our 10% or greater stockholders and other persons required to file reports were complied with during the fiscal year ended December 31, 2013.

### **Stockholder Proposals for the 2015 Annual Meeting**

To be considered for inclusion in our proxy statement for next year's annual meeting, stockholder proposals must be in writing, addressed to our Corporate Secretary, and be received at our executive offices at 6154 Nancy Ridge Drive, San Diego, California 92121, no later than December 30, 2014. In addition, notice of any other stockholder proposal to be presented at next year's annual meeting of stockholders must be received at our executive offices no later than February 18, 2015, and no earlier than January 29, 2015. The above dates in this section may change under circumstances set forth in our Bylaws or if we amend the relevant provisions in our Bylaws. If we amend our Bylaws, we will file the amended Bylaws with the SEC. Stockholders may request a copy of the bylaw provisions relating to stockholder proposals from our Corporate Secretary at the same address.

Notices of intention to present proposals at the 2015 annual meeting of stockholders should be addressed to our Corporate Secretary, Arena Pharmaceuticals, Inc., 6154 Nancy Ridge Drive, San Diego, California 92121. We reserve the right to reject, rule out of order, or take appropriate action with respect to any proposal that does not comply with these and any other applicable requirements.

### **Annual Report**

Our annual report for the 2013 fiscal year (as well as this proxy statement) is available on the home page of our website at [www.arenapharm.com](http://www.arenapharm.com) for all stockholders entitled to notice of and vote at our 2014 Annual Meeting. We are also mailing to certain stockholders a copy of such annual report concurrently with this proxy statement. The annual report is not incorporated into this proxy statement and is not considered proxy solicitation material.

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**Annual Report on Form 10-K**

WE WILL MAIL STOCKHOLDERS WITHOUT CHARGE, UPON WRITTEN REQUEST, A COPY OF OUR ANNUAL REPORT ON FORM 10-K, INCLUDING THE FINANCIAL STATEMENTS, SCHEDULES AND LIST OF EXHIBITS. WE WILL FURNISH STOCKHOLDERS A COPY OF ANY EXHIBIT TO SUCH REPORT UPON WRITTEN REQUEST AND PAYMENT OF OUR REASONABLE EXPENSES IN FURNISHING SUCH EXHIBIT. REQUESTS SHOULD BE SENT TO INVESTOR RELATIONS, ARENA PHARMACEUTICALS, INC., 6154 NANCY RIDGE DRIVE, SAN DIEGO, CALIFORNIA 92121. OUR SEC FILINGS ARE ALSO AVAILABLE ON OUR WEBSITE AT [WWW.ARENAPHARM.COM](http://WWW.ARENAPHARM.COM).

**Householding of Proxy Materials**

The SEC has adopted rules that permit companies and intermediaries (such as brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially results in a reduced usage of natural resources and cost savings for companies.

A number of brokers with account holders who are our stockholders will be householding our proxy materials. A single proxy statement and one annual report or Internet Notice will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. Any stockholder at a shared address to which a single copy of the documents or Internet Notice was delivered and who wishes to receive a separate copy of the documents or Internet Notice can request a copy of such documents or notice by sending a written request to Corporate Secretary, Arena Pharmaceuticals, Inc., 6154 Nancy Ridge Drive, San Diego, California 92121, or contact our Corporate Secretary at 858.453.7200. Also, if, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report or Internet Notice in the future, please notify your broker or direct your written request to Corporate Secretary, Arena Pharmaceuticals, Inc., 6154 Nancy Ridge Drive, San Diego, California 92121, or contact our Corporate Secretary at 858.453.7200. Stockholders who currently receive multiple copies of the proxy statement or Internet Notice at their address and would like to request householding of their communications should contact their broker.

**Other Matters**

Our Board of Directors knows of no other business that will be presented for consideration at our 2014 Annual Meeting. If other matters are properly brought before our 2014 Annual Meeting, however, it is the intention of the persons named in the proxy to vote the shares represented thereby on such matters in accordance with their best judgment.

Dated: April 29, 2014

By Order of our Board of Directors

Steven W. Spector

*Executive Vice President, General Counsel and Secretary*

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**Arena Pharmaceuticals, Inc.**

***IMPORTANT ANNUAL MEETING INFORMATION***

**Electronic Voting Instructions**

**Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED  
BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone  
must be received by 11:00 p.m. (Pacific Time)  
on June 12, 2014.**

**Vote by Internet**

Go to  
**[www.investorvote.com/ARNA](http://www.investorvote.com/ARNA)**

Or scan the QR code with your  
smartphone

Follow the steps outlined on the  
secure website

**Vote by telephone**

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message

Using a **black ink** pen, mark your x votes with an **X** as shown in this example. Please do not write outside the designated areas.

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

**A Proposals** The Board of Directors recommends votes **FOR** each of the nominees listed in Proposal 1 and **FOR** Proposals 2 and 3.

1. Election of Directors:	For	Withhold		For	Withhold		For	Withhold	
01 - Jack Lief	..	..	02 - Dominic P. Behan, Ph.D., D.Sc.	..	..	03 - Donald D. Belcher	..	..	+
04 - Scott H. Bice	..	..	05 - Harry F. Hixson, Jr., Ph.D.	..	..	06 - Tina S. Nova, Ph.D.	..	..	
07 - Phillip M. Schneider	..	..	08 - Christine A. White, M.D.	..	..	09 - Randall E. Woods	..	..	
			<b>For</b>	<b>Against</b>	<b>Abstain</b>		<b>For</b>	<b>Against</b>	<b>Abstain</b>
2. To approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed in the proxy statement.	..	..	..			3. To ratify the appointment of KPMG LLP, an independent registered public accounting firm, as the Company's independent auditors for the fiscal year ending December 31, 2014.	..	..	..

**B Non-Voting Items**

**Change of Address** Please print new address below.

**Meeting Attendance**

Mark box to the right if you plan to attend the Annual Meeting.

**C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below**

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title.

Date (mm/dd/yyyy)	Please print date	Signature 1	Please keep signature	Signature 2	Please keep signature
below.			within the box.		within the box.
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**q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q**

**Proxy Arena Pharmaceuticals, Inc.**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR**

**THE 2014 ANNUAL MEETING OF STOCKHOLDERS**

**6154 Nancy Ridge Drive, San Diego, California 92121**

The undersigned stockholder of ARENA PHARMACEUTICALS, INC., a Delaware corporation (the Company), hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement, each dated April 29, 2014, and the Annual Report to Stockholders, and hereby appoints Jack Lief and Steven W. Spector, the President and the Secretary, respectively, of the Company, or each of them, as proxies and attorneys-in-fact, with all powers of substitution, to represent and vote, as set forth on the reverse side, the shares of Common Stock of the Company held of record by the undersigned at the close of business on April 15, 2014, at the 2014 Annual Meeting of Stockholders of the Company, which is being held at the offices of the Company at 6154 Nancy Ridge Drive, San Diego, California 92121, on Friday, June 13, 2014, at 9:00 a.m. (Pacific Time), and at any adjournments or postponements of such meeting, with all powers which the undersigned would possess if personally present at such meeting or at any such postponement or adjournment, and, in their discretion, to vote such shares upon any other business that may properly come before the meeting or any adjournment or postponement thereof.

**UNLESS OTHERWISE SPECIFIED BY THE UNDERSIGNED, THE PROXY WILL BE VOTED FOR EACH OF THE NOMINEES LISTED IN PROPOSAL 1 AND FOR PROPOSALS 2 AND 3 AND BY THE PROXYHOLDERS AT THEIR DISCRETION UPON ANY OTHER BUSINESS THAT MAY PROPERLY COME BEFORE THE ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF.**

(Items to be voted appear on reverse side.)