

EVANS BANCORP INC  
Form 8-K  
July 30, 2009

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

**FORM 8-K  
CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Date of Report (Date of Earliest Event Reported): July 24, 2009**

**Evans Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

New York

0-18539

161332767

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(I.R.S. Employer  
Identification No.)

14 North Main Street, Angola, New York

14006

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 716-926-2000

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## **Section 1 Registrant's Business and Operations**

### **Item 1.01. Entry into a Material Definitive Agreement**

On July 24, 2009, Evans Bancorp, Inc. (the Company) announced that Evans Bank, N.A. (the Bank), a wholly-owned subsidiary of the Company, had entered into a definitive purchase and assumption agreement (the Agreement) with the Federal Deposit Insurance Corporation (the FDIC). Pursuant to the Agreement, the Bank assumed all of the deposits (excluding certain brokered deposits), and certain other liabilities consisting primarily of accrued interest, and purchased substantially all of the assets, of Waterford Village Bank, a community bank located in Williamsville, New York.

Total assets purchased (as calculated post-closing) amounted to approximately \$47 million, including a loan portfolio of approximately \$43 million, and total liabilities assumed amounted to approximately \$51 million, consisting almost entirely of deposits. The Bank is receiving a discount of approximately \$800,000 on the assets and is paying a 0.0% premium on the deposits.

All of the purchased loans and foreclosed real estate that are being purchased by the Bank under the Agreement are covered by a loss sharing agreement between the FDIC and the Bank which is included in the Agreement. Under this loss sharing agreement, the FDIC has agreed to bear 80% of loan and foreclosed real estate losses up to \$5.6 million and 95% of losses that exceed \$5.6 million. Reimbursable losses are based on the book value of the relevant loans and foreclosed assets as determined by the FDIC as of the date of the acquisition, July 24, 2009. The procedures and schedule for reimbursements under the loss sharing agreement are set forth in the Agreement.

On July 24, 2009, the Company issued a press release regarding the entry by the Bank into the Agreement with the FDIC. A copy of the press release is attached to this Current Report on Form 8-K as Exhibit 99.1 and is incorporated by reference herein.

The foregoing summary of the Agreement is not complete and is qualified in its entirety by reference to the full text of the Agreement. A copy of the Agreement, including the loss sharing agreement, is attached to this Current Report on Form 8-K as Exhibit 2.1 and is incorporated by reference herein.

## **Section 2 Financial Information**

### **Item 2.01. Completion of Acquisition or Disposition of Assets**

The information set forth under Item 1.01 above is incorporated by reference in to this Item 2.01.

## **Section 7 Regulation FD**

### **Item 7.01. Regulation FD Disclosure**

The information set forth under Item 1.01 above is incorporated by reference in to this Item 7.01.

## **Section 9 Financial Statements and Exhibits**

### **Item 9.01. Financial Statements and Exhibits**

(a) *Financial Statements of Business Acquired.*

To the extent that consolidated financial statements are required by this Item, they will be filed in an amendment to this report no later than October 9, 2009.

(b) *Pro Forma Financial Information.*

To the extent that pro forma financial information is required by this Item, it will be filed in an amendment to this report no later than October 9, 2009.

(c) Not applicable.

(d) *Exhibits.*

Exhibit 2.1 Purchase and Assumption Agreement dated as of July 24, 2009, by and among Federal Deposit Insurance Corporation, Receiver of Waterford Village Bank, Federal Deposit Insurance Corporation, and Evans Bank, N.A.

Exhibit 99.1 Press release issued by Evans Bancorp, Inc. on July 24, 2009

*The submission of Item 7.01 of this Current Report on Form 8-K is not an admission as to the materiality of any information in the Report that is required to be disclosed solely by Regulation FD. Additionally, the information set forth under Item 7.01 shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, or incorporated by reference into any filing thereunder or under the Securities Act of 1933, unless expressly set forth by specific reference in such filing.*

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Evans Bancorp, Inc.

*July 30, 2009*

*By: /s/ David J Nasca*

*Name: David J Nasca*

*Title: President & C.E.O.*

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## EXHIBIT INDEX

### Exhibit No. Exhibit Description

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- 99.1 Press release issued by Evans Bancorp, Inc. on July 24, 2009

p;Establishing the schedule and agenda for Board meetings and approving information to be sent to our Board;

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

Establishing the agenda for meetings of the independent directors and presiding over such meetings;

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

Serving as the liaison between the Chief Executive Officer and the independent directors;

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

Performing such other duties as our Board may establish or delegate.

Our Board of Directors believes that this structure provides an efficient and effective leadership model for our company at this 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, has a Chair with defined corporate governance responsibilities, the Board's Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee are each comprised entirely of independent directors, and that it has regular interactions outside of Board and committee meetings with our management, including our Chief Executive Officer. Our Board of Directors believes that we have an appropriate balance between the authority of those who oversee our company and those who manage it on a day-to-day basis.

### 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



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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 budget, plan and corporate goals 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 each of its standing committees 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. Our Board of Directors regularly discusses 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 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 and our principal financial and accounting officer), 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

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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, our principal financial and accounting officer, 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 twelve meetings during the fiscal year ended December 31, 2017. 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 and other communications with each other and certain of our officers, as well as with our independent auditors and external advisors, counsel and consultants.

As stated in our Corporate Governance Guidelines, our directors are encouraged to attend our annual meetings of stockholders, and all of our directors attended our 2017 Annual Meeting of Stockholders other than Dr. Hixson, who did not continue as a director after the 2017 Annual Meeting, Ms. Jarrett, who was appointed to our Board of Directors after the 2017 Annual Meeting, and Dr. Neil.

## **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.

## **Committees of the Board**

The standing committees of our Board of Directors are 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.

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The following chart provides membership and meeting information for 2017 for the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee.

<b>Member</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Corporate Governance and Nominating Committee</b>
Scott H. Bice, J.D.			C
Jayson Dallas, M.D.			
Oliver Fetzer, Ph.D.			
Jennifer Jarrett			
Garry Neil, M.D.			
Phillip M. Schneider	C		
Christine A. White, M.D.			
Randall E. Woods		C	
Total meetings in 2017	5	5	3

- Committee member

C - 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;

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 each of the committee members 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). Mr. Schneider is the Chair of the Audit Committee. The Audit Committee held five meetings in 2017. The Audit Committee's report is set forth below under Audit Committee Report.

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***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). Mr. Woods is the Chair of the Compensation Committee. The Compensation Committee held five meetings in 2017. 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;

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

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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 2018 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. Bice is the Chair of the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee held three meetings in 2017.

## **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

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Secretary, Arena Pharmaceuticals, Inc., 6154 Nancy Ridge Drive, San Diego, California

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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. Dallas and Fetzer and Mr. Woods served on the Compensation Committee during 2017. No director serving on the Compensation Committee during 2017 was, at any time during or before such fiscal year, one of our employees. None of our executive officers served during 2017 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, 2017, 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.

#### *Policies and Procedures for the Review and Approval of Transaction with Related Persons*

The Audit Committee's charter requires the Audit Committee to review and approve any related-person transactions. In considering related-person 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 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-person 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.

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

At our 2017 Annual Meeting of Stockholders, the stockholders indicated their preference that we solicit a non-binding advisory vote on the compensation of our 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 and the compensation tables and related narrative, which describe 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.

***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, 2018, by:

Each person, group or entity who is the beneficial owner of more than 5% 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 our current and former executive officers, directors and principal stockholders and Schedules 13D, 13G and other filings made with the SEC on or before April 10, 2018. 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 49,196,685 shares of common stock outstanding on March 31, 2018, 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, 2018.

<b>Name of Beneficial Owner</b>	<b>Shares Beneficially Owned</b>	<b>Percentage of Total</b>
FMR LLC (1)	5,357,199	10.89%
Wellington Management Group, LLP (2)	3,611,173	7.34%
The Vanguard Group (3)	3,204,595	6.51%
BlackRock, Inc. (4)	3,107,925	6.32%
Amit D. Munshi (5)	264,879	*
Steven W. Spector, J.D. (6)	196,705	*
Kevin R. Lind (7)	71,174	*
Vincent E. Aurentz (8)	66,098	*
Christine A. White, M.D. (9)	52,030	*
Phillip M. Schneider (10)	51,030	*
Scott H. Bice, J.D. (11)	44,994	*
Tina S. Nova, Ph.D. (12)	42,661	*
Randall E. Woods (13)	42,503	*

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Preston S. Klassen, M.D., M.H.S. (14)	37,727	*
Jayson Dallas, M.D. (15)	25,417	*
Oliver Fetzer, Ph.D. (16)	25,417	*
Garry Neil, M.D. (17)	25,417	*
Jennifer Jarrett (18)	16,041	*
All current directors and executive officers as a group (14 persons) (19)	962,091	1.92%

\* Less than one percent

- (1) FMR LLC had sole voting power with respect to 290,728 shares and sole dispositive power with respect to 5,357,199 shares. The principal business office of FMR LLC is 245 Summer Street, Boston, Massachusetts 02210.
- (2) Wellington Management Group LLP, had shared voting power with respect to 2,370,082 shares and shared dispositive power with respect to 3,611,173 shares. The principal business office of Wellington Management Company LLP is 280 Congress Street, Boston, Massachusetts 02210.

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- (3) The Vanguard Group had sole voting power with respect to 76,626 shares, sole dispositive power with respect to 3,125,839 shares, shared voting power with respect to 5,100 shares and shared dispositive power with respect to 78,756 shares. The principal business office of The Vanguard Group is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.
- (4) BlackRock, Inc., had sole voting power with respect to 3,018,785 shares and sole dispositive power with respect to 3,107,925 shares. The principal business office of BlackRock, Inc. is 55 East 52nd Street, New York, New York 10055.
- (5) Includes 257,191 shares issuable to Mr. Munshi upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (6) Includes 177,640 shares issuable to Mr. Spector upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (7) Includes 70,986 shares issuable to Mr. Lind upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (8) Represents 66,098 shares issuable to Mr. Aurentz upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (9) Includes 45,619 shares issuable to Dr. White upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (10) Includes 45,619 shares issuable to Mr. Schneider upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (11) Includes 40,093 shares issuable to Mr. Bice upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (12) Includes 38,250 shares issuable to Dr. Nova upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (13) Includes 37,992 shares issuable to Mr. Woods upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (14) Represents 37,727 shares issuable to Dr. Klassen upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (15) Represents 25,417 shares issuable to Dr. Dallas upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (16) Represents 25,417 shares issuable to Dr. Fetzer upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (17) Represents 25,417 shares issuable to Dr. Neil upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (18) Represents 16,041 shares issuable to Ms. Jarrett upon the exercise of stock options that are exercisable within 60 days of March 31, 2018.
- (19) Includes 909,507 shares issuable upon the exercise of stock options held by our current directors and executive officers that are exercisable within 60 days of March 31, 2018.

**Table of Contents****Executive Officers and Certain Directors**

Our executive officers are appointed by our Board of Directors and serve at the discretion of our Board. The following table sets forth information regarding our executive officers and the three directors who are not standing for reelection at our 2018 Annual Meeting.

<b>Name</b>	<b>Age</b>	<b>Position</b>
<b><i>Executive officers</i></b>		
Vincent E. Aurentz	50	Executive Vice President and Chief Business Officer
Preston S. Klassen, M.D., M.H.S.	49	Executive Vice President, R&D, Chief Medical Officer
Kevin R. Lind	42	Executive Vice President and Chief Financial Officer
Amit D. Munshi	50	President and Chief Executive Officer
Steven W. Spector, J.D.	53	Executive Vice President, General Counsel and Secretary
<b><i>Directors not standing for reelection</i></b>		
Scott H. Bice, J.D.	75	Director
Phillip M. Schneider	61	Director
Christine A. White, M.D.	66	Director
<b><i>Executive Officers</i></b>		

See ELECTION OF DIRECTORS (*PROPOSAL 1*) for biographical information regarding Mr. Munshi, our President and Chief Executive Officer, who is also a director nominated for reelection at our 2018 Annual Meeting.

**Vincent E. Aurentz** has served as our Executive Vice President and Chief Business Officer since August 2016. Previously, Mr. Aurentz served as the Chief Business Officer of Epirus Biopharmaceuticals, Inc. from November 2015 to July 2016. Prior to Epirus, Mr. Aurentz served as President of HemoShear Therapeutics, LLC from July 2013 to November 2015, where he oversaw the scientific research and business development efforts including collaborations with global organizations such as Pfizer Inc., Eli Lilly, Janssen R&D and Children's National Health System. Prior to HemoShear, Mr. Aurentz served as Executive-in-Residence at Catenion GmbH from July 2012 to December 2014, and served as Executive Vice President of Quintiles Transnational from October 2010 to April 2012. Prior to that, Mr. Aurentz was Executive Vice President and member of the Executive Management Board at Merck KGaA (Merck Serono S.A.) where he directed R&D programs, portfolio strategy and headed all deal activity and venture investments, Co-founder and Managing Director of a venture capital and advisory business, and started his career at Andersen Consulting (now Accenture). In July 2016, Epirus filed a voluntary Chapter 7 petition in the United States Bankruptcy Court for the District of Massachusetts. Mr. Aurentz received a B.S. in mathematics from Villanova University.

**Preston S. Klassen, M.D., M.H.S.**, has served as our Executive Vice President, Research and Development and Chief Medical Officer since March 2017. Previously, he was Chief Medical Officer of Laboratoris Sanifit S.L. from May 2016 to March 2017, and was Executive Vice President, Head of Global Development at Orexigen Therapeutics, Inc. from November 2009 to May 2016. Dr. Klassen has held several positions of increasing responsibility at Amgen, Inc., including Therapeutic Area Head for Nephrology. Prior to joining Amgen, he was a faculty member in the Division of Nephrology at Duke University Medical Center from 1997 to 2002. Dr. Klassen received his medical degree from the University of Nebraska College of Medicine and completed his residency in internal medicine, fellowship in nephrology, and masters in health sciences degree at Duke University.

**Kevin R. Lind** has served as our Executive Vice President and Chief Financial Officer since June 2016. Previously, Mr. Lind was a Principal focused on healthcare at TPG Special Situations Partners, a global investment firm, from January 2009 to June 2016. Mr. Lind was a member of the TPG Pharma Partners effort at

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TPG-Axon Capital, a global investment firm, from 2006 to 2008. He served in various capacities as a healthcare investment banker at Lehman Brothers, Inc., a former global financial services firm, from 1998 to 2002 and 2004 to 2006. Mr. Lind received a B.S. from Stanford University in Biological Sciences and an M.B.A. from UCLA Anderson School of Management.

**Steven W. Spector, J.D.**, has served as our Executive Vice President and General Counsel since February 2012, and previously 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 an advisory member of the board of directors and a former President of the Association of Corporate Counsel, San Diego, and an Adjunct Professor at the University of San Diego School of Law. Mr. Spector was a partner with the law firm of Morgan, Lewis & Bockius LLP, where he worked from 1991 to October 2001. Mr. Spector holds a B.A. and a J.D. from the University of Pennsylvania.

### *Directors Not Standing for Reelection*

**Scott H. Bice** has served as a member of our Board of Directors since December 2003. Mr. Bice has been the Robert C. and Nanette T. 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.

**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 2003, 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 Pfenex Inc., a biopharmaceutical company. Within the past five years, Mr. Schneider also served as a member of the board of directors of Auspex Pharmaceuticals, Inc., a biopharmaceutical company, and 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.

**Christine A. White, M.D.**, has served as a member of our Board of Directors since August 2006, and she served as its lead independent director from November 2008 to June 2015. 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 chairman on the board of directors of MEI Pharma, Inc., an oncology 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.

## **Compensation Discussion and Analysis**

Our executive compensation programs are designed to attract, motivate and retain qualified and talented executives, incentivizing them to achieve our business goals, and rewarding them for superior short and long-term performance. This Compensation Discussion and Analysis describes the key elements of our executive compensation program and compensation decisions for our named executive officers, or NEOs, for 2017. The Compensation Committee of the Board of Directors (the Compensation Committee), with input from its independent compensation consultant, oversees these programs and determined compensation for our NEOs.



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Our 2017 NEOs are:

<b>NEOs</b>	<b>Position</b>
Amit D. Munshi	President and Chief Executive Officer
Kevin R. Lind	Executive Vice President and Chief Financial Officer
Vincent E. Aurentz	Executive Vice President and Chief Business Officer
Steven W. Spector, J.D.	Executive Vice President, General Counsel and Secretary
Preston S. Klassen, M.D., M.H.S.	Executive Vice President, R&D and Chief Medical Officer (1)

(1) Dr. Klassen was hired during 2017.

**Executive Summary**

We are a clinical-stage biopharmaceutical company focused on developing novel, small molecule drugs with optimized receptor pharmacology and pharmacokinetics designed to deliver broad clinical utility across several therapeutic areas to improve the lives of patients with serious diseases.

2017 compensation reported in the Summary Compensation Table for our CEO was 33% lower than his compensation in 2016 and reflected a below-median value; meanwhile our stock price increased 139.2% during the year.

**2017 Business Highlights**

We made significant progress in 2017 as we continued to advance our clinical-stage assets. We also continued to build out our clinical development capabilities and operations and overall organization to meet the needs of a growing and advancing pipeline of therapies.

Ralinepag in Pulmonary Arterial Hypertension. During 2017, we completed our Phase 2 clinical trial with positive results and began preparations for our Phase 3 program.

Etrasimod for Ulcerative Colitis. During 2017, we continued to make significant progress by completing enrollment of patients in our Phase 2 clinical trial.

APD371 for pain in Crohn's disease. During 2017, we began enrollment in our Phase 2a trial. In addition to clinical development advancements, we raised additional capital in 2017 to fund our ongoing operations and clinical trials and continued hiring personnel needed to support later stage clinical programs, including hiring a new Chief Medical Officer.

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*Compensation Practices and Governance Highlights*

**Pay for Performance**

Link the compensation of our NEOs to the success of our business objectives

**Stockholder Alignment**

Align the interests of our NEOs with those of our stockholders through the use of long-term equity incentives

**Compensation Governance**

100% independent directors on the Compensation Committee

Compensation Committee meets regularly in executive session without management present

Independent compensation consultant, Frederic W. Cook & Co., reports directly to the Compensation Committee

**Equity Plan Features**

Maximum seven-year term for stock options

No repricing of underwater stock options without prior stockholder approval

**Change in Control Provisions**

No excessive change in control payments

Provide double-trigger change in control benefits

No tax gross-ups on severance or change in control benefits

**Post-termination/Retirement Benefits**

No post-termination retirement or pension benefits

**Prohibition on Hedging, Margin Loans and Pledging**

Prohibit hedging, purchases on margin, and pledging of our common stock by all employees and directors

**Clawback Policy**

Maintain policy to seek repayment of incentive-based compensation in the event we experience certain accounting restatements

**Stock Ownership Guidelines**

Maintain stock ownership guidelines to promote executive and director stock ownership

*2017 Say-on-pay Vote*

At our 2017 Annual Meeting of Stockholders, approximately 95% of the votes cast on the say-on-pay proposal voted in support of the compensation paid to our named executive officers for 2016. 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, decisions and performance. The Compensation Committee believes that this 2017 stockholder vote generally endorsed our compensation philosophy and the decisions made for 2016. After reflecting on this vote, the Compensation Committee decided that no changes to its fundamental compensation policies were advisable for 2017 and that it would continue to emphasize the utilization of stock options because they require stock price appreciation before the recipients realize any value and the seven-year term closely aligns with our drug development time-line.

***Compensation Philosophy, Objectives and Strategy***

Our ongoing overall compensation philosophy and objective is to maintain a compensation program for our NEOs that helps us attract and retain qualified individuals, and motivate them to perform at the highest of professional levels and to contribute to our growth and success by aligning their interests with those of our stockholders, which we believe will result in enhancing stockholder value. The compensation program for our NEOs is designed to provide them with compensation opportunities that are tied to our overall corporate performance, as well as their individual performance. Their compensation includes three key elements: (i) base salary; (ii) performance-based annual cash incentives; and (iii) equity compensation. Commencing in 2016, the Compensation Committee determined that it would emphasize at-risk equity compensation over fixed cash

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compensation. The primary driver of this change in our compensation program design was ensuring that we continue to align the NEOs' interests with the change in our overall business strategy. Because of the strategic shift to focus more on our clinical programs versus commercial assets, since 2016 our compensation strategy has emphasized at-risk compensation for each NEO by using stock options as the primary equity compensation vehicle, which is more typical for clinical stage biotechnology companies as compared to commercial stage companies. Stock options are utilized because they only provide value if the stock price increases and our stock options have a seven year horizon before expiration, which aligns more with a clinical development timeline as the Company transformed its prior focus from commercialization of the FDA approved drugs it discovered and developed, BELVIQ and BELVIQ-XR, to developing novel, and new, medicines in its clinical pipeline.

Consistent with our pay-for-performance philosophy, and the long product development life cycles in the pharmaceuticals industry, the Compensation Committee links the compensation of our executive officers to performance by emphasizing equity compensation opportunities for long-term performance and cash incentives for near-term goal alignment. Consistent with this philosophy, the total compensation provided to our executive officers will vary from year to year and will vary between executive officers based on corporate performance, including performance against annual goals that are pre-established by the Compensation Committee, as well as individual performance. Our NEOs are also entitled to health and welfare benefits, and, as described below, they may be entitled to receive additional benefits upon certain terminations 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 our company's performance.

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

As part of the process for setting the compensation of our NEOs, our Chief Executive Officer provides the Compensation Committee with his performance assessments of the Company and of the individual officers. He also recommends to the Compensation Committee base salaries, cash incentive opportunities, cash incentive awards and stock-based compensation for our NEOs other than for himself. The Compensation Committee can accept, reject or modify the Chief Executive Officer's 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 NEO, our corporate performance and strategic focus, global economic conditions, the mix of compensation that would be most appropriate for each NEO, and such officer's particular responsibilities, experience, level of accountability and decision authority. 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.

The Compensation Committee meets in executive session without management. Various members of management may 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. None of our NEOs or other executive officers were present during the Compensation Committee's determinations regarding their own compensation.

The Compensation Committee has retained Frederic W. Cook & Co., Inc., or FW Cook, as its compensation consultant from time to time. FW Cook 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 retained FW Cook in 2017 to provide data, context, and advice regarding executive officer compensation and our peer group, and to assist with compensation risk assessments.

**Table of Contents*****Peer Group Used in Program Development and Compensation Decisions***

Our Compensation Committee generally does not target the amount of compensation for our NEOs relative to a peer group of companies, but it does consider peer data as context for purposes of assessing the competitiveness of the executive compensation program. An individual NEO 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 expected future performance.

2017 compensation decisions were made after referencing peer group data that was disclosed in 2016 proxy statements.

***Peer Group***

In the second half of 2016, the Compensation Committee reviewed and updated our peer group to include the group of companies set forth below based on, among other considerations, objective size criteria, including industry, financial size, market capitalization value, and drug development and commercialization stage. We refer to this peer group of 19 companies as the Peer Group. These companies had 2015 12-month average market capitalizations of between \$196 million and \$2.134 billion, with a median 12-month average market capitalization of \$761 million. In December 2016 when these peer data were reviewed, our market capitalization was about \$353 million. The Peer Group data was considered in reviewing our 2017 executive compensation program, including in determining the 2017 base salaries, target cash incentive compensation, and stock option awards.

Accelaron Pharma, Inc.	Acorda Therapeutics, Inc.	Aerie Pharmaceuticals, Inc.
ARIAD Pharmaceuticals, Inc.	BioCryst Pharmaceuticals, Inc.	ChemoCentryx, Inc.
Cytokinetics, Inc.	Dynavax Technologies Corporation	Five Prime Therapeutics Inc.
Halozyme Therapeutics, Inc.	Heron Therapeutics, Inc.	ImmunoGen, Inc.
Ironwood Pharmaceuticals, Inc.	Karyopharm Therapeutics, Inc.	Orexigen Therapeutics, Inc.
Sorrento Therapeutics, Inc.	Synergy Pharmaceuticals, Inc.	VIVUS, Inc.
Zogenix, Inc.		

***2017 Competitive Positioning***

For 2017, the overall compensation program for our executive officers was initially set in late 2016 and early 2017 at a target total compensation level for our then ongoing NEOs (which excludes Dr. Klassen) that was below the market median of the Peer Group data available at the time. Dr. Klassen's target compensation was set in connection with his hire in 2017 at slightly above market median of the Peer Group data available at that time, as his initial equity grant was at a new hire inducement award level as described below in 2017 Equity Grants.

Mr. Munshi's overall 2017 total compensation value, as disclosed in the Summary Compensation Table, is below the median for ongoing chief executive officers of our Peer Group. Mr. Munshi's overall 2017 total direct compensation value reflects a 33% reduction compared to overall 2016 total compensation value, the year in which Mr. Munshi joined Arena and was provided a new hire inducement equity award. As described below in 2017 Equity Grants, Mr. Munshi's 2017 equity award was for a significantly smaller number of shares and lesser grant date value than his 2016 equity award which was sized at a larger new hire inducement award level.

Our other ongoing NEOs (which excludes Dr. Klassen) had actual 2017 total compensation value that was near or slightly below the median of our Peer Group, in some cases slightly above the median. Dr. Klassen's 2017 total compensation was between the 50th and the 75th percentile of our Peer Group due to his sign-on bonuses and his new hire inducement equity award level as described below in Sign On Bonuses and 2017 Equity Grants.

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**Table of Contents*****Compensation Consultant Conflict of Interest Analysis***

The Compensation Committee has determined that the work of FW Cook and the individual compensation advisors employed by FW Cook 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 FW Cook; (ii) the amount of fees we paid FW Cook as a percentage of the FW Cook's total revenue; (iii) FW Cook's policies and procedures that are designed to prevent conflicts of interest; (iv) any business or personal relationship of FW Cook or the individual compensation advisors employed by FW Cook 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 FW Cook or the individual compensation advisors employed by the consultant. During 2017, we paid FW Cook fees that constituted less than 1% of FW Cook's total revenue.

***2017 Compensation Decisions******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 our NEOs 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 equity compensation, the individual's experience and background, our corporate performance and the individual's historical base salary.

In early 2017, the Compensation Committee, in alignment with the request from our Chief Executive Officer, did not approve any base pay increases for our NEOs from the 2016 levels. Dr. Klassen's 2017 base salary was set at \$400,000 in connection with his initial hire consistent with the 2017 base salaries of our other Executive Vice Presidents (except for Mr. Spector) and after reviewing competitive market data for the position. Accordingly, 2017 base salaries for our NEOs were as follows:

NEO	2017 Base Salary	2016 Base Salary	Increase (%)
Amit D. Munshi	\$ 625,000	\$ 625,000	0%
Kevin R. Lind	\$ 400,000	\$ 400,000	0%
Vincent E. Aurentz	\$ 400,000	\$ 400,000	0%
Preston S. Klassen, M.D., M.H.S. (1)	\$ 400,000	N/A	N/A
Steven W. Spector, J.D.	\$ 431,600	\$ 431,600	0%

(1) Annualized base salary is disclosed in the table for Dr. Klassen for 2017.

***Performance-Based Cash Incentives***

**2017 Annual Incentive Plan.** All of our NEOs were participants in the Annual Incentive Plan for 2017, or 2017 AIP. Under the 2017 AIP, each participant was assigned an incentive target that was expressed as a percentage of annual base salary. Our Chief Executive Officer's incentive target under the 2017 AIP was 65% of his annual salary, and the other participants had incentive targets equal to 50% of their annual base salaries. These are the same target bonus percentages as under the 2016 AIP. The maximum potential incentive award under the 2017 AIP was capped at 150%

of the targeted award amount for extraordinary goal achievement in 2017.

The objective of the 2017 AIP was to align near-term incentives for officers of the Company consistent with stockholders and long-term corporate direction. All participants' potential incentive awards were based on the same 2017 corporate goals, which we believed would align the interests of our executive officers with one

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another and with our stockholders. Consistent with its decisions over the last few years, the Compensation Committee did not establish individual goals for the participants in the 2017 AIP. The participant's actual incentive award would be determined based on the level of achievement of the pre-established goals, the quality of such achievement, the participant's role in goal achievement and the weighting of the goals, with the Compensation Committee retaining discretion to adjust or modify actual awards subject to the 150% cap of the targeted award.

The 2017 corporate goals established in early 2017, the weighting of such goals and the facts the Compensation Committee considered in determining the achievement of such goals are as follows:

	<b>Corporate Goals</b>	<b>Considerations for Achievement</b>	<b>Weighting</b>	<b>% Complete</b>
1	Clinical progress on etrasimod (APD 334) indications	The study was fully enrolled at the high end of expectations	25%	90%
2	Clinical progress for ralinepag (APD811) in PAH	The study was enrolled, data cleaned and a positive P2 readout was delivered	25%	150%
3	Clinical progress for APD371	Recruitment continues for APD371, resources moved from 371 to etrasimod and ralinepag internally	15%	65%
4	Divestiture/licensing of non-core assets or regional partnership	Completed C-bridge / Everest transaction for China and other Asian markets	10%	150%
5	Manage cash to effectively reach major milestones	Managed cash to get to ralinepag data and etrasimod enrollment	15%	150%
6	Build a high performing culture and hire, engage, and retain key employees	Continue to build the organization including 60 new hires in 2017 in critical functions including clinical development and operations	10%	125%

In determining cash incentive awards for 2017, the Compensation Committee considered the level and quality of goal achievement and the relative weighting of the goals, and, in early 2018, the Compensation Committee approved cash incentive awards for our NEOs participating in the Annual Incentive Plan at a level of 120% as follows:

<b>NEO</b>	<b>Target Award</b>	<b>Actual Award</b>
Amit D. Munshi	\$ 406,250	<b>\$ 487,500</b>
Kevin R. Lind	\$ 200,000	<b>\$ 240,000</b>
Vincent E. Aurentz	\$ 200,000	<b>\$ 240,000</b>
Preston S. Klassen, M.D., M.H.S.	\$ 157,260	<b>\$ 188,712(1)</b>
Steven W. Spector, J.D.	\$ 215,800	<b>\$ 258,960</b>

(1) Pro-rated to reflect the period during 2017 that Dr. Klassen was employed by us.  
*Equity Compensation*

*General.* We believe that equity grants provide our NEOs with the opportunity to share in increases, if any, in the value of our common stock and encourage their ownership in our company. Equity grants reinforce a long-term interest in our corporate performance and directly motivate our NEOs to maximize long-term stockholder value. The potential realized value of certain grants depends on our stock performance and all of our equity grants utilize vesting that encourage our NEOs to continue working for us long term.

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 has included, among other things: the particular

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NEO's role and responsibilities and the Compensation Committee's view of the officer's individual performance; the prior equity awards granted to such individual; retentive value of prior awards; our corporate performance; the value of equity grants; comparative peer data provided by its compensation consultant; and 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.

*2017 Equity Grants.* Our NEOs were provided their 2017 equity compensation 100% in stock options to incentivize and align their long-term compensation with our stockholders. In alignment with our compensation philosophy for our NEOs to have a sizeable portion of the total compensation at-risk, our NEOs, with the exception of Dr. Klassen's new hire award, were granted stock options with grant date fair value near the median of the Peer Group, with the award provided to our CEO Mr. Munshi below the median of the Peer Group. These awards were also near the 75<sup>th</sup> percentile of the Peer Group as an incremental increase in the NEO's ownership as a percentage of the Company. The options awarded to Messrs. Lind and Spector reflect an increase of 5% above the standard stock option grant level approved for our Executive Vice Presidents, in recognition of their extraordinary efforts in renegotiating our agreement for BELVIQ with Eisai during 2016, resulting in more than \$100M of cash payments and potential savings for us. The resulting value of total 2017 compensation for the NEOs is still in the range of the Peer Group 50<sup>th</sup> percentile.

Dr. Klassen's stock option award granted in connection with his hire was set at a level above that of the annual refresher grants for our continuing NEOs serving as Executive Vice Presidents, which is reflective of general market practice for new hire awards, and provided for purposes of inducing his commencement of employment with us. The grant date fair value of Dr. Klassen's inducement award was above the median of annual Peer Group grants and below the 75<sup>th</sup> percentile of the Peer Group. The Compensation Committee views this as suggesting the new hire award was reasonable and relatively conservative for the position.

NEO	2017 Stock Options
Amit D. Munshi	215,000
Kevin R. Lind	104,475
Vincent E. Aurentz	99,500
Preston S. Klassen, M.D., M.H.S. (1)	129,350
Steven W. Spector, J.D.	104,475

(1) Dr. Klassen was hired after the 2017 annual stock option grants. His 2017 option award was a new hire inducement award rather than an annual grant.

*PRSU's.* As of the proxy record date none of our NEOs hold any PRSU awards. During 2017 Mr. Spector was the only NEO that held any active PRSUs. In March 2018 Mr. Spector's 2015 PRSUs vested with respect to 11,205 shares of our common stock based upon the Company's relative total stockholder return ranking achieved during the performance period commencing March 1, 2015, and ending on February 28, 2018, with respect to the companies in the Nasdaq Biotechnology Index as of December 31, 2014. The compensation committee determined that the Company's relative total stockholder return percentile ranking achieved during such performance period in relation to the peer index group was 53% so that Mr. Spector's 2015 PRSUs vested at 83% of the target level.

***Other Benefits***

All of our current NEOs, 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.

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**Table of Contents***Vacation Time*

Our regular, full-time US employees can accrue vacation time during the year, and the maximum amount of vacation time any employee may accrue is 240 hours. Employees are eligible to be paid for accrued unused vacation time at designated times during the year, subject to certain limitations.

*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 Internal Revenue Code, or 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 eligible gross cash compensation. This matching contribution vests over a five-year period from the individual's original date of hire.

*Life and Disability Coverage*

As of January 2017, all regular, full-time US employees receive life insurance equal to two times the employee's annual base salary, up to a maximum coverage of \$500,000. Such employees are also covered by short- and long-term disability plans that coordinate with the California State Disability Insurance, or SDI, program.

*Sign on Bonuses*

Pursuant to the terms of his employment offer letter and as an additional inducement to his commencement of employment, Dr. Klassen received a sign on bonus of \$100,000 and an additional \$65,000 payment to offset amounts Dr. Klassen was required to reimburse his former employer in connection with his termination of employment. Dr. Klassen is required to repay us the entire \$165,000 amount if he resigns voluntarily within 18 months following his employment start date. Pursuant to the terms of his employment agreement and as an additional inducement to his commencement of employment and relocation to the San Diego area, Mr. Lind received a sign on bonus of \$41,841 representing the remainder of his relocation expense allowance that was not used to reimburse his relocation costs. These benefits were individually negotiated with Dr. Klassen and Mr. Lind and were provided because they were deemed necessary in order to induce their commencement of employment. We believe that the aggregate cost of providing these benefits is reasonable in light of the benefit to our business of retaining Dr. Klassen and Mr. Lind's services.

*Perquisites and Other Benefits*

Except for the commuting expense related reimbursements provided to Mr. Aurentz, we did not provide any of our NEOs or other senior members of management with perquisites in 2017 that exceeded \$10,000 in the aggregate for any person. Mr. Aurentz's position and duties require him to travel a great deal domestically and internationally and do not require him to be present in our San Diego headquarters all of the time. Accordingly, Mr. Aurentz was not required to relocate to San Diego in connection with his commencement of employment. However, because Mr. Aurentz is periodically required to travel to San Diego to perform his duties, pursuant to the terms of his employment agreement, we agreed to pay Mr. Aurentz a monthly stipend of up to \$9,166 beginning in August 2016 and continuing for up to 18 months to reimburse Mr. Aurentz for the cost of temporary housing in San Diego and as an automobile allowance. We also agreed to reimburse Mr. Aurentz for the cost of his airfare to San Diego on an after-tax basis in order to make such airfare expenses cost neutral for Mr. Aurentz. The stipend and commuting airfare reimbursement are treated as taxable income to Mr. Aurentz under strict IRS requirements for reimbursement of business expenses. These benefits were individually negotiated with Mr. Aurentz and were provided because they

were deemed necessary in order to induce his commencement of employment.

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In early 2018 our Compensation Committee approved extending the monthly stipend provided to Mr. Aurentz for temporary housing in San Diego and an automobile allowance for an additional 12 months through February 2019, but reduced it to \$7,000 per month, plus reimbursement to Mr. Aurentz for the cost of his airfare to San Diego on an after-tax basis in order to make such airfare expenses cost neutral for Mr. Aurentz through February 2019.

We believe that the aggregate cost of providing these commuting related expenses to Mr. Aurentz is reasonable in light of the benefit to our business of retaining Mr. Aurentz's services.

Our Compensation Committee also approved reimbursing Mr. Lind for certain hotel and airfare commuting expenses incurred prior to his permanent relocation to San Diego to become our Executive Vice President and Chief Financial Officer, on an after-tax basis in order to make such expenses cost neutral for Mr. Lind. We believe that the aggregate cost of providing these commuting related expenses to Mr. Lind is reasonable in light of the benefit to our business of retaining Mr. Lind's services.

*Post-Termination Compensation*

Below is a summary of potential post-termination compensation for our NEOs. 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 NEOs focused on corporate interests while employed and to ease the consequences to an executive officer of a termination of employment and generally 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 a Severance Agreement with Mr. Munshi that may require us to provide compensation and benefits to him. We also have an Amended and Restated Severance Benefit Plan, as amended, or Severance Benefit Plan, that may require us to provide compensation and benefits to certain of our NEOs, and we have a legacy Termination Protection Agreement, as amended, with Mr. Spector that may require us to provide compensation and benefits to him.

We entered into and maintain Mr. Munshi's Severance Agreement, the Severance Benefit Plan and the Termination Protection Agreement because we determined that it was appropriate to provide our executive officers severance compensation if their employment is terminated under certain circumstances. The Compensation Committee believes that the severance benefits are an important element of the NEOs' retention and motivation and that the benefits of such severance rights agreements, including generally requiring a release of claims against us as a condition to receiving any severance benefits, are in our best interests.

A description of the severance benefits provided under Mr. Munshi's Severance Agreement, the Severance Benefit Plan and Mr. Spector's Termination Protection Agreement is provided below under the heading Potential Post-Employment Payments Table at December 31, 2017.

***Tax Considerations***

We take into account the tax effects of various forms of compensation and the potential for excise taxes to be imposed on our executive officers. There are various provisions of the Code that we consider in determining compensation, including the following:

*Section 162(m).* Prior to December 22, 2017, when the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law, Section 162(m) of the Internal Revenue Code of 1986, as amended (IRC), generally limited our deduction for federal income tax purposes to not more than \$1 million of compensation paid to certain executive officers in a calendar year;

provided, however, that compensation above \$1 million could be deducted if it was performance-based compensation. Under the TCJA, the performance-based exception has been repealed and the \$1 million deduction limit now applies to anyone serving as the chief executive officer or the chief financial officer at any time during the taxable year and the top three other highest compensated executive officers serving at fiscal year-end. The new rules generally apply to taxable years beginning after December 31, 2017.

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The TCJA also provides for transitional guidance that will allow certain payments made under written and binding agreements entered into prior to November 2, 2017, to be treated as if they were made under the provisions of Section 162(m) that were in effect prior to enactment of the TCJA. We are in the process of gathering information on our existing compensation arrangements for covered employees as well as assessing the impact of transitional guidance. Prior to the TCJA, the Compensation Committee had not adopted a policy requiring all compensation to be deductible, in order to maintain flexibility in compensating our executive officers in a manner designed to promote our objectives. Going forward, while the Compensation Committee intends to evaluate the effects of the revised compensation limits of Section 162(m) on any compensation it proposes to grant, the Compensation Committee intends to continue to provide future compensation in a manner consistent with our best interests and those of our stockholders, including compensation that is potentially not deductible.

*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. The individual will receive 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 NEOs. 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 of our then NEOs 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. If an executive is not in compliance after the applicable five-year period, the executive will be expected to retain at least 50% of the shares acquired upon option exercise (after payment of both the exercise cost and taxes) and 50% of the shares issued upon vesting of RSU grants (after payment of taxes).

*Prohibition of Speculative or Short-Term Trading.* We prohibit our NEOs (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.

**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.*

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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, 2017.

THE COMPENSATION COMMITTEE

Randall Woods, Chair

Jayson Dallas, M.D.

Oliver Fetzer, Ph.D.

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**Table of Contents****Summary Compensation Table for Fiscal Years Ended December 31, 2017, 2016 and 2015**

The table below summarizes the total compensation of our Named Executive Officers for the fiscal years indicated.

Name and Principal Position	Year	Salary (\$ (1))	Bonus (\$)	Stock Awards (\$ (2))	Non-Equity Incentive		Total (\$)	
					Option Awards (\$ (3))	Plan Compensation (\$ (4))		All Other Compensation (\$ (5))
<b>Amit D. Munshi</b> President, Chief Executive Officer and Director	2017	\$ 625,000		\$	\$ 1,786,435	\$ 487,500	\$ 17,010	\$ 2,915,945
	2016	397,836			3,745,280	230,171	16,425	4,389,712
<b>Kevin R. Lind</b> Executive Vice President, Chief Financial Officer and Principal Financial Officer	2017	400,000	41,841(6)		868,083	240,000	16,041	1,565,964
	2016	218,205			939,680	96,438	35,849(7)	1,299,253
<b>Vincent E. Aurentz</b> Executive Vice President and Chief Business Officer	2017	400,000			826,746	240,000	145,905(8)	1,612,651
	2016	151,538			835,920	67,025	55,678(8)	1,110,161
<b>Preston S. Klassen, M.D., M.H.S.</b> Executive Vice President and Chief Medical Officer	2017	315,384	165,000(9)		1,101,545	188,712	16,641	1,787,282
<b>Steven W. Spector, J.D.</b> Executive Vice President, General Counsel and Secretary	2017	431,600			868,083	258,960	40,682(10)	1,599,325
	2016	431,600			844,810	189,904	16,800	1,483,114
	2015	431,600		607,500	381,930	105,742	16,710	1,543,482

(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 5 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, except as disclosed in note 7 below. Amounts earned but deferred at the election of our Named Executive Officers pursuant to our 401(k) plan are included in the salary column.

(2) Represents the aggregate grant-date fair value of PRSUs in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 718, Stock Compensation. The fair value of the PRSUs granted in 2015 was calculated using a Monte Carlo simulation model. For the relevant assumptions used, refer to Note 8 to our audited consolidated financial statements included in our Annual Report on Form 10-K as filed with the SEC on March 14, 2018. 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. No PRSUs were granted in 2017 and 2016.

Named Executive Officer	PRSUs Granted in 2015: Grant-Date Fair Value Based on		
	Threshold Number of Shares	Target Number of Shares	Maximum Number of Shares
Amit D. Munshi	\$	\$	\$
Kevin R. Lind			
Vincent E. Aurentz			
Preston S. Klassen, M.D., M.H.S.			
Steven W. Spector, J.D.	303,750	607,500	1,215,000

- (3) 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 8 to our audited consolidated financial statements included in our Annual Report on Form 10-K as filed with the SEC on March 14, 2018.
- (4) Represents cash awards earned pursuant to our annual incentive plans for 2017, 2016 and 2015, as further described below in the Grants of Plan-Based Awards table and the above Compensation Discussion and Analysis.
- (5) Represents matching contributions to our 401(k) plan made on behalf of our Named Executive Officers, group-term life insurance premiums paid by us for our Named Executive Officers and other compensation described below in these footnotes.
- (6) Represents the amount paid to Mr. Lind in the form of a signing bonus equal to unused portion of the relocation allowance provided to Mr. Lind in connection with his appointment as Executive Vice President and Chief Financial Officer in May 2016.

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- (7) In addition to the items noted in footnote 5 above, all other compensation includes \$8,159 paid to Mr. Lind in 2016 as qualified relocation expense reimbursement in connection with his appointment as Executive Vice President and Chief Financial Officer in May 2016, and \$17,240 paid to Mr. Lind in 2016 as reimbursement, on an after-tax basis, for hotel and airfare commuting expenses incurred by Mr. Lind prior to his relocation to San Diego.
- (8) In addition to the items noted in footnote 5 above, all other compensation includes \$109,992 and \$41,247 provided to Mr. Aurentz in 2017 and 2016, respectively, in form of monthly taxable housing and automobile allowances and \$18,419 and \$10,306 provided to Mr. Aurentz in 2017 and 2016, respectively, for commuting airfare reimbursement, on an after-tax basis, following his appointment as Executive Vice President and Chief Business Officer in August 2016.
- (9) Represents the amount paid to Dr. Klassen in the form of signing bonuses following his appointment as Executive Vice President and Chief Medical Officer in March 2017.
- (10) In addition to the items noted in footnote 5 above, all other compensation includes \$23,240 paid to Mr. Spector in 2017 for unused accrued vacation time.

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Table of Contents**Grants of Plan-Based Awards During Fiscal Year Ended December 31, 2017**

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, 2017.

Name	Grant Date (3)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)		Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares of Stock or Underlying Units (#)	All Other Option Awards: Number of Securities of Underlying Options (#) (2)	Exercise or Base Price of Option Awards (\$/sh) (3)	Grant Date Fair Value of Stock and Option Awards (\$) (4)
		Target (\$)	Maximum (\$)	Target (#)	Maximum (#)				
<b>Amit D. Munshi</b>	2/13/2017	\$ 406,250	\$ 609,375				215,000	14.60	\$ 1,786,435
<b>Kevin R. Lind</b>	2/13/2017	200,000	300,000				104,475	14.60	868,083
<b>Vincent Aurentz</b>	2/13/2017	200,000	300,000				99,500	14.60	826,746
<b>Preston S. Klassen, M.D., M.H.S.</b>	3/20/2017	157,260	235,890				129,350	15.10	1,101,545
<b>Steven W. Spector, J.D.</b>	2/13/2017	215,800	323,700				104,475	14.60	868,083

- (1) The amounts shown in the target column reflect a percentage of such Named Executive Officer's 2017 annual base salary as specified under the Annual Incentive Plan, the amounts shown in the maximum column are 150% of the respective target amounts and there is no minimum amount payable for a certain level of performance. The target and maximum amounts shown for Dr. Klassen are adjusted to reflect pro-rated target and maximum bonus amounts based on his employment inception date during 2017.
- (2) The stock options granted to our Named Executive Officers in 2017 are incentive stock options to the extent permissible under the Code, and are exercisable once vested for up to seven years from the date of grant. The stock options vest over four years, with 25% of the shares subject to the option vesting on the first anniversary of the grant date, and the remainder of the shares vesting monthly over the following three years in equal installments (except as otherwise necessary to avoid vesting of a fractional share).
- (3) 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.
- (4) Represents the aggregate grant date fair value of stock options granted in accordance with FASB ASC Topic 718. For the relevant assumptions used in determining these amounts, refer to Note 8 to our audited consolidated financial statements included in our Annual Report on Form 10-K as filed with the SEC on March 14, 2018.

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Table of Contents**Outstanding Equity Awards at December 31, 2017**

The table below provides information on all stock options and unvested RSUs and PRSUs held by our Named Executive Officers on December 31, 2017.

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(3)
	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) (2)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)	Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (4)	
<b>Amit D. Munshi</b>	142,500	237,500	\$ 15.50	5/11/2023		\$		\$
		215,000	14.60	2/13/2024				
<b>Kevin R. Lind</b>	30,000	50,000	19.40	6/15/2023				
		104,475	14.60	2/13/2024				
<b>Vincent E. Aurentz</b>	26,666	53,334	17.10	8/15/2023				
		99,500	14.60	2/13/2024				
<b>Steven W. Spector, J.D.</b>	6,000		69.90	3/3/2018				
	1,500		40.10	3/17/2019				
	7,000		32.50	3/17/2020				
	7,970		14.90	3/15/2021				
	49,530		18.10	3/19/2022				
	10,000		88.70	12/13/2019				
	10,001		55.20	12/17/2020				
	5,626	1,874	37.20	12/15/2021	625	21,231		
							13,500(5)	458,595
	15,001	14,999	17.90	12/15/2022				
	13,125	39,375	15.50	3/2/2023				
	8,550	25,650	15.00	12/15/2023				
		104,475	14.60	2/13/2024				
		129,350	15.10	3/20/2024				

**Preston S. Klassen,  
M.D., M.H.S.**

- (1) Stock options generally 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.
- (2) The amounts in this column represent unvested RSUs which 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, 2017, of \$33.97 by the number of outstanding awards set forth in this table.
- (4) The amounts in this column represent outstanding PRSUs that may be earned and converted into outstanding shares of our common stock based on the total stockholder return, or TSR, of our common stock

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relative to the TSR over a three-year performance period of the Nasdaq Biotechnology Index beginning on the first day of the month in which the PRSUs were granted. 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, 2017. See Compensation Discussion and Analysis above for additional information.

- (5) In March 2018, 11,205 shares were earned and issued to Mr. Spector of the remaining 13,500 target PRSUs granted in March 2015 based on the TSR of our common stock relative to the TSR Nasdaq Biotechnology Index over the three-year performance period that began on March 1, 2015.

**Option Exercises and Stock Vested During Fiscal Year Ended December 31, 2017**

The table below provides information on stock option exercises and stock awards vested during the fiscal year ended December 31, 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (1)
Amit D. Munshi		\$		\$
Kevin R. Lind				
Vincent E. Aurentz				
Preston S. Klassen, M.D., M.H.S.				
Steven W. Spector, J.D.			1,375	41,566

- (1) Computed by multiplying each of the shares vested by the closing market price of our common stock on the applicable vesting date.

**Potential Post-Employment Payments Table at December 31, 2017**

As described below, Mr. Munshi is party to a Severance Agreement as of May 6, 2016. All of our NEOs other than Mr. Munshi are participants under a Severance Benefit Plan, as amended, and Mr. Spector is a party to a Termination Protection Agreement, dated December 20, 2002, as amended. 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 that would be 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.

*Severance Agreement with Mr. Munshi*

We entered into a Severance Agreement with Mr. Munshi pursuant to which he is entitled to certain severance benefits. In the event that we terminate Mr. Munshi without cause or Mr. Munshi resigns for good reason, each a

Covered Termination, following our receipt of an effective waiver and release of claims and return of company property, Mr. Munshi is entitled to: (i) a lump sum cash payment equal to 24 times the sum of (a) Mr. Munshi's monthly base salary in effect immediately prior to the termination and (b) 1/12<sup>th</sup> of the greater of (x) the average of the three annual bonuses we paid Mr. Munshi prior to the termination (with his target bonus amounts used, for purposes of calculating the average, for any year in which Mr. Munshi was not an employee or was employed for less than a full year) and (y) the last annual bonus we paid Mr. Munshi prior to the termination; (ii) a monthly payment equal to his monthly group health insurance premium under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, or COBRA, until the earlier of (a) 24 months following termination of employment, or Severance Period, and (b) the expiration of Mr. Munshi's

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eligibility for continuation coverage under COBRA; and (iii) acceleration of vesting of the stock options and other equity awards that would have vested had Mr. Munshi remained employed by us through the Severance Period, except to the extent that the vesting of such awards is conditioned upon the satisfaction of performance criteria.

In addition, in the event that a Covered Termination occurs either (i) during the two years following a change in control of Arena or (ii) within one year prior to a change in control of Arena and Mr. Munshi reasonably demonstrates after such change in control that such termination was at the request or suggestion of any individual or entity who or which ultimately effects a change in control or by our Board in contemplation of a change of control, all of Mr. Munshi's outstanding options and other equity awards will become fully vested and exercisable, except to the extent that the vesting of such awards is conditioned upon the satisfaction of performance criteria.

*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). 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 severance period is 18 months for Messrs. Lind, Aurentz and Spector and Dr. Klassen. 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.

*Termination Protection Agreement*

In contrast to the Severance Benefit Plan, the Termination Protection Agreement only applies to qualifying terminations if there has been a change in control. Under the Termination Protection Agreement, if Mr. Spector is terminated without cause or resigns for good reason (as defined in the agreement) within two years following a change in control or if he is terminated within one year prior to a change in control in anticipation of the change in control, we are required to provide him (i) a payment equal to his annual compensation, (ii) continuation of health insurance coverage until the second anniversary of his termination, (iii) accelerated vesting of all outstanding unvested stock options and restricted shares, with any stock options remaining exercisable until the first anniversary of his 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 his termination. The cash severance benefits are equal to (i) his 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 him 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 his termination or (ii) following his termination, his death.

*2015 PRSUs*

As described above, the 2015 PRSUs granted to Mr. Spector vested in March 2018 with respect to 11,205 shares and the 2015 PRSUs are no longer outstanding.



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A portion of the 2015 PRSUs granted to Mr. Spector were eligible to vest during 2017 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 PRSUs vest solely based on the occurrence of a change in control. For such purposes, a qualifying termination during 2017 meant Mr. Spector's (i) termination by us without cause (as defined in the form), or (ii) resignation for good reason (as defined in the form). In the event of a change in control that occurred prior to the scheduled end of the performance period, the number of PRSUs that could potentially vest would be determined based on our relative performance immediately prior to the change in control. If the award was assumed, continued or substituted as part of the change in control, the PRSUs to be earned would have been based on our relative performance and converted immediately to time-based vesting awards. In general, the vesting of such equity would depend on Mr. Spector 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 PRSUs that that would potentially vest in the future when the Compensation Committee determined our relative performance during the performance period would be a pro-rata portion (determined by the percentage of the performance period Mr. Spector provided service prior to termination) of the number of PRSUs that would have vested had Mr. Spector provided us continuous service through such determination date. The pro-rata vesting would be accelerated if there is a change in control following the qualifying termination but before the scheduled end of the performance period.

**Table of Contents***Potential Amounts 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, 2017. Information on certain tax implications of post-termination payments is included above under Tax Considerations.

<b>Name and Benefit</b>	<b>Potential Payable Upon Termination Without Cause or Resignation for Good Reason</b>	
	<b>Without a Change in Control (1)</b>	<b>With a Change in Control (1)</b>
<b>Amit D. Munshi</b>		
Salary	\$ 1,250,000	\$ 1,250,000
Bonus	975,000	975,000
Benefit continuation	55,881	55,881
Accelerated vesting of stock options (2)	6,459,487	8,551,175
<b>Total</b>	<b>\$ 8,741,188</b>	<b>\$ 10,832,056</b>
<b>Kevin R. Lind</b>		
Salary	\$ 600,000	\$ 600,000
Bonus	360,000	360,000
Benefit continuation	41,633	41,633
Accelerated vesting of stock options (2)	1,617,915	1,617,915
<b>Total</b>	<b>\$ 2,620,046</b>	<b>\$ 2,620,046</b>
<b>Vincent E. Aurentz</b>		
Salary	\$ 600,000	\$ 600,000
Bonus	360,000	360,000
Benefit continuation	27,912	27,912
Accelerated vesting of stock options (2)	1,630,567	1,630,567
<b>Total</b>	<b>\$ 2,618,837</b>	<b>\$ 2,618,837</b>
<b>Preston S. Klassen, M.D., M.H.S.</b>		
Salary	\$ 600,000	\$ 600,000
Bonus	283,068	283,068
Benefit continuation	27,912	27,912
Accelerated vesting of stock options (2)	1,372,962	1,372,962

Total	\$ 2,335,358	\$ 2,335,358
<b>Steven W. Spector, J.D.</b>		
Salary	\$ 647,400	\$ 647,400
Bonus	388,440	388,440
Benefit continuation	27,912	27,912
Accelerated vesting of RSUs (3)	21,231	21,231
Accelerated vesting of PRSUs (4)	225,221	238,469
Accelerated vesting of stock options (2)	2,029,292	3,478,568
Total	3,495,308	4,802,020

- (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.

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- (2) Computed by multiplying the difference between the closing market price of our common stock of \$33.97 on December 31, 2017, and the exercise price of each stock option vested as a result of the termination by the number of accelerated stock options.
- (3) Computed based on the closing market price of our common stock of \$33.97 on December 31, 2017.
- (4) As of December 31, 2017 we could not predict if any 2015 PRSUs granted to Mr. Spector would vest because at such time we did 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 had been the same as it was on December 31, 2017, 52% of the PRSUs would vest, which is reflected in the potential payable amount. As noted above, in March 2018, 11,205 (83%) of the 2015 PRSUs vested and the 2015 PRSUs are no longer outstanding.

## **Pay Ratio Disclosure**

Under SEC rules, we are required to calculate and disclose the annual total compensation of our median employee, as well as the ratio of the annual total compensation of our median employee as compared to the annual total compensation of Amit D. Munshi, our President and Chief Executive Officer (CEO), or CEO Pay Ratio. To identify our median employee, we used the following methodology:

To determine our total population of employees, we included all employees, including employees of consolidated subsidiaries, as of December 31, 2017 regardless of their FTE schedule or anticipated employment duration.

To identify our median employee from our employee population, we calculated the aggregate amount of each employee's base salary (using a reasonable estimate of the hours worked and base pay rates for our hourly employees, excluding overtime, and actual base salary as of December 31, 2017 for our remaining employees), bonuses attributable to fiscal 2017 performance and the grant date fair value of equity awards granted in fiscal 2017 using the same methodology we use for estimating the value of the equity awards granted to our NEOs and reported in our Summary Compensation Table.

In making this determination, we annualized the base salary and target bonus compensation of employees who were employed by us for less than the entire fiscal year and not employed on a temporary or seasonal basis.

Compensation paid in foreign currencies was converted to U.S. dollars based on exchange rates in effect on December 31, 2017.

Using this approach, we determined our median employee. Once the median employee was identified, we then calculated the annual total compensation of this employee for fiscal 2017 in accordance with the requirements of the Summary Compensation Table.

For fiscal 2017, the median of the annual total compensation of our employees (other than our CEO) was \$182,397 and the annual total compensation of our CEO, as reported in the Summary Compensation Table included in this Proxy Statement, was \$2,915,945. Based on this information, the ratio of the annual total compensation of our CEO to the median of the annual total compensation of all employees was 15.99 to 1.

The CEO Pay Ratio above represents our reasonable estimate calculated in a manner consistent with SEC rules and applicable guidance. SEC rules and guidance provide significant flexibility in how companies identify the median employee, and each company may use a different methodology and make different assumptions particular to that company. As a result, and as explained by the SEC when it adopted these rules, in considering the pay ratio disclosure, stockholders should keep in mind that the rule was not designed to facilitate comparisons of pay ratios among different companies, even companies within the same industry, but rather to allow stockholders to better understand and assess each particular company's compensation practices and pay ratio disclosures.

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Neither the Compensation Committee nor our management used our CEO Pay Ratio measure in making compensation decisions.

**Director Compensation**

Changes to the cash and equity components of the compensation program for our non-employee directors were approved by the Compensation Committee on June 13, 2017. Changes to the equity component took effect immediately, and changes to the cash component took effect July 1, 2017. The Compensation Committee regularly reviews its compensation program and may determine to make changes in the future. The changes in 2017 were designed to set cash compensation for a typical director about \$5,000 above the median and to provide an annual option grant that was slightly below the 75<sup>th</sup> percentile as a percentage of basic shares outstanding, with total compensation value for the average director that was about \$15,000 above the median, but \$75,000 below the 75<sup>th</sup> percentile of the Peer Group.

*Pre-June 2017 Equity Component*

*Continuing directors and new directors elected at our annual stockholders meeting:* Non-qualified stock options to purchase 12,500 shares of our common stock. The options 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, except as otherwise necessary to avoid vesting of a fractional share and subject to vesting conditions set forth below.

*New directors appointed or elected other than at our annual stockholders meeting:* Non-qualified stock options to purchase (a) 7,500 shares of our common stock, vesting monthly over one year, plus (b) a prorated number of common stock shares, as determined by multiplying the 12,500 annual amount by a fraction, the numerator of which is the number of full months following the applicable grant date until the one-year anniversary of our most recent preceding annual stockholders meeting (the Prior Meeting) and the denominator of which is 12. The options are granted effective on the Prior Meeting monthly anniversary date that coincides with or first follows the date of the director's appointment or election, and vest in equal monthly installments over the period from the grant date through the one-year anniversary of the Prior Meeting, except as otherwise necessary to avoid vesting of a fractional share and subject to vesting conditions set forth below.

*Exercise Price and Option Vesting:* The exercise price of options shall be the Fair Market Value on the date of grant. In the event of a director's Separation From Service due to death, Disability, or a Change in Control of Arena that occurs upon or prior to a Separation From Service, all of the director's options become fully vested. In the event of any other Separation From Service, (a) vesting of the options is subject to the director's provision of continued service to Arena through the applicable vesting date, and (b) unvested options terminate upon the director's Separation From Service.

*Certain Definitions*

**Change in Control** means an event that: (a) is a **Change in Control** as such term is defined in the applicable long-term incentive plan, and (b) also qualifies as either: (i) a change in the ownership of Arena, (ii) a change in the effective control of Arena, or (iii) a change in the ownership of a substantial portion of Arena's assets (as each of these events are defined in Treas. Reg. § 1.409A-3(i)(5), or as these definitions may later be modified by other regulatory pronouncements).

**Disability** means the participant's becoming disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code, or as otherwise determined by the Compensation Committee in its discretion.

**Fair Market Value** is as defined in the applicable long-term incentive plan.

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Separation From Service means the director has had a separation from service with Arena for purposes of Section 409A of the Internal Revenue Code.

*Post-June 2017 Equity Component*

Annual Award for Continuing directors and new directors: Continuing and new directors elected at our annual stockholders meeting will be granted non-qualified stock options to purchase 15,000 shares of our common stock. The options are granted effective on the date of our annual stockholders meeting, and vest in equal monthly installments (except as necessary to avoid vesting of a fractional share) over one year beginning on the one month anniversary of the date of grant and subject to vesting conditions set forth below. New directors appointed other than at the annual stockholders meeting will be granted a prorated number of the 15,000 shares effective on the date of their appointment. The prorated number of options shall be determined by multiplying 15,000 by a fraction, the numerator of which is equal to the number of full months in the Prorated Period and the denominator of which is 12. These options will vest in equal monthly installments (except as necessary to avoid vesting of a fractional share) over the Prorated Period, beginning on the one month anniversary of the date of appointment, and subject to vesting conditions set forth below. As used above, Prorated Period means the time between the director's appointment and the one-year anniversary of our most recent annual stockholders meeting.

Inducement Award for New directors: New directors will be granted non-qualified stock options to purchase 7,500 shares of our common stock effective on the date of their election or appointment, vesting over three years in equal monthly installments (except as otherwise necessary to avoid vesting of a fractional share) and subject to vesting conditions set forth below, with vesting beginning on the one month anniversary of the date of election or appointment.

Exercise Price and Option Vesting: The exercise price of options shall be the Fair Market Value on the date of grant. In the event of a director's Separation From Service due to death, Disability, or a Change in Control of Arena that occurs upon or prior to a Separation From Service, all of the director's options become fully vested. In the event of any other Separation From Service, (a) vesting of the options is subject to the director's provision of continued service to Arena through the applicable vesting date, and (b) unvested options terminate upon the director's Separation From Service.

Certain Definitions

Change in Control means an event that: (a) is a Change in Control as such term is defined in the applicable long-term incentive plan, and (b) also qualifies as either: (i) a change in the ownership of Arena, (ii) a change in the effective control of Arena, or (iii) a change in the ownership of a substantial portion of Arena's assets (as each of these events are defined in Treas. Reg. § 1.409A-3(i)(5), or as these definitions may later be modified by other regulatory pronouncements).

Director or director as used herein refers only to non-employee directors.



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Disability means the participant's becoming disabled within the meaning of Section 22(e)(3) of the Internal Revenue Code, or as otherwise determined by the Compensation Committee in its discretion.

Fair Market Value is as defined in the applicable long-term incentive plan.

Separation From Service means the director has had a separation from service with Arena for purposes of Section 409A of the Internal Revenue Code.

*Pre-June 2017 Cash Component (effective through June 30, 2017)*

Annual retainer for directors: \$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.

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Additional annual retainer for Chair of the Board (or, prior to June 2016, the lead independent director):

An additional \$6,250 per quarter, paid in advance, subject to continuing service as Chair of the Board. New Chairs of the Board 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 for committee meetings:

Audit Chair Meeting Attendance Fee: \$3,500

Audit Member Attendance Fee: \$2,000

Other Chair Meeting Attendance Fee: \$2,500

*Post-June 2017 Cash Component (effective July 1, 2017)*

Annual retainer for directors: \$11,250 per quarter, paid in advance. New directors will receive a prorated amount of the quarterly payment for the quarter within which they are appointed or elected. The proration calculation shall be made for the number of days until the beginning of the next quarter.

Additional annual retainer for Chair of the Board: An additional \$6,250 per quarter, paid in advance. New Chairs will receive a prorated amount of the quarterly payment for the quarter within which they are appointed to such position. The proration calculation shall be made for the number of days until the beginning of the next quarter.

Annual retainer for committee members (including committee chairs): Committee retainers shall be paid quarterly in advance in 25% increments of the annual amounts. New directors will receive a prorated amount of the payment for the quarter within which they are appointed or elected. The proration calculation shall be made for the number of days until the beginning of the next quarter.

Audit: \$10,000 for members; additional \$10,000 for chair

Compensation: \$7,500 for members; additional \$7,500 for chair

Corporate Governance & Nominating: \$5,000 for members; additional \$5,000 for chair

Other committees: \$5,000 for members

*General*

Our Board of Directors and the Compensation Committee may 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.

**Table of Contents****Director Compensation Table for Fiscal Year Ended December 31, 2017**

As described more fully above, the table below summarizes the compensation for our non-employee directors serving during the fiscal year ended December 31, 2017.

Name	Fees Earned or Paid in Cash (\$ (1))	Option Awards (\$ (2))	Total (\$)
<b>Donald D. Belcher (3)</b>	\$ 26,022	\$	\$ 26,022
<b>Scott H. Bice, J.D. (4)</b>	58,500	122,340	180,840
<b>Jayson Dallas (5)</b>	48,972	219,278	268,250
<b>Oliver Fetzer (6)</b>	46,472	219,278	265,750
<b>Harry Hixson (7)</b>	22,022		22,022
<b>Jennifer Jarrett (8)</b>	30,478	183,510	213,988
<b>Gary Neil (9)</b>	44,222	219,278	263,500
<b>Tina S. Nova, Ph.D. (10)</b>	71,500	122,340	193,840
<b>Phillip M. Schneider (11)</b>	65,500	122,340	187,840
<b>Christine A. White, M.D. (12)</b>	53,500	122,340	175,840
<b>Randall E. Woods (13)</b>	67,500	122,340	189,840

- (1) For each director, includes cash retainer and all meeting attendance and other fees earned or paid in the fiscal year ended December 31, 2017.
- (2) Represents the aggregate grant date fair value of stock options 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. With exception of Mr. Belcher and Mr. Hixson, all directors were awarded 15,000 options on June 13, 2017, which vest in approximately equal monthly installments over one year, are exercisable once vested and expire on the seventh anniversary of the grant date.
- (3) Mr. Belcher had a total of 33,927 options outstanding at December 31, 2017.
- (4) Mr. Bice had a total of 42,758 options and 4,015 RSUs outstanding at December 31, 2017.
- (5) In addition to options granted under note (2) above, upon his appointment as an independent director, Dr. Dallas was awarded 7,500 options on February 13, 2017, which vest in approximately equal monthly installments over one year, are exercisable once vested and expire on the seventh anniversary of the grant date, and additional 4,167 options on February 13, 2017, which vest in approximately equal monthly installments over four months, are exercisable once vested and expire on the seventh anniversary of the grant date. Dr. Dallas had a total of 26,667 options outstanding at December 31, 2017.
- (6) In addition to options granted under note (2) above, upon his appointment as an independent director, Dr. Fetzer was awarded 7,500 options on February 13, 2017, which vest in approximately equal monthly installments over one year, are exercisable once vested and expire on the seventh anniversary of the grant date, and additional 4,167 options on February 13, 2017, which vest in approximately equal monthly installments over four months, are exercisable once vested and expire on the seventh anniversary of the grant date. Dr. Fetzer had a total of 26,667 options outstanding at December 31, 2017.
- (7) Mr. Hixson had a total of 33,927 options outstanding at December 31, 2017.
- (8) In addition to options granted under note (2) above, upon her appointment as an independent director, Ms. Jarrett was awarded 7,500 options on June 13, 2017, which vest in approximately equal monthly installments over three years, are exercisable once vested and expire on the seventh anniversary of the grant date. Ms. Jarrett had a total

of 22,500 options outstanding at December 31, 2017.

- (9) In addition to options granted under note (2) above, upon his appointment as an independent director. Dr. Neil was awarded 7,500 options on February 13, 2017, which vest in approximately equal monthly installments over one year, are exercisable once vested and expire on the seventh anniversary of the grant date, and additional 4,167 options on February 13, 2017, which vest in approximately equal monthly installments over four months, are exercisable once vested and expire on the seventh anniversary of the grant date. Dr. Neil had a total of 26,667 options outstanding at December 31, 2017.
- (10) Dr. Nova had a total of 40,700 options and 4,015 RSUs outstanding at December 31, 2017.

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(11) Mr. Schneider had a total of 49,627 options and 4,015 RSUs outstanding at December 31, 2017.

(12) Dr. White had a total of 48,927 options and 4,015 RSUs outstanding at December 31, 2017.

(13) Mr. Woods had a total of 42,000 options and 4,015 RSUs outstanding at December 31, 2017.

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 2017 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 should hold ownership or equivalent with an aggregate value equal to five times the amount of the annual cash retainer for directors. If a director is not in compliance after the applicable five-year period, the director will be expected to retain at least 50% of the shares acquired upon option exercise (after payment of both the exercise cost and taxes) and 50% of the shares issued upon vesting of RSU grants (after payment of taxes).

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**APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE ARENA PHARMACEUTICALS, INC., 2017 LONG-TERM INCENTIVE PLAN TO, AMONG OTHER THINGS, INCREASE THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE UNDER THE 2017 LONG-TERM INCENTIVE PLAN (PROPOSAL 3)**

*Background.* Stockholders are being asked to approve the amendment and restatement of the Arena Pharmaceuticals, Inc., 2017 Long-Term Incentive Plan, or 2017 LTIP, to, among other things, increase the number of shares authorized for issuance under the 2017 LTIP. Our Board of Directors approved the 2017 LTIP at its April 6, 2017, meeting, and our stockholders approved the 2017 LTIP at our 2017 Annual Meeting. Our 2017 LTIP is our only equity incentive plan that is currently effective. Our Compensation Committee approved the amendment and restatement of the 2017 LTIP, or Amended 2017 LTIP, at its April 16, 2018 meeting, subject to stockholder approval.

*Material Changes to 2017 LTIP.* The Amended 2017 LTIP contains the following material changes from the 2017 LTIP:

*Requested additional shares.* Subject to adjustment for certain changes in our capitalization, if this Proposal 3 is approved by stockholders the aggregate number of shares of our common stock that may be issued under the Amended 2017 LTIP will be increased by 6,100,000 shares over the number of shares currently authorized for issuance under the 2017 LTIP, including a corresponding increase in the number of shares that may be issued pursuant to the grant of incentive stock options.

*Change to fungible share counting ratio.* The 2017 LTIP contains a fungible share counting structure, whereby the number of shares of our common stock available for issuance under the 2017 LTIP will be reduced by (i) one share for each share issued pursuant to a stock option or stock appreciation right with an exercise price that is at least 100% of the fair market value of our common stock on the date of grant (an Appreciation Award ) granted under the 2017 LTIP and (ii) 1.6 shares for each share issued pursuant to a stock award that is not an Appreciation Award (a Full Value Award ) granted under the 2017 LTIP. The Amended 2017 LTIP retains such fungible share counting structure, except that the number of shares of our common stock available for issuance under the Amended 2017 LTIP will be reduced by 1.9 shares for each share issued pursuant to a Full Value Award granted under the 2017 LTIP or Amended 2017 LTIP after March 31, 2018. As part of such fungible share counting structure, the number of shares of our common stock available for issuance under the Amended 2017 LTIP will be increased by (i) one share for each share that becomes available again for issuance under the terms of the Amended 2017 LTIP subject to an Appreciation Award and (ii) 1.9 shares for each share that becomes available again for issuance under the terms of the Amended 2017 LTIP subject to a Full Value Award that reverts to the 2017 LTIP or Amended 2017 LTIP after March 31, 2018.

**Determination of Number of Shares to Add to the Amended 2017 LTIP**

*Awards Are an Important Part of Our Compensation Philosophy.* In 2016 and 2017, we made significant changes to our strategy and management team to focus our company on its clinical stage pipeline and deemphasize its reliance on commercial stage and early research stage programs. This change was accompanied by a change in our compensation approach to emphasize use of equity more than base salary. Our Board of Directors considers having stock available for grant to be a significant contributor to our long-term success by assisting us in attracting and retaining employees, directors, consultants and advisors who are expected to contribute to our success and achieve long-term objectives that we believe will benefit our stockholders. Along with incentivizing employees to increase stockholder value, vesting

conditions, which generally occur over four years, have retentive value. As such, we believe that having stock available for grant is critical to our continuing development and success by helping to keep our employees focused on executing on our long-term business plan. We do not view the number of shares remaining currently available for grant under the 2017 LTIP as sufficient to allow us to execute on our long-term business plan, and the size of the aggregate share reserve under the

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Amended 2017 LTIP was chosen in order to have sufficient shares available for annual grants to our current employee population for approximately the next two years as we work to implement our new business strategy.

*We Manage Our Award Use Carefully and Our Dilution is Reasonable.* We seek to balance the need to attract and retain talented employees, as well as directors, consultants and advisors, in a highly competitive business with efforts to monitor our award burn rate each year. Our gross burn rate for the last three years is included in the below table. We estimate that the shares under the Amended 2017 LTIP will be sufficient to cover our projected annual grants for our current employee population for approximately two years. However, we do not as a matter of course make public forecasts as to our total shares outstanding and utilization of equity awards due to the unpredictability of the underlying assumptions and estimates. In particular, our actual usage under the Amended 2017 LTIP will be impacted by changes in the number and level of our employees, the type of equity awards we grant, our potential growth and activities, the financial impact of grants and other factors, such as industry performance and general business, economic, regulatory, market and financial conditions, as well as factors specific to our business, all of which are difficult to predict and many of which are beyond our control.

*Historic Use of Equity and Outstanding Awards.* The following tables provide certain additional information regarding our historical annual award burn rate and shares authorized and outstanding and available for grant:

*Historic Annual Award Burn Rate*

<b>Fiscal Year</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Stock options granted	432,200	1,789,900	2,241,000
Full value awards granted (nonperformance-based)	28,100	0	0
Performance Restricted Stock Units earned	0	0	0
Weighted-average common shares outstanding (1)	24,067,100	24,313,300	32,990,191
<b>Gross burn rate (2)</b>	<b>1.9%</b>	<b>7.4%</b>	<b>6.8%</b>

- (1) The number of common shares outstanding as of the proxy record date was not used for the annual gross burn rate calculations.
- (2) The gross burn rate is calculated as follows: (a) shares subject to options and nonperformance-based full-value shares granted and Performance Restricted Stock Unit awards earned in the fiscal year, divided by (b) weighted-average common shares outstanding for the applicable fiscal year.

*Shares Outstanding and Available for Grant*

	<b>As of March 31, 2018</b>
Total shares subject to outstanding stock options	5,775,675
Total shares subject to outstanding deferred restricted stock and restricted stock units (1)	21,220
Weighted-average exercise price of outstanding stock options	\$ 25.80
Weighted-average remaining term of outstanding stock options (years)	5.91
Total shares available for grant under the 2017 LTIP	858,560
Total potential dilution (2)	11.9%

In addition, the number of shares of common stock outstanding on the proxy record date was 49,226,686 and the closing price of our common stock as reported on the Nasdaq Global Select Market on such date was \$40.01 per share.

- (1) There were no shares subject to outstanding Performance Restricted Stock Units as of March 31, 2018.
  
- (2) Total potential dilution is calculated by dividing the number of shares subject to outstanding awards and the total number of shares remaining available for grant by the sum of common shares outstanding, number of shares subject to outstanding awards and the total number of shares available for grant.

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Our 2013 Long-Term Incentive Plan, 2012 Long-Term Incentive Plan, 2009 Long-Term Incentive Plan, and 2006 Long-Term Incentive Plan, as amended, were previously terminated and are together with the 2017 LTIP our Prior Plans with respect to the Amended 2017 LTIP. As of the effective date of the Amended 2017 LTIP, the total shares available for grant will be 6,958,560 shares, which is the sum of 858,560 shares available under the 2017 LTIP as of March 31, 2018, plus 6,100,000 new shares, which shall also be reduced by grants made after March 31, 2018 under the 2017 LTIP and prior to the effective date of the Amended 2017 LTIP and counted at the fungible ratio described above. The number of shares available for grant under the Amended 2017 LTIP will be increased by the number of shares subject to any awards granted under the Prior Plans that, after March 31, 2018, are forfeited, expire or settled for cash and as otherwise provided in the Amended 2017 LTIP at the fungible ratio described above.

### **Why You Should Vote for this Proposal 3**

*Market Competitiveness and Execution of Our Business Plan.* If the Amended 2017 LTIP is not approved we believe that we will be at a competitive disadvantage in our efforts to attract, motivate and retain employees, directors, consultants and advisors because we will not have the flexibility to issue competitive levels of awards and, therefore, would not be able to execute our business plan.

*The Amended 2017 LTIP Combines Compensation and Governance Best Practices.* The Amended 2017 LTIP carries forward unchanged from the 2017 Plan certain provisions that are designed to protect our stockholders' interests and to reflect corporate governance best practices including:

*Stockholder approval is required for additional shares.* The Amended 2017 LTIP authorizes a fixed number of shares, so that stockholder approval is required to issue any additional shares under the Amended 2017 LTIP.

*Repricing is not allowed.* The Amended 2017 LTIP prohibits the repricing of stock options and stock appreciation rights without prior stockholder approval (except in the case of certain equitable adjustments as described in the plan).

*No discounted stock options or stock appreciation rights.* All stock options and stock appreciation rights must have an exercise price equal to or greater than the fair market value of our common stock on the date the stock option or stock appreciation right is granted.

*Reasonable Limits on Maximum Terms of Options and Stock Appreciation Rights.* Stock options and stock appreciation rights granted under the Amended 2017 LTIP have a maximum permitted term of seven years.

*Reasonable share counting provisions.* In general, when awards granted under the Amended 2017 LTIP lapse or are canceled, the shares reserved for those awards will be returned to the share reserve and be available for future awards. However, shares of common stock received from the exercise of stock options or withheld for taxes applicable to any awards will not be returned to our share reserve.

*Limit on non-employee director compensation.* The aggregate value of all compensation granted or paid, as applicable, to any individual for service as a non-employee director with respect to any period commencing on the date of the Company's annual meeting of stockholders for a particular year and ending on the day immediately prior to the date of our annual meeting of stockholders for the next subsequent year, including equity awards granted under the Amended 2017 LTIP and our other equity plans and cash fees paid or payable by us to such non-employee director, will not exceed (i) \$750,000 in total value or (ii) in the event such non-employee director is first appointed or elected to the Board of Directors during such period or with respect to a lead director or chairman role, \$1,000,000 in total value, in each case calculating the value of any equity awards based on the grant date fair value of such awards for financial reporting purposes. For such purposes, any compensation shall be counted towards this limit for the service year in which it is earned (and not when settled or paid in the event it is deferred).

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*Awards subject to forfeiture/clawback.* Awards granted under the Amended 2017 LTIP will be subject to recoupment in accordance with any clawback policy that we are required to adopt pursuant to the listing standards of any national securities exchange or association on which our securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board may impose other clawback, recovery or recoupment provisions in an award agreement.

*No dividends are paid on unvested awards.* Any dividends applicable to the shares subject to an award will be subject to the same vesting or performance conditions as the underlying award and will not be paid until and unless the underlying award vests.

The following summary describes the principal features of the Amended 2017 LTIP, and is qualified in its entirety by reference to the full text of the Amended 2017 LTIP. A copy of the Amended 2017 LTIP is filed as Appendix A to the proxy statement for our 2018 Annual Meeting filed with the SEC.

### **Summary of the Amended 2017 Long-Term Incentive Plan**

*Purpose.* The purpose of the Amended 2017 LTIP is to assist us in attracting and retaining employees, directors, consultants and advisors who are expected to contribute to our success and achieve long-term objectives that will benefit our stockholders through the additional incentives inherent in the awards under the 2018 LTIP.

*Shares Available for Awards.* The aggregate number of shares of our common stock that initially may be issued pursuant to stock awards granted under the Amended 2017 LTIP is 6,958,560 shares, less 1 share for every share that was subject to an option or stock appreciation right granted under the 2017 Plan and 1.9 shares for every 1 share that share that was subject to an award other than an option or stock appreciation right granted under the 2017 Plan after March 31, 2018. Shares issued pursuant to the exercise of stock options and stock appreciation rights granted under the Amended 2017 LTIP reduce the available number of shares by 1 share for every share issued while awards other than stock options and stock appreciation rights granted under the Amended 2017 LTIP reduce the available number of shares by 1.9 shares for every share issued.

In addition, shares that, after March 31, 2018, are released from awards granted under the Prior Plans because the awards expire, are forfeited or are settled for cash will increase the number of shares available under the Amended 2017 LTIP by 1 share for each share released from a stock option or stock appreciation right and by 1.9 shares for each share released from a restricted stock award or restricted stock unit award.

The following shares shall *not* be added to the number of shares available under the Amended 2017 LTIP: (a) shares tendered by the participant or withheld by us in payment of the purchase price of an option granted under the Amended 2017 LTIP or the Prior Plans, or to satisfy any tax withholding obligation with respect to any award granted under the Amended 2017 LTIP or the Prior Plans, (b) shares subject to a stock appreciation right granted under the Amended 2017 LTIP or the Prior Plans that are not issued in connection with the stock settlement of the stock appreciation right on exercise thereof, and (c) shares reacquired by us on the open market or otherwise using cash proceeds from the exercise of options granted under the Amended 2017 LTIP or the Prior Plans.

Shares issued under awards granted in assumption of or in substitution for awards previously granted by a company acquired by us or with which we or any subsidiary combines, will not reduce the shares authorized for issuance under the Amended 2017 LTIP. Shares issued under the Amended 2017 LTIP may consist of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise. The Company will keep available at all times the number of shares reasonably required to satisfy then-outstanding stock awards.

*Non-Employee Director Compensation Limit.* The aggregate value of all compensation granted or paid, as applicable, to any individual for service as a non-employee director with respect to any period commencing on

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the date of the Company's annual meeting of stockholders for a particular year and ending on the day immediately prior to the date of the Company's annual meeting of stockholders for the next subsequent year, including equity awards granted under the Amended 2017 LTIP and any other Company equity plans and cash fees paid by the Company to such non-employee director, will not exceed (i) \$750,000 in total value or (ii) in the event such non-employee director is first appointed or elected to the Board of Directors during such period or with respect to a lead director or chairman role, \$1,000,000 in total value, in each case calculating the value of any equity awards based on the grant date fair value of such awards for financial reporting purposes. For such purposes, any compensation shall be counted towards this limit for the service year in which it is earned (and not when settled or paid in the event it is deferred).

*Eligibility; Awards to be Granted to Certain Individuals and Groups.* Options, stock appreciation rights, restricted stock awards, restricted stock unit awards and performance awards may be granted under the Amended 2017 LTIP. Options may be either incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, or nonstatutory stock options. Awards may be granted under the Amended 2017 LTIP to any employee, non-employee member of our Board of Directors, consultant or advisor who provides us service, except for incentive stock options, which may be granted only to our employees or employees of our subsidiaries.

As of March 31, 2018, approximately 111 employees, 9 non-employee directors and 80 consultants were in our service and eligible to receive awards under the 2017 LTIP. These employees include 5 executive officers and approximately 16 employees at our Swiss subsidiary Arena Pharmaceuticals Development GmbH. The Compensation Committee, in its discretion, selects the individual or individuals to whom awards under the Amended 2017 LTIP may be granted, determines the type or types of awards to be granted, the time or times at which such awards shall be granted, and the number of shares subject to each such grant (or the dollar value of certain performance awards). For this reason, it is not possible to determine the benefits or amounts that will be received by any particular individual or individuals in the future.

*Certain Limits on Shares Subject to Awards.* The Amended 2017 LTIP provides that, subject to adjustment as provided in the plan, no participant may be granted (a) options or stock appreciation rights during any calendar year with respect to more than 800,000 shares of common stock or (b) restricted stock awards, performance awards and/or restricted stock unit awards during any calendar year that are denominated in shares of common stock and are intended to comply with the performance-based exception under Code Section 162(m) under which more than 800,000 shares of common stock may be earned. Shares subject to a cancelled award continue to count against the applicable limit. In addition to the foregoing, during any calendar year no participant may be granted performance awards that are intended to comply with the performance-based exception under Code Section 162(m) and are denominated in cash under which more than \$10,000,000 may be earned. The dollar value of a cancelled award will continue to count against the \$10,000,000 limit. The foregoing annual grant limits and other provisions in the Amended 2017 LTIP continue to refer to the performance-based compensation exception under Section 162(m) of the Code. Although this exception was recently repealed with respect to taxable years beginning after December 31, 2017 under the TCJA, certain awards made pursuant to a written binding contract in effect on November 2, 2017 that is not modified in any material respect on or after that date may remain eligible for this exception, and the provisions in the Amended 2017 LTIP that refer to performance-based compensation may continue to be applicable to such awards, to the extent that such awards are intended to qualify for this exception. As of the date the Board approved the Amended 2017 LTIP, the U.S. Department of the Treasury and the Internal Revenue Service had not issued guidance or regulations on the requirements for or application of the transition relief to such awards. The provisions in the Amended 2017 LTIP which refer to the performance-based compensation exception under Section 162(m) of the Code were not removed from the Amended 2017 LTIP so as not to jeopardize the ability of such awards to potentially qualify for the transition relief before applicable guidance and regulations are issued. Those provisions are only intended to apply to such awards that are intended to and may qualify for the transition relief and, therefore, are not

applicable to any other awards granted under the Amended 2017 LTIP. Because of certain ambiguities and uncertainties as to the application and interpretation of Section 162(m) of the Code and the regulations issued

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thereunder, including the uncertain scope of the transition relief under the TCJA repealing the performance-based compensation exception from the deduction limit, we do not know the extent to which awards granted under the Amended 2017 LTIP will be eligible for the transition relief, if at all.

The aggregate maximum number of shares of common stock that may be issued pursuant to the exercise of incentive stock options granted under the Amended 2017 LTIP on and after its effective date is 6,958,560 shares less the number of shares issued pursuant to incentive stock options granted under the 2017 LTIP after March 31, 2018 and prior to the effective date of the Amended 2017 LTIP, in each case with such number of shares subject to adjustment for certain corporate events, including mergers and stock splits.

*Administration.* The Plan will be administered by the Compensation Committee, which shall consist of at least two directors, both of whom must qualify as non-employee directors under Rule 16b-3 of the Exchange Act, outside directors under Section 162(m) of the Code and independent directors for purposes of the rules of the Nasdaq Stock Market to the extent required by such rules. The Compensation Committee has the authority to select the participants who will receive awards under the Amended 2017 LTIP, to determine the type and terms of the awards, and to interpret and administer the Amended 2017 LTIP. The Compensation Committee may delegate the right to make grants and otherwise take action on the Compensation Committee's behalf under the Amended 2017 LTIP to a committee of one or more directors and, to the extent permitted by law and Nasdaq Stock Market rules and regulation, to an executive officer or a committee of executive officers the right to grant awards to employees who are not our executive officers (subject to the limitation on the total number of shares that may be subject to such awards as specified by 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, 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 consistent with the Board-approved hiring plan and grant guidelines and not to exceed 800,000 shares in 2018. 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.

*Terms and Conditions of Options.* Options granted under the Amended 2017 LTIP may be incentive stock options, nonstatutory stock options, or a combination thereof, and are subject to the following terms and conditions:

*Exercise Price.* The exercise price of options granted under the Amended 2017 LTIP is determined by the Compensation Committee at the time the options are granted. The exercise price of an option may not be less than 100% of the fair market value of the common stock on the date such option is granted, except in the case of substitute awards granted in connection with an acquisition; provided, however, that in the case of an incentive stock option granted to a participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all of our classes of stock, the option price per share will be no less than 110% of the fair market value of one share of our common stock on the date of grant. The fair market value of the common stock is generally determined with reference to the closing price for the common stock on the Nasdaq Stock Market on the date the option is granted (or if there was no reported closing price on such date, on the last preceding date on which the closing price was reported).

*Exercise of Option.* The Compensation Committee determines when options become exercisable. The Amended 2017 LTIP permits payment to be made by cash, check, other shares of our common stock, any other form of consideration approved by the Compensation Committee (including withholding of shares of common stock that would otherwise be issued on exercise of options) and permitted by applicable law, or any combination thereof.

*Term of Option.* Options granted under the Amended 2017 LTIP expire no later than seven years from the date of grant, except in the event of the optionee's death or disability; provided, however, that the term of the option will not exceed five years from the date the option is granted in the case of an incentive stock option granted to a participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all of our classes of stock.

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*Stock Appreciation Rights.* The Compensation Committee is authorized to grant stock appreciation rights in conjunction with an option or other award granted under the Amended 2017 LTIP, and to grant stock appreciation rights separately. The grant price of a stock appreciation right may not be less than 100% of the fair market value of the common stock on the date such stock appreciation right is granted, except in the case of substitute awards granted in connection with an acquisition (or a stock appreciation right granted in exchange for or in tandem with, but subsequent to, an option). The Compensation Committee determines when stock appreciation rights become exercisable. The term of a stock appreciation right may be no more than seven years from the date of grant.

Upon the exercise of a stock appreciation right, the holder will have the right to receive the excess of the fair market value of the shares or, at the discretion of the Compensation Committee, such lesser amount, on the date of exercise over the grant price. Payment may be made in cash, shares of our common stock or other property, or any combination of the same, as the Compensation Committee may determine. Shares issued upon the exercise of a stock appreciation right are valued at their fair market value as of the date of exercise.

*Restricted Stock Awards.* Restricted stock awards may be issued to participants either alone or in addition to other awards granted under the Amended 2017 LTIP, and are also available as a form of payment for performance awards and other earned cash-based incentive compensation. The Compensation Committee determines the terms and conditions of restricted stock awards, including the number of shares granted (subject to the limit on shares subject to awards set forth above), and any conditions for vesting that must be satisfied, which typically will be based principally or solely on continued provision of services, but may include a performance-based component. Cash dividends, stock and any other property (other than cash) distributable as a dividend or otherwise with respect to any restricted stock as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Stock and shall not be paid until and unless the underlying award vests.

*Restricted Stock Unit Awards.* Awards of restricted stock units having a value equal to an identical number of shares may be granted either alone or in addition to other awards granted under the Amended 2017 LTIP, and are also available as a form of payment for other awards granted under the Amended 2017 LTIP and other earned cash-based incentive compensation. Restricted stock units may be paid in cash, shares of common stock or other property, or a combination thereof, as determined by the Compensation Committee. The Compensation Committee determines the other terms and conditions of restricted stock units. Cash dividends, stock and any other property (other than cash) distributable as a dividend or otherwise with respect to any restricted stock unit award shall either (a) not be paid at all, or (b) be accumulated, be subject to restrictions and risk of forfeiture to the same extent as the restricted stock units with respect to which such cash, stock or other property has been distributed and be paid at the time, and to the extent, such restrictions and risk of forfeiture lapse.

*Performance Awards.* Performance awards provide participants with the opportunity to receive cash, shares of common stock or other property, or any combination thereof, based on performance and other vesting conditions. Performance awards may be granted from time to time as determined at the discretion of the Compensation Committee. Subject to the share limit and maximum dollar value set forth above, the Compensation Committee has the discretion to determine (a) the number of shares of common stock under, or the dollar value of, a performance award, and (b) the conditions that must be satisfied for grant or for vesting, which typically will be based principally or solely on achievement of performance goals. Cash dividends, stock and any other property (other than cash) distributed as a dividend or otherwise with respect to any award of performance shares shall either (i) not be paid at all, or (ii) be accumulated, be subject to restrictions and risk of forfeiture to the same extent as the performance shares with respect to which such cash, stock or other property has been distributed and be paid at the time, and to the extent, such restrictions and risk of forfeiture lapse.

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At the Compensation Committee's discretion, performance goals shall be based on the attainment of specified levels of one or any combination of the following: net sales;

revenue;

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bookings;

revenue or product revenue growth;

operating income or loss (before or after taxes);

pre- or after-tax income or loss (before or after allocation of corporate overhead and bonus);

net earnings or loss;

earnings or loss per share;

net income or loss (before or after taxes);

return on equity;

total stockholder return;

return on assets or net assets;

attainment of strategic and operational initiatives;

appreciation in and/or maintenance of the price of our common stock or any other of our publicly-traded securities;

market share;

gross profits;

earnings or losses (including earnings or losses before taxes, earnings or losses before interest and taxes, earnings or losses before interest, taxes and depreciation or earnings or losses before interest, taxes, depreciation and amortization);

economic value-added models (or equivalent metrics);

comparisons with various stock market indices;

reductions in costs;

cash flow or cash flow per share (before or after dividends);

return on capital (including return on total capital or return on invested capital);

cash flow return on investment;

improvement in or attainment of expense levels or working capital levels;

operating margin;

gross margin;

year-end cash;

cash margin;

debt reduction;

stockholder s equity;

market share;

achievement of drug development milestones;

regulatory achievements including approval of a drug candidate;

progress of internal research or clinical programs;

progress of partnered programs;

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implementation or completion of projects and processes;

partner satisfaction;

budget management;

clinical achievements;

completing phases of a clinical study (including the treatment phase) or announcing or presenting preliminary or final data from clinical studies, in each case, whether on particular timelines or generally;

timely completion of clinical trials;

submission of INDs and NDAs and other regulatory achievements;

partner or collaborator achievements;

internal controls, including those related to the Sarbanes-Oxley Act of 2002;

research progress, including the development of programs;

financing;

investor relations, analysts and communication;

manufacturing achievements (including obtaining particular yields from manufacturing runs and other measurable objectives related to process development activities);

strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property);

establishing relationships with commercial entities with respect to the marketing, distribution and sale of our products (including with group purchasing organizations, distributors and other vendors);



supply chain achievements (including establishing relationships with manufacturers or suppliers of active pharmaceutical ingredients and other component materials and manufacturers of our products);

co-development, co-marketing, profit sharing, joint venture or other similar arrangements;

financing and other capital raising transactions (including sales of our equity or debt securities);

sales or licenses of our assets, including intellectual property (whether in a particular jurisdiction or territory or globally or through partnering transactions);

implementation, completion or attainment of measurable objectives with respect to research, development, manufacturing, commercialization, products or projects, production volume levels, acquisitions and divestitures; and

factoring transactions, recruiting and maintaining personnel, and other performance goals selected by the Compensation Committee.

Any performance goals that are financial metrics may be determined in accordance with U.S. Generally Accepted Accounting Principles, or GAAP, in accordance with accounting principles established by the International Accounting Standards Board, or IASB Principles, or adjusted when established to include or exclude any items otherwise includable or excludable under GAAP or under IASB Principles. Such performance goals also may be based solely by reference to our performance or the performance of one or more of our affiliates, divisions, business segments or business units, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. At the time a performance award is granted, the Compensation Committee may also exclude charges related to an event or occurrence which the Compensation Committee determines should appropriately be excluded, including (a) restructurings or discontinued operations, (b) items that are unusual in nature or occur infrequently as determined under generally accepted accounting principles; (c) an event either not directly related to our operations or not within the reasonable control of our management, or (d) the cumulative effects of tax or accounting changes in accordance with US generally accepted accounting principles.

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The Amended 2017 LTIP is designed to potentially permit us to issue awards that qualify as performance-based under Section 162(m) of the Code, if such exemption is available, by making performance goals meeting the requirements of Section 162(m) applicable to a participant with respect to an award and satisfying certain additional administrative requirements. Because of certain ambiguities and uncertainties as to the application and interpretation of Section 162(m) of the Code and the regulations issued thereunder, including the uncertain scope of the transition relief under the TCJA legislation repealing the performance-based compensation exception from the deduction limit, no assurance can be given that any awards that may be granted under the Amended 2017 LTIP and are intended to satisfy the requirements for the performance-based compensation exception under Section 162(m) of the Code will, in fact, be exempt.

*Dividends; Dividend Equivalents.* Awards other than options and stock appreciation rights may, if so determined by the Compensation Committee, provide that the participant will be entitled to receive cash, or stock or other property dividends, or cash payments in amounts equivalent to cash, stock or other property dividends declared with respect to shares of common stock covered by an award. Such amounts shall be deemed to have been reinvested in additional shares of common stock or otherwise reinvested and in all events shall be subject to the same vesting or performance conditions as the underlying award and shall not be paid until and unless the underlying award vests.

*Termination of Service.* The Compensation Committee will determine and set forth in each award agreement whether an award will continue to be exercisable, continue to vest or be earned and the terms of such exercise, vesting or earning, on and after the date that a participant terminates employment or service with us, whether by reason of death, disability, voluntary or involuntary termination of employment or services, or otherwise. With regard to options and stock appreciation rights, if the sale of any common stock received on exercise of an option or a stock appreciation right following the termination of the participant's employment by or services to us (other than for cause) would be prohibited at any time solely because the issuance of the shares would violate (a) the registration requirements under the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, or the Securities Act, (b) our insider trading policy, or (c) a lock-up agreement undertaken in connection with our issuance of securities, then the option or stock appreciation right will terminate on the earlier of (i) the expiration of a total period of 90 days (that need not be consecutive) after the termination of the participant's employment by or services to us during which the exercise of the option or stock appreciation right would not be in violation of any of such registration requirement, insider trading policy or lock-up agreement, and (ii) the expiration of the term of the option or stock appreciation right as set forth in the applicable award agreement.

*Reduced Time Commitment.* In the event a participant's regular level of time commitment in the performance of his or her services for us and any affiliates is reduced (for example, and without limitation, if the participant is one of our employees and the employee has a change in status from a full-time employee to a part-time employee) after the date of grant of any award to the participant, the Compensation Committee has the right in its sole discretion to (a) make a corresponding reduction in the number of shares or cash amount subject to any portion of such award that is scheduled to vest or become payable after the date of such change in time commitment, and (b) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such award. In the event of any such reduction, the participant will have no right with respect to any portion of the award that is so reduced.

*No Repricing.* The Amended 2017 LTIP prohibits option and stock appreciation right repricings (other than to reflect stock splits, spin-offs or other corporate events described under Adjustments upon Changes in Capitalization below) unless stockholder approval is obtained. For purposes of the Amended 2017 LTIP, a repricing means a reduction in the exercise price of an option or the grant price of a stock appreciation right, the cancellation of an option or stock appreciation right in exchange for cash or another award (except for awards granted in assumption of or in substitution for awards previously granted by a company acquired by us or with which we combine) under the Amended 2017 LTIP if the exercise price of the cancelled option or grant price of the cancelled stock appreciation right is greater than

the fair market value of the common stock, or any other

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action with respect to an option or stock appreciation right that may be treated as a repricing under the Nasdaq Stock Market rules.

*Nontransferability of Awards.* Except as provided in the next sentence, an award granted under the Amended 2017 LTIP is not transferable other than by will or the laws of descent and distribution, and may be exercised during the participant's lifetime only by the participant or the participant's guardian or legal representative. The Compensation Committee may provide in an award agreement that a participant may transfer an award (other than an incentive stock option) to a family member (whether by gift or a domestic relations order for no consideration) under such terms and conditions determined by the Compensation Committee. Options and stock appreciation rights may not be transferred to a third party financial institution for value.

*Clawback Policy.* All awards granted under the Amended 2017 LTIP will be subject to recoupment in accordance with any clawback policy we adopt, including any clawback policy we adopt pursuant to the listing standards of any national securities exchange or association on which our securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, our Board of Directors may impose such other clawback, recovery or recoupment provisions in an award agreement as the Board determines necessary or appropriate.

*Adjustments upon Changes in Capitalization.* In the event of any merger, reorganization, consolidation, recapitalization, dividend or distribution (whether in cash, shares or other property, other than a regular cash dividend), stock split, reverse stock split, spin-off or similar transaction or other change in our corporate structure affecting our common stock or the value thereof, appropriate adjustments shall be made, in the discretion of the Compensation Committee, in the number and class of shares of stock subject to the Amended 2017 LTIP, the number and class of shares of awards outstanding under the Amended 2017 LTIP, the limits on the number of awards that any person may receive and the exercise price of any outstanding option or stock appreciation right.

*Change in Control.* The Compensation Committee may, in its discretion, determine that, upon our change in control (as defined in the Amended 2017 LTIP or otherwise defined in the agreement evidencing an award), options and stock appreciation rights outstanding as of the date of the change in control shall be cancelled and terminated without payment therefor if the fair market value of one share of our common stock as of the date of the change in control is less than the per share option exercise price or stock appreciation right grant price.

To the extent provided in an award agreement, in the event of a change in control in which the successor company assumes or substitutes for an option, stock appreciation right, restricted stock award or restricted stock unit award (or in which we are the ultimate parent corporation and continue the award), if a participant's employment with such successor company (or us) or a subsidiary thereof terminates within the period following such change in control set forth in the award agreement (or prior if applicable) under the circumstances set forth in the award agreement, each award held by such participant at the time of such termination of employment will be fully vested, and options and stock appreciation rights may be exercised during the period following such termination set forth in the award agreement. If the successor company does not assume or substitute for such outstanding awards held by participants at the time of the change in control, then unless otherwise provided in the award agreement, the awards will become fully vested immediately prior to the change in control and will terminate immediately after the change in control.

The Compensation Committee, in its discretion, may also determine that, upon the occurrence of a change in control, each option and stock appreciation right outstanding shall terminate within a specified number of days after notice to the participant, and/or that each participant shall receive, with respect to each share of common stock subject to such option or stock appreciation right, an amount equal to the excess, if any, of the fair market value of such share immediately prior to the occurrence of such change in control over the exercise price per share of such option and/or

stock appreciation right; such amount to be payable in cash, in one or more kinds of stock or property, or in a combination thereof, as the Compensation Committee, in its discretion, will determine.

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*Effective Date.* The Amended 2017 LTIP will be effective upon its approval by stockholders at our 2018 Annual Meeting.

*Amendment and Termination of the Amended 2017 LTIP.* Our Board of Directors may alter, amend, suspend or terminate the Amended 2017 LTIP, from time to time as it deems advisable, subject to any requirement of applicable law or the rules and regulations of the Nasdaq Stock Market for stockholder approval. However, our Board of Directors may not amend the Amended 2017 LTIP without stockholder approval to increase the number of shares available for awards under the Amended 2017 LTIP, expand the types of awards available under the Amended 2017 LTIP, materially expand the class of persons eligible to participate in the Amended 2017 LTIP, permit the grant of options or stock appreciation rights with an exercise or grant price of less than 100% of fair market value on the date of grant (except for substitute awards granted in connection with an acquisition), increase the maximum term of the plan or of any options and stock appreciation rights, increase the limits on shares subject to awards or the dollar value payable with respect to performance awards, or take any action with respect to an option or stock appreciation right that may be treated as a repricing under the Nasdaq Stock Market rules (including a reduction in the exercise price of an option or stock appreciation right or the exchange of an option or stock appreciation right for cash or another award if the option or grant price is greater than the fair market value of the common stock). No such action by our Board of Directors may alter or impair any award previously granted under the Amended 2017 LTIP without the written consent of the participant. The Amended 2017 LTIP will expire on the 10th anniversary of its effective date, except with respect to awards then outstanding, and no further awards may be granted thereafter.

*US Federal Income Tax Consequences.* The following discussion summarizes certain federal income tax considerations of awards under the Amended 2017 LTIP. However, it does not purport to be complete and does not describe the state, local or foreign tax considerations or the consequences for any particular individual.

*Incentive Stock Options.* An optionee who is granted an incentive stock option does not recognize taxable income at the time the option is granted or upon its exercise, although the exercise may subject the optionee to the alternative minimum tax. Upon an optionee's sale of the shares (assuming that the sale occurs more than two years after grant of the option and more than one year after exercise of the option), any gain will be taxed to the optionee as long-term capital gain. If the optionee disposes of the shares prior to the expiration of the above holding periods, then the optionee will recognize ordinary income in an amount generally measured as the excess, if any, of the fair market value of the shares at the exercise date or the sale price of the shares, whichever is lower, over the exercise price. Any gain or loss recognized on such sale of the shares in excess of the amount treated as ordinary income will be characterized as long-term or short-term capital gain or loss, depending on the holding period.

*Nonstatutory Stock Options.* An optionee does not recognize any taxable income at the time a nonstatutory stock option is granted. Upon exercise, the optionee recognizes taxable ordinary income measured by the excess of the fair market value of the shares on the exercise date over the exercise price. Upon a disposition of such shares by the optionee, any difference between the amount recognized on the sale and the fair market value of the shares on the exercise date is treated as long-term or short-term capital gain or loss, depending on the holding period.

*Stock Appreciation Rights.* No income will be recognized by a recipient in connection with the grant of a stock appreciation right. When the stock appreciation right is exercised, the recipient will recognize ordinary income in the year of exercise in an amount equal to the sum of the amount of any cash received and the fair market value of any common stock or other property received upon the exercise.

*Restricted Stock Awards and Performance Awards*

Generally, the recipient of a restricted stock award or a performance award will recognize ordinary income at the time the stock is received equal to the excess, if any, of the fair market value of the stock received over any amount paid by the recipient in exchange for the stock. If, however, the stock is not

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vested when it is received (for example, if the employee is required to work for a period of time to have the right to sell the stock), the recipient generally will not recognize income until the stock becomes vested, at which time the recipient will recognize ordinary income equal to the excess, if any, of the fair market value of the stock on the date it becomes vested over any amount paid by the recipient in exchange for the stock. A recipient may, however, file an election with the Internal Revenue Service, within 30 days of his or her receipt of the stock award, to recognize ordinary income, as of the date the recipient receives the award, equal to the excess, if any, of the fair market value of the stock on the date the award is granted over any amount paid by the recipient in exchange for the stock.

The recipient's basis for the determination of gain or loss upon the subsequent disposition of shares acquired from stock awards will be the amount paid for such shares plus any ordinary income recognized either when the stock is received or when the stock becomes vested.

*Restricted Stock Units*

Generally, the recipient of a stock unit structured to conform to the requirements of Section 409A of the Code or an exception to Section 409A of the Code will recognize ordinary income at the time the stock is delivered equal to the excess, if any, of the fair market value of the shares of our common stock received over any amount paid by the recipient in exchange for the shares of our common stock. To conform to the requirements of Section 409A of the Code, the shares of our common stock subject to a stock unit award may generally only be delivered upon one of the following events: a fixed calendar date (or dates), separation from service, death, disability or a change in control. If delivery occurs on another date, unless the stock units otherwise comply with or qualify for an exception to the requirements of Section 409A of the Code, in addition to the tax treatment described above, the recipient will owe an additional 20% federal tax and interest on any taxes owed.

The recipient's basis for the determination of gain or loss upon the subsequent disposition of shares acquired from stock units will be the amount paid for such shares plus any ordinary income recognized when the stock is delivered.

*Company Tax Deduction.* We generally will be entitled to a tax deduction in connection with an award under the Amended 2017 LTIP (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code and the satisfaction of a tax reporting obligation) in an amount equal to the ordinary income recognized by a participant and at the time the participant recognizes such income (for example, on the exercise of a nonstatutory stock option). Section 162(m) of the Code may limit the deductibility of compensation paid to the chief executive officer and to each of the three most highly compensated executive officers other than the chief executive officer and the chief financial officer. Under Section 162(m), the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000 or an exemption from such deduction limitation is applicable and available. The exemption from Section 162(m)'s deduction limit for performance-based compensation has been repealed, effective for taxable years beginning after December 31, 2017, such that compensation paid to our covered executive officers in excess of \$1 million will not be deductible unless it qualifies for transition relief applicable to certain performance-based compensation arrangements already in place as of November 2, 2017. Because of certain ambiguities and uncertainties as to the application and interpretation of Section 162(m) of the Code and the regulations issued thereunder, including the uncertain scope of the transition relief under the legislation repealing the performance-based compensation exception from the deduction limit, no assurance can be given that any awards that were previously granted under the 2017 LTIP, or that may be granted under the Amended 2017 LTIP, that may be or have been intended to satisfy the requirements for the performance-based compensation exception under Section 162(m) of the Code will, in fact, be exempt. The Compensation Committee reserves the right to grant awards under the Amended 2017 LTIP that are not exempt from the Section 162(m) deduction limitation. Further, the Compensation Committee reserves the right to modify 2017 LTIP awards that were initially intended to be exempt from Section 162(m) if it determines that such modifications are consistent with our business needs.



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**Table of Contents****New Plan Benefits**

The amounts allocable under the Amended 2017 LTIP to our executive officers and employees are not determinable because the Amended 2017 LTIP does not provide for set benefits or amounts with respect to awards granted under the Amended 2017 LTIP, and we have not approved any awards that are conditioned on stockholder approval of this Proposal 3. However, as described above under Director Compensation we have a policy of granting options to our non-employee directors at each annual meeting and upon initial appointment to the board.

**Plan Benefits**

The table below shows, as to the listed individuals and specified groups, the number of shares subject to awards previously granted under the 2017 LTIP (even if not currently outstanding) since its approval by the stockholders on June 13, 2017 and through April 13, 2018.

Name	Options
Named executive officers	
Amit D. Munshi	310,000
President and Chief Executive Officer	
Kevin R. Lind	130,000
Executive Vice President and Chief Financial Officer	
Vincent E. Aurentz	130,000
Executive Vice President and Chief Business Officer	
Steven W. Spector, J.D.	130,000
Executive Vice President, General Counsel and Secretary	
Preston S. Klassen, M.D., M.H.S.	130,000
Executive Vice President, R&D and Chief Medical Officer	
Director Nominees*	
Jayson Dallas, M.D., Director	15,000
Oliver Fetzer, Ph.D., Director	15,000
Jennifer Jarrett, Director	22,500
Garry A. Neil, M.D., Director	15,000
Tina S. Nova, Ph.D., Director, Chair of the Board	15,000
Randall E. Woods, Director	15,000
All current executive officers as a group	830,000
All current non-employee directors as a group	142,500
Each associate of any director or executive officer	
Each other person who received or is to receive 5% of rights granted under the 2017 LTIP	
All employees, including all current officers who are not executive officers, as a group	1,898,325

\* Prior grants made to Amit D. Munshi, our President and Chief Executive Officer, as listed above in the table. Mr. Munshi is a Director Nominee but does not receive additional equity awards for his services as a director.

**Vote Required and Board Recommendation**

To approve the Amended 2017 LTIP, 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.

***THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE APPROVAL  
OF THE AMENDMENT AND RESTATEMENT OF THE 2017 LONG-TERM  
INCENTIVE PLAN.***

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The following table summarizes our compensation plans under which our equity securities are authorized for issuance at December 31, 2017:

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by security holders	3,184,801*	\$ 20.20	2,934,785***
Equity compensation plans not approved by security holders	669,350**	16.08	
<b>Total</b>	<b>3,854,151</b>	<b>\$ 19.49</b>	<b>2,934,785***</b>

\* Includes stock options to purchase 3,085,693 shares of our common stock with a per share weighted-average exercise price of \$20.85. Also includes 21,220 restricted stock unit awards with no exercise price and performance restricted stock unit awards with no exercise price. The actual number of shares that may be earned under the performance restricted stock unit awards ranges from 0% to 200% of the target award amount (38,944 shares). This table includes 77,888 shares reflecting 200% of the target number of shares under the performance restricted stock unit awards.

\*\* Represents inducement stock options to purchase 669,350 shares of our common stock reserved for inducement awards.

\*\*\* Stock options and stock appreciation rights granted under our 2017 Long-Term Incentive Plan, or 2017 LTIP, reduce the available number of shares under our 2017 LTIP by 1 share for every share issued while awards other than stock options and stock appreciation rights granted under our 2017 LTIP reduce the available number of shares by 1.6 shares for every share issued. In addition, shares that are released from awards granted under any of our prior long-term incentive plans or the 2017 LTIP because the awards expire, are forfeited or are settled for cash will increase the number of shares available under our 2017 LTIP by 1 share for each share released from a stock option or stock appreciation right and by 1.6 shares for each share released from a restricted stock award or restricted stock unit award. Each share we withhold to satisfy any tax withholding obligation with respect to an award other than an option or stock appreciation right under any of our prior long-term incentive plans or the 2017 LTIP will increase the share reserve by 1.6 shares.

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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 our 2017 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 applicable requirements of the Public Company Accounting Oversight Board, or PCAOB, and the SEC. 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, 2017, as filed with the SEC. The Audit Committee has also appointed KPMG as our independent registered public accounting firm for the fiscal year ending December 31, 2018.

**THE AUDIT COMMITTEE**

Phillip Schneider, Chair

Jennifer Jarrett

Christine 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, 2017 and 2016, for professional services rendered by KPMG:

	<b>Fiscal Years Ended</b>	
	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Audit Fees (1)	\$ 1,051,431	\$ 1,082,729
Audit-Related Fees (2)	1,780	1,780
Tax Fees (3)	107,886	191,303
Total	\$ 1,161,097	\$ 1,275,812

- (1) Consisted of fees paid for professional services for the integrated audit of our annual consolidated financial statements, review of condensed consolidated financial statements included in our quarterly reports and services provided in conjunction with the statutory audit for our Swiss subsidiary, Arena Pharmaceuticals GmbH, or Arena GmbH. Also included are fees related to comfort letter procedures in connection with equity offerings and review of registration statements on Forms S-8 and S-3.
- (2) Fees were related to our subscription to an online accounting research service.
- (3) Fees were primarily related to services in connection with international tax matters, tax preparation services and transfer pricing valuation services.
- (4) There were no fees billed in the years ended December 31, 2017 and 2016, 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 2017 and 2016 described above were pre-approved by the Audit Committee.

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**RATIFICATION OF INDEPENDENT AUDITORS (*PROPOSAL 4*)**

The Audit Committee has appointed KPMG as our independent registered public accounting firm for the fiscal year ending December 31, 2018. Our Board of Directors is submitting the appointment of KPMG to the stockholders for ratification as a matter of good corporate practice.

Stockholders are requested in this Proposal 4 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.

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 2018 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, 2018.***

**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, 2017.

**Stockholder Proposals for the 2019 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 31, 2018. If you wish to submit a proposal (including a director nomination) that is not to be included in our proxy materials for next year's annual meeting, notice of any such proposal must be received at our executive offices no later than February 19, 2019, and no earlier than January 30, 2019. 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. You are also advised to review our Bylaws, which contain additional requirements for advance notice of stockholder proposals.

Notices of intention to present proposals at the 2019 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.



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**Annual Report**

Our annual report for the 2017 fiscal year (as well as this proxy statement) is available on our investor relations home page of our website at <http://invest.arenapharm.com/> for all stockholders entitled to notice of and vote at our 2018 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.

**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's rules permit companies and intermediaries (such as brokers) to satisfy the delivery requirements for proxy statements, annual reports and Internet Notices with respect to two or more stockholders sharing the same address by delivering a single proxy statement and one annual report or Internet Notice 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 one or more of 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 by contacting our Corporate Secretary at 858.453.7200 and we will promptly deliver the requested documents or notice. 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.

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**Other Matters**

Our Board of Directors knows of no other business that will be presented for consideration at our 2018 Annual Meeting. If other matters are properly brought before our 2018 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 30, 2018

By Order of our Board of Directors

Steven W. Spector

*Executive Vice President, General Counsel and*

*Secretary*

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**APPENDIX A**

**ARENA PHARMACEUTICALS, INC.**

**AMENDED AND RESTATED 2017 LONG-TERM INCENTIVE PLAN**

Arena Pharmaceuticals, Inc. (the *Company*), a Delaware corporation, hereby adopts the following Amended and Restated 2017 Long-Term Incentive Plan (the *Restatement*) which amends, restates and sets forth the terms of the *Company*'s 2017 Long-Term Incentive Plan (the *Plan*) contingent and effective as set forth in Section 13.13. All share limits set forth in this Plan document reflect the impact of the June 16, 2017 1-for-10 reverse split of the *Company*'s common stock.

**1. PURPOSE OF THE PLAN**

The purpose of the Plan is to assist the *Company* and its Affiliates in attracting and retaining employees, directors, consultants and advisors of the *Company* and its Affiliates who are expected to contribute to the *Company*'s success and achieve long-term objectives that will benefit the stockholders of the *Company* through the additional incentives inherent in the Awards hereunder.

**2. DEFINITIONS**

2.1. *Affiliate* shall mean, at the time of determination, any parent or subsidiary of the *Company* as such terms are defined in Rule 405 of the Securities Act. The Board or the Committee shall have the authority to determine the time or times at which parent or subsidiary status is determined within the foregoing definition.

2.2. *Award* shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Performance Award or any other right, interest or option relating to Shares or other property (including cash) granted pursuant to the provisions of the Plan.

2.3. *Award Agreement* shall mean any written agreement, contract or other instrument or document evidencing any Award granted hereunder, including through an electronic medium.

2.4. *Board* shall mean the Board of Directors of the *Company*.

2.5. *Cause* shall mean, unless otherwise provided in an Award Agreement or another agreement between the Participant and the *Company* or an Affiliate or a plan maintained by the *Company* or an Affiliate in which the Participant participates, a determination by the Committee that the Participant has breached his or her employment or service contract with the *Company*, or has been engaged in disloyalty to the *Company*, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty in the course of his or her employment or service, or has disclosed trade secrets or confidential information of the *Company* to persons not entitled to receive such information, or has breached any written noncompetition or nonsolicitation agreement between the Participant and the *Company* or has engaged in such other behavior detrimental to the interests of the *Company* as the Committee determines in its sole discretion. Any determination of *cause* for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the *Company* or such Participant for any other purpose. Notwithstanding the foregoing, neither this provision nor the Plan is intended to, and neither shall be interpreted in a manner that limits or restricts a participant from exercising any legally protected

whistleblower rights (including pursuant to Rule 21F under the Securities Exchange Act of 1934).

2.6. *Code* shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.7. *Committee* shall mean the Compensation Committee of the Board or a subcommittee thereof formed by the Compensation Committee to act as the Committee hereunder. The Committee shall consist of no fewer

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than two Directors, each of whom is (i) a Non-Employee Director within the meaning of Rule 16b-3 of the Exchange Act, (ii) an outside director within the meaning of Section 162(m) of the Code to the extent applicable and required with respect to Awards intended to be subject to Section 10 of the Plan, and (iii) an independent director for purpose of the rules of the NASDAQ Stock Market (or such other principal U.S. national securities exchange on which the Shares are traded) to the extent required by such rules.

2.8. *Consultant* shall mean any consultant or advisor who is a natural person and who provides services to the Company or any Affiliate, so long as such person (i) renders bona fide services that are not in connection with the offer and sale of the Company's securities in a capital-raising- transaction and (ii) does not directly or indirectly promote or maintain a market for the Company's securities.

2.9. *Covered Employee* shall mean an employee of the Company or its Affiliates who is a covered employee within the meaning of Section 162(m) of the Code.

2.10. *Director* shall mean a non-employee member of the Board.

2.11. *Dividend Equivalents* shall have the meaning set forth in Section 12.5.

2.12. *Employee* shall mean any employee of the Company or any Affiliate and any prospective employee conditioned upon, and effective not earlier than, such person becoming an employee of the Company or any Affiliate.

2.13. *Exchange Act* shall mean the Securities Exchange Act of 1934, as amended.

2.14. *Fair Market Value* shall mean, with respect to Shares as of any date, (i) the per Share closing price of the Shares as reported on the NASDAQ Stock Market on that date (or if there was no reported closing price on such date, on the last preceding date on which the closing price was reported), (ii) if the Shares are not then listed on the NASDAQ Stock Market, the closing price on such other principal U.S. national securities exchange on which the Shares are listed (or if there was no reported closing price on such date, on the last preceding date on which the closing price was reported); or (iii) if the Shares are not listed on a U.S. national securities exchange, the Fair Market Value of Shares shall be determined by the Committee in its sole discretion using appropriate criteria. The Fair Market Value of any property other than Shares shall mean the market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.

2.15. *Incentive Stock Option* shall mean an Option which when granted is intended to be, and qualifies as, an incentive stock option for purposes of Section 422 of the Code.

2.16. *Limitations* shall have the meaning set forth in Section 10.5.

2.17. *Option* shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Committee shall determine.

2.18. *Participant* shall mean an Employee, Director or Consultant who is selected by the Committee to receive an Award under the Plan.

2.19. *Payee* shall have the meaning set forth in Section 13.1.

2.20. *Performance Award* shall mean any Award of Performance Cash, Performance Shares or Performance Units granted pursuant to Article 9.

2.21. *Performance Cash* shall mean any cash incentives granted pursuant to Article 9 payable to the Participant upon the achievement of such performance goals as the Committee shall establish.

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2.22. *Performance Period* shall mean that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.

2.23. *Performance Share* shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish.

2.24. *Performance Unit* shall mean any grant pursuant to Section 9 of a unit valued by reference to a designated amount of property other than Shares (or cash), which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish.

2.25. *Permitted Assignee* shall have the meaning set forth in Section 12.3.

2.26. *Prior Plans* shall mean, collectively, the Company's 2006 Long-Term Incentive Plan, as amended, 2009 Long-Term Incentive Plan, 2012 Long-Term Incentive Plan and 2013 Long-Term Incentive Plan. Awards granted under the Prior Plans continue to be governed under the terms of those Prior Plans.

2.27. *Restricted Stock* shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.28. *Restricted Stock Award* shall have the meaning set forth in Section 7.1.

2.29. *Restricted Stock Unit Award* shall have the meaning set forth in Section 8.1.

2.30. *Restricted Stock Unit* means an Award that is valued by reference to a Share, which value may be paid to the Participant by delivery of cash, Shares or such other property as the Committee shall determine, which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.31. *Returning Shares* means any shares subject to stock options or other stock awards granted under our Prior Plans that are released because the awards expire, are forfeited or are settled for cash.

2.32. *Shares* shall mean the shares of common stock, \$0.0001 par value, of the Company.

2.33. *Stock Appreciation Right* shall mean the right granted to a Participant pursuant to Section 6.

2.34. *Substitute Awards* shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Affiliate or with which the Company or any Affiliate combines.

2.35. *Vesting Period* shall mean the period of time specified by the Committee during which vesting restrictions for an Award are applicable.

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**Table of Contents****3. SHARES SUBJECT TO THE PLAN****3.1 *Number of Shares.***

(a) Subject to adjustment as provided in Section 3.1(b) and Section 12.2, as of the effective date of this Restatement of the Plan, a total of 6,958,560 Shares will be available for issuance under the Plan, less one (1) Share for every one (1) Share that was subject to an Option or Stock Appreciation Right granted under the Plan after March 31, 2018 and prior to the effective date of this Restatement, and 1.9 Shares for every one (1) Share that was subject to an award other than an Option or Stock Appreciation Right granted under the Plan after March 31, 2018 and prior to the effective date of this Restatement. Any Shares that are subject to Options or Stock Appreciation Rights granted under the Plan after the effective date of this Restatement shall be counted against this limit as one (1) Share for every one (1) Share granted, and any Shares that are subject to Awards other than Options or Stock Appreciation Rights granted under the Plan after the effective date of this Restatement shall be counted against this limit as 1.9 Shares for every one (1) Share granted. After the effective date of the Plan (as provided in Section 13.13), no awards may be granted under the Prior Plans.

(b) If after March 31, 2018 (i) any Shares subject to an Award are forfeited, an Award expires or an Award is settled for cash (in whole or in part), or (ii) after March 31, 2018, any Shares subject to an award under the Prior Plans are forfeited, or an award under the Prior Plans expires or is settled for cash (in whole or in part), the Shares subject to such Award or award under the Prior Plans shall, to the extent of such forfeiture, expiration or cash settlement, again be available for Awards under the Plan, in accordance with Section 3.1(d) below. Notwithstanding anything to the contrary contained herein, the following Shares shall not be added to the Shares authorized for grant under paragraph (a) of this Section: (i) Shares tendered by the Participant or withheld by the Company in payment of the purchase price of an Option, or to satisfy any tax withholding obligation with respect to any Award, (ii) Shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right on exercise thereof, and (iii) Shares reacquired by the Company on the open market or otherwise using cash proceeds from the exercise of Options or options granted under the Prior Plans.

(c) Shares issued under Substitute Awards that qualify for an exemption from the applicable stockholder-approval requirements under NASDAQ Listing Rule 5635(c) or its successor shall not reduce the Shares authorized for grant under the Plan and shall not be subject to the applicable Limitations authorized for grant to a Participant under Section 10.5, nor shall Shares subject to a Substitute Award again be available for Awards under the Plan to the extent of any forfeiture, expiration or cash settlement as provided in paragraph (b) above.

(d) Any Shares that again become available for grant pursuant to this Section shall be added back as (i) one (1) Share if such Shares were subject to Options or Stock Appreciation Rights granted under the Plan or options or stock appreciation rights granted under the Prior Plans, and (ii) as 1.9 Shares if such Shares were subject to Awards other than Options or Stock Appreciation Rights granted under the Plan or awards other than options or stock appreciation rights granted under the Prior Plans.

**3.2. *Character of Shares.*** Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise. The Company will keep available at all times the number of Shares reasonably required to satisfy then-outstanding Awards.

**3.3. *Non-Employee Director Aggregate Compensation Limit.*** The aggregate value of all compensation granted or paid, as applicable, to any individual for service as a Director with respect to any period commencing on the date of the Company's annual meeting of stockholders for a particular year and ending on the day immediately prior to the date of the Company's annual meeting of stockholders for the next subsequent year, including Awards granted and cash fees paid or payable by the Company to such Director, will not exceed (i) \$750,000 in total value or (ii) in the event such

Director is first appointed or elected to the Board during such period, or with respect to a lead director or chairman role \$1,000,000 in total value, in each case calculating the value of any Awards based on the grant date fair value of such Awards for financial reporting purposes. For the avoidance of doubt, any compensation shall be counted towards this limit for the service year in which it is earned (and not when settled or paid in the event it is deferred).

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**4. ELIGIBILITY AND ADMINISTRATION**

4.1. *Eligibility.* Any Employee, Director or Consultant shall be eligible to be selected as a Participant.

4.2. *Administration.*

(a) The Plan shall be administered by the Committee. The Committee shall have full power and authority, subject to the provisions of the Plan and subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to: (i) select the Employees, Directors and Consultants to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Awards, not inconsistent with the provisions of the Plan, to be granted to each Participant hereunder; (iii) determine the number of Shares (or dollar value) to be covered by each Award granted hereunder; (iv) determine the terms and conditions, not inconsistent with the provisions of the Plan, of any Award granted hereunder (including the power to amend outstanding Awards waive or accelerate any vesting terms or restrictions); (v) determine whether, to what extent and under what circumstances Awards may be settled in cash, Shares or other property; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other property and other amounts payable with respect to an Award made under the Plan shall be deferred either automatically or at the election of the Participant; (vii) determine whether, to what extent and under what circumstances any Award shall be canceled or suspended; (viii) interpret and administer the Plan and any instrument or agreement entered into under or in connection with the Plan, including any Award Agreement; (ix) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent that the Committee shall deem desirable to carry it into effect; (x) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (xi) determine whether any Award, other than an Option or Stock Appreciation Right, will have Dividend Equivalents; and (xii) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan.

(b) Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Participant, and any Affiliate. A majority of the members of the Committee may determine its actions, including fixing the time and place of its meetings.

(c) To the extent not inconsistent with applicable law, including the Delaware General Corporation Law, Section 162(m) of the Code (to the extent applicable and required with respect to Awards intended to be subject to Section 10 of the Plan), or the rules and regulations of the NASDAQ Stock Market (or such other principal U.S. national securities exchange on which the Shares are traded), the Committee may delegate to: (i) a committee of one or more members of the Board the authority to take action on behalf of the Committee under the Plan including the right to grant, cancel, suspend or amend Awards and (ii) one or more executive officers within the meaning of Rule 16a-1(f) of the Exchange Act or a committee of executive officers the right to grant Awards to Employees who are not executive officers of the Company (provided that the Committee resolutions regarding such delegation will specify the total number of Shares that may be subject to the Awards granted by such person or persons) and the authority to take action on behalf of the Committee pursuant to the Plan to cancel or suspend Awards to Employees who are not directors or executive officers of the Company.

(d) The Board in its discretion may ratify and approve actions taken by the Committee. In addition, to the extent not inconsistent with applicable law or the rules and regulations of the NASDAQ Stock Market or such other principal U.S. national securities exchange on which the Shares are traded, the Board may take any action under the Plan that the Committee is authorized to take. In the event the Board takes such action references to the Committee hereunder shall be understood to refer to the Board.

**5. OPTIONS**

5.1. *Grant of Options.* Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option shall be subject to the terms and conditions of this Article and to

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such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable.

5.2. *Award Agreements.* All Options granted pursuant to this Article shall be evidenced by a written Award Agreement in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan. The terms of Options need not be the same with respect to each Participant. Granting an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such Option. Any individual who is granted an Option pursuant to this Article may hold more than one Option granted pursuant to the Plan at the same time.

5.3. *Option Price.* Other than in connection with Substitute Awards, the option price per each Share purchasable under any Option granted pursuant to this Article shall not be less than 100% of the Fair Market Value of one Share on the date of grant of such Option; provided, however, that in the case of an Incentive Stock Option granted to a Participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Affiliate, the option price per share shall be no less than 110% of the Fair Market Value of one Share on the date of grant. Other than pursuant to Section 12.2, the Committee shall not without the approval of the Company's stockholders (a) lower the option price per Share of an Option after it is granted, (b) cancel an Option when the option price per Share exceeds the Fair Market Value of one Share in exchange for cash or another Award (other than in connection with a Change in Control as defined in Section 11.3 or Substitute Awards), and (c) take any other action with respect to an Option that would be treated as a repricing under the rules and regulations of the NASDAQ Stock Market (or such other principal U.S. national securities exchange on which the Shares are traded).

5.4. *Option Term.* The term of each Option shall be fixed by the Committee in its sole discretion; provided that no Option shall be exercisable after the expiration of seven (7) years from the date the Option is granted, except in the event of death or disability; provided, however, that the term of the Option shall not exceed five (5) years from the date the Option is granted in the case of an Incentive Stock Option granted to a Participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Affiliate.

5.5. *Exercise of Options.*

(a) Vested Options granted under the Plan may be exercised by the Participant or by a Permitted Assignee thereof (or by the Participant's executors, administrators, guardian or legal representative, as may be provided in an Award Agreement) as to all or part of the Shares covered thereby, by the giving of notice of exercise to the Company or its designated agent, specifying the number of Shares to be purchased. The notice of exercise shall be in such form, made in such manner, and shall comply with such other requirements consistent with the provisions of the Plan as the Committee may from time to time prescribe.

(b) Unless otherwise provided in an Award Agreement, full payment of such purchase price shall be made at the time of exercise and shall be made (i) in cash or cash equivalents (including certified check or bank check or wire transfer of immediately available funds), (ii) by tendering previously acquired Shares (either actually or by attestation), valued at their then Fair Market Value, (iii) with the consent of the Committee, by delivery of other consideration (including, where permitted by law and the Committee, other Awards) having a Fair Market Value on the exercise date equal to the total purchase price, (iv) with the consent of the Committee, by withholding Shares otherwise issuable in connection with the exercise of the Option, (v) through any other method specified in an Award Agreement (including same-day sales through a broker), or (vi) any combination of any of the foregoing. In no event may any Option granted hereunder be exercised for a fraction of a Share. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

(c) Notwithstanding the foregoing, an Award Agreement may provide that if on the last day of the term of an Option the Fair Market Value of one Share exceeds the option price per Share, the Participant has not

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exercised the Option and the Option has not expired, the Option shall be deemed to have been exercised by the Participant on such day with payment made by withholding Shares otherwise issuable in connection with the exercise of the Option. In such event, the Company shall deliver to the Participant the number of Shares for which the Option was deemed exercised, less the number of Shares required to be withheld for the payment of the total purchase price and required withholding taxes (in accordance with Section 13.1); provided, however, any fractional Share shall be settled in cash.

(d) No Option granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable for any Shares until at least six months following the date of grant of the Option. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Employee's death or disability, (ii) upon a corporate transaction in which such Option is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Employee's retirement (as such term may be defined in the Employee's Award Agreement or in another applicable agreement or in accordance with the Company's then current employment policies and guidelines), any such vested Options may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option will be exempt from his or her regular rate of pay.

*5.6. Form of Settlement.* In its sole discretion, the Committee may provide in the form of Award Agreement that the Shares to be issued upon an Option's exercise shall be in the form of Restricted Stock or other similar securities.

*5.7. Incentive Stock Options.* The Committee may grant Options intended to qualify as incentive stock options as defined in Section 422 of the Code, to any employee of the Company or any Affiliate, subject to the requirements of Section 422 of the Code. Notwithstanding anything in Section 3.1 to the contrary and solely for the purposes of determining whether Shares are available for the grant of incentive stock options under the Plan, the maximum aggregate number of Shares that may be issued pursuant to incentive stock options granted under the Plan on and after the date this Restatement of the Plan is effective is 6,958,560 Shares less the number of Shares issued pursuant to incentive stock options granted under the Plan after March 31, 2018 and prior to the date this Restatement of the Plan is effective, subject to adjustment as provided in Section 12.2.

*5.8. Extension of Termination Date.* Unless otherwise provided in a Participant's Award Agreement and in the sole determination of the Committee, if the sale of any Common Stock received on exercise of an Option following the termination of the Participant's employment by or services to the Company (other than for Cause) would be prohibited at any time solely because the issuance of Shares would violate (i) the registration requirements under the Securities Act, (ii) the Company's insider trading policy, or (iii) a lock-up agreement undertaken in connection with an issuance of securities by the Company, then the Option will terminate on the earlier of (a) the expiration of a total period of 90 days (that need not be consecutive) after the termination of the Participant's employment by or services to the Company during which the exercise of the Option would not be in violation of any of such registration requirement, insider trading policy or lock-up agreement, and (b) the expiration of the term of the Option as set forth in the applicable Award Agreement.

## **6. STOCK APPRECIATION RIGHTS**

*6.1. Grant and Exercise.* The Committee may provide Stock Appreciation Rights (a) in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option, (b) in conjunction with all or part of any Award (other than an Option) granted under the Plan or at any subsequent time during the term of such Award, or (c) without regard to any Option or other Award, in each case upon such terms and conditions as the

Committee may establish in its sole discretion.

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6.2. *Terms and Conditions.* Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(a) Upon the exercise of a Stock Appreciation Right, the holder shall have the right to receive the excess of (i) the Fair Market Value of one Share on the date of exercise (or such amount less than such Fair Market Value as the Committee shall so determine at any time during a specified period before the date of exercise) over (ii) the grant price of the Stock Appreciation Right.

(b) Upon the exercise of a Stock Appreciation Right, the Committee shall determine in its sole discretion whether payment shall be made in cash, in whole Shares or other property, or any combination thereof.

(c) The terms and conditions of Stock Appreciation Rights need not be the same with respect to each recipient.

(d) The Committee may impose such other conditions on the exercise of any Stock Appreciation Right, as it shall deem appropriate. A Stock Appreciation Right shall have (i) a grant price per Share of not less than the Fair Market Value of one Share (x) on the date of grant or (y) if applicable, on the date of grant of an Option with respect to a Stock Appreciation Right granted in exchange for or in tandem with, but subsequent to, the Option (subject to the requirements of Section 409A of the Code with respect to a Stock Appreciation Right granted in exchange for or in conjunction with, but subsequent to, an Option), except in the case of Substitute Awards or in connection with an adjustment provided in Section 12.2, and (ii) a term not greater than seven (7) years. In addition to the foregoing, but subject to Section 12.2, the Committee shall not without the approval of the Company's stockholders (x) lower the grant price per Share of any Stock Appreciation Right after it is granted, (y) cancel any Stock Appreciation Right when the grant price per Share exceeds the Fair Market Value of the underlying Shares in exchange for cash or another Award (other than in connection with a Change in Control as defined in Section 11.3 or Substitute Awards), and (z) take any other action with respect to any Stock Appreciation Right that would be treated as a repricing under the rules and regulations of the NASDAQ Stock Market (or such other principal U.S. national securities exchange on which the Shares are traded).

(e) In no event may any Stock Appreciation Right granted hereunder be exercised for a fraction of a Share. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

(f) An Award Agreement may provide that if on the last day of the term of a Stock Appreciation Right the Fair Market Value of one Share exceeds the grant price per Share of the Stock Appreciation Right, the Participant has not exercised the Stock Appreciation Right or the tandem Option (if applicable), and neither the Stock Appreciation Right nor the Option has expired, the Stock Appreciation Right shall be deemed to have been exercised by the Participant on such day. In such event, the Company shall make payment to the Participant in accordance with this Section, reduced by the number of Shares (or cash) required for withholding taxes (in accordance with Section 13.1); any fractional Share shall be settled in cash.

(g) No Stock Appreciation Right granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, shall be first exercisable for any Shares until at least six months following the date of grant of the Stock Appreciation Right. Notwithstanding the foregoing, consistent with the provisions of the Worker Economic Opportunity Act, (i) in the event of the Employee's death or disability, (ii) upon a corporate transaction in which such Stock Appreciation Right is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Employee's retirement (as such term may be defined in the Employee's Award Agreement or in another applicable agreement or in accordance with the Company's then current employment policies and guidelines), any such vested Stock Appreciation Rights may be exercised earlier than six months following the date of

grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of a Stock Appreciation Right will be exempt from his or her regular rate of pay.

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(h) *Extension of Termination Date.* Unless otherwise provided in a Participant's Award Agreement and in the sole determination of the Committee, if the sale of any Common Stock received on exercise of a Stock Appreciation Right following the termination of the Participant's employment by or services to the Company (other than for Cause) would be prohibited at any time solely because the issuance of Shares would violate (i) the registration requirements under the Securities Act, (ii) the Company's insider trading policy, or (iii) a lock-up agreement undertaken in connection with an issuance of securities by the Company, then the Stock Appreciation Right will terminate on the earlier of (a) the expiration of a total period of 90 days (that need not be consecutive) after the termination of the Participant's employment by or services to the Company during which the exercise of the Stock Appreciation Right would not be in violation of any of such registration requirement, insider trading policy or lock-up agreement, and (b) the expiration of the term of the Stock Appreciation Right as set forth in the applicable Award Agreement.

**7. RESTRICTED STOCK AWARDS**

7.1. *Grants.* Awards of Restricted Stock may be issued hereunder to Participants either alone or in addition to other Awards granted under the Plan (a Restricted Stock Award), and such Restricted Stock Awards may also be available as a form of payment of Performance Awards and other earned cash-based incentive compensation. A Restricted Stock Award shall be subject to vesting restrictions imposed by the Committee covering a period of time specified by the Committee. The Committee has absolute discretion to determine whether any consideration (other than services) is to be received by the Company or any Affiliate as a condition precedent to the issuance of Restricted Stock.

7.2. *Award Agreements.* The terms of any Restricted Stock Award granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The terms of Restricted Stock Awards need not be the same with respect to each Participant.

7.3. *Rights of Holders of Restricted Stock.* Unless otherwise provided in the Award Agreement, beginning on the date of grant of the Restricted Stock Award and subject to execution of the Award Agreement, the Participant shall become a stockholder of the Company with respect to all Shares subject to the Award Agreement and shall have all of the rights of a stockholder, including the right to vote such Shares and the right to receive distributions made with respect to such Shares; provided, however, that any Shares or any other property distributable as a dividend or otherwise with respect to any Restricted Stock as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Stock and shall not be paid until and unless the underlying award vests.

**8. RESTRICTED STOCK UNIT AWARDS**

8.1. *Grants.* Other Awards of units having a value equal to an identical number of Shares (Restricted Stock Unit Awards) may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Restricted Stock Unit Awards shall also be available as a form of payment of other Awards granted under the Plan and other earned cash-based incentive compensation.

8.2. *Award Agreements.* The terms of Restricted Stock Unit Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. Restricted Stock Unit Awards shall be subject to vesting restrictions imposed by the Committee covering a period of time specified by the Committee. The terms of such Awards need not be the same with respect to each Participant. Notwithstanding anything contained herein to the contrary, cash dividends, stock and any other property (other than cash) distributed as a dividend or otherwise with respect to any Restricted Stock Unit Award shall either (i) not be paid at all, or (ii) be accumulated, and be subject to restrictions and risk of forfeiture to the same extent as

the underlying Award and shall not be paid until and unless such restrictions and risk of forfeiture lapse.

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8.3. *Payment.* Except as provided in Article 10 or as may be provided in an Award Agreement, Restricted Stock Unit Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee. Restricted Stock Unit Awards may be paid in a lump sum or in installments or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

## **9. PERFORMANCE AWARDS**

9.1. *Grants.* Performance Awards in the form of Performance Cash, Performance Shares or Performance Units, as determined by the Committee in its sole discretion, may be granted hereunder to Participants, for no consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon the criteria set forth in Section 10.2.

9.2. *Award Agreements.* The terms of any Performance Award granted under the Plan shall be set forth in an Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan, including whether such Awards shall have Dividend Equivalents. The terms of Performance Awards need not be the same with respect to each Participant. Notwithstanding anything contained herein to the contrary, cash dividends, stock and any other property (other than cash) distributed as a dividend or otherwise with respect to any Award of Performance Shares shall either (i) not be paid at all, or (ii) be accumulated, and be subject to restrictions and risk of forfeiture to the same extent as the underlying Award, and shall not be paid unless and until the restrictions and risk of forfeiture lapse.

9.3. *Terms and Conditions.* The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. The amount of the Award to be distributed shall be conclusively determined by the Committee.

9.4. *Payment.* Except as provided in Article 11 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis subject to the requirements of Section 409A of the Code.

## **10. CODE SECTION 162(m) PROVISIONS**

10.1. *Covered Employees.* Notwithstanding any other provision of the Plan, if the Committee determines at the time a Restricted Stock Award, a Performance Award or an Restricted Stock Unit Award is granted to a Participant who is, or is likely to be, as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, then the Committee may provide that this Article 10 is applicable to such Award.

10.2. *Performance Criteria.* If the Committee determines that a Restricted Stock Award, a Performance Award or an Restricted Stock Unit Award is intended to be subject to this Article 10, the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Committee, which shall be based on the attainment of specified levels of one or any combination of the following: net sales; revenue; revenue or product revenue growth;

bookings; operating income or loss (before or after taxes); pre- or after-tax income or loss (before or after allocation of corporate overhead and bonus); net earnings or loss; earnings or loss per share; net income or loss (before or after taxes); return on equity; total stockholder return; return on assets or net assets; attainment of strategic and operational initiatives; appreciation in and/or maintenance of the price of the Shares

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or any other publicly-traded securities of the Company; market share; gross profits; earnings or losses (including earnings or losses before taxes, earnings or losses before interest and taxes, earnings or losses before interest, taxes and depreciation or earnings or losses before interest, taxes, depreciation and amortization); economic value-added models (or equivalent metrics); comparisons with various stock market indices; reductions in costs; cash flow or cash flow per share (before or after dividends); return on capital (including return on total capital or return on invested capital); cash flow return on investment; improvement in or attainment of expense levels or working capital levels; operating margin; gross margin; year-end cash; cash margin; debt reduction; stockholder's equity; market share; achievement of drug development milestones; regulatory achievements including approval of a drug candidate; progress of internal research or clinical programs; progress of partnered programs; implementation or completion of projects and processes; partner satisfaction; budget management; clinical achievements; completing phases of a clinical study (including the treatment phase) or announcing or presenting preliminary or final data from clinical studies, in each case, whether on particular timelines or generally; timely completion of clinical trials; submission of INDs and NDAs and other regulatory achievements; partner or collaborator achievements; internal controls, including those related to the Sarbanes-Oxley Act of 2002; research progress, including the development of programs; financing; investor relations, analysts and communication; manufacturing achievements (including obtaining particular yields from manufacturing runs and other measurable objectives related to process development activities); strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property); establishing relationships with commercial entities with respect to the marketing, distribution and sale of the Company's products (including with group purchasing organizations, distributors and other vendors); supply chain achievements (including establishing relationships with manufacturers or suppliers of active pharmaceutical ingredients and other component materials and manufacturers of the Company's products); co-development, co-marketing, profit sharing, joint venture or other similar arrangements; financing and other capital raising transactions (including sales of the Company's equity or debt securities); sales or licenses of the Company's assets, including its intellectual property (whether in a particular jurisdiction or territory or globally or through partnering transactions); implementation, completion or attainment of measurable objectives with respect to research, development, manufacturing, commercialization, products or projects, production volume levels, acquisitions and divestitures; factoring transactions; and recruiting and maintaining personnel. Any performance goals that are financial metrics, may be determined in accordance with U.S. Generally Accepted Accounting Principles (GAAP), in accordance with accounting principles established by the International Accounting Standards Board (IASB Principles), or may be adjusted when established to include or exclude any items otherwise includable or excludable under GAAP or under IASB Principles. Such performance goals also may be based solely by reference to the Company's performance or the performance of an Affiliate, division, business segment or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. The Committee may also exclude charges related to an event or occurrence which the Committee determines should appropriately be excluded, including (a) restructurings or discontinued operations, (b) items that are unusual in nature or occur infrequently as determined under generally accepted accounting principles, (c) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, or (d) the cumulative effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles. Such performance goals (and any exclusions) shall be set by the Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code, and the regulations thereunder. Notwithstanding the foregoing, the Committee, in its sole discretion, may grant performance-based Awards that are not intended to, and do not, meet the requirements set forth in this Section 10.2.

10.3. *Adjustments.* Notwithstanding any provision of the Plan (other than Article 11), with respect to any Restricted Stock, Performance Award or Restricted Stock Unit Award that is subject to this Section 10, the Committee may adjust downwards, but not upwards, the amount payable pursuant to such Award, and the Committee may not waive the achievement of the applicable performance goals, except in the case of the death or disability of the Participant or as otherwise determined by the Committee in special circumstances and in accordance with Section 162(m) of the

Code.

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10.4. *Restrictions.* The Committee shall have the power to impose such other restrictions on Awards subject to this Article as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for performance-based compensation within the meaning of Section 162(m) of the Code.

10.5. *Limitations on Grants to Individual Participants.* Subject to adjustment as provided in Section 12.2, no Participant may be granted (i) Options or Stock Appreciation Rights during any calendar year with respect to more than 800,000 Shares or (ii) Restricted Stock Awards, Performance Awards and/or Restricted Stock Unit Awards during any calendar year that are denominated in Shares and are intended to comply with the performance-based exception under Code Section 162(m) under which more than 800,000 Shares may be earned (collectively, the Limitations ). In addition to the foregoing, during any calendar year no Participant may be granted Performance Awards that are intended to comply with the performance-based exception under Code Section 162(m) and are denominated in cash under which more than \$10,000,000 may be earned. If an Award is cancelled, the cancelled Award shall continue to be counted toward the applicable Limitations (or, in the case of a performance award denominated in cash, to be counted toward the dollar amount in the preceding sentence).

**11. CHANGE IN CONTROL PROVISIONS**

11.1. *Impact on Certain Awards.* The Committee, in its discretion, may determine that in the event of a Change in Control of the Company (as defined in Section 11.3) Options and Stock Appreciation Rights outstanding as of the date of the Change in Control shall be cancelled and terminated without payment therefor if the Fair Market Value of one Share as of the date of the Change in Control is less than the Option per Share option price or Stock Appreciation Right per Share grant price.

11.2. *Assumption or Substitution of Certain Awards.*

(a) To the extent provided in an Award Agreement, in the event of a Change in Control of the Company in which the successor company assumes or substitutes for an Option, Stock Appreciation Right, Restricted Stock Award or Restricted Stock Unit Award (or in which the Company is the ultimate parent corporation and continues the Award), if a Participant's employment with such successor company (or the Company) or a subsidiary thereof terminates within the time period following such Change in Control set forth in the Award Agreement (or prior thereto if applicable) and under the circumstances specified in the Award Agreement: (i) Options and Stock Appreciation Rights outstanding as of the date of such termination of employment will immediately vest, become fully exercisable, and may thereafter be exercised for the period of time set forth in the Award Agreement, (ii) the restrictions, limitations and other conditions applicable to Restricted Stock shall lapse and the Restricted Stock shall become free of all restrictions, limitations and conditions and become fully vested, and (iii) the restrictions, limitations and other conditions applicable to any Restricted Stock Unit Awards or any other Awards shall lapse, and such Restricted Stock Unit Awards or such other Awards shall become free of all restrictions, limitations and conditions and become fully vested and transferable to the full extent of the original grant. For the purposes of this Section, an Option, Stock Appreciation Right, Restricted Stock Award or Restricted Stock Unit Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award or Restricted Stock Unit Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company, the Committee may, with the consent of the successor company, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted

Stock Award or Restricted Stock Unit Award, for each Share subject thereto, will be solely common stock of the successor company substantially equal in fair market value to the per Share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of

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value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.

(b) Unless otherwise provided in an Award Agreement, in the event of a Change in Control of the Company, to the extent that the successor company does not assume or substitute for an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Performance Award (or in which the Company is the ultimate parent corporation and does not continue the Award), then immediately prior to the Change in Control: (i) those Options and Stock Appreciation Rights outstanding as of the date of the Change in Control that are not assumed or substituted for (or continued) shall immediately vest and become fully exercisable, (ii) restrictions, limitations and conditions on Restricted Stock not assumed or substituted for (or continued) shall lapse and the Restricted Stock shall become free of all restrictions, limitations and conditions and become fully vested, (iii) the restrictions limitations and conditions applicable to any Restricted Stock Unit Awards or any other Awards not assumed or substituted for (or continued) shall lapse, and such Restricted Stock Unit Awards or such other Awards shall become free of all restrictions, limitations and conditions and become fully vested and transferable to the full extent of the original grant, (iv) all Performance Awards not assumed or substituted for (or continued) shall be considered to be earned and payable in full, and any deferral or other restriction shall lapse and such Performance Awards shall be immediately settled or distributed, and (v) all Awards not assumed or substituted for (or continued) shall terminate immediately after the Change in Control.

(c) The Committee, in its discretion, may determine that, upon the occurrence of a Change in Control of the Company, each Option and Stock Appreciation Right outstanding shall terminate within a specified number of days after notice to the Participant, and/or that each Participant shall receive, with respect to each Share subject to such Option or Stock Appreciation Right, an amount equal to the excess (if any) of the Fair Market Value of such Share immediately prior to the occurrence of such Change in Control over the exercise price per Share of such Option and/or Stock Appreciation Right; such amount to be payable in cash, in one or more kinds of stock or property (including the stock or property, if any, payable in the transaction) or in a combination thereof, as the Committee, in its discretion, shall determine.

11.3. *Change in Control.* For purposes of the Plan, unless otherwise provided in an Award Agreement, Change in Control means the occurrence of any one of the following events:

(i) During any twenty-four (24) month period, individuals who, as of the beginning of such period, constitute the Board (the Incumbent Directors ) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the beginning of such period whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(ii) Any person (as such term is defined in the Exchange Act and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board (the Company Voting Securities ); provided, however, that the event described in this paragraph (ii) shall not be deemed to be a Change in Control by virtue of any of the following acquisitions: (A) by the Company or any Affiliate, (B) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate, (C) by any underwriter temporarily holding securities

pursuant to an offering of such securities, (D) pursuant to a Non-Qualifying Transaction, as defined in paragraph (iii), or (E) by any person of Voting Securities from the Company, if a majority of the Incumbent Board approves in advance the acquisition of beneficial ownership of 50% or more of Company Voting Securities by such person;

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(iii) The consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Affiliates that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a Business Combination), unless immediately following such Business Combination: (A) more than 60% of the total voting power of (x) the corporation resulting from such Business Combination (the Surviving Corporation), or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the Parent Corporation), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the beneficial owner, directly or indirectly, of 50% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (C) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a Non-Qualifying Transaction); or

(iv) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or the consummation of a sale, lease, exclusive license or other disposition of all or substantially all of the Company's assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person acquires beneficial ownership of more than 50% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which reduces the number of Company Voting Securities outstanding; provided, that if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control of the Company shall then occur.

**12. GENERALLY APPLICABLE PROVISIONS**

12.1. *Amendment and Termination of the Plan.* The Board may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for stockholder approval imposed by applicable law, including the rules and regulations of the NASDAQ Stock Market (or such other principal U.S. national securities exchange on which the Shares are traded); provided that the Board may not amend the Plan in any manner that would result in noncompliance with Rule 16b-3 of the Exchange Act; and further provided that the Board may not, without the approval of the Company's stockholders to the extent required by such applicable law, amend the Plan to (a) increase the number of Shares that may be the subject of Awards under the Plan (except for adjustments pursuant to Section 12.2); (b) expand the types of awards available under the Plan; (c) materially expand the class of persons eligible to participate in the Plan; (d) amend any provision of Section 5.3 or the last sentence of Section 6.2(d); or (e) increase the maximum permissible term of the Plan or of any Option specified by Section 5.4 or the maximum permissible term of a Stock Appreciation Right specified by Section 6.2(d). The Board may not without the approval of the Company's stockholders cancel an Option or Stock Appreciation Right in exchange for cash or take any action with respect to an Option or Stock Appreciation Right that may be treated as a repricing under the rules and regulations of the NASDAQ Stock Market (or such other principal U.S. national securities exchange on which the Shares are traded), including a reduction of the exercise price of an Option or the grant price of a Stock Appreciation

Right or the exchange of an Option or Stock Appreciation Right for cash or another Award when the option price or grant price per Share exceeds the Fair Market Value of one Share. In addition, no amendments to, or termination of, the Plan shall in

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any way impair the rights of a Participant under any Award previously granted without such Participant's consent.

12.2. *Adjustments.* In the event of any merger, reorganization, consolidation, recapitalization, dividend or distribution (whether in cash, shares or other property, other than a regular cash dividend), stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the Shares or the value thereof, such adjustments and other substitutions shall be made to the Plan and to Awards as the Committee deems equitable or appropriate taking into consideration the accounting and tax consequences, including such adjustments in the aggregate number, class and kind of securities that may be delivered under the Plan and pursuant to Section 3.3, the Limitations, the maximum number of Shares that may be issued pursuant to Incentive Stock Options and, in the aggregate or to any one Participant, in the number, class, kind and option or exercise price of securities subject to outstanding Awards granted under the Plan (including, if the Committee deems appropriate, the substitution of similar options to purchase the shares of, or other awards denominated in the shares of, another company) as the Committee may determine to be appropriate in its sole discretion; provided, however, that the number of Shares subject to any Award shall always be a whole number.

12.3. *Transferability of Awards.* Except as provided below, no Award and no Shares subject to Awards described in Article 8 that have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, may be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution, and such Award may be exercised during the life of the Participant only by the Participant or the Participant's guardian or legal representative. To the extent and under such terms and conditions as determined by the Committee, a Participant may assign or transfer an Award (each transferee thereof, a Permitted Assignee) to a family member as such term is defined in the General Instructions to Form S-8 (whether by gift or a domestic relations order for no consideration); provided that such Permitted Assignee shall be bound by and subject to all of the terms and conditions of the Plan and the Award Agreement relating to the transferred Award and shall execute an agreement satisfactory to the Company evidencing such obligations; and provided further that such Participant shall remain bound by the terms and conditions of the Plan. The Company shall cooperate with any Permitted Assignee and the Company's transfer agent in effectuating any transfer permitted under this Section. Options and Stock Appreciation Rights may not be transferred to a third party financial institution for value.

12.4. *Termination of Employment.* The Committee shall determine and set forth in each Award Agreement whether any Awards granted in such Award Agreement will continue to be exercisable, continue to vest or be earned and the terms of such exercise, vesting or earning, on and after the date that a Participant ceases to be employed by or to provide services to the Company or any Affiliate (including as a Director), whether by reason of death, disability, voluntary or involuntary termination of employment or services, or otherwise. The date of termination of a Participant's employment or services will be determined by the Committee, which determination will be final.

12.5. *Deferral; Dividend Equivalents.* The Committee shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred. Subject to the provisions of the Plan and any Award Agreement, the recipient of an Award (including any deferred Award) other than an Option or Stock Appreciation Right may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, cash, stock or other property dividends, or cash payments in amounts equivalent to cash, stock or other property dividends on Shares (Dividend Equivalents) with respect to the number of Shares covered by the Award, as determined by the Committee, in its sole discretion. The Committee may provide that such amounts and Dividend Equivalents (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested. Notwithstanding the foregoing, Dividend Equivalents shall in all events be subject to restrictions and risk of forfeiture to the same extent as the Award with respect to which such Dividend Equivalents have been credited and shall not be paid until and unless the underlying Award vests.





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13.1. *Tax Withholding.* The Company shall have the right to make all payments or distributions pursuant to the Plan to a Participant (or a Permitted Assignee thereof) (any such person, a Payee ) net of any applicable federal, state and local taxes required to be paid or withheld as a result of (a) the grant of any Award, (b) the exercise of an Option or Stock Appreciation Right, (c) the delivery of Shares or cash, (d) the lapse of any restrictions in connection with any Award or (e) any other event occurring pursuant to the Plan. The Company or any Affiliate shall have the right to withhold from wages or other amounts otherwise payable to such Payee such withholding taxes as may be required by law, or to otherwise require the Payee to pay such withholding taxes. If the Payee shall fail to make such tax payments as are required, the Company or its Affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Payee or to take such other action as may be necessary to satisfy such withholding obligations. The Committee shall be authorized to establish procedures for election by Participants to satisfy such obligation for the payment of such taxes by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value), or by directing the Company to retain Shares (up to the Participant's maximum statutory tax withholding rate or such other rate that will not cause an adverse accounting consequence or cost) otherwise deliverable in connection with the Award, subject to the discretion of the Committee and in accordance with Company policies.

13.2. *Right of Discharge Reserved; Claims to Awards.* Nothing in the Plan nor the grant of an Award hereunder shall confer upon any Employee, Director or Consultant the right to continue in the employment or service of the Company or any Affiliate or affect any right that the Company or any Affiliate may have to terminate the employment or service of (or to demote or to exclude from future Awards under the Plan) any such Employee, Director or Consultant at any time for any reason. Except as specifically provided by the Committee, the Company shall not be liable for the loss of existing or potential profit from an Award granted in the event of termination of an employment or other relationship. No Employee, Director or Consultant shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees, Directors or Consultants under the Plan. In addition, in the event a Participant's regular level of time commitment in the performance of his or her services for the Company and any Affiliates is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a full-time Employee to a part-time Employee) after the date of grant of any Award to the Participant, the Compensation Committee has the right in its sole discretion to (x) make a corresponding reduction in the number of shares or cash amount subject to any portion of such Award that is scheduled to vest or become payable after the date of such change in time commitment, and (y) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced.

13.3. *Prospective Recipient.* The prospective recipient of any Award under the Plan shall not, with respect to such Award, be deemed to have become a Participant, or to have any rights with respect to such Award, until and unless such recipient shall have accepted the Award in accordance with the procedures established by the Company, and otherwise complied with the then applicable terms and conditions.

13.4. *Substitute Awards.* Notwithstanding any other provision of the Plan, the terms of Substitute Awards may vary from the terms set forth in the Plan to the extent the Committee deems appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

13.5. *Cancellation of Award.*

(a) Notwithstanding anything to the contrary contained herein, an Award Agreement may provide that the Award shall be canceled if the Participant, without the consent of the Company, while employed by, or providing services to, the Company or any Affiliate or after termination of such employment or services, establishes a relationship with a

competitor of the Company or any Affiliate or engages in activity that is in

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conflict with or adverse to the interest of the Company or any Affiliate (including conduct contributing to any financial restatements or financial irregularities), as determined by the Committee in its sole discretion. The Committee may provide in an Award Agreement that if within the time period specified in the Agreement the Participant establishes a relationship with a competitor or engages in an activity referred to in the preceding sentence, the Participant will forfeit any gain realized on the vesting or exercise of the Award and must repay such gain to the Company. In addition, all Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company adopts, including any clawback policy the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Board determines necessary or appropriate.

(b) In the event the Participant ceases to be employed by, or provide services to, the Company on account of a termination for Cause by the Company, any Award held by the Participant shall terminate as of the date the Participant ceases to be employed by, or provide services to, the Company. In addition, notwithstanding any other provisions of this Section, if the Committee determines that the Participant has engaged in conduct that constitutes Cause at any time while the Participant is employed by, or providing services to, the Company or after the Participant's termination of employment or services, any Awards held by the Participant shall immediately terminate. In the event a Participant's employment or services is terminated for Cause, in addition to the immediate termination of all Awards, the Participant shall automatically forfeit all shares underlying any exercised portion of an Option for which the Company has not yet delivered the share certificates, upon refund by the Company of the option price paid by the Participant for such shares.

13.6. *Stop Transfer Orders.* All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

13.7. *Nature of Payments.* All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company or any Affiliate, division or business unit of the Company. Any income or gain realized pursuant to Awards under the Plan constitutes a special incentive payment to the Participant and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company or any Affiliate except as may be determined by the Committee or by the Board or board of directors of the applicable Affiliate.

13.8. *Other Plans.* Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

13.9. *Severability.* The provisions of the Plan shall be deemed severable. If any provision of the Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part by a court of competent jurisdiction or by reason of a change in a law or regulation, such provision shall (a) be deemed limited to the extent that such court of competent jurisdiction deems it lawful, valid and/or enforceable and as so limited shall remain in full force and effect, and (b) not affect any other provision of the Plan or part thereof, each of which shall remain in full force and effect. If the making of any payment or the provision of any other benefit required under the Plan shall be held unlawful or otherwise invalid or unenforceable by a court of competent jurisdiction, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under the Plan, and if the making of any

payment in full or the provision of any other benefit required under the Plan in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under the Plan.

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13.10. *Construction.* As used in the Plan, the words *include* and *including*, and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words *without limitation*.

13.11. *Unfunded Status of the Plan.* The Plan is intended to constitute an unfunded plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver the Shares or payments in lieu of or with respect to Awards hereunder; provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan.

13.12. *Governing Law.* The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Delaware, without reference to principles of conflict of laws, and construed accordingly.

13.13. *Effective Date of Plan; Effective Date of Restatement; Termination of Plan.* The Plan originally became effective on June 13, 2017. This Restatement of the Plan is adopted contingent and effective as of the date of its approval by the holders of the shares entitled to vote at a duly convened meeting of the stockholders of the Company. The Plan shall be null and void and of no effect if the foregoing condition is not fulfilled and in such event each Award shall, notwithstanding any of the preceding provisions of the Plan, be null and void and of no effect. Awards may be granted under the Plan at any time and from time to time on or prior to the tenth anniversary of the effective date of the Plan, on which date the Plan will expire except as to Awards then outstanding under the Plan. Such outstanding Awards shall remain in effect until they have been exercised or terminated, or have expired.

13.14. *Foreign Employees and Consultants.* Awards may be granted to Participants who are foreign nationals or employed or providing services outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees employed or providing services in the United States as may, in the judgment of the Committee, be necessary or desirable in order to recognize differences in local law or tax policy. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Employees or Consultants on assignments outside their home country.

13.15. *Compliance with Section 409A of the Code.* This Plan is intended to comply and shall be administered in a manner that is intended to comply with Section 409A of the Code and shall be construed and interpreted in accordance with such intent. To the extent that an Award or the payment, settlement or deferral thereof is subject to Section 409A of the Code, the Award shall be granted, paid, settled or deferred in a manner that will comply with Section 409A of the Code, including regulations or other guidance issued with respect thereto, except as otherwise determined by the Committee. Any provision of this Plan that would cause the grant of an Award or the payment, settlement or deferral thereof to fail to satisfy Section 409A of the Code shall be amended to comply with Section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under Section 409A of the Code.

Should any payments made in accordance with the Plan to a specified employee (as defined under Section 409A of the Code) be determined to be payments from a nonqualified deferred compensation plan and are payable in connection with a Participant's separation from service (as defined under Section 409A of the Code), that are not exempt from Section 409A of the Code as a short-term deferral or otherwise, these payments, to the extent otherwise payable within six (6) months after the Participant's separation from service, and to the extent necessary to avoid the imposition of taxes under Section 409A of the Code, will be paid in a lump sum on the earlier of the date that is six (6) months and one day after the Participant's date of separation from service or the date of the Participant's death. For purposes of Section 409A of the Code, the payments to be made to a Participant in accordance with this Plan shall be treated as a

right to a series of separate payments.

13.16. *Captions.* The captions in the Plan are for convenience of reference only, and are not intended to narrow, limit or affect the substance or interpretation of the provisions contained herein.

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