

ARENA PHARMACEUTICALS INC
Form PRE 14A
April 06, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant x

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Check the appropriate box:

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

Arena Pharmaceuticals, Inc.

(Name of Registrant as Specified In Its Charter)

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

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ARENA PHARMACEUTICALS, INC.

[], 2006

Dear Arena Stockholder:

You are cordially invited to attend the 2006 Annual Meeting of Stockholders of Arena Pharmaceuticals, Inc., a Delaware corporation. The Annual Meeting will be held on Monday, June 12, 2006, at 9:00 a.m. San Diego local time, at our offices located at 6150 Nancy Ridge Drive, San Diego, California 92121. I look forward to meeting with as many of our stockholders as possible.

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

If you would like directions to our offices, please visit our website at www.arenapharm.com, where you will find an easy to use map locator under Contact Us.

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

Sincerely,

Jack Lief
President, Chief Executive Officer and Director

For further information about the Annual Meeting, please call 858.453.7200, ext. 1315.

6166 Nancy Ridge Drive, San Diego, California 92121

Notice of Annual Meeting of Stockholders

To be held on June 12, 2006

ARENA PHARMACEUTICALS, INC.

**6166 Nancy Ridge Drive
San Diego, California 92121**

[], 2006

To the Stockholders of Arena Pharmaceuticals, Inc.:

The Annual Meeting of Stockholders of Arena Pharmaceuticals, Inc., a Delaware corporation, will be held on Monday, June 12, 2006, at 9:00 a.m. San Diego local time, at our offices located at 6150 Nancy Ridge Drive, San Diego, California 92121, for the following purposes:

1. To elect eight directors to the Board of Directors to serve for the ensuing year and until their successors are elected and qualified or until their resignation or removal.
2. To approve the Arena Pharmaceuticals, Inc., 2006 Long-Term Incentive Plan.
3. To approve the 2001 Arena Employee Stock Purchase Plan, as amended.
4. To approve an amendment to our Fifth Amended and Restated Certificate of Incorporation to increase the total number of authorized shares from 75,000,000 to 150,000,000 and the number of authorized shares of common stock from 67,500,000 to 142,500,000.
5. To ratify the appointment of Ernst & Young LLP, an independent registered public accounting firm, as our independent auditors for the year ending December 31, 2006.
6. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice.

Only stockholders of record at the close of business on April 17, 2006, are entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

Whether or not you expect to attend in person, we urge you to sign, date and return the enclosed proxy card at your earliest convenience. This will ensure the presence of a quorum at the meeting. **Promptly signing, dating and returning the proxy card will save us the expense and extra work of additional solicitation.** You may return your proxy card in the enclosed envelope (no postage is required if mailed in the United States). You may also vote by telephone or the Internet pursuant to the instructions that accompanied your proxy card. Sending in your proxy card or voting by telephone or the Internet will not prevent you from voting your stock at the Annual Meeting if you desire to do so, as your proxy may be cancelled at your option. Please note, however, that if your shares are held of record by a bank, broker or other agent and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

By Order of the Board of Directors

Steven W. Spector
Senior Vice President, General Counsel and Secretary

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ARENA PHARMACEUTICALS, INC.

6166 Nancy Ridge Drive
San Diego, CA 92121

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

To Be Held on Monday, June 12, 2006, at 9:00 a.m. San Diego Local Time

Information Concerning Solicitation and Voting

In this proxy statement, Arena Pharmaceuticals, Arena, we, us and our refer to Arena Pharmaceuticals, Inc. and our wholly owned subsidiary BRL Screening, Inc., unless the context otherwise provides.

General

The enclosed proxy is solicited on behalf of the Board of Directors of Arena Pharmaceuticals, Inc., a Delaware corporation, for use at our 2006 Annual Meeting of Stockholders to be held on Monday, June 12, 2006, at 9:00 a.m. San Diego local time, or at any adjournments or postponements thereof, for the purposes set forth in this proxy statement and the accompanying Notice of Annual Meeting of Stockholders. Our 2006 Annual Meeting will be held at our offices, located at 6150 Nancy Ridge Drive, San Diego, California.

This proxy statement, together with the Notice of Annual Meeting of Stockholders, the form of proxy and our Annual Report to Stockholders, are first being mailed on or about [], 2006, to all stockholders of record at the close of business on the record date, which is April 17, 2006 (the Record Date).

Questions and Answers About this Proxy Material and Voting

Q: Why am I receiving these materials?

A: You are receiving these proxy materials in connection with our 2006 Annual Meeting of Stockholders to be held on June 12, 2006, at 9:00 a.m. San Diego local time. As a stockholder, you are requested to vote on the proposals described in this proxy statement.

Q: Who can vote at our 2006 Annual Meeting?

A: Each person who owns or has the right to vote shares of our common stock or Series B Convertible Preferred Stock, which we refer to as our Preferred Stock, as of the Record Date has the right to vote at the meeting. Our common stock and our Preferred Stock will vote together on the proposals set forth in this proxy statement. Each share of our common stock is entitled to one vote, each share of our Series B-1 Preferred Stock is entitled to 1,460 votes (representing one vote for each share of common stock that the Series B-1 Preferred Stock is convertible into), and each share of our Series B-2 Preferred Stock is entitled to 1,483 votes (representing one vote for each share of common stock that the Series B-2 Preferred Stock is convertible into). As of the Record Date, there were [] shares of our common stock, [] shares of our Series B-1 Preferred Stock, and [] shares of our Series B-2 Preferred Stock outstanding.

Stockholder of Record: Shares Registered in Your Name. If on the Record Date your shares of common stock were registered directly in your name with our transfer agent, Computershare Trust Company, Inc., then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy.

Beneficial Owner: Shares Registered in the Name of a Bank, Broker or Other Agent. If on the Record Date your shares of common stock were held in an account by a bank, broker or other agent, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the meeting. As a beneficial owner, you have the right to direct your bank, broker or other agent on how to vote the shares in your account. You are also invited to attend the meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a legal proxy from your bank, broker or other agent.

Q: What is the proxy card?

A: The proxy card enables you to appoint Jack Lief, our President and Chief Executive Officer, and Steven W. Spector, our Senior Vice President, General Counsel and Secretary, as your representatives at our 2006 Annual Meeting. By completing and returning the proxy card, you are authorizing Mr. Lief and Mr. Spector, or each of them, to vote your shares at the meeting as described on the proxy card. This way, you can vote your shares whether or not you attend the meeting.

Q: What am I voting on?

A: We are asking you to vote on the following items:

1. The election of eight directors to the Board of Directors to serve for the ensuing year and until their successors are elected and qualified or until their resignation or removal;
2. The approval of the Arena Pharmaceuticals, Inc., 2006 Long-Term Incentive Plan;
3. The approval of the 2001 Arena Employee Stock Purchase Plan, as amended;
4. The approval of an amendment to our Fifth Amended and Restated Certificate of Incorporation to increase the total number of authorized shares from 75,000,000 to 150,000,000 and the number of authorized shares of common stock from 67,500,000 to 142,500,000;
5. The ratification of the appointment of Ernst & Young LLP, an independent registered public accounting firm, as our independent auditors for the year ending December 31, 2006; and
6. Such other items as may properly come before the meeting or any adjournment or postponement thereof.

Q: How do I vote?

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

BY MAIL: Please complete and sign your proxy card and mail it in the enclosed pre-addressed envelope (no postage is required if mailed in the United States). If you mark your voting instructions on the proxy card, your shares will be voted as you instruct, or in the best judgment of

Mr. Lief or Mr. Spector if a proposal comes up for a vote at the meeting that is not on the proxy card.

If you do not mark your voting instructions on the proxy card, your shares will be voted as follows: FOR the eight named nominees as directors, FOR the approval of the Arena Pharmaceuticals, Inc. 2006 Long-Term Incentive Plan, FOR the approval of the 2001 Arena Employee Stock Purchase Plan, as amended, FOR the approval of the proposed amendment to our Fifth Amended and Restated Certificate of Incorporation, FOR the ratification of Ernst & Young LLP as our independent auditors for the year ending December 31, 2006, and according to the best judgment of Mr. Lief or Mr. Spector if a proposal comes up for a vote at the meeting that is not on the proxy card.

BY TELEPHONE: Please follow the vote by telephone instructions that are on your proxy card. If you vote by telephone, you do not have to mail in your proxy card.

BY INTERNET: Please follow the vote by Internet instructions that are on your proxy card. If you vote by Internet, you do not have to mail in your proxy card.

IN PERSON: We will pass out written ballots to anyone who wants to vote in person at the meeting. However, if you hold your shares in street name, you must request a legal proxy from your bank, broker or other agent in order to vote at the meeting.

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

If you are a beneficial owner of shares registered in the name of your bank, broker or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply follow the instructions you received from that organization to ensure that your vote is counted. Please contact your bank, broker or other agent if you did not receive a proxy card or voting instructions.

To vote in person at the meeting, you must obtain a legal proxy from your bank, broker or other agent. Follow the instructions from your bank, broker or other agent included with these proxy materials, or contact such agent to request a proxy form.

Q: What does it mean if I receive more than one proxy card?

A: It likely means that you hold our shares in multiple accounts at the transfer agent or with brokers or other custodians of your shares. Please complete and return **all** the proxy cards you receive to ensure that all your shares are voted.

Q: *Can I change my vote after submitting my proxy?*

A: *Stockholder of Record: Shares Registered in Your Name.* If you are a stockholder of record, you can revoke your proxy and change your vote at any time before the polls close at the meeting by: (i) signing another proxy card with a later date and returning it before the polls close at the meeting, (ii) voting by telephone or the Internet before 11:00 p.m., San Diego local time, on June 11, 2006 (your *latest* telephone or Internet vote is counted), (iii) returning a written notice before the polls close at the meeting that you are revoking your proxy, or (iv) voting at the meeting. Please note, however, that simply attending the meeting will not, by itself, revoke your proxy.

A: *Beneficial Owner: Shares Registered in the Name of a Bank, Broker or Other Agent.* If you are a beneficial owner of shares registered in the name of your bank, broker or other agent, you should follow their instructions on how to change your vote. Please contact your bank, broker or other agent if you did not receive such instructions.

Q: How many shares must be present to hold the meeting?

A: To hold the meeting and conduct business, at least a majority of our outstanding shares of common stock as of the Record Date must be present (either in person or represented by proxy) at the meeting. This is called a quorum.

Shares are counted as present at the meeting if the stockholder either:

- is present and votes in person at the meeting, or
- has properly submitted a proxy (including voting by telephone or the Internet).

Both abstentions and broker non-votes are counted as present for the purposes of determining the presence of a quorum. Broker non-votes occur when a broker who holds shares for a stockholder in street name submits a proxy for those shares but does not vote. In general, this occurs when the broker has not received voting instructions from the stockholder, and the broker lacks discretionary voting power under the rules of the National Association of Securities Dealers, Inc. or otherwise to vote the shares.

Q: *How many votes must the nominees receive to be elected as directors?*

A: Directors are elected by a plurality of votes of common stock (determined as if all of our Preferred Stock was converted into common stock) present in person or represented by proxy at our 2006 Annual Meeting and entitled to vote. The eight nominees receiving the highest number of votes FOR election will be elected.

Q: *How many votes must be received to approve the Arena Pharmaceuticals, Inc., 2006 Long-Term Incentive Plan?*

A: A majority of the shares of common stock (determined as if all of our Preferred Stock was converted into common stock) present at the meeting in person or by proxy and entitled to vote must vote FOR approval.

Q: *How many votes must be received to approve the amendment to the 2001 Arena Employee Stock Purchase Plan?*

A: A majority of the shares of common stock (determined as if all of our Preferred Stock was converted into common stock) present at the meeting in person or by proxy and entitled to vote must vote FOR approval.

Q: *How many votes must be received to approve the amendment to our Fifth Amended and Restated Certificate of Incorporation?*

A: A majority of the shares of common stock (determined as if all of our Preferred Stock was converted into common stock) outstanding must vote FOR approval.

Q: *How many votes must the ratification of Ernst & Young LLP as our independent auditors for the year ending December 31, 2006, receive to be approved?*

A: A majority of the shares of common stock (determined as if all of our Preferred Stock was converted into common stock) present at the meeting in person or by proxy and entitled to vote must vote FOR ratification.

Q: How may I vote and how are votes counted?

A: You may vote either FOR each director nominee or WITHHOLD your vote from any one or more of the nominees. You may vote FOR, AGAINST or ABSTAIN from voting on each of the other proposals. If you abstain from voting on any proposal that allows for abstention, it will have the same effect as a vote AGAINST such proposal.

With respect to the proposal to approve the amendment to our Fifth Amended and Restated Certificate of Incorporation, broker non-votes, if any, will have the same affect as a vote AGAINST such proposal. Broker non-votes will not affect the outcome of the voting on any of the other proposals described in this proxy statement.

Voting results are tabulated and certified by our transfer agent, Computershare Trust Company, Inc.

Q: Who will bear the cost of soliciting votes for the meeting?

A: We are paying for the distribution and solicitation of the proxies. As a part of this process, we reimburse brokers, nominees, fiduciaries and other custodians for reasonable fees and expenses in forwarding proxy materials to our stockholders. Original solicitation of proxies by mail may be supplemented by other mailings, telephone calls, personal solicitation, or use of the Internet by our directors, officers, other employees or, per our engagement and our request, InvestorCom, Inc. No additional compensation will be paid to our directors, officers or other employees for such services, and we expect that our payments to InvestorCom for their solicitation services will be less than \$5,000.

Proposal 1**ELECTION OF DIRECTORS**

The persons named below are nominees for director to serve until the next annual meeting of stockholders and until their successors have been elected and qualified or until their early resignation or removal. Our bylaws provide that the authorized number of directors shall be determined by a resolution of the Board of Directors.

It is our policy to encourage directors and nominees for director to attend the annual meetings of stockholders. All eight of the nominees for election as a director at our 2005 annual meeting of stockholders attended that meeting.

Each nominee listed below was elected at our 2005 annual meeting of stockholders. All of the nominees were recommended for election to the Board of Directors by the Corporate Governance, Nominating and Strategy Committee. Directors are elected by a plurality of votes present in person or represented by proxy at the annual meeting of stockholders and entitled to vote. Unless otherwise instructed to withhold a vote for a particular nominee or all of the nominees, the proxy holders will vote the proxies received by them for the nominees named below. In the event that any of these nominees is unavailable to serve as a director at the time of our 2006 Annual Meeting, the proxies will be voted for any substitute nominee who shall be designated by the Board of Directors, unless the Board reduces the number of directors. We have no reason to believe that any nominee will be unavailable to serve.

Nominees

The following table sets forth information regarding the nominees as of March 15, 2006.

Name	Positions and Offices Held	Year First Elected Director	Age
Jack Lief	President, Chief Executive Officer and Director	1997	59
Dominic P. Behan, Ph.D.	Senior Vice President, Chief Scientific Officer and Director	2000	42
Donald D. Belcher(1)(2)(3)	Director	2003	67
Scott H. Bice(1)(3)	Director	2003	62
Harry F. Hixson, Jr., Ph.D.(2)(3)	Director	2004	67
J. Clayburn La Force, Jr., Ph.D.(2)(3)	Director	2002	77
Louis J. Lavigne, Jr.(1)(3)	Director	2005	57
Tina S. Nova, Ph.D.(2)(3)	Director	2004	52

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Corporate Governance, Nominating and Strategy Committee

Business Experience of Directors

Jack Lief is a co-founder and has served as a director and our President and Chief Executive Officer since April 1997. From 1995 to April 1997, Mr. Lief served as an advisor and consultant to numerous biopharmaceutical organizations. From 1989 to 1994, Mr. Lief served as Senior Vice President, Corporate Development and Secretary of Cephalon, Inc., a biopharmaceutical company. From 1983 to 1989, Mr. Lief served as Director of Business Development and Strategic Planning for Alpha Therapeutic Corporation, a manufacturer of biological products. Mr. Lief joined Abbott Laboratories, a pharmaceutical company, in 1972, where he served until 1983, most recently as the head of International Marketing Research. Mr. Lief is a director of Accometrics, Inc., a developer and marketer of diagnostic tests, ReqMed Company, Ltd., a

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provider of partnering opportunities, R&D strategies and bio-venture funding, and TaiGen Biotechnology Co., Ltd., a biotechnology company. Mr. Lief is also an Executive Board Member of BIOCOM, a life science industry association representing more than 450 member companies in San Diego and Southern California, and he was the Chairman of BIOCOM from March 2005 to March 2006. Mr. Lief holds a B.A. from Rutgers University and an M.S. in Psychology (Experimental and Neurobiology) from Lehigh University.

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

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

Scott H. Bice has served as a member of the Board of Directors since December 2003. Since June 2000, Mr. Bice has been the Robert C. Packard Professor at the University of Southern California Law School, where he served as Dean from 1980 to June 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.

Harry F. Hixson, Jr., Ph.D., has served as a member of the Board of Directors since September 2004. Dr. Hixson has served as Chairman of BrainCells Inc. since December 2003 and as Chief Executive Officer from July 2004 to September 2005. Dr. Hixson served as Chief Executive Officer of Elitra Pharmaceuticals, a biopharmaceutical company, from February 1998 to May 2003. Dr. Hixson held various management positions with Amgen, Inc., a biopharmaceutical company from 1985 to 1991, most recently as President and Chief Operating Officer. Dr. Hixson serves as the Chairman of Sequenom, Inc., a genomics company, and as the Chairman of Discovery Partners International, Inc., a pharmaceutical services company. Dr. Hixson holds a B.S. in Chemical Engineering from Purdue University, an M.B.A. from the University of Chicago and a Ph.D. in Physical Biochemistry from Purdue University.

J. Clayburn La Force, Jr., Ph.D., has served as a member of the Board of Directors since October 2002. Dr. La Force has served as a professor of Economics at the University of California, Los Angeles since 1962, and served as Dean of the Anderson School of Management at University of California, Los Angeles from July 1978 to June 1993. From 1969 to 1978, Dr. La Force served as the Chairman of the Economics Department at UCLA. Dr. La Force currently serves as a member of the Board of Directors of CancerVax Corporation, an oncology focused company, and on the following registered investment companies: Payden Funds, Metzler Payden, and Advisors Series Trust. Dr. La Force holds an A.B. in Economics from San Diego State College and an M.A. in Economics and a Ph.D. in Economics from the University of California, Los Angeles.

Louis J. Lavigne, Jr., has served as a member of the Board of Directors since January 2005. Before retiring in March 2005, Mr. Lavigne served as Executive Vice President and Chief Financial Officer of Genentech, Inc., a biotechnology company. He also served on Genentech's Executive Committee, was Chairman of Genentech's 401K Plan Committee and was responsible for Genentech's Financial, Corporate Relations and Information Technology groups. Mr. Lavigne joined Genentech in 1982 and was promoted to Controller in 1983. He was promoted again to Vice President in 1986 and then named Chief

Financial Officer in 1988. In 1994, Mr. Lavigne was promoted to Senior Vice President and was later promoted to Executive Vice President in 1997. Prior to his tenure at Genentech, Mr. Lavigne held various financial management positions with Pennwalt Corporation, a chemical and pharmaceutical company. Mr. Lavigne currently serves as a member of the board of directors of Allergan, Inc., a pharmaceutical company, BMC Software, Inc., a provider of enterprise management solutions, Equinix, Inc., a provider of data centers and Internet exchange services, Kyphon Inc., a medical device company, and LifeMasters Supported SelfCare, Inc., a disease management company. Mr. Lavigne holds a bachelor's degree in business administration from Babson College, and an M.B.A. from Temple University.

Tina S. Nova, Ph.D., has served as a member of the Board of Directors since September 2004. Dr. Nova is a co-founder of Genoptix, Inc., a provider of personalized medicine services, and has served as its President and Chief Executive Officer and as a member of its board of directors since March 2000. Dr. Nova was a co-founder of Nanogen, Inc., a provider of molecular diagnostic tests, where she served as Chief Operating Officer and President from 1994 to January 2000. From 1992 to 1994, Dr. Nova served as Chief Operating Officer of Selective Genetics, a targeted therapy, biotechnology company. From 1988 to 1992, Dr. Nova held various director-level positions with Ligand Pharmaceuticals Incorporated, a drug discovery and development company, most recently serving as Executive Director of New Leads Discovery. Dr. Nova has also held various research and management positions with Hybritech, Inc., a former subsidiary of Eli Lilly & Company, a pharmaceutical company. Dr. Nova serves as a member of the board of directors of Heska Corporation, a companion animal care company. In addition, Dr. Nova is the life science sector representative to the Independent Citizen's Oversight Committee overseeing the implementation of the California stem cell initiative, Proposition 71. Dr. Nova holds a B.S. in Biological Sciences from the University of California, Irvine and a Ph.D. in Biochemistry from the University of California, Riverside.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR EACH NAMED NOMINEE.

Information About the Board of Directors and its Committees

The Board of Directors held a total of eight meetings during the fiscal year ended December 31, 2005. Each incumbent director attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the 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 discharge their responsibilities through considerable telephone and other communications with each other and our executive officers, as well as with our independent auditors and external advisors, such as legal counsel, scientific consultants and investment bankers. As required under the NASDAQ Stock Market listing standards, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present, in conjunction with regularly scheduled meetings of the Board of Directors and otherwise as needed.

A majority of the members of a listed company's board of directors must qualify as independent under the applicable NASDAQ Stock Market listing standards. The board of directors must affirmatively make this determination. The Board of Directors has reviewed relevant transactions and relationships between each non-employee director and Arena, our senior management and our independent auditors and has affirmatively determined that all of our non-employee directors are independent directors under the applicable NASDAQ Stock Market listing standards.

The standing committees of the Board of Directors are the Audit Committee, the Compensation Committee, and the Corporate Governance, Nominating and Strategy Committee. In addition, from September 2004 to June 2005, the Board of Directors had a strategy committee as a special committee to review our strategic plan and budget. Dr. Hixson was the Chairperson of the Strategy Committee and the

other members were Messrs. Lief, Belcher and Lavigne and Dr. Nova. The Strategy Committee held two meetings in 2005.

All of the standing committees of the Board of Directors are comprised entirely of independent directors. The chairpersons of our standing committees are appointed by the Board of Directors and may change in the future. Below is a chart showing the structure and membership of the standing committees of the Board of Directors.

Audit Committee

The Audit Committee's responsibilities include:

- (i) selecting and evaluating the performance of our independent auditors;
- (ii) 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 to us by them;
- (iii) reviewing and assessing our financial reporting activities, including our periodic reports, and the accounting standards and principles followed;
- (iv) reviewing the organization and scope of our internal system financial controls and reporting;
- (v) reviewing and assessing our guidelines and policies with respect to risk assessment and management, our tax strategy, and investment policy;
- (vi) reviewing and approving related-party transactions; and
- (vii) overseeing our code of business conduct and ethics and whistleblower policy.

The Board of Directors has determined that each of the Audit Committee members meets the independence and experience requirements contained in the applicable NASDAQ listing standards and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934. The Board of Directors has also determined that Mr. Lavigne is an audit committee financial expert as defined in Item 401(h) of Regulation S-K. The Board of Directors has adopted a written charter for the Audit Committee, which is attached as Appendix A. Mr. Lavigne is the Chairperson of the Audit Committee. The Audit Committee held nine meetings in 2005.

Compensation Committee

The Compensation Committee's responsibilities include:

- (i) reviewing and approving corporate performance goals and objectives relevant to the compensation of our executive officers;
- (ii) evaluating and recommending to the Board of Directors compensation plans and programs for Arena, as well as modifying or terminating existing plans and programs;
- (iii) reviewing and approving compensation and benefits for our directors and executive officers, and making recommendations to the Board of Directors regarding these matters; and
- (iv) authorizing and approving equity grants under our equity compensation plans.

Under our equity compensation plans, the Compensation Committee has broad discretion to set the exercise price of options and has the ability to grant restricted stock for no cash consideration. The Board of Directors has adopted a written charter for the Compensation Committee, which is available on our website at www.arenapharm.com. Mr. Belcher is the Chairperson of the Compensation Committee. The Compensation Committee held four meetings in 2005.

Corporate Governance, Nominating and Strategy Committee

The Corporate Governance, Nominating and Strategy Committee's responsibilities include:

- (i) recommending guidelines to the Board of Directors for the governance of Arena, including the structure and function of the Board of Directors and its committees and our management;
- (ii) reviewing and approving a management succession plan and related procedures;
- (iii) reviewing our strategic plan and expenditures and making recommendations regarding the agenda for the Board of Director's strategy discussions;
- (iv) establishing criteria for membership on the Board of Directors;
- (v) identifying, evaluating, reviewing and recommending to the Board of Directors qualified candidates to serve on the Board;
- (vi) making recommendations to the Board of Directors regarding the election of officers;
- (vii) serving as a focal point for communications between director candidates, non-committee directors and management; and
- (viii) reviewing and assessing the performance of the Board of Directors and each of its committees.

The Corporate Governance, Nominating and Strategy 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 in this process. As set forth in the next section, the Corporate Governance, Nominating and Strategy Committee will consider director candidates recommended by our stockholders. The Corporate Governance, Nominating and Strategy Committee believes that candidates for director should have certain minimum qualifications, including being able to understand basic financial statements and having high personal integrity and ethics. In considering candidates for director, the Corporate Governance, Nominating and Strategy Committee will consider all relevant factors, which may include among others the candidate's experience and accomplishments, the usefulness of such experience to our business, the availability of the candidate to devote sufficient time and attention to Arena, the candidate's reputation for personal integrity and ethics and the candidate's

ability to exercise sound business judgment. The Corporate Governance, Nominating and Strategy Committee retains the right to modify these qualifications from time to time, and candidates for director are reviewed

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in the context of the composition of the then current Board of Directors, our requirements and the interests of our stockholders. The Corporate Governance, Nominating and Strategy Committee recommended the nominations of each of the directors nominated for election at our 2006 Annual Meeting.

The Board of Directors has adopted a written charter for the Corporate Governance, Nominating and Strategy Committee, which is available on our website at www.arenapharm.com. Mr. Bice is the Chairperson of the Corporate Governance, Nominating and Strategy Committee. In June 2005, the Board of Directors combined the Corporate Governance Committee, the Nominating Committee and the Strategy Committee into one committee: the Corporate Governance, Nominating and Strategy Committee. Prior to this change, the Corporate Governance Committee held one meeting in 2005, the Nominating Committee held four meetings in 2005 and the Strategy Committee held two meetings in 2005. The Corporate Governance, Nominating and Strategy Committee held four meetings in 2005.

Stockholder Director Recommendations

The Corporate Governance, Nominating and Strategy Committee will consider director candidates recommended by our stockholders. A candidate must be highly qualified and be willing and expressly interested in serving on the Board of Directors. The Corporate Governance, Nominating and Strategy Committee must receive all stockholder recommendations for director candidates for an annual meeting of stockholders by December 31 of the year before such annual meeting. A stockholder who wishes to recommend a candidate for the Corporate Governance, Nominating and Strategy Committee's consideration should forward the candidate's name and information about the candidate's qualifications to Corporate Secretary, Arena Pharmaceuticals, Inc., 6166 Nancy Ridge Drive, San Diego, California 92121. **Submissions must include a representation that the nominating stockholder is a beneficial or record owner of Arena 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 the Board of Directors

The Board of Directors has a formal process by which stockholders may communicate with the Board of Directors or any of our directors or officers. Stockholders who wish to communicate with the 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 Arena Pharmaceuticals, Inc., 6166 Nancy Ridge Drive, San Diego, California 92121. All such communications to our directors will be compiled by our Corporate Secretary and submitted to the addressees on a periodic basis. If the Board of Directors modifies this process, we will post the revised process on our website.

Proposal 2

**APPROVAL OF THE ARENA PHARMACEUTICALS, INC.
2006 LONG-TERM INCENTIVE PLAN**

Stockholders are being asked to approve the Arena Pharmaceuticals, Inc. 2006 Long-Term Incentive Plan (the 2006 LTIP) to enable us to continue to attract and retain officers, key employees and directors of outstanding ability. The Board of Directors approved the 2006 LTIP at its February 14, 2006, meeting, subject to approval from stockholders at the 2006 Annual Meeting. The Board of Directors considers the 2006 LTIP to be a significant contributor to our long-term financial success, by assisting us in attracting and retaining selected individuals who are expected to contribute to our success by serving as directors, employees, consultants and advisors and to assist us in achieving long-term objectives which will inure to the benefit of the stockholders.

Our Amended and Restated 1998 Equity Compensation Plan, Amended and Restated 2000 Equity Compensation Plan and 2002 Equity Compensation Plan (together, the Prior Plans) will be terminated, subject to and upon approval of the 2006 LTIP by stockholders at the 2006 Annual Meeting. However, notwithstanding such termination of the Prior Plans, all outstanding awards under the Prior Plans will continue to be governed under the terms of the Prior Plans. There will be 6 million shares of our common stock authorized for issuance under the 2006 LTIP if it is approved by stockholders, which amount may be increased by the number of shares subject to any stock awards under the Prior Plans that are forfeited, expire or otherwise terminate without the issuance of such shares and would otherwise be returned to the share reserve under the Prior Plans but for their termination and as otherwise provided in the 2006 LTIP.

As of March 15, 2006, options (net of canceled or expired options) and restricted stock awards covering an aggregate of 1,485,440 shares of common stock had been granted under our Amended and Restated 1998 Equity Compensation Plan (of which options covering an aggregate of 204,195 shares of common stock remain outstanding) and 14,560 shares of common stock remained available for future grants under such plan. During the last fiscal year, no options to purchase common shares were granted under such plan.

As of March 15, 2006, options (net of canceled or expired options) and restricted stock awards covering an aggregate of 1,998,900 shares of common stock had been granted under our Amended and Restated 2000 Equity Compensation Plan (of which options covering an aggregate of 1,949,135 shares of common stock remain outstanding) and 1,100 shares of common stock remained available for future grants under such plan. During the last fiscal year, under our Amended and Restated 2000 Equity Compensation Plan, we granted (i) to all current executive officers as a group options to purchase 100,000 shares at an exercise price of \$6.16 per share, (ii) to all current directors (excluding executive officers) as a group zero options to purchase stock, and (iii) to all employees (excluding executive officers) as a group options to purchase 733,500 shares at exercise prices of \$5.04 to \$14.49 per share. Our current directors are the same as our nominees for election as directors at the 2006 Annual Meeting.

As of March 15, 2006, options (net of canceled or expired options) and restricted stock awards covering an aggregate of 2,749,039 shares of common stock had been granted under our 2002 Equity Compensation Plan (of which options covering an aggregate of 1,916,205 shares of common stock remain outstanding) and 961 shares of common stock remained available for future grants under such plan. During the last fiscal year, under our 2002 Equity Compensation Plan, we granted (i) to all current executive officers as a group options to purchase 234,350 shares at an exercise price of \$6.16 per share, (ii) to all current directors (excluding executive officers) as a group options to purchase 101,785 shares at an exercise price of \$6.16 per share, and (iii) to all employees (excluding executive officers) as a group options to purchase 20,000 shares at an exercise price of \$6.16 per share.

In total, as of March 15, 2006, options (net of canceled or expired options) and restricted stock awards covering an aggregate of 6,233,379 shares of common stock had been granted under our Prior Plans (of which options covering an aggregate of 4,069,535 shares of common stock remain outstanding) and 16,621 shares of common stock remained available for future grants under such plan. During the last fiscal year, under our Prior Plans, we granted (i) to all current executive officers as a group options to purchase 334,350 shares at an exercise price of \$6.16 per share, (ii) to all current directors (excluding executive officers) as a group options to purchase 101,785 shares at an exercise price of \$6.16 per share, and (iii) to all employees (excluding executive officers) as a group options to purchase 753,500 shares at exercise prices of \$5.04 to \$14.49 per share.

The following summary describes the principal features of the 2006 LTIP, and is qualified in its entirety by reference to the full text of the 2006 LTIP. A copy of the 2006 LTIP is filed as Appendix B to the proxy statement for the 2006 Annual Meeting filed with the Securities and Exchange Commission.

In this Proposal 2, the stockholders are requested to approve the adoption of the 2006 LTIP. The affirmative vote of the holders of a majority of the shares of common stock (determined as if our Preferred Stock was converted into common stock) present in person or represented by proxy and entitled to vote at the 2006 Annual Meeting will be required to approve the adoption of the 2006 LTIP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

Summary of the 2006 Long-Term Incentive Plan

Purpose. The purpose of the 2006 LTIP is to assist us in attracting and retaining selected individuals who, serving as our employees, directors, consultants and/or advisors, are expected to contribute to our success and to achieve long-term objectives which will inure to the benefit of all of our stockholders through the additional incentives inherent in the awards under the 2006 LTIP.

Shares Available for Issuance. A total of 6 million shares of common stock will be available for issuance under the 2006 LTIP, increased if applicable as described below. If an award under the 2006 LTIP or the Prior Plans is forfeited, expires or otherwise terminates without issuance of shares, or is settled for cash or otherwise does not result in the issuance of all of the shares subject to the award, the shares which were subject to the award which were not issued will be available for issuance under the 2006 LTIP. If shares are tendered or withheld to pay the exercise price of an award or to satisfy tax withholding obligations, then the shares not issued to the participant will be available for issuance under the 2006 LTIP. 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 2006 LTIP. Shares issued under the 2006 LTIP may consist of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

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 2006 LTIP. Options may be either incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code), or nonstatutory stock options. Awards may be granted under the 2006 LTIP to any employee, non-employee member of the Board of Directors, consultant or advisor who provides us service, except for incentive stock options which may be granted only to our employees.

As of March 15, 2006, approximately 335 employees and non-employee directors would be eligible to participate in the 2006 LTIP. The Compensation Committee, in its discretion, selects the individual or individuals to whom options, stock appreciation rights, restricted stock awards, restricted stock unit awards or performance awards may 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 2006 LTIP provides that no participant may be granted, in any 36-month period, options or stock appreciation rights to purchase more than 1 million shares of common stock, or restricted stock awards, restricted stock unit awards and performance awards that are denominated in shares with respect to more than 500,000 shares of common stock. Shares subject to a cancelled award continue to count against the applicable limit. The maximum dollar value that may be granted to any participant in any 12-month period with respect to performance-based awards is \$5 million. The dollar value of a cancelled award will continue to count against the \$5 million limit.

The aggregate maximum number of shares of common stock that may be issued under the 2006 LTIP pursuant to the exercise of incentive stock options is 6 million shares.

Administration. The Plan will be administered by the Compensation Committee, the members of whom must qualify as non-employee directors under Rule 16b-3 under the Securities Exchange Act of 1934, outside directors under Section 162(m) of the Code and independent directors for purposes of the rules and regulations of the NASDAQ Stock Market. The Compensation Committee has the authority to select the participants who will receive awards under the 2006 LTIP, to determine the type and terms of the awards, and to interpret and administer the 2006 LTIP. The Compensation Committee may delegate the right to make grants and otherwise take action on the Compensation Committee's behalf under the 2006 LTIP to a committee of one or more directors and, to the extent permitted by law, to an executive officer or a committee of executive officers the right to grant awards to employees who are not directors or executive officers.

Terms and Conditions of Options. Options granted under the 2006 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 2006 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. 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 closing price on such date, on the last preceding date on which a closing price was reported). As of March 15, 2006, the closing price of our common stock as reported on the NASDAQ Stock Market was \$19.51 per share.

Exercise of Option. The Compensation Committee determines when options become exercisable, which in general will be at least one year from the date of grant; provided, however, that options may become exercisable pro rata over such time. The 2006 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 2006 LTIP expire no later than 10 years from the date of grant, except in the event of the optionee's death or disability.

Stock Appreciation Rights. The Compensation Committee is authorized to grant stock appreciation rights in conjunction with an option or other award granted under the 2006 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. The Compensation Committee determines when stock appreciation rights become exercisable, which in general

will be at least one year from the date of grant; provided, however, that stock appreciation rights may become exercisable pro rata over such time. However, the term of a stock appreciation right may be no more than 10 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 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 2006 LTIP, and are also available as a form of payment of 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. Awards of restricted stock that vest solely on continued employment generally will have a minimum vesting period of three years (which may be pro rata), except for death, disability, retirement, or Change in Control (as defined below), grants to new hires to replace forfeited awards from a prior employer, and grants in payment of performance awards or other earned cash-based incentive compensation.

Restricted Stock Unit Awards. Awards of restricted 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 2006 LTIP, and are also available as a form of payment of other awards granted under the 2006 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, subject to the same limitations discussed above for restricted stock awards.

Performance Awards. Performance awards provide participants with the opportunity to receive shares of common stock, cash or other property 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 (i) the number of shares of common stock under, or the dollar value of, a performance award and (ii) the conditions that must be satisfied for grant or for vesting, which typically will be based principally or solely on achievement of performance goals. The minimum performance period under a performance award is 12 months.

If this Proposal 2 is approved by the stockholders, compensation attributable to performance awards under the 2006 LTIP will qualify as performance-based compensation under Section 162(m) of the Code, provided that: (i) the compensation is granted by a compensation committee comprised solely of outside directors, (ii) the compensation is paid only upon the achievement of an objective performance goal established in writing by the Compensation Committee while the outcome is substantially uncertain, and (iii) the Compensation Committee certifies in writing prior to the payment of the compensation that the performance goal has been satisfied.

Code Section 162(m) Performance Goals. The 2006 LTIP is designed to permit us to issue awards that qualify as performance-based under Section 162(m) of the Code, by making performance goals meeting the requirements of Section 162(m) applicable to a participant with respect to an award. At the Compensation Committee's discretion, performance goals shall be based on the attainment of specified levels of one or more of the following: net sales; revenue; 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 the shares or any of our other 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 compound; progress of internal research or clinical programs; progress of partnered programs; implementation or completion of projects and processes; partner satisfaction; budget management; clinical progress, including 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; in-licensing; and recruiting and maintaining personnel. Such performance goals also may be based solely by reference to our performance or of the performance of one or more of our subsidiaries, 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. The Compensation Committee may also exclude the impact of an event or occurrence which the Compensation Committee determines should appropriately be excluded, including (i) restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring charges, (ii) an event either not directly related to our operations or not within the reasonable control of our management, or (iii) the cumulative effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles.

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 dividends, or cash payments in amounts equivalent to cash or stock dividends declared with respect to shares of common stock covered by an award. The Compensation Committee may provide that such amounts shall be deemed to have been reinvested in additional shares of common stock or otherwise, and that they are subject to the same vesting or performance conditions as the underlying award.

Termination of Service. The Compensation Committee will determine and set forth in each award agreement whether an award will continue to be exercisable, and the terms of such exercise, 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.

No Repricing. The 2006 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 2006 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 combines) under the 2006 LTIP if the exercise price of the option or grant price of the stock appreciation right is less than the fair market value of the common stock, or any other 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. Unless authorized by the Compensation Committee in the agreement evidencing an award granted under the 2006 LTIP, an award granted under the 2006 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 estate, guardian or legal representative. The Compensation Committee may provide in an award agreement that a participant may transfer an award to a family member (whether by gift or a domestic relations order) or under such terms and conditions determined by the Compensation Committee.

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 2006 LTIP, the number and class of shares of awards outstanding under the 2006 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 that term is defined in the Plan 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 therefore 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, if in the event of a Change in Control the successor company assumes or substitutes for an option, stock appreciation right, restricted stock award or restricted stock unit award, then in the event of a termination of a participant's employment with the successor company during the period following such Change in Control set forth in the award agreement 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 award will become fully vested immediately prior to the Change in Control and will terminate immediately after the Change in Control.

The Compensation Committee may, in its discretion, 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, shall determine.

Effective Date. The 2006 LTIP will be effective upon its approval by stockholders at the 2006 Annual Meeting.

Amendment and Termination of the 2006 LTIP. The Board may alter, amend, suspend or terminate the 2006 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, the Board may not amend the Plan without stockholder approval to increase the number of shares available for awards under the 2006 LTIP, expand the types of awards available under the 2006 LTIP, materially expand the class of persons eligible to participate in the 2006 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, increase the maximum term of 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 that may be treated as a repricing under the rules and regulations of the NASDAQ Stock Market. No such action by the Board of Directors may alter or impair any award previously granted under the 2006 LTIP without the written consent of the participant. The 2006 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.

Federal Income Tax Consequences. The following discussion summarizes certain federal income tax considerations of awards under the 2006 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 difference between the exercise price and the lower of the fair market value of the shares at the exercise date or the sale price of the shares. Any gain or loss recognized on such sale of the shares in excess of the amount treated as ordinary income will be characterized as capital gain or loss.

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. If the shares issued upon the grant of a restricted stock award, performance award or restricted stock unit award are unvested and subject to our reacquisition or repurchase, the participant will not recognize any taxable income at the time of issuance, but will have to report as ordinary income, as and when our reacquisition or repurchase right lapses, an amount equal to the excess of (i) the fair market value of the shares on the date the reacquisition or repurchase right lapses, over (ii) the purchase price, if any, paid for the shares. The participant may, however, elect under Section 83(b) of the Code to include as ordinary income in the year of issuance an amount equal to the excess of (i) the fair market value of the shares on the date of issuance, over (ii) the purchase price, if any, paid for such shares. If the Section 83(b) election is made, the participant will not recognize any additional income as and when the reacquisition or repurchase right lapses.

Upon disposition of the stock acquired upon the receipt of a restricted stock award, performance award or restricted stock unit award, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon issuance (or vesting) of the stock.

Company Tax Deduction. We generally will be entitled to a tax deduction in connection with an award under the 2006 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 nonqualified 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 four most highly compensated executive officers. 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. However, we can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met with respect to awards.

Certain kinds of compensation, including qualified performance-based compensation, are disregarded for purposes of the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m) of the Code, compensation attributable to stock options and stock appreciation rights will qualify as performance-based compensation if such awards are approved by a compensation committee comprised solely of outside directors and the plan contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, the per-employee limitation is approved by the stockholders, and the exercise or strike price of the award is no less than the fair market value of the stock on the date of grant.

Compensation attributable to restricted stock awards, restricted stock unit awards and performance awards will qualify as performance-based compensation, provided that: (i) the compensation is approved by a compensation committee comprised solely of outside directors, (ii) the compensation is paid only upon the achievement of an objective performance goal established in writing by the Compensation Committee while the outcome is substantially uncertain, (iii) the Compensation Committee certifies in writing prior to the payment of the compensation that the performance goal has been satisfied, and (iv) prior to the payment of the compensation, stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount, or formula used to calculate the amount, payable upon attainment of the performance goal).

The 2006 LTIP has been designed to permit the Compensation Committee to grant certain awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting us to receive a full federal income tax deduction in connection with such awards.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE 2006 LONG-TERM INCENTIVE PLAN.

Proposal 3

**APPROVAL OF THE 2001 ARENA
EMPLOYEE STOCK PURCHASE PLAN, AS AMENDED**

In 2001, the Board of Directors adopted, and our stockholders subsequently approved, our 2001 Arena Employee Stock Purchase Plan (the Employee Purchase Plan), which authorized a total of 1,000,000 shares of our common stock for issuance under the plan. On February 14, 2006, the Board of Directors adopted, subject to stockholder approval, an amendment to the Employee Purchase Plan to increase the number of shares authorized for issuance under the plan from a total of 1,000,000 to a total of 1,500,000. The Board of Directors adopted this amendment to provide flexibility to grant additional purchase rights at levels determined appropriate by the Board.

Stockholders are requested in this Proposal 3 to approve the amendment to the Employee Purchase Plan. The affirmative vote of the holders of a majority of the shares of common stock (determined as if all of our Preferred Stock was converted into common stock) present at the meeting in person or by proxy and entitled to vote will be required to approve the amendment to the Employee Purchase Plan. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

During 2005, shares of our common stock were purchased in the amounts and at the weighted average prices per share under the Employee Purchase Plan as follows: Mr. Lief purchased 2,500 shares at \$3.75 per share, Mr. Hoffman purchased 1,050 shares at \$3.75 per share, Mr. Spector purchased 2,295 shares at \$3.75 per share, all current executive officers as a group purchased 6,570 shares at \$3.75 per share, and all employees (excluding executive officers) as a group purchased 191,292 shares at \$3.97 per share. Drs. Behan and Shanahan did not participate in the Employee Purchase Plan during 2005.

As of March 15, 2006, an aggregate of 507,594 shares of our common stock had been issued under the Employee Purchase Plan, and 492,406 shares of our common stock remained available for future issuance under the Employee Purchase Plan.

The Employee Purchase Plan has been filed as Exhibit B to our proxy statement for our 2001 Annual Meeting of Stockholders, which was filed with the Securities and Exchange Commission on March 21, 2001. The essential features of the Employee Purchase Plan are outlined below.

Purpose of the Employee Purchase Plan

The Employee Purchase Plan is intended to encourage employee participation in the ownership of the company by offering employees the opportunity to purchase our common stock through accumulated payroll deductions.

Participation in the Employee Purchase Plan

Participation in the Employee Purchase Plan is voluntary and is dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the Employee Purchase Plan are not determinable. Non-employee directors are not eligible to participate in the Employee Purchase Plan.

Description of the Employee Purchase Plan

The essential terms of the Employee Purchase Plan are summarized as follows:

General. The purpose of the Employee Purchase Plan is to provide employees with an opportunity to purchase our common stock through accumulated payroll deductions.

Administration. The Employee Purchase Plan may be administered by the Board of Directors or a committee appointed by the Board. The Employee Purchase Plan is currently administered by the Compensation Committee. All questions of interpretation or application of the Employee Purchase Plan are determined by the Board of Directors or its appointed committee, and its decisions are final, conclusive and binding upon all participants.

Eligibility. Each of our employees (including officers) whose customary employment with us is at least 20 hours per week is eligible to participate in an Offering Period (as defined below); provided, however, that no employee shall be granted an option under the Employee Purchase Plan (i) to the extent that, immediately after the grant, such employee would own capital stock and/or hold outstanding options to purchase such stock representing five percent or more of the voting power or value of our stock, or (ii) to the extent that his or her rights to purchase stock under all of our employee stock purchase plans accrue at an amount which exceeds \$25,000 worth of common stock (determined at the fair market value of the shares at the time such option is granted) for each calendar year. Eligible employees become participants in the Employee Purchase Plan by filing with us a subscription agreement authorizing payroll deductions prior to the beginning of each Offering Period unless a later time for filing the subscription agreement has been set by the Board of Directors. As of March 15, 2006, approximately 329 employees, including seven executive officers, were eligible to participate in the Employee Purchase Plan.

Participation in an Offering. The Employee Purchase Plan is implemented by consecutive overlapping offering periods lasting for 24 months (an Offering Period), with a new Offering Period commencing on the first trading day on or after January 1, April 1, July 1 and October 1 of each year. Common stock may be purchased under the Employee Purchase Plan every three months (a Purchase Period), unless the participant withdraws or terminates employment earlier. To the extent the fair market value of our common stock on any exercise date in an Offering Period is lower than the fair market value of our common stock on the first trading day of the Offering Period, then all participants in such Offering Period will be automatically withdrawn from such Offering Period immediately after the exercise of their options on such exercise date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof. The Board of Directors may change the duration of the Purchase Periods or the length or date of commencement of an Offering Period. To participate in the Employee Purchase Plan, each eligible employee must authorize payroll deductions pursuant to the Employee Purchase Plan. Such payroll deductions may not exceed 15% of a participant's compensation.

Once an employee becomes a participant in the Employee Purchase Plan, the employee will automatically participate in each successive Offering Period until such time as the employee withdraws from the Employee Purchase Plan or the employee's employment with us terminates. At the beginning of each Offering Period, each participant is automatically granted an option to purchase shares of our common stock. The option expires at the end of the Offering Period or upon termination of employment, whichever is earlier, but is exercised at the end of each Purchase Period to the extent of the payroll deductions accumulated during such Purchase Period. The number of shares subject to the option may not exceed 625 shares of our common stock in each Purchase Period.

Purchase Price; Shares Purchased. Shares of our common stock may be purchased under the Employee Purchase Plan at a price not less than 85% of the lesser of the fair market value of our common stock on the (i) the first trading day of each Offering Period or (ii) the last trading day of each Purchase Period (the Purchase Price). The fair market value of our common stock on any relevant date will generally be the closing price per share as quoted on the NASDAQ Stock Market (or the closing bid, if no sales were reported) as reported in *The Wall Street Journal*. The number of shares of our common stock a participant purchases in each Purchase Period is determined by dividing the total amount of payroll deductions withheld from the participant's compensation during that Purchase Period by the Purchase Price. On March 15, 2006, the closing price per share as reported on the NASDAQ Stock Market was \$19.51.

Restrictions on Transfer. Rights granted under the Employee Purchase Plan are not transferable and may be exercised only by the person to whom such rights are granted.

Termination of Employment. Termination of a participant's employment for any reason, including disability or death, or the failure of the participant to remain in our continuous scheduled employ for at least 20 hours per week, cancels his or her option and participation in the Employee Purchase Plan immediately. In such event, the payroll deductions credited to the participant's account will be returned to him or her or, in the case of death, to the person or persons entitled thereto as provided in the Employee Purchase Plan.

Adjustment upon Change in Capitalization. In the event of any stock split, reverse stock split, stock dividend, combination, reclassification or other change in our capital structure affected without the receipt of consideration, appropriate proportional adjustments shall be made in the number and class of shares of stock subject to the Employee Purchase Plan, the number and class of shares of stock subject to options outstanding under the Employee Purchase Plan and the exercise price of any such outstanding options, and the maximum number of shares that each participant may purchase during each Purchase Period. Any such adjustment shall be made by the Board of Directors, whose determination shall be conclusive.

Dissolution or Liquidation. In the event of a proposed dissolution or liquidation, the Offering Period then in progress will be shortened and a new exercise date will be set.

Merger or Asset Sale. In the event we merge with or into another corporation or a sale of all or substantially all of our assets, each outstanding option may be assumed or substituted by the successor corporation. If the successor corporation refuses to assume or substitute the outstanding options, the Offering Period then in progress will be shortened and a new exercise date will be set.

Amendment and Termination of the Plan. The Board of Directors may at any time terminate or amend the Employee Purchase Plan. An Offering Period may be terminated by the Board of Directors at the end of any Purchase Period if the Board determines that termination of the Employee Purchase Plan is in the best interests of the company and our stockholders. No amendment shall be effective unless it is approved by the holders of a majority of the votes cast at a duly held stockholders' meeting, if such amendment would require stockholder approval in order to comply with Section 423 of the Code, stock exchange rules or other applicable law. Unless terminated earlier, the Employee Purchase Plan will terminate in March 2011.

Withdrawal. Generally, a participant may withdraw from an Offering Period at any time without affecting his or her eligibility to participate in future Offering Periods. However, once a participant withdraws from a particular offering, that participant may not participate again in the same offering.

Federal Tax Information for the Employee Purchase Plan. The Employee Purchase Plan, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Code. A participant will be taxed on amounts withheld for the purchase of shares as if such amounts were actually received. Other than this, no income will be taxable to a participant until the shares purchased under the Employee Purchase Plan are sold or otherwise disposed of. Upon sale or other disposition of the shares, the participant will generally be subject to tax and the amount of the tax will depend upon the holding period.

If the shares sold or disposed of have been held more than one year from the date of transfer of the stock to the participant and more than two years from the first day of the Offering Period, then the participant will recognize ordinary income equal to the lesser of (i) 15% of the value of the shares as of the first day of the Offering Period, or (ii) the excess of the value of the shares at the time of such sale or disposition over the price to the employee. Any additional gain will be treated as long-term capital gain.

If the shares are sold or disposed of have not been held for the respective one or two year required holding periods, then the participant will recognize ordinary income generally measured as the excess of the value of the shares on the date the shares are purchased over the price to the employee. Any additional gain or loss on such sale or disposition will be long- or short-term capital gain or loss, depending on the holding period. We are not entitled to a deduction for amounts taxed to a participant except to the extent ordinary income is recognized by participants upon a sale or disposition of shares prior to the expiration of the holding periods described above.

The foregoing is only a summary of the effect of federal income taxation upon the participant and us with respect to the shares purchased under the Employee Purchase Plan. In addition, this summary does not discuss the tax consequences of a participant's death or the income tax laws of any state or foreign country in which the participant may reside. Reference should be made to the applicable provisions of the Code for more complete details.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE AMENDMENT TO THE EMPLOYEE PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES AUTHORIZED FOR ISSUANCE UNDER THE PLAN FROM A TOTAL OF 1,000,000 TO A TOTAL OF 1,500,000.

Proposal 4

APPROVAL OF AN AMENDMENT TO OUR FIFTH AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE AUTHORIZED SHARES OF STOCK

On February 13, 2006, the Board of Directors adopted, subject to stockholder approval, an amendment to our Fifth Amended and Restated Certificate of Incorporation to increase the total number of authorized shares from 75,000,000 to 150,000,000, and to increase the number of authorized shares of our common stock from 67,500,000 to 142,500,000 (the Amendment).

Stockholders are requested in this Proposal 4 to approve the Amendment. The affirmative vote of the holders of a majority of the shares of common stock (determined as if all of our Preferred Stock was converted into common stock) outstanding will be required to approve the Amendment. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum and will have the same effect as a vote against the Amendment.

The additional common stock to be authorized by adoption of the amendment would have rights identical to our currently outstanding common stock. Adoption of the proposed amendment and issuance of our common stock would not affect the rights of the holders of our currently outstanding common stock or Preferred Stock. However, there may be ancillary effects incidental to increasing the number of shares of our common stock outstanding, such as dilution of earnings per share and voting rights of current holders of common stock and Preferred Stock. If the Amendment is adopted, it will become effective upon filing of a Certificate of Amendment to our Fifth Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware.

In addition to the 46,298,431 shares of common stock outstanding on March 15, 2006, the Board of Directors has reserved as of March 15, 2006: (i) an aggregate of 4,086,156 shares of our common stock for issuance under our equity compensation plans; (ii) 492,406 shares for issuance under our employee stock purchase plan; (iii) 114,169 shares for issuance under our deferred compensation plan; (iv) 5,060,306 shares of our common stock for issuance upon conversion of outstanding shares of our Series B-1 Preferred Stock; (v) 1,689,226 shares of our common stock for issuance upon conversion of outstanding shares of our Series B-2 Preferred Stock, (vi) 1,936,200 shares for issuance upon the exercise of outstanding warrants; and (vii) 2,497,201 shares for issuance for payment of dividends on our Preferred Stock.

Although the Board of Directors has no other plans to issue the additional shares of common stock, it desires to have the shares available to provide additional flexibility to use capital stock for business and financial purposes in the future. The additional shares may be used for various purposes without further stockholder approval. These purposes may include: raising capital; providing equity incentives to employees, officers or directors; establishing strategic relationships with other companies; expanding our business through the acquisition of other businesses or products; and other purposes. The additional shares of common stock that would become available for issuance if this proposal is adopted could also be used by us to oppose a hostile takeover attempt or to delay or prevent changes in our control or management. For example, without further stockholder approval, the Board of Directors could strategically sell shares of common stock in a private transaction to purchasers who would oppose a takeover or favor the then current Board. This proposal to increase the authorized common stock has been prompted by business and financial considerations and not by the threat of any hostile takeover attempt or any effort of which we are aware to accumulate our stock or to obtain control of Arena (nor is the Board of Directors currently aware of any such attempts directed at us). Nevertheless, stockholders should be aware that approval of this proposal could facilitate future efforts by us to deter or prevent changes in our control, including transactions in which the stockholders might otherwise receive a premium for their

shares over then current market prices. However, we do not intend to use the additional shares of common stock to oppose a hostile takeover attempt or to delay or prevent changes in control of management.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE AMENDMENT TO OUR FIFTH AMENDED AND RESTATED CERTIFICATE OF INCORPORATION.

Proposal 5

RATIFICATION OF INDEPENDENT AUDITORS

The Audit Committee has appointed Ernst & Young LLP, an independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2006. Ernst & Young LLP has audited our financial statements since our inception in 1997. The Board of Directors is submitting the appointment of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice.

In connection with the audit of the 2005 financial statements, we entered into an engagement letter with Ernst & Young LLP which sets forth the terms by which Ernst & Young LLP will perform audit services for us. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages.

Stockholders are requested in this Proposal 5 to ratify the appointment of Ernst & Young LLP. The affirmative vote of the holders of a majority of the shares of common stock (determined as if all of our Preferred Stock was converted into common stock) present at the meeting in person or by proxy and entitled to vote will be required to ratify the appointment of Ernst & Young LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

In the event that the stockholders fail to ratify the appointment, the Audit Committee will reconsider its selection of audit firm, 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 Ernst & Young LLP are expected to be present at our 2006 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 ERNST & YOUNG LLP TO SERVE AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006.

**Compensation and Other Information Concerning Officers,
Directors and Certain Stockholders**

Executive Officers

Our executive officers are appointed by the Board of Directors and serve at the discretion of the Board. Set forth below are the names and certain biographical information regarding our executive officers. This information is as of March 15, 2006.

Name	Age	Position
Jack Lief	59	President and Chief Executive Officer
K.A. Ajit-Simh	53	Vice President, Quality Systems
Dominic P. Behan, Ph.D.	42	Senior Vice President and Chief Scientific Officer
Robert E. Hoffman, C.P.A.	40	Vice President, Finance, Chief Financial Officer and Chief Accounting Officer
Louis J. Scotti	50	Vice President, Marketing and Business Development
William R. Shanahan, Jr., M.D., J.D.	47	Vice President and Chief Medical Officer
Steven W. Spector, J.D.	41	Senior Vice President, General Counsel and Secretary

See Proposal No. 1 Election of Directors for biographical information regarding Mr. Lief and Dr. Behan, who are also directors.

K.A. Ajit-Simh has served as our Vice President, Quality Systems since January 2004. Mr. Ajit-Simh provided regulatory compliance services to several companies in the United States and internationally from 1999 to the end of 2003. Mr. Ajit-Simh held various positions of increasing responsibility at Mallinckrodt Inc. from 1975 to 1985, Baxter Healthcare from 1986 to 1989, Abbott BioTech from 1989 to 1992, and Cytel Corporation from 1992 to 1999. In addition, he has been an instructor at the University of California, San Diego since 1994, teaching classes in regulatory compliance and quality control/assurance. He also teaches courses in Good Manufacturing Practices and Advanced Quality Control and Assurance at San Diego State University as part of the graduate program in Regulatory Affairs. Mr. Ajit-Simh received a B.Sc. degree in Biology and Chemistry from Bangalore University and an M.S. in Cell Biology from St. Louis University, Missouri.

Robert E. Hoffman, C.P.A., has served as our Vice President, Finance, Chief Financial Officer and Chief Accounting Officer since December 2005. He served as Arena's Vice President, Finance from April 2000 to December 2005, and as Arena's Controller from August 1997 to April 2000. From 1994 to 1997, Mr. Hoffman served as Assistant Controller for Document Sciences Corporation, a software company. Mr. Hoffman is a member of the steering committee of the Association of Bioscience Financial Officers and on the board of directors of the San Diego County Credit Union. He is also Vice President and director of the San Diego chapter of Financial Executives International and President Elect for the 2006-2007 chapter year. Mr. Hoffman holds a B.B.A. from St. Bonaventure University and is licensed as a C.P.A. in the State of California.

Louis J. Scotti has served as our Vice President, Marketing and Business Development since September 2002. He previously served as our Vice President, Business Development from August 1999 to September 2002. From June 1998 to July 1999, Mr. Scotti served as President and Chief Executive Officer for ProtoMed, Inc., a biopharmaceutical company. From April 1996 to June 1998, Mr. Scotti served as Executive Director of Licensing for Ligand Pharmaceuticals Incorporated, a drug discovery and development company. From 1986 to 1995, Mr. Scotti served in various positions at Reed & Carnrick Pharmaceuticals, a pharmaceutical company, most recently as Vice President of Marketing and Business Development. Mr. Scotti holds a B.S.E. in Biomedical Engineering from the University of Pennsylvania.

William R. Shanahan, Jr., M.D., J.D., has served as our Vice President and Chief Medical Officer since March 2004. From August 2000 to March 2004, Dr. Shanahan served as Chief Medical Officer for

Tanox, Inc., a biopharmaceutical company. From October 1994 to August 2000, Dr. Shanahan held various positions at Isis Pharmaceuticals, Inc., a biopharmaceutical company, most recently as Vice President, Drug Development. From 1989 to 1994, he served as Director, Clinical Research for Pfizer Central Research, a pharmaceutical company. From 1986 to 1989, he held various positions at Searle Research & Development, a pharmaceutical company subsequently acquired by Pfizer, most recently as Director, Clinical Research. Dr. Shanahan holds an A.B. from Dartmouth College, an M.D. from the University of California, San Francisco and a J.D. from Loyola University, Chicago.

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

Director Compensation

Directors who are also employees do not receive additional compensation for serving as a director. The compensation of our non-employee directors is set forth below.

2005 Fiscal Year

For the fiscal year 2005, each of our non-employee directors was eligible to earn the following compensation for their participation on the Board of Directors and its committees:

Equity:

- **New Directors:** 25,000 options to purchase our common stock. The options are 10-year options with an exercise price equal to the fair market value of our common stock as determined under our equity compensation plans, vesting in equal annual installments over two years.
- **Ongoing Directors:** 10,000 options to purchase our common stock. The options are 10-year options with an exercise price equal to the fair market value of our common stock as determined under our equity compensation plans, vesting monthly over one year.

Unvested stock options terminate when the director ceases to be a director. Vested stock options terminate (i) three years after an involuntary termination or self-termination occurring with the permission of a majority of the Board of Directors, death or disability or (ii) 90 days after the director ceases to be a director for reasons other than listed in (i).

Cash:

- **Retainer:** \$20,000 annually, paid quarterly, subject to continuing service as a director. Prior to the beginning of any calendar year or, in the case of a new director, upon joining the Board of Directors, each director can irrevocably elect to take 25%, 50%, 75% or 100% of his or her retainer for the following calendar year in equivalent options determined by dividing three times the retainer amount by the fair market value of our common stock, computed at the time the options are granted. The options are 10-year options with an exercise price equal to the fair market value of our common stock as determined under our equity compensation plans, vesting monthly over one year.

- Meeting Attendance Fee:
- General:
- In-Person: \$1,000
- Telephonic: \$500
- Exceptions:
- Audit Chairperson Meeting Attendance Fee:
- In-Person: \$3,000
- Telephonic: \$1,500
- Other Chairperson Meeting Attendance Fee:
- In-Person: \$2,000
- Telephonic: \$1,000

In addition, the Board of Directors or the Compensation Committee could 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 entitled to reimbursement for all of such director's reasonable out-of-pocket expenses incurred in connection with performing Board business in 2005.

The following table provides information for fiscal 2005 compensation for non-employee directors who served during fiscal 2005 and are nominees for election at the 2006 Annual Meeting:

Non-Employee Director Nominee Compensation Table for Fiscal 2005

Name	Cash Retainer(1)	Additional Meeting Fees	Individual Grants	Exercise of Base Price	Expiration Date
			Number of Securities Underlying Options/SARs Granted(1)		
Donald D. Belcher	\$ 5,000	\$ 35,250	17,305	\$ 6.16	1/17/2015
Scott H. Bice	20,000	25,500	10,000	6.16	1/17/2015
Harry F. Hixson, Jr., Ph.D.		18,500	19,740	6.16	1/17/2015
J. Clayburn La Force, Jr., Ph.D.		21,000	19,740	6.16	1/17/2015
Louis J. Lavigne, Jr.(2)	20,000	16,500	25,000	6.16	1/17/2015
Tina S. Nova, Ph.D.	20,000	19,500	10,000	6.16	1/17/2015

- (1) Reflects that certain directors elected to receive stock options in lieu of cash payments.
- (2) The Board of Directors appointed Mr. Lavigne to the Board on January 17, 2005.

2006 Fiscal Year

For the fiscal year 2006, each of our non-employee directors is eligible to earn the following compensation for their participation on the Board of Directors and its committees:

Equity:

- **New Directors:** 25,000 options to purchase our common stock. The options are 10-year options with an exercise price equal to the fair market value of our common stock as determined under our equity compensation plans, vesting in equal annual installments over two years.
- **Ongoing Directors:** 10,000 options to purchase our common stock. The options are 10-year options with an exercise price equal to the fair market value of our common stock as determined under our equity compensation plans, vesting monthly over one year.

Unvested stock options terminate when the director ceases to be a director. Vested stock options terminate (i) three years after an involuntary termination or self-termination occurring with the permission of a majority of the Board of Directors, death or disability or (ii) 90 days after the director ceases to be a director for reasons other than listed in (i). Non-employee directors are not eligible to receive an annual option grant or options that they elect to receive in lieu of a cash retainer until after the 2006 Annual Meeting.

Cash:

- **Retainer:** \$20,000 annually, paid quarterly, subject to continuing service as a director. Prior to the beginning of any calendar year or, in the case of a new director, upon joining the Board of Directors, each director can irrevocably elect to take 25%, 50%, 75% or 100% of his or her retainer for the following calendar year in equivalent options determined by dividing three times the retainer amount by the fair market value of our common stock, computed at the time the options are granted. The options are 10-year options with an exercise price equal to the fair market value of Our common stock as determined under our equity compensation plans, vesting monthly over one year.
- **Meeting Attendance Fee:**
- General:
- In-Person: \$1,000
- Telephonic: \$500
- Exceptions:
- Audit Chairperson Meeting Attendance Fee:
- In-Person: \$3,000
- Telephonic: \$1,500
- Other Chairperson Meeting Attendance Fee:
- In-Person: \$2,000
- Telephonic: \$1,000

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In addition, the Board of Directors or the Compensation Committee may authorize additional fees for significant work in informal meetings or for other service to our in the recipient's capacity as a director or

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committee member. Each non-employee director is entitled to reimbursement for all of such director's reasonable out-of-pocket expenses incurred in connection with performing Board business in 2006.

Executive Compensation

The following table sets forth certain information concerning the compensation we paid, or that was accrued by the officers, for services rendered to us in all capacities for the fiscal years ended December 31, 2005, 2004 and 2003 by our Chief Executive Officer and our four other most highly paid executive officers (collectively, the "Named Executive Officers"):

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards			All Other Compensation
		Salary(1)	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options	
Jack Lief	2005	\$ 609,500	\$ 300,000	\$	\$	100,000	\$
President, Chief Executive Officer and Director	2004	603,750	50,000	(2)		124,350 (2)	
	2003	603,750	32,000		1,286,000 (3)		
Dominic P. Behan, Ph.D.	2005	343,750	100,000			50,000	
Senior Vice President, Chief Scientific Officer	2004	315,000	55,000			50,000	
	2003	315,000	16,000				