



May 15, 2009

Dear Arena Stockholder:

You are cordially invited to attend the 2009 Annual Meeting of Stockholders of Arena Pharmaceuticals, Inc., a Delaware corporation. The Annual Meeting will be held on Thursday, June 25, 2009, at 9:00 a.m. (Pacific Time), at our offices located at 6154 Nancy Ridge Drive, San Diego, California 92121. I look forward to meeting with as many of our stockholders as possible.

At the Annual Meeting, we will discuss each item of business described in the Notice of Annual Meeting 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 directions and a map locator under "Contact Us." For further information about the Annual Meeting, please call 858.453.7200 and ask for Investor Relations.

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

Sincerely,

Jack Lief
Chairman, President and Chief Executive Officer

6166 Nancy Ridge Drive, San Diego, California 92121

Notice of Annual Meeting of Stockholders

To be held on June 25, 2009

ARENA PHARMACEUTICALS, INC.

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

May 15, 2009

To the Stockholders of Arena Pharmaceuticals, Inc.:

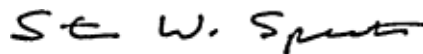
The Annual Meeting of Stockholders of Arena Pharmaceuticals, Inc., a Delaware corporation, will be held on Thursday, June 25, 2009, at 9:00 a.m. (Pacific Time), at our offices located at 6154 Nancy Ridge Drive, San Diego, California 92121, for the following purposes, which are more fully described in the proxy statement accompanying this notice:

1. To elect the 10 nominees for director named herein to our Board of Directors to serve until the next annual meeting of stockholders and until their respective successors are elected and qualified or until their earlier resignation or removal;
2. To approve the Arena Pharmaceuticals, Inc., 2009 Long-Term Incentive Plan;
3. To approve the Arena Pharmaceuticals, Inc., 2009 Employee Stock Purchase Plan;
4. To approve an amendment to our Fifth Amended and Restated Certificate of Incorporation to increase the total number of authorized shares from 150.0 million to 250.0 million and the number of authorized shares of common stock from 142.5 million to 242.5 million;
5. To ratify the appointment of Ernst & Young LLP, an independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2009; and
6. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Only stockholders of record at the close of business on April 27, 2009 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, which does not require postage 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 at the Annual Meeting if you desire to do so, as your proxy may be cancelled at your option. Please note, however, that if your shares are held of record by a bank, broker or other agent and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

By Order of our Board of Directors



Steven W. Spector
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 Thursday, June 25, 2009, at 9:00 a.m. (Pacific Time)

**Important Notice Regarding the Availability of Proxy Materials for the Stockholders' Meeting
to Be Held on June 25, 2009**

The proxy statement and annual report to security holders are available on the home page of our website at www.arenapharm.com.

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 subsidiaries, unless the context otherwise provides.

General

The enclosed proxy is solicited on behalf of our Board of Directors for use at our 2009 Annual Meeting of Stockholders, or 2009 Annual Meeting, which is to be held on Thursday, June 25, 2009, at 9:00 a.m. (Pacific 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 2009 Annual Meeting will be held at our offices located at 6154 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 May 15, 2009 to all stockholders of record at the close of business on the record date, which is April 27, 2009 (the "Record Date").

Questions and Answers About these Proxy Materials and Voting

Q: Why am I receiving these materials?

A: You are receiving these proxy materials in connection with our 2009 Annual Meeting of Stockholders, which is to be held on Thursday, June 25, 2009, at 9:00 a.m. (Pacific Time). As a stockholder, you are requested to vote on the proposals described in this proxy statement.

Q: Who can vote at our 2009 Annual Meeting?

A: Each person who owns or has the right to vote shares of our common stock as of the Record Date has the right to vote at the meeting. Each share of our common stock is entitled to one vote. As of the Record Date, there were 80,030,641 shares of our common 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, N.A., 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 Chairman, President and Chief Executive Officer, and Steven W. Spector, our Senior Vice President, General Counsel and Secretary, as your representatives at our 2009 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 proposals:

1. Election of the 10 nominees for director named herein to our Board of Directors to serve until the next annual meeting of stockholders and until their respective successors are elected and qualified or until their earlier resignation or removal;
2. Approval of the Arena Pharmaceuticals, Inc., 2009 Long-Term Incentive Plan;
3. Approval of the Arena Pharmaceuticals, Inc., 2009 Employee Stock Purchase Plan;
4. Approval of an amendment to our Fifth Amended and Restated Certificate of Incorporation to increase the total number of authorized shares from 150.0 million to 250.0 million and the number of authorized shares of common stock from 142.5 million to 242.5 million;
5. Ratification of the appointment of Ernst & Young LLP, an independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2009; and
6. Such other proposals 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, which does not require postage 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 return a signed and dated proxy card, but do not mark your voting instructions on the proxy card, your shares will be voted as follows: FOR the 10 named nominees as directors; FOR the approval of the Arena Pharmaceuticals, Inc., 2009 Long-Term Incentive Plan; FOR the approval of the Arena Pharmaceuticals, Inc., 2009 Employee Stock Purchase Plan; 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 fiscal year ending December 31, 2009; and according to the best judgment of Mr. Lief or Mr. Spector if a proposal that is not on the proxy card comes up for a vote at the meeting.

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 a 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 that organization 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** proxy cards you receive to ensure that all of 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. (Pacific Time) on June 24, 2009 (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 a bank, broker or other agent, you should follow their instructions on how to change your vote. Please contact your bank, broker or other agent if you did not receive such instructions.

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

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

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

- is present and votes in person at the meeting, or
- has properly submitted a proxy (including voting 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 New York Stock Exchange 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 present, either in person or represented by proxy, at the meeting and entitled to vote. This means that the 10 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., 2009 Long-Term Incentive Plan?

A: A majority of the shares of common stock present, either in person or represented by proxy, at the meeting and entitled to vote must vote FOR approval.

Q: How many votes must be received to approve the Arena Pharmaceuticals, Inc., 2009 Employee Stock Purchase Plan?

A: A majority of the shares of common stock present, either in person or represented by proxy, at the meeting and entitled to vote must vote FOR approval.

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

A: A majority of the shares of common stock outstanding must vote FOR approval.

Q: How many votes must be received to ratify the appointment of Ernst & Young LLP as Arena's independent auditors for the fiscal year ending December 31, 2009?

A: A majority of the shares of common stock present, either in person or represented by proxy, at the meeting and entitled to vote must vote FOR ratification.

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

A: You may vote either FOR any one or more of the director nominees or WITHHOLD your vote from any one or more of such 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 effect 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, N.A.

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, if we choose to engage one, an independent proxy solicitation firm. No additional compensation will be paid to our directors, officers or other employees for such services, and, in the event we engage such a proxy solicitation firm, the fees paid by us would not likely exceed \$20,000.

Q: How can I obtain the company's corporate governance information?

A: Our website is www.arenapharm.com and we have included various corporate governance materials under the "Investors" tab. Included in such information are the charters of the Board of Directors' standing committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. Also included under that tab are our Board of Directors' Corporate Governance Guidelines, our Code of Business Conduct and Ethics and our Policy on Filing, Receipt and Treatment of Complaints.

Election of Directors (*Proposal I*)

Nominees and Election Process

The persons named below are nominees for director at our 2009 Annual Meeting to serve until the next annual meeting of stockholders and until their respective successors are elected and qualified or until their earlier resignation or removal. Our Bylaws provide that the authorized number of directors shall be determined by a resolution of our Board of Directors.

All of the nominees listed below were elected at our 2008 annual meeting of stockholders and were recommended for election to our Board of Directors at our 2009 Annual Meeting by the Corporate Governance and Nominating 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 2009 Annual Meeting, the proxies will be voted for any substitute nominee who shall be designated by our Board of Directors, unless our Board reduces the number of directors. We have no reason to believe that any nominee will be unavailable to serve.

The following table sets forth information as of April 24, 2009 regarding our directors, each of whom has been nominated for re-election at the 2009 Annual Meeting.

| Name | Positions and Offices Held | Year First Elected or Appointed Director | Age |
|--|--|---|-----|
| Jack Lief | Chairman, President and Chief Executive Officer | 1997 | 63 |
| Dominic P. Behan, Ph.D. | Senior Vice President, Chief Scientific Officer and Director | 2000 | 45 |
| Donald D. Belcher | Director | 2003 | 70 |
| Scott H. Bice | Director | 2003 | 66 |
| Harry F. Hixson, Jr., Ph.D. | Director | 2004 | 70 |
| J. Clayburn La Force, Jr., Ph.D. | Director | 2002 | 80 |
| Tina S. Nova, Ph.D. | Director | 2004 | 55 |
| Phillip M. Schneider | Director | 2007 | 53 |
| Christine A. White, M.D. | Director | 2006 | 57 |
| Randall E. Woods | Director | 2007 | 57 |

Business Experience of Directors

Jack Lief is a co-founder of Arena and has served as a director and our President and Chief Executive Officer since April 1997. Mr. Lief has also served as the Chairman of our Board of Directors since October 2007. 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 serves as a member of the board of directors of Adventrx Pharmaceuticals, Inc., a research and development company focused on pharmaceuticals for cancer and infectious disease. Mr. Lief is also an Executive Board Member of BIOCOM, a life science industry association representing more than 550 member companies in Southern California, and was the Chairman of the board of directors of BIOCOM from March 2005 to March 2006. Mr. Lief holds a B.A. from Rutgers University and an M.S. in Psychology (Experimental and Neurobiology) from Lehigh University.

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 our Board of Directors since December 2003. Mr. Belcher served as Chairman of the board of directors of Banta Corporation, a printing and supply-chain management company, from 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 our 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 our Board of Directors since September 2004. Dr. Hixson has served as Chairman of the board of directors of BrainCells Inc., a neurogenesis-based drug discovery and development company, since December 2003. Dr. Hixson served as Chief Executive Officer of BrainCells Inc. from July 2004 to September 2005, and 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 a member of the board of directors of Infinity Pharmaceuticals, Inc., a cancer drug discovery and development company, a member of the board of directors of NovaBay Pharmaceuticals, Inc., a biopharmaceutical company, and as Chairman of the board of directors of Sequenom, Inc., a genomics 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 our Board of Directors since October 2002. Dr. La Force served as a professor of Economics at the University of California, Los Angeles from 1962 to 1978, and served as Dean of the Anderson School of Management at the 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 the University of California, Los Angeles. Dr. La Force formerly served on a number of boards of directors, including for 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. and a Ph.D. in Economics from the University of California, Los Angeles.

Tina S. Nova, Ph.D., has served as a member of our Board of Directors since September 2004. Dr. Nova is a co-founder of Genoptix, Inc., a medical laboratory diagnostics company, 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 Cypress Biosciences, Inc., a company focused on developing drugs for functional somatic syndromes. Dr. Nova is also an Executive Board Member of

BIOCOM. 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.

Phillip M. Schneider has served as a member of our Board of Directors since December 2007. From 1987 to 2002, Mr. Schneider held various positions with IDEC Pharmaceuticals Corporation, a biopharmaceutical company, most recently as Senior Vice President and Chief Financial Officer. Prior to his association with IDEC, Mr. Schneider held various management positions at Syntex Pharmaceuticals Corporation and was previously with KPMG, LLP. Mr. Schneider is a member of the board of directors of Gen-Probe, Inc., a medical diagnostics company. Mr. Schneider holds an M.B.A. from the University of Southern California and a B.S. in Biochemistry from the University of California, Davis.

Christine A. White, M.D., has served as a member of our Board of Directors since August 2006. Dr. White was with Biogen Idec Inc., a biopharmaceutical company, from 1996 to 2005, where she held several senior positions, most recently as Senior Vice President, Global Medical Affairs. From 1994 to 1996, Dr. White served as the Director of Clinical Oncology Research at the Sidney Kimmel Cancer Center in San Diego, and from 1984 to 1994, Dr. White was on the clinical staff and held various positions in the Department of Medicine at Scripps Memorial Hospitals in La Jolla and Encinitas, California, most recently as Chairman, Department of Medicine. Dr. White serves as a member of the board of directors of Genoptix, Inc., a medical laboratory diagnostics company, and as a member of the board of directors of Monogram Biosciences, Inc., a diagnostics company developing products relating to the treatment of serious infectious diseases and cancer. Dr. White holds a B.A. in Biology and an M.D. from the University of Chicago and is Board certified in both Internal Medicine and Medical Oncology.

Randall E. Woods has served as a member of our Board of Directors since December 2007. Mr. Woods is the President and Chief Executive Officer and a member of the board of directors of Sequel Pharmaceuticals, Inc., a pharmaceutical company. From April 2004 to September 2007, Mr. Woods was the President and Chief Executive Officer of NovaCardia, Inc., a pharmaceutical company, prior to its acquisition by Merck & Co. Previously, Mr. Woods served approximately eight years as the Chief Executive Officer of Corvas International, Inc., a biopharmaceutical company. He was also President of Boehringer Mannheim's U.S. pharmaceutical operations and spent more than 20 years at Eli Lilly & Company in sales and marketing positions. Mr. Woods served as the chairman emeritus of the advisory board of the University of California, San Diego's Sulpizio Family Cardiovascular Center, and is an Executive Board Member, and the Chairman of the board of directors, of BIOCOM. Mr. Woods holds an M.B.A. from Western Michigan University and a B.S. in Biology and Chemistry from Ball State University.

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

Director Independence

Our common stock is listed on the NASDAQ Global Market, which requires that a majority of a listed company's board of directors qualify as "independent" under the applicable NASDAQ listing standards. The board of directors must affirmatively make this determination.

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

Corporate Governance Guidelines

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

Annual Performance Evaluations and Assessment of Charters

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

Code of Business Conduct and Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics that applies to our directors and employees (including our principal executive officer, principal financial officer, principal accounting officer and controller), and we have posted the text of the policy on our website (www.arenapharm.com) under the "Corporate Governance" tab. To facilitate compliance with this policy, we periodically conduct a program of awareness, training and review. The Code of Business Conduct and Ethics complies with the applicable NASDAQ listing standards and the Securities and Exchange Commission, or SEC, rules and regulations and includes procedures for (i) the filing, receipt and treatment of complaints regarding suspected improper conduct by our employees, directors, collaborators, vendors and others associated with us and (ii) the confidential, anonymous submission by employees of concerns regarding any matter covered by the policy. In addition, we intend to promptly disclose (i) the nature of any amendment to the policy that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and (ii) the nature of any waiver, including an implicit waiver, from a provision of the policy that is granted to one of these specified individuals, the name of such person who is granted the waiver and the date of the waiver on our website and, as applicable, in filings on Form 8-K in the future.

Non-employee Director Meetings

Our independent directors meet in regularly scheduled executive sessions at which only independent directors are present. These executive sessions occur in conjunction with regularly scheduled meetings of our Board of Directors and its standing committees and otherwise as needed.

Director Meeting Attendance

Our Board of Directors held seven meetings during the fiscal year ended December 31, 2008. Each incumbent director attended at least 75% of the aggregate of the total number of meetings of our Board of Directors and the total number of meetings held by all committees of our Board on which such director served, in each case during the periods in which he or she served. In addition to regularly scheduled meetings, the directors participate in a considerable number of telephone interactions, including regular telephone calls among the independent directors and Mr. Lief, and other communications with each other and our executive officers, as well as with our independent auditors and external advisors, such as legal counsel, consultants and investment bankers.

As stated in our Board of Directors' Corporate Governance Guidelines, our directors are encouraged to attend our annual meetings of stockholders. All of our directors attended our 2008 annual meeting of stockholders.

Board Standing Committees

The standing committees of our Board of Directors are the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. All of the standing committees of our Board of Directors are comprised entirely of independent directors. The chairs of the standing committees are appointed by our Board of Directors and may change in the future. Pursuant to their charters, each of the committees is authorized to access, at our expense, such internal and external resources as the particular committee deems necessary or appropriate to fulfill its defined responsibilities. Each committee has sole authority to approve fees, costs and other terms of engagement of such outside resources.

Below is a chart showing the structure and membership of the standing committees of our Board of Directors as of April 24, 2009.

| Member | Audit Committee | Compensation Committee | Corporate Governance and Nominating Committee |
|----------------------------------|-----------------|------------------------|---|
| Donald D. Belcher | ●● | ●● C | |
| Scott H. Bice | | ●● | ●● |
| Harry F. Hixson, Jr., Ph.D. | | ●● | |
| J. Clayburn La Force, Jr., Ph.D. | | | |
| Tina S. Nova, Ph.D. | | | ●● |
| Phillip M. Schneider | ●● C | | |
| Christine A. White, M.D. | | ●● | ●● C |
| Randall E. Woods | ●● | | ●● |

●● = Committee member

●●
C = Committee chair

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 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 of financial controls and reporting;
- (v) reviewing and assessing our guidelines and policies with respect to risk assessment and management, our tax strategy and our investment policy;
- (vi) reviewing and approving related-party transactions; and
- (vii) overseeing our Code of Business Conduct and Ethics and our Policy on Filing, Receipt and Treatment of Complaints.

Our Board of Directors has determined that each of the Audit Committee members meets the independence and experience requirements included in the applicable NASDAQ listing standards and Rule 10A-3(b)(1) of the

Securities Exchange Act of 1934, as amended, or the Exchange Act. Our Board of Directors has also determined that Mr. Schneider, the Chair of the Audit Committee, is an “audit committee financial expert” as defined in Item 407(d) of Regulation S-K.

The Audit Committee was established in accordance with Section 3(a)(58)(A) of the Exchange Act. Our Board of Directors has adopted a written charter for the Audit Committee, which is available on our website at www.arenapharm.com. The Audit Committee held seven meetings in 2008. The Audit Committee’s report is set forth below under “Audit Committee Report.”

Compensation Committee

The Compensation Committee’s responsibilities include:

- (i) reviewing, modifying and approving our overall compensation strategy and policies;
- (ii) reviewing and approving corporate and individual performance goals relevant to the compensation of our executive officers;
- (iii) evaluating and recommending to our Board of Directors compensation plans and programs for us, as well as modifying or terminating existing plans and programs;
- (iv) reviewing and approving compensation and benefits for our non-employee directors and executive officers, and making recommendations to our Board of Directors regarding these matters;
- (v) authorizing and approving equity grants under our equity compensation plans; and
- (vi) overseeing preparation and review of the committee’s report and the compensation discussion and analysis included in our proxy statement.

Our Board of Directors has adopted a written charter for the Compensation Committee, which is available on our website at www.arenapharm.com. Mr. Belcher is the Chair of the Compensation Committee. The Compensation Committee held five meetings in 2008. The Compensation Committee’s report is set forth below under “Compensation Committee Report.”

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee’s responsibilities include:

- (i) recommending guidelines to our Board of Directors for our corporate governance, including the structure and function of our Board and its committees and our management;
- (ii) reviewing and approving a management succession plan and related procedures;
- (iii) making recommendations regarding the agenda for our Board of Directors’ strategy discussions;
- (iv) overseeing compliance related policies and practices that are not within the purview of the Audit Committee or are referred by our Board of Directors;
- (v) establishing criteria for membership on our Board of Directors;
- (vi) identifying, evaluating, reviewing and recommending to our Board of Directors qualified candidates to serve on our Board;
- (vii) making recommendations to our Board of Directors regarding the election of officers;
- (viii) serving as a focal point for communications between director candidates, non-committee directors and management; and
- (ix) reviewing and assessing the performance of our Board of Directors and each of its committees.

The Corporate Governance and Nominating Committee uses many sources to identify potential director candidates, including the network of contacts among our directors, officers and other employees, and may engage outside consultants and recruiters in this process. As set forth below under “Stockholder Director Recommendations,” the Corporate Governance and Nominating Committee will consider director candidates recommended by our stockholders. The Corporate Governance and Nominating Committee believes that candidates for director should have certain minimum qualifications, including being able to understand basic financial statements. In considering candidates for director, the Corporate Governance and Nominating Committee will consider all relevant factors, which may include, among others, the candidate’s experience and accomplishments, the relevance of such experience to our business, the availability of the candidate to devote sufficient time and attention to our company, the candidate’s reputation for integrity and ethics and the candidate’s ability to exercise sound business judgment. The Corporate Governance and Nominating Committee retains the right to modify these qualifications from time to time, and candidates for director are reviewed in the context of the composition of the then current Board of Directors, our requirements and the interests of our stockholders. The Corporate Governance and Nominating Committee recommended the nominations of each of the directors nominated for election at our 2009 Annual Meeting.

Our Board of Directors has adopted a written charter for the Corporate Governance and Nominating Committee, which is available on our website at www.arenapharm.com. Dr. White is the Chair of the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee held three meetings in 2008.

Stockholder Director Recommendations

The Corporate Governance and Nominating Committee will consider director candidates recommended by our stockholders. A candidate must be highly qualified and be willing and expressly interested in serving on our Board of Directors. To be considered by the Corporate Governance and Nominating Committee, a stockholder recommendation for director candidates for an annual meeting of stockholders must be received by the committee by December 31 of the year before such annual meeting. A stockholder who wishes to recommend a candidate for the Corporate Governance and Nominating Committee’s consideration should forward the candidate’s name and information about the candidate’s qualifications to Corporate Secretary, Arena Pharmaceuticals, Inc., 6166 Nancy Ridge Drive, San Diego, California 92121. **Submissions must include a representation that the nominating stockholder is a beneficial or record owner of our stock. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected.** This procedure does not affect the deadline for submitting other stockholder proposals for inclusion in the proxy statement, nor does it apply to questions a stockholder may wish to ask at an annual meeting. Additional information regarding submitting stockholder proposals is set forth in our Bylaws. Stockholders may request a copy of the bylaw provisions relating to stockholder proposals from our Corporate Secretary.

Stockholder Communications with our Board of Directors

Our Board of Directors has a formal process by which stockholders may communicate with our Board or any of our directors or officers. Stockholders who wish to communicate with our Board of Directors or any of our directors or officers may do so by sending written communications addressed to such person or persons in care of Corporate Secretary, Arena Pharmaceuticals, Inc., 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 our Board of Directors modifies this process, we will post the revised process on our website.

Compensation Committee Interlocks and Insider Participation

Messrs. Belcher and Bice and Drs. Hixson, La Force and White served on the Compensation Committee for at least part of 2008, and the committee currently consists of Messrs. Belcher and Bice and Drs. Hixson and

White. No director serving on the Compensation Committee during any part of 2008 was, at any time during or before such fiscal year, one of our employees. None of our executive officers served during any part of 2008 as a member of the board of directors or compensation committee of any other entity that had one or more of its executive officers serving as members of our Board of Directors or its Compensation Committee.

Certain Relationships and Related Transactions

Except for the compensation arrangements between us and our executive officers and directors described below under “Compensation Discussion and Analysis,” since January 1, 2008, we have not been a party to any transactions involving more than \$120,000 and in which any director, nominee for director, executive officer, holder of more than 5% of our common stock or any immediate family member of the foregoing has a direct or indirect material interest, nor are any such transactions currently proposed.

The Audit Committee’s charter requires that it reviews and approves any related-party transactions. In considering related-party transactions, the Audit Committee considers the relevant available facts and circumstances, including, but not limited to, (i) the risks, costs and benefits to us, (ii) the impact on a director’s independence in the event the related party is a director, immediate family member of a director or an entity with which a director is affiliated, (iii) the terms of the transaction, (iv) the availability of other sources for comparable services or products, and (v) the terms available to or from, as the case may be, unrelated third parties or to or from employees generally. In the event a director has an interest in the proposed transaction, the director must recuse himself or herself from the deliberations and approval. In determining whether to approve, ratify or reject a related-party transaction, the Audit Committee evaluates whether, in light of known circumstances, the transaction is in, or is not inconsistent with, our best interests and those of our stockholders.

Approval of the Arena Pharmaceuticals, Inc., 2009 Long-Term Incentive Plan (*Proposal 2*)

Stockholders are being asked to approve the Arena Pharmaceuticals, Inc., 2009 Long-Term Incentive Plan (the “2009 LTIP”). The Board of Directors approved the 2009 LTIP at its April 17, 2009 meeting, subject to approval from stockholders at the 2009 Annual Meeting. The Board of Directors considers the 2009 LTIP to be a significant contributor to our long-term financial success, by assisting us in attracting and retaining individuals who are expected to contribute to our success by serving as employees, directors, consultants and/or advisors and to assist us in achieving long-term objectives that we believe will benefit our stockholders.

When we adopted our 2006 Long-Term Incentive Plan, as amended (the “2006 LTIP”), in June 2006, our Amended and Restated 1998 Equity Compensation Plan, Amended and Restated 2000 Equity Compensation Plan, and 2002 Equity Compensation Plan were terminated (together with the 2006 LTIP, the “Prior Plans”). Subject to and upon approval of the 2009 LTIP by stockholders at the 2009 Annual Meeting, our 2006 LTIP will also be terminated. 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 7.0 million shares of our common stock authorized for issuance under the 2009 LTIP if it is approved by stockholders, which amount will be (i) decreased for grants made since December 31, 2008 and before the approval of the 2009 LTIP and (ii) increased by the number of shares subject to any stock awards under the Prior Plans that, after December 31, 2008, are forfeited, expire or settled for cash and as otherwise provided in the 2009 LTIP.

The following summary describes the principal features of the 2009 LTIP, and is qualified in its entirety by reference to the full text of the 2009 LTIP. A copy of the 2009 LTIP is filed as Appendix A to the proxy statement for the 2009 Annual Meeting filed with the SEC.

In this Proposal 2, stockholders are requested to approve the adoption of the 2009 LTIP. The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and

entitled to vote at the 2009 Annual Meeting will be required to approve the adoption of the 2009 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 2009 Long-Term Incentive Plan

Purpose. The purpose of the 2009 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 achieve long-term objectives that will inure to the benefit of all of our stockholders through the additional incentives inherent in the awards under the 2009 LTIP.

Shares Available for Issuance. Up to 7.0 million shares of common stock will be available for issuance under the 2009 LTIP, subject to adjustment for certain corporate events, including mergers and stock splits. This amount consists of 5.8 million shares of common stock, plus the number of unallocated shares remaining in the 2006 LTIP on December 31, 2008. Stock options and stock appreciation rights granted under the Prior Plans after December 31, 2008 or under the 2009 LTIP reduce the available number of shares by 1 share for every share issued while awards other than stock options and stock appreciation rights granted under the Prior Plans after December 31, 2008 or under the 2009 LTIP reduce the available number of shares by 1.3 shares for every share issued. In addition, shares that, after December 31, 2008, are released from awards granted under the Prior Plans because the awards expire, are forfeited or are settled for cash will increase the number of shares available under the 2009 LTIP by 1 share for each share released from a stock option or stock appreciation right and by 1.3 shares for each share released from a restricted stock award or restricted stock unit award. The following shares will not become available for issuance: (i) shares tendered or withheld in payment of the purchase price of an option, or to satisfy any tax withholding obligation with respect to an option or stock appreciation right, (ii) shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right on exercise thereof, and (iii) shares reacquired on the open market or otherwise using cash proceeds from the exercise of options or options granted under the Prior Plans. Shares issued under awards granted in assumption of or in substitution for awards previously granted by a company acquired by us or with which we or any subsidiary combines, will not reduce the shares authorized for issuance under the 2009 LTIP. Shares issued under the 2009 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 2009 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 2009 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 or employees of our subsidiaries.

As of April 24, 2009, approximately 500 employees and eight non-employee directors were eligible to participate in the 2009 LTIP. These employees include (i) our six executive officers, (ii) approximately 70 employees at our Swiss subsidiary, Arena Pharmaceuticals GmbH, and (iii) approximately 130 employees selected for a reduction in force that is expected to be substantially completed by June 22, 2009. The Compensation Committee, in its discretion, selects the individual or individuals to whom awards under the 2009 LTIP may be granted, determines the type or types of awards to be granted, the time or times at which such awards shall be granted, and the number of shares subject to each such grant (or the dollar value of certain performance awards). For this reason, it is not possible to determine the benefits or amounts that will be received by any particular individual or individuals in the future.

Certain Limits on Shares Subject to Awards. The 2009 LTIP provides that no participant may be granted, in any 36-month period, (i) options or stock appreciation rights to purchase more than 2.0 million shares of

common stock, or (ii) restricted stock awards, performance awards and/or restricted stock unit awards that are denominated in shares with respect to more than 1.0 million shares of common stock that are intended to comply with the performance-based exception under Code Section 162(m). Shares subject to a cancelled award continue to count against the applicable limit. The maximum dollar value that may be granted to any participant for each 12 months in a performance period with respect to performance-based awards that are intended to comply with the performance-based exception under Code Section 162(m) and are denominated in cash is \$5,000,000. The dollar value of a cancelled award will continue to count against the \$5,000,000 limit.

The aggregate maximum number of shares of common stock that may be issued under the 2009 LTIP pursuant to the exercise of incentive stock options is 7.0 million shares, subject to adjustment for certain corporate events, including mergers and stock splits.

Administration. The Plan will be administered by the Compensation Committee, which shall consist of at least two directors, both of whom must qualify as “non-employee directors” under Rule 16b-3 under the Exchange Act, “outside directors” under Section 162(m) of the Code and “independent directors” for purposes of the rules of the NASDAQ Stock Market to the extent required by such rules. The Compensation Committee has the authority to select the participants who will receive awards under the 2009 LTIP, to determine the type and terms of the awards, and to interpret and administer the 2009 LTIP. The Compensation Committee may delegate the right to make grants and otherwise take action on the Compensation Committee’s behalf under the 2009 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 our executive officers.

Terms and Conditions of Options. Options granted under the 2009 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 2009 LTIP is determined by the Compensation Committee at the time the options are granted. The exercise price of an option may not be less than 100% of the fair market value of the common stock on the date such option is granted, except in the case of substitute awards granted in connection with an acquisition; provided, however, that in the case of an incentive stock option granted to a participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all of our classes of stock, the option price per share will be no less than 110% of the fair market value of one share of our common stock on the date of grant. The fair market value of the common stock is generally determined with reference to the closing price for the common stock on the NASDAQ Stock Market on the date the option is granted (or if there was no reported closing price on such date, on the last preceding date on which the closing price was reported). On April 24, 2009, the closing price of our common stock as reported on the NASDAQ Stock Market was \$2.46 per share.

Exercise of Option. The Compensation Committee determines when options become exercisable. The 2009 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 2009 LTIP expire no later than 10 years from the date of grant, except in the event of the optionee’s death or disability; provided, however, that the term of the option will not exceed five years from the date the option is granted in the case of an incentive stock option granted to a participant who, at the time of the grant, owns stock representing more than 10% of the voting power of all of our classes of stock.

Stock Appreciation Rights. The Compensation Committee is authorized to grant stock appreciation rights in conjunction with an option or other award granted under the 2009 LTIP, and to grant stock appreciation rights separately. The grant price of a stock appreciation right may not be less than 100% of the fair market value of the common stock on the date such stock appreciation right is granted, except in the case of substitute awards

granted in connection with an acquisition. The Compensation Committee determines when stock appreciation rights become exercisable. 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 or, at the discretion of the Compensation Committee, such lesser amount, on the date of exercise over the grant price. Payment may be made in cash, shares of our common stock or other property, or any combination of the same, as the Compensation Committee may determine. Shares issued upon the exercise of a stock appreciation right are valued at their fair market value as of the date of exercise.

Restricted Stock Awards. Restricted stock awards may be issued to participants either alone or in addition to other awards granted under the 2009 LTIP, and are also available as a form of payment for performance awards and other earned cash-based incentive compensation. The Compensation Committee determines the terms and conditions of restricted stock awards, including the number of shares granted (subject to the limit on shares subject to awards set forth above), and any conditions for vesting that must be satisfied, which typically will be based principally or solely on continued provision of services, but may include a performance-based component.

Restricted Stock Unit Awards. Awards of restricted stock units having a value equal to an identical number of shares may be granted either alone or in addition to other awards granted under the 2009 LTIP, and are also available as a form of payment for other awards granted under the 2009 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.

Performance Awards. Performance awards provide participants with the opportunity to receive cash, shares of common stock or other property, or any combination thereof, based on performance and other vesting conditions. Performance awards may be granted from time to time as determined at the discretion of the Compensation Committee. Subject to the share limit and maximum dollar value set forth above, the Compensation Committee has the discretion to determine (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 2009 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 Awards. The 2009 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 any combination 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 our stock;
- 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 achievements;
- completing phases of a clinical study (including the treatment phase); or announcing or presenting preliminary or final data from clinical studies; in each case, whether on particular timelines or generally);
- timely completion of clinical trials;
- submission of INDs and NDAs and other regulatory achievements;
- partner or collaborator achievements;
- internal controls, including those related to the Sarbanes-Oxley Act of 2002;
- research progress, including the development of programs;
- financing;
- investor relation, analysts and communication;
- manufacturing achievements (including obtaining particular yields from manufacturing runs and other measurable objectives related to process development activities);
- strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property);
- establishing relationships with commercial entities with respect to the marketing, distribution and sale of our products (including with group purchasing organizations, distributors and other vendors);
- supply chain achievements (including establishing relationships with manufacturers or suppliers of active pharmaceutical ingredients and other component materials and manufacturers of our products);
- co-development, co-marketing, profit sharing, joint venture or other similar arrangements;
- financing and other capital raising transactions (including sales of our equity or debt securities);
- factoring transactions;
- sales or licenses of our assets, including intellectual property (whether in a particular jurisdiction or territory or globally or through partnering transactions);
- implementation, completion or attainment of measurable objectives with respect to research, development, manufacturing, commercialization, products or projects, production volume levels, acquisitions and divestitures;
- factoring transactions; and
- recruiting and maintaining personnel.

Such performance goals also may be based solely by reference to our performance or the performance of one or more of our affiliates, divisions, business segments or business units, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. At the time a performance award is granted, the Compensation Committee may also exclude charges related to an event or occurrence which the Compensation Committee determines should appropriately be excluded, including (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 US 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 or other property dividends, or cash payments in amounts equivalent to cash, stock or other property dividends declared with respect to shares of common stock covered by an award. 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, continue to vest or be earned and the terms of such exercise, vesting or earning, on and after the date that a participant terminates employment or service with us, whether by reason of death, disability, voluntary or involuntary termination of employment or services, or otherwise.

No Repricing. The 2009 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 2009 LTIP, a “repricing” means a reduction in the exercise price of an option or the grant price of a stock appreciation right, the cancellation of an option or stock appreciation right in exchange for cash or another award (except for awards granted in assumption of or in substitution for awards previously granted by a company acquired by us or with which we combine) under the 2009 LTIP if the exercise price of the cancelled option or grant price of the cancelled stock appreciation right is greater than the fair market value of the common stock, or any other action with respect to an option or stock appreciation right that may be treated as a repricing under the NASDAQ marketplace rules.

Nontransferability of Awards. Except as provided in the next sentence, an award granted under the 2009 LTIP is not transferable other than by will or the laws of descent and distribution, and may be exercised during the participant’s lifetime only by the participant or the participant’s guardian or legal representative. The Compensation Committee may provide in an award agreement that a participant may transfer an award (other than an incentive stock option) to a family member (whether by gift or a domestic relations order) 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 2009 LTIP, the number and class of shares of awards outstanding under the 2009 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 2009 LTIP or otherwise defined in the agreement evidencing an award), options and stock appreciation rights outstanding as of the date of the Change in Control shall be cancelled and terminated without payment therefor if the fair market value of one share of our common stock as of the date of the Change in Control is less than the per share option exercise price or stock appreciation right grant price.

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

The Compensation Committee, in its discretion, may also determine that, upon the occurrence of a Change in Control, each option and stock appreciation right outstanding shall terminate within a specified number of days after notice to the participant, and/or that each participant shall receive, with respect to each share of common stock subject to such option or stock appreciation right, an amount equal to the excess, if any, of the fair market value of such share immediately prior to the occurrence of such Change in Control over the exercise price per share of such option and/or stock appreciation right; such amount to be payable in cash, in one or more kinds of stock or property, or in a combination thereof, as the Compensation Committee, in its discretion, will determine.

Effective Date. The 2009 LTIP will be effective upon its approval by stockholders at the 2009 Annual Meeting.

Amendment and Termination of the 2009 LTIP. The Board of Directors may alter, amend, suspend or terminate the 2009 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 of Directors may not amend the Plan without stockholder approval to increase the number of shares available for awards under the 2009 LTIP, expand the types of awards available under the 2009 LTIP, materially expand the class of persons eligible to participate in the 2009 LTIP, permit the grant of options or stock appreciation rights with an exercise or grant price of less than 100% of fair market value on the date of grant (except for substitute awards granted in connection with an acquisition), increase the maximum term of 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 NASDAQ marketplace rules and related guidance. No such action by the Board of Directors may alter or impair any award previously granted under the 2009 LTIP without the written consent of the participant. The 2009 LTIP will expire on the 10th anniversary of its effective date, except with respect to awards then outstanding, and no further awards may be granted thereafter.

US Federal Income Tax Consequences. The following discussion summarizes certain federal income tax considerations of awards under the 2009 LTIP. However, it does not purport to be complete and does not describe the state, local or foreign tax considerations or the consequences for any particular individual.

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

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

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

Restricted Stock Awards and Performance Awards

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

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

Restricted Stock Units

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

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

Company Tax Deduction. We generally will be entitled to a tax deduction in connection with an award under the 2009 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 three most highly compensated executive officers other than the chief executive officer and the chief financial officer. Under Section 162(m), the annual compensation paid to any of these specified

executives will be deductible only to the extent that it does not exceed \$1,000,000. 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 2009 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 THAT STOCKHOLDERS VOTE “FOR” THE APPROVAL OF THE 2009 LONG-TERM INCENTIVE PLAN.

Approval of the Arena Pharmaceuticals, Inc., 2009 Employee Stock Purchase Plan (Proposal 3)

Stockholders are being asked to approve the Arena Pharmaceuticals, Inc., 2009 Employee Stock Purchase Plan (the “2009 ESPP”). The Board of Directors approved the 2009 ESPP at its April 17, 2009 meeting, subject to approval from stockholders at the 2009 Annual Meeting. The 2009 ESPP 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.

Our 2001 Employee Stock Purchase Plan, as amended (the “2001 ESPP”) will be terminated, subject to and upon approval of the 2009 ESPP by stockholders at the 2009 Annual Meeting. However, notwithstanding such termination of the 2001 ESPP, all Offering Periods existing under the 2001 ESPP on the effective date of the 2009 ESPP shall continue in effect under the 2009 ESPP, but in accordance with the terms of the 2001 ESPP. There will be 1.5 million shares of our common stock authorized for issuance under the 2009 ESPP if it is approved by stockholders. Upon the stockholders’ approval of the 2009 ESPP, no further shares will be authorized for issuance under the 2001 ESPP.

In this Proposal 3, stockholders are requested to approve the adoption of the 2009 ESPP. The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the 2009 Annual Meeting will be required to approve the adoption of the 2009 ESPP. 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.

The following summary describes the principal features of the 2009 ESPP, and is qualified in its entirety by reference to the full text of the 2009 ESPP. A copy of the 2009 ESPP is filed as Appendix B to the proxy statement for the 2009 Annual Meeting filed with the SEC.

Participation in the 2009 ESPP

Participation in the 2009 ESPP 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 2009 ESPP are not determinable. Non-employee directors are not eligible to participate in the 2009 ESPP.

Description of the 2009 ESPP

The essential terms of the 2009 ESPP are summarized as follows:

General. The purpose of the 2009 ESPP is to provide employees with an opportunity to purchase our common stock through accumulated payroll deductions.

Administration. The 2009 ESPP may be administered by the Board of Directors, the Compensation Committee or another committee appointed by the Board. All questions of interpretation or application of the 2009 ESPP are determined by the Board of Directors or its appointed committee, and its decisions are final, conclusive and binding upon all participants. The Board of Directors or its appointed committee may, without regard to whether participant rights may be considered to have been adversely effected, change the duration of the Purchase Periods (as defined below) or the length or date of commencement of an Offering Period, limit the frequency and/or number of changes in the amount withheld during an Offering Period (as defined below), establish the exchange ratio applicable to amounts withheld in a currency other than US dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in our processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of our common stock for each participant properly correspond with amounts withheld from the participant's compensation, and establish such other limitations or procedures as the Board of Directors or its appointed committee determines in its sole discretion advisable which are consistent with the 2009 ESPP.

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; provided, however, that no employee shall be granted an option under the 2009 ESPP (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 in which such option is outstanding at any time. Eligible employees become participants in the 2009 ESPP by filing with us an authorization form authorizing payroll deductions prior to the beginning of each Offering Period unless a later time for filing the authorization form has been set by the Board of Directors. As of April 24, 2009, approximately 425 employees were eligible to participate in the 2009 ESPP. These employees include (i) our six executive officers and (ii) approximately 130 employees selected for a reduction in force that is expected to be substantially completed by June 22, 2009.

Participation in an Offering. The 2009 ESPP 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 2009 ESPP 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. To participate in the 2009 ESPP, each eligible employee must authorize payroll deductions pursuant to the 2009 ESPP. Such payroll deductions may not exceed 15% of a participant's compensation.

Once an employee becomes a participant in the 2009 ESPP, the employee will automatically participate in each successive Offering Period until such time as the employee withdraws from the 2009 ESPP 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.

All Offering Periods existing under the 2001 ESPP on the effective date of the 2009 ESPP will continue under the 2009 ESPP, but in accordance with the terms of the 2001 ESPP, including with respect to their Purchase Price and duration. The shares reserved for issuance under the 2009 ESPP will be available for purchase with respect to Offering Periods existing under the 2001 ESPP on the effective date of the 2009 ESPP and those commencing at any time under the 2009 ESPP.

Purchase Price; Shares Purchased. Shares of our common stock may be purchased under the 2009 ESPP 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 if there was no reported closing price on such date, on the last preceding date on which the closing price was reported). 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 April 24, 2009, the closing price as reported on the NASDAQ Global Market was \$2.46 per share.

Restrictions on Transfer. Rights granted under the 2009 ESPP 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 2009 ESPP 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 2009 ESPP.

Adjustment upon Change in Capitalization. In the event of any stock split, reverse stock split, stock dividend, extraordinary cash 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 2009 ESPP, the number of shares of stock subject to options outstanding under the 2009 ESPP 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 or its appointed committee, whose determination shall be final, binding and 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, any Offering Periods 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 2009 ESPP. 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 Offering Period or the 2009 ESPP 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 to comply with Section 423 of the Code, stock exchange rules or other applicable law. Unless terminated earlier, the 2009 ESPP will terminate on June 25, 2019.

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 2009 ESPP. The 2009 ESPP, 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 is 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 2009 ESPP 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, or in the event of a participant's death (whenever occurring), then the participant (or, if applicable, the participant's beneficiary) 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 participant. Any additional gain or loss will be treated as long-term capital gain or loss.

If the shares 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 participant. 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 2009 ESPP. 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 APPROVAL OF THE 2009 EMPLOYEE STOCK PURCHASE PLAN.

Approval of an Amendment to Our Fifth Amended and Restated Certificate of Incorporation to Increase Authorized Shares of Stock (*Proposal 4*)

On April 17, 2009 our Board of Directors adopted, subject to stockholder approval, an amendment to our Fifth Amended and Restated Certificate of Incorporation, as amended, to increase the total number of our authorized shares from 150.0 million to 250.0 million, and to increase the number of authorized shares of our common stock from 142.5 million to 242.5 million (the “Certificate Amendment”).

Stockholders are requested in this Proposal 4 to approve the Certificate Amendment. The affirmative vote of the holders of a majority of the shares of common stock outstanding will be required to approve the Certificate Amendment. Abstentions and broker non-votes will have the same effect as a vote against the Certificate Amendment.

The additional common stock to be authorized by adoption of the Certificate Amendment would have rights identical to our currently outstanding common stock. Adoption of the Certificate Amendment and issuance of our common stock would not affect the rights of the holders of our currently outstanding common 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. If the Certificate Amendment is adopted, it will become effective upon filing of a Certificate of Amendment to our Fifth Amended and Restated Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware.

In addition to the 80,029,891 shares of common stock outstanding on April 17, 2009, the following shares were reserved as of such date: (i) an aggregate of 9,671,835 shares of our common stock for issuance under our equity compensation plans; (ii) 107,919 shares for issuance under our deferred compensation plan; (iii) 2,655 shares for issuance under the 2001 ESPP; and (iv) 2,030,253 shares for issuance upon the exercise of outstanding warrants. Additional shares of common stock would be reserved for issuance under the 2009 LTIP and 2009 ESPP, as more fully described under Proposals 2 and 3, if such plans are approved by stockholders.

Although our 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, directors, consultants and/or advisors; 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, our Board of Directors could strategically sell shares of common stock in a private transaction to purchasers who would oppose a takeover or favor our 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 our 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. We do not currently 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.

Securities authorized for issuance under equity compensation plans

The following table summarizes our compensation plans under which our equity securities are authorized for issuance as of December 31, 2008.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|--|--|
| Equity compensation plans approved by security holders* | 8,506,730 | \$7.51 | 1,317,598** |
| Equity compensation plans not approved by security holders | — | — | — |
| Total* | 8,506,730 | \$7.51 | 1,317,598** |

* Includes 6,556,630 stock options with a per share weighted-average exercise price of \$9.74 and 1,950,100 performance-based restricted stock unit awards which have no per share weighted-average exercise price. Excludes 29,000 shares of unvested restricted stock and 107,919 shares of restricted stock contributed to a deferred compensation plan by certain of our executive officers that were previously granted under an equity compensation plan approved by our stockholders.

** Includes 92,493 shares of common stock available for future issuance under our 2001 ESPP.

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

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of April 24, 2009 by:

- Each person, group or entity who is the beneficial owner of 5% or more of our common stock;
- Each director and nominee for director;
- Our Named Executive Officers; and
- All current directors and executive officers as a group.

Unless otherwise indicated in the footnotes below, the address for the beneficial owners listed in this table is in care of Corporate Secretary, Arena Pharmaceuticals, Inc., 6166 Nancy Ridge Drive, San Diego, California 92121. This table is based on information supplied by executive officers, directors and principal stockholders and Schedules 13D, 13G and other filings made with the SEC. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that the stockholders named in this table have sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 80,030,641 shares of common stock outstanding on April 24, 2009, including 2,000 restricted shares of common stock, and as adjusted as required by the rules promulgated by the SEC. This table includes shares issuable pursuant to stock options and other rights to purchase shares of our common stock exercisable within 60 days of April 24, 2009.

| <u>Name and Address of Beneficial Owner</u> | <u>Shares Beneficially Owned</u> | <u>Percentage of Total</u> |
|---|----------------------------------|----------------------------|
| Federated Investors, Inc. (1) | 8,861,935 | 11.1% |
| Wellington Management Company, LLP (2) | 8,124,217 | 10.2% |
| OppenheimerFunds, Inc. (3) | 6,155,057 | 7.7% |
| Entities affiliated with Deerfield Capital, L.P. (4) | 5,288,505 | 6.6% |
| Entities affiliated with Barclays Global Investors, NA (5) | 4,416,033 | 5.5% |
| Jack Lief (6) | 1,227,232 | 1.5% |
| Dominic P. Behan, Ph.D. (7) | 714,448 | * |
| Steven W. Spector, J.D. (8) | 275,563 | * |
| Robert E. Hoffman, C.P.A. (9) | 199,349 | * |
| J. Clayburn La Force, Jr., Ph.D. (10) | 186,396 | * |
| William R. Shanahan, Jr., M.D., J.D. (11) | 163,750 | * |
| Harry F. Hixson, Jr., Ph.D. (12) | 148,810 | * |
| Donald D. Belcher (13) | 133,800 | * |
| Scott H. Bice (14) | 77,292 | * |
| Tina S. Nova, Ph.D. (15) | 72,000 | * |
| Christine A. White, M.D. (16) | 68,768 | * |
| Phillip M. Schneider (17) | 35,324 | * |
| Randall E. Woods (18) | 25,324 | * |
| All directors and executive officers as a group (14 persons) (19) | 3,409,682 | 4.1% |

* Less than one percent

- (1) The principal business office of Federated Investors, Inc. is Federated Investors Tower, 1001 Liberty Avenue, Pittsburgh, Pennsylvania 15222.
- (2) The principal business office of Wellington Management Company, LLP is 75 State Street, Boston, Massachusetts 02109.
- (3) OppenheimerFunds, Inc., a registered investment adviser, had shared voting and dispositive power with respect to all 6,155,057 shares, including the 6,000,000 shares owned by the Oppenheimer Global Opportunities Fund. Oppenheimer Global Opportunities Fund, an investment company registered under Section 8 of the Investment Company Act of 1940, had shared voting and dispositive power with respect to 6,000,000 shares. OppenheimerFunds, Inc. disclaims beneficial ownership as an investment adviser. The principal business office of OppenheimerFunds, Inc. is Two World Financial Center, 225 Liberty Street, New York, NY 10281.
- (4) Represents shares held by Deerfield Capital, L.P., Deerfield Partners, L.P., Deerfield International Limited, Deerfield Management Company, L.P., and James E. Flynn. The principal business office of Deerfield Capital, L.P., Deerfield Partners, L.P., Deerfield Management Company, L.P., and James E. Flynn is 780 Third Avenue, 37th Floor, New York, New York 10017. The principal business office of Deerfield International Limited is c/o Bisys Management, Bison Court, Columbus Centre, P.O. Box 3460, Road Town, Tortola, British Virgin Islands.

- (5) Represents shares held by Barclays Global Investors, NA and Barclays Global Fund Advisors. The principal business office of Barclays Global Investors, NA and Barclays Global Fund Advisors is 400 Howard Street, San Francisco, California 94105.
- (6) Includes 698,850 shares issuable to Mr. Lief upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (7) Includes 318,948 shares issuable to Dr. Behan upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (8) Includes 220,000 shares issuable to Mr. Spector upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (9) Includes 141,250 shares issuable to Mr. Hoffman upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (10) Includes 176,396 shares issuable to Dr. La Force upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (11) Includes 163,750 shares issuable to Dr. Shanahan upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (12) Includes 118,810 shares issuable to Dr. Hixson upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (13) Includes 118,800 shares issuable to Mr. Belcher upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (14) Includes 76,192 shares issuable to Mr. Bice upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (15) Includes 72,000 shares issuable to Dr. Nova upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (16) Includes 68,768 shares issuable to Dr. White upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (17) Includes 25,324 shares issuable to Mr. Schneider upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (18) Includes 25,324 shares issuable to Mr. Woods upon the exercise of stock options that are exercisable within 60 days of April 24, 2009.
- (19) Includes 2,301,912 shares issuable upon the exercise of stock options held by our directors and executive officers that are exercisable within 60 days of April 24, 2009.

Executive Officers

Our executive officers are appointed by our Board of Directors and serve at the discretion of our Board. The following table sets forth information as of April 24, 2009 regarding our executive officers.

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|--|------------|--|
| Jack Lief | 63 | Chairman, President and Chief Executive Officer |
| K.A. Ajit-Simh | 56 | Vice President, Quality Systems |
| Dominic P. Behan, Ph.D. | 45 | Senior Vice President and Chief Scientific Officer |
| Robert E. Hoffman, C.P.A. | 43 | Vice President, Finance and Chief Financial Officer |
| William R. Shanahan, Jr., M.D., J.D. . . | 60 | Vice President and Chief Medical Officer |
| Steven W. Spector, J.D. | 44 | Senior Vice President, General Counsel and Secretary |

See “Election of Directors (*Proposal 1*)” for biographical information regarding Mr. Lief and Dr. Behan, who are also directors.

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., a pharmaceutical/chemical company, from 1975 to 1985, Baxter Healthcare, a health products company, from 1986 to 1989, Abbott BioTech, a health products company, from 1989 to 1992, and Cytel Corporation, a biotechnology company, from 1992 to 1999. In addition, Mr. Ajit-Simh has been an instructor at the University of California, San Diego since 1994, teaching classes in regulatory compliance and quality control/assurance. Mr. Ajit-Simh 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.

Robert E. Hoffman, C.P.A., has served as our Vice President, Finance and Chief Financial Officer since December 2005. Mr. Hoffman served as our Vice President, Finance and Chief Accounting Officer from June 2004 to December 2005, as our Vice President, Finance from April 2000 to June 2004, and as our 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 serves as a member of the steering committee of the Association of Bioscience Financial Officers and as a supervisory committee member of the San Diego County Credit Union. Mr. Hoffman is also a director and a former President of the San Diego chapter of Financial Executives International. Mr. Hoffman holds a B.B.A. from St. Bonaventure University and is licensed as a C.P.A. in the State of California.

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, Dr. Shanahan served as Director, Clinical Research for Pfizer Central Research, a pharmaceutical company. From 1986 to 1989, Dr. Shanahan 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 a member of the board of directors and a former President of the Association of Corporate Counsel, San Diego. Prior to joining Arena, Mr. Spector was a partner with the law firm of Morgan, Lewis & Bockius LLP, where he worked from 1991 to October 2001.

Mr. Spector was our outside corporate counsel from 1998 to October 2001. Mr. Spector holds a B.A. and a J.D. from the University of Pennsylvania.

Compensation Discussion and Analysis

Introduction

This section provides an overview and analysis of our executive officer compensation program and policies, material compensation decisions we have made under such program and policies, and material factors that we considered in making those decisions. Later in this proxy statement, you will find a series of tables containing specific information about the compensation earned or paid in 2008 to the following individuals, whom we refer to as our Named Executive Officers: Messrs. Lief, Hoffman and Spector and Drs. Behan and Shanahan. The below discussion is intended to help you understand the detailed information provided in those tables and to put that information into context with our overall executive officer compensation program.

Executive Officer Compensation Philosophy, Objectives and Development

We believe that the performance of our executive officers has the potential to significantly impact our ability to achieve our corporate goals. We, therefore, place considerable importance on the design and administration of our executive officer compensation program. This program is intended to enhance stockholder value by attracting, motivating and retaining qualified individuals to perform at the highest of professional levels and to contribute to our growth and success. Accordingly, our executive officer compensation program is designed to provide executive officers with compensation opportunities that are tied to their individual performance, as well as our overall corporate performance. Each executive officer's compensation package is comprised of three key elements: (i) base salary, (ii) performance-based cash incentives and (iii) stock-based compensation. Our executive officers are also entitled to health and welfare benefits, and, as discussed below, certain of them may be entitled to receive additional benefits upon termination of their employment. These additional elements of executive compensation, together with the three key elements, are intended to align the interests of our executive officers with those of our stockholders.

Our compensation packages are also designed to be competitive in our industry. The Compensation Committee may consult with compensation consultants, legal counsel and other advisors in designing our compensation program, including in relation to our corporate goals and in evaluating the competitiveness of individual compensation packages. In such evaluation, the Compensation Committee periodically reviews and analyzes executive officer compensation provided by other companies in our industry.

Our overall compensation philosophy is to pay our executive officers base annual salary that is at approximately the median level relative to a selected peer group of companies and to provide opportunities, through cash and equity incentives, to attain above the median total compensation relative to our peer group if we satisfy certain key performance goals. The main principles of our compensation strategy include the following:

- Compensation decisions are driven by a pay-for-performance philosophy;
- Compensation should be tied to both corporate and individual performance; and
- Higher than median compensation can be earned through an executive officer's and the company's extraordinary performance.

As part of the process for setting executive compensation, our Chief Executive Officer provides the Compensation Committee with his performance assessments of the company and our executive officers. He also recommends to the Compensation Committee salaries, cash incentive opportunities, cash incentive awards and equity grants for executive officers other than himself. The Compensation Committee can accept, reject or modify such recommendations in its discretion. The Compensation Committee also considers the recommendations of its independent consultant, peer company data, Southern California and national industry

compensation surveys, and factors such as the past, current and expected contributions of each executive officer, our corporate performance, global economic conditions, the mix of compensation that would be most appropriate for each executive officer and the executive officer's particular responsibilities, experience, level of accountability and decision authority.

While the Compensation Committee meets regularly in executive session, various members of management, including our Chief Executive Officer, Chief Financial Officer and General Counsel, and other employees as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, provide financial or other background information or advice or otherwise participate in Compensation Committee meetings. Our General Counsel attends meetings of the Compensation Committee as the Secretary. Our Chief Executive Officer is not present during any deliberations or determinations of the Compensation Committee regarding his compensation.

In determining our executive officers' cash incentive awards for 2008 and developing the 2009 executive compensation program, the Compensation Committee considered what it viewed, in light of the global economic challenges, as a difficult year for us in terms of our stock performance, but also our success in meeting key preset goals and the importance of keeping our executive officers focused on corporate and individual goals that the committee believes will increase stockholder value.

The Compensation Committee has retained Frederic W. Cook & Co., Inc., as its independent compensation consultant from time to time since 2003 to advise it regarding compensation matters, including our compensation programs for directors and executive officers. The Compensation Committee retained such consultant in the second half of 2008 to assist in (i) reviewing the competitiveness and structure of our compensation program for executive officers, (ii) reviewing our current equity incentive plans and (iii) developing the new long-term incentive plan and employee stock purchase plan that are being proposed in this proxy statement. Frederic W. Cook & Co., Inc., did not perform any other work for us during 2008.

The compensation consultant's findings and recommendations regarding compensation are based in part on market data from a "peer" group of biotechnology and biopharmaceutical companies, which changes from time to time based on corporate developments, including clinical and commercial progress, affecting us and other companies in our industry. The Compensation Committee selects the peer group in consultation with its compensation consultant and other members of the Board of Directors, including our Chief Executive Officer, and taking into account our and the selected companies' development stages, market capitalizations, revenues, employees and earnings.

2007 Peer Group. In determining the number and type of equity awards to grant to executive officers in 2007, around the end of 2006, the Compensation Committee updated our peer group. This 2007 peer group consisted of the following companies: Cell Genesys, Inc., Connetics Corporation, Dendreon Corporation, Enzo Biochem, Inc., Exelixis, Inc., Human Genome Sciences, Inc., InterMune, Inc., Isis Pharmaceuticals, Inc., Lexicon Pharmaceuticals, Inc., Medarex, Inc., The Medicines Company, Noven Pharmaceuticals, Inc., Nuvelo, Inc., Onyx Pharmaceuticals, Inc., Senomyx, Inc., Telik, Inc., and Trimeris, Inc. The Compensation Committee referred to the 2007 peer group in determining the 2008 option awards for our executive officers.

2008 Peer Group. Around the end of 2008, the Compensation Committee again updated our peer group. This 2008 peer group consisted of the following companies: Cell Genesys, Inc., Dendreon Corporation, Dyax Corp., Enzo Biochem, Inc., Enzon Pharmaceuticals, Inc., Exelixis, Inc., Geron Corporation, Human Genome Sciences, Inc., Infinity Pharmaceuticals, Inc., InterMune, Inc., Isis Pharmaceuticals, Inc., Lexicon Pharmaceuticals, Inc., Medarex, Inc., The Medicines Company, Noven Pharmaceuticals, Inc., Progenics Pharmaceuticals, Inc., Theravance, Inc., and XOMA Ltd. The Compensation Committee referred to the 2008 peer group in (i) determining the 2009 option awards and 2009 cash compensation for our executive officers and (ii) developing our 2009 Annual Incentive Plan for our executive officers.

Elements of Our Compensation Program

1. Base Salary

We generally target base annual salaries to be at approximately the market median of our peer group for executive officers having similar responsibilities, but the salary for any particular executive officer may be higher or lower than the market median depending on such factors as the individual’s overall mix of base salary, performance-based cash incentives and stock-based compensation, the individual’s historical base salary, the individual’s experience and background, the individual’s past performance and expected future contribution, the movement of salaries in the marketplace, and our corporate performance during the prior year. The purpose of base salary is to provide fixed compensation to attract and retain an employee with the qualifications desired for the particular position. Our philosophy is to make what we view as modest increases in salary for executive officers, except where an individual’s salary is found to be significantly below market when compared to the selected peer group, and to use equity and performance-based cash compensation to further motivate and retain our executive officers. The Compensation Committee did not engage its compensation consultant in determining the 2008 base salaries for executive officers, but rather relied on its consultant’s 2005-2006 report, its consultant’s view that the committee could continue to rely on such report, and more recent industry surveys. The consultant’s 2005-2006 report was based on a peer group that consisted of the following companies: Antigenics Inc., Arqule, Inc., CancerVax Corporation, Cell Genesys, Inc., Cell Therapeutics, Inc., Connetics Corporation, Curagen Corporation, Dendreon Corporation, Enzo Biochem, Inc., Exelixis, Inc., Guilford Pharmaceuticals, Inc., InterMune, Inc., Isis Pharmaceuticals, Inc., Lexicon Pharmaceuticals, Inc., Maxim Pharmaceuticals, Inc., Medarex, Inc., Noven Pharmaceuticals, Inc., Trimeris, Inc., and XOMA, Ltd.

2. Performance-based cash incentives

In early 2008, the Compensation Committee approved the 2008 Annual Incentive Plan for our executive officers. Under this cash incentive plan, each participant was assigned an incentive target that was expressed as a percentage of annual base salary, and the participant’s incentive award was based on the achievement of preestablished corporate and individual goals. All participants had the same corporate goals, which we believed would align the interests of our executive officers with one another and with our stockholders. The corporate and individual goals were approved by the Compensation Committee after taking into account the views and recommendations of other members of our Board of Directors (including our Chief Executive Officer), which also approved the corporate goals and the Chief Executive Officer’s individual goals.

The corporate goals for 2008 related to the following categories: (i) development of internal clinical programs, (ii) progress of programs with partners, (iii) budget, finance and integration of new capabilities, and (iv) progress of research programs. Individual goals were tailored for each executive officer, and related to the following categories: (i) progress and milestones of programs, (ii) budget and finance, (iii) integration of new capabilities, (iv) compliance and risk mitigation, (v) corporate governance, (vi) corporate planning, (vii) strategic opportunities, (viii) intellectual property and (ix) investor and analyst relations. Corporate and individual goals were intended to reflect a mix of short- and long-term performance objectives.

All of our executive officers participated in the 2008 Annual Incentive Plan. The following table lists our Named Executive Officers, their incentive target under the plan expressed as a percentage of their annual base salary, and the relative weighting assigned to corporate and individual goals:

| <u>Named Executive Officer</u> | <u>Incentive Target</u> | <u>Relative Weighting</u> | |
|--|-------------------------|---------------------------|-------------------------|
| | | <u>Corporate Goals</u> | <u>Individual Goals</u> |
| Jack Lief | 50% | 75% | 25% |
| Robert E. Hoffman, C.P.A. | 35% | 60% | 40% |
| Dominic P. Behan, Ph.D. | 35% | 60% | 40% |
| William R. Shanahan, Jr., M.D., J.D. | 30% | 50% | 50% |
| Steven W. Spector, J.D. | 35% | 60% | 40% |

The Compensation Committee took into account its compensation consultant's recommendations, market data and individual performance and contribution in determining the incentive targets and relative weightings. The weighting of corporate versus individual goals was intended to reflect the participants' responsibilities for their individual areas and the company-wide functions. Mr. Lief's goals were weighted more heavily to the corporate goals than any other of our Named Executive Officers due to his role in overseeing our company-wide functions as our Chairman, President and Chief Executive Officer, and Dr. Shanahan's goals were weighted more to his individual goals than the other Named Executive Officers due to his significant role in the development of our drug candidates as our Vice President and Chief Medical Officer. Our other Named Executive Officers' goals were weighted more heavily to the corporate goals as their responsibilities involved company-wide functions more than any individual area and to tie their compensation to corporate achievements.

The threshold level of aggregate goal achievement under the 2008 Annual Incentive Plan for each executive officer was 50%, below which no incentive award would be paid to the executive officer. This threshold was established to ensure that no awards would be paid if the results achieved were significantly below the target. The Compensation Committee sets goals that it believes will be difficult for our executive officers to fully achieve. Consequently, achieving the target was only expected to occur if both corporate and individual performances were high. For example, in determining incentive awards under the 2007 Annual Incentive Plan, the Compensation Committee determined that 80% of the weighted value of the 2007 corporate goals was achieved, and that, with regard to the 2007 individual goals, Messrs. Lief and Spector and Dr. Shanahan achieved 100% of the weighted value, Dr. Behan achieved 90% of the weighted value and Mr. Hoffman achieved 80% of the weighted value. Executive officers are eligible to receive incentive awards of up to 125% of the target amount, which allows the Compensation Committee discretion to award more than the target award for extraordinary performance.

The below "Grants of Plan-Based Awards" table shows the incentives that could have been earned under this incentive plan, and the awards earned are included in the below "Summary Compensation Table."

All executive officers achieved more than the threshold percentage of goals under the 2008 Annual Incentive Plan, but received less than the target incentive award. The Compensation Committee determined that 85% of the weighted value of the 2008 corporate goals was achieved, and that, with regard to the 2008 individual goals, Messrs. Lief and Spector and Dr. Behan achieved 100% of the weighted value, Mr. Hoffman achieved 83% of the weighted value and Dr. Shanahan achieved 94% of the weighted value. Based only on such percentages, the awards under the plan to our Named Executive Officers would have been as follows: Mr. Lief, \$297,313; Dr. Behan, \$123,897; Mr. Hoffman, \$88,550; Dr. Shanahan, \$92,901; and Mr. Spector, \$116,253. The Compensation Committee granted awards that were higher than such amounts after also considering the other components of the formula for incentive awards, which are the quality and level of the goal achievement. The Compensation Committee also took into account the additional difficulty in achieving the goals due to the global economic challenges that wasn't foreseen at the time the goals were established.

In early 2009, the Compensation Committee approved corporate and individual goals and a similar annual incentive plan, with the exception of increasing the incentive target percentages, for all of our executive officers for use in determining cash incentive awards for 2009. Based on recommendations of the Compensation Committee's compensation consultant and market data, the Compensation Committee increased the incentive target percentage for Mr. Lief to 55% and increased the incentive targets for our other Named Executive Officers to 40%.

3. Stock-based compensation

We believe that equity grants provide our executive officers with the opportunity to share in increases, if any, in the value of our common stock and encourage their ownership in our company. We believe that equity grants reinforce a long-term interest in our corporate performance and directly motivate our executive officers to maximize long-term stockholder value. The equity grants also utilize vesting and, in the case of stock options, exercisability periods that encourage executive officers to continue working for us.

Stock Options

For 2008, the Compensation Committee granted our executive officers stock options, which are intended to foster the long-term perspective we believe is necessary for continued success. In determining the size and types of equity grants to executive officers, the Compensation Committee considered the performance-based restricted stock units that it awarded executive officers in 2007, similar awards to individuals holding comparable jobs in our 2007 peer group, our corporate performance against our plan, the individual's performance against his goals, each executive officer's ownership in Arena, the overall share usage under our equity compensation plans for grants to our executive officers, the amount of equity that would be available for future issuance following the grants, the consequences of granting equity in light of the requirements to expense the value of equity grants and the tax efficiency of various award types. The Compensation Committee also considered the performance, role and responsibilities of each executive officer. Taking into account the 2007 performance-based restricted stock unit awards, the Compensation Committee's overall objective was to grant stock options that would place the executive officers' aggregate equity grants within the broad middle range of the long-term equity grants in our 2007 peer group.

Stock options provide for financial gain only if the price of our common stock increases above the exercise price, which is set at the closing price of our common stock on the date of grant as reported on the NASDAQ Global Market (or if there is no closing price on such date, on the last preceding date on which a closing price was reported). Stock options granted to employees vest 25% per year over four years after the date of grant and are exercisable for up to 10 years from the date of grant. We believe that the vesting restrictions help retain executive officers and that the 10-year exercise period provides incentive for our executive officers to execute on our long-term business plan. We generally make stock option grants to continuing employees, including executive officers, on an annual basis. Our policy is to make such grants three trading days after our announcement of financial results for the prior year. In addition, we generally make an initial stock option grant to new employees on a preset day in the month following the employee's date of hire.

All grants to executive officers require the approval of the Compensation Committee. The Compensation Committee may delegate to (i) a committee of one or more members of our Board of Directors the authority to take action on behalf of the Compensation Committee under the LTIP, including the right to grant, cancel, suspend or amend awards and (ii) one or more of our executive officers the right to grant awards to non-executive employees, advisors and consultants. The Compensation Committee has delegated to Mr. Lief the ability to grant up to an aggregate of 120,000 stock options to non-executive employees and consultants each quarter. It is the Compensation Committee's policy for Mr. Lief to report to it any such stock option grants at its next regularly scheduled committee meeting.

2007 Performance-based Restricted Stock Unit Awards

For 2007, in addition to stock options, the Compensation Committee granted performance-based restricted stock unit awards to executive officers and other employees. These awards were designed to encourage, and compensate our executive officers and other employees for achieving, extraordinary results and to ensure that our executive officers and other employees are properly focused on specific drug development and commercialization initiatives that we believe will enhance long-term stockholder value. These awards provide executive officers and other employees until February 26, 2012 to achieve four specific drug development and strategic performance goals. A fixed number of awards will be earned for each milestone that is successfully achieved. Once earned, the awards will remain unvested until the performance period is complete. The awards that have been earned at February 26, 2012 will vest and be settled in shares of our common stock, with the holder receiving one share of common stock for each award earned and vested. Termination of employment prior to vesting will result in the forfeiture of any earned (as well as unearned) awards, except for limited circumstances such as termination due to death, disability or a change in control. As of April 24, 2009, we had not achieved any of the four goals under the performance-based restricted stock unit awards.

The performance goals were established to require significant efforts and results that are expected to drive significant stockholder value, if achieved, thereby further aligning employee and stockholder interests. Each of the performance goals is designed to be a significant milestone for us, the attainment of which is not assured.

Depending on whether we have achieved one, two, three or all four of the performance goals on or before February 26, 2012 and if the particular executive officer is still employed on such date, then these stock unit awards would vest as follows: 25% if one goal is achieved, 50% if two goals are achieved, 87.5% if three goals are achieved and 100% if all four goals are achieved.

Below are the number of performance-based restricted stock unit awards our Compensation Committee granted to our Named Executive Officers in February 2007. The Compensation Committee did not grant any performance-based restricted stock unit awards to our Named Executive Officers in 2008.

| <u>Named Executive Officer</u> | <u>Performance-based Restricted Stock Unit Awards (1)</u> |
|---|---|
| Jack Lief | 300,000 |
| Robert E. Hoffman, C.P.A. | 100,000 |
| Dominic P. Behan, Ph.D. | 100,000 |
| William R. Shanahan, Jr., M.D., J.D. | 80,000 |
| Steven W. Spector, J.D. | 100,000 |

(1) Maximum number that may be earned for achieving all four performance goals.

Employee Stock Purchase Plan

We have adopted the 2001 ESPP as a further benefit to executive officers, as well as other employees, and to encourage employee ownership. Under the 2001 ESPP, participants may elect to have a portion of their cash compensation withheld for purchases of our common stock on certain dates set forth in the plan. The price of our common stock purchased under the 2001 ESPP is equal to 85% of the lower of the fair market value of our common stock on the date of enrollment or the exercise date of the purchase period.

4. Other Benefits and Post-Termination Compensation

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

401(k) Plan and Company Match

Our US employees are eligible to participate in our 401(k) plan beginning on their hire date. Employees may make pre-tax or after tax (Roth) contributions of up to 50% of gross cash compensation into the plan, up to the annual limit established by the IRS. Subject to limits established by the IRS, we match 100% of each of the employee's contributions, subject to a maximum match of 6% of the employee's gross cash compensation. This match vests over a five-year period from the individual's date of hire. Due to the current global economic environment and our financial condition, we intend to discontinue our match of 401(k) contributions, beginning on August 1, 2009.

Life and Disability Coverage

We provide all regular, full-time US employees with a life insurance policy equal to four times the employee's annual salary, up to a maximum coverage of \$500,000. Such employees are also covered by short- and long-term disability plans that coordinate with the California State Disability plan.

Perquisites and Other Benefits

We did not provide any of our Named Executive Officers or other senior members of management with perquisites in 2008 that exceeded \$10,000 in the aggregate for any person, and do not expect to do so in 2009.

Post-Termination Compensation

We have entered into Termination Protection Agreements and have a Severance Benefit Plan that may require us to provide compensation and benefits to certain of our executive officers. The agreements and the plan are summarized below and more detail regarding potential payouts is provided below under “Potential Post-Employment Payments Table.”

Termination Protection Agreements. In 2002, we entered into Termination Protection Agreements because we determined that it was appropriate to provide certain of our executive officers severance compensation if there is a change in control and the executive officer’s employment is terminated under certain circumstances. We did this to promote the ability of our executive officers to keep focused on corporate interests and to act in the best interests of our stockholders even though their employment could be terminated as a result of the change in control. These agreements were put into place after one of our stockholders acquired approximately 28% of our outstanding common stock. In addition, as part of our normal course of business, we engage in discussions with other companies about possible collaborations and other ways in which we may work together to further our respective long-term objectives and many larger, more established companies consider companies at similar stages of development to ours as potential acquisition targets.

Severance Benefit Plan. In 2006, the Compensation Committee approved the Severance Benefit Plan for certain executive officers. Separation benefits are payable if the executive officer’s employment is terminated under certain circumstances and are intended to keep our executive officers focused on corporate interests while employed and to ease the consequences to an executive officer of a termination of employment. The advantage to us includes our receipt of a waiver and release of claims, which the separated executive officer must provide to us as a condition to receiving benefits. Any payments payable under the Severance Benefit Plan are reduced by severance benefits payable by us under the Termination Protection Agreements or any other agreement, policy, plan, program or arrangement.

On December 30, 2008, we amended and restated the Termination Protection Agreements and the Severance Benefit Plan, primarily to bring them into compliance with Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and other guidance promulgated thereunder, or Section 409A. The amendments to the Termination Protection Agreements, which require a change in control to trigger benefits, include (1) delaying cash payment until a date within five business days after the earlier of (i) the first business day that is six months following the employee’s termination or (ii) following the employee’s termination, the employee’s death; (2) modifying the good reason definition relating to the relocation of the employee’s principal office or place of business required to trigger the benefits; and (3) adding a waiver and release as a condition to receiving severance benefits. The amendments to the Severance Benefit Plan include (1) delaying cash payment until, within five business days after, the earlier of (i) the first business day that is six months following the employee’s termination or (ii) following the employee’s termination, the employee’s death; (2) modifying the good reason definition relating to the relocation of the employee’s principal office or place of business required to trigger the benefits; and (3) adding a deadline for turning in the waiver and release that is required as a condition to receiving severance benefits.

Tax Considerations

We intend that all incentive payments be deductible for tax purposes unless it would undermine our ability to meet our primary compensation objectives. We also take into account the tax effects of various forms of compensation and the potential for excise taxes to be imposed on our executive officers. There are various

provisions of the Internal Revenue Code of 1986, as amended, or the Code, which we consider in determining compensation, including the following:

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

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

Compensation Committee Report

This report of our Compensation Committee is not deemed to be “soliciting material,” or to be “filed” with the SEC or subject to the SEC’s proxy rules (other than as provided in Item 407 of Regulation S-K) or to the liabilities of Section 18 of the Exchange Act, and, irrespective of any general incorporation language, this report shall not be deemed incorporated by reference into any prior or subsequent filing by us under the Securities Act of 1933 or the Exchange Act, except to the extent that we specifically incorporate it by reference into any such filing.

The Compensation Committee, comprised of independent directors, reviewed and discussed the above “Compensation Discussion and Analysis” with our management. Based on such review and discussions, the Compensation Committee recommended to our Board of Directors that the “Compensation Discussion and Analysis” be included in this proxy statement and included into our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Donald D. Belcher
Scott H. Bice
Harry F. Hixson, Jr., Ph.D.
Christine A. White, M.D.

Summary Compensation Table for Fiscal Years Ended December 31, 2008, 2007 and 2006

In January 2008, the Compensation Committee approved increases in annual base salary for each of our Named Executive Officers, such that Mr. Lief's annual base salary was increased from \$640,000 to \$670,000; Mr. Hoffman's annual base salary was increased from \$285,000 to \$300,000; Dr. Behan's annual base salary was increased from \$371,000 to \$389,000; Dr. Shanahan's annual base salary was increased from \$333,000 to \$346,000; and Mr. Spector's annual base salary was increased from \$340,000 to \$365,000. The following table summarizes the total compensation of our Named Executive Officers for the fiscal years ended December 31, 2008, 2007 and 2006.

| Name and Principal Position | Year | Salary (\$ (1)) | Stock Awards (\$ (2)) | Option Awards (\$ (3)) | Non-Equity Incentive Plan Compensation (\$ (4)) | All Other Compensation (\$ (5)) | Total (\$) |
|---|------|--------------------|-----------------------------|------------------------------|--|---------------------------------------|---------------|
| Jack Lief | 2008 | \$668,021 | \$201,600 | \$ 956,194 | \$300,000 | \$14,334 | \$2,140,149 |
| Chairman, President and Chief Executive Officer | 2007 | 638,889 | 219,461 | 1,968,705(6) | 325,000 | 14,034 | 3,166,089 |
| | 2006 | 619,431 | 399,133 | 404,907 | 260,000 | 13,734 | 1,697,205 |
| Robert E. Hoffman, C.P.A. | 2008 | 299,010 | 84,000 | 219,441 | 95,000 | 34,526(7) | 731,977 |
| Vice President, Finance and Chief Financial Officer | 2007 | 284,444 | 84,000 | 218,461 | 90,000 | 30,476(7) | 707,381 |
| | 2006 | 273,056 | 77,000 | 153,170 | 82,000 | 24,309(7) | 609,535 |
| Dominic P. Behan, Ph.D. | 2008 | 387,813 | 84,000 | 319,585 | 125,000 | 14,334 | 930,732 |
| Senior Vice President, Chief Scientific Officer and Director | 2007 | 370,323 | 92,931 | 300,749 | 125,000 | 14,034 | 903,037 |
| | 2006 | 358,033 | 184,167 | 190,804 | 97,000 | 13,734 | 843,738 |
| William R. Shanahan, Jr., M.D., J.D. | 2008 | 345,142 | — | 232,290 | 95,000 | 14,334 | 686,766 |
| Vice President and Chief Medical Officer | 2007 | 332,356 | — | 229,571 | 90,000 | 14,034 | 665,961 |
| | 2006 | 320,878 | — | 149,386 | 75,000 | 13,734 | 558,998 |
| Steven W. Spector, J.D. | 2008 | 363,351 | 84,000 | 316,345 | 125,000 | 28,372(8) | 917,068 |
| Senior Vice President, General Counsel and Secretary | 2007 | 339,312 | 84,000 | 297,509 | 125,000 | 33,649(8) | 879,470 |
| | 2006 | 326,900 | 77,000 | 179,832 | 97,000 | 26,333(8) | 707,065 |

- (1) In accordance with SEC rules, the compensation described in this table does not include medical or other benefits received by our Named Executive Officers that are available generally to all of our regular, full-time employees and certain perquisites and other personal benefits received by our Named Executive Officers which, in the aggregate, were less than \$10,000 for any officer. Amounts earned but deferred at the election of our Named Executive Officer pursuant to our 401(k) plan are included in the "salary" column.
- (2) Represents the dollar amount recognized for financial statement reporting purposes for the designated fiscal year in accordance with Statement of Financial Accounting Standards, or SFAS, No. 123R, "Share-Based Payment," which includes amounts from stock awards granted prior to our adoption of SFAS No. 123R in 2006 as well as awards granted subsequent to such adoption.
- (3) Represents the dollar amount recognized for financial statement reporting purposes for the designated fiscal year in accordance with SFAS No. 123R, except that estimates of forfeitures related to vesting under SFAS No. 123R have been excluded. For the relevant assumptions used in determining these amounts, refer to Note 10 to our audited consolidated financial statements included in our annual report on Form 10-K as filed with the SEC on March 16, 2009, and Note 1 to our audited consolidated financial statements included in our annual report on Form 10-K as filed with the SEC on March 6, 2007.
- (4) Represents cash awards earned pursuant to our 2008, 2007 and 2006 Annual Incentive Plans, as further described below in the "Grants of Plan-Based Awards" table and the above "Compensation Discussion and Analysis." For all years presented, cash awards earned were paid in the subsequent fiscal year.
- (5) Represents matching contributions to our 401(k) plan made on behalf of our Named Executive Officers and life insurance premiums paid by us for our Named Executive Officers.

- (6) In June 2006, we began granting employee stock options that provide for continued vesting after an individual leaves the company if (i) the individual's employment is terminated other than for cause, (ii) such individual is at least 60 years old, and (iii) such individual has provided at least 10 years of service to the company. The stock options included in this table vest over a four-year period, but, as Mr. Lief is over 60 years old and has provided over 10 years of service to the company, in July 2007, we recorded the unrecognized compensation expense for all of the stock options granted to Mr. Lief between June 2006 and July 2007.
- (7) Through the end of 2008, after their annual anniversary hire date, each of our employees could elect to be paid for unused vacation time in the form of additional salary, subject to certain limitations. In addition to items noted in footnote 5 above, these numbers reflect Mr. Hoffman's election to be paid \$20,192, \$16,442 and \$10,577 in the form of additional salary for unused vacation time in 2008, 2007 and 2006, respectively.
- (8) In addition to items noted in footnote 5 above, these numbers reflect Mr. Spector's election to be paid \$14,038, \$19,615 and \$12,600 in the form of additional salary for unused vacation time in 2008, 2007 and 2006, respectively.

In January 2009, the Compensation Committee approved increases in annual base salaries for our Named Executive Officers, such that Mr. Lief's annual base salary was increased to \$690,000; Mr. Hoffman's annual base salary was increased to \$327,000; Dr. Behan's annual base salary was increased to \$400,000; Dr. Shanahan's annual base salary was increased to \$357,000; and Mr. Spector's annual base salary was increased to \$375,000.

Grants of Plan-Based Awards During Fiscal Year Ended December 31, 2008

The following table provides information on estimated future payouts under non-equity incentive plans and stock options granted to our Named Executive Officers during the fiscal year ended December 31, 2008.

| Name | Grant Date | Approval Date (2) | Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1) | | | All Other Option Awards: Number of Securities Underlying Options (#) (3) | Exercise or Base Price of Option Awards (\$/sh) (4) | Grant Date Fair Value of Stock and Option Awards (\$) (5) |
|--|------------|-------------------|---|-------------|--------------|--|---|---|
| | | | Threshold (\$) | Target (\$) | Maximum (\$) | | | |
| Jack Lief | — | — | \$167,500 | \$335,000 | \$418,750 | — | \$ — | \$ — |
| | 3/3/08 | 1/25/08 | — | — | — | 180,000 | 6.99 | 663,120 |
| Robert E. Hoffman, C. P. A. . . | — | — | 52,500 | 105,000 | 131,250 | — | — | — |
| | 3/3/08 | 1/25/08 | — | — | — | 35,000 | 6.99 | 128,940 |
| Dominic P. Behan, Ph.D. | — | — | 68,075 | 136,150 | 170,188 | — | — | — |
| | 3/3/08 | 1/25/08 | — | — | — | 60,000 | 6.99 | 221,040 |
| William R. Shanahan, Jr., M.D., J.D. | — | — | 51,900 | 103,800 | 129,750 | — | — | — |
| | 3/3/08 | 1/25/08 | — | — | — | 45,000 | 6.99 | 165,780 |
| Steven W. Spector, J.D. | — | — | 63,875 | 127,750 | 159,688 | — | — | — |
| | 3/3/08 | 1/25/08 | — | — | — | 60,000 | 6.99 | 221,040 |

- (1) Our 2008 Annual Incentive Plan was our only non-equity incentive plan in 2008. The amounts shown in the “threshold” column reflect the minimum payment level under our 2008 Annual Incentive Plan, which is 50% of the amount shown in the “target” column. The amounts shown in the “maximum” column are 125% of the respective target amounts. These amounts are based on each Named Executive Officer’s 2008 annual salary.
- (2) We generally make stock option grants to continuing employees, including executive officers, on an annual basis. Our policy is to make such grants three trading days after our announcement of financial results for the prior year. Our Compensation Committee approves such grants in a meeting that precedes the grant date, and, in the case of these stock option grants, such meeting occurred on January 25, 2008.
- (3) All awards granted in 2008 were granted under our 2006 LTIP.
- (4) In all cases, the exercise price of such option awards was equal to the closing market price of our common stock on the grant date as reported on the NASDAQ Global Market.
- (5) Represents the full value of each award that would be recognized for financial statement reporting purposes over the applicable vesting period in accordance with SFAS No. 123R. For the relevant assumptions used in determining these amounts, refer to Note 10 to our audited consolidated financial statements included in our annual report on Form 10-K as filed with the SEC on March 16, 2009. The amount of these awards that was expensed in 2008 is included above under “Summary Compensation Table.”

See “Compensation Discussion and Analysis” above for additional information regarding targets for payment of cash incentives, performance criteria on which cash incentives and the number of option awards were based and for additional information regarding our grant timing, dating and pricing policies.

Individual cash incentive awards under our 2008 Annual Incentive Plan were determined in early 2009 based upon the extent to which goals were achieved, the quality of achievement and the weighting of each goal.

All stock options granted to our Named Executive Officers are incentive stock options to the extent permissible under the Code. All such stock options vest 25% per year over four years from the date of grant and are exercisable for up to 10 years from the date of grant.

Outstanding Equity Awards at Fiscal Year Ended December 31, 2008

The following table provides information on all stock options and any unvested stock awards held by our Named Executive Officers on December 31, 2008.

| Name | Option Awards | | | | Stock Awards | | | |
|--------------------------------------|---|---|----------------------------|------------------------|---|--|---|--|
| | Number of Securities Underlying Unexercised Options (#) Exercisable (1) | Number of Securities Underlying Unexercised Options (#) Unexercisable (1) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) (2) | Market Value of Shares or Units of Stock That Have Not Vested (\$) (3) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (4) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (3) |
| Jack Lief | 70,000 | — | \$16.00 | 1/16/11 | — | \$ — | — | \$ — |
| | 170,000 | — | 12.25 | 1/15/12 | — | — | — | — |
| | — | — | — | — | 12,000 | 50,040 | — | — |
| | 100,000 | — | 6.00 | 1/18/14 | — | — | — | — |
| | 124,350 | — | 6.16 | 1/17/15 | — | — | — | — |
| | 89,000 | — | 16.80 | 1/20/16 | — | — | — | — |
| | 10,500 | 10,500 | 10.52 | 7/28/16 | — | — | — | — |
| | 45,000 | 135,000 | 13.50 | 2/26/17 | — | — | — | — |
| | — | — | — | — | — | — | 75,000 | 312,750 |
| Robert E. Hoffman, C.P.A. | — | 180,000 | 6.99 | 3/3/18 | — | — | — | — |
| | 5,000 | — | 12.25 | 1/15/12 | — | — | — | — |
| | 40,000 | — | 6.00 | 1/18/14 | — | — | — | — |
| | 30,000 | — | 6.16 | 1/17/15 | — | — | — | — |
| | 40,000 | — | 16.80 | 1/20/16 | — | — | — | — |
| | — | — | — | — | 5,000 | 20,850 | — | — |
| | 8,750 | 26,250 | 13.50 | 2/26/17 | — | — | — | — |
| — | — | — | — | — | — | 25,000 | 104,250 | |
| — | 35,000 | — | 6.99 | 3/3/18 | — | — | — | — |
| | — | — | — | — | — | — | — | — |
| Dominic P. Behan, Ph.D. | 87,500 | — | 0.60 | 3/3/10 | — | — | — | — |
| | 50,000 | — | 24.23 | 8/22/10 | — | — | — | — |
| | 85,000 | — | 12.25 | 1/15/12 | — | — | — | — |
| | 33,332 | — | 6.00 | 1/18/14 | — | — | — | — |
| | 33,116 | — | 6.16 | 1/17/15 | — | — | — | — |
| | 40,000 | — | 16.80 | 1/20/16 | — | — | — | — |
| | — | — | — | — | 5,000 | 20,850 | — | — |
| | 5,000 | 5,000 | 10.52 | 7/28/16 | — | — | — | — |
| | 15,000 | 45,000 | 13.50 | 2/26/17 | — | — | — | — |
| | — | — | — | — | — | — | 25,000 | 104,250 |
| — | 60,000 | 6.99 | 3/3/18 | — | — | — | — | |
| William R. Shanahan, Jr., M.D., J.D. | 60,000 | — | 6.30 | 4/18/14 | — | — | — | — |
| | 45,000 | — | 6.16 | 1/17/15 | — | — | — | — |
| | 25,000 | — | 16.80 | 1/20/16 | — | — | — | — |
| | 11,250 | 33,750 | 13.50 | 2/26/17 | — | — | — | — |
| | — | — | — | — | — | — | 20,000 | 83,400 |
| | — | 45,000 | 6.99 | 3/3/18 | — | — | — | — |
| Steven W. Spector, J.D. | 35,000 | — | 9.05 | 9/26/11 | — | — | — | — |
| | 50,000 | — | 6.00 | 1/18/14 | — | — | — | — |
| | 45,000 | — | 6.16 | 1/17/15 | — | — | — | — |
| | 40,000 | — | 16.80 | 1/20/16 | — | — | — | — |
| | — | — | — | — | 5,000 | 20,850 | — | — |
| | 5,000 | 5,000 | 10.52 | 7/28/16 | — | — | — | — |
| | 15,000 | 45,000 | 13.50 | 2/26/17 | — | — | — | — |
| | — | — | — | — | — | — | 25,000 | 104,250 |
| — | 60,000 | 6.99 | 3/3/18 | — | — | — | — | |

(1) Generally stock options vest 25% per year over four years from the date of grant and are exercisable for up to 10 years from the date of grant. All stock options granted prior to the approval of our 2006 LTIP on June 12, 2006 were granted

pursuant to stock option plans that allowed them to be exercised prior to vesting, subject to repurchase at the original exercise price in the event of termination. Our 2006 LTIP does not allow stock options to be exercised prior to vesting.

- (2) These restricted shares vested on January 20, 2009. Subject to certain restrictions on transferability and a risk of forfeiture, the Named Executive Officer has all rights of a stockholder as of the date of grant. Unvested shares of restricted common stock are subject to forfeiture in the event of termination of service.
- (3) Computed by multiplying the closing market price of our common stock on December 31, 2008 of \$4.17 by the number of shares or stock unit awards, as appropriate, that have not vested.
- (4) The amounts included in this column represent the number of shares earned upon achievement of the threshold performance goals for the performance-based restricted stock unit awards granted in February 2007, which is the achievement of one of the four milestones, or 25% of the total grant. As of April 24, 2009, we have not achieved any of the four goals under the performance-based restricted stock unit awards. See “2007 Performance-based Restricted Stock Unit Awards” in the above “Compensation Discussion and Analysis” for additional information.

Option Exercises and Stock Vested During Fiscal Year Ended December 31, 2008

The following table provides information on stock awards vested during the fiscal year ended December 31, 2008.

| <u>Name</u> | <u>Stock Awards</u> | |
|---|---|---|
| | <u>Number of Shares Acquired on Vesting (#)</u> | <u>Value Realized on Vesting (\$ (1))</u> |
| Jack Lief | 12,000 | \$94,560 |
| Robert E. Hoffman, C.P.A. | 5,000 | 39,400 |
| Dominic P. Behan, Ph.D. | 5,000 | 39,400 |
| William R. Shanahan, Jr., M.D., J.D. | — | — |
| Steven W. Spector, J.D. | 5,000 | 39,400 |

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

Nonqualified Deferred Compensation Table for Fiscal Year Ended December 31, 2008

In 2003, we established a deferred compensation plan for our executive officers, whereby they may elect to defer the shares of restricted stock we have awarded them. Shares deferred in the plan become restricted stock units. This deferral opportunity was established in part to encourage the participants to continue to hold rights to own common stock in the future that may otherwise be sold to satisfy the participant's tax withholding or other financial obligations upon vesting, and for the purpose of rewarding and incentivizing the participants. Participants can choose to receive distributions under the plan as a lump sum distribution or in installments. A participant's election to defer restricted stock under the plan is irrevocable, but the participant may modify their election to provide for a later distribution date, add additional shares under the plan or to provide for a different form of distribution. In addition, the plan allows for hardship withdrawals, early withdrawals with a penalty, and withdrawals by beneficiaries following the death of a participant. Also, unless in connection with a change in control, no distributions are permitted under the plan to a participant in any taxable year to the extent such distribution would result in the participant receiving an amount of compensation that cannot be deducted by us pursuant to the limitations imposed on the deduction of certain compensation payments under Section 162(m) of the Code. At December 31, 2008, 107,919 shares of restricted stock were held in the deferred compensation plan, and the following table provides information about the activity in the deferred compensation plan as of December 31, 2008.

| Name | Aggregate Earnings in Last FY (\$ (1)) | Aggregate Balance at Last FYE (\$ (2)) |
|---|---|---|
| Jack Lief | — | — |
| Robert E. Hoffman, C.P.A. | \$ (68,625) | \$ 78,188 |
| Dominic P. Behan, Ph.D. | (289,759) | 330,135 |
| William R. Shanahan, Jr., M.D., J.D. | — | — |
| Steven W. Spector, J.D. | — | — |

- (1) Any earnings in the last fiscal year represent a change in the closing market price of our common stock. Neither the company nor any of the Named Executive Officers made withdrawals from or additional contributions to the deferred compensation plan in 2008. Accordingly, the amounts included in this column are not included in 2008 compensation in the above "Summary Compensation Table."
- (2) Aggregate balance at last fiscal year-end was computed by multiplying the closing market price of our common stock on December 31, 2008 of \$4.17 by the number of shares issuable under the deferred compensation plan. An aggregate of \$120,563 and \$509,057 was previously reported as compensation in previous years' summary compensation tables for Mr. Hoffman and Dr. Behan, respectively.

Potential Post-Employment Payments Table as of Fiscal Year Ended December 31, 2008

Messrs. Lief, Hoffman and Spector and Dr. Behan, who are all of our Named Executive Officers that were employed by us in 2002, are each a party to a Termination Protection Agreement, dated December 20, 2002, as amended. Under the Termination Protection Agreements, if the participating executive officer is terminated without cause or resigns for good reason (as defined in the agreement) within two years following a change of control or if the executive officer is terminated within one year prior to a change in control in anticipation of the change in control, we are required to provide such executive officer (i) a payment equal to the executive officer's annual compensation, (ii) continuation of health insurance coverage until the second anniversary of the executive officer's termination, (iii) accelerated vesting of all outstanding unvested stock options and restricted shares, with any stock options remaining exercisable until as late as the first anniversary of the executive officer's termination, and (iv) continuation of our indemnification obligations until at least the sixth anniversary of the executive officer's termination. The cash severance benefits are equal to (i) the executive officer's annual rate of base salary in effect on the date of the change in control or the termination date, whichever is higher, and (ii) any

bonus paid or payable to the executive officer for the year preceding the change in control or the termination date, whichever is higher. Following our receipt of an effective waiver and release of claims, we are required to pay the cash benefits in a lump sum within five business days after the earlier of (i) the first business day that is six months following the executive officer's termination or (ii) following the executive officer's termination, the executive officer's death.

We maintain a Severance Benefit Plan that provides Messrs. Lief, Hoffman and Spector and Drs. Behan and Shanahan severance benefits upon involuntary termination without cause or voluntary termination with good reason (as defined in the plan). The benefits include cash severance benefits, continuation of health insurance coverage for the severance period, acceleration of stock options and awards that would otherwise have vested through the end of the severance period, and continued stock option exercisability until the later of (i) the original post-termination exercise period provided in the applicable stock option agreement or (ii) the number of months equal to the severance period (but not beyond the original contractual life of the option). The cash severance benefits are equal to the number of months in the executive officer's severance period multiplied by the executive officer's monthly base salary in effect immediately prior to the termination plus one-twelfth of the greater of (i) the average of the three annual bonuses we paid to the executive officer prior to his termination and (ii) the last annual bonus paid to the executive officer prior to termination. Following our receipt of an effective waiver and release of claims and return of company property, we are required to pay the cash benefits in a lump sum within five business days after the earlier of (i) the first business day that is six months following the executive officer's termination or (ii) following the executive officer's termination, the executive officer's death. The severance period is 18 months for Mr. Lief and 12 months for the other included executive officers. Any payments payable under the Severance Benefit Plan are reduced by severance benefits payable by us under the Termination Protection Agreements or any other agreement, policy, plan, program or arrangement.

As described in the above "Compensation Discussion and Analysis," on December 30, 2008, we amended and restated the Termination Protection Agreements and the Severance Benefit Plan, primarily to bring them into compliance with Section 409A.

In accordance with SEC rules, the below table provides information on the amounts payable upon termination of our Named Executive Officers assuming the triggering event (which would be their separation) took place on December 31, 2008. Information on certain tax implications of post-termination payments is included above under "Tax Considerations."

| <u>Name and Benefit</u> | <u>Termination Protection Agreement (Change in Control Required)</u> | <u>Severance Benefit Plan (No Change in Control Required)</u> | <u>Total Potential Payable Upon Termination(1)</u> |
|---|--|---|--|
| Jack Lief | | | |
| Salary | \$ 670,000 | \$1,005,000 | \$1,005,000 |
| Bonus | 325,000 | 487,500 | 487,500 |
| Benefit continuation | 24,963 | 18,722 | 24,963 |
| Accelerated vesting of restricted stock (2) | 50,040 | 50,040 | 50,040 |
| Accelerated vesting of stock options (3) | — | — | — |
| Total | 1,070,003 | 1,561,262 | 1,567,503 |
| Robert E. Hoffman, C.P.A. | | | |
| Salary | 300,000 | 300,000 | 300,000 |
| Bonus | 95,000 | 90,667 | 95,000 |
| Benefit continuation | 34,444 | 17,222 | 34,444 |
| Accelerated vesting of restricted stock (2) | 20,850 | 20,850 | 20,850 |
| Accelerated vesting of stock options (3) | — | — | — |
| Total | 450,294 | 428,739 | 450,294 |
| Dominic P. Behan, Ph.D. | | | |
| Salary | 389,000 | 389,000 | 389,000 |
| Bonus | 125,000 | 125,000 | 125,000 |
| Benefit continuation | 34,444 | 17,222 | 34,444 |
| Accelerated vesting of restricted stock (2) | 20,850 | 20,850 | 20,850 |
| Accelerated vesting of stock options (3) | — | — | — |
| Total | 569,294 | 552,072 | 569,294 |
| William R. Shanahan, Jr., M.D., J.D. | | | |
| Salary | — | 346,000 | 346,000 |
| Bonus | — | 90,000 | 90,000 |
| Benefit continuation | — | 17,222 | 17,222 |
| Accelerated vesting of restricted stock (2) | — | — | — |
| Accelerated vesting of stock options (3) | — | — | — |
| Total | — | 453,222 | 453,222 |
| Steven W. Spector, J.D. | | | |
| Salary | 365,000 | 365,000 | 365,000 |
| Bonus | 125,000 | 125,000 | 125,000 |
| Benefit continuation | 34,444 | 17,222 | 34,444 |
| Accelerated vesting of restricted stock (2) | 20,850 | 20,850 | 20,850 |
| Accelerated vesting of stock options (3) | — | — | — |
| Total | 545,294 | 528,072 | 545,294 |

- (1) Any payments payable under the Severance Benefit Plan are reduced by severance benefits payable by us under the Termination Protection Agreements or any other agreement, policy, plan, program or arrangement.
- (2) No accelerated vesting of performance-based restricted stock unit awards is included since none of the performance goals were achieved on December 31, 2008 when the triggering event was assumed to take place.
- (3) Computed by multiplying the difference between the closing market price of our common stock on December 31, 2008 of \$4.17 and the exercise price of each stock option vested as a result of the termination by the number of accelerated stock options.

Director Compensation

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

2008 Fiscal Year

For fiscal year 2008, each of our non-employee directors was eligible to earn the following compensation for their participation on our Board of Directors and its committees:

Equity:

- *New Directors:* 18,000 options to purchase shares of our common stock. The options are 10-year options with an exercise price equal to the closing price of our common stock on the grant date as reported by the NASDAQ Global Market, vesting in equal annual installments over two years.
- *Ongoing Directors:* 12,000 options to purchase shares of our common stock. The options are 10-year options with an exercise price equal to the closing price of our common stock on the grant date as reported by the NASDAQ Global Market, vesting in equal monthly installments over one year.

New director grants are made in connection with the new director's appointment to the Board of Directors and the annual grants are made to ongoing directors three trading days after our announcement of our prior year's financial results. For directors that did not serve for the full fiscal year preceding an annual grant, the grant is pro-rated based on the number of months such director served as a director in the prior year, if any.

Except in the case of a director's death or disability, unvested stock options under the 2006 LTIP terminate when the director ceases to be a director. Unless earlier terminated, vested stock options terminate three years after the director ceases to be a director (or, if applicable, an employee) for any reason other than the director's death or disability. In the event of a director's death or disability, the director's stock options become fully vested and exercisable and may be exercised within the earlier of three years after the date of the director's death or disability, as applicable, or the end of the 10-year term of the stock options.

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, to the extent permitted, upon joining our Board of Directors, each director can irrevocably elect to take 25%, 50%, 75% or 100% of his or her annual retainer, or, in the case of a new director, his or her pro rata retainer in (i) deferred stock units, or DSUs, on a \$1-for-\$1 basis, (ii) stock options to purchase a number of shares of stock determined by dividing three times the retainer amount elected by the fair market value of our common stock, computed at the time the stock options are granted, or (iii) a combination of cash, DSUs and options. The options are 10-year options with an exercise price equal to the closing price of our common stock on the grant date as reported by the NASDAQ Global Market, vesting in approximately equal monthly installments over one year.

If a director joins the Board of Directors after the first quarter of a calendar year, such directors' retainer for that calendar year is reduced pro rata on a quarterly basis.

- *Meeting Attendance Fees:*
 - General:
 - In-Person: \$1,000
 - Telephonic: \$500

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

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

Director Compensation Table for Fiscal Year Ended December 31, 2008

As described more fully above, the following table summarizes the compensation for our non-employee directors during the fiscal year ended December 31, 2008.

| <u>Name</u> | <u>Fees Earned or Paid in Cash \$(1)</u> | <u>Option Awards \$(2)</u> | <u>Total (\$)</u> |
|--|--|--------------------------------|-------------------|
| Donald D. Belcher (3) | \$52,500 | \$ 66,482 | \$118,982 |
| Scott H. Bice (4) | 46,500 | 55,155 | 101,655 |
| Harry F. Hixson, Jr., Ph.D. (5) | 42,000 | 66,482 | 108,482 |
| J. Clayburn La Force, Jr., Ph.D. (6) | 41,000 | 66,482 | 107,482 |
| Tina S. Nova, Ph.D. (7) | 37,500 | 51,373 | 88,873 |
| Phillip M. Schneider (8) | 51,500 | 50,342 | 101,842 |
| Christine A. White, M.D. (9) | 45,500 | 117,626 | 163,126 |
| Randall E. Woods (10) | 40,000 | 50,342 | 90,342 |

- (1) For each director, includes all meeting attendance fees and the cash retainer earned or paid for the fiscal year ended December 31, 2008, whether or not the director elected to receive his or her cash retainer in cash, stock options or a combination of both.
- (2) Represents the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008 in accordance with SFAS No. 123R, "Share-Based Payment," which includes amounts from options granted in and prior to 2008, except that estimates of forfeitures related to vesting under SFAS No. 123R have been excluded. For the relevant assumptions used in determining these amounts, refer to Note 10 to our audited consolidated financial statements included in our annual report on Form 10-K as filed with the SEC on March 16, 2009.
- (3) Mr. Belcher elected to receive 100% of his annual cash retainer for the fiscal year ended December 31, 2008 in stock options determined by dividing three times the annual retainer amount of \$20,000 by the fair market value of our common stock, computed at the time the stock options were granted. The grant-date fair value of the 8,584 options granted to Mr. Belcher in 2008 in lieu of cash was \$31,623, computed in accordance with SFAS No. 123R. Only the vested portion of the incremental value of these stock options is included in the option awards column. The grant-date fair value of the additional 12,000 options granted to Mr. Belcher in 2008 was \$44,208. Mr. Belcher had a total of 112,060 options outstanding at December 31, 2008. \$12,000 of the meeting fees earned in 2007 and included above were paid to Mr. Belcher in 2008, and \$5,000 of the meeting fees earned in 2008 and included above were paid to Mr. Belcher in 2009.

- (4) Mr. Bice elected to receive 25% of his annual cash retainer for the fiscal year ended December 31, 2008 in stock options determined by dividing three times the \$5,000 portion of his annual retainer amount by the fair market value of our common stock, computed at the time the stock options were granted. The grant-date fair value of the 2,146 options granted to Mr. Bice in 2008 in lieu of cash was \$7,906, computed in accordance with SFAS No. 123R. Only the vested portion of the incremental value of these stock options is included in the option awards column. The grant-date fair value of the additional 12,000 options granted to Mr. Bice in 2008 was \$44,208. Mr. Bice had a total of 72,257 options outstanding at December 31, 2008. \$11,000 of the meeting fees earned in 2007 and included above were paid to Mr. Bice in 2008, and \$3,000 of the meeting fees earned in 2008 and included above were paid to Mr. Bice in 2009.
- (5) Dr. Hixson elected to receive 100% of his annual cash retainer for the fiscal year ended December 31, 2008 in stock options determined by dividing three times the annual retainer amount of \$20,000 by the fair market value of our common stock, computed at the time the stock options were granted. The grant-date fair value of the 8,584 options granted to Dr. Hixson in 2008 in lieu of cash was \$31,623, computed in accordance with SFAS No. 123R. Only the vested portion of the incremental value of these stock options is included in the option awards column. The grant-date fair value of the additional 12,000 options granted to Dr. Hixson in 2008 was \$44,208. Dr. Hixson had a total of 112,070 options outstanding at December 31, 2008. \$10,000 of the meeting fees earned in 2007 and included above were paid to Dr. Hixson in 2008, and \$2,000 of the meeting fees earned in 2008 and included above were paid to Dr. Hixson in 2009.
- (6) Dr. La Force elected to receive 100% of his annual cash retainer for the fiscal year ended December 31, 2008 in stock options determined by dividing three times the annual retainer amount of \$20,000 by the fair market value of our common stock, computed at the time the stock options were granted. The grant-date fair value of the 8,584 options granted to Dr. La Force in 2008 in lieu of cash was \$31,623, computed in accordance with SFAS No. 123R. Only the vested portion of the incremental value of these stock options is included in the option awards column. The grant-date fair value of the additional 12,000 options granted to Dr. La Force in 2008 was \$44,208. Dr. La Force had a total of 169,656 options outstanding at December 31, 2008. \$12,500 of the meeting fees earned in 2007 and included above were paid to Dr. La Force in 2008, and \$1,000 of the meeting fees earned in 2008 and included above were paid to Dr. La Force in 2009.
- (7) The grant-date fair value of the 12,000 options granted to Dr. Nova in 2008 was \$44,208. Dr. Nova had a total of 69,000 options outstanding at December 31, 2008. \$7,000 of the meeting fees earned in 2007 and included above were paid to Dr. Nova in 2008, and \$3,000 of the meeting fees earned in 2008 and included above were paid to Dr. Nova in 2009.
- (8) Mr. Schneider elected to receive 100% of his annual cash retainer for the fiscal year ended December 31, 2008 in stock options determined by dividing three times the annual retainer amount of \$20,000 by the fair market value of our common stock, computed at the time the stock options were granted. The grant-date fair value of the 8,584 options granted to Mr. Schneider in 2008 in lieu of cash was \$31,623, computed in accordance with SFAS No. 123R. Only the vested portion of the incremental value of these stock options is included in the option awards column. The grant-date fair value of the additional 18,000 and 1,000 options granted to Mr. Schneider in 2008 was \$78,646 and \$3,684, respectively. Mr. Schneider had a total of 27,584 options outstanding at December 31, 2008. \$1,000 of the meeting fees and \$5,000 of the cash retainer earned in 2007 and included above were paid to Mr. Schneider in 2008, and \$7,000 of the meeting fees earned in 2008 and included above were paid to Mr. Schneider in 2009.
- (9) Dr. White elected to receive 100% of her annual cash retainer for the fiscal year ended December 31, 2008 in stock options determined by dividing three times the annual retainer amount of \$20,000 by the fair market value of our common stock, computed at the time the stock options were granted. The grant-date fair value of the 8,584 options granted to Dr. White in 2008 in lieu of cash was \$31,623, computed in accordance with SFAS No. 123R. Only the vested portion of the incremental value of these stock options is included in the option awards column. The grant-date fair value of the additional 12,000 options granted to Dr. White in 2008 was \$44,208. Dr. White had a total of 62,028 options outstanding at December 31, 2008. \$9,500 of the meeting fees earned in 2007 and included above were paid to Dr. White in 2008, and \$4,000 of the meeting fees earned in 2008 and included above were paid to Dr. White in 2009.

(10) Mr. Woods elected to receive 100% of his annual cash retainer for the fiscal year ended December 31, 2008 in stock options determined by dividing three times the annual retainer amount of \$20,000 by the fair market value of our common stock, computed at the time the stock options were granted. The grant-date fair value of the 8,584 options granted to Mr. Woods in 2008 in lieu of cash was \$31,623, computed in accordance with SFAS No. 123R. Only the vested portion of the incremental value of these stock options is included in the option awards column. The grant-date fair value of the additional 18,000 and 1,000 options granted to Mr. Woods in 2008 was \$78,646 and \$3,684, respectively. Mr. Woods had a total of 27,584 options outstanding at December 31, 2008. \$1,000 of the meeting fees and \$5,000 of the cash retainer earned in 2007 and included above were paid to Mr. Woods in 2008, and \$4,000 of the meeting fees earned in 2008 and included above were paid to Mr. Woods in 2009.

All stock options granted to non-employee directors in the fiscal year ended December 31, 2008 were 10-year options with an exercise price equal to the closing market price of our common stock on the date of grant, vesting in approximately equal monthly installments over one year.

See “Compensation Discussion and Analysis” above for additional information regarding our grant timing, dating and pricing policies and the discussion above under “2008 Fiscal Year” regarding the 2008 compensation for our non-employee directors.

2009 Fiscal Year

Beginning in fiscal year 2009, the Compensation Committee (i) eliminated the non-employee directors’ ability to receive DSUs in lieu of their annual cash retainers, and, for 2009 only, (ii) limited to 20,000 the maximum number of options that may be issued to any director in lieu of their cash retainers. If the number of options resulting from a director’s election would be limited by such maximum, then any portion of the retainer not converted into options because of such maximum will be paid in cash on the applicable quarterly retainer payment dates. We otherwise expect that our 2009 compensation for non-employee directors will be substantially similar to the compensation for 2008.

Audit Committee

Audit Committee Report

This report of our Audit Committee is not deemed to be “soliciting material,” or to be “filed” with the SEC or subject to the SEC’s proxy rules (other than as provided in Item 407 of Regulation S-K) or to the liabilities of Section 18 of the Exchange Act, and, irrespective of any general incorporation language, this report shall not be deemed incorporated by reference into any prior or subsequent filing by us under the Securities Act of 1933 or the Exchange Act, except to the extent that we specifically incorporate it by reference into any such filing.

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

In fulfilling its responsibilities, the Audit Committee appointed Ernst & Young LLP, an independent registered public accounting firm, as our independent auditors for the 2008 fiscal year. The Audit Committee reviewed and discussed with the independent auditors the overall scope and specific plans for their audit. The Audit Committee also reviewed and discussed with the independent auditors and with management our audited consolidated financial statements and the adequacy of our internal control over financial reporting. The Audit Committee met with the independent auditors, without management present, to discuss the results of the independent auditors’ audit, the independent auditors’ evaluations of our internal control over financial reporting, and the overall quality of our financial reporting. The meetings were also designed to facilitate any desired private communication between the Audit Committee and the independent auditors.

The Audit Committee monitored the independence and performance of the independent auditors. The Audit Committee discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 114 (The Auditor’s Communications with Those Charged with Governance), as adopted by the Public Company Accounting Oversight Board, or PCAOB, in Rule 3200T. The Audit Committee received the written disclosures and the letter from the independent auditors required by applicable requirements of the PCAOB regarding the independent accountants’ communications with the Audit Committee concerning independence, and discussed with the independent auditors the independent auditors’ independence.

Based on the review and discussions referred to above, the Audit Committee recommended to our Board of Directors that the audited consolidated financial statements be included in our annual report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the SEC. The Audit Committee has also appointed Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2009.

The foregoing report is provided by the following directors, who constitute the Audit Committee:

Donald D. Belcher
Phillip M. Schneider
Randall E. Woods

Independent Auditors' Fees

The following presents aggregate fees billed to us for the fiscal years ended December 31, 2008 and 2007 by Ernst & Young LLP, our independent auditors and principal outside accountants.

Audit Fees. Audit fees were \$557,400 and \$524,000 for the years ended December 31, 2008 and 2007, respectively.

Audit-Related Fees. Audit-related fees were \$77,388 and \$25,758 for the years ended December 31, 2008 and 2007, respectively. The fees in 2008 were primarily related to consultations regarding the accounting treatment and valuation for our Swiss subsidiary, Arena Pharmaceuticals GmbH's acquisition of certain drug product facility assets, Statement of Financial Accounting Standards No. 157 implementation, the warrant settlement with one of our warrant holders, and the accounting treatment for our Series B Convertible Preferred Stock. The fees in 2007 were primarily related to consultations regarding performance-based restricted stock unit awards, Financial Accounting Standards Board Interpretation No. 48, or FIN 48, and the sale and leaseback of certain of our real property.

Tax Fees. Tax fees were \$25,000 and \$58,727 for the years ended December 31, 2008 and 2007, respectively. The fees in 2008 were related to an Internal Revenue Code Section 382 study. The fees in 2007 were related to consultations relating to Internal Revenue Code Section 382, FIN 48 and international tax matters, including Arena Pharmaceuticals GmbH's acquisition of certain drug product facility assets.

All Other Fees. There were no fees billed in either of the years ended December 31, 2008 or 2007 for products or services provided by our independent auditors other than those disclosed above in this section.

Pre-approval Policies and Procedures

The Audit Committee has adopted a policy and procedures for pre-approving all audit and non-audit services to be performed by our independent auditors. The policy requires pre-approval of all services rendered by our independent auditors either as part of the Audit Committee's approval of the scope of the engagement of the independent auditors or on a case-by-case basis. The Audit Committee has authorized its Chair to pre-approve individual expenditures of audit and non-audit services. Any pre-approval decision must be reported to the Audit Committee at the next regularly scheduled Audit Committee meeting. The Audit Committee approved all audit, audit-related and tax fees for 2008 and 2007.

Ratification of Independent Auditors (Proposal 5)

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, 2009. Ernst & Young LLP has audited our financial statements since our inception in 1997. Our 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 2008 financial statements, we entered into an engagement letter with Ernst & Young LLP that sets forth the terms by which Ernst & Young LLP will perform audit services for us. The 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 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 our independent auditors, but may decide not to change its selection. Even if the appointment is ratified, the Audit Committee may appoint different independent auditors at any time if it determines that such a change would be in the stockholders' best interest.

Representatives of Ernst & Young LLP are expected to be present at our 2009 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, 2009.

Section 16(a) Beneficial Ownership Reporting Compliance

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

To our knowledge, based on a review of the copies of such reports furnished to us and written representations that no other reports were required, all Section 16(a) filing requirements applicable to our directors, executive officers and our 10% or greater stockholders were complied with during the fiscal year ended December 31, 2008.

Stockholder Proposals for the 2009 Annual Meeting

To be considered for inclusion in our proxy statement for next year's annual meeting, stockholder proposals must be in writing, addressed to our Corporate Secretary, and be received at our executive offices at 6166 Nancy Ridge Drive, San Diego, California 92121, no later than the close of business on January 15, 2010. In addition, notice of any stockholder proposal to be presented at next year's annual meeting of stockholders must be received at our executive offices no later than March 6, 2010, and no earlier than February 14, 2010. The above dates in this section may change under circumstances set forth in our Bylaws or if we amend the relevant provisions in our Bylaws. If we amend our Bylaws, we will file the amended Bylaws with the SEC. Stockholders may request a copy of the bylaw provisions relating to stockholder proposals from our Corporate Secretary at the same address.

Notices of intention to present proposals at the 2009 annual meeting of stockholders should be addressed to our Corporate Secretary, Arena Pharmaceuticals, Inc., 6166 Nancy Ridge Drive, San Diego, California 92121. We reserve the right to reject, rule out of order, or take appropriate action with respect to any proposal that does not comply with these and any other applicable requirements.

Annual Report

A copy of our Annual Report for the 2008 fiscal year has been mailed concurrently with this proxy statement to all stockholders entitled to notice of and vote at our 2009 Annual Meeting. The Annual Report is not incorporated into this proxy statement and is not considered proxy solicitation material.

Annual Report on Form 10-K

WE WILL MAIL WITHOUT CHARGE, UPON WRITTEN REQUEST, A COPY OF OUR ANNUAL REPORT ON FORM 10-K, INCLUDING THE FINANCIAL STATEMENTS, SCHEDULES AND LIST OF EXHIBITS. WE WILL FURNISH A COPY OF ANY EXHIBIT TO SUCH REPORT UPON WRITTEN REQUEST AND PAYMENT OF OUR REASONABLE EXPENSES IN FURNISHING SUCH EXHIBIT. REQUESTS SHOULD BE SENT TO INVESTOR RELATIONS, ARENA PHARMACEUTICALS, INC., 6166 NANCY RIDGE DRIVE, SAN DIEGO, CALIFORNIA 92121. OUR SEC FILINGS ARE ALSO AVAILABLE ON OUR WEBSITE AT WWW.ARENAPHARM.COM.

Householding of Proxy Materials

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

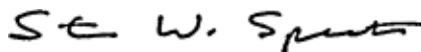
A number of brokers with account holders who are our stockholders will be “householding” our proxy materials. A single proxy statement and one annual report will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. Any stockholder at a shared address to which a single copy of the documents was delivered and who wishes to receive a separate copy of the documents can request a copy of the documents by sending a written request to Corporate Secretary, Arena Pharmaceuticals, Inc., 6166 Nancy Ridge Drive, San Diego, California 92121, or contact our Corporate Secretary at 858.453.7200. Also, if, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate proxy statement and annual report in the future, please notify your broker or direct your written request to Corporate Secretary, Arena Pharmaceuticals, Inc., 6166 Nancy Ridge Drive, San Diego, California 92121, or contact our Corporate Secretary at 858.453.7200. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request “householding” of their communications should contact their broker.

Other Matters

Our Board of Directors knows of no other business that will be presented for consideration at our 2009 Annual Meeting. If other matters are properly brought before our 2009 Annual Meeting, however, it is the intention of the persons named in the accompanying proxy to vote the shares represented thereby on such matters in accordance with their best judgment.

Dated: May 15, 2009

By Order of our Board of Directors



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

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