

Ardea Biosciences, Inc./DE  
Form DEF 14A  
April 17, 2008

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**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

ARDEA BIOSCIENCES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box)

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

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

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

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

6. Amount Previously Paid:

7. Form, Schedule or Registration Statement No.:

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**9.** Date Filed:

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**ARDEA BIOSCIENCES, INC.  
4939 Directors Place  
San Diego, California 92121**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held On May 22, 2008**

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Ardea Biosciences, Inc., a Delaware corporation (the Company). The meeting will be held on Thursday, May 22, 2008 at 9:00 a.m. local time at the offices of the Company located at 4939 Directors Place, San Diego, California 92121, for the following purposes:

1. To elect six directors to hold office until the next annual meeting and until their respective successors are elected and qualified.
2. To ratify the selection of the Board of Directors of Stonefield Josephson, Inc. as independent auditors of the Company for its fiscal year ending December 31, 2008.
3. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is April 11, 2008. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors

**Barry D. Quart, Pharm.D.**  
President & Chief Executive Officer

San Diego, California  
April 17, 2008

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return the enclosed proxy, or vote over the telephone or the Internet as instructed in these materials, as promptly as possible in order to ensure your representation at the meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for your convenience. Even if you have voted by proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.

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**ARDEA BIOSCIENCES, INC.  
4939 Directors Place  
San Diego, California 92121**

**PROXY STATEMENT  
FOR THE 2008 ANNUAL MEETING OF STOCKHOLDERS**

May 22, 2008

**QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING**

**Why am I receiving these materials?**

We have sent you this proxy statement and the enclosed proxy card because the Board of Directors (the "Board of Directors" or "Board") of Ardea Biosciences, Inc. (referred to herein as the "Company" or "Ardea") is soliciting your proxy to vote at the 2008 Annual Meeting of Stockholders. You are invited to attend the annual meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card, or follow the instructions below to submit your proxy over the telephone or on the Internet.

The Company intends to mail this proxy statement and accompanying proxy card on or about April 17, 2008 to all stockholders of record entitled to vote at the annual meeting.

**Who can vote at the annual meeting?**

Only stockholders of record holding shares of common stock of the Company ("Common Stock") or shares of Series A Preferred Stock of the Company ("Series A Preferred") at the close of business on April 11, 2008 will be entitled to vote at the annual meeting.

***Voting on the Proposals***

All of the holders of Common Stock and Series A Preferred can vote on each of Proposal 1 and Proposal 2.

There are currently eight board seats on Ardea's Board of Directors, two of which are reserved for directors which our Series A Preferred holders are entitled to elect, so long as at least 100 shares of Series A Preferred remain outstanding, and six of which are filled by directors who are elected by the holders of our Common Stock and Series A Preferred voting together on an as-converted to Common Stock basis.

Because there have been no nominations for the two seats on our Board of Directors that are elected by the holders of our Series A Preferred voting separately (the "Series A Directors"), there will be no election of the Series A Directors at the annual meeting.

Each director's term of office begins and expires at each annual meeting of stockholders as more fully described in Proposal 1 "Election of Directors" below.

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

If on April 11, 2008 your shares were registered directly in your name with Ardea's transfer agent, Computershare, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by

proxy. Whether or not you plan to attend the meeting, we urge you to fill out and return the enclosed proxy card or vote by proxy over the telephone or on the Internet as instructed below to ensure your vote is counted.

***Beneficial Owner: Shares Registered in the Name of a Broker or Bank***

If on April 11, 2008 your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer or other similar organization, then you are the beneficial owner of shares held in street name and these

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proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the annual 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 valid proxy from your broker or other agent.

**What am I voting on?**

There are two matters scheduled for a vote:

Election of directors; and

Ratification of Stonefield Josephson, Inc. as independent auditors of the Company for its fiscal year ending December 31, 2008.

**How do I vote?**

You may either vote For all the nominees to the Board of Directors or you may Withhold your vote for any nominee you specify. For each of the other matters to be voted on, you may vote For or Against or abstain from voting. The procedures for voting are fairly simple:

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

If you are a stockholder of record, you may vote in person at the annual meeting, vote by proxy using the enclosed proxy card, vote by proxy over the telephone, or vote by proxy on the Internet. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy.

To vote in person, come to the annual meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

To vote over the telephone, dial toll-free 1-800-652-8683 using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 11:00 p.m., Pacific Standard Time on May 21, 2008 to be counted.

To vote on the Internet, go to <http://www.investorvote.com> to complete an electronic proxy card. You will be asked to provide the company number and control number from the enclosed proxy card. Your vote must be received by 11:00 p.m., Pacific Standard Time on May 21, 2008 to be counted.

***Beneficial Owner: Shares Registered in the Name of Broker or Bank***

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from Ardea. Simply complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may be able to vote by telephone or over the Internet as instructed by your broker or bank. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank



included with these proxy materials, or contact your broker or bank to request a proxy form.

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

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**How many votes do I have?**

On each matter to be voted upon, each holder of Common Stock will have one vote for each share of Common Stock held as of April 11, 2008 and each holder of Series A Preferred will have 3,623 votes for each share of Series A Preferred held as of April 11, 2008. On this record date, there were 13,360,558 shares of Common Stock outstanding and entitled to vote and 300 shares of Series A Preferred outstanding and entitled to vote.

**What if I return a proxy card but do not make specific choices?**

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted For the election of all nominees for director for which you are entitled to vote and For Proposal 2. If any other matter is properly presented at the meeting, your proxyholder (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

**Who is paying for this proxy solicitation?**

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

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

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

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

Yes. You can revoke your proxy at any time before the final vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

You may submit another properly completed proxy card with a later date.

You may send a timely written notice that you are revoking your proxy to Ardea's Secretary at 4939 Directors Place, San Diego, California 92121.

You may attend the annual meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

**When are stockholder proposals due for next year's annual meeting?**

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by December 18, 2008, to Christopher W. Krueger, 4939 Directors Place, San Diego, California 92121. If you wish to submit a proposal that is not to be included in next year's proxy materials or nominate a director, you must do so no sooner than January 22, 2009 but no later than February 21, 2009. For all proxies we receive, the proxyholders will have discretionary authority to vote on the matter, including discretionary authority to vote in opposition to the matter.

You are also advised to review the Company's Bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

**How are votes counted?**

Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Withhold and, with respect to Proposal 2, Against votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total for each proposal, and will have the same effect as Against votes. Broker non-votes have no effect and will not be counted towards the vote total for either proposal.

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**What are broker non-votes ?**

Broker non-votes occur when a beneficial owner of shares held in street name does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed non-routine. Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be routine, but not with respect to non-routine matters. Under the rules and interpretations of the New York Stock Exchange ( NYSE ), non-routine matters are generally those involving a contest or a matter that may substantially affect the rights or privileges of shareholders, such as mergers or shareholder proposals.

**How many votes are needed to approve each proposal?**

For Proposal 1, the election of directors, the nominees receiving the most For votes (from the holders of votes of shares of Common Stock and Series A Preferred present in person or represented by proxy and entitled to vote on the election of directors) will be elected. Only votes For or Withheld will affect the outcome.

To be approved, Proposal 2, the ratification of Stonefield Josephson, Inc. as independent auditors of the Company for its fiscal year ending December 31, 2008, must receive For votes from the holders of a majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

**What is the quorum requirement?**

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares of voting stock are present at the meeting in person or represented by proxy. On the record date, there were 13,360,558 shares of Common Stock outstanding and entitled to vote and 300 shares of Series A Preferred outstanding and entitled to vote. Thus, the holders of 6,680,430 shares of voting stock must be present in person or represented by proxy at the meeting to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of shares of voting stock present at the meeting in person or represented by proxy may adjourn the meeting to another date.

**How can I find out the results of the voting at the annual meeting?**

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in the Company's quarterly report on Form 10-Q for the second quarter of 2008.

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There are currently eight board seats on Ardea's Board of Directors. Our Series A Preferred holders are entitled (so long as at least 100 shares of Series A Preferred remain outstanding) to elect two directors, the Series A Directors, to our Board of Directors on an annual basis. There are currently no Series A Directors serving on the Board of Directors and the Series A Director seats on our Board of Directors currently remain vacant. The holders of our Series A Preferred have not nominated any person as a director for the two Series A Director seats. Accordingly, no vote will be taken at the annual meeting for these two board seats and they will remain vacant.

The remaining six directors are elected by the holders of our Common Stock and Series A Preferred voting together. The nominees for director are John W. Beck, Henry J. Fuchs, John Poyhonen, Barry D. Quart, Jack S. Remington and Kevin C. Tang. Each of the nominees is currently a director of the Company who was previously elected by the stockholders.

Proxies cannot be voted for a greater number of persons than the number of nominees named. Each of the nominees listed below was nominated by the Nominating and Corporate Governance Committee of the Board of Directors for election as a director at the 2008 Annual Meeting of Stockholders. It is Ardea's policy to encourage directors to attend our Annual Meeting. Each of the directors attended the Company's Annual Meeting in 2007.

Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. The director nominees receiving the highest number of affirmative votes from the holders of the Common Stock and Series A Preferred voting together will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of each of the nominees. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute nominee proposed by Ardea's management. Each person nominated for election has agreed to serve, if elected, until the next annual meeting and until their respective successors are elected and qualified, or until their earlier death, resignation or removal. Our management has no reason to believe that any nominee will be unable to serve.

The following is a brief biography of each nominee for director.

**Nominees For Election At The 2008 Annual Meeting**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation/ Position Held With the Company</b>
John W. Beck, C.P.A.	48	Senior Vice President of Finance, Chief Financial Officer and Treasurer of Metabasis Therapeutics, Inc./Director
Henry J. Fuchs, M.D.	49	Executive Vice President and Chief Medical Officer of Onyx Pharmaceuticals, Inc./Director
John Poyhonen	48	Senior Vice President, Chief Financial and Business Officer of Senomyx, Inc./Director
Barry D. Quart, Pharm.D	51	President and Chief Executive Officer/Director
Jack S. Remington, M.D.	77	Professor, Department of Medicine, Division of Infectious Diseases and Geographic Medicine, at Stanford University School of Medicine

and Chairman of the Department of Immunology and Infectious Diseases at the Research Institute of the Palo Alto Medical Foundation/Director

Kevin C. Tang

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Managing Director of Tang Capital Management, LLC/Director

*John W. Beck, C.P.A.* Mr. Beck was appointed as a director in June 2007. Mr. Beck is one of three co-founders of Metabasis Therapeutics, Inc. and has served there as Vice President of Finance, Chief Financial Officer and Treasurer since June 1999. Mr. Beck was promoted to Senior Vice President of Finance, Chief Financial Officer and Treasurer in April 2005. Mr. Beck previously served as Director of Finance at Metabasis from April 1998 to June 1999. Mr. Beck has more than 20 years of financial management experience. In February 1994, he joined Neurocrine Biosciences, Inc., where he served as Director of Finance from May 1996 to April 1998 and played an

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important role in Neurocrine's 1996 initial public offering. Prior to joining Neurocrine, Mr. Beck held financial management positions at high technology and financial services companies including General Dynamics and Ernst and Young LLP. Mr. Beck received a B.A. in accounting from the University of Washington and also holds a Th.B. in theology from a Seattle, Washington-based seminary. Mr. Beck is a licensed (inactive status) certified public accountant in the state of California and is a member of the American Institute of Certified Public Accountants and the Association of Bioscience Financial Officers.

*Henry J. Fuchs, M.D.* Dr. Fuchs has served as one of our directors since November 2001. Since September 2005, Dr. Fuchs has been the Executive Vice President and Chief Medical Officer of Onyx Pharmaceuticals, Inc. He served as our Chief Executive Officer from January 2003 until June 2005. Dr. Fuchs joined us as Vice President, Clinical Affairs in October 1996 and was appointed President and Chief Operating Officer in November 2001. From 1987 to 1996, Dr. Fuchs held various positions at Genentech, Inc. where, among other things, he had responsibility for the clinical program that led to the approval of Pulmozyme® for the treatment of cystic fibrosis. Dr. Fuchs was also responsible for the Phase III development program that led to the approval of Herceptin® for the treatment of metastatic breast cancer. Dr. Fuchs received an M.D. degree from George Washington University and a B.A. degree in biochemical sciences from Harvard University.

*John Poyhonen.* Mr. Poyhonen was appointed as a director in June 2007. Mr. Poyhonen is currently the Senior Vice President, Chief Financial and Business Officer of Senomyx, Inc. He joined Senomyx in October 2003 as Vice President and Chief Business Officer and was promoted in April 2004 to Vice President and Chief Financial and Business Officer. From 1996 until October 2003, Mr. Poyhonen served in various sales and marketing positions for Agouron Pharmaceuticals, a Pfizer, Inc. company, most recently as Vice President of National Sales. Prior to holding this position, Mr. Poyhonen served as Vice President of Marketing and Vice President of National Accounts. Mr. Poyhonen received his B.A. in Marketing from Michigan State University and his M.B.A. from the University of Kansas.

*Barry D. Quart, Pharm.D.* Dr. Quart was elected as a director and appointed as our President and CEO on December 21, 2006. From 2002 until December 2006, Dr. Quart was President of Napo Pharmaceuticals, Inc., where he was instrumental in bringing the company public on the London Stock Exchange in July 2006. Prior to Napo, Dr. Quart was Senior Vice President, Pfizer Global Research and Development and the Director of Pfizer's La Jolla Laboratories, where he was responsible for approximately 1,000 employees and an annual budget of almost \$300 million. Prior to Pfizer's acquisition of the Warner-Lambert Company, Dr. Quart was President of Research and Development at Agouron Pharmaceuticals, Inc., a division of the Warner-Lambert Company, since 1999. Dr. Quart had joined Agouron in 1993 and was instrumental in the development and registration of nelfinavir (Viracept®), which went from the lab bench to NDA approval in 38 months. Dr. Quart spent over ten years at Bristol-Myers Squibb in both Clinical Research and Regulatory Affairs prior to Agouron and was actively involved in the development and registration of important drugs for the treatment of HIV and cancer, including paclitaxel (Taxol®), didanosine (Videx®), and stavudine (Zerit®). Mr. Quart currently serves as a director of Trimeris, Inc. He has a Pharm.D. from University of California, San Francisco.

*Jack S. Remington, M.D.* Dr. Remington has served as one of our directors since October 1996. Dr. Remington currently serves as Professor Emeritus (active), Department of Medicine, Division of Infectious Diseases and Geographic Medicine, at the Stanford University School of Medicine and as Chairman of the Department of Immunology and Infectious Diseases at the Research Institute of the Palo Alto Medical Foundation. He has been at Stanford and the Palo Alto Medical Foundation for more than 40 years. In addition, Dr. Remington is a consultant for leading pharmaceutical companies with regard to antibiotic research and development and has served on numerous editorial boards of medical and scientific journals. He is a past President of the Infectious Disease Society of America. Dr. Remington is a nationally and internationally recognized authority in the field of infectious disease medicine, and has received numerous awards including the Gold Medal from the Royal College of Physicians, London, England in

1999 and the 1996 Bristol Award of the Infectious Disease Society of America.

*Kevin C. Tang.* Mr. Tang has served as one of our directors since May 2003. Mr. Tang is the Managing Director of Tang Capital Management, LLC, a life sciences-focused investment company he founded in August 2002. From September 1993 to July 2001, Mr. Tang held various positions at Deutsche Banc Alex. Brown, Inc., an investment banking firm, most recently serving as Managing Director and head of the firm's life sciences research group. Mr. Tang currently serves as a director of Trimeris, Inc. Mr. Tang received a B.S. degree from Duke University.



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**Required Vote and Board of Directors Recommendation**

For the election of directors pursuant to Proposal 1, the nominees receiving the most For votes (from the holders of votes of shares present in person or represented by proxy and entitled to vote on the election of directors) will be elected. Only votes For or Withheld will affect the outcome.

**The Board Of Directors Recommends  
A Vote In Favor Of Each Named Nominee.**

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**INFORMATION REGARDING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE**

**Independence of The Board of Directors**

As required under the Nasdaq Stock Market listing standards, a majority of the members of a listed company's Board of Directors must qualify as independent as affirmatively determined by the Board. The Board of Directors consults with the Company's outside counsel to ensure that the Board of Directors' determinations are consistent with relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent listing standards of Nasdaq, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its independent auditors, the Board has affirmatively determined that the following four directors are independent directors within the meaning of the applicable Nasdaq listing standards: Mr. Beck, Mr. Poyhonen, Dr. Remington and Mr. Tang. In making this determination, the Board found that none of the above directors had a material or other disqualifying relationship with the Company. Drs. Quart and Fuchs are not independent under the Nasdaq rules by virtue of their current or former employment with the Company.

**Meetings of the Board of Directors**

During the fiscal year ended December 31, 2007, the Board held five meetings, including telephone conference meetings, and acted by unanimous written consent seven times. During the fiscal year ended December 31, 2007, each member of the Board attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he served, held during the period for which he was a director or committee member, respectively. Mr. Beck and Mr. Poyhonen were appointed to the Board of Directors in June 2007.

**Information Regarding Committees of the Board of Directors**

During 2005, the Board had an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Because of the Company's limited operations and resignations of Board committee members in 2005, the Board dissolved the Audit, Compensation and the Nominating and Corporate Governance Committees effective January 27, 2006, and the entire Board assumed the functions of those committees. On June 14, 2007, the Audit Committee, Compensation Committee and the Nominating and Corporate Governance Committee were each reconstituted.

The Board currently has three committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee.

A description of each committee of the Board of Directors follows. Each of the committees has authority to engage legal counsel or other experts or consultants, as it deems appropriate to carry out its responsibilities. The Board of Directors has determined that, except as specifically described below, each member of each committee meets the applicable Nasdaq rules and regulations regarding independence and that each member is free of any relationship that would impair his or her individual exercise of independent judgment with regard to the Company.

**Audit Committee**

The Audit Committee of the Board of Directors was established by the Board to oversee the Company's corporate accounting and financial reporting processes and audits of its financial statements. For this purpose, the Audit Committee performs several functions. The Audit Committee evaluates the performance of and assesses the

qualifications of the independent auditors; determines and approves the engagement of the independent auditors; determines whether to retain or terminate the existing independent auditors or to appoint and engage new independent auditors; reviews and approves the retention of the independent auditors to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent auditors on the Company's audit engagement team as required by law; reviews and approves or rejects transactions between the company and any related persons; confers with management and the independent auditors regarding the effectiveness of internal controls over financial reporting; establishes procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by

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employees of concerns regarding questionable accounting or auditing matters; and meets to review the company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations. The Audit Committee is composed of three directors: Dr. Remington and Messrs. Beck and Poyhonen. The Audit Committee met five times during 2007. The Audit Committee has adopted a written charter that is available to stockholders on the Company's website at [www.ardeabio.com](http://www.ardeabio.com).

The Company has an Open Door Policy for Reporting Complaints Regarding Accounting and Auditing Matters that describes how stockholders can communicate with the Audit Committee with respect to accounting and auditing concerns, which is available on the Company's website at [www.ardeabio.com](http://www.ardeabio.com). All communications directed to the Audit Committee in accordance with this policy will be promptly and directly forwarded to the Audit Committee.

The Board of Directors reviews the Nasdaq listing standards definition of independence for Audit Committee members on an annual basis and has determined that all members of the Company's Audit Committee are independent (as independence is currently defined in Rule 4350(d)(2)(A)(i) and (ii) of the Nasdaq listing standards). The Board of Directors has also determined that Mr. Beck qualifies as an audit committee financial expert, as defined in applicable SEC rules. The Board made a qualitative assessment of Mr. Beck's level of knowledge and experience based on a number of factors, including his formal education and 20 years of financial management experience.

**Report of the Audit Committee of the Board of Directors\***

The Audit Committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2007 with management of the Company. The Audit Committee has discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T. The Board of Directors has also received the written disclosures and the letter from the independent accountants required by the Independence Standards Board Standard No. 1, (*Independence Discussions with Audit Committees*), as adopted by the PCAOB in Rule 3600T and has discussed with the independent accountants the independent accountant's independence. Based on the foregoing, the Audit Committee approved the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

/s/ John W. Beck, C.P.A.

John W. Beck, C.P.A.

/s/ Jack S. Remington, M.D.

Jack S. Remington, M.D.

/s/ John Poyhonen

John Poyhonen

**\* The material in this report is not soliciting material, is not deemed filed with the Commission and is not to be incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.**

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**Compensation Committee**

The Compensation Committee is composed of three directors: Mr. Poyhonen, Dr. Remington and Mr. Tang. All members of the Company's Compensation Committee are independent as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards. The Compensation Committee was reconstituted on June 14, 2007. Beginning on July 26, 2007 through the remainder of the calendar year, the Compensation Committee met two times and acted according to the adopted written charter that is available to stockholders on the Company's website at [www.ardeabio.com](http://www.ardeabio.com).

The Compensation Committee of the Board of Directors acts on behalf of the Board to review, adopt and oversee the Company's compensation strategy, policies, plans and programs, including:

establishment of corporate and individual performance objectives relevant to the compensation of the Company's executive officers and directors and evaluation of performance in light of these stated objectives;

review and approval of the compensation and other terms of employment or service, including severance and change-in-control arrangements, of the Company's Chief Executive Officer and the other executive officers, vice presidents and directors; and

administration of the Company's equity compensation plans, pension and profit-sharing plans, deferred compensation plans and other similar plans and programs.

Commencing this year, the Compensation Committee also began to review with management the Company's Compensation Discussion and Analysis and to consider whether to recommend that it be included in this proxy statement.

**Compensation Committee Processes and Procedures**

The Compensation Committee meets quarterly and with greater frequency, if necessary. The agenda for each meeting is usually developed by the Chair of the Compensation Committee, Mr. John Poyhonen, in consultation with the Chief Executive Officer and other members of senior management, including human resources. The Compensation Committee also meets regularly in executive session. From time to time, various members of management 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. The Chief Executive Officer may not participate in or be present during any deliberations or determinations of the Compensation Committee regarding his compensation or individual performance objectives. The charter of the Compensation Committee grants the Compensation Committee full access to all books, records, facilities and personnel of the Company, as well as authority to obtain, at the expense of the Company, advice and assistance from internal and external legal, accounting or other advisors and consultants and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the sole authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms.

During the past fiscal year, the Compensation Committee engaged Compensia as compensation consultants. The Compensation Committee requested that Compensia:

evaluate and select a comparative, or peer group, of companies from which to perform analysis of competitive company performance and individual compensation levels for that group;

evaluate the competitiveness of our existing compensation strategy and practices in support of, and reinforcement of, our long-term strategic goals; and

assist in the refinement of our compensation strategy to develop an executive compensation program to execute that strategy.

In consultation with the Compensation Committee and senior management, Compensia ultimately developed recommendations that were presented to the Compensation Committee for its consideration. Following an active

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dialogue and modifications resulting from those discussions, the Compensation Committee approved the compensation for the Chief Executive Officer, other executive officers, vice presidents and directors.

Under its charter, the Compensation Committee may delegate authority to subcommittees, as appropriate. The Compensation Committee has formed a Non-Officer Stock Option Committee, or NOSOC, currently composed of Dr. Quart, the Chief Executive Officer, to grant, without any further action required by the Compensation Committee, stock options to our employees who are not officers or vice presidents. The purpose of this delegation of authority is to enhance the flexibility of option administration and to facilitate the timely grant of options to non-management employees, particularly new employees, within specified limits approved by the Compensation Committee. The size of grants made by the NOSOC must be within limits pre-approved by the Compensation Committee. Typically, as part of its oversight function, the Compensation Committee will review on a regular basis the list of grants made by the NOSOC. From July 26, 2007 at the establishment of the NOSOC through the fiscal year ended December 31, 2007, the NOSOC exercised its authority to grant options to purchase an aggregate of 138,000 shares to non-officer employees.

The Compensation Committee will consider matters related to individual compensation, as well as high-level strategic issues, such as the efficacy of the Company's compensation strategy, potential modifications to that strategy and new trends, plans or approaches to compensation, at various meetings throughout the year. Generally, the Compensation Committee's process would comprise two related elements: the determination of compensation levels and the establishment of performance objectives for the current year. For executives other than the Chief Executive Officer, the Compensation Committee will solicit and consider evaluations and recommendations submitted to the Compensation Committee by the Chief Executive Officer. In the case of the Chief Executive Officer, the evaluation of his performance will be conducted by the Compensation Committee, which recommends to the entire Board of Directors any adjustments to his compensation, as well as awards to be granted for final determination. For all executives and directors, as part of its deliberations, the Compensation Committee may review and consider, as appropriate, materials such as financial reports and projections, operational data, tax and accounting information, tally sheets that set forth the total compensation that may become payable to executives in various hypothetical scenarios, executive and director stock ownership information, company stock performance data, analyses of historical executive compensation levels and current company-wide compensation levels, and recommendations of compensation consultants, including analyses of executive and director compensation paid at other companies identified by consultants.

## **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee of the Board of Directors is responsible for identifying, reviewing and evaluating candidates to serve as directors of the Company (consistent with criteria approved by the Board), reviewing and evaluating incumbent directors, selecting candidates for election to the Board of Directors, making recommendations to the Board regarding the membership of the committees of the Board, assessing the performance of the Board, and developing a set of corporate governance principles for the Company. The Nominating and Corporate Governance Committee is composed of three directors: Mr. Beck, Dr. Remington and Mr. Tang. All members of the Nominating and Corporate Governance Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards). The Nominating and Corporate Governance Committee was reconstituted on June 14, 2007 and met two times during 2007. The Nominating and Corporate Governance Committee has adopted a written charter that is available to stockholders on the Company's website at [www.ardeabio.com](http://www.ardeabio.com).

The Nominating and Corporate Governance Committee believes that candidates for director should have certain minimum qualifications, including the ability to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Nominating and Corporate Governance Committee also

intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of the Company, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of the Company's stockholders. However, the Nominating and Corporate Governance Committee retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating



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requirements of the Company and the long-term interests of stockholders. In conducting this assessment, the Nominating and Corporate Governance Committee considers diversity, age, skills, and such other factors as it deems appropriate given the current needs of the Board and the Company, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance Committee reviews these directors' overall service to the Company during their terms, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair the directors' independence. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee is independent based upon applicable Nasdaq listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee then uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Corporate Governance Committee meets to discuss and consider the candidates' qualifications and then selects a nominee by majority vote.

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether or not the candidate was recommended by a stockholder. The Company's Board has adopted a written Policy Regarding Stockholder Recommendations of Director Nominees that is available to stockholders on the Company's website at [www.ardeabio.com](http://www.ardeabio.com). Stockholders who wish to recommend individuals for consideration by the Nominating and Corporate Governance Committee to become Company nominees for election to the Board at annual stockholders meetings must do so by delivering a written recommendation to the Nominating and Corporate Governance Committee at the following address: 4939 Directors Place, San Diego California 92121, Attention: Secretary, no sooner than 120 days and no later than 90 days prior to the anniversary date of the last Annual Meeting of Stockholders, subject to adjustment as set forth in the Company's Bylaws. Submissions must include the name and address of the stockholder on whose behalf the submission is made, the full name of the proposed nominee, a description of the proposed nominee's business experience for at least the previous five years, complete biographical information, a description of the proposed nominee's qualifications as a director and a representation that the nominating stockholder is a beneficial or record holder of the Company's stock, has been a holder for at least one year and the number of Ardea shares beneficially owned by the stockholder. 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. Any stockholder who holds in excess of 15% of our outstanding voting stock on an as-converted basis may call a special meeting of the stockholders of the Company for any purpose, including the election of directors, by giving notice to the Company identifying the matters to be considered at such meeting. In connection with any such special meeting the policies and procedures described in this paragraph do not apply. The Company is not required to solicit proxies on behalf of the greater than 15% stockholder, nor will the Company or the Company's Board be required to make any recommendation with respect to any matter to be considered at such meeting.

## **Stockholder Communications With The Board Of Directors**

The Company's Board has adopted a formal process by which stockholders may communicate with the Board or any of its directors. Stockholders who wish to communicate with the Board or an individual director may do so by sending written communications addressed to the Secretary of Ardea at 4939 Directors Place, California 92121. The Company's Board has adopted a written Process for Stockholder Communications with the Board of Directors that is available to stockholders on the Company's website at [www.ardeabio.com](http://www.ardeabio.com). All communications will be compiled by the Secretary of the Company, reviewed to determine whether they should be presented to the Board or the individual directors, and submitted to the Board, a committee of the Board or the individual directors on a periodic basis. The purpose of this screening is to allow the Board or individual directors to avoid having to consider irrelevant or

inappropriate communications (such as advertisements, solicitations and hostile communications). The screening procedures have been approved by a majority of the independent directors of the Board. All communications directed to the Audit Committee in accordance with the Company's Open Door Policy for Reporting Complaints Regarding Accounting and Auditing Matters involving the Company will be promptly and

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directly forwarded to the Audit Committee. If no particular director is named, letters will be forwarded, depending upon the subject matter, to the Chair of the Audit, Compensation or Nominating and Corporate Governance Committee.

**Code Of Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at [www.ardeabio.com](http://www.ardeabio.com). If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision thereof to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website. The Code of Business Conduct and Ethics meets the requirements defined by Item 406 of Regulation S-K.

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**PROPOSAL 2**

**RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS**

The Audit Committee of the Board has selected Stonefield Josephson, Inc. as the Company’s independent auditors for the fiscal year ending December 31, 2008 and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the Annual Meeting. Stonefield Josephson, Inc. has audited the Company’s financial statements since we engaged them in October 2004. Representatives of Stonefield Josephson, Inc. are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither the Company’s Bylaws nor other governing documents or law require stockholder ratification of the selection of Stonefield Josephson, Inc. as the Company’s independent auditors. However, the Board is submitting the selection of Stonefield Josephson, Inc. to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

**Required Vote**

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to ratify the selection of Stonefield Josephson. 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 Board Of Directors Recommends**

**A Vote In Favor Of Proposal 2.**

**Principal Accountant Fees and Services**

During the fiscal year ended December 31, 2007, our Board of Directors, acting in the place of the Audit Committee, reviewed and approved all audit and non-audit service engagements, after giving consideration as to whether the provision of such services was compatible with maintaining Stonefield Josephson Inc.’s independence.

The following table represents aggregate fees billed to us for the fiscal years ended December 31, 2006 and December 31, 2007, by Stonefield Josephson, our principal accountant.

	<b>Fiscal Year Ended</b>	
	<b>2007</b>	<b>2006</b>
Audit fees	\$ 209,863	\$ 125,823
Audit-related fees		
Tax fees		
All other fees		

\$ 209,863      \$ 125,823

During the fiscal year ended December 31, 2007, none of the total hours expended on our financial audit by Stonefield Josephson, Inc. were provided by persons other than Stonefield Josephson's full-time permanent employees.

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**Pre-Approval Policies and Procedures**