

METABASIS THERAPEUTICS INC  
Form DEF 14A  
March 23, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
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**Metabasis Therapeutics, Inc.**

(Name of Registrant as Specified In Its Charter)

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

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

11119 North Torrey Pines Road

La Jolla, CA 92037

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 9, 2006**

Dear Stockholder:

You are cordially invited to attend the 2006 Annual Meeting of Stockholders of Metabasis Therapeutics, Inc., a Delaware corporation. The meeting will be held on May 9, 2006 at 10:00 a.m. local time at the corporate headquarters of Metabasis located at 11119 North Torrey Pines Road, La Jolla, CA 92037 for the following purposes:

1. To elect three Class II directors to hold office until our 2009 Annual Meeting of Stockholders.
2. To ratify the selection by the Audit Committee of our Board of Directors of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2006.
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 March 17, 2006. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment or postponement thereof.

By Order of the Board of Directors

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Paul K. Laikind, Ph.D.  
*Chairman of the Board, Chief Executive Officer,  
President and Secretary*

La Jolla, California

April 20, 2006

**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 request and obtain a proxy issued in your name from that record holder.**

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**METABASIS THERAPEUTICS, INC.**

11119 North Torrey Pines Road

La Jolla, CA 92037

**PROXY STATEMENT**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MAY 9, 2006**

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

**Why am I receiving these proxy materials?**

We sent you this proxy statement and the enclosed proxy card because the Board of Directors of Metabasis Therapeutics, Inc. is soliciting your proxy to vote at its 2006 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 by telephone or on the Internet.

We intend to mail this proxy statement and the accompanying proxy card on or about April 20, 2006 to all stockholders of record entitled to vote at the annual meeting.

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

Only stockholders of record at the close of business on March 17, 2006, the record date for the annual meeting, will be entitled to vote at the annual meeting. At the close of business on the record date, there were 25,325,605 shares of common stock outstanding and entitled to vote.

*Stockholder of Record: Shares Registered in Your Name*

If at the close of business on the record date, your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, 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, Bank or Other Agent*

If at the close of business on the record date, your shares were held, not in your name, but rather in an account at a brokerage firm, bank 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 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, bank or other agent on 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 issued in your name from your broker, bank or other agent.

**What am I voting on?**

There are two matters scheduled for a vote at the annual meeting:

Election of three Class II directors to hold office until our 2009 Annual Meeting of Stockholders; and

Ratification of the selection by the Audit Committee of our Board of Directors of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2006.

**How do I vote?**

For the election of directors, you may either vote  For all three nominees or you may  Withhold your vote for any nominee you specify. For any other matter to be voted on, you may vote  For or  Against or abstain from voting. The procedures for voting are as follows:

*Stockholder of Record: Shares Registered in Your Name*

If you are a stockholder of record, you may vote in person at the annual meeting. Alternatively, you may vote by proxy by 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 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-PROXIES 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 11:59 p.m., Eastern Standard Time on May 8, 2006, to be counted.

To vote on the Internet, go to <http://www.voteproxy.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 11:59 p.m., Eastern Standard Time on May 8, 2006, to be counted.

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

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 us. Simply complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may vote by telephone or over the Internet as instructed by your broker or bank or other agent. 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, bank or other agent included with these proxy materials, or contact your broker, bank or other agent 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 telephone or Internet access, such as usage charges from Internet access providers and telephone companies.**

**How many votes do I have?**

On each matter to be voted upon, you have one vote for each share of common stock you own as of the close of business on March 17, 2006, the record date for the annual meeting.

**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 three nominees for director and For the ratification of the selection of Ernst & Young LLP as our independent auditors. If any other matter is properly presented at the meeting, one of the individuals named on your proxy card as your proxy 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 with a later date,

you may send a written notice that you are revoking your proxy to our Corporate Secretary at 11119 North Torrey Pines Road, La Jolla, CA 92037, or

you may attend the annual meeting and vote in person (however, simply attending the meeting will not, by itself, revoke your proxy).

If your shares are held by your broker, bank or other agent, you should follow the instructions provided by them.

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

To be considered for inclusion in next year's proxy materials, a stockholder proposal must be submitted in writing by December 21, 2006, to our Corporate Secretary at 11119 North Torrey Pines Road, La Jolla, CA 92037. If you wish to submit a proposal that is not to be included in next



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year's proxy materials, your proposal generally must be submitted in writing to the same address no later than March 20, 2007 but no earlier than February 23, 2007. Please review our bylaws, which contain additional requirements regarding advance notice of stockholder proposals.

### **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 any proposals other than the election of directors, Against votes, abstentions and broker non-votes. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner, despite voting on at least one other proposal for which it does have discretionary authority or for which it has received instructions. 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 any proposal.

If your shares are held by your broker, bank or other agent as your nominee (that is, in street name), you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker, bank or other agent to vote your shares. If you do not give instructions to your broker, bank or other agent, they can vote your shares with respect to discretionary items, but not with respect to non-discretionary items. Discretionary items are proposals considered routine under the rules of the New York Stock Exchange on which your broker, bank or other agent may vote shares held in street name in

the absence of your voting instructions. On non-discretionary items for which you do not give instructions to your broker, bank or other agent, the shares will be treated as broker non-votes.

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

For the election of directors, the three nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected. Only votes For or Withheld will affect the outcome.

To be approved, the ratification of the selection of Ernst & Young LLP as our independent auditors must receive For votes from the 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 at least a majority of the outstanding shares as of the close of business on the record date are represented by stockholders present at the meeting or by proxy. At the close of business on the record date, there were 25,325,605 shares outstanding and entitled to vote. Therefore, in order for a quorum to exist, 12,662,803 shares must be represented by stockholders present at the meeting or by proxy.

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 agent) 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, a majority of the votes present at the meeting 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 our quarterly report on Form 10-Q for the second quarter of 2006.

**PROPOSAL 1**



**ELECTION OF DIRECTORS**



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Our Board of Directors currently consists of eight members and is divided into three classes, each of which has a three-year term. Class I consists of two directors and Classes II and III consist of three directors each. The Class II directors are to be elected at the annual meeting to serve until our 2009 Annual Meeting of Stockholders and until their successors are duly elected and qualified, or until their death, resignation or removal. The terms of the directors in Classes I and III expire at our 2008 and 2007 Annual Meetings of Stockholders, respectively. Vacancies on the Board may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board to fill a vacancy in a class shall serve for the remainder of the full term of that class, and until the director's successor is elected and qualified. This includes vacancies created by an increase in the number of directors.

The three nominees for Class II directors are Mark D. Erion, Ph.D., Arnold L. Oronsky, Ph.D. and William R. Rohn. Each of the nominees is currently a director of Metabasis. None of the three nominees was previously elected by our stockholders. Drs. Erion and Oronsky were previously appointed by our Board of Directors prior to our initial public offering to fill a vacancy then existing on the Board. Mr. Rohn was recommended for election to our Board by the Corporate Governance and Nominating Committee, comprised of non-management directors of Metabasis. Mr. Rohn was appointed to the Board by our full Board of Directors in November 2004.

Directors are elected by a plurality of the votes present at the meeting or by proxy and entitled to vote at the meeting. The three nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected. If no contrary indication is made, shares represented by executed proxies will be voted For the election of the three nominees named above or, if either nominee becomes unavailable for election as a result of an unexpected occurrence, For the election of a substitute nominee designated by our Board of Directors. Each nominee has agreed to serve as a director if elected, and we have no reason to believe that any nominee will be unable to serve.

We encourage all of our directors and nominees for director to attend our annual meeting of stockholders. All of our directors attended our 2005 Annual Meeting of Stockholders.

### **THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH NOMINEE NAMED ABOVE.**

The following is biographical information as of March 1, 2006 for each nominee for Class II director and each person whose term of office as a Class I or III director will continue after the annual meeting.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Daniel D. Burgess, M.B.A.	44	Director
Mark D. Erion, Ph.D.	48	Chief Scientific Officer, Executive Vice President of Research and Development and Director
Luke B. Evin, Ph.D.	42	Director
Heinz W. Gschwend, Ph.D.	69	Director
David F. Hale	57	Director
Paul K. Laikind, Ph.D.	50	Chairman of the Board, Chief Executive Officer, President and Secretary
Arnold L. Oronsky, Ph.D.	65	Director
William R. Rohn	62	Director

**Nominees for Election for a Three-year Term Expiring at the 2009 Annual Meeting**





*Mark D. Erion, Ph.D.* is one of our founders and has served as our Executive Vice President of Research and Development since April 1997 and on our Board of Directors since June 1999. In November 2005, Dr. Erion was appointed Chief Scientific Officer of Metabasis. Prior to joining Metabasis, Dr. Erion was with Gensia, where

he served as Director of Chemistry and Biochemistry from 1991 and assumed responsibility for research in 1996. Prior to joining Gensia, Dr. Erion was a Group Leader at Ciba-Geigy Pharmaceutical Company, where he directed a team in the area of protein engineering. Dr. Erion's research has resulted in over 90 publications and 30 U.S. patents. His discovery efforts over the past 12 years have produced seven clinical candidates, several research collaborations and more recently our HepDirect and NuMimetic technologies. Dr. Erion received a B.S. in mathematics and chemistry from the University of Oregon, a Ph.D. in Chemistry from Cornell University and was a National Institutes of Health postdoctoral fellow in enzymology at the Massachusetts Institute of Technology.

*Arnold L. Oronsky, Ph.D.* has served on our Board of Directors since September 2000. Dr. Oronsky is a General Partner at InterWest Partners, a venture capital firm focusing on investments in life sciences and information technology. Dr. Oronsky joined InterWest Partners in a full-time capacity in 1994 after serving as a special limited partner since 1989. He also serves as a senior lecturer in the Department of Medicine at Johns Hopkins Medical School. From 1980 to 1993, Dr. Oronsky was Vice President for Discovery Research at the Lederle Laboratories division of American Cyanamid Company, a pharmaceutical company. From 1973 to 1976, Dr. Oronsky was Head of Inflammation, Allergy and Immunology Research at Ciba-Geigy. From 1970 to 1972, he was an assistant professor at Harvard Medical School, where he also served as a research fellow from 1968 to 1970. Dr. Oronsky serves on the board of directors of the publicly-held biotechnology companies Aspreva Pharmaceuticals Corporation, Corgentech Inc., Dynavax Technologies Corporation and Myogen, Inc. He holds a Ph.D. from Columbia University, College of Physicians and Surgeons and a B.S. degree from University College, New York University.

*William R. Rohn* has served on our Board of Directors since December 2004. Since April 2005, Mr. Rohn has served as interim Chief Executive Officer and Vice Chairman of the Board of Raven Biotechnologies, a private biotechnology company. In January 2005, Mr. Rohn retired from Biogen Idec Inc., where he had served as Chief Operating Officer since the merger of IDEC Pharmaceuticals Inc. and Biogen, Inc. in November 2003. Mr. Rohn joined IDEC in August 1993 as Senior Vice President, Commercial and Corporate Development, was appointed Senior Vice President, Commercial Operations in April 1996 and was promoted to Chief Operating Officer in May 1998 and President in January 2002. Prior to joining IDEC, Mr. Rohn was employed by Adria Laboratories, now part of Pharmacia Corporation, from 1984 until 1993, most recently as Senior Vice President of Sales and Marketing. Prior to Adria, Mr. Rohn held marketing and sales management positions at Abbott Laboratories, Warren-Teed Pharmaceuticals, Miles Laboratories and Mead Johnson Laboratories. Mr. Rohn serves on the Board of Directors of Cerus Corporation, a publicly-held biotechnology company, and Pharmacyclics, Inc., a publicly-held pharmaceutical company. Mr. Rohn received a B.A. in Marketing from Michigan State University.

**Directors Continuing in Office Until the 2007 Annual Meeting**



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*Heinz W. Gschwend, Ph.D.* has served on our Board of Directors and our scientific advisory board since August 1999. Dr. Gschwend has over 33 years of experience in pharmaceutical research, drug discovery and development. Since 1998, he has served as a consultant, scientific advisory board member and/or director for several biotechnology companies. From 1992 to 1997, he was with Arris Pharmaceuticals, where he played a leading role in building a successful discovery effort in the area of protease inhibition. From 1967 to 1991 he was with the Pharmaceuticals Division and Central Research Department of Ciba-Geigy in the U.S. and Switzerland, respectively. During his career at Ciba-Geigy he was involved in the discovery and development of over 80 pre-clinical and clinical product candidates. Two drugs from those efforts are marketed: Benazepril and Letrozole. Dr. Gschwend holds a Ph.D. degree in chemistry from the ETH, and conducted postdoctoral studies at the ETH and Harvard University.

*David F. Hale* has served on our Board of Directors since April 1997. Mr. Hale has served as President and Chief Executive Officer of CancerVax Corporation since October 2000 and as a director of CancerVax since December 2000. Prior to joining CancerVax, he was President and Chief Executive Officer of Women First HealthCare, Inc. from January 1998 to May 2000. Mr. Hale served as President, Chief Executive Officer and Chairman of Gensia from May 1987 to November 1997. Prior to joining Gensia, Mr. Hale was President and Chief Executive Officer of Hybritech Inc. Mr. Hale serves on the board of directors of the publicly-held specialty pharmaceutical company Santarus, Inc. and Somaxon Pharmaceuticals, Inc. as well as several privately-held biotechnology companies, including SkinMedica, Inc. and Verus, Inc. Mr. Hale also serves on the Board of Biotechnology Industry Organization (BIO), BIOCOSM/San Diego, the California Healthcare Institute, CONNECT,

Children's Hospital and The Burnham Institute. Mr. Hale received a B.A. in biology and chemistry from Jacksonville State University.

*Paul K. Laikind, Ph.D.* is one of our founders and has served on our Board of Directors since April 1997, as our Chairman of the Board and Chief Executive Officer since April 1998, and as our President and Secretary since June 1999. From 1986 to 1999, Dr. Laikind founded and was Vice President of Business Development and a director at Gensia, where he was responsible for establishing major research and development corporate partnerships with leading U.S. and European companies including Marion Merrell Dow, Sandoz, Boehringer Mannheim, Pfizer and Sankyo. While at Gensia, Dr. Laikind founded Viagene, Inc., a biotechnology company acquired by Chiron, Inc. in 1995. Dr. Laikind serves on the board of BIOCOM/San Diego. Dr. Laikind holds a Ph.D. in chemistry from the University of California at San Diego, or UCSD, and has served as a research faculty member at the UCSD School of Medicine.

**Directors Continuing in Office Until the 2008 Annual Meeting**



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*Daniel D. Burgess, M.B.A.* has served on our Board of Directors since March 2004. Mr. Burgess has been the Chief Operating Officer and Chief Financial Officer of Hollis-Eden Pharmaceuticals, Inc. since August 1999. Mr. Burgess joined Hollis-Eden from Nanogen, Inc., where he served as Vice President and Chief Financial Officer. Prior to joining Nanogen in 1998, Mr. Burgess spent ten years with Gensia, Inc., including with Gensia Automedics, Inc., a partially owned subsidiary of Gensia. Dr. Burgess served as President and a director of Gensia Automedics, where he was responsible for all functional areas of this medical products company. In addition, he was Vice President and Chief Financial Officer of Gensia, where he was responsible for finance, investor relations, business development and other administrative functions. Prior to joining Gensia, Mr. Burgess held positions at Castle & Cooke, Inc. and Smith Barney, Harris Upham and Company. Mr. Burgess serves on the board of directors of the publicly-held specialty pharmaceutical company Santarus, Inc. and on the Board of BIOCOM/San Diego. He received a degree in economics from Stanford University and an M.B.A. from Harvard Business School.

*Luke B. Evnin, Ph.D.* has served on our Board of Directors since September 2000. Dr. Evnin is a General Partner at MPM Capital, a venture capital firm focusing on global healthcare investments. Before joining MPM Capital in 1998, Dr. Evnin was affiliated with Accel Partners for seven years, including four years as a General Partner. He was involved in biopharmaceutical, pharmaceutical, medical device and healthcare service companies for Accel Partners funds III, IV, and V. He was responsible for overall investment strategy, deal origination, analyses, investment and gain realization. Dr. Evnin serves on the board of directors of the publicly-held biopharmaceutical company Oscient Pharmaceuticals Corporation as well as several privately-held healthcare companies, including BioValve Technologies, Inc. He also serves on the board of directors of Medical Portfolio Management, L.P., an investment management firm, and is chairman of the Scleroderma Research Foundation. Dr. Evnin holds a Ph.D. in biochemistry from the University of California at San Francisco, and an A.B. in Molecular Biology from Princeton University.

### Executive Officers

The following is biographical information as of March 1, 2006 for our executive officers not discussed above.

Name	Age	Position
John W. Beck, C.P.A.	46	Senior Vice President of Finance, Chief Financial Officer and Treasurer
Edgardo Baracchini, Ph.D., M.B.A.	46	Senior Vice President of Business Development
Howard Foyt, M.D., Ph.D.	52	Vice President of Clinical Development
R. Wayne Frost, Pharm. D., J.D.	51	Vice President of Regulatory Affairs and Quality Assurance

*John W. Beck, C.P.A.* is one of our founders and has served as our Vice President of Finance, Chief Financial Officer and Treasurer since June 1999 and was promoted to our Senior Vice President of Finance, Chief Financial Officer and Treasurer in April 2005. Mr. Beck previously served as our Director of Finance from April 1998 to June 1999. Mr. Beck has more than 17 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 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 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.

*Edgardo Baracchini, Ph.D., M.B.A.* has served as our Vice President of Business Development since May 2002 and was promoted to our Senior Vice President of Business Development in April 2005. Dr. Baracchini has over ten years experience in structuring and negotiating research and development partnerships, mergers and acquisitions, and in-licensing arrangements with leading pharmaceutical and biotechnology companies including Merck, Novo Nordisk, Roche, LG Chem, Boehringer Ingelheim, Zeneca, Incyte Genomics, Medichem, Trega, Axys, Inhale Therapeutics and ICOS. Prior to joining Metabasis, since 1999 Dr. Baracchini was an officer and Vice President of Business Development at Elitra Pharmaceuticals. From 1996 to 1999, Dr. Baracchini served as the Director of Business Development at Agouron Pharmaceuticals, and as Assistant Director of Business Development at Isis Pharmaceuticals from 1992 to 1996. Dr. Baracchini holds a Ph.D. in molecular and cell biology from the University of Texas at Dallas, an M.B.A. from the University of California, Irvine and a B.S. degree in microbiology from the University of Notre Dame.

*Howard Foyt, M.D., Ph.D.* has served as Vice President of Clinical Development since January 2006. Dr. Foyt joined Metabasis from Pfizer Global Research & Development (formerly Parke-Davis Pharmaceutical Research) where he served as Senior Director, Medical & Development Sciences and Therapy Area Site Head Diabetes & Obesity in La Jolla, California from 2004 to 2005 and as Senior Director, Metabolic Clinical Development in Ann Arbor, Michigan from 2000 to 2004. From 1996 to 2000, Mr. Foyt served as Director of Clinical Research, Endocrine and Metabolism at Parke-Davis, prior to the acquisition of the company by Pfizer in 2000. Prior to joining Parke-Davis, Dr. Foyt was an Assistant Professor and Medical Director, University Diabetes Center at the University of Texas Medical Branch, Galveston, TX from 1991 to 1996. Mr. Foyt earned his medical degree and a Ph.D. in Cell Biology from Baylor College of Medicine. Dr. Foyt completed his residency in internal medicine at Baylor and an endocrinology fellowship at the National Institute of Diabetes and Digestive and Kidney Diseases, National Institutes of Health.

*R. Wayne Frost, Pharm. D., J.D.* has served as our Vice President of Regulatory Affairs and Quality Assurance since December 2005. Dr. Frost has over 20 years of experience in the pharmaceutical industry, including 15 years in regulatory affairs. Prior to joining Metabasis, Dr. Frost was with Amgen, Inc. where he served as Director, Global Regulatory Leader, and Regulatory Affairs Liaison for the nephrology franchise from 2003 to 2006. From 1997 to 2003, Dr. Frost served as Director of Regulatory Strategy & Registration and Therapeutic Area Head of Respiratory, Allergy, Inflammation and Immunology at Pfizer Global Research and Development. Dr. Frost earned his Pharm. D. at Creighton University School of Pharmacy, his J. D. from the University of Connecticut School of Law, and his post-doctoral fellowship in pharmacokinetics/ infectious diseases at SUNY-Buffalo. Dr. Frost was an adjunct professor in the Temple University School of Pharmacy QA/RA Master's Degree Program from 2000 to 2003 and continues to be a guest lecturer at Yale University School of Public Health on Food and Drug Law.

#### **Independence of the Board of Directors and its Committees**

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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. Our Board of Directors consults with our counsel to ensure that the Board's determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent, including those set forth in applicable Nasdaq listing standards, 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 family members, and Metabasis, our senior management and our independent auditors, our Board of Directors affirmatively has determined that all of our directors are independent directors within the meaning of the applicable Nasdaq listing standards, except for Dr. Laikind, our Chairman of the Board, Chief Executive Officer, President and Secretary, and Dr. Erion, our Chief Scientific Officer and Executive Vice President of Research and Development. In making this determination, the Board found that except for Drs. Laikind and Erion, none of the directors or nominees for director have a material or other disqualifying relationship with the Company.

As required under applicable Nasdaq listing standards, in fiscal 2005, our independent directors met four times in regularly scheduled executive sessions at which only independent directors were present. All of the committees of our Board of Directors are comprised entirely of directors determined by the Board to be independent within the meaning of the applicable Nasdaq listing standards.

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



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Our Board of Directors has an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. The following is membership and meeting information for each of these committees during the fiscal year ended December 31, 2005, as well as a description of each committee and its functions.

Name	Audit Committee	Compensation Committee	Corporate Governance and Nominating Committee (1)
Daniel D. Burgess, M.B.A.	X*		
Mark D. Erion, Ph.D.			
Luke B. Evin, Ph.D.	X		
Heinz W. Gschwend, Ph.D.	X	X	
David F. Hale	X	X	X
Paul K. Laikind, Ph.D.			
Arnold L. Oronsky, Ph.D.	X	X*	
William R. Rohn			
Total meetings in fiscal year 2005	4	2(+)	0(#)

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\* Committee Chairperson

(1) The Corporate Governance and Nominating Committee has not appointed a Chairperson.

(+) The Compensation Committee acted by unanimous written consent one time during 2005.

(#) The Corporate Governance and Nominating Committee acted by unanimous written consent one time during 2005.

### *Audit Committee*



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The Audit Committee operates pursuant to a written charter that is available on our website at <http://www.mbasis.com>. The functions of the Audit Committee include, among other things:

reviewing and pre-approving the engagement of our independent auditors to perform audit services and any permissible non-audit services,

reviewing our annual and quarterly financial statements and reports and discussing the statements and reports with our independent auditors and management,

reviewing with our independent auditors and management significant issues that arise regarding accounting principles and financial statement presentation, and matters concerning the scope, adequacy and effectiveness of our financial controls, and

establishing procedures for the receipt, retention and treatment of complaints received by us regarding financial controls, accounting or auditing matters.

Three directors currently comprise the Audit Committee: Mr. Burgess (Chairman), Dr. Oronsky and Mr. Hale. The Audit Committee met four times during 2005.

The Board of Directors annually reviews the Nasdaq listing standards definition of independence for Audit Committee members and has determined that all members of our Audit Committee are independent (as independent is defined in Rule 435(d)(2)(A)(i) and (ii) of the Nasdaq listing standards). Our Board of Directors has determined



that Mr. Burgess qualifies as an audit committee financial expert, as defined in applicable Securities and Exchange Commission, or SEC, rules. The Board made a qualitative assessment of Mr. Burgess's level of knowledge and experience based on a number of factors, including his formal education and experience as a chief financial officer for public reporting companies.

*Compensation Committee*



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The Compensation Committee operates pursuant to a written charter that is available on our website at <http://www.mbasis.com>. The functions of the Compensation Committee include, among other things:

determining the compensation and other terms of employment of our executive officers and reviewing and approving corporate performance goals and objectives relevant to such compensation,

recommending to our Board of Directors the type and amount of compensation to be paid or awarded to Board members,

evaluating and recommending to our Board of Directors the equity incentive plans, compensation plans and similar programs advisable for us, as well as modification or termination of existing plans and programs,

establishing policies with respect to equity compensation arrangements, and

reviewing and approving the terms of any employment agreements, severance arrangements, change-in-control protections and any other compensatory arrangements for our executive officers.

Three directors currently comprise the Compensation Committee: Dr. Oronsky (Chairman), Dr. Gschwend and Mr. Hale. Effective as of the date of the annual meeting, Mr. Hale will replace Dr. Oronsky as Chairman of this committee. All members of our Compensation Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards). The Compensation Committee met two times during 2005 and acted by unanimous written consent one time during 2005.

### *Corporate Governance and Nominating Committee*

The Corporate Governance and Nominating Committee operates pursuant to a written charter that is available on our website at <http://www.mbasis.com>. The functions of the Corporate Governance and Nominating Committee include, among other things:

developing and maintaining a current list of the functional needs and qualifications of members of our Board of Directors,

evaluating director performance on our Board of Directors and applicable committees of the Board and determining whether continued service on the Board is appropriate,

interviewing, evaluating, nominating and recommending individuals for membership on our Board of Directors,

evaluating nominations by stockholders of candidates for election to our Board of Directors,

developing, reviewing and amending a set of corporate governance policies and principles, including a code of ethics,

considering questions of possible conflicts of interest of directors as such questions arise, and

recommending to our Board of Directors the establishment of such special committees as may be desirable or necessary from time to time in order to address ethical, legal, business or other matters that may arise.

Three directors comprise our Corporate Governance and Nominating Committee: Dr. Evnin, Dr. Gschwend and Mr. Hale. Effective as of the date of the annual meeting, the Corporate Governance and Nominating Committee will be comprised of Drs. Evnin and Gschwend and Mr. Rohn. All members of the Corporate Governance and Nominating Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards). The Corporate Governance and Nominating Committee did not meet during 2005 and acted by unanimous written consent one time during 2005.

The Corporate Governance and Nominating Committee believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Corporate Governance and Nominating Committee also considers such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to our affairs, 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 our stockholders. However, the Corporate Governance and Nominating 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 our Board of Directors, our operating requirements and the long-term interests of our stockholders. In conducting this assessment, the Corporate Governance and Nominating Committee considers diversity, age, skills, and such other factors as it deems appropriate given the current needs of the Board and Metabasis, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Corporate Governance and Nominating Committee reviews such directors' overall service to us during their term, including the number of meetings attended, level of participation, quality of performance, and any other relevant considerations. In the case of new director candidates, the Corporate Governance and Nominating Committee also determines whether the nominee must be independent for Nasdaq purposes, which determination is based upon applicable Nasdaq listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Corporate Governance and Nominating 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 Corporate Governance and Nominating Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of our Board of Directors. The Corporate Governance and Nominating Committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote. To date, the Corporate Governance and Nominating Committee has paid a fee of approximately \$83,000 to a third party to assist in the process of identifying Mr. Rohn as a director candidate.

The Corporate Governance and Nominating Committee will consider director candidates recommended by stockholders. The Corporate Governance and Nominating 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 or not. Stockholders who wish to recommend individuals for consideration by the Corporate Governance and Nominating Committee to become nominees for election to the Board at an annual meeting of stockholders must do so by delivering at least 120 days prior to the anniversary date of the mailing of the proxy statement for our last annual meeting of stockholders a written recommendation to the Corporate Governance and Nominating Committee at the following address: 11119 North Torrey Pines Road, La Jolla, California 92037. Each submission must set forth: the name and address of the stockholder on whose behalf the submission is made; the number of our shares that are owned beneficially by such stockholder as of the date of the submission; the full name of the proposed candidate; a description of the proposed candidate's business experience for at least the previous five years; complete biographical information for the proposed candidate; and a description of the proposed candidate's qualifications as a director. To date, the Corporate Governance and Nominating Committee has not received a director nominee from a stockholder or stockholders holding more than five percent of our voting stock.

**Meetings of the Board of Directors and Board and Committee Member Attendance**

Our Board of Directors met eight times during 2005 and acted by unanimous written consent three times during 2005. All directors except Dr. Evnin attended at least 75% 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. Dr. Evnin was unable to attend three telephonic meetings of the Board held during 2005.

**Stockholder Communications with the Board of Directors**

Our Board of Directors has adopted a formal process by which our stockholders may communicate with the Board or individual directors. Information regarding this process is available on our website at <http://www.mbasis.com>.

**CODE OF BUSINESS CONDUCT AND ETHICS**

We have adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at <http://www.mbasis.com>. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision of the Code of Business Conduct and Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website, as well as via any other means then required by Nasdaq listing standards or applicable law.

**ACCOUNTING AND AUDITING MATTERS OPEN DOOR POLICY**

We have adopted an Accounting and Auditing Matters Open Door policy to facilitate the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, as well as the confidential, anonymous submission by our employees of concerns regarding these matters. The Accounting and Auditing Matters Open Door Policy is available on our website at <http://www.mbasis.com>.

**PROPOSAL 2**





**RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS**



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The Audit Committee of our Board of Directors has engaged Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2006 and is seeking ratification of such selection by our stockholders at the annual meeting. Ernst & Young LLP has audited our financial statements since 1997. Representatives of Ernst & Young LLP 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 our Bylaws nor other governing documents or law require stockholder ratification of the selection of Ernst & Young LLP as our independent auditors. However, the Audit Committee is submitting the selection of Ernst & Young LLP to our stockholders for ratification as a matter of good corporate practice. If our stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain Ernst & Young LLP. Even if the selection is ratified, the Audit Committee 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 Metabasis and our stockholders.

To be approved, the ratification of the selection of Ernst & Young LLP as our independent auditors must receive For votes from the majority of shares present and entitled to vote either in person or by proxy. 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 will be counted towards a quorum, but will not be counted for any purpose in determining whether this matter has been approved.

### Principal Accountant Fees and Services

In connection with the audit of our 2005 financial statements, we entered into an engagement agreement with Ernst & Young LLP which set forth the terms by which Ernst & Young LLP has performed audit services for the Company. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages.

The following table provides information regarding the aggregate fees billed to us by Ernst & Young LLP for the fiscal years ended December 31, 2005 and 2004. All fees described below were approved by the Audit Committee.

	Fiscal Year Ended December 31,	
	2005	2004
Audit Fees (1)	\$ 141,341	\$ 494,089
Audit-related Fees		
Tax Fees (2)	15,400	15,726
All Other Fees		
Total Fees	\$ 156,741	\$ 509,815

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(1) Represents fees for services rendered for the audit and/or reviews of our financial statements. Also includes fees for services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings (e.g., comfort letters and consents), and assistance in responding to SEC comment letters.

(2) Represents fees for preparation of federal, state and local income and franchise tax returns and related schedules and calculations, as well as general consultation regarding federal and state income tax matters, employment tax matters and sales and use tax matters.



**Pre-Approval Policies and Procedures**

The Audit Committee has adopted an Audit and Non-Audit Services Pre-Approval Policy, which sets forth the procedures and the conditions pursuant to which services proposed to be performed by our independent auditors are, or may be, pre-approved.

The Audit Committee has determined that the rendering of the services other than audit services by Ernst & Young LLP is compatible with maintaining the Ernst & Young LLP's independence.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006.**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

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The following table provides information regarding the beneficial ownership of our common stock as of March 1, 2006 by: (i) each of our directors, (ii) each of our executive officers named in our Summary Compensation Table, (iii) all of our directors and executive officers as a group and (iv) each person, or group of affiliated persons, known by us to beneficially own more than five percent of our common stock. The table is based upon information supplied by our officers, directors and principal stockholders and a review of Schedules 13D and 13G, if any, filed with the SEC. Unless otherwise indicated in the footnotes to the table and subject to community property laws where applicable, we believe that each of the stockholders named in the table has sole voting and investment power with respect to the shares indicated as beneficially owned.

Applicable percentages are based on 25,325,605 shares outstanding on March 1, 2006, adjusted as required by rules promulgated by the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. In addition, the rules include shares of common stock issuable pursuant to the exercise of stock options or warrants that are either immediately exercisable or exercisable on April 30, 2006, which is 60 days after March 1, 2006. These shares are deemed to be outstanding and beneficially owned by the person holding those options or warrants for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
MPM Capital L.P. and its affiliates (2) 111 Huntington Avenue, 31 <sup>st</sup> Floor Boston, Massachusetts 02199	5,411,618	20.6%
Federated Investors, Inc. (3) Federated Investors Tower Pittsburgh, PA 15222	3,483,250	13.3
InterWest Management Partners VIII, LLC and its affiliates (4) 2710 Sand Hill Road, Second Floor Menlo Park, California 94025	3,186,298	12.3
Sprout Capital IX, L.P. and its affiliates (5) 3000 Sand Hill Road Building 3, Suite 170 Menlo Park, California 94025	2,355,375	9.2
Sicor Inc. 19 Hughes Irvine, California 92618	2,114,425	8.3
Maverick Capital, Ltd. and its affiliates (6) 300 Crescent Court, 18 <sup>th</sup> Floor Dallas, Texas 75201	1,633,167	6.4
Paul K. Laikind, Ph.D. (7)	777,358	3.1
Mark D. Erion, Ph.D. (8)	703,701	2.8
John W. Beck (9)	284,549	1.1
Edgardo Baracchini, Ph.D. (10)	142,912	*
Daniel D. Burgess (11)	28,028	*
Luke B. Evin, Ph.D. (2)(12)	5,439,088	20.7
Heinz W. Gschwend, Ph.D. (13)	55,587	*
David F. Hale (14)	79,234	*
Arnold L. Oronsky, Ph.D. (4)(15)	3,213,768	12.4
William R. Rohn (16)	15,603	*
All directors and executive officers as a group (10 persons) (17)	10,739,828	39.5

\* Less than one percent.





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(1) Except as otherwise noted above, the address for each person or entity listed in the table is c/o Metabasis Therapeutics, Inc., 11119 North Torrey Pines Road, La Jolla, CA 92037.

(2) Includes 334,131 shares held by MPM BioVentures II, L.P., 3,028,085 shares held by MPM BioVentures II-QP, L.P., 1,066,044 shares held by MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG and 69,718 shares held by MPM Asset Management Investors 2000B LLC. The foregoing information is based solely upon information contained in the Schedule 13D filed with the SEC by the foregoing entity on February 13, 2006. Also includes 913,640 shares MPM BioVentures II, L.P., MPM BioVentures II-QP, L.P., MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG and MPM Asset Management Investors 2000 B LLC have the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of warrants. MPM Capital L.P. is a direct or indirect parent and/or control person of MPM Asset Management II LLC, funds managed or advised by it (including MPM BioVentures II, L.P., MPM BioVentures II-QP, L.P., MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG, and MPM Asset Management Investors 2000B LLC) and the general partners of such funds, and may be deemed to beneficially hold the securities owned by such entities. Dr. Evinin may be deemed to be a control person of MPM Capital L.P. as a result of his interest in Medical Portfolio Management LLC, the general partner of MPM Capital L.P. Dr. Evinin disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in these entities.

(3) Based solely upon information contained in the Schedule 13G filed with the SEC by the foregoing entity on February 14, 2006. Includes 895,650 shares Federated Kaufmann Fund has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of warrants. Federated Kaufmann Fund is an affiliate of Federated Investors, a member of the NASD. Federated Kaufmann Fund has represented to us that the shares and warrants held by it were purchased in the ordinary course of business and that at the time of purchase of the shares and warrants held by it, it was not aware of any agreements or understandings, directly or indirectly, with any person to distribute the shares held by it or the common stock issuable upon exercise of the warrants held by it.

(4) Includes 2,510,453 shares held by InterWest Partners VII, L.P. and 120,220 shares held by InterWest Investors VII, L.P. The foregoing information is based solely upon information contained in the Schedule 13G/A filed with the SEC by the foregoing entity on February 14, 2006. Also includes 555,625 shares InterWest Partners VII, L.P. and InterWest Investors VII, L.P. have the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of warrants. Dr. Oronsky is a managing director of InterWest Management Partners VII, LLC, the general partner of InterWest Partners VII, L.P. and InterWest Investors VII, L.P. Dr. Oronsky disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in these entities.

(5) Based upon information contained in the Schedule 13G/A filed with the SEC by Credit Suisse, on behalf of its investment banking division on January 30, 2006. Also includes 366,996 shares Sprout Capital IX, L.P. and its affiliates have the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of warrants.

(6) Includes 1,545,070 shares held by Maverick Capital, Ltd. and Maverick Capital Management, LLC. Lee S. Ainslie III exercises sole voting and dispositive power over the shares held by Maverick Capital, Ltd. and Maverick Capital Management, LLC. The foregoing information is based solely upon information contained in the Schedule 13G/A filed with the SEC by the foregoing entity on February 14, 2006. Mr. Ainslie disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in these entities. Also includes 88,097

Maverick Capital and its affiliates have the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of warrants.

(7) Includes 71,438 unvested shares which are subject to a right of repurchase in our favor as of March 1, 2006. Also includes 61,437 shares that Dr. Laikind has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options, 23,039 of which would be initially unvested and subject to a right of repurchase by us as of April 30, 2006 that would lapse over the vesting schedule.

(8) Includes 66,147 unvested shares which are held by the Erion Family Trust and are subject to a right of repurchase in our favor as of March 1, 2006. Also includes an additional 320,280 shares held by the Erion Family Trust, 49,382 shares held by each of the Mark Erion 2002 Grantor Retained Annuity Trust and the

Sonja Erion 2002 Grantor Retained Annuity Trust, and 15,089 shares held by each of the Derek Mark Erion 2003 Irrevocable Trust, the Renske Marie Erion 2003 Irrevocable Trust and the Karel Arnt Erion 2003 Irrevocable Trust. Also includes 40,958 shares that Dr. Erion has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options, 15,360 of which would be initially unvested and subject to a right of repurchase by us as of April 30, 2006 that would lapse over the vesting schedule.

(9) Includes 24,989 unvested shares which are subject to a right of repurchase in our favor as of March 1, 2006. Also includes 12,345 shares held by each of Katherine M. Dye, Ttee. Katerina F. Beck 2002 Irrev. Trust Dtd. 11/8/02, Katherine M. Dye, Ttee. Joseph C. Beck 2002 Irrev. Trust Dtd. 11/8/02 and Katherine M. Dye, Ttee. Rachael M. Beck 2002 Irrev. Trust. Dtd. 11/8/02. Also includes 13,653 shares that Mr. Beck has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options, 9,387 of which would be initially unvested and subject to a right of repurchase by us as of April 30, 2006 that would lapse over the vesting schedule. Also includes an additional 4,266 shares that Mr. Beck has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options.

(10) Includes 34,750 shares held by the Edgardo and Suzanne Baracchini Living Trust Dtd. 4/22/98. Also includes 1,142 shares held by the Gabriella Baracchini Irrev. Trust and 1,141 shares held by the Alexander Baracchini Irrev. Trust. Also includes 101,613 shares that Dr. Baracchini has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options, 30,500 of which would be initially unvested and subject to a right of repurchase by us as of April 30, 2006 that would lapse over the vesting schedule. Also includes an additional 4,266 shares that Mr. Baracchini has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options.

(11) Includes 6,584 shares that Mr. Burgess has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options, 3,058 of which would be initially unvested and subject to a right of repurchase by us as of April 30, 2006 that would lapse over the vesting schedule. Also includes 21,444 shares that Mr. Burgess has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options.

(12) Represents 27,470 shares that Dr. Evnin has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options.

(13) Includes 27,458 shares held by the H.W. Gschwend & C.T. Healy Revocable Trust, of which Dr. Gschwend is a co-trustee. Also includes 28,129 shares that Dr. Gschwend has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options.

(14) Includes 47,226 shares held by the Hale Family Trust dated February 10, 1986. Also includes 3,111 shares the Hale Family Trust has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of warrants. Also includes 28,897 shares that Mr. Hale has the right to acquire from us within 60 days of March 1,

2006 pursuant to the exercise of stock options.

(15) Represents 27,470 shares that Dr. Oronsky has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options.

(16) Represents 15,603 shares that Mr. Rohn has the right to acquire from us within 60 days of March 1, 2006 pursuant to the exercise of stock options.

(17) Includes 162,574 unvested shares which are subject to a right of repurchase in our favor as of March 1, 2006, 381,790 shares pursuant to the exercise of stock options within 60 days of March 1, 2006, 81,344 of which would be initially unvested and subject to a right of repurchase by us as of April 30, 2006 that would lapse over the vesting schedule, and 1,472,376 shares pursuant to the exercise of warrants within 60 days of March 1, 2006.

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**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**



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Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2005, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with, except that two reports of changes in ownership were inadvertently filed late by Dr. Gschwend.

### COMPENSATION OF DIRECTORS





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We provide each of our non-employee directors cash compensation in the form of an annual retainer of \$15,000, plus \$8,000 for the chair of the Audit Committee, \$5,000 for the other members of the Audit Committee and \$2,500 for all other committee members. We also reimburse our non-employee directors for their reasonable expenses incurred in attending meetings of our Board of Directors and committees of the Board.

Each of our non-employee directors also receives stock option grants under our 2004 Non-Employee Directors' Stock Option Plan, or the Directors' Plan. Only our non-employee directors or an affiliate of such directors (as defined in the Internal Revenue Code) are eligible to receive options under the Directors' Plan. Options granted under the Directors' Plan are intended by us not to qualify as incentive stock options under the Internal Revenue Code.

Option grants under the Directors' Plan are non-discretionary. Pursuant to the terms of the Directors' Plan, upon the completion of our initial public offering in June 2004, each non-employee director was automatically granted an option to purchase 20,000 shares of our common stock, less the number of shares of common stock, if any, subject to an option or options granted to the director within the six month period prior to the completion of the offering, as adjusted for the reverse stock split of our common stock that occurred in May 2004.

Any person who becomes a non-employee director after the completion of our initial public offering automatically receives an option to purchase 20,000 shares of common stock upon his or her election. In addition, any person who is a non-employee director on the date of each annual meeting of our stockholders will be automatically granted, on the annual meeting date, an option to purchase 10,000 shares of common stock. However, the size of this annual grant made to a non-employee director who has served for less than 12 months at the time of the annual meeting will be reduced by 25% for each full quarter prior to the date of grant during which such person did not serve as a non-employee director. No other stock options may be granted at any time under the Directors' Plan.

The exercise price of stock options granted under the Directors' Plan is equal to 100% of the fair market value of the common stock on the date of grant. Initial grants (i.e., those made on the completion of our initial public offering or upon a non-employee director's election to our Board of Directors after our initial public offering) vest at the rate of 1/24<sup>th</sup> each month after the date of grant, and annual grants vest at the rate of 1/12<sup>th</sup> each month after the date of grant. In general, the term of stock options granted under the Directors' Plan may not exceed ten years.

Unless the terms of an optionholder's stock option agreement provide for earlier termination, if an optionholder's service relationship with us, or any affiliate of ours, ceases due to disability or death, the optionholder, or his or her beneficiary, may exercise any vested options up to 12 months, or 18 months in the event of death, after the date such service relationship ends. If an optionholder's service relationship with us, or any affiliate of ours, ceases without cause for any reason other than disability or death, the optionholder may exercise any vested options up to three months from cessation of service, unless the terms of the stock option agreement provide for earlier or later termination.

Acceptable consideration for the purchase of common stock issued under the Directors' Plan may include cash or check, common stock previously owned by the optionholder or a program developed under Regulation T as promulgated by the Federal Reserve Board. Generally, an optionholder may not transfer a stock option other than by will or the laws of descent and distribution. An optionholder may transfer an option with our written consent provided a Form S-8 registration statement is available for the exercise of the option and the subsequent resale of the shares. However, an optionholder may designate a beneficiary who may exercise the option following the optionholder's death.

In the event of certain corporate transactions, any or all outstanding options under the Directors' Plan may be assumed or substituted for by any surviving entity. If the surviving entity elects not to assume or substitute for all such options, the vesting provisions of the options not assumed or substituted for and held by participants whose continuous service has not terminated will be accelerated and such options will be terminated if not exercised prior to the effective date of the corporate transaction. In the event of a change in our control, the vesting provisions of all outstanding options under the Directors' Plan will be accelerated and such options will be terminated if not exercised prior to 12 months after the effective date of the change in our control.

Under the Directors' Plan, during the fiscal year ended December 31, 2005, we granted options to purchase 10,000 shares of our common stock to each non-employee director, other than Mr. Rohn who received an option for 2,500 shares, at an exercise price per share of \$2.65, the fair market value of our common stock on the date of grant, for aggregate grants of options to purchase 52,500 shares of common stock. As of March 1, 2006, no stock options had been exercised under the Directors' Plan.

**COMPENSATION OF EXECUTIVE OFFICERS**



**Summary of Compensation**



## Edgar Filing: METABASIS THERAPEUTICS INC - Form DEF 14A

The following table provides information regarding the compensation earned during the fiscal years ended December 31, 2005, 2004 and 2003 by our Chief Executive Officer and each of our other executive officers whose combined salary and bonus exceeded \$100,000 for that fiscal year. We refer to these officers in this proxy statement as the Named Executive Officers .

**Summary Compensation Table (1)**

Name and Principal Position	Year	Annual Compensation		Restricted Stock Awards (3)	Long-Term Compensation		All Other Compensation (4)
		Salary (\$)	Bonus (\$)(2)		Securities Underlying Options (#)		
Paul K. Laikind, Ph.D. <i>Chairman of the Board, President, Chief Executive Officer and Secretary</i>	2005	\$ 343,846	\$ 99,015	\$		\$	
	2004	326,539	90,668				49,770
	2003	297,115	87,150	32,461	61,347		78,001
Mark D. Erion, Ph.D. <i>Chief Scientific Officer and Executive Vice President of Research and Development</i>	2005						
	2004	287,000	272,115	71,885	64,948		58,474
	2003	247,808	63,488	289,314	40,958		75,781
John W. Beck Senior <i>Vice President of Finance, Chief Financial Officer and Treasurer</i>	2005					18,021	
	2004	229,384	208,269	57,658	50,471		26,305
	2003	192,923	48,818	109,297	27,305		32,843
Edgardo Baracchini, Ph.D. <i>Senior Vice President of Business Development</i>	2005					18,021	
	2004	238,908	218,269	58,284	51,934	37,181	
	2003	205,000	50,215			27,995	

- (1) In accordance with the rules of the SEC, the compensation described in this table does not include various perquisites and other benefits received by a Named Executive Officer which do not exceed the lesser of \$50,000 or 10% of that officer's salary and bonus disclosed in this table.
- (2) Bonuses are included here in the years they were earned, not in the year in which they were paid. Bonuses represent compensation for achievements and are not necessarily paid in the year they are earned; i.e., bonuses for 2005 were paid in March 2006.
- (3) For 2003, represents 214,307, 198,432 and 74,963 shares of previously vested common stock held by Drs. Laikind and Erion and Mr. Beck, respectively, tendered to us on June 30, 2003 and subjected to a new monthly vesting schedule over a four-year period beginning on that date. These shares were tendered in part as repayment for outstanding principal and interest on loans we made to Drs. Laikind and Erion and Mr. Beck in connection with their purchase of our common stock in June 1999, the outstanding amount of which at June 30, 2003 was equal to \$229,374, \$206,438 and \$77,988, respectively. Drs. Laikind and Erion and Mr. Beck continued to hold these shares at December 31, 2005, on which date their value was equal to \$1,714,456, \$1,587,456 and \$599,704, respectively, based on the closing price of our common stock for December 30, 2005 as reported on the Nasdaq (\$8.00). We do not currently intend to pay dividends on these shares.
- (4) For 2003, represents \$28,620, \$33,625 and \$15,604 reimbursed by us for income tax payments incurred by Drs. Laikind and Erion and Mr. Beck, respectively, plus for 2003 and 2004 \$49,381, \$42,156 and \$17,239, and \$49,770, \$58,474 and \$26,305, respectively, in income tax payments made by us on their behalf in connection with the transaction described in footnote (3) above and which were not otherwise satisfied by us through the application of the value of the shares tendered to us.

**Stock Option Grants And Exercises**

We grant stock options to our executive officers under our Amended and Restated 2001 Equity Incentive Plan, or the Incentive Plan. As of March 1, 2006, options to purchase a total of 1,339,693 shares were outstanding under the Incentive Plan, and a total of 1,976,178 shares remained available for grant under the Incentive Plan.

All stock options granted to our executive officers are incentive stock options, to the extent permissible under the Internal Revenue Code. Generally, 25% of the shares subject to options vest one year from the date of hire and the remainder of the shares vest in equal monthly installments over the 36 months thereafter, subject to cessation of vesting upon the termination of the optionholder's continued service to us and to acceleration of vesting pursuant to the stock restriction agreements described in Employment, Severance and Change of Control Agreements. Options expire ten years from the date of grant.

The exercise price per share of each option granted to our executive officers was equal to the fair market value of our common stock on the date of the grant. Pursuant to the Incentive Plan, the fair market value of our common stock on a given date is deemed to be equal to the closing sales price for such stock as reported on the Nasdaq on the last market trading day prior to such date.

The following table provides information regarding grants of options to purchase shares of our common stock to the Named Executive Officers in the fiscal year ended December 31, 2005.

Name	Number of Securities Underlying Options Granted (#)	Individual Grants		Exercise Or Base Price (\$/Sh)(2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3)	
		% of Total Options Granted to Employees in Fiscal Year (1)				5% (\$)	10% (\$)
Paul K. Laikind, Ph.D.		0%	\$		\$	\$	
Mark D. Erion, Ph.D.		0					
John W. Beck	13,653	2.7		2.65	5/18/2015	22,754	57,662
	4,368	0.9		6.88	12/9/2015	18,899	47,895
Edgardo Baracchini, Ph.D.	13,653	2.7		2.65	5/18/2015	22,754	57,662
	4,368	0.9		6.88	12/9/2015	18,899	47,895

- (1) Based on 509,212 options granted during the fiscal year ended December 31, 2005 under the Incentive Plan, including grants to executive officers. Options granted under the Incentive Plan vest as follows: 25% of the shares subject to options vest one year from the grant and the remainder of the shares vest in equal monthly installments over the 36 months thereafter.
- (2) The exercise price of the options is based on the fair market value on the date of grant.
- (3) The potential realizable value listed in this table represents hypothetical gains that could be achieved for the options if exercised at the end of the option term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the options were granted to their expiration date. The 5% and 10% rates of appreciation are provided in accordance with the rules of the SEC and do not represent our estimate or projection of our future stock value. Actual gains, if any, on option exercise will depend on the future performance of the common stock and overall market conditions. The potential realizable value computation does not take into account federal or state income tax consequences of option exercise or sales of appreciated stock.





**Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**

The following table provides information regarding the number of shares of common stock subject to exercisable and unexercisable stock options held as of December 31, 2005 by each of the Named Executive Officers.

Name	Shares Acquired on Exercise (#)	Value Realized (\$ (2))	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End (1)	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Paul K. Laikind, Ph.D.			61,437		\$ 491,496	\$
Mark D. Erion, Ph.D.			40,958		327,664	
John W. Beck				18,021		144,168
Edgardo Baracchini, Ph.D.			101,613	18,021	812,904	144,168

(1) The value of an unexercised in-the-money option as of December 31, 2005 is equal to the excess of the closing price of our common stock for December 31, 2005 as reported on the Nasdaq (\$8.00) over the exercise price for the option, multiplied by the number of shares subject to the option, without taking into account any taxes that may be payable in connection with the transaction.

(2) No option exercises by the Named Executive Officers occurred during the fiscal year ended December 31, 2005.

**Employment, Severance and Change of Control Agreements**



*Offer Letters*

We have entered into offer letters with the following executive officers setting forth their respective base salary, bonus eligibility and other employment benefits: Mr. Beck, Dr. Baracchini, Dr. Foyt and Mr. Frost. We have not entered into offer letters with the following executive officers: Drs. Laikind or Erion. Each executive officer's employment is on an at-will basis and can be terminated by us or the officer at any time, for any reason and with or without notice, subject where applicable to the stock restriction agreements and severance agreements described below.

*Proprietary Information and Inventions Agreements*

Each executive officer has also entered into a standard form agreement with respect to proprietary information and inventions. Among other things, this agreement obligates the officer to refrain from disclosing any of our confidential information received during the course of employment and, with some exceptions, to assign to us any inventions conceived or developed during the course of employment.

*Stock Restriction Agreements*

We have entered into stock restriction agreements with Mr. Beck and Drs. Erion and Laikind, under which we have an option to repurchase shares of common stock held by each executive officer within 60 days following the termination of his respective employment. Our repurchase option lapses in equal monthly installments over the 48 months following the date of each executive officer's stock restriction agreement, as long as he continues to be employed by us. However, if we terminate the executive officer without cause or he terminates his employment for good reason, our repurchase option lapses in its entirety. As of December 31, 2005, our repurchase option covered 28,112, 74,414 and 80,368 shares held by Mr. Beck and Drs. Erion and Laikind, respectively.

*Severance Agreements*

We have entered into severance agreements with each of our Named Executive Officers. These agreements provide that each officer is generally entitled to his base salary, plus the average of his annual bonuses for the last three completed calendar years, for a continuation period of nine months following the termination of his employment if, during the 12-month period following a change in our control, the officer terminates his employment for good reason, or the officer's employment is terminated without cause or pursuant to a restructuring or reduction in force. The continuation period is extended to 12 months if the officer is not employed in a comparable position at the end of the nine-month continuation period. A termination entitling an officer to the cash severance described above also causes immediate vesting of any unvested stock options or shares of restricted stock that are not covered by the officer's stock restriction agreement, if applicable. Following such a termination, the officer is entitled to convert his long-term disability and group life insurance policies to individual policies and to continue his group health insurance coverage, and we will pay all related premiums during the continuation period. In addition, the officer is entitled to reasonable outplacement services at our expense.

**Pension and Long-Term Incentive Plans**

We have no pension plans or long-term incentive plans.



**Equity Compensation Plan Information**

The following table provides certain information as of December 31, 2005, with respect to all of our equity compensation plans in effect on that date.

	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 issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders (1)	1,405,670	\$ 3.18	1,978,599
Equity compensation plans not approved by stockholders (2)			
<b>Total</b>	<b>1,405,670</b>	<b>\$ 3.18</b>	<b>1,978,599</b>

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(1) Includes the Incentive Plan, the Directors Plan and our 2004 Employee Stock Purchase Plan. 572,025 shares under column (c) are attributable to our 2004 Employee Stock Purchase Plan.

(2) As of December 31, 2005, we did not have any equity compensation plans that were not approved by our stockholders.

**REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS  
ON EXECUTIVE COMPENSATION**

*The material in this report is not soliciting material, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of Metabasis under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.*

**Introduction**

The primary purpose of the Compensation Committee is to act on behalf of our Board of Directors in overseeing our compensation policies, plans and programs and determining the compensation to be paid to our executive officers. The Compensation Committee's functions are more fully described in its charter, which is available on our website at <http://www.mbasis.com>.

The purpose of this report is to summarize the Compensation Committee's philosophy regarding executive compensation, explain the elements of our executive compensation structure, and describe the basis upon which the Compensation Committee determined the compensation of our Chief Executive Officer for the fiscal year ended December 31, 2005.

**Compensation Philosophy**

The Compensation Committee believes that a well-designed compensation program for our executive officers should:

align the goals of our executive officers with the goals of our stockholders by creating and enhancing stockholder value through the accomplishment of corporate performance goals and by providing executive officers with long-term incentives through equity ownership,

recognize individual initiative, effort and achievement,

provide total compensation that enables us to compete with companies in the biopharmaceutical and biotechnology industries, in order to attract and retain high-caliber candidates on a long-term basis, and



align compensation with our short-term and long-term corporate objectives and strategy, focusing executive officer behavior on the fulfillment of those objectives.

#### **Elements of Executive Compensation**

Currently, our compensation structure for executive officers consists of a combination of base salary, performance bonuses and long-term incentives (typically, stock option awards). Executive officers are also entitled to participate in benefit plans generally available to employees.

*Base Salary.* As a general matter, we establish an initial base salary for each executive officer through negotiation at the time the executive officer is hired, taking into account the executive officer's qualifications, experience, prior base salary and competitive information. We make periodic adjustments to each executive officer's base salary based upon an evaluation of competitive factors as well as the executive officer's individual performance against pre-established objectives. For 2006 base salaries, as well as 2005 performance bonuses and 2006 stock option grants, the Compensation Committee utilized compensation survey data that included a representative industry subset of companies generally considered to be comparable to our company. The survey data included the Biotech Employee Development Coalition (BEDC) Survey, the Radford Survey and the BioWorld Executive Compensation (BEC) Report. The BEDC Survey included 75 biotechnology companies local to us, the Radford Survey included over 500 national biotech and pharmaceutical companies, and the BEC Report included over 200 public biotechnology companies. Although the Compensation Committee does not use a specific formula to set pay in relation to this market data, it generally targets executive officer base salaries at or above the median of the salary ranges identified in the compensation survey data.

*Performance Bonuses.* We may award performance bonuses to motivate and reward executive officers based upon their achievement of individual performance goals, as well as our achievement of corporate performance goals. Individual performance goals vary with an executive officer's responsibilities and are based on individual objectives. Corporate performance goals are set annually and reflect high priority company-wide objectives. For 2005, Dr. Laikind's performance bonus is based exclusively upon the achievement of corporate objectives. The Compensation Committee generally targets bonus amount at or above the median of the ranges identified in the compensation survey data referred to above. We believe using corporate performance goals to determine Dr. Laikind's performance bonus and in significant part the performance bonuses of the other executive officers establishes a direct link between executive officer compensation and our overall company performance.

*Long-Term Incentives.* Our long-term incentives are primarily in the form of stock option grants. The objective of these grants is to emphasize long-term performance and the creation of stockholder value. As the exercise price per share of options we grant to our executive officers is generally equal to the fair market value of our common stock on the date of grant, the options will only produce value if the price of our stock appreciates, thereby directly linking the interests of our executive officers with those of stockholders. In determining the amount of stock options granted to an executive officer, the Compensation Committee evaluates not only competitive factors and individual performance against pre-established objectives, but also the size and terms of equity awards previously made to the executive officer. For 2006 option grants, the Compensation Committee engaged Top Five, an independent compensation consulting firm, to compile stock option grant survey data that includes a cross-industry subset of companies generally considered to be comparable to our company, and to make recommendations for particular stock option grants. The Compensation Committee generally targets executive officer stock option grants that maintain each executive's overall stock option position with us at the median of the ranges identified in the Top Five and other survey data referred to above.

#### **Chief Executive Officer Compensation**

The base salary of Paul K. Laikind, Ph.D., our Chief Executive Officer, was \$345,000 for the fiscal year ended December 31, 2005, an increase of \$15,000 from his base salary for the prior year. Dr. Laikind was granted a performance bonus of \$99,015 for the fiscal year ended December 31, 2005. Dr. Laikind did not receive any stock options during the fiscal year ended December 31, 2005.

The Compensation Committee's approach to establishing Dr. Laikind's compensation was to be competitive with comparable companies, to target the median of the ranges identified in the survey data referred to above and to have a significant portion of his compensation depend on the achievement of financial and non-financial performance criteria. The Compensation Committee based Dr. Laikind's performance bonus for the fiscal year ended December 31, 2005 exclusively on the company's performance related to a variety of corporate objectives determined at the outset of 2005.

#### **Section 162(m) Compliance**

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Section 162(m) of the Internal Revenue Code generally prohibits us from deducting any compensation over \$1 million per taxable year paid to any of the Named Executive Officers unless such compensation is treated as performance-based compensation within the meaning of the Internal Revenue Code. As the cash compensation paid by us to the Named Executive Officers is expected to be below \$1 million and the Compensation Committee believes that stock options granted under the Incentive Plan to the Named Executive Officers meet the requirements for treatment as performance-based compensation, the Compensation Committee believes that Section 162(m) will not affect the tax deductions available to the Company with respect to the compensation of its executives. In determining the form and amount of compensation for Named Executive Officers, the Compensation Committee will continue to consider all elements of the cost of such compensation, including the potential impact of Section 162(m).

### **Compensation Committee**

Arnold L. Oronsky, Ph.D., Chairman  
Heinz W. Gschwend, Ph.D.  
David F. Hale

**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

*The material in this report is not soliciting material, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of Metabasis under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.*

The primary purpose of the Audit Committee is to oversee our financial reporting processes on behalf of our Board of Directors. The Audit Committee's functions are more fully described in its charter, which is available on our website at <http://www.mbasis.com>. Management has the primary responsibility for our financial statements and reporting processes, including our systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management our audited financial statements as of and for the fiscal year ended December 31, 2005.

The Audit Committee reviewed with Ernst & Young LLP such matters as are required to be discussed with the Audit Committee under generally accepted auditing standards, including the matters required to be discussed by Statement on Auditing Standards No. 61. In addition, the Audit Committee discussed with Ernst & Young LLP their independence, and received from Ernst & Young LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1. Finally, the Audit Committee discussed with Ernst & Young LLP, with and without management present, the scope and results of Ernst & Young LLP's audit of such financial statements.

Based on these reviews and discussions, the Audit Committee has recommended to our Board of Directors that such audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the SEC. The Audit Committee also has engaged Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2006 and is seeking ratification of such selection by the stockholders.

**Audit Committee**

Daniel D. Burgess, M.B.A., Chairman  
David F. Hale  
Arnold L. Oronsky, Ph.D.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**



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As indicated above, the Compensation Committee currently consists of Drs. Gschwend and Oronsky and Mr. Hale. No member of the Compensation Committee has ever been an officer or employee of ours. None of our executive officers currently serves, or has served during the last completed fiscal year, on the Compensation Committee or board of directors of any other entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

### **PERFORMANCE MEASUREMENT COMPARISON**





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*The material in this section is not soliciting material, is not deemed filed with the Securities and Exchange Commission, and is not to be incorporated by reference into any filing of Metabasis under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.*

The following graph shows a comparison of the total cumulative returns of an investment of \$100 in cash on June 16, 2004, the first trading day following our initial public offering, in (i) our common stock, (ii) the Nasdaq Composite Index, U.S. Companies and (iii) the Nasdaq Biotechnology Index. The comparisons in the graph are required by the SEC and are not intended to forecast or be indicative of the possible future performance of our common stock. The graph assumes that all dividends have been reinvested (to date, we have not declared any dividends).

### COMPARISON OF 18 MONTH CUMULATIVE TOTAL RETURN\*

AMONG METABASIS THERAPEUTICS, INC.,  
THE NASDAQ STOCK MARKET (U.S.) INDEX,  
AND THE NASDAQ BIOTECHNOLOGY INDEX

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\* \$100 invested on 6/16/04 in stock or on 5/31/04 in index-including reinvestment of dividends.

Fiscal year ending December 31.



**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

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In October 2005, we raised approximately \$41.3 million in a private placement of common stock and the concurrent issuance of warrants for the purchase of common stock involving investments by certain persons, or groups of affiliated persons, known by us to beneficially own more than five percent of our common stock. The following table provides information regarding the number of shares of common stock and warrants purchased in our private placement by these stockholders.

Participant (1)	Number of Shares Purchased	Number of Warrant Shares Purchased
MPM Capital L.P. and its affiliates	699,659	244,881
Federated Investors, Inc.	2,559,000	895,650
InterWest Management Partners VIII, LLC and its affiliates	426,621	149,317
Sprout Capital IX, L.P. and its affiliates	337,444	118,105
Maverick Capital, Ltd. and its affiliates	251,706	88,097
<b>Totals:</b>	<b>4,274,430</b>	<b>1,496,050</b>

(1) For additional information regarding these stockholders and their equity holdings, please see Security Ownership of Certain Beneficial Owners and Management.

During the fiscal year ended December 31, 2005, we granted options to purchase an aggregate of 153,202 shares of common stock to our directors and executive officers, with exercise prices ranging from \$2.65 to \$9.07.

Heinz W. Gschwend, Ph.D., a member of our Board, also serves as a member of our Scientific Advisory Board. During the fiscal year ended December 31, 2005, Dr. Gschwend received options to purchase 4,354 shares of our common stock in connection with his service as a member of our Scientific Advisory Board.

Our bylaws provide that we will indemnify our directors and executive officers, and may indemnify other officers, employees and other agents, to the fullest extent permitted by law. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us, regardless of whether our amended and restated bylaws permit such indemnification. We have obtained a policy of directors and officers liability insurance.

We have entered, and intend to continue to enter, into indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our bylaws. These agreements, among other things, require us to indemnify our directors and executive officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of their services as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request.

### HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers, banks or other agents) 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 means extra convenience for stockholders and cost savings for companies.

This year, a number of broker, banks or other agents with account holders who are stockholders of Metabasis will be householding our proxy materials. A single proxy statement 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, bank or other agent that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker, bank or other agent, and direct a written request for the separate proxy statement and annual report to 11119 North Torrey Pines Road, La Jolla, CA 92037, Attn: Secretary, or contact Mr. Beck at (858) 622-3909. Stockholders whose shares are held by their broker, bank or other agent as nominee and who currently receive multiple copies of the proxy statement at their address that would like to request householding of their communications should contact their broker, bank or other agent.

**OTHER MATTERS**



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

By Order of the Board of Directors

Paul K. Laikind, Ph.D.  
*Chairman of the Board, Chief Executive Officer,  
President and Secretary*

La Jolla, California

April 20, 2006

**A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 filed with the SEC is available without charge upon written request to: 11119 North Torrey Pines Road, La Jolla, CA 92037, Attn: Corporate Secretary.**



METABASIS THERAPEUTICS, INC.

11119 North Torrey Pines Road

La Jolla, CA 92037

**PROXY SOLICITED BY THE BOARD OF DIRECTORS  
FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 9, 2006**

The undersigned hereby appoints Paul K. Laikind, Ph.D. and John W. Beck, and each of them, as attorneys and proxies of the undersigned, with full power of substitution, to vote all of the shares of stock of Metabasis Therapeutics, Inc. which the undersigned may be entitled to vote at the 2006 Annual Meeting of Stockholders of Metabasis Therapeutics, Inc. to be held on May 9, 2006 at 10:00 a.m. local time at the corporate headquarters of the Company located at 11119 North Torrey Pines Road, La Jolla, CA 92037 and at any and all postponements, continuations and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the following matters and in accordance with the following instructions, with discretionary authority as to any and all other matters that may properly come before the meeting.

**UNLESS A CONTRARY DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR ALL NOMINEES LISTED IN PROPOSAL 1 AND FOR PROPOSAL 2, AS DESCRIBED IN THE ACCOMPANYING PROXY STATEMENT. IF SPECIFIC INSTRUCTIONS ARE INDICATED, THIS PROXY WILL BE VOTED IN ACCORDANCE THEREWITH.**

**VOTING INSTRUCTIONS:**

**VOTE BY MAIL:** Complete, sign, date and promptly return this proxy card in the postage-paid envelope provided.

**VOTE BY PHONE:** Dial toll-free 1-800-PROXIES using any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Standard Time on May 8, 2006. Have your proxy card in hand when you call. You will be prompted to enter your 12-digit control number, which is located below and then follow the simple recorded instructions provided.

**VOTE BY INTERNET:** Go to <http://www.voteproxy.com> to transmit your voting instruction and for electronic delivery of information up until 11:59 P.M. Eastern Standard Time on May 8, 2006. Have your proxy card in hand when you

access the web site. You will be prompted to enter your 12-digit control number, which is located below, to obtain your records and to create an electronic voting instruction form.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH NOMINEE NAMED BELOW.**

**PROPOSAL 1:** To elect three Class II directors to hold office until our 2009 Annual Meeting of Stockholders.

- |   |   |
|---|---|
| <p>o <b>FOR</b> the nominees listed below<br/>(except as marked to the contrary<br/>below).</p> | <p>o <b>WITHHOLD</b> authority<br/>to vote for the nominees<br/>listed below.</p> |
|---|---|

**Nominees:** Mark D. Erion, Ph.D., Arnold L. Oronsky, Ph.D., and William R. Rohn

**To withhold authority to vote for any individual nominee, write the name of such nominee below:**

*(Continued and to be signed on other side)*

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(Continued from other side)

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE SELECTION OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2006.**

**PROPOSAL 2:** To ratify the selection by the Audit Committee of our Board of Directors of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2006.

**FOR**

**AGAINST**

**ABSTAIN**

DATED

SIGNATURE(S)

*Please sign exactly as your name appears hereon. If the stock is registered in the names of two or more persons, each should sign. Executors, administrators, trustees, guardians and attorneys-in-fact should add their titles. If signer is a corporation, please give full corporate name and have a duly authorized officer sign, stating title. If signer is a partnership, please sign in partnership name by authorized person.*

**Please vote, date and promptly return this proxy in the enclosed return envelope which is postage prepaid if mailed in the United States.**

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