



Compensation Committee

PURPOSE

The purpose of the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of Aradigm Corporation, a California corporation (the "Company") shall be to act on behalf of the Board in fulfilling the Board's responsibilities to oversee the Company's compensation policies, plans and programs, and to review and recommend to the Board the compensation to be paid to the Company's officers, as well as to prepare and review the Committee report, including the compensation discussion & analysis ("CD&A") section included in the Company's annual proxy statement in accordance with applicable rules and regulations of the Securities and Exchange Commission (the "SEC") in effect from time to time. The term "compensation" shall include salary, long-term incentives, bonuses, perquisites, equity incentives, severance arrangements, retirement benefits and other related benefits and benefit plans.

COMPOSITION

The Committee shall consist of at least two members of the Board. All members of the Committee shall satisfy the independence requirements of the Nasdaq National Stock Market ("Nasdaq") applicable to compensation committee members, as in effect from time to time, when and as required by Nasdaq, including any exceptions permitted by these requirements. At least two of the members of the Committee shall satisfy the "non-employee director" standard within the meaning of Section 16b-3 of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act"). The members of the Committee shall be appointed by and serve at the discretion of the Board. Vacancies occurring on the Committee shall be filled by the Board based on recommendations from the Nominating and Corporate Governance Committee. The Committee's chairperson shall be designated by the Board based on recommendations from the Nominating and Corporate Governance Committee.

MEETINGS AND MINUTES

The Committee shall hold such regular or special meetings as its members shall deem necessary or appropriate. Minutes of each meeting of the Committee shall be prepared and distributed to each director of the Company and the Secretary of the Company promptly after each meeting. The Committee shall report to the Board from time to time and whenever requested to do so by the Board.

AUTHORITY

The Committee shall have full access to all books, records, facilities and personnel of the Company as deemed necessary or appropriate by any member of the Committee to discharge his or her responsibilities hereunder. The Committee shall have the authority to obtain, at the expense of the Company, advice and assistance from internal or external legal, accounting or other advisors and consultants. In addition, the Committee shall have sole authority to retain and terminate any compensation consultant to assist in the evaluation of director, chief executive officer or senior executive compensation, including sole authority to approve such consultant's reasonable fees and other retention terms, all at the Company's expense. Other reasonable expenditures for external resources that the Committee deems necessary or appropriate in the performance of its duties are permitted. The Committee may form and delegate authority to subcommittees as appropriate, including, but not limited to, a subcommittee composed of one or more members of the Board to grant stock awards under the Company's equity incentive plans to persons who are not (a) "Covered Employees" under Section 162(m) of the Code; (b) individuals with respect to whom the Company wishes to comply with Section 162(m) of the Code or (c) then subject to Section 16 of the Exchange Act. The operation of the Committee shall be subject to the Bylaws of the Company as in effect from time to time and Sections 301 and 311 of the California Corporations Code. The approval of this Compensation Committee Charter shall be construed as a delegation of authority to the Committee with respect to the responsibilities set forth herein.

RESPONSIBILITIES

To implement the Committee's purpose and policies, the Committee shall be charged with the following duties and responsibilities. The Committee may supplement and, except as otherwise required by applicable law or the requirements of Nasdaq deviate from these activities as appropriate under the circumstances:

- I. *Overall Compensation Strategy.* The Committee shall review, modify (as needed) and approve the overall compensation

strategy and policies for the Company, including:

- I. reviewing and approving corporate performance goals and objectives relevant to the compensation of the Company's executive officers and other senior management, as appropriate;
 - II. evaluating and recommending to the Board the compensation plans and programs advisable for the Company, as well as modification or termination of existing plans and programs;
 - III. establishing policies with respect to equity compensation arrangements; and
 - IV. reviewing and approving the terms of any employment agreements, severance arrangements, change-of-control protections and any other compensatory arrangements for the Company's executive officers and other senior management, as appropriate.
- II. *Compensation of Chief Executive Officer.*

The Committee shall recommend to the Board for determination and approval the compensation and other terms of employment of the Company's Chief Executive Officer and shall evaluate the Chief Executive Officer's performance in light of relevant corporate performance goals and objectives.

In determining the long-term incentive component of the Chief Executive Officer's compensation, the Committee should consider the Company's performance and relative stockholder return, the value of similar incentive awards given to chief executive officers of comparable companies, and such other criteria as the Committee deems advisable. The Chief Executive Officer may not be present during the voting or deliberations regarding his or her compensation.

- III. *Compensation of Other Officers.* The Committee shall review and approve the individual and corporate performance goals and objectives of the Company's other senior management, as appropriate, including executive officers, that are periodically established. The Committee shall recommend to the Board for determination and approval the compensation and other terms of employment of these members of senior management, as appropriate, taking into consideration the officer's success in achieving his or her individual performance goals and objectives and the corporate performance goals and objectives deemed relevant to the officer as established by the Committee.
- IV. *Administration of Benefit Plans.* The Committee shall recommend to the Board the adoption, amendment and termination of the Company's health insurance plans, stock option plans, stock appreciation rights plans, incentive plans, stock bonus plans, stock purchase plans, bonus plans, deferred compensation plans and similar programs. The Committee shall have full power and authority to administer these plans, establish guidelines, interpret plan documents, select participants, approve grants and awards, and exercise such other power and authority as may be permitted or required under such plans.
- V. *Director Compensation.* In coordination with the Nominating and Corporate Governance Committee, the Committee shall periodically review the compensation paid to non-employee Directors for their service on the Board and its committees and recommend any changes considered appropriate to the full Board for its approval.
- VI. *Committee Self-Assessment.* The Committee shall periodically review, discuss and assess its own performance. The Committee shall also periodically review and assess the Committee's role and responsibilities as outlined in this Charter.
- VII. *Charter Review.* The Committee shall review and reassess this Charter at least annually and submit any recommended changes to the Board for its consideration.