

BIOCRYST PHARMACEUTICALS INC

Form DEF 14A

April 03, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

BIOCRYST PHARMACEUTICALS, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

**BIOCRYST PHARMACEUTICALS, INC.
2190 Parkway Lake Drive
Birmingham, AL 35244**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held April 30, 2009**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
STOCKHOLDERS MEETING TO BE HELD ON APRIL 30, 2009**

**BioCryst's Notice of Annual Meeting and Proxy Statement, Annual Report and other proxy
materials are available at www.proxyvote.com.**

To the Stockholders of BioCryst Pharmaceuticals, Inc.:

Notice is hereby given that the Annual Meeting of Stockholders of BioCryst Pharmaceuticals, Inc., a Delaware corporation, will be held at The Summit Club, 1901 6th Avenue North, Suite 3100, Birmingham, Alabama 35203 on Thursday, April 30, 2009 at 10:00 a.m., Central Daylight Time, for the following purposes:

1. To elect two directors to serve for a term of three years and until a successor is duly elected and shall be qualified;
2. To increase the number of shares available for issuance under the Stock Incentive Plan by 1,540,000 shares to 8,132,279;
3. To ratify the selection of Ernst & Young LLP as our independent registered public accountants; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on March 6, 2009 as the record date for the determination of stockholders entitled to receive notice of and to vote at the meeting or any adjournment thereof. The meeting may be adjourned from time to time without notice other than announcement at the meeting, and any business for which notice of the meeting is hereby given may be transacted at any such adjournment. A list of the stockholders entitled to vote at the meeting will be open to examination by any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting at the principal executive offices of the Company in Birmingham, Alabama.

A copy of our Annual Report on Form 10-K for the year ended December 31, 2008 is enclosed, but is not filed or part of the proxy soliciting materials. **Stockholders may obtain a copy of the Annual Report, the Proxy and the Proxy Statement by writing to the Corporate Secretary at the address stated above or by visiting www.proxyvote.com.**

Please review carefully the accompanying Proxy and Proxy Statement.

BY ORDER OF THE BOARD OF DIRECTORS

Alane P. Barnes, Corporate Secretary

Birmingham, Alabama
April 1, 2009

ALL STOCKHOLDERS ARE INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY DATE, SIGN AND RETURN THE ENCLOSED PROXY. A POSTAGE PREPAID ENVELOPE IS PROVIDED FOR MAILING. A PERSON GIVING A PROXY HAS THE POWER TO REVOKE IT. IF YOU ATTEND THE MEETING, YOUR PROXY WILL NOT BE COUNTED WITH RESPECT TO ANY MATTER UPON WHICH YOU VOTE IN PERSON.

TABLE OF CONTENTS

	<u>Page</u>
<u>PROXY STATEMENT</u>	1
<u>ITEMS TO BE VOTED ON</u>	2
<u>CORPORATE GOVERNANCE</u>	14
<u>EXECUTIVE OFFICERS</u>	16
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	17
<u>SUMMARY COMPENSATION TABLE</u>	25
<u>GRANTS OF PLAN-BASED AWARDS IN 2008</u>	26
<u>OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2008</u>	27
<u>2008 OPTION EXERCISES AND STOCK VESTED</u>	28
<u>POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL</u>	29
<u>2008 DIRECTOR COMPENSATION</u>	33
<u>AUDIT COMMITTEE REPORT</u>	34
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL</u>	35
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	37
<u>STOCKHOLDER PROPOSALS</u>	37
<u>NO INCORPORATION BY REFERENCE</u>	38
<u>OTHER MATTERS</u>	38
<u>GENERAL INFORMATION</u>	38
<u>APPENDIX A: BIOCRYST PHARMACEUTICALS, INC. STOCK INCENTIVE PLAN</u>	A-1

Table of Contents

**BIOCRYST PHARMACEUTICALS, INC.
2190 Parkway Lake Drive
BIRMINGHAM, AL 35244**

PROXY STATEMENT

General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of BioCryst Pharmaceuticals, Inc. (BioCryst or the Company) for the Annual Meeting of Stockholders of the Company to be held at The Summit Club, 1901 6th Avenue North, Suite 3100, Birmingham, Alabama 35203 on Thursday, April 30, 2009 at 10:00 a.m., Central Daylight Time, and any adjournment thereof (the Meeting) and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

This Proxy Statement and the accompanying form of proxy card are first being mailed to Stockholders on or about April 1, 2009.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on April 30, 2009. The Proxy Statement, the Proxy and the Company's Annual Report on Form 10-K are available at www.proxyvote.com.

Purpose of the Meeting

The matters to be considered at the Meeting are:

- the election of two directors, each person to serve a three-year term and until such person's successor is elected and qualified;
- the approval of an increase of the number of shares available for issuance under the Stock Incentive Plan;
- the ratification of Ernst & Young LLP as our independent registered public accountants; and
- any other business that may properly come before the Meeting.

Revocation and Voting of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time prior to the voting thereof, by giving written notice to the Company or by voting in person at the Meeting. Attendance at the Meeting by itself will not revoke a proxy. All valid, unrevoked proxies will be voted as directed. In the absence of any contrary directions, proxies received by the Board will be voted FOR the election of all nominees for director of the Company, FOR the approval of an increase of the number of shares available for issuance under the Stock Incentive Plan, FOR the ratification of the selection of Ernst & Young as the Company's independent registered public accountants for 2009 and, with respect to such other matters as may properly come before the Meeting, in the discretion of the appointed proxies.

Voting and Quorum

Only holders of record (the Stockholders) of our common stock (the Common Stock) as of the close of business on March 6, 2009 (the Record Date) will be entitled to notice of and to vote at the Meeting. At March 6, 2009, there were

38,331,303 shares of Common Stock outstanding. Each share of Common Stock is entitled to one vote on all matters on which Stockholders may vote. There is no cumulative voting in the election of directors. The presence, in person or by proxy, of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum at the Meeting. Shares of Common Stock represented by a properly executed and returned proxy will be treated as present at the Meeting for purposes of determining the presence of a quorum without regard to whether the proxy is marked as casting a vote for or against or abstaining with respect to a particular matter. In addition, shares of Common Stock represented by broker non-votes (i.e., shares of

Table of Contents

Common Stock held in record name by brokers, banks or other nominees as to which a proxy is received and (i) instructions have not been received from the beneficial owners or persons entitled to vote, (ii) the broker or nominee does not have discretionary power and (iii) the record holder had indicated that it does not have authority to vote such shares on that matter) generally will be treated as present for purposes of determining the presence of a quorum.

Attending the Meeting

Stockholders as of the Record Date are invited to attend the Meeting. Stockholders must present a form of photo identification acceptable to the Company, such as a valid driver's license or passport. Registered holders may vote upon presentation of identification. Beneficial owners must obtain a proxy from their broker, bank or other holder of record and present it to the inspector of election with their ballot. The Meeting will begin promptly at 10:00 a.m., Central Daylight Time. Please allow ample time for the check-in procedures. Media may attend the Meeting by invitation only.

Required Votes, Abstentions, and Broker Non-Votes

The affirmative vote of the holders of a plurality of the votes cast by Stockholders entitled to vote at the Meeting is necessary to elect each of the nominees for director named in the Proxy Statement. Votes may be cast for or withheld from each nominee, but a withheld vote or a broker non-vote will not affect the outcome of the election of directors at the Meeting.

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy at the Meeting and voting on the matter is necessary to approve (i) the increase of shares available under the Stock Incentive Plan and (ii) the ratification of our selection of Ernst & Young LLP as our independent registered public accountants. Abstentions with respect to these proposals will have the same effect as a vote against these proposals and broker non-votes will have no effect upon these proposals.

Proxy Solicitation

The proxy solicitation is being made primarily by mail, although proxies may be solicited by personal interview, telephone, internet, telegraph, letter, e-mail or otherwise. Certain of our directors, officers and other employees, without additional compensation, may participate in the solicitation of proxies. We will pay the cost of this solicitation, including the reasonable charges and expenses of brokerage firms and others who forward solicitation materials to beneficial owners of the Common Stock. We anticipate using Morrow & Co., LLC, 470 West Ave, Stamford, CT 06902 as a solicitor at an initial anticipated cost of \$6,000.

ITEMS TO BE VOTED ON

1. ELECTION OF DIRECTORS

It is proposed to elect two directors to serve until the annual meeting of stockholders in 2012, and until their successors have been duly elected and qualified. Proxies cannot be voted for more than two persons. It is intended that shares represented by the Board's proxies will be voted FOR the election of the two persons listed for terms expiring in 2012:

NOMINEES FOR TERMS EXPIRING AT THE ANNUAL MEETING OF STOCKHOLDERS IN 2012

Name	Age	Position(s) with the Company	Served as Director Since
Stephen R. Biggar, M.D., Ph.D.	38	Director	2005
Zola P. Horovitz, Ph.D.	74	Director, Chairman of the Board	1994

Table of Contents

The following persons shall continue to serve as directors for the terms indicated:

DIRECTORS WITH TERMS EXPIRING AT THE ANNUAL MEETING OF STOCKHOLDERS IN 2010

Name	Age	Position(s) with the Company	Served as Director Since
John L. Higgins	39	Director	2004
Beth C. Seidenberg, M.D.	52	Director	2005

DIRECTORS WITH TERMS EXPIRING AT THE ANNUAL MEETING OF STOCKHOLDERS IN 2011

Name	Age	Position(s) with the Company	Served as Director Since
Stanley C. Erck	60	Director	2008
William W. Featheringill	66	Director	1995
Jon P. Stonehouse	48	President, Chief Executive Officer and Director	2007

Dr. Randolph C. Steer has determined not to stand for re-election and therefore his term of office as a director will expire at the Meeting.

Below you can find information, including biographical information, about our nominees for director and directors whose terms continue after the Meeting.

Stephen R. Biggar, M.D., Ph.D. was appointed to the Board in October 2005. Dr. Biggar has served as a Partner at Baker Brothers Investments, a family of long-term investment funds for major university endowments and foundations, which is focused on publicly traded life sciences companies, since October 2006, served as Principal from April 2002 to October 2006 and served as an Associate from April 2000 to April 2002. Prior to joining Baker Brothers, Dr. Biggar received an M.D. and a Ph.D. in Immunology from Stanford University. He attended the University of Rochester where he achieved a B.S. degree in Genetics. Dr. Biggar serves as a director of one private biotechnology company.

Zola P. Horovitz, Ph.D. was elected a Director in August 1994. Dr. Horovitz was Vice President of Business Development and Planning at Bristol-Myers Squibb from 1991 until his retirement in April 1994 and previously was Vice President of Licensing at the same company from 1990 to 1991. Prior to that, he spent over 30 years with The Squibb Institute for Medical Research, most recently as Vice President Research, Planning, & Scientific Liaison. He has been an independent consultant in pharmaceutical sciences and business development since his retirement from Bristol-Myers Squibb in April 1994. He serves as non executive Chairman on the Board of Directors of Avigen, Inc. and GenVec, Inc., and also serves on the Boards of Directors of Genaera Pharmaceuticals, Inc., Palatin Technologies, Inc., DOV Pharmaceuticals, NitroMed, Inc. and Immunicon Corporation.

John L. Higgins was elected a Director in May 2004. Mr. Higgins has served as President and Chief Executive Officer of Ligand Pharmaceuticals Inc., a publicly traded biotech company, since January 2007 and has served as a director since February 2007. He was most recently Chief Financial Officer at the biotech company Connetics, since 1997, and also served as Executive Vice President, Finance and Administration and Corporate Development since January 2002

until its acquisition by Stiefel Laboratories, Inc. in December 2006. Before joining Connetics, he was a member of the executive management team at BioCryst. Before joining BioCryst in 1994, Mr. Higgins was a member of the healthcare banking team of Dillon, Read & Co. Inc., an investment banking firm. Mr. Higgins is Chairman of Comentis, a private biotechnology company. He received his A.B. from Colgate University.

Beth C. Seidenberg, M.D. was appointed to the Board in December 2005. Dr. Seidenberg has served as Partner of Kleiner Perkins Caufield and Byers (KPCB), a venture capital firm, since May 2005. Prior to joining KPCB, Dr. Seidenberg served at Amgen Inc., a biotechnology company, as Chief Medical Officer and Senior Vice President, Global Development from January 2002 to December 2004. She also served at

Table of Contents

Bristol-Myers Squibb Company, a pharmaceutical company, as Senior Vice President, Global Development from September 2001 to January 2002, Senior Vice President, Clinical Development & Life Cycle Management from May 2000 to September 2001 and Vice President, Clinical Immunology/Pulmonary/Dermatology from April 2000 to May 2000 and at Merck/Merck Research Laboratories as Vice President, Pulmonary-Immunology from July 1998 to March 2000, Executive Director from March 1996 to June 1998, Senior Director from September 1993 to February 1996 and also served as both Director and Associate Director of Clinical Pharmacology from September 1991 to August 1993 and from June 1989 to August 1991, respectively. She received her M.D. from University of Miami; completed post-doctoral training at Johns Hopkins Medical Center and specialty training in immunology and infectious diseases at the National Institutes of Health. Dr. Seidenberg also has a B.S. degree in Biology and Anthropology from Barnard College. Dr. Seidenberg was appointed to the Board as a designee of KPCB under a Nomination and Observer Agreement with the Company dated December 16, 2005.

Stanley C. Erck was appointed to the Board in December 2008. From 2000 through 2008, Mr. Erck served as President and Chief Executive Officer of Iomai Corporation, a biopharmaceutical company, leading the company through an initial public offering and a merger with Intercell AG, an Austrian vaccine company, and through the development of a late-stage infectious disease product candidate. Prior to Iomai, Mr. Erck served as President and Chief Executive Officer of Procept, a publicly traded immunology company; as Vice President, Corporate Development at Integrated Genetics (now Genzyme), and in management positions within Baxter International. Mr. Erck currently sits on the Board of Directors of MaxCyte, Inc. and MdBio Foundation. He received his undergraduate degree from the University of Illinois and his Masters in Business Administration from the University of Chicago Graduate School of Business.

William W. Featheringill was elected a Director in May 1995. Mr. Featheringill is President, Chief Executive Officer and director, since 1973, of Private Capital Corporation, a venture capital company. He has served as Chairman of Electronic Healthcare Systems, Inc., a system solutions provider to the ambulatory care industry, since June 1995, and Momentum Business Solutions, Inc., a telecom and VoIP company, since May 2001. Mr. Featheringill is also a Director of Southern Research Institute. Mr. Featheringill received a BE in Mechanical Engineering from Vanderbilt University, a J.D. degree from the Columbia University School of Law and a M.B.A. from the Columbia University Graduate School of Business.

Jon P. Stonehouse joined BioCryst in January 2007 as Chief Executive Officer and Director. He was also named President in July 2007. Prior to joining the Company, he served as Senior Vice President of Corporate Development for Merck KGaA, a pharmaceutical company, since July 2002. His responsibilities included corporate mergers and acquisitions, global licensing and business development, corporate strategy and alliance management. In March of 2002, Mr. Stonehouse was appointed Vice President of Global Licensing and Business Development and Integration where he was responsible for the worldwide licensing and business development activities for the Ethical Pharmaceutical Division of Merck KGaA. Mr. Stonehouse joined EMD Pharmaceuticals, Inc. (the US Ethical Pharma division for Merck KGaA) in December 1999 as Vice President, Licensing and Business Development Strategy & Integration and IT. Prior to joining Merck KGaA, he held a variety of roles at Astra Merck/AstraZeneca including: Customer Unit Director, Director, Marketing & Sales IT, National Sales Manager, National Sales Director Managed Healthcare, and Product Director Omeprazole (the world's most widely prescribed prescription drug-at that time). Mr. Stonehouse started his career in the pharmaceutical industry as a Sales Representative, National Sales Trainer and District Sales Manager for Merck & Co., Inc. In November 2008, Mr. Stonehouse joined the Advisory Board of Precision Biosciences, Inc., a private biotechnology company. Mr. Stonehouse earned his BS in Microbiology at the University of Minnesota.

Should any nominee be unable or unwilling to accept election, it is expected that the proxies will vote for the election of such other person for the office of director as the Board may then recommend. The Board has no reason to believe that any of the persons named will be unable to serve or will decline to serve if elected.

Table of Contents

Required Vote

The affirmative vote of the holders of a plurality of the votes cast by Stockholders entitled to vote at the Meeting is necessary to elect each of the nominees for director named above.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE FOR EACH OF THE NOMINEES FOR DIRECTOR NAMED ABOVE.

2. APPROVAL OF THE INCREASE IN THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE UNDER THE STOCK INCENTIVE PLAN

We are asking our stockholders to approve an increase of 1,540,000 in the number of shares available for issuance under the Stock Incentive Plan, which would bring the total number of shares available under the Stock Incentive Plan to 8,132,279 as of March 27, 2009.

On February 4, 2009, our Board adopted the increase in the share reserve, subject to stockholder approval at this Meeting. Our Board believes that the increase is necessary to assure that a sufficient reserve of Common Stock remains available for issuance as equity awards. We use equity-based incentive compensation to attract and retain the services of key individuals essential to our long-term growth and financial success. We rely significantly on equity incentives in order to attract and retain key employees, consultants, and non-employee directors, and believe that such equity incentives are necessary for the Company to remain competitive in the marketplace for executive talent and for other key individuals.

The following is a summary of the principal features of the Stock Incentive Plan.

2009 Equity Incentive Programs

The Stock Incentive Plan consists of three separate equity incentive programs:

the Discretionary Option Grant Program;

the Stock Issuance Program; and

the Automatic Option Grant Program for non-employee Board members.

The principal features of each program are described below. The Compensation Committee of the Board will have the exclusive authority to administer the Discretionary Option Grant Program and the Stock Issuance Program with respect to option grants and stock issuances made to the Company's executive officers and non-employee Board members, and will also have the authority to make grants under those programs to all other eligible individuals. However, the Board may at any time appoint a secondary committee of one or more Board members to have separate but concurrent authority with the Compensation Committee to make option grants or stock issuances to individuals other than the Company's executive officers and non-employee Board members, or the Board may retain such authority.

The term plan administrator, as used in this summary, will mean the Compensation Committee, any secondary committee, or the Board, to the extent each such entity is acting within the scope of its administrative jurisdiction under the Stock Incentive Plan. However, neither the Compensation Committee nor any secondary committee will

exercise any administrative discretion under the Automatic Option Grant Program. All grants under that program will be made in strict compliance with the express provisions of such program.

Share Reserve

As of March 27, 2009, an aggregate of 11,040,000 shares of Common Stock have been reserved for issuance over the term of the Stock Incentive Plan. The total number of shares available under the Stock Incentive Plan as of March 27, 2009 is 8,132,279. This amount includes: 6,427,447 shares reserved for awards

Table of Contents

already issued; 164,832 shares of Common Stock available for future issuance under the Stock Incentive Plan; and the 1,540,000 share increase proposed under the terms of this proposal.

The shares of Common Stock issuable under the Stock Incentive Plan may be drawn from shares of our authorized but unissued Common Stock or from shares of Common Stock reacquired by the Company, including shares repurchased on the open market.

No individual may receive options or stock issuances over the term of the Stock Incentive Plan exceeding 1,500,000 shares in the aggregate.

In the event any change is made to the outstanding shares of Common Stock by reason of any recapitalization, stock dividend, stock split, combination of shares, exchange of shares or other change in corporate structure effected without our receipt of consideration, appropriate adjustments will be made to the securities issuable (in the aggregate and per participant) under the Stock Incentive Plan and the securities in effect under each outstanding option and stock issuance and, where applicable, the option exercise price per share.

Eligibility

Officers and employees, non-employee Board members and independent consultants in the service of the Company or its parents or subsidiaries (whether now existing or subsequently established) will be eligible to participate in the Discretionary Option Grant Program and the Stock Issuance Program. Non-employee members of the Board will also be eligible to participate in the Automatic Option Grant Program.

As of March 27, 2009, six executive officers, seven non-employee Board members and approximately 82 other employees and consultants were eligible to participate in the Discretionary Option Grant Program and the Stock Issuance Program. The seven non-employee Board members were also eligible to participate in the Automatic Option Grant Program.

Valuation

The fair market value per share of Common Stock on any relevant date under the Stock Incentive Plan will be deemed to be equal to the closing selling price per share on that date on the Nasdaq Global Market. On March 6, 2009, the fair market value per share determined on such basis was \$1.19.

Discretionary Option Grant Program

Terms of Options

The Plan Administrator will have complete discretion under the Discretionary Option Grant Program to determine which eligible individuals are to receive option grants, the time or times when those grants are to be made, the number of shares subject to each such grant, the status of any granted option as either an incentive stock option or a non-statutory option under the federal tax laws, the vesting schedule (if any) to be in effect for the option grant and the maximum term for which any granted option is to remain outstanding.

Each granted option will have an exercise price per share no less than the fair market value of the option shares on the grant date. No granted option will have a term in excess of ten years, and the option will generally become exercisable in one or more installments over a specified period of service measured from the grant date. However, one or more options may be structured so that they will be immediately exercisable for any or all of the option shares; the shares acquired under those options will be subject to repurchase by the Company, at the exercise price paid per share, if the

optionee ceases service with the Company prior to vesting in those shares.

Upon cessation of service, the optionee will have a limited period of time in which to exercise any outstanding option to the extent exercisable for vested shares. The Plan Administrator will have complete discretion to extend the period following the optionee's cessation of service during which his or her outstanding options may be exercised and/or to accelerate the exercisability or vesting of such options in

Table of Contents

whole or in part. Such discretion may be exercised at any time while the options remain outstanding, whether before or after the optionee's actual cessation of service.

Upon the optionee's cessation of service as a result of death after at least five years of service, all of the optionee's outstanding options will accelerate and become exercisable in full.

Stock Appreciation Rights

The Plan Administrator is authorized to issue tandem stock appreciation rights in connection with option grants made under the Discretionary Option Grant Program. The grant price of a stock appreciation right may not be less than the fair market value of our Common Stock on the date of the grant.

Tandem stock appreciation rights under the Discretionary Option Grant Program provide the holder with the right to surrender an option for an appreciation distribution from the Company. The amount of such distribution will be equal to the excess of:

- (i) the fair market value of the vested shares of Common Stock subject to the surrendered option, over
- (ii) the aggregate exercise price payable for such shares.

Such appreciation distribution may, at the discretion of the Plan Administrator, be made in cash or in shares of Common Stock, or a combination thereof.

Stock Issuance Program

Shares may be issued under the Stock Issuance Program at a price per share not less than their fair market value, payable in cash. Shares may also be issued as consideration for services rendered without any cash outlay required from the recipient. The shares issued may be fully and immediately vested upon issuance or may vest upon the completion of a designated service period or the attainment of pre-established performance goals. To the extent a participant ceases service without completing the designated service period or performance goals, the Company has the right to repurchase the shares at the price paid, if any. However, the Plan Administrator has the discretionary authority at any time to accelerate the vesting of any and all unvested shares outstanding under the program. Share recipients shall have full stockholder rights with respect to their shares, including the right to vote the shares and to receive regular cash dividends.

Shares of Common Stock may also be issued under the program pursuant to share right awards that entitle the recipient to receive shares upon the attainment of designated service or performance goals. Outstanding share right awards under the program will automatically terminate, and no shares of Common Stock will actually be issued in satisfaction of those awards, if the service or performance goals established for such awards are not attained. The Plan Administrator, however, has the discretionary authority to issue shares of Common Stock in satisfaction of one or more outstanding share right awards as to which the service or designated performance goals are not attained. Share right award holders do not have stockholder rights with respect to such awards; however, the Plan Administrator may grant dividend equivalents entitling the holder of such awards to regular cash dividends payable on the underlying shares. Dividend equivalents are subject to the same vesting schedule and payable at the same time as the shares underlying the share right award.

The Plan Administrator has complete discretion under the program to determine which eligible individuals are to receive stock issuances or share right awards, the time or times when those issuances or awards are to be made, the number of shares subject to each such issuance or award, the extent to which a share right award shall have an

accompanying dividend equivalent, and the vesting schedule to be in effect for the stock issuance or share right award.

Table of Contents

Automatic Option Grant Program

Terms of Options

Under the Automatic Option Grant Program, eligible non-employee Board members, including Board members who are former employees of the Company, will receive a series of option grants over their period of Board service. Each non-employee Board member will, at the time of his or her initial election or appointment to the Board or upon continuing to serve as a Board member after ceasing to be employed by the Company, receive an option grant for up to 20,000 shares of Common Stock. The amount of the initial grant shall be determined by multiplying:

- (i) a fraction, the numerator of which is the number of months remaining between the date the Board member first became a non-employee Board member and the date of the next Annual Meeting and the denominator of which is 12, by
- (ii) 20,000 shares of Common Stock.

In addition, each year on the date of the Meeting each individual who is to continue to serve as a non-employee Board member will automatically be granted an additional option to purchase 15,000 shares of Common Stock. Other than the 1,500,000 share aggregate limit to any participant in the Stock Incentive Plan, there will be no limit on the number of such 15,000 share option grants any one eligible non-employee Board member may receive over his or her period of continued Board service.

Each automatic grant will have an exercise price per share equal to the fair market value per share of Common Stock on the grant date and will have a term of ten years. Each initial automatic option grant shall vest over the period to the Meeting immediately following the grant with a pro rata portion of the grant vesting at the end of each calendar month during the period and with the final portion of the grant vesting on the date of the Annual Meeting. Each annual automatic option grant shall vest and become exercisable for 1/12th of the option shares upon the optionee's completion of each month of Board service over the 12 month period measured from the automatic grant date. With respect to both the initial automatic option grant and the annual automatic option grant, vesting shall cease and options shall not become exercisable for any additional option shares following the optionee's cessation of Board service for any reason. Following an optionee's cessation of Board service for any reason, each option vested at the time of cessation of Board service will remain exercisable by the optionee (or after the optionee's death, his estate or heirs) for the remainder of the ten year term of that option.

Stock Appreciation Rights

The terms of the Automatic Option Grant Program provide that options shall have one of two different stock appreciation rights, depending on the date on which the option is granted. In either case, however, the grant price of the stock appreciation right may not be less than the fair market value of our Common Stock on the date of the grant.

Each option granted under the Automatic Option Grant Program prior to March 7, 2006 includes a limited stock appreciation right such that, upon the successful completion of a hostile tender offer for more than fifty percent of our outstanding voting securities or a change in a majority of the Board as a result of one or more contested elections for Board membership, the option may be surrendered to the Company in return for a cash distribution from the Company. The amount of the distribution per surrendered option share will be equal to the excess of:

- (i) the fair market value per share at the time the option is surrendered, over
- (ii) the exercise price payable per share under such option.

Table of Contents

Each option granted under the Automatic Option Grant Program on or after March 7, 2006 contains a tandem stock appreciation right that gives the holder the right to surrender the option for an appreciation distribution from the Company. The amount of such distribution will be equal to the excess of:

- (i) the fair market value of the vested shares of Common Stock subject to the surrendered option, over
- (ii) the aggregate exercise price payable for such shares.

To prohibit discretion, the terms of the tandem stock appreciation right provide that the appreciation distribution must be made in shares of Common Stock.

General Provisions

Acceleration

In the event that the Company is acquired by merger or asset sale or otherwise undergoes a change in control (including a change effected through the successful completion of a tender offer for more than 50% of our outstanding voting stock or a change in the majority of the Board effected through one or more contested elections for Board membership), except as set forth in the terms of the grant, the vesting of each outstanding option under the Discretionary Option Grant Program and the Automatic Option Grant Program, and the vesting of each share right award under the Stock Issuance Program, shall automatically accelerate in full. However, the Plan Administrator generally may impose terms and conditions at the time of grant that prevent this automatic acceleration.

In addition, and except as provided in the terms of any stock issuance, all outstanding repurchase rights under the Stock Issuance Program will terminate upon a merger, asset sale or other change in control, and all underlying shares issued under the Stock Issuance Program will immediately vest, except to the extent the Company's repurchase rights with respect to those shares are to be assigned to a successor corporation or otherwise continued in effect pursuant to the terms of a merger or asset sale.

The acceleration of vesting in the event of a change in the ownership or control of the Company may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of the Company.

Special Tax Election

The Plan Administrator may provide one or more participants in the Discretionary Option Grant Program and Stock Issuance Program with the right to have us withhold a portion of the shares otherwise issuable to such participants in satisfaction of applicable withholding taxes that attach upon the exercise of options or the vesting of stock issuances or share right awards. Alternatively, the Plan Administrator may allow participants to deliver previously acquired shares of Common Stock in payment of such withholding tax liability.

Amendment and Termination

The Board may amend or modify the Stock Incentive Plan at any time, subject to any required stockholder approval pursuant to applicable laws and regulations (including applicable Nasdaq Global Market rules). Unless sooner terminated by the Board, the Stock Incentive Plan will terminate on the earliest of:

- (i) March 6, 2016 (but any options, stock issuances or other awards outstanding on such date shall remain in effect in accordance with their terms);

(ii) the date on which all shares available for issuance under the Stock Incentive Plan have been issued as fully-vested shares; or

(iii) the termination of all outstanding options and stock issuances in connection with certain changes in control or ownership of the Company.

Table of Contents**New Plan Benefits**

Awards to our executive officers during 2008 are reflected below under the heading Grants of Plan-Based Awards in 2008. Each of the non-employee Board members will receive an annual automatic option grant under the Automatic Option Grant Program immediately following the Meeting. The following tabulation reflects the awards granted or expected to be granted to the following persons for 2009 under the Stock Incentive Plan:

Name and Position	Dollar Value (\$)(1)	Number of Stock Options(1)
Jon P. Stonehouse, <i>President, Chief Executive Officer</i>	335,520(2)	279,600(2)
Stuart Grant, <i>Senior Vice President and Chief Financial Officer</i>	150,000(2)	125,000(2)
Yarlagadda S. Babu, <i>Vice President, Drug Discovery</i>	120,000(2)	100,000(2)
David S. McCullough, <i>Vice President, Strategic Planning, Commercial Development</i>	84,000(2)	70,000(2)
William P. Sheridan, <i>Chief Medical Officer</i>	27,000(2)	22,500(2)
Executive Officer Group	722,520(2)	597,100(2)
Non-Employee Director Group	(3)	90,000(4)
Employee Group	701,160(5)	584,300(5)

- (1) Future awards under the Stock Incentive Plan are indeterminable. All grants are determined by the Plan Administrator in its discretion and no arrangements have been made at this time with respect to the shares reserved from issuance under the Stock Incentive Plan.
- (2) Represents options granted on March 2, 2009 under the Stock Incentive Plan. Amounts shown in the Dollar Value column represent the number of stock options granted multiplied by the exercise price of such options.
- (3) The dollar value of the options to be granted to our non-employee directors pursuant to the Automatic Option Grant Program is indeterminable because the options will be granted immediately after the Meeting and their value will depend on the value of our Common Stock at that time.
- (4) Represents the options to be granted pursuant to the Automatic Option Grant Program under the Stock Incentive Plan to non-employee directors immediately following the Meeting for directors continuing in service after the Meeting.
- (5) Represents options granted to employees on March 2, 2009 under the Stock Incentive Plan. Amounts shown in the Dollar Value column represent the number of stock options granted multiplied by the exercise price of such options.

As of March 27, 2009, 6,592,279 shares of Common Stock remained available for future issuance under the Stock Incentive Plan, which includes 6,427,447 shares reserved for awards already issued and 164,832 shares for awards available for issuance, but excludes the increase of 1,540,000 shares of Common Stock included in the proposal. The weighted average exercise price of the 6,427,447 shares reserved for awards already issued is \$6.99 and the weighted average remaining contractual life is 7.2 years.

Table of Contents

Equity Compensation Plan Information

Information regarding the securities authorized for issuance under our equity compensation plans, which does not give effect to the increase of 1,540,000 shares of Common Stock included in the proposal, is as follows:

	(a) Number of Securities to be Issued Upon	(b) Weighted-Average	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
&n			