

BIOCRYST PHARMACEUTICALS INC

Form DEF 14A

April 16, 2008

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**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 (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

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.

\$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), 14a-6(i)(2) or Item 22(a)(2) of Schedule 14A.

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.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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

NOTICE OF ANNUAL MEETING OF  
STOCKHOLDERS TO BE HELD MAY 21, 2008

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 Wynfrey Hotel, 1000 Riverchase Galleria, Hoover, Alabama on Wednesday, May 21, 2008 at 3:00 p.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 1,200,000 shares to 6,739,849;
3. To increase the number of shares available for issuance under the Employee Stock Purchase Plan by 200,000 shares to 223,681;
4. To ratify the selection of Ernst & Young LLP as our independent registered public accountants; and
5. 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 31, 2008 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, 2007 is enclosed, but is not filed or part of the proxy soliciting materials. **Stockholders failing to receive a copy of the Annual Report may obtain one by writing to the Secretary of the Company at the address stated above.**

Please review carefully the accompanying Proxy and Proxy Statement.

BY ORDER OF THE BOARD OF DIRECTORS

Alane P. Barnes, Secretary

Birmingham, Alabama

April 16, 2008

**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.**

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**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. (the Company ) for the Annual Meeting of Stockholders of the Company to be held at The Wynfrey Hotel, 1000 Riverchase Galleria, Hoover, Alabama on Wednesday, May 21, 2008 at 3:00 p.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 16, 2008.

**Purpose of the Meeting**

The matters to be considered at the Meeting are (i) the election of two directors, each person to serve a three-year term and until such person's successor is elected and qualified; (ii) the approval of an increase of the number of shares available for issuance under the Stock Incentive Plan; (iii) the approval of an increase of the number of shares available for issuance under the Employee Stock Purchase Plan; (iv) the ratification of Ernst & Young LLP as our independent registered public accountants and (v) 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 approval of an increase of the number of shares available for issuance under the Employee Stock Purchase Plan; FOR the ratification of the selection of Ernst & Young as our independent registered public accountants for 2008 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 of our common stock (the Common Stock ) as of the close of business on March 31, 2008, the record date for the Meeting (the Stockholders ) will be entitled to notice of and to vote at the Meeting. At March 31, 2008, there were 38,083,767 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 Common Stock held in record name by brokers or 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.

**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 and voting at the Meeting is necessary to approve (1) the increase of shares available under the Stock

Incentive Plan, (2) the increase of shares available under the Employee Stock Purchase Plan, and (3) the ratification of our selection of Ernst & Young LLP as our

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independent registered public accountants. Accordingly, 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 & Company 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 (2) directors to serve until the annual meeting of stockholders in 2011, 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 2011:

**NOMINEES FOR TERMS EXPIRING AT THE ANNUAL MEETING OF STOCKHOLDERS IN 2011**

<b>Name</b>	<b>Age</b>	<b>Position(s) with the Company</b>	<b>Served As Director Since</b>
William W. Featheringill	65	Director	1995
Jon P. Stonehouse	47	President, Chief Executive Officer and Director	2007

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

**DIRECTORS WITH TERMS EXPIRING AT THE ANNUAL MEETING OF STOCKHOLDERS IN 2009**

<b>Name</b>	<b>Age</b>	<b>Position(s) with the Company</b>	<b>Served As Director Since</b>
J. Claude Bennett, M.D.	74	Chief Operating Officer and Director	1997
Stephen R. Biggar, M.D., Ph.D.	37	Director	2005
Zola P. Horovitz, Ph.D.	73	Director	1994
Randolph C. Steer, M.D., Ph.D.	58	Director	1993

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

<b>Name</b>	<b>Age</b>	<b>Position(s) with the Company</b>	<b>Served As Director Since</b>
John L. Higgins	38	Director	2004
Beth C. Seidenberg, M.D.	51	Director	2005

*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 currently serves 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 a Director of Altec Industries, Inc., Southern Research Institute and the Birmingham Museum of Art, and serves as a Trustee of Vanderbilt University. 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 & acquisitions, global licensing and business development, corporate strategy and alliance management. In March of 2002, Mr. Stonehouse was appointed Vice President

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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. Mr. Stonehouse earned his BS in Microbiology at the University of Minnesota.

*J. Claude Bennett, M.D.* has served as our Chief Operating Officer since July 2007. He served as our President and Chief Operating Officer from December 1996 to July 2007 and was elected a director in January 1997. Dr. Bennett also served as the Medical Director from 2001 to 2006. Prior to joining us, Dr. Bennett was President of The University of Alabama at Birmingham ( UAB ) from October 1993 to December 1996 and Professor and Chairman of the Department of Medicine of UAB from January 1982 to October 1993. Dr. Bennett served on our Scientific Advisory Board from 1989-96. He is a former co-editor of the *Cecil Textbook of Medicine* and former President of the Association of American Physicians. He is a past chair of the Scientific Advisory Committee of the Massachusetts General Hospital, a post-member of the Scientific Advisory Board of Zycogen, LLC, and continues to hold the position of Distinguished University Professor Emeritus at UAB, a position he has held since January 1997. He also serves on the Board of Directors of both the McWane Science Center and the UAB Research Foundation.

*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.

*Randolph C. Steer, M.D., Ph.D.* was elected a Director in February 1993. He is currently President and Chief Operating Officer of OrthoLogic Corp., an Arizona-based biotechnology firm, since April 2006. Dr. Steer has been an independent pharmaceutical and biotechnology consultant since 1989, and has a broad background in business development, medical marketing and regulatory affairs. He was formerly Chairman, President and CEO of Advanced Therapeutics Communications International, a leading drug regulatory group, and served as associate director of medical affairs at Marion Laboratories, and medical director at Ciba Consumer Pharmaceuticals. Dr. Steer serves on the Board of Directors of Techne Corporation and several privately held companies and is trained as a clinical and chemical pathologist.

*John L. Higgins* was elected a Director in May 2004. Mr. Higgins is 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. 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, a biotechnology company, as Chief Medical Officer and Senior Vice President, Global Development from January 2002 to December 2004. She also served at 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

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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.

There are no family relationships among any of our directors or executive officers.

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.

**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 1,200,000 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 6,739,849 as of March 31, 2008.

On February 28, 2008, 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.

**2007 Equity Incentive Programs**

The Stock Incentive Plan consists of three (3) 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.

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### **Share Reserve**

An aggregate of 6,739,849 shares of Common Stock have been reserved for issuance over the term of the Stock Incentive Plan. This amount includes 5,539,849 shares of Common Stock available for future issuance under the Stock Incentive Plan as of March 31, 2008 and the 1,200,000 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 31, 2008, 6 executive officers, 8 non-employee Board members and approximately 97 other employees and consultants were eligible to participate in the Discretionary Option Grant Program and the Stock Issuance Program. The 8 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 National Market. On March 31, 2008, the fair market value per share determined on such basis was \$4.61.

### **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 (10) 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 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.

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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.

### ***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.



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In addition, each year on the date of the Annual 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 (10) years. Each initial automatic option grant shall vest over the period to the Annual 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 twelve (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 (10) 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 (50%) 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.

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.





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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 National 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.

**New Plan Benefits**

Awards to our executive officers during 2007 are reflected below under the heading Grants of Plan-Based Awards in 2007. 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 2008 under the Stock Incentive Plan.

<b>Name and Position</b>	<b>Dollar Value (\$)(1)</b>	<b>Number of Stock Options(1)</b>
Jon P. Stonehouse, <i>President, Chief Executive Officer</i>	198,045(2)	60,750(2)
Stuart Grant, <i>Senior Vice President and Chief Financial Officer</i>	244,500(2)	75,000(2)
Michael A. Darwin, <i>Vice President Finance and Treasurer</i>	31,351(2)	9,617(2)
J. Claude Bennett, M.D., <i>Chief Operating Officer</i>	55,420(2)	17,000(2)
W. James Alexander, M.D., MPH, <i>Senior Vice President and Chief Medical Officer</i>		
David S. McCullough, <i>Vice President, Strategic Planning and Commercialization</i>	56,235(2)	17,250(2)
Executive Officer Group (all shown above)	585,551(2)	179,617(2)
Non-Employee Director Group	(3)	90,000(4)
Employee Group	1,754,679(5)	468,055(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 for issuance under the Stock Incentive Plan.

(2) Represents grants of stock options on March 14, 2008 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.



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(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 new employees during 2008 and the grants of options on March 14, 2008 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 31, 2008, 5,539,849 shares of Common Stock remained available for future issuance under the Stock Incentive Plan, which includes 5,532,026 shares reserved for awards already issued and 7,823 shares reserved for awards available for issuance, but excludes the increase of 1,200,000 shares of Common Stock included in the proposal. The weighted average exercise price of the 5,532,026 shares reserved for awards already issued is \$8.54 and the weighted average outstanding life is 7.2 years.

**Equity Compensation Plan Information**

(a) Number of

(c) Number of

<b>Plan Category</b>	<b>securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>(b) Weighted- average exercise price of outstanding options, warrants and rights</b>	<b>securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by security holders:			
Stock Option Awards (1)	5,532,026	\$ 8.54	7,823
Restricted Stock Awards (1)	50,000		
Stock Purchase Plan (2)			23,681
Equity compensation plans not approved by security holders:			
Stock Option Inducement Grant (3)	110,000	\$ 8.20	
Restricted Stock Awards (3)	10,000		
<b>Total</b>	<b>5,702,026</b>	<b>\$ 8.44</b>	<b>31,504</b>

(1) Consists of awards granted under the Stock Incentive Plan.

(2) Consists of shares granted under the Employee Stock Purchase Plan. The number of shares that may be issued pursuant to the Employee Stock Purchase Plan during a given period and the purchase price of such shares cannot be determined in advance of such purchases.

(3)

Consists of  
shares granted  
by the Board of  
Directors to  
recruit a new  
employee to a  
key position  
within the  
Company.

## **Federal Income Tax Consequences**

### ***Option Grants***

Options granted under the Stock Incentive Plan may be either incentive stock options which satisfy the requirements of Section 422 of the Internal Revenue Code or non-statutory options which are not intended to meet such requirements. The federal income tax treatment for the two types of options differs as follows:

*Incentive Options.* No taxable income is recognized by the optionee at the time of the option grant, and no taxable income is generally recognized at the time the option is exercised. The optionee will, however, recognize taxable income in the year in which the purchased shares are sold or otherwise transferred. For federal tax purposes, dispositions are divided into two categories: (i) qualifying and (ii) disqualifying. A qualifying disposition occurs if the sale or other disposition is made after the optionee has held the shares for more than two (2) years after the option grant date and more than one (1) year after the exercise date. If either of these two holding periods is not satisfied, then a disqualifying disposition will result. If the optionee makes a qualifying disposition, the taxable income recognized by the optionee will be treated as a long-term capital gain and we will not be entitled to an income tax deduction. If the optionee makes a disqualifying disposition of the purchased shares, then for the taxable year in which such disposition occurs, the optionee will recognize ordinary income, and we will be entitled to an income tax deduction, in an amount generally equal to the excess of (i) the fair market value of such shares on the option exercise date over (ii) the exercise price paid for the shares.

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*Non-Statutory Options.* No taxable income is recognized by an optionee upon the grant of a non-statutory option. The optionee will in general recognize ordinary income in the year in which the option is exercised, in an amount equal to the excess of the fair market value of the purchased shares on the exercise date over the exercise price paid for the shares.

If the shares acquired upon exercise of the non-statutory option are unvested and subject to repurchase by the Company in the event of the optionee's termination of service prior to vesting, then the optionee will not recognize any taxable income at the time of exercise but will have to report as ordinary income, as and when our repurchase right lapses, an amount equal to the excess of (i) the fair market value of the shares on the date the repurchase right lapses over (ii) the exercise price paid for the shares. The optionee may, however, elect under Section 83(b) of the Internal Revenue Code to include as ordinary income in the year of exercise of the option an amount equal to the excess of (i) the fair market value of the purchased shares on the exercise date over (ii) the exercise price paid for such shares. If the Section 83(b) election is made, the optionee will not recognize any additional income as and when the repurchase right lapses.

We will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the optionee with respect to the exercised non-statutory option. The deduction will in general be allowed for the taxable year of the Company in which such ordinary income is recognized by the optionee.

***Stock Appreciation Rights***

No taxable income is recognized upon receipt of a stock appreciation right. The holder will recognize ordinary income in the year in which the stock appreciation right is exercised, in an amount equal to the appreciation distribution. We will be entitled to an income tax deduction equal to the appreciation distribution in the taxable year in which the ordinary income is recognized by the optionee.

***Stock Issuances***

Generally, the issuance of unvested stock will not result in taxable income to the employee. Instead, upon vesting, the fair market value of such shares, less cash or other consideration paid (if any), will be included in the participant's ordinary income as compensation. Any cash dividends or other distributions paid with respect to the stock prior to vesting will also be included in the holder's ordinary income as compensation when paid. The participant may however, elect under Section 83(b) of the Internal Revenue Code, to include in his ordinary income at the time the stock is issued the fair market value of such shares less any amount paid. Any cash dividends paid thereafter will be treated as dividend income.

We will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant with respect to the stock issuance. The deduction will in general be allowed for the taxable year of the Company in which such ordinary income is recognized by the participant.

***Share Rights Awards***

No taxable income is recognized by a participant upon grant of a share right award. The participant will recognize ordinary income in the year in which the share right award vests and the underlying stock is issued to the participant, in an amount equal to the fair market value of the shares on the date of issuance. Any cash or other property paid with respect to such shares on the vesting date will also be includible in the participant's ordinary income as compensation at the time of payment. A participant may not make an 83(b) election with respect to a share right award. We will be entitled to an income tax deduction to the extent the participant recognizes ordinary income with respect to a share right award. The deduction will in general be allowed for the taxable year of the Company in which such ordinary income is recognized by the participant.

***Deductibility of Executive Compensation***

We anticipate that any compensation deemed paid by the Company in connection with the disqualifying dispositions of incentive stock option shares or the exercise of non-statutory options with exercise prices equal to the fair market value of the option shares on the grant date will qualify as performance-based compensation for purposes of Code Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation per covered individual on the deductibility of the compensation paid to certain of our executive officers. Accordingly, all compensation deemed paid with respect to those options will remain deductible by the Company without limitation under Code Section 162(m). Compensation attributable to stock issuances or share right awards granted under the



Stock Incentive Plan may or may not qualify for the performance-based compensation exception, depending upon the specific terms of each grant.

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**Required Vote**

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and voting at the Meeting is necessary to approve the amendment to the Stock Incentive Plan. Accordingly, abstentions with respect to the proposal to approve the amended Stock Incentive Plan will have the same effect as a vote against the proposal to approve the amended Stock Incentive Plan. Broker non-votes will have no effect upon the proposal.

**Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS DEEMS THE APPROVAL OF THE AMENDED STOCK INCENTIVE PLAN TO BE IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE FOR APPROVAL OF THE INCREASE IN THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE UNDER THE STOCK INCENTIVE PLAN.**

**3. APPROVAL OF THE INCREASE IN THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE UNDER THE EMPLOYEE STOCK PURCHASE PLAN**

In May 1995, the Company's stockholders approved the Company's Employee Stock Purchase Plan (the "ESP Plan"). As initially adopted, a total of 200,000 shares of Common Stock were reserved for issuance under the ESP Plan. On May 15, 2002, the Company's stockholders amended the ESP Plan to (i) increase the number of shares available under the ESP Plan by 200,000, and (ii) eliminate the January 2005 termination date of the ESP Plan. As a result of that amendment, a total of 400,000 shares of Common Stock have previously been reserved for issuance under the ESP Plan. As of March 31, 2008, 376,319 shares had been issued, leaving a total of 23,681 shares available for future purchase under the ESP Plan.

**Proposal**

On February 28, 2008, the Board of Directors adopted, subject to stockholder approval, an amendment to the ESP Plan to add an additional 200,000 shares of Common Stock to the number of shares authorized for issuance under the ESP Plan, bringing the total number of shares of Common Stock subject to the ESP Plan to 600,000. When added to the remaining shares available for issuance under the ESP Plan as of March 31, 2008, the increase will result in a total of 223,681 shares being available for future employee purchases under the ESP Plan, subject to adjustment in the event of a change in capital structure of the Company (as discussed below).

The Board of Directors believes that the approval of the amendment to the ESP Plan is in the best interests of the Company and its stockholders, as the availability of an adequate number of shares for issuance under the ESP Plan and the ability of eligible employees to acquire a proprietary interest in the Company is an important factor in attracting, motivating and retaining qualified personnel essential to the success of the Company.

**Summary of the Employee Stock Purchase Plan**

The following summary of the ESP Plan does not contain all of the terms and conditions of the ESP Plan, and is qualified in its entirety by the specific language of the ESP Plan, as amended, to increase the number of shares authorized for issuance thereunder.

**General**

*Purposes.* The ESP Plan is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The purpose of the ESP Plan is to allow eligible employees of the Company to subscribe for and purchase shares of the Company's Common Stock directly from the Company at a discounted price through payroll deductions to encourage greater employee ownership in the Company and as an incentive for continued employment.

*Administration.* The ESP Plan is administered by the Compensation Committee of the Board of Directors of the Company (the "Committee"). Subject to the specific provisions of the ESP Plan, all questions of interpretation or application of the ESP Plan are determined by the Committee and its decisions are final, conclusive and binding upon all participants. The Company pays all administrative expenses of the ESP Plan.

*Amendment and Discontinuance.* Following the end of any Purchase Period, the Board may alter, amend, suspend or discontinue the ESP Plan. However, the Board may not take the following actions with respect to the ESP Plan without receiving the prior approval of the stockholders, except for permissible adjustments in the event of certain changes in the Company's capitalization: (i) materially increase the number of shares of Common Stock issuable under the ESP Plan or the maximum number of shares purchasable per participant on any one purchase date; (ii) alter the

purchase price formula so as to reduce the purchase price payable for the shares purchasable under the ESP Plan; or  
(iii) materially increase the benefits accruing to participants under the ESP Plan or

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materially modify the requirements for eligibility to participate in the ESP Plan. Unless earlier terminated by the Board, shares of Common Stock will be offered for purchase under the ESP Plan until the earlier of (i) the date on which the maximum number of shares of Common Stock available for issuance under the ESP Plan shall have been purchased or (ii) the date on which all purchase rights are exercised in connection with an Acquisition (as defined below). Notwithstanding the date of termination determined by the preceding sentence, the Board of Directors may act to terminate the ESP Plan at the end of any Purchase Period (as defined below) under the ESP Plan.

**Eligibility and Participation**

Employees (including officers and employee directors) who are employed by the Company or any participating subsidiary on a basis which requires such employee to work more than twenty (20) hours per week for more than five (5) months per calendar year at the commencement of each six-month purchase period (a Purchase Period), are eligible to participate in the ESP Plan, subject to certain limitations imposed by the Code and certain other limitations set forth in the ESP Plan. No purchase rights will be granted to any employee who, immediately after the grant of such right, would own (or otherwise hold options or other rights to purchase) stock possessing five percent (5%) or more of the total voting power or value of all classes of stock of the Company or any parent or subsidiary corporation.

As of March 31, 2008, 103 employees were eligible to participate in the ESP Plan, and approximately 54 employees were participating. Participants participate in the ESP Plan by electing payroll deductions on or prior to the commencement of a Purchase Period that accumulate to purchase shares of Common Stock. The actual benefits, if any, to participants in the ESP Plan are not determinable prior to the purchase of shares thereunder as the value, if any, of such shares to their holders is represented by the difference between the market price of a share of Company Common Stock on the date of purchase and the purchase price of the shares, as described below.

**Purchase Periods and Payroll Deductions**

Purchase Periods run from the first business day of February to the last business day of July and from the first business day in August to the last business day of the next succeeding January in each year. Eligible employees may elect to participate in the ESP Plan on or prior to the start date of any Purchase Period. An eligible employee electing to participate may authorize payroll deductions in integral multiples of 1% of the base salary paid to such participant during the Purchase Period up to a maximum of 15% of base salary. The participant may decrease his rate of payroll deduction one time during any Purchase Period, but cannot increase the rate of deduction during the Purchase Period. Any elections to increase the rate of deduction will take effect at the beginning of the next Purchase Period. A participant may, at any time prior to the last day of the Purchase Period, terminate his right to purchase shares of Common Stock at the end of the Purchase Period, and no further payroll deductions will be collected from the participant during that Purchase Period. Payroll deductions accumulated in the terminating participant's account shall, at the participant's election, be immediately refunded to the participant or held for the purchase of shares on the last day of the next Purchase Period. Terminating participants who fail to make an election with respect to accumulated payroll deductions shall be refunded such deductions as soon as possible.

Payroll deductions are credited to accounts established in each participant's name on the books of the Company. No interest accrues on payroll deductions credited to such accounts during the Purchase Period. On the last business day of each Purchase Period, the amount in each participant's account is used to purchase whole shares of Common Stock of the Company on such purchase date. Any amount remaining in the participant's account will be carried over to the next Purchase Period, except for amounts not applied to the purchase of Common Stock because the limitations on the number of shares purchasable per participant is exceeded, which amounts will be promptly refunded to the participant after the purchase date. A participant will not acquire any stockholder rights with respect to purchase rights under the ESP Plan until shares of Common Stock are actually purchased for such participant at the end of each Purchase Period. During a participant's lifetime, rights to purchase shares of Common Stock pursuant to the ESP Plan shall be exercisable only by the participant.

**Purchase Price and Amount of Common Stock Purchased**

The purchase price per share for which shares of Common Stock will be sold at the end of a Purchase Period under the ESP Plan is the lesser of (i) 85% of the fair market value per share of the Common Stock on the start date of the Purchase Period or (ii) 85% of the fair market value per share of Common Stock on the purchase date. For purposes of the ESP Plan, the fair market value per share on any relevant date will be the closing selling price per share of

Common Stock on the date in question, as such price is reported on the Nasdaq National Market if, at the time, the Common Stock is traded on the Nasdaq National Market, or the closing selling price per share of the Common Stock on the date in question on the stock exchange determined by the Committee to be the primary market for the Common Stock, as such price is officially quoted on the composite tape of transactions on such exchange, if at the time the Common Stock is listed on any stock exchange. In either case, if there is no closing selling price for the Common

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Stock on the date in question, then the fair market value shall be the closing selling price on the immediately preceding date for which such quotation exists.

The maximum number of shares which a participant may purchase on any purchase date may not exceed 3,000 shares of Common Stock (subject to adjustment in the event of a change in the capital structure of the Company as discussed below). In addition, a participant may not purchase shares more than \$25,000 worth of Common Stock (determined on the basis of the fair market value of the Common Stock on the start date of the Purchase Period) each calendar year.

**Mergers, Acquisitions and Other Corporate Transactions**

In the event of certain acquisitions of the Company by merger or asset purchase (an Acquisition), all payroll deductions for the Purchase Period in which such Acquisition occurs will be automatically applied to the purchase of Common Stock immediately prior to the effective date of the Acquisition, subject to the limitations on purchase during any Purchase Period. The purchase price of such shares will be 85% of the lesser of (i) the fair market value of the Common Stock on the start date of the Purchase Period or (ii) the fair market value of the Common Stock immediately prior to the Acquisition. The Company will provide at least ten (10) days notice prior to any Acquisition to each participant, and each participant will have the right to terminate participation in the ESP Plan prior to the effective date of the Acquisition should a participant not wish to have shares purchased in connection with the Acquisition.

In the event of any stock split, common stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without receipt of consideration by the Company, the number of shares of Common Stock issuable under the ESP Plan and any outstanding purchase rights (and the price per share in effect under any such purchase right) is subject to adjustment in order to prevent the dilution or enlargement of benefits under the ESP Plan and such purchase rights.

**Termination of Employment or Loss of Eligibility**

If a participant's employment terminates for any reason, including death or disability, or the participant otherwise loses his status as an eligible employee, then all payroll deductions for the Purchase Period in which employment terminates or eligibility is lost are automatically refunded to the participant or the participant's estate or personal representative, as applicable.

**Federal Income Tax Information**

*The following information is a general summary of some of the current federal income tax consequences of the ESP Plan to participants and to the Company. Tax laws may change, and actual tax consequences will depend on a participant's individual circumstances as well as state and local tax laws. All participants should seek tax advice when they participate in the ESP Plan. The ESP Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Code.*

*Tax Treatment of Participants.* Under plans which qualify as employee stock purchase plans, no taxable income is recognized by the participant either upon receipt of the purchase right at the time of entry into the Purchase Period or upon the actual purchase of shares on each purchase date. All tax consequences with respect to such purchases are deferred until the participant disposes of the shares. A disposition of shares generally includes any transfer of legal title, whether by sale, exchange or gift, but does not include a transfer to a participant's spouse or a transfer to joint ownership if the participant remains one of the joint owners, or a transfer into the participant's brokerage account.

The participant's federal income tax liability upon disposition will depend on whether the participant makes a qualifying or disqualifying disposition of the purchased shares. A qualifying disposition will occur if the sale or other disposition of those shares is made after the participant has held the shares for (i) more than two years after the start date of the Purchase Period and (ii) more than one year after the actual purchase date. A disqualifying disposition is any sale or other disposition which is made prior to the satisfaction of either of these two minimum holding period requirements; provided, however, that if a participant dies while owning the shares, the transfer of the shares upon death will generally be considered a qualifying disposition.

With respect to a qualifying disposition, a participant will recognize ordinary income in the year of such disposition equal to the lesser of (i) the amount by which the fair market value of the shares on the date of the qualifying disposition exceeds the purchase price or (ii) 15% of the fair market value of the shares on the start date of

the Purchase Period in which those shares were purchased. Any additional gain recognized upon the qualifying disposition will be a long-term capital gain. If the fair market value of the shares on the date of the qualifying disposition is less than the purchase price the participant paid for the shares, there will be no ordinary income, and any loss recognized will be a long-term capital loss.

In the case of a disqualifying disposition, a participant will recognize ordinary income in the year of such disposition equal to the excess of (i) the fair market value of the shares on the purchase date over (ii) the purchase price paid for the shares. Any

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additional gain recognized upon the disqualifying disposition will be capital gain, which will be long-term if the shares are held for more than one year from the date of purchase.

*Tax Treatment of the Company.* When a participant recognizes ordinary income upon making a disqualifying disposition, the Company will generally be entitled to a tax deduction in the amount of the ordinary income. In all other cases, no deduction is allowed the Company.

**Required Vote**

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and voting at the Meeting is necessary to approve the amendment to the ESP Plan increasing the aggregate number of shares purchasable under the ESP Plan from 400,000 to 600,000. Accordingly, abstentions with respect to the proposal to approve the amended ESP Plan will have the same effect as a vote against the proposal to approve the amended ESP Plan. Broker non-votes will have no effect upon the proposal.

**Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS DEEMS THE APPROVAL OF THE AMENDED EMPLOYEE STOCK PURCHASE PLAN TO BE IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE FOR APPROVAL OF THE INCREASE IN THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE UNDER THE EMPLOYEE STOCK PURCHASE PLAN.**

**4. RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS**

The Audit Committee of the Board has appointed Ernst & Young LLP as our independent registered public accountants for the fiscal year ending December 31, 2008. Services provided to the Company by Ernst & Young LLP in fiscal 2007 are described below.

We are asking our stockholders to ratify the selection of Ernst & Young LLP as our independent registered public accountants. Although ratification is not required by our Bylaws or otherwise, the Board is submitting the selection of Ernst & Young LLP to our stockholders for ratification as a matter of good corporate practice.

Representatives of Ernst & Young LLP will be present at the Meeting to respond to appropriate questions and to make such statements as they may desire.

**Audit Fees**

In connection with the audit of the 2007 financial statements, we entered into an engagement agreement with Ernst & Young LLP which set forth the terms by which Ernst & Young LLP will perform audit services for us. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages.

Set forth below is information relating to the aggregate fees paid to Ernst & Young LLP for professional services rendered for the fiscal years ended December 31, 2007 and 2006, respectively.

	<b>2007</b>	<b>2006</b>
(1) Audit Fees	\$ 248,500	\$ 227,500
(2) Audit-related fees		
(3) Tax fees		
(4) All other fees		

It is the policy of the Audit Committee, as set forth in the Audit Committee Charter, to pre-approve, consistent with the requirements of the federal securities laws, all auditing services and non-audit services provided to the Company by its independent registered public accounting firm, other than such non-audit services as are prohibited by law to be performed by the independent registered public accounting firm and other than as provided in the de minimis exception set forth in applicable provisions of the federal securities laws. The Committee may delegate to one or more designated members of the Committee the authority to grant the required pre-approvals, provided that the decisions of any member(s) to whom such authority is delegated to pre-approve an activity shall be presented to the full Committee at each of its scheduled meetings.



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### **Required Vote**

The affirmative vote of the holders of a majority of shares of Common Stock present in person or represented by proxy and voting at the Meeting is necessary to ratify our selection of Ernst & Young LLP as our independent registered public accountants. Accordingly, abstentions will have the same effect as a vote against this proposal.

### **Recommendation of the Board of Directors**

**THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR FISCAL 2008.**

In the event our stockholders do not ratify the appointment, the appointment will be reconsidered by the Audit Committee and the Board. Even if the selection is ratified, the Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

## **CORPORATE GOVERNANCE**

The Company is governed by a Board of Directors, which currently consists of ten directors as determined by resolution of the Board in accordance with The Certificate of Incorporation. The Board has determined that eight of the ten current members (Biggar, Featheringill, Higgins, Horovitz, Seidenberg, Sherrill, Spencer, and Steer) are independent as defined by the Nasdaq Stock Market, which we call Nasdaq. During 2007, the Board appointed Dr. Horovitz as the Chairman of the Board and as such he presides over the Board meetings and any executive session of the non-management directors. During 2007, there were four executive sessions held by the independent board members.

The Board has established the Audit, Compensation, and Corporate Governance and Nominating committees to assist in the oversight of the Company. The Board has adopted charters for each of these committees, which are posted on our website at [www.biocryst.com](http://www.biocryst.com). We also make available at our website our code of business conduct, which applies to all employees of the Company as well as the members of our Board of Directors. We intend to post on our website any amendments to, or waivers from, our code of business conduct. Printed copies of these charters or our code of business conduct may be obtained, without charge, by contacting the Corporate Secretary, BioCryst Pharmaceuticals, Inc., 2190 Parkway Lake Drive, Birmingham, Alabama 35244.

### **Committees of the Board**

#### ***Audit Committee***

We have an Audit Committee, consisting of Messrs. Higgins, Sherrill and Steer, which is responsible for the review of internal accounting controls, financial reporting and related matters. The Audit Committee also recommends to the Board the independent accountants selected to be our auditors and reviews the audit plan, financial statements and audit results. The Board has adopted an Audit Committee Charter that meets all the applicable rules of Nasdaq and the Securities and Exchange Commission (SEC). The Audit Committee Charter can be found on our website at [www.biocryst.com](http://www.biocryst.com). The Audit Committee members are independent directors as defined by Nasdaq and the SEC and meet Nasdaq's financial literacy requirements for audit committee members. The Board has determined that Mr. Higgins qualifies as the audit committee financial expert, as such term is defined by the SEC. The Audit Committee met five times during 2007.

#### ***Compensation Committee***

We also have a Compensation Committee consisting of Drs. Seidenberg and Biggar and Mr. Featheringill. The Compensation Committee is responsible for the annual review of officer compensation and other incentive programs. The Board has adopted a Compensation Committee Charter that meets all the applicable rules of Nasdaq and the SEC. The Charter can be found on our website at [www.biocryst.com](http://www.biocryst.com). The Compensation Committee members are independent directors as defined by Nasdaq. The Compensation Committee held seven meetings during 2007.

#### ***Corporate Governance and Nominating Committee***

We have a Corporate Governance and Nominating Committee comprised of all independent directors, as defined by Nasdaq. The current members of the committee are Drs. Biggar, Seidenberg and Steer. The Corporate Governance and Nominating Committee selects persons for election or re-election as directors and provides oversight of the corporate governance affairs and policies of the Board of Directors and the Company. The Board has adopted a



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Charter that meets all the applicable rules of Nasdaq and the SEC. The Charter can be found on our website at [www.biocryst.com](http://www.biocryst.com). The Corporate Governance and Nominating Committee members are independent directors as defined by Nasdaq. The Corporate Governance and Nominating Committee held one meeting during 2007.

### **Selection of Board Nominees**

The Corporate Governance and Nominating Committee will consider candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. The Committee has established a procedure for submission of nominees by stockholders and will consider nominees recommended in writing, including biographical information and personal references. All submissions by stockholders should be sent directly to the Chairman of the Board, Dr. Zola P. Horovitz, at 2190 Parkway Lake Drive, Birmingham, Alabama, 35244. Suggestions of candidates for election at the 2009 Annual Meeting must be received by the Chairman by December 17, 2008. The Chairman will provide copies of all submissions to the Committee for their consideration.

The Committee reviews all submissions and evaluates them based on predetermined selection criteria to identify prospective nominees. Once the Committee has identified a prospective nominee, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the Committee with the recommendation of the prospective candidate, as well as the Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or to others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. If the Committee determines, in consultation with the Chairman of the Board and other Board members as appropriate, that additional consideration is warranted, it may request additional information about the prospective nominee's background and experience. The Committee then evaluates the prospective nominee against our director selection criteria, including:

- the ability of the prospective nominee to represent the interests of the stockholders of the Company;

- the prospective nominee's standards of integrity, commitment and independence of thought and judgment;

- the prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards; and

- the extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. In connection with this evaluation, the Committee determines whether to interview the prospective nominee, and if warranted, one or more members of the Committee, and others as appropriate, interview prospective nominees in person or by telephone. After completing this evaluation and interview, the Committee selects the director nominees for the next annual meeting of shareholders.

### **Stockholder Communications**

Stockholders interested in communicating directly with the Board, or specified individual directors, may do so by writing the Secretary of the Company, Alane P. Barnes, 2190 Parkway Lake Drive, Birmingham, Alabama, 35244. The Secretary of the Company will review all such correspondence and will regularly forward to the Board copies of all such correspondence that, in the opinion of the Secretary, deals with the functions of the Board or committees thereof or that the Secretary otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and request copies of such correspondence. Concerns relating to accounting, internal controls or auditing matters will immediately be brought to the attention of the Chairman of the Audit Committee and handled in accordance with procedures established by the Audit Committee with respect to such matters.

### **Director Attendance**

During 2007, the Board held fourteen meetings. Each member of the Board attended at least 75% of the meetings of the Board and committees of the Board of which he or she is a member, except Mr. Spencer, who attended 71% of the meetings. We encourage all members of the Board to attend the Annual Meeting of Stockholders. Six members of the Board of Directors were in attendance at the 2007 Annual Meeting of Stockholders.

**Table of Contents****Certain Relationships and Related Transactions**

During 2007, there were no relationships or related transactions requiring disclosure between the Company and any of its directors, executive officers or five percent stockholders. The Audit Committee Charter requires all related party transactions to be pre-approved by the Audit Committee.

**EXECUTIVE OFFICERS**

Below you can find information, including biographical information, about our executive officers (other than Mr. Stonehouse and Dr. Bennett, whose biographical information appears above).

<b>Name</b>	<b>Age</b>	<b>Position(s) with the Company</b>
Stuart Grant	52	Senior Vice President and Chief Financial Officer
Michael A. Darwin	46	Vice President Finance, Treasurer and Principal Accounting Officer
David S. McCullough	43	Vice President, Strategic Planning and Commercialization

*Stuart Grant* joined BioCryst in August 2007 as Senior Vice President and Chief Financial Officer. Mr. Grant was most recently Chief Financial Officer of The Serono Group from November 2004 to April 2007. From April 2007 to August 2007, Mr. Grant was on a planned three month sabbatical after the integration of Serono into Merck following the successful sale of the company. From April 2002 to November 2004, Mr. Grant served as Chief Financial Officer of Serono USA and from January 1999 to April 2002 as Vice President Corporate Finance of The Serono Group. Prior to 1999, Mr. Grant held other positions within the Serono Group, including General Manager Laboratories Serono SA and Finance Director Laboratories Serono SA. He has also held various senior finance positions in the electronics industry in various European locations.

*Michael A. Darwin* joined BioCryst in June 2000 as Controller. Effective November 1, 2002, Mr. Darwin was appointed Chief Financial Officer, Secretary and Treasurer and served in this capacity until Mr. Grant was appointed Chief Financial Officer in August 2007. Mr. Darwin continues to serve as the Principal Accounting Officer. Prior to joining BioCryst, from June 1990 to June 2000, Mr. Darwin was Chief Financial Officer of a privately held company in the food services industry. He began his career at Ernst & Young and spent six years in public accounting practice.

*David S. McCullough* David McCullough joined BioCryst in April 2007. Prior to joining BioCryst Mr. McCullough served as Director, Global Corporate Development in the Ethical Pharmaceuticals Division at Merck KGaA in Darmstadt, Germany from February 2002 to April 2007. In that position he was responsible for leading the company's efforts in evaluating the commercial value of specific product opportunities and in the case of the Serono SA acquisition, their entire company portfolio. Mr. McCullough led the commercial assessment of strategic and financial attractiveness of over 40 companies in oncology and other therapeutic areas. Prior to that position, Mr. McCullough was an integral part of the Business Operations and Market Research Team in the Oncology Business Unit of Eli Lilly and Company from June 1995 to January 2002. Mr. McCullough received his Bachelor of Science degree from Western Illinois University.

**COMPENSATION DISCUSSION AND ANALYSIS****Philosophy and Overview of Compensation**

The Compensation Committee, or Committee, of the Board of Directors has the responsibility for establishing, implementing and monitoring adherence with the Company's compensation philosophy. Our goal is to provide a compensation package that attracts, motivates and retains executive talent and is designed to align executives' interest with the Company's corporate strategies, business objectives and the long-term interests of the stockholders. We refer to the individuals who served as our chief executive officer, or CEO, and chief financial officer, or CFO, during 2007, as well as the other four individuals included in the Summary Compensation Table, as our named executive officers or NEOs.

Historically, our compensation program for executive officers has included base salary and annual grants of stock options. From time to time, we have also paid cash bonuses as a reward for recognized achievements. In addition, our executives are eligible to participate in our broad-based employee benefit programs on the same basis as other employees.

In early 2007, we began a review of our overall compensation policies and practices in light of the Company's business strategy and hired a compensation consultant to assist with this review as described below under the heading

Role of Compensation Consultants. Based upon this review, the Committee implemented an Annual Incentive Plan, or AIP, for employees at the top three

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organization levels defined by the Committee. The Committee plans to make compensation decisions for our executive officers after consideration of the following objectives:

a greater portion of total short and long term compensation should be performance-based; and

achievement of specific goals, targets and metrics relating to Company performance and individual performance should be used to help determine incentive compensation.

The Committee implemented the AIP for 2007 to achieve the objectives described above.

### **Role of the Executive Officers**

The Committee has the primary authority to determine the Company's compensation philosophy and to establish compensation for the Company's executive officers. The Committee makes all compensation decisions for the named executive officers, but the CEO provides recommendations to the Committee regarding the cash and equity awards to be paid to all named executive officers other than the CEO. The Committee reviews the performance of the named executive officers with the CEO and the Committee independently evaluates the performance of the CEO. Each named executive officer and other senior executive management team members participate in an annual performance review, which provides information about individual contributions to achievement of the Company's objectives for the period being assessed, in addition to achievement of their own individual objectives. The Committee performs an annual review of the performance of our CEO and our senior executive management team as a group.

### **Role of Compensation Consultants**

In early 2007, the Compensation Committee engaged Compensia, a compensation consulting firm, to conduct a competitive compensation analysis of the CEO position and the VP, Strategic Planning and Commercialization position. The competitive data from these two analyses provided base salary and total compensation data that enabled the Committee to extend competitive offers to Mr. Stonehouse and Mr. McCullough. In April 2007, BioCryst engaged LCG Group, a compensation firm, to perform a competitive compensation analysis of the Company's overall compensation practices and to also provide competitive data on the CFO position. Results of the competitive analysis of the CFO position were used to develop a competitive offer to Mr. Grant. Results of the overall analysis performed by LCG Group did not impact 2007 base salary decisions for existing named officers, but did impact the annual cash incentive awards for performance in 2007 and base salary decisions for 2008. The overall analysis conducted by LCG Group focused on the evaluation of all positions within BioCryst, establishing appropriate organization levels within the Company and to determine the competitive range of compensation, including both cash and stock, for each of the organization levels. In addition, LCG Group was assigned the task of advising the Committee on the design and implementation of a compensation plan for all organizational levels to meet the objectives of having a greater portion of compensation related to performance and based on achievement of established corporate and individual objectives. One of LCG Group's findings was that the absence of an annual cash incentive at the executive level represented a competitive shortfall and that such a plan is typically used to drive specific annual Company goals. As a result of this analysis, in November 2007 the Board approved the AIP to begin with the 2007 fiscal year and an Executive Relocation Policy, both of which are described in more detail below.

### **2007 Elements of Executive Compensation**

The Company's 2007 compensation program for executive officers was primarily comprised of the following four elements:

base salary;

annual incentive compensation;

long-term equity incentive awards; and

other employee benefits.

#### *Base Salary*

The Company provides our named executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. In determining the base salary amount for each named executive officer, the

Committee primarily considers:



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industry experience, knowledge and qualifications;

salary levels in effect for comparable positions within the Company's principal industry marketplace competitors;

internal review of the executive's compensation, both individually and relative to other officers; and

individual performance of the executive.

Base salary amounts are typically reviewed annually as part of the Company's performance review process as well as upon a promotion or other change in job responsibility. For 2007, each of our named executive officers, other than those who joined the Company during 2007, received an increase in base salary of 4 to 5%, primarily in recognition of the continuing advancement of the Company's clinical programs during 2006.

For Mr. Stonehouse, who was hired as our new CEO during 2007, the Committee used a search firm to identify candidates and retained Compensia to prepare a competitive compensation analysis of this position based on a review of proxy statement data from 27 comparably sized biotechnology companies divided into two groups: one with newly hired CEOs and one with standing CEOs. The companies included in this review who recently hired CEOs were Altus Pharmaceuticals, Immune Response, Infinity Pharmaceuticals, Isolagen, La Jolla Pharmaceutical Company, Memory Pharmaceuticals, Neopharm, Sequenom and Solexa. The companies included in this review with standing CEOs were Achillion Pharmaceuticals, Alnylam Pharmaceuticals, Curis, Dendreon, Dynavax Technologies, Inhibitex, Inmed, Introgen Therapeutics, Isis Pharmaceuticals, Northfield Laboratories, Novavax, Nps Pharmaceuticals, Rigel Pharmaceuticals, Seattle Genetics, Targeted Genetics, Tercica, Trimeris and Trubion Pharmaceuticals. Based on this review, Mr. Stonehouse was offered a compensation package that was generally targeted at the 50<sup>th</sup> percentile.

For Mr. McCullough, who was hired as our Vice President, Strategic Planning and Commercialization during 2007, Compensia conducted a competitive analysis of this position based on a review of proxy statement data from 17 comparably sized biotechnology companies: Accelrys, Adolor, Allied Healthcare Products, Altus Pharmaceuticals, Antares Pharmaceuticals, Biolase Technology, Coracutus Genetics, Entremed, Occulogix, Orthologic, Oscient Pharmaceuticals, Penwest Pharmaceuticals, Peregrine Pharmaceuticals, Santarus, Savient Pharmaceuticals, Sirna Therapeutics and Zila. This group of companies differed from those included in the CEO assessment discussed above because Compensia focused its assessment on comparable biotechnology companies that had recently hired a Vice President with a similar job profile to Mr. McCullough's position. Compensia also consulted the Radford Biotechnology Survey, a survey of the majority of the biotechnology companies across the country, focusing on comparable positions at comparably sized companies with 50-150 employees, to supplement its review with respect to data on target bonus levels. Based on this review, Mr. McCullough's base salary was targeted at the 25<sup>th</sup> percentile, but his equity incentive plan compensation exceeded the 75<sup>th</sup> percentile. The Committee desired to provide increased emphasis on long-term compensation and also took into consideration the compensation he was receiving from his previous employer.

For Mr. Grant, who was hired as our CFO during 2007, LCG Group prepared a competitive compensation analysis to assist the Committee in determining the appropriate compensation package for the CFO. This competitive compensation analysis was developed using the Radford Biotechnology Survey, focusing on comparable positions at comparably sized companies with 50-150 employees. Based on this review and Mr. Grant's experience and current compensation levels, his compensation package of base salary and equity grants was generally targeted at or above the 75<sup>th</sup> percentile.

*Annual Incentive Compensation*

It is the Committee's objective to have a substantial portion of each officer's compensation contingent upon the Company's performance as well as upon his or her own level of performance and contribution towards the Company's performance. Historically, we have awarded cash bonuses from time to time based upon the Committee's discretionary review of the particular executive's performance during the year or upon achievement of significant major milestones or objectives, such as a large corporate partnership.

In November 2007, the Board of Directors, upon the recommendation of the Committee, approved the AIP effective beginning with the 2007 fiscal year. The AIP was implemented to achieve the objectives of increasing the

amount of performance-based compensation and rewarding the achievement of Company and individual performance objectives. The AIP provides incentive targets and ranges for employees of the company who are Executive Directors and above, including the NEOs. For 2007, management, with the approval of the Committee, established certain corporate objectives and each individual developed personal objectives to help achieve the corporate objectives. The corporate objectives established for 2007 were non-financial and were primarily related to the continued progression of both our clinical and non-clinical programs. Each individual's objectives were prepared in conjunction with the corporate objectives and were designed to promote the execution of the corporate objectives. The AIP includes individual incentive ranges, with a minimum, target and maximum incentive opportunity that varies by participant. Overall funding is based on the Company's performance against the current year corporate objectives and may range from \$0 to an

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amount above the sum of the individual targets for exceptional Company performance. Distributions under the AIP relative to the incentive ranges are based on individual performance and all awards under the plan are settled in cash. All awards are determined by the Committee. For the CEO, the annual incentive range is 0% (minimum), 50% of base salary (target), and 75% of base salary (maximum). For Dr. Bennett, the annual incentive opportunity range is 0% (minimum), 25% of base salary (target), and 30% of base salary (maximum). Dr. Alexander's employment agreement provides for an annual incentive opportunity range of 0% (minimum), 25% of base salary (target), and 40% of base salary (maximum). The employment agreements of Messrs. Grant and McCullough provide for an annual incentive opportunity range of 0% (minimum), 30% of base salary (target), and 30% of base salary (maximum). For Mr. Darwin, the annual incentive opportunity ranges from 0% (minimum), 20% of base salary (target), and 25% of base salary (maximum). Mr. Riggs was not eligible since he had left the Company before the AIP was approved.

Based on achievement of approximately 50% of the corporate objectives for 2007, the amounts paid for 2007 were below the target range for each of the named executive officers, with the exception of Mr. Grant who received \$39,250 which was slightly above the maximum of \$37,500, the prorated amount for 2007 since his employment began in August 2007. The Committee determined this excess was reasonable based on his significant contributions to the Company. The AIP provides for an overall pool of funding based upon the achievement of the corporate objectives, but after the final pool is established the allocation is determined by the Committee based upon each executive officer's level of performance against their objectives. In setting the annual incentive ranges for the named executive officers, management determined that payout at the target level should be challenging, but achievable and that payout at the maximum level should be difficult. For 2007, the CEO received \$110,000, Dr. Bennett received \$36,091, Dr. Alexander received \$0, Mr. McCullough received \$33,252, prorated for his employment date of April 2, 2007, and Mr. Darwin received \$21,717. Earlier in 2007, Dr. Alexander had received a bonus of \$65,000 in accordance with the terms of his employment letter agreement. The Annual Incentive Plan provides that if the employment of a participating employee is terminated as a result of death, retirement or permanent disability, the employee is eligible to receive a pro rata award based on his or her base salary on the date of separation during the plan year in which the employee was considered an active employee and the number of whole months actually worked. In all other circumstances, absent provisions to the contrary in an employment agreement, all awards are forfeited if an employee voluntarily or involuntarily terminates employment with the Company before the annual incentive awards are paid.

*Special Retention Incentives*

In October 2006, the Committee approved cash bonuses to each of the named executive officers employed by the Company on that date, except Dr. Charles E. Bugg, our former CEO, and also approved a special discretionary grant of stock options for 12,000 shares for Mr. Randall B. Riggs, our former Senior Vice President of Business Development, effective November 1, 2006. These bonuses and stock option grants were awarded as retention incentives to encourage the executive to remain employed through April 1, 2007, in light of the announcement of the pending retirement of Dr. Bugg as CEO, effective in 2007 after a successor had been named. The cash bonuses for each of the named executive officers were paid after April 1, 2007 and are therefore reported as compensation earned for the 2007 fiscal year.

*Long-Term Equity Incentive Awards*

The Company's officers, along with all other Company employees, are eligible to participate in the Company's periodic awards of stock options and other stock grants. Awards granted under the Stock Incentive Plan are designed to:

enhance the link between creation of stockholder value and long-term executive compensation;

provide an opportunity for increased equity ownership by executives, which increases the alignment of the financial interests of our executive officers and our stockholders; and

maintain competitive levels of total compensation.

The Committee has historically granted equity awards to all employees and executives on an annual basis, which for the last several years has been the date of the Company's Annual Meeting. In May 2007, following a

comprehensive review by the Committee of management's goals for 2007 we granted stock option awards to our named executive officers, other than Messrs. Stonehouse, McCullough and Grant, who received grants in connection with their initial employment by the company as detailed below, and Dr. Bugg, who resigned as CEO in January 2007. The total award granted for 2007 was based on a formula consisting of each employee's performance rating, salary, and for executive officers, the Committee applies an officer factor designed to reflect the additional responsibilities of the executive officers. Management provided the Committee with a recommended size of the option pool to be awarded to all employees, including our named executive officers, and recommended individual grants using the following formula:

Salary x Performance Score x Factor per employee

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÷ Sum of: Salary x Performance Score x Factor for all employees

x The number of shares included in the option pool

= The number of shares subject to the option

For non-executive employees, a factor of 1.00 is used unless the position is part-time or the individual is a new employee. A factor of 1.20 is used for the executive officers. The Committee has full discretion to review and change any components of the proposal offered by management. The Committee exercised such discretion with respect to 2007 grants recommended by the CEO for the other NEOs by adjusting the proposed performance score, which reduced the number of grants awarded to these individuals. This was done by the Committee as their independent evaluation of performance of the NEOs was different than the performance level determined by the CEO.

Mr. Stonehouse received initial grant of options to purchase 450,000 shares of common stock and 50,000 shares of restricted stock in connection with his hire by the Company. The shares of restricted stock will vest in two installments, with the first installment vesting two years after his start date with the Company and the second installment vesting four years after his start date. Mr. Grant received an initial grant of options to purchase 200,000 shares of common stock in connection with his hire by the Company. The options granted to both executives were issued under and subject to the terms of the Stock Incentive Plan, as described below. Mr. McCullough received an initial grant of options to purchase 150,000 shares and 10,000 shares of restricted stock in connection with his hire by the company, which were granted outside the Stock Incentive Plan as an inducement to his joining the Company. The Committee believes these awards were an important factor in attracting Messrs. Stonehouse, Grant and McCullough to the Company.

Stock options granted under the Stock Incentive Plan generally have a four year vesting schedule to provide a long-term incentive for continued employment. The options generally expire ten years after the date of the grant. This provides a reasonable time frame during which the executive officers and other employees who receive grants can benefit from the appreciation of the Company's shares. The exercise price of options granted under the Stock Incentive Plan cannot be less than 100% of the fair market value of the underlying stock on the date of grant.

As a result of the implementation of a more performance-based compensation program as discussed above, the Committee has also decided to use the performance assessment for each individual to assist it in the determination of future stock option grants made after 2007.

*Other Elements of Compensation*

In order to attract, retain and pay market levels of compensation, we offer broad-based retirement, health and welfare employee benefits to our eligible employees, including our named executive officers, subject to the terms and conditions of each benefit program. Our named executive officers are eligible to participate in these benefits on the same basis as other full-time employees.

*Medical Insurance.* The Company makes available to eligible employees and their dependents group health, dental and vision insurance coverage.

*Life and Disability Insurance.* The Company makes available disability and life insurance at coverage levels based upon the employee's level of compensation. In addition, as part of Mr. Stonehouse's employment agreement, he is entitled to have either a \$1 million life insurance policy payable to his beneficiary upon death, or, if there is no policy in place, we are required to pay his beneficiary \$1 million. As of December 31, 2007, no such policy had become effective.

*Defined Contribution Plan.* The Company offers a retirement plan designed to meet the requirements under Section 401(k) of the Internal Revenue Code. The 401(k) plan permits eligible employees to defer from 1% to 30% of their annual eligible compensation, subject to certain limitations imposed by the Internal Revenue Code. Employee elective deferrals are immediately vested and non-forfeitable. The Company makes matching contributions equal to the first 5% of the employee elective deferrals, which vest over a period not to exceed 6 years.

*Stock Purchase Plan.* The Company sponsors a broad-based employee stock purchase plan (the ESP), designed to meet the requirements under Section 423 of the Internal Revenue Code. The ESP permits employees to purchase Company stock at a discount through payroll deductions. ESP participants are granted a purchase right to acquire shares of common stock at a price that is 85% of the stock price on either the first day of the stock purchase period or

the last day of the stock purchase period, whichever is lower. The purchase dates occur on the last business days of January and July of each year. To pay for the shares, each participant may authorize periodic payroll deductions from 1% to 15% of the employee's cash compensation, subject to certain limitations imposed by the Internal Revenue Code. All payroll deductions collected from the participant during the purchase period are automatically applied to

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the purchase of common stock on the dates indicated above provided the participant remains an eligible employee and has not withdrawn from the ESP prior to the purchase date.

*Other.* The Company makes available certain other fringe benefits to executive officers and other employees, such as tuition reimbursement and payment of professional dues. The aggregate amount of these benefits was less than \$10,000 for each NEO during 2007.

*Executive Relocation Policy.* In November 2007, the Board approved the Committee's recommended adoption of an Executive Relocation Policy (the Policy) for certain new employees of the company, including executive officers. The Policy provides for a house hunting trip, temporary living and trips home up to 90 days, home selling support or direct reimbursement for some selling expenses, moving costs and temporary storage of goods, customary closing expenses on the new home, a miscellaneous allowance of 1 month's salary, not to exceed \$5,000, and gross up of all taxable expenses. The Policy requires 100% repayment of benefits if the employee leaves or is terminated for cause within 12 months from the hire date. None of the named executive officers received benefits under this Policy during 2007. Mr. Grant's initial employment agreement was amended in November 2007 to provide reimbursement for certain expenses related to his commuting and temporary living as he was not participating under the Policy.

**Employment Agreement of CEO**

Mr. Stonehouse entered into a one-year employment agreement with the Company on January 5, 2007 that automatically renews for successive annual terms. Mr. Stonehouse's minimum annual compensation is \$400,000 with the potential to earn a cash bonus of up to \$300,000 based on the Company's achievement of performance related goals. In addition, Mr. Stonehouse is entitled to receive reasonable vacation, sick leave, medical benefits, \$1,000,000 of life insurance during the term of his employment, participation in profit sharing or retirement plans, payment of fees for his participation in the advisory council at Duke University, and reimbursement for reasonable attorneys fees incurred in connection with the negotiation of his employment agreement. His agreement also provided for the stock option and restricted stock awards described above under the heading Long-Term Equity Incentive Awards.

In the event of a change in control as defined by the agreement, all outstanding options would become immediately vested. If Mr. Stonehouse's employment is terminated by the Company without cause, upon non-renewal of the term by the Company, as a result of constructive termination, or by the Company as a result of disability, all compensation earned through the termination date will be paid to him. In addition, by signing a release of any and all claims against the Company, resigning from the Board, and returning to the Company all of its property and confidential information in his possession, Mr. Stonehouse will receive: severance in an amount equal to the product of (x) two, except in the event termination occurs before January 5, 2008, in which case the severance multiplier shall be one, and (y) the sum of (1) annual base salary in effect immediately prior to the date of termination, and (2) the target bonus in effect for the fiscal year of termination; and the Company shall pay the monthly premium under COBRA health insurance coverage until the earlier of twelve months following the date of termination or the date upon which COBRA continuation coverage ceases. The termination provisions of Mr. Stonehouse's agreement are set forth in more detail under the heading Potential Payments Upon Termination or Change in Control.

Dr. Bugg entered into a three-year employment agreement with the Company on March 17, 2004. Under the terms of the agreement, Dr. Bugg served as Chairman of the Board of Directors and Chief Executive Officer of the Company. Effective January 5, 2007 upon the hiring of Jon Stonehouse as Chief Executive Officer, Dr. Bugg relinquished the title of CEO, but continued to serve as an employee through March 17, 2007. Following March 17, 2007, Dr. Bugg continued to serve as Chairman of the Board of Directors of the Company until the 2007 Annual Meeting. Under the terms of his agreement, Dr. Bugg was to receive minimum annual compensation of \$400,000. Dr. Bugg was also to receive, on or before the last day of each year during the term of his agreement, an additional option to purchase a minimum of 25,000 shares. The exact number of shares was to be determined by the Committee, based on Dr. Bugg's performance and the results of operations of the Company during such year.

**Employment Agreements of Other Named Executive Officers**

The stock option provisions for the other named executive officers are the same as all other employees, except for Mr. McCullough, who in addition to the stock option grants received with terms that are the same as all other employees, also received a restricted stock grant of 10,000 shares. The restricted stock vests 25% after the first year of employment and 1/48th per month thereafter until fully vested after four years. In the event of termination of service

other than on account of death or disability, each executive has three months to exercise any options exercisable prior to the termination in service. In the event of permanent disability, the executive will be able to exercise all outstanding options vested at the time of such disability in their entirety within the earlier of 12 months or the expiration of the option. In the event of death, the executor of his estate will be able to exercise all of the outstanding options in their entirety within the earlier of 12 months or the expiration of the option. If the executive has completed five years of service, all outstanding options vest in their entirety at death, but with less than five years of service only the portion of the option that was exercisable at the time of death will be exercisable during the 12 month period. As with all employees, if the



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executive is no longer an employee of the Company, but prior to the last date of employment continues service with the Company in another capacity, such as service as a consultant or service as a member of the Board of Directors, his outstanding options continue to vest and be exercisable until three months after separation from such service or expiration of the option.

W. James Alexander, Stuart Grant, David S. McCullough and Randall B. Riggs are the only other named executive officers with employment Agreements. The terms of their options are the same as those discussed above for the other named executive officers.

Under Dr. Alexander's agreement, he is entitled to a base salary of at least \$320,000, a signing bonus of \$45,000 upon joining and a minimum 2006 bonus of \$45,000, relocation expenses of up to \$50,000, an option grant for 300,000 shares and is eligible for an annual incentive bonus of up to 40% of his annual salary, with the amount of such bonus to be determined by the Committee in its sole discretion. The annual incentive bonus is payable in a combination of cash and stock options.

Under Mr. Grant's agreement, he is entitled to a base salary of \$375,000, an option grant for 200,000 shares and is eligible for an annual cash bonus of up to 30% of his base salary. Mr. Grant's agreement was amended effective November 7, 2007 to provide that in lieu of the Company's standard relocation benefits, Mr. Grant is entitled to certain travel perquisites related to his maintenance of his residence in Boston. In the event Mr. Grant sells his residence in Boston, he is entitled to additional benefits under the Company's relocation policy, reduced by the amounts previously paid to Mr. Grant under the terms of his amended employment agreement. If Mr. Grant is terminated without cause, by signing a release of any and all claims against the Company and returning to the Company all of its property and confidential information in his possession, Mr. Grant will receive: continuation of his base salary for one year beyond the termination date; payment of his target bonus in effect for the fiscal year of termination; and the Company shall pay the monthly premium under COBRA health insurance coverage until the earlier of six months following the date of termination or the date upon which Mr. Grant commences employment with another entity. Mr. Grant is also entitled to compensation upon a Change of Control under certain circumstances. The termination provisions of Mr. Grant's agreement are set forth in more detail under the heading Potential Payments Upon Termination or Change in Control.

Under Mr. McCullough's agreement, he is entitled to a base salary of \$215,000, an option grant for 150,000 shares and a restricted stock grant of 10,000 shares. Mr. McCullough is also entitled to a bonus based on a target amount equal to 30% of his base compensation. If Mr. McCullough is terminated without cause, by signing a release of any and all claims against the Company and returning to the Company all of its property and confidential information in his possession, Mr. McCullough will receive continuation of his base salary for one year beyond the termination date and the Company shall pay the monthly premium under COBRA health insurance coverage until the earlier of six months following the date of termination or the date upon which Mr. McCullough commences employment with another entity. Mr. McCullough is also entitled to compensation upon a Change of Control under certain circumstances. The termination provisions of Mr. McCullough's agreement are set forth in more detail under the heading Potential Payments Upon Termination or Change in Control.

Under Mr. Riggs' agreement, he was entitled to a base salary of at least \$255,000, and was granted an option for 80,000 shares.

Upon termination, each named executive officer is entitled to receive amounts earned during the term of employment. These items are: unused vacation pay, vested amounts payable under the Company's 401(k) plan, and the ability to exercise any outstanding vested stock options for a period of three months following the final date of employment.

In addition, upon death or disability, the executive, or beneficiary in the event of death, will receive benefits under the Company's disability benefit program or payments under a life insurance policy, as applicable.

The standard stock option terms for all optionees, including the named executive officers, provides for full acceleration of vesting upon certain events. Full acceleration is automatic upon a change in control not approved by stockholders, such as: (i) acquisition of over 50% of the combined voting power of the Company, and (ii) change in composition of the Board over a period of 24 consecutive months or less such that a majority of the Board members ceases as a result of one or more contested elections. In the event of an acquisition such as: (i) a merger or

consolidation, (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company in liquidation or dissolution of the Company, or (iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such merger, then the unvested options of the optionees are accelerated unless the options are assumed by the acquiring company. These provisions are superseded by the provisions of the employment agreements of the named executive officers, if applicable, as described under the heading Potential Payments Upon Termination or Change in Control.

From August 2002 through January 2004, J. Claude Bennett took a voluntary salary reduction in the amount of \$107,848. This salary reduction is to be paid to him in the event of a change in control of the Company.

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**Policy Regarding Tax Deductibility of Compensation**

As part of its role, the Committee reviews and considers the compensation programs for compliance with Section 162(m) of the Internal Revenue Code, which limits the Company's federal tax deduction for compensation paid to covered employees unless the compensation satisfies the exception for performance-based compensation. Options granted under the Stock Incentive Plan are expected to be fully deductible for federal income tax purposes. Compensation attributable to stock issuances or share right awards under the Stock Incentive Plan may or may not qualify for the performance-based compensation exception, depending upon the specific terms of each grant. For 2007, the compensation paid in cash to the Company's executive officers did not exceed the \$1 million limit per officer. The Committee does not anticipate that the compensation to be paid in cash to the Company's executive officers for fiscal 2008 will exceed that limit.

**Policy with Respect to Equity Compensation Awards**

The Company grants all equity incentive awards based on the fair market value as of the date of grant. The exercise price for stock option grants and similar awards is determined by reference to the last quoted price per share on the NASDAQ Global Market at the close of business on the date of grant. Beginning on January 1, 2006, the Company began accounting for stock-based payments in accordance with the requirements of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R).

**Table of Contents****SUMMARY COMPENSATION TABLE**

The following table sets forth the total compensation awarded, paid to or earned by the individuals who served as the Company's Chief Executive Officer, Chief Financial Officer during 2007, along with the next three most highly compensated executive officers during 2007.

Name and Principal Position	Year	Salary (\$)	Bonus \$(1)	Stock Awards \$(2)	Non-Equity Incentive		Total (\$)
					Option Award \$(2)	Plan Compensation (\$)	
Jon P. Stonehouse, <i>President, Chief Executive Officer and Director</i> (4)	2007	394,110		147,625	876,375	110,000	1,540,985
Charles E. Bugg, Ph.D., <i>Former Chief Executive Officer</i> (6)	2007	170,991			254,827		494,400
Stuart Grant, <i>Senior Vice President and Chief Financial Officer</i> (8)	2006	453,384			237,745		702,129
Michael A. Darwin, <i>Vice President Finance &amp; Treasurer (Former Chief Financial Officer)</i>	2007	132,212	25,000		152,292	39,250	359,770
J. Claude Bennett, M.D., <i>Chief Operating Officer</i>	2006	235,519	25,000		130,817	21,717	424,303
W. James Alexander, M.D., MPH, <i>Senior Vice President and Chief Medical Officer</i> (10)	2006	224,232			116,428		351,660
Randall B. Riggs, <i>Senior Vice President Business Development</i> (11)	2007	360,912	25,000		200,670	36,091	633,923
David S. McCullough, <i>Vice President, Strategic Planning and Commercialization</i>	2006	347,016			172,822	11,000	530,838
	2007	335,040	65,000		682,679		1,093,969
	2006	172,317	90,000		388,063	4,000	654,380
	2007	250,810	25,000		173,665	11,250	460,725
	2006	290,016	60,000		258,221	11,000	619,237
	2007	161,262		15,375	147,656	33,252	357,545

(1) During 2007, Dr. Bennett, Mr. Riggs and Mr. Darwin were each paid a \$25,000 retention bonus approved by the Compensation Committee in 2006 upon the announced

retirement of Dr. Bugg. These bonuses were payable if these executive officers remained employed as of April 1, 2007. The 2007 bonus for Dr. Alexander was part of his employment agreement. For Dr. Alexander, the amount shown for 2006 includes a bonus earned in 2006, but paid in 2007. For Mr. Riggs, the amount shown for 2006 was earned and paid in 2006.

- (2) These amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal years ended December 31, 2007 and December 31, 2006 in accordance with SFAS 123R of awards pursuant to the Stock Incentive Program and thus include amounts from awards granted in and prior to 2007 and 2006, respectively, except that estimated

forfeitures have  
been disregarded.

For

Mr. McCullough,  
these amounts  
include options  
and restricted  
stock given to  
him outside the  
Stock Incentive  
Program as an  
inducement for  
his employment.

Assumptions used  
in the calculation  
of these amounts  
are included in  
Note 8 to the  
Company's  
audited financial  
statements for the  
year ended  
December 31,  
2007, which are  
included in the  
Company's  
Annual Report on  
Form 10-K filed  
with the  
Securities and  
Exchange  
Commission on  
March 4, 2008  
and in Note 7 to  
the Company's  
audited financial  
statements for the  
year ended  
December 31,  
2006, which are  
included in the  
Company's  
Annual Report on  
Form 10-K filed  
with the  
Securities and  
Exchange  
Commission on  
March 14, 2007.

(3)

Except as otherwise indicated, the amounts shown reflect the Company contribution for the executive to the 401(k) plan.

- (4) Mr. Stonehouse joined the Company on January 5, 2007.
- (5) Includes Company contributions to the 401(k) plan of \$11,250 and \$1,625 of legal fees paid in accordance with his employment agreement for the negotiation of that agreement.
- (6) Dr. Bugg resigned as Chief Executive Officer of the Company on January 5, 2007. His employment with the Company continued pursuant to his employment agreement until March 17, 2007. After that time he was no longer an employee of the Company but served as the non-executive Chairman of the Company until the 2007 Annual Meeting of

Stockholders.

- (7) Includes Company contributions to the 401(k) plan of \$6,876 and a fee of \$4,000 for his service as non-executive Chairman of the Company, which was the pro-rated retainer fee for the non-executive Chairman. Also includes continuing health and dental benefits after his retirement through October 2007 in the amount of \$5,206. Effective May 16, 2007, Dr. Bugg began receiving



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\$7,000 per month for his service as a consultant as Chairman of the Company's Scientific Advisory Board. For 2007, this amount totaled \$52,500.

- (8) Mr. Grant joined the Company effective August 27, 2007.
- (9) Includes \$36,016 of grossed-up temporary living expenses and commuting expenses in accordance with the terms of his amended employment agreement, of which \$16,099 is the tax gross-up amount.
- (10) Upon the January 2008 appointment of Thomas J. Simon as Interim Chief Medical Officer, Dr. Alexander assumed the title of Vice President, Clinical Development

and is no longer  
an executive  
officer of the  
Company.

- (11) Mr. Riggs  
resigned from  
the Company  
effective  
October 12,  
2007.

#### GRANTS OF PLAN-BASED AWARDS IN 2007

The following table provides information about plan-based awards granted during 2007 to our named executive officers.

Name	Grant Date	Commitment Date	Threshold (\$)	Target (\$)	Maximum (\$)	All Other Stock Awards: Number of Shares of	All Other Option Awards: Number of Underlying Options	Exercise or Base Price of Option Awards (\$/Sh)(2)	Grant Date Fair Value of Stock and Option Awards (\$)(3)
Jon P. Stonehouse	1/5/07	1/3/07							3,505,500
	1/5/07	1/3/07				50,000(5)			590,500
				200,000	300,000				
Charles E. Bugg(6)	3/18/07						3,333(7)	9.23	20,231
Stuart Grant	8/27/07	7/23/07					200,000(4)	11.39	1,462,000
				31,250	37,500				
Michael A. Darwin	5/16/07						12,244(4)	7.98	62,689
J. Claude Bennett	5/16/07						28,288(4)	7.98	144,835
W. James Alexander	5/16/07						20,425(4)	7.98	104,576
Randall B. Riggs(9)	3/30/07						5,000(4)	8.37	26,800
	5/16/07						23,868(4)	7.98	122,204
David S. McCullough	4/2/07	3/16/07				10,000(8)			82,000
	4/2/07	3/16/07					150,000(4)	\$ 8.20	787,500
				48,375	48,375				

- (1) Represents possible payouts under our 2007 AIP. The amount shown in the target column

represents the incentive payment that will be earned if 100% of the performance objectives are achieved. The amount shown in the maximum column represents the maximum amount payable under the AIP. There is no specific threshold amount payable for minimal performance under the AIP. Payout could be zero if specified corporate or individual objectives are not met. The actual amount earned by each named executive officer in 2007 is reported in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table. The amounts in these columns represent prorated amounts in the case of Mr. McCullough and Mr. Grant who began employment in April 2007 and August 2007, respectively.

- (2) The exercise price is the closing market price of our common stock on the grant date.
- (3) See the Summary Compensation Table above for more information about the assumptions used to determine these amounts.
- (4) Such options vest at a rate of 25% after year 1 and 1/48 per month thereafter such that all are fully vested after 4 years and have a term of 10 years.
- (5) Restricted stock vests in two equal installments, with the first vesting on January 4, 2009 and the second vesting on January 4, 2011. Holders of restricted stock are entitled to receive any dividends paid on our common stock.
- (6) Represents an automatic non-employee director grant made to Dr. Bugg upon

becoming a non-employee director as of March 18, 2007.

He was not employed when the AIP was approved so he was not eligible to receive any incentive compensation under the AIP.

- (7) Such options vested on 5/18/2007 and have a term of 10 years.
- (8) Restricted stock vests 25% after year 1 and 1/48 per month thereafter until fully vested after 48 months. Holders of restricted stock are entitled to receive any dividends paid on our common stock.
- (9) Mr. Riggs was no longer employed when the AIP was approved so he was not eligible to receive any incentive compensation under the AIP.

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**OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2007**

The following table summarizes the equity awards we have made to our named executive officers which are outstanding as of December 31, 2007.

Name	Number of Securities	Option Awards(1)			Stock Awards	
		Number of Securities			Market Value of	
		Underlying	Unexercised Options	Option Exercise	Option Expiration	Number of Shares of Stock That Have
	Underlying Unexercised	Unexercised Options	Option Exercise	Option Expiration	Number of Shares of Stock That Have	Shares of Stock That Have Not