

BIOCRYST PHARMACEUTICALS INC

Form PRE 14A

March 30, 2007

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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:

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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**BIOCRYST PHARMACEUTICALS, INC.**  
**2190 Parkway Lake Drive**  
**Birmingham, AL 35244**  
**NOTICE OF ANNUAL MEETING OF**  
**STOCKHOLDERS TO BE HELD MAY 16, 2007**

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 Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama on Wednesday, May 16, 2007 at 3:00 p.m., Central Daylight Time, for the following purposes:

1. To elect two (2) 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 5,944,274;
3. To approve an amendment of our Certificate of Incorporation to increase the authorized Common Stock from 45,000,000 to 95,000,000 shares;
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 20, 2007 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, 2006 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

Michael A. Darwin, Secretary

Birmingham, Alabama April 13, 2007

**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 Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama on Wednesday, May 16, 2007 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 13, 2007.

**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 amendment to our Certificate of Incorporation to increase the authorized common stock; (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 the Stock Incentive Plan, FOR the approval of the amendment of our Certificate of Incorporation, FOR the ratification of the selection of Ernst & Young as our independent registered public accountants for 2007 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 20, 2007, the record date for the Meeting (the Stockholders ) will be entitled to notice of and to vote at the Meeting. At March 20, 2007, there were 29,342,854 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.

**Table of Contents****Required Votes, Abstentions, and Broker Non-Votes**

The affirmative vote of the holders of a plurality of the shares of Common Stock present in person or represented by proxy at the Meeting is necessary to elect each of the nominees for director named in the Proxy Statement. Accordingly, abstentions and broker non-votes with respect to the election of directors will have no effect upon 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; and (2) the proposal to ratify our selection of Ernst & Young LLP as our 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.

The affirmative vote of the holders of a majority of the shares of Common Stock outstanding is necessary to approve the amendment to our Certificate of Incorporation. Accordingly, abstentions and broker non-votes with respect to this proposal will have the same effect as a vote against this proposal.

**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 \$8,000.

**ITEMS TO BE VOTED ON****1. ELECTION OF DIRECTORS**

The Board has by resolution established the current number of directors of the Company at twelve (12), to be reduced to ten (10) immediately after the Annual Meeting. It is proposed to elect two (2) directors to serve until the annual meeting of stockholders in 2010, 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 2010:

**NOMINEES FOR 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	37	Director	2004
Beth C. Seidenberg, M.D.	49	Director	2005

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

**DIRECTORS WITH TERMS EXPIRING AT THE ANNUAL MEETING OF STOCKHOLDERS IN 2008**

<b>Name</b>	<b>Age</b>	<b>Position(s) with the Company</b>	<b>Served as Director Since</b>
William W. Featheringill	64	Director	1995
Joseph H. Sherrill, Jr.	66	Director	1995
William M. Spencer, III	86	Director	1986
Jon P. Stonehouse	46	Chief Executive Officer and Director	2007

**Table of Contents****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.	73	President, Chief Operating Officer and Director	1997
Stephen R. Biggar, M.D., Ph.D.	36	Director	2005
Zola P. Horovitz, Ph.D.	72	Director	1994
Randolph C. Steer, M.D., Ph.D.	57	Director	1993

*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 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 ) since May 2005. Prior to joining KPCB, Dr. Seidenberg served as Amgen's Chief Medical Officer and Senior Vice President, Global Development from January 2002 to December 2004, at Bristol-Myers Squibb Company as Senior Vice President, Global Development from September 2001 to January 2002, Senior Vice President, Clinical Development & Life Cycle Management from May 2000 to September 2001 and Vice President, Clinical Immunology/Pulmonary/Dermatology from April 2000 to May 2000 and at Merck/Merck Research Laboratories as Vice President, Pulmonary-Immunology from July 1998 to March 2000, Executive Director from March 1996 to June 1998, Senior Director from September 1993 to February 1996 and also served as both Director and Associate Director of Clinical Pharmacology from September 1991 to August 1993 and from June 1989 to August 1991, respectively. She received her M.D. from University of Miami; completed post-doctoral training at Johns Hopkins Medical Center and specialty training in immunology and infectious diseases at the National Institutes of Health. Dr. Seidenberg also has a B.S. degree in Biology and Anthropology from Barnard College. Dr. Seidenberg was appointed to the Board as a designee of KPCB under a Nomination and Observer Agreement with the Company dated December 16, 2005.

*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.

*Joseph H. Sherrill, Jr.* was elected a Director in May 1995. Mr. Sherrill served as Chief Executive Officer and President of R. J. Reynolds ( RJR ) Asia Pacific, based in Hong Kong, where he oversaw RJR operations across Asia, including licensing, joint ventures and a full line of operating companies from August 1989 to his retirement in October 1994. Prior management positions with RJR include Senior Vice President of Marketing for R.J. Reynolds International, President and Chief Executive Officer of R.J. Reynolds Tabacos do Brazil, and President and General Manager of R.J. Reynolds Puerto Rico. Mr. Sherrill received his M.B.A. from Columbia University.

*William M. Spencer, III* has been a Director of BioCryst since our inception in 1986. Mr. Spencer, who is retired, is also a private investor in Birmingham, Alabama. Mr. Spencer is a Founder of BioCryst, and served as our Chairman of the Board from our founding in 1986 until April 1992. He co-founded and operated Motion Industries from 1946 through its merger into Genuine Parts Company in 1976. He has founded several businesses and has served on the Board of Directors of numerous public and private corporations.

*Jon P. Stonehouse* joined BioCryst in January 2007 as Chief Executive Officer and director. Prior to joining the Company, he served as Senior Vice President of Corporate Development for Merck KGaA since July 2002. His responsibilities included corporate mergers & acquisitions, global licensing and business development,

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corporate strategy and alliance management. In March of 2002, Mr. Stonehouse was appointed Vice President of Global Licensing and Business Development and Integration where he was responsible for the worldwide licensing and business development activities for the Ethical Pharmaceutical Division of Merck KGaA. Mr. Stonehouse joined EMD Pharmaceuticals, Inc. (the US Ethical Pharma division for Merck KGaA) in December 1999 as Vice President, Licensing and Business Development Strategy & Integration and IT. Prior to joining Merck KGaA, he held a variety of roles at Astra Merck/AstraZeneca including: Customer Unit Director, Director, Marketing & Sales IT, National Sales Manager, National Sales Director - Managed Healthcare, and Product Director Omeprazole (the world's most widely prescribed prescription drug-at that time). Mr. Stonehouse started his career in the pharmaceutical industry as a Sales Representative, National Sales Trainer and District Sales Manager for Merck & Co., Inc. Mr. Stonehouse earned his BS in Microbiology at the University of Minnesota.

*J. Claude Bennett, M.D.* was named President and Chief Operating Officer in December 1996 and 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.

*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.

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 shares of Common Stock present in person or represented by proxy at the Meeting is necessary to elect each of the nominees for director named above.



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**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 5,944,274, as of March 20, 2007.

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.

**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.

**Share Reserve**

An aggregate of 5,944,274 shares of Common Stock have been reserved for issuance over the term of the Stock Incentive Plan. This amount includes 4,744,274 shares of Common Stock available for future issuance under the Stock Incentive Plan as of March 20, 2007 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.

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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 20, 2007, 6 executive officers, 10 non-employee Board members and approximately 84 other employees and consultants were eligible to participate in the Discretionary Option Grant Program and the Stock Issuance Program. The 10 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 20, 2007, the fair market value per share determined on such basis was \$9.21.

**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.

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.

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***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:

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

- (ii) 20,000 shares of Common Stock.

In addition, each year on the date of the 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.

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**General Provisions**

***Acceleration***

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

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

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

***Special Tax Election***

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

***Amendment and Termination***

The Board may amend or modify the Stock Incentive Plan at any time, subject to any required stockholder approval pursuant to applicable laws and regulations (including rules of the Nasdaq Stock Market). 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 2006 are reflected below under the heading Compensation Discussion and Analysis Grants of Plan-Based Awards. As of March 20, 2007, the Compensation Committee granted under the Stock Incentive Plan an option to purchase 450,000 shares of Common Stock and 50,000 shares of Common Stock subject to forfeiture to our current CEO, Jon Stonehouse. Each grant was made coincident with his commencement of employment on January 5, 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 2007 under the Stock Incentive Plan.

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Name and Position	Dollar Value (\$)	Number of Stock Options
Charles E. Bugg, Ph.D.(1) <i>Chairman and Former Chief Executive Officer</i>	\$ 30,763	3,333
J. Claude Bennett, M.D. <i>President, Chief Operating Officer</i>	(2)	(2)
Michael A. Darwin <i>Chief Financial Officer, Treasurer and Secretary</i>	(2)	(2)
W. James Alexander, M.D., MPH, <i>Senior Vice President and Chief Medical Officer</i>	(2)	(2)
Randall B. Riggs <i>Senior Vice President, Business Development</i>	(2)	(2)
Executive Officer Group	(2)	(2)
Non-Employee Director Group	(3)	120,000(4)
Employee Group	(2)	(2)

(1) Reflects the automatic grant of options on March 18, 2007, when Dr. Bugg became a non-employee director.

(2) 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.

(3) The dollar value of the options to

be granted to our non-employee directors pursuant to the Automatic Option Grant Program is indeterminable because the options will be granted immediately after the Meeting and their value will depend on the value of our Common Stock at that time.

- (4) Represents the options to be granted pursuant to the Automatic Option Grant Program under the Stock Incentive Plan to non-employee directors immediately following the Meeting.

As of March 20, 2007, 4,744,274 shares of Common Stock remained available for future issuance under the Stock Incentive Plan, which includes 4,461,532 shares reserved for awards already issued and 282,742 shares reserved for awards available for issuance, but excludes the increase of 1,200,000 shares of Common Stock included in the proposal.

**Equity Compensation Plan Information**

The following table provides the specified information as of December 31, 2006.

(a) Number of securities	(c) Number of securities remaining available for future issuance under
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<b>Plan Category</b>	<b>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>equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by security holders			
Stock Option Awards (1)	3,952,568	\$8.94	820,754
Stock Purchase Plan (2)			99,613
Equity compensation plans not approved by security holders			
Total	3,952,568	\$8.94	920,367

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- (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.

**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.

*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

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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 therefor. 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.

**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 AN AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE AUTHORIZED COMMON STOCK**

We are asking you to approve an amendment to our third restated certificate of incorporation to increase the number of shares of Common Stock that we are authorized to issue from 45,000,000 to 95,000,000. Our board of directors has approved the amendment, subject to the approval of our stockholders at the Meeting.

As of March 20, 2007, the record date for the Meeting, 29,342,854 shares of common stock were issued and outstanding. An additional 4,744,274 shares were reserved for issuance upon the exercise of stock options granted or authorized under our Stock Incentive Plan, and such number will increase to 5,944,274 if stockholders

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approve proposal 2. Accordingly, we expect to have only approximately 9.7 million shares of Common Stock available for future issuance.

We believe that an increase in the authorized shares of our Common Stock will give us greater flexibility in the future by allowing us to:

declare stock dividends or stock splits;

acquire businesses or assets using our common stock as consideration;

raise additional capital through common stock offerings;

provide equity incentives to attract or retain employees, officers or directors; or

issue our common stock for other corporate purposes.

Without an increase in the number of authorized shares, the number of remaining common shares available for issuance may be insufficient to complete one or more of these transactions when and if our board deems advisable and in the best interests of our stockholders. We believe that having the additional authorized shares available for issuance upon approval of the board will be beneficial to us and our stockholders by allowing us to promptly consider and respond to future business opportunities as they arise. Due to market, industry and other factors, the delay involved in calling and holding a stockholders meeting to approve an increase in authorized shares at the time a business opportunity presents itself may prevent us from pursuing that opportunity, or may significantly adversely affect the economic or strategic value of that opportunity.

We currently have no specific plans, arrangements or understandings to issue additional shares of our common stock, except for issuances under the stockholder-approved Stock Incentive Plan or other equity incentive arrangements. We continually evaluate our capital structure and may consider an equity offering if, among other things, market conditions are favorable. We have not proposed the increase in the number of authorized shares of Common Stock with the intention of using the additional authorized shares for anti-takeover purposes.

The issuance of shares of our Common Stock, including the additional shares that would be authorized if the proposed amendment is approved, may dilute the current equity ownership position of current holders of our common stock and may be made without further stockholder approval, unless otherwise required by applicable laws or stock exchange regulations. Although our board of directors is motivated by business and financial considerations in proposing this amendment, stockholders should be aware that the amendment could be viewed as an anti-takeover provision. The amendment might discourage an attempt by a third party to gain control of us by acquiring a substantial number of shares of our common stock in order to complete a merger, sale of all or any part of our assets, or similar transaction, because the issuance of new shares could be used to dilute the stock ownership of that third party.

All shares of our Common Stock, including those now authorized and those that would be authorized by the proposed amendment, are equal in rank and have the same voting, dividend and liquidation rights. Holders of our Common Stock do not have preemptive rights.

Currently, our certificate of incorporation authorizes us to issue 5,000,000 shares of preferred stock, of which 45,000 shares of preferred stock have been designated as Series B Junior Participating Preferred stock, \$.001 par value. No other class of capital stock of BioCryst is authorized. We are not proposing any change to our authorized preferred stock.

If the proposal is approved, the first paragraph of Article FOURTH of our third restated certificate of incorporation will be amended to read in its entirety as follows:

FOURTH. The total number of shares of all classes of stock which the Corporation shall have authority to issue is One Hundred Million (100,000,000) shares consisting of (i) Ninety-Five Million (95,000,000) shares of Common Stock, \$.01 par value per share ( Common Stock ), and (ii) Five Million (5,000,000)

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shares of Preferred Stock, \$0.01 par value per share ( Preferred Stock ), of which Forty-Five Thousand (45,000) shares are designated Series B Junior Participating Preferred Stock.

**Required Vote**

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock is necessary to approve the proposed amendment to our certificate of incorporation. Accordingly, abstentions and broker non-votes with respect to the proposal to approve the amendment will have the same effect as a vote against the proposal.

**Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS DEEMS THE APPROVAL OF THE AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO BE IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE FOR APPROVAL OF THE PROPOSED AMENDMENT.**

**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, 2007. Services provided to the Company by Ernst & Young LLP in fiscal 2006 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 2006 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, 2006 and 2005, respectively.

	<b>2006</b>	<b>2005</b>
(1) Audit Fees	\$227,500	\$212,200
(2) Audit-related fees		
(3) Tax fees		
(4) All other fees		

The Audit Committee has considered whether the provision of the services covered by All Other Fees is compatible with maintaining the independent registered public accounting firm's independence and determined that such provision of services is so compatible. 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. Broker non-votes will not be counted as votes for or against this proposal and therefore will have no effect on the outcome with respect to 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 2007.**

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 twelve directors as determined by resolution of the Board in accordance with The Certificate of Incorporation. The Board has determined that nine of the twelve current members (Biggar, Featheringill, Gordon, Higgins, Horovitz, Seidenberg, Sherrill, Spencer, and Steer) are independent as defined by the Nasdaq Stock Market, which we call Nasdaq. The Board annually appoints a lead director to preside over any executive session of the non-management directors. During 2006, there were three 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, Gordon, 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 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 2006.

***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 and is authorized to award options under the Stock Incentive Plan described in Proposal 2. 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 six meetings during 2006.

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***Corporate Governance and Nominating Committee***

We have a Corporate Governance and Nominating Committee comprised of all independent directors, as defined by Nasdaq, with terms not expiring in the current year. The current members of the committee are Drs. Biggar, Horovitz and Steer and Messrs. Featheringill, Sherrill and Spencer. 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 Corporate Governance and Nominating 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 Corporate Governance and Nominating Committee members are independent directors as defined by Nasdaq. The Corporate Governance and Nominating Committee held two meetings during 2006.

**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 Lead Director of the Board, Dr. Zola P. Horovitz, at 2190 Parkway Lake Drive, Birmingham, Alabama, 35244. Suggestions of candidates for election at the 2008 Annual Meeting must be received by the Lead Director by December 14, 2007. The Lead Director 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 Lead Director 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.

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### **Stockholder Communications**

Stockholders interested in communicating directly with the Board, or specified individual directors, may do so by writing the Secretary of the Company, Michael A. Darwin, 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 he 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 2006, the Board held nine (9) 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. We encourage all members of the Board to attend the Annual Meeting of Stockholders. Seven members of the Board of Directors were in attendance at the 2006 Annual Meeting of Stockholders.

### **Certain Relationships and Related Transactions**

During 2006, there were no relationships or related transactions requiring disclosure between the Company and any of its directors, executive officers or five percent stockholders.

## **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 our chief executive officer, or CEO, and chief financial officer, or CFO, as well as the other three 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, the Committee began a review of our executive compensation policies and practices in light of the Company's business strategy. Based upon this review, the Committee intends to make future compensation decisions for our executive officers after consideration of the following:

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.

### **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

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participate in an annual performance review, which provides information about individual contributions to the Company's success for the period being assessed. 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**

We periodically use compensation consultants to review the Company's executive compensation program. The purpose of the review is to compare the Company's compensation programs, including cash compensation and stock option grants, to those of a similar peer group of publicly traded companies in the biotechnology and biopharmaceutical industries. The Committee has used the results from these reviews plus information from the Radford Biotechnology Survey-Executive Compensation Report, prepared by Radford Associates, and the BioWorld Executive Compensation Report as factors to consider in determining executive compensation levels. The Committee considers factors from these reports, including the size of the reported companies, the position and level of executive responsibility, and the number of years of experience of the executive to determine a median salary range to be used for comparison with respect to each of our named executive officers.

During 2006, the Committee did not hire a compensation consultant. The Committee obtained the 2005 Radford Biotechnology Survey and used the survey to assist it with making a determination of competitive pay practices for consideration in determining compensation for our named executive officers.

**2006 Elements of Executive Compensation**

The Company's 2006 compensation program for executive officers was primarily comprised of the following four elements:

base salary;

short-term 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. Base salary ranges for named executive officers are determined for each executive based on his or her position and responsibility and by using both internal and external data as discussed above. The Company estimates that the salary levels for our executive officers range from the 50<sup>th</sup> percentile to the 90<sup>th</sup> percentile of the base salary levels in effect for comparable executive positions at companies in the biotechnology peer group from the 2005 Radford Biotechnology Survey for companies our size.

In determining the base salary amount for each named executive officer, the Committee primarily considers:

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 2006, each of our named executive officers

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received an increase in base salary of 6.7%, with the exception of Mr. Riggs who received an increase of 13.7% upon his promotion to Senior Vice President Business Development. These increases were primarily related to the performance of the Company during 2005 and contributions by the executives toward the advancement of our programs and the consummation of a significant partnership for one of our products in late 2005. Effective January 2007, we increased base salaries for our named executive officers by 4%-5%, primarily in recognition of the continuing advancement of the Company's clinical programs during 2006.

*Short-Term 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.

*Special Retention Incentives*

In October 2006, the Committee approved cash bonuses to each of the named executive officers, except Dr. Bugg, our CEO, and also approved a special discretionary grant of stock options for 12,000 shares for Mr. Riggs, 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 has been named. The option award granted under this arrangement to Mr. Riggs is reported in the Grants of Plan Based Awards table, but the bonuses for each of the named executive officers will not be payable until after April 1, 2007 and are therefore not reported in the tables as earned for the 2006 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. 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; 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. During 2006, we granted stock option awards to our named executive officers in June following a comprehensive review by the Committee of management's goals for 2006. The total award granted has typically been prorated 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 provides the Committee with a recommended size of the option pool to be awarded to all employees, including our named executive officers and recommends individual grants using the following formula:

$$\begin{aligned} & \text{Salary} \times \text{Performance Score} \times \text{Factor per employee} \\ \div & \text{Sum of: Salary} \times \text{Performance Score} \times \text{Factor for all employees} \\ \times & \text{The number of shares included in the option pool} \\ = & \text{The number of shares subject to the option} \end{aligned}$$

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. For 2006, the annual grant to Mr. Riggs was calculated separately from the above calculation to reward him for his performance in 2005-2006 for finalizing two collaborations and to recognize his promotion to Senior Vice President in January 2006. The number of shares subject to the 2006 stock option grant for Mr. Riggs is 70,000 shares.

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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.

*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.

*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 ESPP), designed to meet the requirements under Section 423 of the Internal Revenue Code. The ESPP permits employees to purchase Company stock at a discount through payroll deductions. ESPP 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 the purchase of common stock on the dates indicated above provided the participant remains an eligible employee and has not withdrawn from the ESPP 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 2006.

**Employment Agreement of CEO**

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. The Company has previously announced that Dr. Bugg planned to retire in 2007 after a successor has been named and his employment agreement has ended. Effective January 5, 2007, Jon P. Stonehouse was hired as the Chief Executive Officer. Effective January 5, 2007, Dr. Bugg relinquished the title of CEO, but continued to serve as an employee through March 17, 2007. Following March 17, 2007, Dr. Bugg continues to serve as Chairman of the Board of Directors of the Company until the 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. For 2006, the Committee granted Dr. Bugg an option to purchase 49,538 shares, as determined under the formula described above under long-term incentive equity awards.

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Under the terms of Dr. Bugg's agreement, all outstanding options would become immediately vested upon a change in control or structure as defined in his agreement. In the event of permanent disability, Dr. Bugg would be able to exercise all of his outstanding options in their entirety within the earlier of 24 months or the expiration of the option. In the event of his death, the executor of his estate would be able to exercise all his outstanding options in their entirety within the earlier of 24 months or the expiration of the option. In the event of termination, other than for disability or death, Dr. Bugg would have three months to exercise any options that were exercisable immediately prior to the date of such termination. As with all employees, if Dr. Bugg is no longer an employee of the Company, but prior to the last date of employment he 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.

**Employment Agreements of Other Named Executive Officers**

The stock option provisions for the other named executive officers are the same as all other employees. 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 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 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. Riggs' agreement, he is 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.

Except for Dr. Bugg, 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.



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From August 2002 through January 2004, Dr. Bugg and J. Claude Bennett took voluntary salary reductions in the amounts of \$141,661 and \$107,848, respectively. These salary reductions are to be paid to them in the event of a change in control of the Company.

**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 2006, 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 2007 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).

**SUMMARY COMPENSATION TABLE**

The following table sets forth the total compensation awarded, paid to or earned by the Company's Chief Executive Officer, Chief Financial Officer and the next three most highly compensated executive officers during 2006.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Bonus \$(1)</b>	<b>Option Awards \$(2)</b>	<b>All Other Compensation \$(3)</b>	<b>Total \$(4)</b>
Charles E. Bugg, Ph.D., <i>Chairman and Chief Executive Officer</i>	2006	\$453,384		\$237,745	\$11,347	\$702,476
J. Claude Bennett, M.D., <i>President and Chief Operating Officer</i>	2006	\$347,016		\$172,822	\$11,210	\$531,048
Michael A. Darwin, <i>Chief Financial Officer, Secretary &amp; Treasurer</i>	2006	\$224,232		\$116,428	\$11,420	\$352,080
W. James Alexander, M.D., MPH, <i>Senior Vice President and Chief Medical Officer</i>	2006	\$172,317	\$90,000	\$388,063	\$4,260	\$654,640
Randall B. Riggs, <i>Senior Vice President Business Development</i>	2006	\$290,016	\$60,000	\$258,221	\$11,420	\$619,657

(1) For Dr. Alexander, this includes a bonus earned in 2006, but paid in 2007. For Mr.

Riggs, the amount was earned and paid in 2006.

- (2) These amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006 in accordance with SFAS 123R of awards pursuant to the Stock Incentive

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Program and thus include amounts from awards granted in and prior to 2006, except that estimated forfeitures have been disregarded.

Assumptions used in the calculation of these amounts are included 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) For each executive other than Dr. Alexander, the amount includes an \$11,000 Company contribution for the executive to the 401(k) plan and the remaining amount represents life insurance premiums paid

by the  
Company. For  
Dr. Alexander,  
the 401(k)  
Company  
contribution was  
\$4,000 and the  
\$260 represents  
the life  
insurance  
premium paid  
by the  
Company.

- (4) There were no  
stock awards or  
any other  
non-equity  
incentive plan  
compensation  
earned by any  
NEO s during  
2006.

#### GRANTS OF PLAN-BASED AWARDS

The following table provides information about stock options granted during 2006 to our named executive officers. During 2006, the Company did not make grants of non-equity incentive plan awards, equity incentive plan awards or other stock awards. All 2006 option grants were made under the Stock Incentive Plan approved by our stockholders on May 17, 2006.

Name	Grant Date	Compensation Committee Action Date (1) (2)	All Other Option Awards:  Number of Securities Underlying Options (#)(3)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards
Charles E. Bugg	6/22/06	6/22/06	49,538	\$13.44	\$ 466,648
J. Claude Bennett	6/22/06	6/22/06	31,597	\$13.44	\$ 297,644
Michael A. Darwin	6/22/06	6/22/06	24,500	\$13.44	\$ 230,790
W. James Alexander	6/19/06	5/10/06	300,000	\$12.65	\$2,661,000
Randall B. Riggs	6/22/06	6/22/06	70,000	\$13.44	\$ 659,400
	11/1/06	10/7/06	12,000	\$11.42	\$ 95,400

- (1) The option grant  
for  
Dr. Alexander  
was approved

prior to his commencement of employment, to be effective on the date he became employed, June 19, 2006.

(2) The November option grant for Mr. Riggs was approved by the Committee as part of the Special Retention Incentives discussed above, to be effective on November 1, 2006.

(3) All options granted during 2006 to the executives vest at a rate of 25% after year 1 and 1/48 per month thereafter such that all are fully vested after 4 years. The term of each option is 10 years.

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The following table summarizes the equity awards we have made to our named executive officers which are outstanding as of December 31, 2006.

Name	Option Awards(1)(2)				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
Charles E. Bugg	50,000			\$ 14.125	5/14/07
	75,000			\$ 6.50	12/10/07
	50,000			\$ 6.25	12/15/08
	53,300			\$ 22.813	12/15/09
	55,000			\$ 8.875	12/12/10
	26,700			\$ 6.094	3/23/11
	30,000			\$ 3.59	12/12/11
	20,927			\$ 1.18	8/5/12
	4,635			\$ 1.04	12/11/12
	36,854	1,603		\$ 0.87	2/3/13
	33,978	18,635		\$ 8.83	5/12/14
	21,253	32,441		\$ 4.30	5/11/15
		49,538		\$ 13.44	6/22/16
J. Claude Bennett	8,437			\$ 6.50	9/14/08
	30,200			\$ 6.25	12/15/08
	37,300			\$ 22.813	12/15/09
	37,300			\$ 8.875	12/12/10
	28,700			\$ 6.094	3/23/11
	22,797			\$ 3.59	12/12/11
	15,545			\$ 1.18	8/5/12
	4,255			\$ 1.04	12/11/12
	23,786	1,221		\$ 0.87	2/3/13
	25,867	14,186		\$ 8.83	5/12/14
	16,252	24,807		\$ 4.30	5/11/15
	31,597		\$ 13.44	6/22/16	
Michael A. Darwin	7,500			\$ 25.50	6/1/10
	700			\$ 1.18	8/5/12
	3,340			\$ 0.89	10/31/12
	2,509			\$ 1.04	12/11/12
	2,788	615		\$ 0.87	2/3/13

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	13,378	7,338	\$ 8.83	5/12/14
	13,273	20,259	\$ 4.30	5/11/15
		24,500	\$ 13.44	6/22/16
James P. Alexander		300,000	\$ 12.65	6/19/16
Randall B. Riggs	34,999	45,001	\$ 6.00	3/1/15
		70,000	\$ 13.44	6/22/16
		12,000	\$ 11.42	11/1/16
		24		

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- (1) There are no stock awards outstanding for any of the named executive officers.
- (2) All options reported above vest at a rate of 25% after year 1 and 1/48 per month thereafter such that all are fully vested after 4 years. The term of each option is 10 years.

**2006 OPTION EXERCISES AND STOCK VESTED**

The following table provides information on stock option exercises during 2006 by our named executive officers. There were no stock awards outstanding as of December 31, 2006 for any of our named executive officers.

Name	Option Awards		Stock Awards	
	Number of		Number of	
	Shares	Value	Shares	Value
	Acquired	Realized on	Acquired	Realized
	on	Exercise	on	on
	Exercise	Exercise	Vesting	Vesting
	(#)	(\$)	(#)	(\$)
Charles E. Bugg	54,882	\$414,558		
J. Claude Bennett	69,964	\$488,047		
Michael A. Darwin	22,650	\$366,499		
James P. Alexander				
Randall B. Riggs				

**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**

The following table sets forth potential payments payable to our current named executive officers upon termination of employment. The amounts include compensation payable upon voluntary or involuntary termination or retirement, termination following a change in control, and in the event of disability or death. The Company's Compensation Committee may in its discretion revise, amend or add to the benefits if it deems advisable. The amounts shown assume the options are valued at their last intrinsic value in fiscal 2006 and that termination is effective December 31, 2006, and thus include amounts earned through such time and are estimates of the amounts which would be paid out to the executives upon their termination. The actual amounts to be paid out can only be determined at the time of such executive's separation from the Company. The amounts shown in the table do not include: accrued vacation, vested

amounts payable under the Company's 401(k) plan, any accrued but unpaid bonus or base salary, or potential compensation recognized upon exercise of vested options as disclosed in the Outstanding Equity Awards table above.

<b>Name</b>	<b>Benefit</b>	<b>Retirement or Other Termination</b>	<b>Disability(1)</b>	<b>Death(1)</b>	<b>Change in Control</b>
Charles E. Bugg	Option vesting acceleration		\$ 303,531	\$ 303,531	\$ 303,531
	Restore 2001-2002 salary reduction				\$ 141,661
J. Claude Bennett	Option vesting acceleration			\$ 231,879	\$ 231,879
	Restore 2001-2002 salary reduction				\$ 107,848
Michael A. Darwin	Option vesting acceleration			\$ 173,687	\$ 173,687
James P. Alexander	Option vesting acceleration				
Randall B. Riggs	Option vesting acceleration				\$ 251,886

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- (1) In the event of death or disability, Dr. Bugg's employment agreement provides for full acceleration, but for the other named executive officers and other employees acceleration of unvested options occurs only in the event of death after 5 years of service.

**2006 DIRECTOR COMPENSATION**

The following table provides information related to the compensation of our non-employee directors during fiscal 2006.

Name	Fees Earned		Non-Equity Incentive		Total (\$)
	or Paid in Cash (\$)	Option Awards (\$)(1)(2)(3)	Plan Compensation (\$)	All Other Compensation (\$)	
Stephen R. Biggar, M.D., Ph.D.	\$26,000	\$105,590			\$131,590
William W. Featheringill	\$28,500	\$88,523			\$117,023
Carl L. Gordon, CFA, Ph.D.	\$28,500	\$88,523			\$117,023
John L. Higgins	\$30,500	\$88,523			\$119,023
Zola P. Horovitz, Ph.D.	\$26,000	\$88,523			\$114,523
Beth C. Seidenberg, M.D.	\$29,000	\$121,436			\$150,436
Joseph H. Sherrill, Jr.	\$28,500	\$88,523			\$117,023
William M. Spencer, III	\$21,000	\$88,523			\$109,523
Randolph C. Steer, M.D., Ph.D.	\$23,500	\$88,523			\$112,023

- (1) Options are granted to new directors automatically in accordance with our Stock Incentive Plan at

the time they become a director. Effective after the approval of the plan by the stockholders at the 2006 Annual Meeting, the initial grant is an option to purchase 20,000 shares issued on a prorated basis from the date of appointment until the next scheduled annual meeting and the annual grant is an option to purchase 15,000 shares after the annual meeting. The options vest on a monthly basis until the next annual meeting and are then fully vested. Prior to May 2006, both the initial grant and the annual grant were options to purchase 10,000 shares. As of December 31, 2006, each director had options outstanding to purchase the following number of shares: Dr. Biggar: 20,833; Mr. Featheringill: 92,500; Dr. Gordon: 37,500; Mr. Higgins: 35,000; Dr. Horovitz:

98,750;  
Dr. Seidenberg:  
19,167;  
Mr. Sherrill:  
92,500;  
Mr. Spencer:  
98,750; and  
Dr. Steer:  
105,000.

- (2) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006 in accordance with SFAS 123R of awards pursuant to the Stock Incentive Program granted in 2006 and include options granted in 2005 and 2006 which vested during 2006. Assumptions used in the calculation of these amounts are included 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) The grant date fair value of equity awards issued to each director in 2006 was \$128,850 as computed under SFAS 123R.

**Narrative to Director Compensation Table**

Directors who are employees of the Company do not receive any additional compensation for their services as a director. Non-employee directors receive an annual retainer fee, a separate fee for attending board meetings and committee meetings, and are reimbursed for expenses incurred in attending board or committee meetings and while representing the Company in conducting certain business. Effective May 2006, the annual retainer fee is \$12,000

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and effective January 2006, the meeting fee is \$1,000 per board meeting attended by teleconference and \$1,500 per meeting attended in person. The fee for attending committee meetings is \$500 per meeting attended and the Chair s of the Audit and Compensation Committees are paid an annual retainer fee of \$4,000 and \$2,000, respectively.

**Compensation Committee Interlocks and Insider Participation**

*Relationships and Independence of the Compensation Committee Members*

From January 2006 through May 2006, the Compensation Committee consisted of Dr. Horovitz (Chair), Dr. Steer and Mr. Higgins. For the remainder of 2006, the Committee consisted of Dr. Seidenberg (Chair), Drs. Biggar and Gordon and Mr. Featheringill. Dr. Gordon resigned from the Committee in 2007. No member of the Committee was at any time during the 2006 fiscal year or within the last five years an officer or employee of the Company. No executive officer of the Company served on the board of directors or compensation committee of any entity which has one or more executive officers serving as members of the Company s Board of Directors or Compensation Committee.

**Compensation Committee Report**

The Compensation Committee reviewed the Compensation Discussion and Analysis and discussed its contents with Company management. Based on the review and discussions, the Committee has recommended that this Compensation Discussion and Analysis be included in the proxy statement.

Beth C. Seidenberg, Chair of the Committee

Stephen R. Biggar

William W. Featheringill

**AUDIT COMMITTEE REPORT**

*The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of our other filings under the Securities Act of 1933 or the Exchange Act, except to the extent we specifically incorporate this Report by reference in such filings.*

The Audit Committee is composed of three independent directors, and is responsible for overseeing the Company s financial accounting, reporting and controls on behalf of the Board of Directors. The Audit Committee operates under a written charter which can be found on the Company s website at [www.biocryst.com](http://www.biocryst.com). Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed with management the financial statements in the Annual Report on Form 10-K for the year ended December 31, 2006, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with Ernst & Young LLP, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company s accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards. In addition, the Committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Auditing Standard ( SAS ) No. 61 (Codification of Statements on Auditing Standards, AU §380), *Communication with Audit Committees*, as amended. The Audit Committee has received the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as amended, and has discussed with Ernst & Young LLP their independence. The Committee also considered the compatibility of non-audit services with Ernst & Young LLP s independence.

The Committee discussed with Ernst & Young LLP the overall scope and plans for their audit. The Committee meets with Ernst & Young LLP, with and without management present, to discuss the results of their examination, their evaluation of the Company s internal controls, and the overall quality of the Company s financial reporting.

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In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the Securities and Exchange Commission. The Committee and the Board approved the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for 2006 and has approved the retention of Ernst & Young LLP as the principal accounting firm to be used by the Company throughout the fiscal year ending December 31, 2007.

This report is submitted by the Audit Committee, consisting of John L. Higgins (Chairman), Carl L. Gordon, CFA, Ph.D., Joseph H. Sherrill, Jr. and Randolph C. Steer, M.D., Ph.D.

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

The following table sets forth information regarding beneficial ownership of our Common Stock as of March 20, 2007 by (i) each director, (ii) each of the Named Executive Officers, (iii) all directors and executive officers of the Company as a group and (iv) each person known to the Company to be the beneficial owner of more than five percent of our Common Stock. Unless otherwise noted below, the address for each person listed in the table is the principal executive offices of the Company.

Name and Address	Amount and Nature of Beneficial Ownership (1)	Percent of Class
William W. Featheringill 100 Brookwood Place, #410 Birmingham, Alabama 35209	2,815,072(2)	9.6
Stephens Investment Management, LLC Paul H. Stephens, P. Bartlett Stephens and W. Bradford Stephens One Sansome Street San Francisco, CA 94104	1,793,218(3)	6.1
Felix J. and Julian C. Baker 667 Madison Avenue New York, NY 10021	1,751,744(4)	6.0
Kleiner Perkins Caufield & Byers entity and related persons 2750 Sand Hill Road Menlo Park, CA 94025	1,485,886(5)	5.1
OrbiMed Advisors LLC, OrbiMed Capital II LLC and Samuel D. Isaly, including Carl L. Gordon, Director 767 Third Avenue New York, NY 10017	1,137,500(6)	3.9
William M. Spencer, III	641,859(7)	2.2
Charles E. Bugg, Ph.D.	605,901(8)	2.0
Joseph H. Sherrill, Jr.	594,500(9)	2.0
J. Claude Bennett, M.D.	305,738(10)	1.0
Randolph C. Steer, M.D., Ph.D.	119,200(11)	*
Zola P. Horovitz, Ph.D.	101,750(12)	*
John L. Higgins	35,000(13)	*
Stephen R. Biggar, M.D., Ph.D.	20,833(14)	*

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Beth C. Seidenberg, M.D.	22,167(15)	*
Jon P. Stonehouse	50,000(16)	*
Michael A. Darwin	49,753(13)	*
Randall B. Riggs	45,260(17)	*
W. James Alexander	1,285	*
Jonathan M. P. Nugent	11,393(18)	*
All executive officers and directors as a group (16 persons)	9,794,841(19)	31.8

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- (\*) Less than one percent.
- (1) Gives effect to the shares of Common Stock issuable within 60 days after March 20, 2007 upon the exercise of all options and other rights beneficially held by the indicated stockholder on that date.
- (2) Includes 925,000 shares held by a partnership of which he is a beneficial owner and 92,500 shares issuable upon exercise of stock options.
- (3) From Schedule 13G filed February 13, 2007.
- (4) Based on information provided to BioCryst by Felix J. and Julian C. Baker. Excludes shares beneficially owned by Stephen R. Biggar, M.D., Ph.D., a director of the Company appointed to the

board under a  
Stock Purchase  
Agreement dated  
as of  
February 17,  
2005, as to  
which beneficial  
ownership is  
disclaimed.

- (5) Based on  
information  
provided to  
BioCryst by  
Kleiner Perkins  
Caufield &  
Byers, indicating  
that 1,114,414  
shares are held  
by KPCB  
Pandemic Bio  
Defense Fund,  
LLC and certain  
principals of  
KPCB, including  
L. John Doerr  
III, and that  
371,472 shares  
are held by  
KPTV, LLC, an  
entity in which  
Mr. Doerr is the  
managing  
member.  
Excludes shares  
beneficially  
owned by Beth  
C. Seidenberg,  
M.D., a director  
of the Company  
appointed to the  
board under a  
Nomination and  
Observer  
Agreement dated  
as of  
December 16,  
2005, described  
in Note 14  
below, as to  
which beneficial

ownership is  
disclaimed.

- (6) From  
Schedule 13D/A  
filed with the  
SEC on  
December 7,  
2005, and  
includes options  
granted related  
to Carl L.  
Gordon's position  
on the Board  
with 37,500  
shares issuable  
upon exercise of  
stock options.  
Each of the  
OrbiMed entities  
disclaims  
beneficial  
ownership of the  
shares  
beneficially  
owned by  
Dr. Gordon, and  
Dr. Gordon  
disclaims  
beneficial  
ownership of the  
shares  
beneficially  
owned by the  
OrbiMed  
entities, except  
to the extent of  
their pecuniary  
interest therein.
- (7) Includes 98,750  
shares issuable  
upon exercise of  
stock options  
and 10,000  
shares held by  
Mr. Spencer's  
spouse.  
Mr. Spencer  
disclaims  
beneficial

ownership of the  
10,000 shares  
held by his  
spouse.

- (8) Includes 73,138 shares held by a partnership of which he is a beneficial owner, and 470,324 shares issuable upon exercise of stock options.
- (9) Includes 92,500 shares issuable upon exercise of stock options, 10,000 shares which Mr. Sherrill holds jointly with his spouse, 1,000 shares held by Mr. Sherrill's son and 10,000 shares held by Mr. Sherrill's spouse. Mr. Sherrill disclaims beneficial ownership of the 11,000 shares held by his spouse and son.
- (10) Includes 240,008 shares issuable upon exercise of stock options.
- (11) Includes 105,000 shares issuable upon exercise of stock options.
- (12) Includes 98,750 shares issuable upon exercise of

stock options.

(13) Includes shares issuable upon exercise of stock options.

(14) Includes 20,833 shares issuable upon exercise of stock options. Excludes shares beneficially owned by Felix J. and Julian C. Baker, as to which beneficial ownership is disclaimed.

(15) Includes 19,167 shares issuable upon exercise of stock options and 3,000 shares held in trust. Excludes shares held by Kleiner Perkins Caufield & Byers entity and related persons described in Note 5 above, as to which beneficial ownership is disclaimed.

(16) Includes 50,000 shares restricted stock issued upon employment which vests 50% 1/4/09 and 50% 1/4/11.

(17) Includes 43,332 shares issuable upon exercise of

stock options.

(18) Includes 11,170  
shares issuable  
upon exercise of  
stock options.

(19) See Notes  
(1) through (17).

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

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Act ) requires our officers, directors and persons who beneficially own more than 10% of a registered class of our equity securities (collectively, Reporting Persons ), to file reports of ownership with the Securities and Exchange Commission. Reporting Persons are required by the Act regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain Reporting Persons that no Forms 5 were required for those persons, we believe that during 2006 our Reporting Persons were in compliance with all applicable filing requirements.

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**STOCKHOLDER PROPOSALS**

Proposals of stockholders intended to be presented at our 2008 Annual Meeting of Stockholders must be received by the Company by December 14, 2007 to be considered for inclusion in our proxy statement relating to such meeting.

A stockholder must notify the Company before February 27, 2008 of a proposal for the 2008 Annual Meeting which the stockholder intends to present other than by inclusion in our proxy material. If we do not receive such notice prior to such date, proxies solicited by our Board of Directors will confer discretionary authority upon the proxies for the Board of Directors to vote upon any such matter.

**OTHER MATTERS**

Management does not intend to present to the Meeting any matters other than those previously mentioned herein and does not presently know of any matters that will be presented by other parties. If other matters should properly come before the Meeting, it is intended that the holders of the proxies will act in respect thereto and in accordance with their best judgment.

**GENERAL INFORMATION**

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of the proxy statement may have been sent to multiple stockholders in your household. You may have a separate copy of this document sent to you by contacting the Corporate Secretary, BioCryst Pharmaceuticals, Inc., 2190 Parkway Lake Drive, Birmingham, Alabama 35244. If you prefer to receive separate copies of our proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee holder, or you may contact us at the above address.

A copy of our Annual Report on Form 10-K for the year ended December 31, 2006 was mailed with this Proxy Statement. If you did not receive a copy, you may obtain one without charge from Michael A. Darwin, the Chief Financial Officer and Secretary of the Company at the above address.

**BY ORDER OF THE BOARD OF DIRECTORS**

Michael A. Darwin, Secretary  
Birmingham, Alabama  
April 13, 2007

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(APPENDIX A)

**BIOCRYST PHARMACEUTICALS, INC.**  
**STOCK INCENTIVE PLAN**  
**(formerly the BioCryst Pharmaceuticals, Inc. 1991 Stock Option Plan )**  
**(AS AMENDED AND RESTATED IN MARCH OF 2007)**

**ARTICLE ONE**  
**GENERAL PROVISIONS**

**I. PURPOSES OF THE PLAN**

A. This Stock Incentive Plan (the Plan ), formerly the BioCryst Pharmaceuticals, Inc. 1991 Stock Option Plan, is intended to promote the interests of BioCryst Pharmaceuticals, Inc., a Delaware corporation (the Company ), by providing a method whereby (i) key employees (including officers and directors) of the Company (or its parent or subsidiary corporations) who are responsible for the management, growth and financial success of the Company (or any parent or subsidiary corporations), (ii) non-employee members of the board of directors of the Company (the Board ) (or of any parent or subsidiary corporations) and (iii) consultants and other independent contractors who provide valuable services to the Company (or any parent or subsidiary corporations) may be offered the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Company as an incentive for them to remain in the service of the Company (or any parent or subsidiary corporations).

B. For purposes of the Plan, the following provisions shall be applicable in determining the parent and subsidiary corporations of the Company:

- Any corporation (other than the Company) in an unbroken chain of corporations ending with the Company shall be considered to be a **parent** corporation of the Company, provided each such corporation in the unbroken chain (other than the Company) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

- Each corporation (other than the Company) in an unbroken chain of corporations beginning with the Company shall be considered to be a **subsidiary** of the Company, provided each such corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

C. The Plan, as hereby amended and restated, was approved and adopted by the Board in March of 2007 in order to increase by 1,200,000 the number of shares of the Company s common stock, par value \$.01 per share (the Common Stock ), that may be issued pursuant to the Plan. The Board s adoption of the share increase is subject to approval by the Company s stockholders at the Company s 2007 Annual Stockholders Meeting.

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**II. STRUCTURE OF THE PLAN**

A. The Plan shall be divided into three separate equity programs:

- the Discretionary Option Grant Program specified in Article Two, pursuant to which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock,

- the Stock Issuance Program specified in Article Three, pursuant to which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through immediate purchase of such shares or as compensation for services rendered to the Company (or any parent or subsidiary), and

- the Automatic Option Grant Program specified in Article Four, pursuant to which non-employee members of the Board will automatically receive option grants to purchase shares of Common Stock.

B. Unless the context clearly indicates otherwise, the provisions of Articles One and Five of the Plan shall apply to all equity programs under the Plan and shall accordingly govern the interests of all individuals under the Plan.

**III. ADMINISTRATION OF THE PLAN**

A. A committee of two (2) or more non-employee Board members appointed by the Board (the Primary Committee ) shall have sole and exclusive authority to administer the Discretionary Option Grant and Stock Issuance Programs with respect to Section 16 Insiders. For purposes of this Section, a Section 16 Insider shall mean an officer or director of the Company subject to the short-swing profit liabilities of Section 16 of the Securities Exchange Act of 1934 (the 1934 Act ).

B. Administration of the Discretionary Option Grant and Stock Issuance Programs with respect to all other persons eligible to participate in the programs may, at the Board s discretion, be vested in the Primary Committee, another committee of one (1) or more Board members appointed by the Board (the Secondary Committee ), or the Board may retain the power to administer those programs with respect to all such persons.

C. Members of the Primary Committee and any Secondary Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time.

D. Each Plan Administrator (whether the Primary Committee, the Board or the Secondary Committee) shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the express provisions of the Plan) to establish such rules and regulations as it may deem appropriate for the proper administration of the Discretionary Option Grant and Stock Issuance Programs and to make such determinations under, and issue interpretations of, the provisions of such programs and any outstanding options or stock issuances thereunder as it may deem necessary or advisable. Decisions of the Plan

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Administrator within the scope of its administrative authority under the Plan shall be final and binding on all parties.

E. Service on the Primary Committee or the Secondary Committee shall constitute service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or Secondary Committee shall be liable for any act of omission made in good faith with respect to the Plan or any option grants or stock issuances under the Plan.

F. Administration of the Automatic Option Grant Program shall be self-executing in accordance with the express terms and conditions of Article Four, and no Plan Administrator shall exercise any discretionary functions under that program.

**IV. ELIGIBILITY**

A. The persons eligible to participate in the Discretionary Option Grant and Stock Issuance Programs shall be limited to the following:

(i) officers and other key employees of the Company (or its parent or subsidiary corporations) who render services which contribute to the management, growth and financial success of the Company (or its parent or subsidiary corporations);

(ii) individuals who are consultants or independent advisors and who provide valuable services to the Company (or its parent or subsidiary corporations); and

(iii) non-employee members of the Board (or of the board of directors of parent or subsidiary corporations).

B. Only Board members who are not employees of the Company (or any parent or subsidiary) shall be eligible to receive automatic option grants pursuant to the Automatic Option Grant Program specified in Article Four.

C. The Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full power and authority to determine (i) whether to grant options in accordance with the Discretionary Option Grant Program or to effect stock issuances in accordance with the Stock Issuance Program, (ii) which eligible persons are to receive option grants under the Discretionary Option Grant Program, the time or times when such option grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an incentive stock option ( Incentive Option ) which satisfies the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the Code ) or a non-statutory option not intended to meet such requirements, the time or times when each such option is to become exercisable, the vesting schedule (if any) applicable to the option shares and the maximum term for which such option is to remain outstanding, and (iii) which eligible persons are to receive stock issuances under the Stock Issuance Program, the time or times when such

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issuances are to be made, the number of shares to be issued to each participant, the vesting schedule (if any) applicable to the shares and the consideration for such shares.

**V. STOCK SUBJECT TO THE PLAN**

A. Shares of the Company's Common Stock shall be available for issuance under the Plan and shall be drawn from either the Company's authorized but unissued shares of Common Stock or from reacquired shares of Common Stock, including shares repurchased by the Company on the open market. The maximum number of shares of Common Stock which may be issued over the term of the Plan, as amended and restated, shall not exceed 5,944,274 shares, subject to adjustment from time to time in accordance with the provisions of this Section V. Such authorized share reserve includes (i) the 4,744,274 shares of Common Stock reserved and available for issuance under the Plan as of March 20, 2007; and (ii) the increase of 1,200,000 shares of Common Stock authorized by the Board subject to shareholder approval at the 2007 Annual Stockholders Meeting.

B. In no event shall the number of shares of Common Stock for which any one individual participating in the Plan may receive options, separately exercisable stock appreciation rights and direct stock issuances exceed 1,500,000 shares of Common Stock in the aggregate. For purposes of such limitation, however, no stock options granted prior to the date the Common Stock was first registered under Section 12 of the 1934 Act (the Section 12(g) Registration Date) shall be taken into account.

C. Should an outstanding option under this Plan expire or terminate for any reason prior to exercise in full, the shares subject to the portion of the option not so exercised shall be available for subsequent option grant or direct stock issuances under the Plan. Unvested shares issued under the Plan and subsequently repurchased by the Corporation, at the original issue price paid per share, pursuant to the Corporation's repurchase rights under the Plan, or shares underlying terminated share right awards, shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants or direct stock issuances under the Plan. However, should the exercise price of an outstanding option under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Company in satisfaction of the withholding taxes incurred in connection with the exercise of an outstanding option or the vesting of a direct stock issuance under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised or which vest under the direct stock issuance, and not by the net number of shares of Common Stock actually issued to the holder of such option or stock issuance. Shares of Common Stock subject to any option surrendered for an appreciation distribution under Section IV of Article Two or Section III of Article Four shall not be available for subsequent issuance under the Plan.

D. In the event any change is made to the Common Stock issuable under the Plan by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without receipt of consideration, then appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of

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securities for which any one individual participating in the Plan may be granted stock options, separately exercisable stock appreciation rights, and direct stock issuances under the Plan from and after the Section 12(g) Registration Date, (iii) the number and/or class of securities and price per share in effect under each outstanding option under the Plan, (iv) the number and/or class of securities in effect under each outstanding direct stock issuance under the Plan, and (v) the number and/or class of securities for which automatic option grants are subsequently to be made per non-employee Board member under the Automatic Option Grant Program. The purpose of such adjustments shall be to preclude the enlargement or dilution of rights and benefits under the Plan.

E. The fair market value per share of Common Stock on any relevant date under the Plan shall be determined in accordance with the following provisions:

(i) If the Common Stock is not at the time listed or admitted to trading on any national securities exchange but is traded in the over-the-counter market, the fair market value shall be the mean between the highest bid and lowest asked prices (or, if such information is available, the closing selling price) per share of Common Stock on the date in question in the over-the-counter market, as such prices are reported by the National Association of Securities Dealers through the Nasdaq National Market or any successor system. If there are no reported bid and asked prices (or closing selling price) for the Common Stock on the date in question, then the mean between the highest bid price and lowest asked price (or the closing selling price) on the last preceding date for which such quotations exist shall be determinative of fair market value.

(ii) If the Common Stock is at the time listed or admitted to trading on any national securities exchange, then the fair market value shall be the closing selling price per share of Common Stock on the date in question on the securities exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Common Stock on the exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

(iii) If the Common Stock is at the time neither listed nor admitted to trading on any securities exchange nor traded in the over-the-counter market, then the fair market value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate.

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**ARTICLE TWO**  
**DISCRETIONARY OPTION GRANT PROGRAM**

**I. TERMS AND CONDITIONS OF OPTIONS**

Options granted pursuant to this Article Two shall be authorized by action of the Plan Administrator and may, at the Plan Administrator's discretion, be either Incentive Options or non-statutory options. Individuals who are not Employees may only be granted non-statutory options under this Article Two. Each option granted shall be evidenced by one or more instruments in the form approved by the Plan Administrator. Each such instrument shall, however, comply with the terms and conditions specified below, and each instrument evidencing an Incentive Option shall, in addition, be subject to the applicable provisions of Section II of this Article Two.

**A. Option Price.**

1. The option price per share shall be fixed by the Plan Administrator. In no event, however, shall the option price per share be less than one hundred percent (100%) of the fair market value per share of Common Stock on the date of the option grant.

2. The option price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section V of this Article Two and the instrument evidencing the grant, be payable as follows:

- full payment in cash or check drawn to the Company's order;
- full payment in shares of Common Stock held by the optionee for the requisite period necessary to avoid a charge to the Company's earnings for financial reporting purposes and valued at fair market value on the Exercise Date (as such term is defined below);
- full payment through a combination of shares of Common Stock held by the optionee for the requisite period necessary to avoid a charge to the Company's earnings for financial reporting purposes and valued at fair market value on the Exercise Date and cash or cash equivalent; or
- full payment through a broker-dealer sale and remittance procedure pursuant to which the optionee (I) shall provide irrevocable written instructions to a designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate option price payable for the purchased shares plus all applicable Federal and State income and employment taxes required to be withheld by the Company in connection with such purchase and (II) shall provide written directives to the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction.

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For purposes of this subparagraph 2, the Exercise Date shall be the date on which written notice of the option exercise is delivered to the Corporation. Except to the extent the sale and remittance procedure is utilized in connection with the exercise of the option, payment of the option price for the purchased shares must accompany such notice.

**B. Term and Exercise of Options.**

Each option granted under this Article Two shall be exercisable at such time or times, during such period, and for such number of shares as shall be determined by the Plan Administrator and set forth in the instrument evidencing the option grant. No such option, however, shall have a maximum term in excess of ten (10) years from the grant date. During the lifetime of the optionee, the option, together with any stock appreciation rights pertaining to such option, shall be exercisable only by the optionee and shall not be assignable or transferable by the optionee except for a transfer of the option by will or by the laws of descent and distribution following the optionee's death. However, the Plan Administrator shall have the discretion to provide that a non-statutory option may, in connection with the optionee's estate plan, be assigned in whole or in part during the optionee's lifetime either as (i) as a gift to one or more members of optionee's immediate family, to a trust in which optionee and/or one or more such family members hold more than fifty percent (50%) of the beneficial interest or an entity in which more than fifty percent (50%) of the voting interests are owned by optionee and/or one or more such family members, or (ii) pursuant to a domestic relations order. The assigned portion shall be exercisable only by the person or persons who acquire a proprietary interest in the option pursuant to such assignment. The terms applicable to the assigned portion shall be the same as those in effect for this option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

**C. Termination of Service.**

1. Except to the extent otherwise provided pursuant to Section V of this Article Two, the following provisions shall govern the exercise period applicable to any options held by the optionee at the time of cessation of Service or death.

- Should the optionee cease to remain in Service for any reason other than death or permanent disability, then the period for which each outstanding option held by such optionee is to remain exercisable shall be limited to the three (3)-month period following the date of such cessation of Service. However, should optionee die during the three (3)-month period following his or her cessation of service, the personal representative of the optionee's estate or the person or persons to whom the option is transferred pursuant to the optionee's will or in accordance with the laws of descent and distribution shall have a twelve (12)-month period following the date of the optionee's death during which to exercise such option.

- In the event such Service terminates by reason of permanent disability (as defined in Section 22(e)(3) of the Internal Revenue Code), then the period for which each outstanding option held by the optionee is to remain exercisable shall be limited to the twelve (12)-month period following the date of such cessation of Service.

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- Should the optionee, after completing five (5) full years of service, die while in Service, then the exercisability of each of his or her outstanding options shall automatically accelerate so that each such option shall become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares. The personal representative of the optionee's estate or the person or persons to whom the option is transferred pursuant to the optionee's will or in accordance with the laws of descent and distribution shall have a twelve (12)-month period following the date of the optionee's death during which to exercise such option.

- In the event such service terminates by reason of death prior to the optionee obtaining five (5) full years of service, then the period for which each outstanding vested option held by the optionee at the time of death shall be exercisable by the optionee's estate or the person or persons to whom the option is transferred pursuant to the optionee's will shall be limited to the twelve (12)-month period following the date of the optionee's death.

- Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term.

- Each such option shall, during such limited exercise period, be exercisable for any or all of the shares for which the option is exercisable on the date of the optionee's cessation of Service. Upon the expiration of such limited exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable. However, each outstanding option shall immediately terminate and cease to remain outstanding, at the time of the optionee's cessation of Service, with respect to any shares for which the option is not otherwise at that time exercisable or in which the optionee is not otherwise vested.

- Should (i) the optionee's Service be terminated for misconduct (including, but not limited to, any act of dishonesty, willful misconduct, fraud or embezzlement) or (ii) the optionee make any unauthorized use or disclosure of confidential information or trade secrets of the Company or its parent or subsidiary corporations, then in any such event all outstanding options held by the optionee under this Article Two shall terminate immediately and cease to be exercisable.

2. The Plan Administrator shall have complete discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to permit one or more options held by the optionee under this Article Two to be exercised, during the limited period of exercisability provided under subparagraph 1 above, not only with respect to the number of shares for which each such option is exercisable at the time of the optionee's cessation of Service but also with respect to one or more subsequent installments of purchasable shares for which the option would otherwise have become exercisable had such cessation of Service not occurred.

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3. For purposes of the foregoing provisions of this Section I.C (and for all other purposes under the Plan):

- The optionee shall be deemed to remain in the **Service** of the Company for so long as such individual renders services on a periodic basis to the Company (or any parent or subsidiary corporation) in the capacity of an Employee, a non-employee member of the board of directors or an independent consultant or advisor, unless the agreement evidencing the applicable option grant specifically states otherwise.

- The optionee shall be considered to be an **Employee** for so long as such individual remains in the employ of the Company or one or more of its parent or subsidiary corporations, subject to the control and direction of the employer entity not only as to the work to be performed but also as to the manner and method of performance.

**D. Stockholder Rights.**

An optionee shall have no stockholder rights with respect to any shares covered by the option until such individual shall have exercised the option and paid the option price for the purchased shares.

**E. Repurchase Rights.**

The shares of Common Stock acquired upon the exercise of options granted under this Article Two may be subject to repurchase by the Company in accordance with the following provisions:

(a) The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock under this Article Two. Should the optionee cease Service while holding such unvested shares, the Company shall have the right to repurchase any or all those unvested shares at the option price paid per share. The terms and conditions upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the instrument evidencing such repurchase right.

(b) All of the Company's outstanding repurchase rights shall automatically terminate, and all shares subject to such terminated rights shall immediately vest in full, upon the occurrence of any Corporate Transaction under Section III of this Article Two, except to the extent: (i) any such repurchase right is expressly assigned to the successor corporation (or parent thereof) in connection with the Corporate Transaction or (ii) such termination is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

(c) The Plan Administrator shall have the discretionary authority, exercisable either before or after the optionee's cessation of Service, to cancel the Corporation's outstanding repurchase rights with respect to one or more shares

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purchased or purchasable by the optionee under this Discretionary Option Grant Program and thereby accelerate the vesting of such shares in whole or in part at any time.

**II. INCENTIVE OPTIONS**

The terms and conditions specified below shall be applicable to all Incentive Options granted under this Article Two. Incentive Options may only be granted to individuals who are Employees of the Company. Options which are specifically designated as non-statutory options when issued under the Plan shall not be subject to such terms and conditions.

A. **Dollar Limitation**. The aggregate fair market value (determined as of the respective date or dates of grant) of the Common Stock for which one or more options granted to any Employee under this Plan (or any other option plan of the Company or its parent or subsidiary corporations) may for the first time become exercisable as incentive stock options under the Federal tax laws during any one calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000). To the extent the Employee holds two or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as incentive stock options under the Federal tax laws shall be applied on the basis of the order in which such options are granted. Should the number of shares of Common Stock for which any Incentive Option first becomes exercisable in any calendar year exceed the applicable One Hundred Thousand Dollar (\$100,000) limitation, then that option may nevertheless be exercised in such calendar year for the excess number of shares as a non-statutory option under the Federal tax laws.

B. **10% Stockholder**. If any individual to whom an Incentive Option is granted is the owner of stock (as determined under Section 424(d) of the Internal Revenue Code) possessing 10% or more of the total combined voting power of all classes of stock of the Company or any one of its parent or subsidiary corporations, then the option price per share shall not be less than one hundred and ten percent (110%) of the fair market value per share of Common Stock on the grant date, and the option term shall not exceed five (5) years, measured from the grant date.

C. **Termination of Employment**. Any portion of an Incentive Option that remains outstanding (by reason of the optionee remaining in the Service of the Company, pursuant to the Plan Administrator's exercise of discretion under Section V of this Article Two, or otherwise) more than 3 months following the date an optionee ceases to be an Employee of the Company shall thereafter be exercisable as a non-statutory option under federal tax laws.

Except as modified by the preceding provisions of this Section II, the provisions of Articles One, Two and Five of the Plan shall apply to all Incentive Options granted hereunder.

**III. CORPORATE TRANSACTIONS/CHANGES IN CONTROL**

A. In the event of any of the following stockholder-approved transactions (a Corporate Transaction ):

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(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the State of the Company's incorporation,

(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 exercisability of each option outstanding under this Article Two shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares. However, an outstanding option under this Article Two shall **not** so accelerate if and to the extent the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of grant, unless the Plan Administrator, in its discretion, later determines to waive such limitations.

B. Immediately after the consummation of the Corporate Transaction, all outstanding options under this Article Two shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company. The Plan Administrator shall have complete discretion to provide, on such terms and conditions as it sees fit, for a cash payment to be made to any optionee on account of any option terminated in accordance with this paragraph, in an amount equal to the excess (if any) of (A) the fair market value of the shares subject to the option as of the date of the Corporate Transaction, over (B) the aggregate exercise price of the option.

C. Each outstanding option under this Article Two which is assumed in connection with the Corporate Transaction or is otherwise to continue in effect shall be appropriately adjusted, immediately after such Corporate Transaction, to apply and pertain to the number and class of securities which would have been issued to the option holder, in consummation of such Corporate Transaction, had such person exercised the option immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the option price payable per share, provided the aggregate option price payable for such securities shall remain the same. In addition, the class and number of securities available for issuance under the Plan following the consummation of the Corporate Transaction shall be appropriately adjusted.

D. The grant of options under this Article Two shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

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E. The exercisability of each outstanding option under this Article Two shall automatically accelerate, and the Company's outstanding repurchase rights under this Article Two shall immediately terminate upon the occurrence of a Change in Control.

F. For purposes of this Section III (and for all other purposes under the Plan), a Change in Control shall be deemed to occur in the event:

(i) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders; or

(ii) there is a change in the composition of the Board over a period of twenty-four (24) consecutive months or less such that a majority of the Board members (rounded up to the next whole number) ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least two-thirds of the Board members described in clause (A) who were still in office at the time such election or nomination was approved by the Board.

G. All options accelerated in connection with the Change in Control shall remain fully exercisable until the expiration or sooner termination of the option term.

H. The portion of any Incentive Option accelerated under this Section III in connection with a Corporate Transaction or Change in Control shall remain exercisable as an incentive stock option under the Federal tax laws only to the extent the dollar limitation of Section II of this Article Two is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a non-statutory option under the Federal tax laws.

**IV. STOCK APPRECIATION RIGHTS**

A. Provided and only if the Plan Administrator determines in its discretion to implement the stock appreciation right provisions of this Section IV, one or more optionees may be granted the right, exercisable upon such terms and conditions as the Plan Administrator may establish, to surrender all or part of an unexercised option granted under this Article Two in exchange for a distribution from the Company in an amount equal to the excess of (i) the fair market value (on the option surrender date) of the number of shares in which the optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (ii) the aggregate option price payable for such vested shares. The distribution may be made in shares of Common Stock valued at fair market value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall determine in its sole discretion.

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B. The shares of Common Stock subject to any option surrendered for an appreciation distribution pursuant to this Section IV shall **not** be available for subsequent option grant under the Plan.

**V. EXTENSION OF EXERCISE PERIOD**

The Plan Administrator shall have full power and authority, exercisable either at the time the option is granted or at any time while the option remains outstanding, to extend the period of time for which any option granted under this Article Two is to remain exercisable following the optionee's cessation of Service or death from the limited period in effect under Section I.C.1 of Article Two to such greater period of time as the Plan Administrator shall deem appropriate; provided, however, that in no event shall such option be exercisable after the specified expiration date of the option term.

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**ARTICLE THREE**  
**STOCK ISSUANCE PROGRAM**

**I. STOCK ISSUANCE TERMS**

Shares of Common Stock may be issued under the Stock Issuance Program through direct and immediate issuances without any intervening option grants. Each such stock issuance shall be evidenced by a Stock Issuance Agreement which complies with the terms specified below. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to share right awards which entitle the recipients to receive shares upon the attainment of designated Service and/or performance goals.

**A. Purchase Price.**

1. The purchase price per share shall be fixed by the Plan Administrator, but shall not be less than one hundred percent (100%) of the fair market value per share of Common Stock on the issuance date.

2. Shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

- cash or check made payable to the Company, or
- services rendered to the Company (or any parent or subsidiary).

**B. Vesting Provisions.**

1. The Plan Administrator may issue shares of Common Stock under the Stock Issuance Program which are fully and immediately vested upon issuance or which are to vest in one or more installments over the participant's period of Service or upon attainment of specified performance objectives. Alternatively, the Plan Administrator may issue share right awards under the Stock Issuance Program which shall entitle the recipient to receive a specified number of shares of Common Stock upon the attainment of one or more Service and/or performance goals established by the Plan Administrator. Upon the attainment of such Service and/or performance goals, fully-vested shares of Common Stock shall be issued in satisfaction of those share right awards.

2. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) issued by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, shall be issued or set aside with respect to the shares of unvested Common Stock granted to a participant or subject to a participant's share right award, subject to (i) the same vesting requirements applicable to the participant's

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unvested shares of Common Stock or share rights award, and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

3. The participant shall have full stockholder rights with respect to any shares of Common Stock issued to the participant under the Stock Issuance Program, whether or not the participant's interest in those shares is vested. Accordingly, the participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

4. The participant shall not have any stockholders rights with respect to any shares of Common Stock subject to a share right award. However, the Plan Administrator may provide for a participant to receive one or more dividend equivalents with respect to such shares, entitling the participant to all regular cash dividends payable on the shares of Common Stock underlying the share right award, which amounts shall be (i) subject to the same vesting requirements applicable to the shares of Common Stock underlying the share rights award, and (ii) payable upon issuance of the shares to which such dividend equivalents relate.

5. Should the participant cease to remain in Service while holding one or more unvested shares of Common Stock issued under the Stock Issuance Program or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Company for cancellation, and the participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the participant for consideration paid in cash, the Company shall repay to the participant the cash consideration paid for the surrendered shares.

6. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested shares of Common Stock which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

7. Outstanding share right awards under the Stock Issuance Program shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those awards, if the Service and/or performance goals established for such awards are not attained. The Plan Administrator, however, shall have the discretionary authority to issue shares of Common Stock in satisfaction of one or more outstanding share right awards as to which the designated Service and/or performance goals are not attained. Such authority may be exercised at any time, whether before or after the participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

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**II. CORPORATE TRANSACTION/CHANGE IN CONTROL**

A. All of the Company's outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent (i) those repurchase rights are to be assigned to the successor corporation (or parent thereof) in connection with the such Corporate Transaction, or (ii) such accelerated vesting is precluded by other limitations imposed in the Stock Issuance Agreement, unless the Plan Administrator determines to waive such limitations.

B. Each repurchase right which is assigned in connection with (or is otherwise to continue in effect after) a Corporate Transaction shall be appropriately adjusted such that it shall apply and pertain to the number and class of securities issued to the participant in consummation of the Corporate Transaction with respect to the shares granted to participant under this Article III.

C. All of the Company's outstanding repurchase rights under the Stock Issuance Program shall automatically terminate, and all shares of Common Stock subject to those terminated rights shall immediately vest, in the event of any Change in Control.

D. All shares of Common Stock underlying outstanding share right awards issued under the Stock Issuance Program shall vest, and all of the shares of Common Stock subject to such share right awards shall be issued to participants, immediately prior to the consummation of any Corporate Transaction or Change in Control.

**III. SHARE ESCROW/LEGENDS**

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Company until the participant's interest in such shares vests or may be issued directly to the participant with restrictive legends on the certificates evidencing those unvested shares.

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**ARTICLE FOUR**  
**AUTOMATIC OPTION GRANT PROGRAM**

**I. ELIGIBILITY.**

The individuals eligible to receive automatic option grants pursuant to the provisions of this Article Four shall be (i) those individuals who, after the effective date of this amendment and restatement, first become non-employee Board members, whether through appointment by the Board, election by the Company's stockholders, or by continuing to serve as a Board member after ceasing to be employed by the Company, and (ii) those individuals already serving as non-employee Board members on the effective date of this amendment and restatement. As used herein, a non-employee Board member is any Board member who is not employed by the Company on the date in question.

**II. TERMS AND CONDITIONS OF AUTOMATIC OPTION GRANTS**

A. **Grants.** Option grants shall be made under this Article Three as follows:

1. Each individual who first becomes a non-employee Board member on or after the effective date of this amendment and restatement shall automatically be granted at such time a non-statutory stock option under the terms and conditions of this Article Four, to purchase a number shares of Common Stock equal to the product of (i) 20,000, and (ii) a fraction, the numerator of which is the number of months (rounded to the nearest whole number) remaining between the date such Board member first became a non-employee Board member and the Company's next scheduled Annual Stockholders Meeting, and the denominator of which is 12.

2. Immediately following each Annual Stockholders Meeting of the Company, each individual who is then serving as a non-employee Board member (except for those individuals first elected to serve as non-employee Board members at such meeting), shall automatically be granted a non-statutory stock option under this Article Four to acquire 15,000 shares of Common Stock.

B. **Exercise Price.** The exercise price per share of each automatic option grant made under this Article Four shall be equal to one hundred percent (100%) of the fair market value per share of Common Stock on the automatic grant date.

C. **Payment.** The exercise price shall be payable in one of the alternative forms specified below:

- (i) full payment in cash or check made payable to the Company's order; or
- (ii) full payment in shares of Common Stock held for the requisite period necessary to avoid a charge to the Company's reported earnings and valued at fair market value on the Exercise Date (as such term is defined below); or

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(iii) full payment in a combination of shares of Common Stock held for the requisite period necessary to avoid a charge to the Company's reported earnings and valued at fair market value on the Exercise Date and cash or check payable to the Company's order; or

(iv) full payment through a sale and remittance procedure pursuant to which the non-employee Board member (I) shall provide irrevocable written instructions to a designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares and shall (II) concurrently provide written directives to the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale transaction.

For purposes of this subparagraph C, the Exercise Date shall be the date on which written notice of the option exercise is delivered to the Company. Except to the extent the sale and remittance procedure specified above is utilized for the exercise of the option, payment of the option price for the purchased shares must accompany the exercise notice.

D. **Option Term.** Each automatic grant under this Article Four shall have a term of ten (10) years measured from the automatic grant date.

E. **Exercisability.**

1. Each initial automatic grant made pursuant to Section II.A.1 of this Article Four shall vest and become exercisable over the period extending from the date of grant to the scheduled date of the next Annual Stockholders Meeting following the grant. A pro rata portion of such automatic grant shall vest on the last day of each calendar month following the date of grant, with the final portion vesting on the scheduled date of such Annual Stockholders Meeting.

2. Each 15,000 share automatic grant made pursuant to Section II.A.2 of this Article Four 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.

F. **Non-Transferability.** During the lifetime of the optionee, each automatic option, together with the limited stock appreciation right pertaining to such option, shall be exercisable only by the optionee, except to the extent such option or the limited stock appreciation right is assigned or transferred (i) by will or by the laws of descent and distribution following the optionee's death, or (ii) during optionee's lifetime either (A) as a gift in connection with the optionee's estate plan to one or more members of optionee's immediate family, to a trust in which optionee and/or one or more such family members hold more than fifty percent (50%) of the beneficial interest or to an entity in which more than fifty percent (50%) of the voting interests are owned by optionee and/or one or more such family members, or (B) pursuant to a domestic relations order. The portion of any option assigned or transferred during optionee's lifetime shall be exercisable only by the person or persons who acquire a proprietary

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interest in the option pursuant to such assignment. The terms applicable to the assigned portion shall be the same as those in effect for this option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

**G. Cessation of Board Service.**

1. Should the optionee cease to serve as a Board member for any reason while holding one or more automatic option grants under this Article Four, then such optionee shall have the remainder of the ten (10) year term of each such option in which to exercise each such option for any or all of the shares of Common Stock for which the option is exercisable at the time of such cessation of Board service. Each such option shall immediately terminate and cease to be outstanding, at the time of such cessation of Board service, with respect to any shares for which the option is not otherwise at that time exercisable. Upon the expiration of the ten (10)-year option term, the automatic grant shall terminate and cease to be outstanding in its entirety. Upon the death of the optionee, whether before or after cessation of Board service, any option held by optionee at the time of optionee's death may be exercised, for any or all of the shares of Common Stock for which the option was exercisable at the time of cessation of Board service by the optionee and which have not been theretofore exercised by the optionee, by the personal representative of the optionee's estate or by the person or persons to whom the option is transferred pursuant to the optionee's will or in accordance with the laws of descent and distribution. Any such exercise must occur during the remainder of the ten (10) year term of such option.

H. **Stockholder Rights.** The holder of an automatic option grant under this Article Four shall have none of the rights of a stockholder with respect to any shares subject to such option until such individual shall have exercised the option and paid the exercise price for the purchased shares.

**III. CORPORATE TRANSACTIONS/CHANGES IN CONTROL**

A. In the event of a Corporate Transaction, the exercisability of each option outstanding under this Article Four shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares.

B. Immediately after the consummation of the Corporate Transaction, all outstanding options under this Article Four shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation or its parent company. If so provided by the terms of the Corporate Transaction, the optionee shall receive a cash payment on account of any option terminated in accordance with this paragraph, in an amount equal to the excess (if any) of (A) the fair market value of the shares subject to the option as valued pursuant to the Corporate Transaction over (B) the aggregate exercise price of the option.

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C. Each outstanding option under this Article Four which is assumed in connection with the Corporate Transaction or is otherwise to continue in effect shall be appropriately adjusted, immediately after such Corporate Transaction, to apply and pertain to the number and class of securities which would have been issued to the option holder, in consummation of such Corporate Transaction, had such person exercised the option immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the option price payable per share, provided the aggregate option price payable for such securities shall remain the same.

D. In connection with any Change in Control, the exercisability of each option grant outstanding at the time under this Article Four shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for the Change in Control, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares.

E. The automatic grant of options under this Article Four shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

**IV. STOCK APPRECIATION RIGHTS**

A. With respect to options granted under the Automatic Option Grant Program prior to March 7, 2006:

1. Upon the occurrence of a Hostile Take-Over, the optionee shall have a thirty (30)-day period in which to surrender to the Company each option held by him or her under this Article Four. The optionee shall in return be entitled to a cash distribution from the Company in an amount equal to the excess of (i) the Take-Over Price of the shares of Common Stock at the time subject to each surrendered option (whether or not the option is then exercisable for those shares) over (ii) the aggregate exercise price payable for such shares. The cash distribution shall be made within five (5) days following the date the option is surrendered to the Company, and neither the approval of the Plan Administrator nor the consent of the Board shall be required in connection with the option surrender and cash distribution. Any unsurrendered portion of the option shall continue to remain outstanding and become exercisable in accordance with the terms of the instrument evidencing such grant. This limited stock appreciation right shall in all events terminate upon the expiration or sooner termination of the option term and may not be assigned or transferred by the optionee.

2. For purposes of Article Four, the following definitions shall be in effect:

- A **Hostile Take-Over** shall be deemed to occur in the event any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of

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the 1934 Act, as amended) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which the Board does not recommend such stockholders to accept.

- The **Take-Over Price** per share shall be deemed to be equal to the fair market value per share on the option surrender date.

B. With respect to each option granted under the Automatic Option Grant Program on and after March 7, 2006, each optionee shall have the right to surrender all or part of the option (to the extent not then exercised) in exchange for a distribution from the Company in an amount equal to the excess of (i) the fair market value (on the option surrender date) of the number of shares in which the optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (ii) the aggregate option price payable for such vested shares. The distribution shall be made in shares of Common Stock valued at fair market value on the option surrender date.

C. The shares of Common Stock subject to any option surrendered for an appreciation distribution pursuant to this Section IV shall **not** be available for subsequent option grant under the Plan.

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**ARTICLE FIVE**  
**MISCELLANEOUS**

**I. AMENDMENT OF THE PLAN**

The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects whatsoever. However, no such amendment or modification shall, without the consent of the holders, adversely affect rights and obligations with respect to options at the time outstanding under the Plan. In addition, certain amendments may require stockholder approval pursuant to applicable laws or regulations.

**II. TAX WITHHOLDING**

A. The Company's obligation to deliver shares or cash upon the exercise of stock options or stock appreciation rights or upon the grant or vesting of direct stock issuances under the Plan shall be subject to the satisfaction of all applicable Federal, State and local income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion and upon such terms and conditions as it may deem appropriate, provide any or all holders of outstanding options or stock issuances under the Plan (other than the automatic option grants under Article Four) with the election to have the Company withhold, from the shares of Common Stock otherwise issuable upon the exercise or vesting of such awards, a whole number of such shares with an aggregate fair market value equal to the minimum amount necessary to satisfy the Federal, State and local income and employment tax withholdings (the Taxes) incurred in connection with the acquisition or vesting of such shares. In lieu of such direct withholding, one or more participants may also be granted the right to deliver whole shares of Common Stock to the Company in satisfaction of such Taxes. Any withheld or delivered shares shall be valued at their fair market value on the applicable determination date for such Taxes.

**III. EFFECTIVE DATE AND TERM OF PLAN**

A. The Plan, as amended and restated, shall be effective on the date specified in the Board of Directors resolution adopting the Plan. Except as provided below, each option issued and outstanding under the Plan immediately prior to such effective date shall continue to be governed solely by the terms and conditions of the agreement evidencing such grant, and nothing in this restatement of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such options with respect to their acquisition of shares of Common Stock thereunder. The Plan Administrator shall, however, have full power and authority, under such circumstances as the Plan Administrator may deem appropriate (but in accordance with Article I of this Section Five), to extend one or more features of this amendment and restatement to any options outstanding on the effective date.

B. Unless sooner terminated in accordance with the other provisions of this Plan, the Plan shall terminate upon the earlier of (i) March 6, 2016 or (ii) the date on which all shares available for issuance under the Plan shall have been issued or cancelled pursuant to the exercise, surrender or cash-out of the options granted hereunder. If the date of termination is determined under clause (i) above, then any options or stock issuances outstanding on such date

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shall continue to have force and effect in accordance with the provisions of the agreements evidencing those awards.

C. Options may be granted with respect to a number of shares of Common Stock in excess of the number of shares at the time available for issuance under the Plan, provided each granted option is not to become exercisable, in whole or in part, at any time prior to stockholder approval of an amendment authorizing a sufficient increase in the number of shares issuable under the Plan.

**IV. USE OF PROCEEDS**

Any cash proceeds received by the Company from the sale of shares pursuant to options or stock issuances granted under the Plan shall be used for general corporate purposes.

**V. REGULATORY APPROVALS**

A. The implementation of the Plan, the granting of any option hereunder, and the issuance of stock (i) upon the exercise or surrender of any option or (ii) under the Stock Issuance Program shall be subject to the procurement by the Company of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted under it and the stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including (to the extent required) the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then trading.

**VI. NO EMPLOYMENT/SERVICE RIGHTS**

Neither the action of the Company in establishing or restating the Plan, nor any action taken by the Plan Administrator hereunder, nor any provision of the Plan shall be construed so as to grant any individual the right to remain in the employ or service of the Company (or any parent or subsidiary corporation) for any period of specific duration, and the Company (or any parent or subsidiary corporation retaining the services of such individual) may terminate such individual's employment or service at any time and for any reason, with or without cause.

**VII. MISCELLANEOUS PROVISIONS**

A. Except to the extent otherwise expressly provided in the Plan, the right to acquire Common Stock or other assets under the Plan may not be assigned, encumbered or otherwise transferred by any participant.

B. The provisions of the Plan relating to the exercise of options and the issuance and/or vesting of shares shall be governed by the laws of the State of Alabama without

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resort to that state s conflict-of-laws provisions, as such laws are applied to contracts entered into and performed in such State.

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**BIOCRYST PHARMACEUTICALS, INC.**  
**2190 PARKWAY LAKE DR.**  
**BIRMINGHAM, AL 35244**

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to BIOCRYST PHARMACEUTICALS, INC., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: BIOCP1

KEEP THIS PORTION FOR YOUR RECORDS  
 DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**BIOCRYST PHARMACEUTICALS, INC.**

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ALL NOMINEES FOR DIRECTOR AND FOR EACH OF PROPOSAL 2, PROPOSAL 3 AND PROPOSAL 4

**For All**   **Withhold All**   **For All Except**

To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.

1. ELECTION OF DIRECTORS

(for terms as described in the Proxy Statement of the Company relating to the 2007 Annual Meeting.)

- Nominees:      01) John L. Higgins  
                     02) Beth C. Seidenberg, M.D.

○                      ○                      ○

**For    Against    Abstain**

**For    Against    Abstain**

2. To increase the number of shares available for issuance

○                      ○                      ○

4. To ratify the selection of Enst & Young LLP

○                      ○                      ○

under the Stock Incentive Plan by 1,200,000 shares to 5,944,274;

as the Company's independent registered public accountants for 2007.

3. To approve an amendment of our Certificate of Incorporation to increase the authorized Common Stock from 45,000,000 to 95,000,000 shares;
5. In their discretion, upon such other matters as may properly come before the meeting.

UNLESS OTHERWISE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE PERSONS NOMINATED BY MANAGEMENT AS DIRECTORS AND FOR EACH OF PROPOSAL 2, PROPOSAL 3 AND PROPOSAL 4.

Note: Please date and sign exactly as your name appears on the envelope in which this material was mailed. If shares are held jointly, each stockholder should sign. Executors, administrators, trustees, etc. should use full title and if more than one, all should sign. If a stockholder is a corporation, please sign full corporate name by an authorized officer.

Signature [PLEASE SIGN WITHIN BOX]      Date

Signature (Joint Owners)      Date

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**BIOCRYST PHARMACEUTICALS, INC.  
PROXY FOR ANNUAL MEETING OF STOCKHOLDERS    MAY 16, 2007**

**(This Proxy is Solicited by the Board of Directors)**

The undersigned stockholder of BioCryst Pharmaceuticals, Inc. hereby appoints Jon P. Stonehouse and Michael A. Darwin, and each of them, with full power of substitution, proxies to vote the shares of stock which the undersigned could vote if personally present at the Annual Meeting of Stockholders of BioCryst Pharmaceuticals, Inc., to be held at The Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama, on May 16, 2007, at 3:00 P.M., Central Daylight Time, or any adjournment thereof.

**(To Be Signed on Reverse Side)**