

INTRABIOTICS PHARMACEUTICALS INC /DE

Form DEF 14A

April 29, 2004

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**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

(AMENDMENT NO. \_\_)

Filed by the Registrant  [ X ]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement  
 [ X ] Definitive  
Proxy Statement  
 [ ] Confidential,  
for Use of the  
Commission Only  
(as permitted by  
Rule 14a-6(e)(2))  [ ]  
Definitive  
Additional  
Materials  [ ]  
Soliciting  
Material Pursuant  
to sec.  
240.14a-11(c) or  
sec. 240.14a-12

**INTRABIOTICS PHARMACEUTICALS, INC.**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

[ X ] Fee not required.  
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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:

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

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(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):

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

(1) Amount Previously Paid:

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

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(3) Filing Party:

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(4) Date Filed:

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**INTRABIOTICS PHARMACEUTICALS, INC.**

2483 East Bayshore Road, Suite 100  
Palo Alto, CA 94303

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on June 10, 2004**

To the Stockholders of IntraBiotics Pharmaceuticals, Inc.:

**NOTICE IS HEREBY GIVEN** that the Annual Meeting of Stockholders of IntraBiotics Pharmaceuticals, Inc., a Delaware corporation ( *IntraBiotics* ), will be held on Thursday, June 10, 2004 at 8:00 a.m. local time at the offices of Morgan, Lewis & Bockius, LLP, located at 3300 Hillview Avenue, Palo Alto, California, 94304 for the following purposes:

1. To elect two directors to hold office until the 2007 Annual Meeting of Stockholders and until their successors are elected.
2. To approve the 2004 Stock Incentive Plan (the *2004 Plan* ).
3. To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as independent auditors of IntraBiotics for its fiscal year ending December 31, 2004.
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on April 26, 2004, as the record date for the determination of stockholders entitled to notice of and to vote at this Annual Meeting and at any adjournment or postponement thereof. This proxy statement, the enclosed Proxy form and the related proxy solicitation materials were mailed on or about May 10, 2004 to all stockholders entitled to vote at the Annual Meeting of Stockholders.

By Order of the Board of Directors

Joyce Bremer  
*Secretary*

Palo Alto, California  
May 10, 2004

**All stockholders are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return the enclosed proxy as promptly as possible in order to ensure your representation at the meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for that purpose. If your shares are held of record by a broker, bank or other nominee, you may be able to vote on the Internet or by telephone by following the instructions provided with your voting form. Even if you have given your proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain from the record holder a proxy issued in your name.**

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**INTRABIOTICS PHARMACEUTICALS, INC.**

2483 East Bayshore Road, Suite 100  
Palo Alto, CA 94303

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**PROXY STATEMENT  
FOR THE 2004 ANNUAL MEETING OF STOCKHOLDERS  
June 10, 2004**

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**INFORMATION CONCERNING SOLICITATION AND VOTING**

**General**

The enclosed proxy is solicited on behalf of the Board of Directors (the *Board*) of IntraBiotics Pharmaceuticals, Inc., a Delaware corporation (*IntraBiotics*), for use at the Annual Meeting of Stockholders to be held on Thursday, June 10, 2004, at 8:00 a.m. local time (the *Annual Meeting*), or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at the offices of Morgan, Lewis & Bockius LLP, located at 3300 Hillview Avenue, Palo Alto, California, 94304. IntraBiotics intends to mail this proxy statement and accompanying proxy card on or about May 10, 2004 to all stockholders entitled to vote at the Annual Meeting.

**Solicitation**

IntraBiotics will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders. IntraBiotics has retained the services of Georgeson Shareholder Communications, Inc. to assist with the solicitation of proxies from brokers, bank nominees and other fiduciaries and custodians. Under the terms of an agreement dated March 19, 2004, IntraBiotics has agreed to pay approximately \$6,000, plus reasonable out of pocket expenses to Georgeson Shareholder Communications, Inc. for their proxy solicitation services. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of common stock of IntraBiotics beneficially owned by others to forward to such beneficial owners. IntraBiotics may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by directors, officers or other regular employees of IntraBiotics. No additional compensation will be paid to directors, officers or other regular employees for such services.

**Voting Rights and Outstanding Shares**

Only holders of record of common stock at the close of business on April 26, 2004 will be entitled to notice of and to vote at the Annual Meeting. At the close of business on April 26, 2004, IntraBiotics had outstanding and entitled to vote 5,369,280 shares of common stock and 1,709,875 shares of Series A preferred stock (on an as-converted to common stock basis). Each holder of record of common stock on such date will be entitled to one vote for each share of common stock held on all matters to be voted upon at the Annual Meeting. Each holder of record of the issued and outstanding Series A Preferred Stock will have the number

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of votes equal to the number of shares of common stock issuable upon conversion of such Series A preferred stock.

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares are represented by votes at the meeting or by proxy. Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Against votes, abstentions and broker non-votes. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner. Abstentions and broker non-votes will be counted in determining whether a quorum is present. Abstentions will be counted towards the vote total for each proposal, and will have the same effect as negative votes. Broker non-votes have no effect and will not be counted towards the vote total for any proposal. Stockholders may not cumulate votes in the election of directors. For the election of directors, the two directors receiving the highest number of affirmative votes will be elected. Proposals Two and Three require the approval of the affirmative vote of a majority of the outstanding voting shares of IntraBiotics present or represented and entitled to vote at the Annual Meeting.

### **Voting Via the Internet or by Telephone**

Stockholders may grant a proxy to vote their shares by means of the telephone or on the Internet. The law of the State of Delaware, under which IntraBiotics is incorporated, specifically permits electronically transmitted proxies, provided that each such proxy contains or is submitted with information from which the inspectors of election can determine that such proxy was authorized by the stockholder.

The telephone and Internet voting procedures below are designed to authenticate stockholders' identities, to allow stockholders to grant a proxy to vote their shares and to confirm that stockholders' instructions have been recorded properly. Stockholders granting a proxy to vote via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that must be borne by the stockholder.

#### ***For Shares Registered in the Name of a Broker or Bank***

Most beneficial owners whose stock is held in street name receive instruction for granting proxies from their banks, brokers or other agents, rather than IntraBiotics' proxy card.

A number of brokers and banks are participating in a program provided through ADP Investor Communication Services that offers the means to grant proxies to vote shares by the telephone and Internet. If your shares are held in an account with a broker or bank participating in the ADP Investor Communications Services program, you may grant a proxy to vote those shares telephonically by calling the telephone number shown on the instruction form received from your broker or bank, or via the Internet at ADP Investor Communication Services' web site at <http://www.proxyvote.com>.

#### ***General Information for All Shares Voted Via the Internet or by Telephone***

Votes submitted via the Internet or by telephone must be received by 11:59 p.m., Eastern Time on June 9, 2004. Submitting your proxy via the Internet or by telephone will not affect your right to vote in person should you decide to attend the Annual Meeting.

### **Revocability of Proxies**

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the Secretary of IntraBiotics at IntraBiotics' principal executive office, 2483 East Bayshore Road, Suite 100, Palo Alto, CA, 94303 a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.



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**Householding of Proxy Materials**

The SEC has adopted rules that permit companies and intermediaries (*e.g.*, brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are IntraBiotics stockholders will be householding the proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, you may (1) notify your broker, (2) direct your written request to Shareholder Relations, Attention: Joyce Bremer, IntraBiotics Pharmaceuticals, Inc., 2483 East Bayshore Road, Suite 100, Palo Alto, CA 94303 or (3) contact Joyce Bremer at (650) 526-6800. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker. In addition, IntraBiotics will promptly deliver, upon written or oral request to Joyce Bremer at the address or telephone number above, a separate copy of the annual report and proxy statement to a stockholder at a shared address to which a single copy of the documents was delivered.

**Stockholder Proposals**

The deadline for submitting a stockholder proposal for inclusion in IntraBiotics proxy statement and form of proxy for IntraBiotics 2005 annual meeting of stockholders pursuant to Rule 14a-8 of the Securities and Exchange Commission is January 10, 2005. In addition, the proxy solicited by the Board for the 2005 annual meeting will confer discretionary authority to vote on any stockholder proposal presented at that meeting, unless IntraBiotics receives notice of such proposal not later than the close of business on March 26, 2005. Such stockholder proposals should be submitted to 2483 East Bayshore Road, Suite 100, Palo Alto, CA 94303, Attention: Corporate Secretary. Stockholders are advised to review IntraBiotics Bylaws, which contain additional requirements with respect to advance notice of stockholder proposals and director nominations.

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**PROPOSAL ONE**

**ELECTION OF DIRECTORS**

IntraBiotics' Amended and Restated Certificate of Incorporation and Bylaws provide that the Board shall be divided into three classes, each class consisting, as nearly as possible, of one-third of the total number of directors, with each class having a three-year term. Vacancies on the Board may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board to fill a vacancy (including a vacancy created by an increase in the number of directors) shall serve for the remainder of the full term of the class of directors in which the vacancy occurred and until such director's successor is elected and qualified, or until such director's earlier death, resignation or removal.

The Board is presently composed of seven members. There are two directors in the class whose term of office expires in 2004. Each of the nominees for election to this class is currently a director of IntraBiotics. If elected at the Annual Meeting, each of the nominees would serve until the 2007 annual meeting and until his or her successor is elected and has qualified, or until such director's earlier death, resignation or removal. Mr. Mark Perry, Dr. Jack Remington, Mr. Jerry Jackson and Mr. Gary Lyons are independent directors under applicable SEC and Nasdaq rules.

Directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote at the meeting. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the two nominees named below. In the event that any nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of such substitute nominee as management may propose. Each person nominated for election has agreed to serve if elected, and management has no reason to believe that any nominee will be unable to serve.

All capital stock numbers and related exercise prices disclosed below are adjusted to reflect the 1 for 12 reverse stock split effected on April 10, 2003.

Set forth below is biographical information as of March 31, 2004 for each person nominated and each person whose term of office as a director will continue after the Annual Meeting.

**Nominees for Election for a Three-Year Term Expiring at the 2007 Annual Meeting**

*Jack S. Remington, M.D., age 73*, has served as a director of IntraBiotics since October 1996. Dr. Remington currently serves and has served as Professor, Department of Medicine, Division of Infectious Diseases and Geographic Medicine, at the Stanford University School of Medicine and as Chairman of the Department of Immunology and Infectious Diseases at the Research Institute of the Palo Alto Medical Foundation for nearly four decades. In addition, Dr. Remington is a consultant for leading pharmaceutical companies with regard to antibiotic research and development and serves on numerous editorial boards of medical journals. He is a past President of the Infectious Disease Society of America. Dr. Remington is a nationally recognized authority in the field of infectious disease medicine, and received the 1996 Bristol Award of the Infectious Disease Society of America.

*Kevin C. Tang, age 37*, has been a director of IntraBiotics since May 2003. Mr. Tang is the Managing Director of Tang Capital Management, LLC, a life sciences-focused investment company he founded in August 2002. Mr. Tang was a consultant from August 2001 to July 2002. From September 1993 to July 2001, Mr. Tang held various positions at Deutsche Banc Alex. Brown, Inc., an investment banking firm, most recently serving as Managing Director and head of the firm's life sciences research group. Mr. Tang currently serves as a director of Aclara BioSciences, Inc. and Trimeris, Inc. Mr. Tang received a B.S. degree from Duke University.

**THE BOARD BELIEVES THAT THIS PROPOSAL ONE IS IN THE BEST INTERESTS OF INTRABIOTICS PHARMACEUTICALS AND ITS STOCKHOLDERS AND RECOMMENDS A VOTE *FOR* THE ELECTION OF JACK S. REMINGTON AND KEVIN C. TANG.**

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**Directors Continuing in Office until the 2005 Annual Meeting**

*Jerry T. Jackson, age 62*, has served as a director of IntraBiotics since August 2002. Mr. Jackson is currently and has been retired since 1995. Mr. Jackson was employed by Merck & Co., Inc., a major pharmaceutical company, from 1965 until his retirement in 1995. During this time, he had extensive experience in sales, marketing and corporate management, including joint ventures. From 1993 until retirement, Mr. Jackson served as Executive Vice President of Merck with broad responsibilities for numerous operating groups, including being President of Merck's Worldwide Human Health Division in 1993 and Senior Vice President responsible for Merck's Specialty Chemicals Business from 1991 to 1992. Previously, he was President of Merck's International Division. Mr. Jackson has served on the board of directors of several biotech pharmaceutical companies and currently serves as a director of Alexion Pharmaceuticals, Inc., Myogen, Inc. and Langford I.C. Systems, Inc. Mr. Jackson received a B.A. degree in Education from the University of New Mexico in 1964.

*Gary A. Lyons, age 53*, has served as a director of IntraBiotics since December 1999. From 1993 to the present, Mr. Lyons has been President and Chief Executive Officer of Neurocrine Biosciences, Inc., a publicly traded biopharmaceutical company. From 1983 to 1993, Mr. Lyons was affiliated with Genentech, Inc. and served as Vice President of Business Development and Vice President of Sales. He is a member of the board of directors of Vical Inc. Mr. Lyons holds a B.S. degree in Marine Biology from the University of New Hampshire and an M.B.A. degree from Northwestern University's J.L. Kellogg Graduate School of Management.

*Mark L. Perry, J.D., age 48*, has served as a director of IntraBiotics since September 2003. Mr. Perry is Gilead Sciences, Inc.'s, Executive Vice President, Operations. Mr. Perry joined Gilead in July 1994 as Vice President and General Counsel and became Chief Financial Officer in July 1996. Mr. Perry was appointed Senior Vice President in January 1998 and served in that capacity until he was appointed Senior Vice President, Operations in February 2000. Mr. Perry was promoted to Executive Vice President, Operations in November 2000. He has also served as Gilead's Corporate Secretary since May 1994. From 1981 to 1994, Mr. Perry was with Cooley Godward LLP in San Francisco and Palo Alto, California. Mr. Perry was an associate with Cooley Godward LLP from 1981 to 1987, and a partner from 1987 to 1994. Mr. Perry received his J.D. degree from the University of California, Davis and is a member of the California bar. Mr. Perry is a member of the Board of Nuvelo, Inc.

**Directors Continuing in Office until the 2006 Annual Meeting**

*Ernest Mario, Ph.D., age 65*, has served as Chairman of the Board of IntraBiotics since April 2002. From April 2002 to January 2003, Dr. Mario also served as IntraBiotics' Chief Executive Officer. From February 2003 to the present, Dr. Mario has served as Chairman and Chief Executive Officer of Reliant Pharmaceuticals. In January 2002, Dr. Mario founded Apothogen, Inc., or Apothogen, a pharmaceutical company where he served as Chairman and Chief Executive Officer until Apothogen was acquired by IntraBiotics in April 2002. Dr. Mario was the Chairman and Chief Executive Officer of ALZA Corporation, a pharmaceutical company, from 1993 until June 2001. Prior to joining ALZA, Dr. Mario served as Chief Executive of Glaxo Holdings plc, or Glaxo Holdings, a pharmaceutical company, from May 1989 to March 1993, and as Deputy Chairman from January 1992 to March 1993. Prior to that time, Dr. Mario served as Chairman and Chief Executive Officer of Glaxo, Inc., a subsidiary of Glaxo Holdings, from 1988 to 1989 and as President and Chief Operating Officer of Glaxo, Inc. from 1986 to 1988. Prior to joining Glaxo, Inc., Dr. Mario held various executive positions at Squibb Corporation and served as a director of that company. Dr. Mario is also a director of Pharmaceutical Product Development, Inc., Boston Scientific Corporation and Maxygen, Inc. Dr. Mario earned a B.S. degree in Pharmacy at Rutgers University and master's and doctoral degrees in Physical Sciences at the University of Rhode Island and also holds honorary doctorates from the University of Rhode Island and Rutgers University.

*Henry J. Fuchs, M.D., age 46*, has served as a director of IntraBiotics since November 2001 and as Chief Executive Officer since January 2003. Dr. Fuchs joined IntraBiotics as Vice President, Clinical Affairs in October 1996 and was appointed President and Chief Operating Officer in November 2001. From 1987 to

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1996, Dr. Fuchs held various positions at Genentech, Inc., a biotechnology company, where, among other things, he had responsibility for the clinical program that led to the approval for Genentech's Pulmozyme®. Dr. Fuchs was also responsible for the Phase III development program that led to the approval of Herceptin® to treat metastatic breast cancer. Dr. Fuchs received an M.D. degree from George Washington University and a B.A. degree in biochemical sciences from Harvard University.

## **Board Committees and Meetings**

During the fiscal year ended December 31, 2003 the Board held eighteen (18) meetings including telephone conference meetings and acted by unanimous written consent eight (8) times. During the fiscal year ended December 31, 2003, each member of the Board attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he or she served, held during the period for which he or she was a director or committee member, respectively, except for Dr. Remington and Mr. Lyons who attended 56% and 69%, respectively, of the aggregate meetings of the Board and the Board committees on which each served.

The Board has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

*Audit Committee.* The Audit Committee of the Board of IntraBiotics oversees IntraBiotics' corporate accounting and financial reporting process. For this purpose, the Audit Committee performs several functions. The Audit Committee monitors IntraBiotics' systems of internal controls; evaluates the performance of and assesses the qualifications of the independent auditors; determines the engagement of the independent auditors; determines whether to retain or terminate the existing independent auditors or to appoint and engage new independent auditors; reviews and approves the retention of the independent auditors to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent auditors on IntraBiotics engagement team as required by law; reviews the financial statements to be included in IntraBiotics Annual Report on Form 10-K and quarterly reports on Form 10-Q; and discusses with management and the independent auditors the results of the annual audit and the results of IntraBiotics' quarterly financial statements. Three directors comprise the Audit Committee: Mr. Perry, who was elected to the committee in September 2003, Mr. Lyons and Mr. Jackson. Mr. Perry is Chair of the Audit Committee. Michael Bigham served on the Audit Committee from January 2003 through March 2003, when he resigned from the Board and the Audit Committee. Kathleen LaPorte served on the Audit Committee from January 2003 through September 2003, when she resigned from the Board and the Audit Committee. The Audit Committee met eight (8) times during 2003 and acted by unanimous written consent two (2) times. All members of IntraBiotics' Audit Committee are independent under applicable SEC and Nasdaq rules. In addition, the Board has determined that at least one of the independent directors serving on the Audit Committee, Mr. Perry, is an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended (the *Exchange Act*). In March 2004, the Audit Committee amended its charter, a copy of which is attached hereto as *Appendix A*. The Audit Committee Report is included in this proxy statement on page .

*Compensation Committee.* The Compensation Committee reviews and approves the overall compensation strategy and policies for IntraBiotics. The Compensation Committee reviews and approves corporate performance goals and objectives relevant to the compensation of IntraBiotics' executive officers and other senior management; reviews and approves the compensation and other terms of employment of IntraBiotics' Chief Executive Officer; and administers IntraBiotics' stock option and purchase plans, pension and profit sharing plans, stock bonus plans, deferred compensation plans and other similar programs. Three directors comprise the Compensation Committee: Mr. Lyons, Mr. Perry, who was elected to the Compensation Committee in November 2003, and Mr. Jackson, who was elected to the committee in September 2003. Mr. Lyons is Chair of the Compensation Committee. Mr. Bigham served on the Compensation Committee from January 2003 through March 2003, when he resigned from the Board and the Compensation Committee. Ms. LaPorte served on the Compensation Committee from January 2003 through September 2003, when she resigned from the Board and the Compensation Committee. All members of IntraBiotics' Compensation Committee are independent under applicable SEC and Nasdaq rules. The Compensation Committee met

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three (3) times and acted by unanimous written consent five (5) times during 2003. The Compensation Committee Report is included in this proxy statement on page .

*Compensation Committee Interlocks and Insider Participation.* IntraBiotics Compensation Committee currently consists of Mr. Lyons, Mr. Perry and Mr. Jackson. No member of this committee has at any time been an officer or employee of IntraBiotics. None of our executive officers serves as a member of the Board or compensation committee of any entity that has one or more executive officers serving as a member of our Board or Compensation Committee.

*Nominating and Corporate Governance Committee.* The Board formed a Nominating and Corporate Governance Committee in March 2004 and it adopted a charter. A copy of the charter is currently available on the IntraBiotics website at [www.intrabiotics.com](http://www.intrabiotics.com). The Nominating and Corporate Governance Committee identifies individuals qualified to become members of the Board and recommends such persons to be nominated by the Board for election as directors at the annual meeting of stockholders. The Nominating and Corporate Governance Committee will consider and make recommendations to the Board regarding any stockholder recommendations for candidates to serve on the Board. However, it has not adopted a formal process for that consideration because it believes that the informal consideration process has been adequate given the historical absence of stockholder proposals. The Nominating and Corporate Governance Committee will review periodically whether a more formal policy should be adopted. Stockholders wishing to recommend candidates for consideration by the Nominating and Corporate Governance Committee may do so by writing to the Secretary of IntraBiotics at 2483 East Bayshore Road, Suite 100, Palo Alto, CA, 94303, providing the candidate's name, biographical data and qualifications at least 120 days prior to the mailing of the notice of the next annual meeting to assure meaningful consideration by the Nominating and Corporate Governance Committee. There are no differences in the manner in which the Nominating and Corporate Governance Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder. Directors are not required to meet any specific or minimum qualifications. The Committee does, however, use certain evaluation criteria as a guide in its selection process such as including the following: (i) whether the directors will have the ability to recognize their role to represent the interest of the stockholders, (ii) whether the directors will possess the judgment and ability to assess our strategy, business plans, management evaluation and other key issues; (iii) whether the directors will actively participate in Board processes and decision making; (iv) whether the directors will fulfill specific Board needs; and (v) whether the directors will overall represent our company in an appropriate and professional manner. The Committee is also responsible for reviewing with the Board, on an annual basis, the requisite skills and criteria for new Board members as well as the composition of the Board as a whole. The Committee is required to review the qualifications and backgrounds of all directors and nominees (without regard to whether a nominee has been recommended by stockholders), as well as the overall composition of the Board, and recommend a slate of directors to be nominated for election at the annual meeting of stockholders, or, in the case of a vacancy on the Board, recommend a director to be elected by the Board to fill such vacancy. Three directors comprise the Nominating and Corporate Governance Committee: Dr. Mario, Mr. Jackson and Mr. Perry. Dr. Mario is Chair of the Nominating and Corporate Governance Committee. All members of IntraBiotics Nominating and Corporate Governance Committee are independent under applicable SEC and Nasdaq rules, except Dr. Mario. Dr. Mario is eligible to serve on the Nominating and Corporate Governance Committee under Nasdaq rules pursuant to a determination by the Board that his service on the Committee is required by the best interests of the Company and its stockholders. Although Dr. Mario served as Chief Executive Officer from April 23, 2002 until January 27, 2003 and received compensation totaling \$25,608 during that period, the Board determined that Dr. Mario's service as a member of the Nominating and Corporate Governance Committee is required by the best interests of the Company and its stockholders. In making this determination the Board considered certain factors, including: (1) Dr. Mario's extensive experience in the biotechnology industry and as an officer and director of public companies as it relates to his ability to identify and review potential nominees; (2) the limited period of time and unusual circumstances of a management reorganization during which Dr. Mario served as Chief Executive Officer of the Company; (3) the desire to have a Nominating and Corporate Governance Committee of three members; (4) the limited number of members of the Board eligible to serve on the Nominating and Corporate Governance Committee under Nasdaq rules; and (5) a conclusion that Dr. Mario would function as a completely independent member of the Nominating and

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Corporate Governance Committee. Members of the Nominating and Corporate Governance Committee are appointed by the Board. Members of the Nominating and Corporate Governance Committee are appointed by the Board.

### **Compensation of Directors**

Members of the Board who are not employees of IntraBiotics received no cash compensation for their services as directors in 2003, but were reimbursed for their reasonable expenses in attending Board meetings. Commencing with the 2004 fiscal year, each Board member will receive an annual cash retainer fee of \$10,000 and will be reimbursed for reasonable expenses in attending Board meetings. All Board members were eligible to participate in the 2000 Equity Incentive Plan (the **2000 Plan**). During the 2003 fiscal year, the Board adopted an option grant formula program under the 2000 Plan, pursuant to which non-employee Board members are to receive option grants over their period of continued Board service. Accordingly, at the first regularly scheduled Board meeting each calendar year, beginning with the 2003 calendar year, each individual serving as a non-employee Board member at that time is to receive an option grant to purchase 1,250 shares of common stock. In addition, each non-employee Board member who is serving at that time as a member of a Board committee is also to receive an option grant to purchase 833 shares of common stock for each Board committee of which he or she is a member. Each of these formula grants under the 2000 Plan is to have an exercise price per share equal to the fair market value per share of IntraBiotics common stock on the date immediately preceding the grant date and a maximum term of 10 years, subject to earlier termination upon the optionee's cessation of Board service. Each such option will vest upon the optionee's completion of one year of Board service measured from the grant date. The Board can also grant additional options under the 2000 Plan to one or more continuing non-employee Board members on a discretionary, non-formula basis.

During the 2003 fiscal year, the following option grants were made to the continuing non-employee Board members under such formula program: Mr. Lyons, Mr. Jackson and Dr. Remington each received an option grant for 1,250 shares on February 3, 2003 with an exercise price of \$2.76 per share. Michael Bigham and Kathleen LaPorte, who were non-employee Board members at that time, also received an option grant for 1,250 shares; however, Michael Bigham resigned from the Board in March 2003 and Ms. LaPorte resigned in September 2003. In addition, the following option grants were also made on February 6, 2003 to each non-employee Board member serving on a committee of the Board: Mr. Jackson received an option grant for 833 shares with an exercise price of \$2.76 per share and Mr. Lyons received two options to purchase 833 shares of common stock each at an exercise price of \$2.76. Mr. Bigham received two options to purchase 833 shares of common stock each at an exercise price of \$2.76 and Ms. LaPorte received an option to purchase 833 shares of common stock with an exercise price of \$2.76 per share, prior to their respective resignations from the Board in March 2003 and September 2003. All of the foregoing option grants have a one-year vesting period measured from the grant date and a maximum ten-year term measured from such date. Following their resignation from the Board, Mr. Bigham and Ms. LaPorte continued service as consultants to IntraBiotics.

On April 1, 2003, we entered into a consulting agreement with Mr. Bigham. The term of the agreement ran from April 1, 2003 to April 1, 2004. Pursuant to the agreement, Mr. Bigham was to be paid a consulting fee of \$200 per hour for services rendered. During the term of the agreement, we did not pay Mr. Bigham any amounts. For the term of the agreement, stock options granted to Mr. Bigham continued to vest.

On September 9, 2003, we entered into a consulting agreement with Ms. LaPorte. The term of the agreement runs from September 9, 2003 to September 9, 2004. Ms. LaPorte will receive a consulting fee of \$200 per hour for services rendered. As of March 31, 2004, we have not paid Ms. LaPorte any amounts. For the term of the agreement, stock options granted to Ms. LaPorte will continue to vest.

On February 6, 2003, in connection with the 2003 Option Cancellation and Re-Grant Program, the following option grants with an exercise price of \$2.76 per share were made to the non-employee Board members in cancellation of options for the same numbers of shares but with higher exercise prices: Dr. Remington was granted two options to purchase 417 shares of common stock each and an option to purchase 1,250 shares of common stock in replacement of options for the same number of shares with a

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weighted average exercise price of \$50.24 per share; Mr. Jackson was granted an option to purchase 833 shares of common stock and an option to purchase 1,667 shares of common stock in replacement of options for the same number of shares with a weighted average exercise price of \$15.60 per share; Mr. Lyons was granted two options to purchase 1,250 shares of common stock each, two options to purchase 833 shares of common stock each and an option to purchase 417 shares of common stock in replacement of options for the same number of shares with a weighted average exercise price of \$34.18 per share; Ms. LaPorte was granted an option to purchase 6,250 shares of common stock, an option to purchase 2,083 shares of common stock, an option to purchase 1,250 shares of common stock, an option to purchase 833 shares of common stock and an option to purchase 417 shares of common stock in replacement of options for the same number of shares with a weighted average exercise price of \$28.63 per share; and Mr. Bigham was granted two options to purchase 833 shares of common stock each, two options to purchase 417 shares of common stock each and an option to purchase 1,250 shares of common stock in replacement of options for the same number of shares with a weighted average exercise price of \$35.78 per share. Each option grant has a maximum term of 5 years and vests in full upon the optionee's completion of one-year of Board service measured from the date of grant. Mr. Bigham also continued to vest in these options during his consulting period, and Ms. LaPorte will also continue to vest in her replacement options during her consulting period.

In 2003, the Board amended the option grant formula program so that commencing August 7, 2003, each newly-appointed or elected non-employee Board member will receive an automatic option grant for 10,000 shares at the time he or she becomes a non-employee Board member, and such option will vest in a series of three equal successive annual installments upon his completion of each year of Board service over the three year period measured from the grant date. In addition, at the first regularly scheduled Board meeting in 2004, each individual serving as a non-employee Board member at that time is to receive an option grant to purchase 5,000 shares of common stock. In addition, each non-employee Board member serving at that time as a member of a Board committee is also to receive an option grant to purchase 2,500 shares of common stock for each Board committee of which he or she is a member. Each of these formula grants made pursuant to the 2000 Plan is to have an exercise price per share equal to the fair market value per share of IntraBiotics common stock on the date immediately preceding the grant date and a maximum term of 10 years, subject to earlier termination upon the optionee's cessation of Board service. Each 5,000-share and 2,500-share option granted vests upon the optionee's completion of one year of Board service measured from the grant date.

On November 18, 2003, Mr. Perry received an option to purchase 10,000 shares of common stock in connection with his joining the Board in September 2003. The option has an exercise price of \$13.53 per share and will vest in a series of three equal successive annual installments upon his completion of each year of Board service over the three year period measured from the grant date. The option has a maximum ten-year term, subject to earlier termination upon Mr. Perry's cessation of Board service.

Option grants for the 2004 fiscal year were made to the non-employee Board members on February 2, 2004 in accordance with the existing formula grant program in effect for them pursuant to the 2000 Plan, as that program is summarized above. Accordingly, each of the following non-employee Board members received option grants for the indicated number of shares with an exercise price of \$16.49 per share in connection with their Board or Board committee service: Dr. Mario (5,000 shares), Dr. Remington (5,000 shares), Mr. Perry (10,000 shares), Mr. Jackson (10,000 shares), Mr. Lyons (10,000 shares) and Mr. Tang (5,000 shares).

In addition, on February 2, 2004, Mr. Jackson, Mr. Lyons and Dr. Remington each received an additional option grant to purchase 10,000 shares of common stock with an exercise price of \$16.49 per share. Each option will vest upon each such director's completion of one year of Board service measured from the grant date, subject to earlier termination upon cessation of Board service.

The Board intends to grant to Mr. Jackson, Mr. Lyons and Dr. Remington each an additional option grant to purchase 15,000 shares of common stock. These options will be granted under the 2004 Stock Incentive Plan (the **2004 Plan**) described below. If the stockholders approve the 2004 Plan at the 2004 annual meeting, then each of these options, if granted before such stockholder approval, will become immediately exercisable for all of the option shares. However, any shares purchased under the option will be subject to repurchase by IntraBiotics, at the lower of the exercise price paid per share or the fair market value

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per share, should the optionee cease Board service prior to the vesting in those shares. The shares subject to each option grant will vest upon the optionee's completion of one year of Board service measured from the grant date.

In the event of a sale or disposition of substantially all of the securities or assets of IntraBiotics, a merger of IntraBiotics with or into another corporation or a consolidation or other change of control transaction involving IntraBiotics, all of the foregoing option grants made to the non-employee directors will fully vest and become immediately exercisable for vested shares as of the effective date of the change of control of IntraBiotics.

If Proposal Two is adopted and the 2004 Plan is approved, then the 2000 Plan will terminate, and newly-appointed and continuing non-employee Board members will receive option grants pursuant to the automatic option grant program in effect for them under the new 2004 Plan. Accordingly, on the first trading date in January each year, beginning January 2005, each individual serving as a non-employee Board member at that time will automatically be granted an option under the 2004 Plan to purchase 10,000 shares of common stock. In addition, each non-employee Board member who is serving at that time as a member of any Board committee (currently, the Audit Committee, Compensation Committee or the Nominating and Corporate Governance Committee) will also receive an automatic option grant under the 2004 Plan to purchase 2,500 shares of common stock for each of those committees of which he or she is a member, except that the option grant for the Chair of the Audit Committee will be for 7,500 shares and the option grant for the Chair of the Compensation Committee and the Nominating and Corporate Governance Committees will each be for 5,000 shares. In addition, each newly-appointed or elected non-employee Board member will receive an automatic option grant for 25,000 shares at the time he or she becomes a non-employee Board member. Each automatic option grant under the 2004 Plan will have an exercise price per share equal to the fair market value per share of IntraBiotics common stock on the date immediately preceding the grant date and will have a maximum term of 10 years, subject to earlier termination upon the optionee's cessation of Board service. Each annual option grant made to any continuing Board and Committee member will vest upon the optionee's completion of one year of Board service measured from the grant date. Each initial 25,000 share option will vest in a series of thirty-six equal successive monthly installments upon the optionee's completion of each month of Board service over the thirty-six month period measured from the grant date. For further information concerning these grants, please see the section in Proposal Two below entitled "Automatic Option Grant Program."



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**PROPOSAL TWO**

**APPROVAL OF 2004 STOCK INCENTIVE PLAN**

The stockholders are being asked to approve the 2004 Stock Incentive Plan which our Board adopted on March 2, 2004 as the successor to our 2000 Plan. If the 2004 Plan is approved by our stockholders at the Annual Meeting, all outstanding options under the 2000 Plan, together with the remaining share reserved under that plan, will be transferred to the 2004 Plan, and no further option grants or stock issuances will be made under that predecessor plan.

All capital stock numbers and related exercise prices disclosed below are adjusted to reflect the 1 for 12 reverse stock split effected on April 10, 2003.

The 2004 Plan differs from the predecessor plan in the following principal respects:

(i) The share reserve under the 2004 Plan includes not only the remaining share reserve under the predecessor plan but also an additional increase of approximately 1,200,000 shares.

(ii) An automatic option grant program has been established for our non-employee Board members pursuant to which they will receive option grants at designated intervals over their period of continued Board service.

(iii) Restricted stock units and stand-alone stock appreciation rights may be issued under the 2004 Plan. Restricted stock units may be structured so that those units become payable either upon the attainment of designated performance goals or the satisfaction of specified service requirements or upon the expiration of a designated time period following those vesting events, including a deferred distribution date following the termination of the individual's service with us.

(iv) The limitation on the maximum number of shares of common stock by which the share reserve is to increase each year over the term of the 2004 Plan is increased to 2,000,000 shares, and the limitation on the maximum number of shares for which an individual may be granted awards in any one calendar year is increased to 1,000,000 shares.

(v) A net counting procedure will be utilized so that the share reserve is reduced only by the actual number of shares issued under the 2004 Plan, and not by the gross number of shares subject to the awards made thereunder.

(vi) The exercise price of stock options or stock appreciation rights granted under the 2004 Plan may not be less than the fair market value per share of our common stock on the date immediately preceding the grant date.

(vii) Performance criteria have been incorporated into the 2004 Plan which will allow the plan administrator to structure one or more stock issuances or other stock-based awards so that the compensation attributable to those particular awards will qualify as performance-based compensation under Internal Revenue Code Section 162(m).

(viii) The 2004 Plan will have a ten-year term measured from the March 2, 2004 date on which our Board adopted the plan.

(ix) Individuals will not have any right to exercise their options or otherwise acquire shares under the 2004 Plan by delivering promissory notes.

(x) Options and stock appreciation rights granted under the 2004 may be transferable during the recipient's lifetime to his or her family members or trusts established for such family members.

The net effect of the 2004 Plan is to provide us with more flexibility in designing equity incentives in an environment where a number of companies have moved from traditional option grants to other stock or stock-based awards such as stock appreciation rights, restricted stock and restricted stock units. Accordingly, we will have a broader array of equity incentives to utilize for purposes of attracting and retaining the services of key individuals and other personnel essential to our long-term growth and financial success. We rely significantly



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on equity incentives to attract and retain key employees and other personnel and believe that such equity incentives are necessary for us to remain competitive in the marketplace for executive talent and other key employees. Awards under the 2004 Plan which are made to newly-hired or continuing employees will be based on both competitive market conditions and individual performance.

**Summary Description of 2004 Stock Incentive Plan**

The principal terms and provisions of the 2004 Plan are summarized below. The summary, however, is not intended to be a complete description of all the terms of the 2004 Plan, and is qualified in its entirety by reference to the complete text of the 2004 Plan. Any stockholder who wishes to obtain a copy of the actual plan documents may do so upon written request to our Corporate Secretary, Joyce Bremer, at our principal offices at 2483 East Bayshore Road, Suite 100, Palo Alto, California 94303 or may obtain a copy (which was filed as an exhibit to this Proxy Statement) from the SEC's website at [www.sec.gov](http://www.sec.gov).

*Administration.* The Compensation Committee of our Board will have the exclusive authority to administer the discretionary grant and stock issuance programs with respect to grants and stock issuances made to our executive officers and will also have the authority to make grants and stock issuances under those programs to all other eligible individuals. However, our 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 grants and stock issuances under those two programs to individuals other than executive officers. The term "plan administrator," as used in this summary, will mean our Compensation Committee and any secondary committee, to the extent each such entity is acting within the scope of its administrative authority under the 2004 Plan.

*Eligibility.* Officers and employees, as well as independent consultants and contractors, in our employ or in the employ of our parent or subsidiary companies (whether now existing or subsequently established) will be eligible to participate in the discretionary grant and stock issuance programs. The non-employee members of our Board will also be eligible to participate in those two programs as well as the automatic option grant program. As of March 2, 2004, approximately 28 employees and consultants (including two executive officers) were eligible to participate in the discretionary grant and stock issuance programs, and six non-employee Board members were eligible to participate in those programs and the automatic option grant program.

*Securities Subject to 2004 Plan.* If our stockholders approve the 2004 Plan, 2,050,000 shares of our common stock will be reserved for issuance over the term of the plan. Such share reserve consists of the number of shares we estimate will be carried over from the predecessor plan, including the shares subject to outstanding options thereunder, plus an additional increase of approximately 1,200,000 shares. The number of shares of common stock reserved for issuance under our 2004 Plan will automatically increase on the first trading day in January each calendar year, beginning in calendar year 2005, by an amount equal to five percent of the sum of the following share numbers, calculated as of the last trading day in December of the immediately preceding calendar year: (i) the total number of shares of our common stock outstanding on that date and (ii) the number of shares of common stock into which the outstanding shares of our preferred stock are convertible on that date. In no event will any such annual increase exceed 2,000,000 shares.

No participant in the 2004 Plan may be granted stock options, separately exercisable stock appreciation rights and direct stock awards (whether in the form of vested or unvested shares or restricted stock units or other stock-based awards) for more than 1,000,000 shares of our common stock in any single calendar year, subject to adjustment for subsequent stock splits, stock dividends and similar transactions. Stockholder approval of this proposal will also constitute approval of that 1,000,000-share limitation for purposes of Internal Revenue Code Section 162(m). This limitation, together with the requirement that all stock options and stock appreciation rights under the discretionary grant program have an exercise price (or base price) per share equal to the fair market value per share of our common stock on the date immediately preceding the grant date, will assure that any deductions to which we would otherwise be entitled upon the exercise of stock options or stock appreciation rights granted under the discretionary grant program or the subsequent sale of the shares purchased under those grants will not be subject to the \$1 million limitation on the income tax deductibility of compensation paid per executive officer imposed under Section 162(m).  
One or more shares

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issued under the stock issuance program may also qualify as performance-based compensation that is not subject to the Section 162(m) limitation if the issuance of those shares is approved by our compensation committee and vesting is tied solely to the attainment of the corporate performance milestones discussed below in the summary description of that program.

The shares of common stock issuable under the 2004 Plan may be drawn from shares of our authorized but unissued common stock or from shares of our common stock that we acquire, including shares purchased on the open market or in private transactions.

Shares subject to any outstanding options or other awards under the 2004 Plan that expire or otherwise terminate prior to the issuance of the shares subject to those option or awards will be available for subsequent issuance under the 2004 Plan. Any unvested shares issued under the 2004 Plan that we subsequently purchase, at a price not greater than the original issue price paid per share, pursuant to our repurchase rights under the 2004 Plan will be added back to the number of shares reserved for issuance under the 2004 Plan and will accordingly be available for subsequent issuance.

The following additional share counting provisions will be in effect under the 2004 Plan:

Should the exercise price of an option be paid in shares of our common stock, then the number of shares reserved for issuance under the 2004 Plan will be reduced only by the net number of shares issued under the exercised option.

Should shares of common stock otherwise issuable under the 2004 Plan be withheld by us in satisfaction of the withholding taxes incurred in connection with the exercise of an option or stock appreciation right or the issuance of fully-vested shares under the stock issuance program, then the number of shares of common stock available for issuance under the 2004 Plan will be reduced only by the net number of shares issued under the exercised option or stock appreciation right or the net number of fully-vested shares issued under the stock issuance program.

Upon the exercise of any stock appreciation right granted under the 2004 Plan, the share reserve will only be reduced by the net number of shares actually issued upon such exercise, and not by the gross number of shares as to which such stock appreciation right is exercised.

## **Equity Incentive Programs**

The 2004 Plan consists of three separate equity incentive programs: (i) the discretionary grant program, (ii) the stock issuance program and (iii) the automatic option grant program. The principal features of each program are described below.

*Discretionary Grant Program.* Under the discretionary grant program, eligible persons may be granted options to purchase shares of our common stock or stock appreciation rights tied to the value of our common stock. The plan administrator will have complete discretion to determine which eligible individuals are to receive option grants or stock appreciation rights, the time or times when those options or stock appreciation rights are to be granted, the number of shares subject to each such grant, the vesting schedule (if any) to be in effect for the grant, the maximum term for which the granted option or stock appreciation right is to remain outstanding and the status of any granted option as either an incentive stock option or a non-statutory option under the federal tax laws.

Each granted option will have an exercise price per share determined by the plan administrator, but the exercise price will not be less than one hundred percent of the fair market value of the option shares on the date of grant or stock appreciation rights tied to the value of our common stock. No granted option will have a term in excess of ten years. The shares subject to each option will generally vest 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 such immediately exercisable options will be subject to repurchase by us, at the lower of the exercise price paid per share or the fair market value per share, if the optionee ceases service prior to vesting in those shares.

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Upon cessation of service other than by reason of death, disability or retirement, the optionee will have a limited period of time in which to exercise his or her outstanding options 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. For optionee's whose service terminates by reason of death, disability or retirement, the options will remain outstanding, to the extent vested at the time of such termination of service, until the expiration date of the option term.

The 2004 Plan will allow the issuance of three types of stock appreciation rights under the discretionary grant program:

Tandem stock appreciation rights provide the holders with the right to surrender their options for an appreciation distribution from us in an amount equal to the excess of (i) the fair market value of the vested shares subject to the surrendered option over (ii) the aggregate exercise price payable for those shares.

Stand-alone stock appreciation rights will allow the holders to exercise those rights as to a specific number of shares of our common stock and receive in exchange a distribution from us in an amount equal to the excess of (i) the fair market value of the shares of common stock as to which those rights are exercised over (ii) the aggregate base price in effect for those shares. The base price per share may not be less than the fair market value per share of our common stock on the date the stand-alone stock appreciation right is granted.

Limited stock appreciation rights may be included in one or more grants made under the discretionary option grant program. Upon the successful completion of a hostile tender offer for more than twenty percent of our outstanding voting securities, each outstanding option with such a limited stock appreciation right may be surrendered to us in return for a distribution per surrendered option share equal to the excess of (i) the fair market value per share at the time the option is surrendered or, if greater, the highest tender offer price paid per share in the hostile take-over over (ii) the exercise price payable per share under such option.

The appreciation distribution on any exercised tandem or stand-alone stock appreciation right may, at the discretion of the plan administrator, be made in cash or in shares of our common stock. All payments with respect to exercised limited stock appreciation rights will be made in cash.

The provisions governing the exercise of stock appreciation rights following the recipient's termination of service will be substantially the same as the post-termination exercise provisions summarized above for stock option grants.

The plan administrator has the authority, without any required stockholder approval, to cancel outstanding options or stock appreciation rights under the discretionary grant program, including options transferred from the predecessor plan, in return for (i) the grant of new options or stock appreciation rights for the same or a different number of shares with an exercise or base price per share equal to the fair market value of our common stock on the new grant date or (ii) cash or shares of our common stock (whether vested or unvested) equal in value to the value of the cancelled options or stock appreciation rights. Alternatively, the plan administrator could simply reduce the exercise or base price of one or more outstanding options or stock appreciation rights to the then current market price.

*Stock Issuance Program.* Eligible persons may be issued shares of our common stock, without any required cash or other payment, pursuant to restricted stock awards, restricted stock units or other share right awards which vest upon the completion of a designated service period or the attainment of pre-established performance milestones and require no cash payment to us. Shares may also be issued under the program through direct purchase or as a bonus for services rendered to us or our subsidiaries. Shares subject to a restricted stock unit or other stock-based award may have a deferred issuance date following the vesting of the

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award, including (without limitation) a deferred distribution date following the termination of the individual's service with us.

The plan administrator will have complete discretion under the program to determine which eligible individuals are to receive such stock issuances or stock-based 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 and the vesting schedule to be in effect for the issuance or award. 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.

In order to assure that the compensation attributable to one or more restricted stock issuances, restricted stock units or other stock-based awards under the program will qualify as performance-based compensation which will not be subject to the \$1 million limitation on the income tax deductibility of the compensation paid per executive officer which is imposed under Internal Revenue Code Section 162(m), the plan administrator will also have the discretionary authority to structure one or more restricted stock issuances, restricted stock units or other stock-based awards so that the shares of common stock subject to those issuances, units or awards will vest only upon the achievement of certain pre-established corporate performance goals based on one or more of the following criteria: (1) return on total stockholder equity; (2) earnings per share; (3) net income (before or after taxes); (4) earnings before interest, taxes, depreciation and amortization; (5) sales or revenue targets; (6) return on assets, capital or investment; (7) cash flow; (8) market share; (9) cost reduction goals; (10) budget comparisons; (11) measures of customer satisfaction; (12) any combination of, or a specified increase in, any of the foregoing; (13) implementation or completion of projects or processes strategic or critical to our business operations; (14) achievement of advances in research; new product development; development of products to pre-clinical phase; commencement, advancement or completion of clinical trials; FDA or other regulatory body approval for commercialization of products; and (15) the formation of joint ventures, research or development collaborations, or the completion of other corporate transactions designed to enhance our revenue or profitability or expand our customer base. In addition, such performance goals may be based upon the attainment of specified levels of our performance under one or more of the measures described above relative to the performance of other entities and may also be based on the performance of any of our business units or divisions or any parent or subsidiary. Performance goals may include a minimum threshold level of performance below which no award will be earned, levels of performance at which specified portions of an award will be earned and a maximum level of performance at which an award will be fully earned.

The plan administrator will have the discretionary authority at any time to accelerate the vesting of any and all shares of restricted stock or other unvested shares outstanding under the stock issuance program. However, no vesting requirements tied to the attainment of performance goals will be waived with respect to any shares which were intended at the time of issuance to qualify as performance-based compensation under Section 162(m).

Outstanding restricted stock units or other stock-based awards under the stock issuance program will automatically terminate, and no shares of our common stock will actually be issued in satisfaction of those units or awards, if the performance goals or service requirements established for such units or awards are not attained. The plan administrator, however, will have the discretionary authority to issue shares of our common stock in satisfaction of one or more outstanding restricted stock units or other stock-based right awards as to which the designated performance goals or service requirements are not attained. However, no vesting requirements tied to the attainment of performance goals will be waived with respect to units or awards which were intended at the time of issuance to qualify as performance-based compensation under Section 162(m).

*Automatic Option Grant Program.* Under the automatic option grant program, each individual who first becomes a non-employee Board member at any time on or after the March 2, 2004 effective date of the 2004 Plan will automatically receive an option grant for 25,000 shares on the date such individual joins the Board, provided such individual has not been in our prior employ. In addition, on the first trading day in January each year, beginning with the 2005 calendar year, each individual serving as a non-employee Board member at that time will automatically be granted an option to purchase 10,000 shares of common stock, provided such

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individual has served on our Board for at least six months. In addition, each non-employee Board member serving as a member of a Board committee at that time will automatically be granted an additional option to purchase 2,500 shares of common stock for each Board committee of which he or she is a member on the grant date, except that the option grant for the Chair of the Audit Committee will be for 7,500 shares and the option grant for the Chair of each of the other Board committees (currently the Compensation Committee and the Nominating and Corporate Governance Committee) will each be for 5,000 shares.

Each automatic grant will have an exercise price per share equal to the fair market value per share of our common stock on the date immediately preceding the grant date and will have a term of ten years, subject to earlier termination following the optionee's cessation of Board service. If the optionee ceases Board service other than by reason of death, disability or retirement, the option will not remain exercisable for more than a twelve-month period following such cessation of service. However, the option will remain outstanding until the end of the full option term should the optionee cease Board service by reason of death, disability or retirement. The option will be immediately exercisable for all of the option shares; however, we may repurchase, at the lower of the exercise price paid per share or the fair market value per share, any shares purchased under the option which are not vested at the time of the optionee's cessation of Board service. The shares subject to each initial 25,000-share automatic option grant will vest in a series of thirty-six successive equal monthly installments upon the optionee's completion of each month of Board service over the thirty-six month period measured from the grant date. The shares subject to each annual automatic option grant made to a continuing Board or committee member will vest upon that individual's completion of one year of Board service measured from the grant date. However, the shares will immediately vest in full upon the optionee's death or disability while a Board member or upon the occurrence of certain changes in ownership or control.

Upon the successful completion of a hostile tender offer for more than twenty percent of our outstanding voting securities, each outstanding option granted under the automatic option grant program may be surrendered to us in return for a cash distribution per surrendered option share equal to the excess of (i) the fair market value per share at the time the option is surrendered or, if greater, the highest tender offer price paid per share over (ii) the exercise price payable per share under such option.

The option grants under the automatic option grant program will be taxable as non-statutory options under the Federal income tax laws.

Stockholder approval of this Proposal will constitute pre-approval of each option granted pursuant to the provisions of the automatic option grant program and the subsequent exercise or surrender of that option in accordance with its terms, as summarized above.

**Stock Awards Predecessor Plan**

The following table sets forth, as to (i) our Chief Executive Officer, (ii) our former Chief Executive Officer who resigned as Chief Executive Officer in January 2003, (iii) one other executive officer whose annual salary and bonus for fiscal year 2003 exceeded \$100,000, and (iv) the other individuals and groups indicated, the number of shares of our common stock subject to option grants made under the 2000 Plan from January 1, 2003 through April 15, 2004, together with the weighted average exercise price payable per share

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for such option grants. No shares of our common stock were issued under the stock issuance program of the predecessor plan during that period.

Name and Position	Number of Shares Underlying Options Granted(#)	Weighted Average Exercise Price Per Share(\$)
Henry J. Fuchs, M.D.(1) President and Chief Executive Officer	260,000	5.93
Ernest Mario, Ph.D.(2) Chairman and Former Chief Executive Officer	142,500	3.24
Eric H. Bjerkholt(3) Chief Financial Officer and Senior Vice President, Finance	124,999	2.76
All current executive officers as a group (2 persons)(4)	270,500	6.32
All current non-employee directors as a group (6 persons)(5)	237,916	7.54
All employees, including current officers who are not executive officers, as a group (8 persons)(6)	191,171	8.83

- (1) The options for 260,000 shares granted to Dr. Fuchs include options for 83,107 shares granted pursuant to the 2003 Option Cancellation and Re-Grant Program in cancellation for options covering the same number of shares but with a higher exercise price per share.
- (2) The options for 142,500 shares granted to Dr. Mario represent options for (a) 125,000 shares granted pursuant to the 2003 Option Cancellation and Re-Grant Program in cancellation for options covering the same number of shares but with a higher exercise price per share and (b) an option for 12,500 shares granted in cancellation for an option for 54,166 shares granted to Dr. Mario when he was an executive officer.
- (3) The options for 124,999 shares granted to Mr. Bjerkholt include options for 45,833 shares granted pursuant to the 2003 Option Cancellation and Re-Grant Program in cancellation for options covering the same number of shares but with a higher exercise price per share.
- (4) The options for 270,500 shares include options for 83,107 shares granted pursuant to the 2003 Option Cancellation and Re-Grant Program in cancellation for options covering the same number of shares but with a higher exercise price per share.
- (5) The options for 237,916 shares include options for 134,167 shares granted pursuant to the 2003 Option Cancellation and Re-Grant Program in cancellation for options covering the same number of shares but with a higher exercise price per share except for one option grant to Dr. Mario for 12,500 shares which was granted in cancellation of an option for 54,166 shares granted to Dr. Mario when he was an executive officer.
- (6) The options for 191,171 shares include options for 19,169 shares granted under the 2003 Option Cancellation and Re-Grant Program in cancellation for options covering the same number of shares but with a higher exercise price per share.

**Stock Awards 2004 Plan**

The following table sets forth, as to (i) our Chief Executive Officer, (ii) our former Chief Executive Officer who resigned as Chief Executive Officer in January 2003, (iii) one other executive officer whose annual salary and bonus for fiscal year 2003 exceeded \$100,000, and (iv) the other individuals and groups indicated, the number of shares of our common stock subject to option grants made under the 2004 Plan since the March 2, 2004 inception date, together with the weighted average exercise price payable per share for such



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option grants. No shares of our common stock were issued under the stock issuance program of the 2004 Plan during that period, and no stock appreciation rights were granted under the 2004 Plan.

Name and Position	Number of Shares Underlying Options Granted(#)	Weighted Average Exercise Price Per Share(\$)
Henry J. Fuchs, M.D. President and Chief Executive Officer	0	N/A
Ernest Mario, Ph.D. Chairman and Former Chief Executive Officer	0	N/A
Eric H. Bjerkholt Chief Financial Officer and Senior Vice President, Finance	0	N/A
All current executive officers as a group (4 persons)	360,000	17.45
All current non-employee directors as a group (6 persons)	0	N/A
All employees, including current officers who are not executive officers, as a group (8 persons)	0	N/A

None of the option grants made the 2004 Plan will become exercisable unless the stockholders approve the 2004 Plan at the Annual Meeting. Accordingly, stockholder approval of the 2004 Plan will also constitute stockholder approval of the foregoing option grants. In the absence of such stockholder approval, those option grants will terminate without ever becoming exercisable for any of the option shares.

**General Provisions**

*Vesting Acceleration.* In the event we should experience a change in control, the following special vesting acceleration provisions will be in effect for all options and stock appreciation rights granted under the discretionary grant or automatic option grant program:

(i) Each outstanding option or stock appreciation right which is at the time held by a current employee will automatically vest and become exercisable as to fifty percent (50%) of the unvested shares subject to that option or stock appreciation right.

(ii) Should the employment of any of our officer s terminate by reason of an involuntary termination (whether actual or constructive) within thirteen (13) months following the change in control, then each outstanding option or stock appreciation right held by that officer will immediately vest and become exercisable as to all the securities at the time subject to that option or stock appreciation right.

(iii) Each outstanding option or stock appreciation right which is at the time held by a non-employee Board member will automatically vest and become exercisable as to all the unvested shares subject to that option or stock appreciation right.

The 2004 Plan includes several other vesting acceleration features:

Each outstanding option or stock appreciation right which is not to be assumed by the successor corporation or otherwise continued in effect will automatically vest in full on an accelerated basis.

All unvested shares outstanding under the discretionary grant and stock issuance programs will immediately vest upon a change in control, except to the extent our repurchase rights with respect to those shares are to be assigned to the successor corporation or otherwise continued in effect. Each outstanding restricted stock unit or other stock-based award under the stock issuance program will vest as to the number of shares of our common stock subject to such unit or award upon the occurrence of a change in control, unless the unit or award is assumed by the successor corporation or otherwise continued in effect.

The plan administrator will have the authority to grant options or stock appreciation rights which provide additional vesting acceleration in the event of a change in control, even if those options or stock appreciation rights are to be assumed by the successor corporation or otherwise continued in effect.

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The plan administrator may also structure unvested stock issuances or restricted stock units or other share rights awards under the stock issuance program so that those issuances or awards will immediately vest upon a change in control.

The plan administrator will also have complete discretion to structure one or more options or stock appreciation rights under the discretionary grant program so those options or stock appreciation rights will vest as to all the underlying shares in the event those options or stock appreciation rights are assumed or otherwise continued in effect but the individual's service with us or the acquiring entity is subsequently terminated within a designated period following the change in control event. The vesting of outstanding shares and the vesting and issuance of the shares of common stock subject to outstanding restricted stock units or other stock-based awards under the stock issuance program may also be structured to accelerate upon similar terms and conditions.

The plan administrator will have the discretion to structure one or more option grants or stock appreciation rights under the discretionary grant program so that those options or stock appreciation rights will immediately vest upon a change in control, whether or not the options or stock appreciation rights are to be assumed or otherwise continued in effect. The plan administrator may also structure unvested stock issuances or restricted stock units or other share rights awards under the stock issuance program so that those issuances or awards will immediately vest upon a change in control.

A change in control will be deemed to occur in the event (i) we are acquired by merger or asset sale or (ii) there occurs any transaction or series of related transactions pursuant to which any person or group of related persons becomes directly or indirectly the beneficial owner of securities possessing (or convertible into or exercisable for securities possessing) more than fifty percent (50%) of the total combined voting power of our securities outstanding immediately after the consummation of such transaction or series of related transactions, whether such transaction involves a direct issuance from us or the acquisition of outstanding securities held by one or more of our stockholders.

The plan administrator may issue options, stock appreciation rights or unvested stock issuances or other stock-based awards which will vest in connection with the successful completion of a hostile take-over. Such accelerated vesting may occur either at the time of such transaction or upon the subsequent termination of the individual's service.

A hostile take-over will be deemed to occur if (i) there is a change in the majority of our Board as a result of one or more contested elections for Board membership or (ii) securities possessing more than twenty percent (20%) of the total combined voting power of our outstanding securities are acquired pursuant to a hostile tender offer.

The acceleration of vesting in the event of a change in the ownership or control 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 us.

*Changes in Capitalization.* In the event any change is made to the outstanding shares of our 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: (i) the maximum number and/or class of securities issuable under the 2004 Plan; (ii) the maximum number and/or class of securities for which any