NEUROCRINE BIOSCIENCES INC
Form DEF 14A
April 18, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant |X|
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Check the appropriate box:

|_| Preliminary Proxy Statement
|_| Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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Neurocrine Biosciences, Inc.

(Name of Registrant as Specified In Its Charter)

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

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3. Filing Party:

4. Date Filed:

NEUROCRINE BIOSCIENCES, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on May 22, 2003

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2003 Annual Meeting of Stockholders of Neurocrine Biosciences, Inc., a Delaware corporation (the Company) will be held on May 22, 2003, at 8:30 a.m. local time, at the Company s corporate headquarters located at 10555 Science Center Drive San Diego, California, 92121 for the following purposes as more fully described in the Proxy Statement accompanying this Notice:

1. To elect three Class I Directors to the Board of Directors to each serve for a term of three years;

2. To ratify the appointment of Ernst & Young LLP as the Company s independent public accountants for the fiscal year ending December 31, 2003;

3. To approve the adoption of the Company s 2003 Incentive Stock Plan and the reservation of 1,100,000 shares of the Company s common stock for issuance thereunder; and

4. To transact such other business as may properly come before the Annual Meeting or any continuation, adjournment or postponement thereof.

Only stockholders of record at the close of business on April 1, 2003 are entitled to receive notice of and to vote at the Annual Meeting.

All stockholders are cordially invited to attend the Annual Meeting in person. However, to assure your representation at the Annual Meeting, you are urged to mark, sign, date and return the enclosed Proxy card as promptly as possible in the postage prepaid envelope, or vote by telephone or internet (instructions have been provided on your proxy card). Stockholders attending the Annual Meeting may vote in person even if they have returned a Proxy.

By Order of the Board of Directors,

Margaret Valeur-Jensen, J.D., Ph.D.
Corporate Secretary

San Diego, California
April 18, 2003

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Neurocrine Biosciences, Inc.

10555 Science Center Drive
San Diego, California 92121

PROXY STATEMENT

The enclosed Proxy is solicited on behalf of Neurocrine Biosciences, Inc., a Delaware corporation (the Company), for use at its 2003 Annual Meeting of Stockholders to be held on May 22, 2003 beginning at 8:30 a.m., local time, or at any continuations, postponements or adjournments thereof for the purposes set forth in this Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Company s corporate headquarters, located at 10555 Science Center Drive, San Diego, California 92121. The Company s phone number is (858) 658-7600.

This proxy statement is being first mailed on or about April 18, 2003 to all stockholders entitled to vote at the Annual Meeting.

ABOUT THE ANNUAL MEETING

What is the purpose of the Annual Meeting?

At our Annual Meeting, stockholders will act upon the matters outlined in the Notice of Annual Meeting of Stockholders on the cover page of this proxy statement, including the election of Directors, ratification of the appointment of Ernst & Young LLP as the Company s independent public accountants for the year ended December 31, 2003, and approval of the Company s 2003 Incentive Stock Plan. In addition, management will report on the performance of the Company and respond to questions from stockholders.

Who can attend the Annual Meeting?

All stockholders of record at the close of business on April 1, 2003 (the Record Date), or their duly appointed proxies, may attend the Annual Meeting. If you attend, please note that you may be asked to present valid picture identification, such as a driver s license or passport.

Cameras, recording devices and other electronic devices will not be permitted at the Annual Meeting.

Please also note that if you hold your shares in street name (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the Annual Meeting.

Who is entitled to vote at the Annual Meeting?

Stockholders of record at the close of business on the Record Date are entitled to receive notice of and to participate in the Annual Meeting. At the close of business on the Record Date, 31,264,574 shares of the Company s common stock, $0.001 par value per share, were issued and outstanding. As of the Record Date, the Company had approximately 7,411 stockholders, of which 103 are stockholders of record. If you were a stockholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the Annual Meeting, or any postponements or adjournments of the Annual Meeting.

Each outstanding share of the Company s common stock will be entitled to one vote on each proposal considered at the Annual Meeting. In the election of Directors, each stockholder will be entitled to vote for three nominees and the three nominees with the greatest number of votes will be elected.

What constitutes a quorum?

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the record date will constitute a quorum, permitting the Company to conduct its business at the Annual Meeting. As of the record date, 31,264,574 shares of common stock, representing the same number of votes, were outstanding. Thus, the presence of the holders of common stock representing at least 15,632,288 shares will be required to establish a quorum. The presence of a quorum will be determined by the Inspector of Elections (the Inspector).

Proxies received but marked as abstentions as well as broker non-votes will be included in the calculation of the number of shares considered to be present at the Annual Meeting.

How do I vote?

If you complete and properly sign the accompanying proxy card and return it to the Company, it will be voted as you direct. If you are a registered stockholder and attend the Annual Meeting, you may deliver your completed proxy card in person. Street name stockholders who wish to vote at the Annual Meeting will need to obtain a proxy form from the institution that holds their shares.

The cost of solicitation of proxies will be borne by the Company. The Company will reimburse expenses incurred by brokerage firms and other persons representing beneficial owners of shares in forwarding solicitation material to beneficial owners. To assist in soliciting proxies (votes), the Company has retained Innisfree, a professional proxy solicitation firm, at an approximate cost of $6,500, plus certain out-of-pocket expenses. Proxies also may be solicited by certain of the Company s Directors, officers and regular employees, without additional compensation, personally, by telephone or by other appropriate means.

Can I vote by telephone or electronically?

If you are a registered stockholder (that is, if you hold your stock in certificate form or participate in the Employee Stock Purchase Program), you may vote by telephone, or electronically through the Internet, by following the instructions included with your proxy card. If your shares are held in street name, please check your proxy card or contact your broker or nominee to determine whether you will be able to vote by telephone or electronically. The deadline for voting by telephone or electronically is 11:59 p.m., Eastern Standard Time, on May 21, 2003.

Can I change my vote after I return my proxy card?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with the Corporate Secretary of the Company either a notice of revocation or a duly executed proxy bearing a later date. A proxy will also be revoked if the stockholder attends the Annual Meeting and votes in person. Attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

What are the Board s recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board s recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board recommends a vote:

- *for* election of the nominated slate of Directors (see Proposal One);
- *for* ratification of the appointment of Ernst & Young LLP as the Company s independent accountants for fiscal 2003 (see Proposal Two); and
- *for* approval of the Company s 2003 Incentive Stock Plan (see Proposal Three).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

What vote is required to approve each item?

Election of Directors. The affirmative vote of a plurality of the votes cast at the Annual Meeting is required for the election of Directors. A properly executed proxy marked WITHHOLD AUTHORITY with respect to the election of one or more Directors will not be voted with respect to the Director or Directors indicated, although it will be counted for purposes of determining whether there is a quorum.

Other Items. For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked ABSTAIN with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

If you hold your shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on and will not be counted in determining the number of shares necessary for approval. Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum.

Who counts the votes?

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the Inspector.

STOCK OWNERSHIP

Who are the principal stockholders, and how much stock does management own?

The following table sets forth the beneficial ownership of the Company s common stock as of April 1, 2003 by (i) each of the executive officers named in the table under the heading Compensation of Executive Officers Summary Compensation Table, (ii) each Director, (iii) all Directors and executive officers as a group and (iv) all persons known to the Company to be the beneficial owners of more than 5% of the Company s common stock. A total of 31,264,574 shares of the Company s common stock were issued and outstanding as of April 1, 2003.

Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock Owned (2)	Number of Shares of Common Stock Acquirable Within 60 Days (3)	Total Number of Shares of Common Stock Beneficially Owned (4)	Percent Ownership

FMR Corp 82 Devonshire Street Boston, MA 02109	3,978,006		3,978,006	12.7%
T. Rowe Price Associates[5] 100 E. Pratt Street Baltimore, MD 21202	3,096,821		3,096,821	9.9%
Delaware Management Holdings 2005 Market Street Philadelphia, PA 19103	1,751,083		1,751,083	5.6%
D. Bruce Campbell, Ph.D	2,704	141,872	144,576	*
Paul W. Hawran	374,335	137,043	511,378	1.6%
Gary A. Lyons	723,513	278,153	1,001,666	3.2%
Henry Y. Pan, M.B.B.S., Ph.D., F.A.C.C	9,216	83,352	92,568	*
Margaret E. Valeur-Jensen, J.D., Ph.D	52,774	132,151	184,925	*
W. Thomas Mitchell		3,333	3,333	*
Joseph A. Mollica, Ph.D		34,997	34,997	*
Richard F. Pops		43,997	43,997	*
Stephen A. Sherwin, M.D		43,997	43,997	*
Lawrence Steinman, M.D	43,930	65,665	109,595	*
Wylie W. Vale, Ph.D	431,075	29,552	460,627	1.5%
All executive officers and Directors as a group (11 persons)	1,637,547	994,112	2,631,659	8.4%

* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of the Company s common stock as of the Record Date.

(1) The address of each individual named is c/o Neurocrine Biosciences, Inc., 10555 Science Center Drive, San Diego, CA 92121, unless otherwise indicated.

(2) Represents shares of common stock owned, excluding shares of common stock subject to stock options that are listed under the heading Number of Shares of Common Stock Acquirable Within 60 Days, by the named parties as of the Record Date.

(3) Shares of common stock subject to stock options currently exercisable or exercisable within 60 days of the Record Date are deemed to be outstanding for computing the percentage ownership of the person holding such options and the percentage ownership of any group of which the holder is a member, but are not deemed outstanding for computing the percentage of any other person.

(4) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(5) These securities are owned by various individual and institutional investors which own 3,096,821 shares representing 9.9% of the shares outstanding, which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Security Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires the Company s officers and Directors, and persons who own more than ten percent of a registered class of the Company s equity securities, to file reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Such officers, Directors and 10% stockholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, and written representations from certain reporting persons, the Company believes that its officers, Directors and 10% stockholders complied with all Section 16(a) filing requirements applicable to them during the fiscal year ended December 31, 2002, except for Lawrence Steinman, M.D. who filed an Amended Form 3 in April 2003 to report ownership of 600 shares that were not reported on his initial Form 3.

PROPOSAL ONE: ELECTION OF DIRECTORS

General

The Company s Bylaws provide that the Board of Directors will be comprised of seven Directors. The Company s Certificate of Incorporation provides that the Board of Directors is divided into three classes. There are currently three Directors in Class I (Wylie W. Vale, Ph.D., Joseph A. Mollica, Ph.D. and W. Thomas Mitchell), two Directors in Class II (Stephen A. Sherwin, M.D. and Richard F. Pops), and two Directors in Class III (Gary A. Lyons and Lawrence Steinman, M.D.).

The Directors in Class I hold office until the 2003 Annual Meeting of Stockholders, the Directors in Class II hold office until the 2004 Annual Meeting of Stockholders and the directors in Class III hold office until the 2005 Annual Meeting of Stockholders (or, in each case, until their earlier resignation, removal from office or death). After each such election, the Directors in each such case will then serve in succeeding terms of three years and until a successor is duly elected and qualified. Officers of the Company serve at the discretion of the Board of Directors. There are no family relationships among the Company s Directors and executive officers.

The term of office for Directors Wylie W. Vale, Ph.D., Joseph A. Mollica, Ph.D. and W. Thomas Mitchell expire at the 2003 Annual Meeting. At the 2003 Annual Meeting, the stockholders will elect three Class I Directors for a term of three years.

Vote Required

The three nominees receiving the highest number of affirmative votes of the shares present in person or represented by proxy at the 2003 Annual Meeting and entitled to vote on the election of Directors shall be elected to the Board of Directors.

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Votes withheld from any Director are counted for purposes of determining the presence or absence of a quorum, but have no other legal effect under Delaware law.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company s three nominees named below. If any nominee of the Company is unable or declines to serve as a Director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the present Board of Directors to fill the vacancy. It is not expected that any nominee will be unable or will decline to serve as a Director. **The Board of Directors recommends that stockholders vote FOR the nominees listed below.**

Nominees for Election at the Annual Meeting

All of the nominees (Joseph A. Mollica, Ph.D., Wylie W. Vale, Ph.D. and W. Thomas Mitchell) are presently Class I Directors of the Company. Information about the nominees is set forth below:

Name of Director	Age	Position in the Company	Director Since
Joseph A. Mollica, Ph.D. (1) (2) (3)	62	Chairman of the Board	1997
Wylie W. Vale, Ph.D	61	Director	1992
W. Thomas Mitchell (1) (3)	57	Director	2002

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating/Corporate Governance Committee

Joseph A. Mollica, Ph.D., has served as a Director of the Company since June 1997 and became Chairman of the Board in April 1998. Since February 1994, Dr. Mollica has served as the Chairman of the Board of Directors, President and Chief Executive Officer of Pharmacopeia, Inc., a biopharmaceutical company focusing on combinatorial chemistry, high throughput discovery, molecular modeling and bioinformatics. From 1987 to December 1993, Dr. Mollica served as Vice President, Medical Products of DuPont Company and then as President and CEO of DuPont Merck Pharmaceutical Company from 1991 to 1993. At Ciba-Geigy, where he was employed from 1966 to 1986, he served in a variety of positions of increasing responsibility, rising to Senior Vice President of Ciba-Geigy s Pharmaceutical Division. He is currently on the Boards of Impath, Inc., Genencor International, Inc., and Pharmacopeia, Inc. He received his B.S. from the University of Rhode Island and his M.S. and Ph.D. from the University of Wisconsin and Sc.D.h.c. from the University of Rhode Island.

Wylie W. Vale, Ph.D. is one of the Company s academic co-founders, a Director; Chief Scientific Advisor, Neuroendocrinology; and a member of the Company s Founding Board of Scientific and Medical Advisors. Dr. Vale was elected a Director of the Company in September 1992. He is a Professor and former Chairman of the Faculty at The Salk Institute for Biological Studies and is the Senior Investigator and Head of The Clayton Foundation Laboratories for Peptide Biology at The Salk Institute, where he is currently Chairman of the Faculty and a member of the Board of Trustees. He is also an Adjunct Professor of Medicine at the University of California, San Diego. In addition, Dr. Vale is recognized for his work on the molecular, pharmacological and biomedical characterization of neuroendocrine peptides, growth factors and their receptors. In recognition of his discoveries, he has received numerous awards and is a member of the National Academy of Arts and Sciences, the Institute of Medicine and the National Academy of Sciences. He is a past President of the American Endocrine Society and is the current President of the International Society of Endocrinology. Dr. Vale received a B.A. in biology from Rice University and a Ph.D. in physiology and biochemistry from the Baylor College of Medicine.

W. Thomas Mitchell was appointed to Neurocrine s Board of Directors on November 15, 2002. He is the former Chairman of the Board and Chief Executive Officer of Genencor International. Under his guidance,

Genencor s revenues grew from under $30 million to over $325 million. In addition, he successfully managed the acquisition and integration of three major businesses to build the global enterprise that is now Genencor. An industry leader, Mr. Mitchell has participated in a number of important policy initiatives including the 1999 federal executive order that created the national bioenergy initiative. Mr. Mitchell also served as a member of the Governor s Council on Biotechnology in California, which was responsible for helping to improve the state s competitiveness in the mid-1990 s. He also served on the Advisory Boards of the Chemical Engineering School at Cornell University, Ithaca, New York and the University of Iowa s School of Engineering. He received his B.S. in chemical engineering from Drexel University. He also completed the Executive Development Program at the University of Michigan.

Who are the remaining Directors that are not up for election this year?

The Class II and III Directors will remain in office after the 2003 Annual Meeting. The Class II Directors are Stephen A. Sherwin, M.D. and Richard F. Pops. The Class III Directors are Lawrence Steinman, M.D. and Gary A. Lyons. The names and certain other current information about the Directors whose terms of office continue after the Annual Meeting are set forth below:

Name of Director	Age	Position in the Company	Director Since
Stephen A. Sherwin, M.D. (2) (3)	54	Director	1999
Richard F. Pops (1) (2)	41	Director	1998
Gary A. Lyons	52	President, Chief Executive Officer and Director	1993

Lawrence Steinman, M.D	55	Director	2001

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating/Corporate Governance Committee

Stephen A. Sherwin, M.D. was elected to the Board of Directors on April 22, 1999. Since March 1990, Dr. Sherwin has served as Chief Executive Officer and Director of Cell Genesys, Inc., a biotechnology company. In March 1994, he was elected as Chairman of the Board of Cell Genesys. From 1983 to 1990, Dr. Sherwin held various positions at Genentech, Inc., a biotechnology company, most recently as Vice President of Clinical Research. Prior to 1983, Dr. Sherwin held various positions on the staff of the National Cancer Institute. Dr. Sherwin also serves as a Director of Rigel Pharmaceuticals, Inc. and Calyx Therapeutics, Inc. Dr. Sherwin holds a B.A. from Yale and an M.D. from Harvard Medical School.

Richard F. Pops was elected to the Board of Directors on April 16, 1998. Richard has been Chief Executive Officer of Alkermes, Inc. since February 1991. Under his leadership, Alkermes has grown from a privately held company with 25 employees to a publicly traded, leading specialty pharmaceutical company with more than 400 employees in multiple locations in the United States. He currently serves on the Board of Directors of: Alkermes; Reliant Pharmaceuticals, LLC; CombinatoRx, Inc.; the Biotechnology Industry Organization (BIO); the Massachusetts Biotechnology Council (MBC), the New England Healthcare Institute (NEHI) and Harvard Medical School Board of Fellows. He also serves as Chair for the Harvard Medical School Advisory Council for Biological Chemistry & Molecular Pharmacology (BCMP). He received a B.A. in economics from Stanford University in 1983.

Gary A. Lyons has served as President, Chief Executive Officer and a Director of the Company since joining the Company in February 1993. Prior to joining the Company, Mr. Lyons held a number of senior management positions at Genentech including Vice President of Business Development and Vice President of Sales. Mr. Lyons currently serves on the Boards of Directors for Intrabiotics Pharmaceuticals, Inc. and Vical, Inc. Mr. Lyons holds a B.S. in marine biology from the University of New Hampshire and an M.B.A. from Northwestern University s J.L. Kellogg Graduate School of Management.

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Lawrence Steinman, M.D., is one of the Company s academic co-founders. He received his M.D. from Harvard University in 1973 and has served more than 20 years at Stanford University School of Medicine as a Professor of Neurology and Pediatrics, as well as serving as Professor of Immunology at the Weizmann Institute. Dr. Steinman is Chair of the Interdepartmental Program in Immunology at Stanford. Dr. Steinman became Chief Scientist, Neuroimmunology and a member of the Company s Founding Board of Scientific and Medical Advisors and its Executive Committee in September 1992. He has been honored with the Weir Mitchell Award of the American Academy of Neurology and the Senator Jacob Javits Neuroscience Investigators Award from the United States Congress as well as The Dr. Friedrich Sasse Award for Outstanding Contributions in Immunology from the Free University of Berlin. He is Board Certified with the American Board of Psychiatry and Neurology and holds seven different patents in the United States, Europe and Australia.

How often did the Board meet during fiscal 2002?

The Board of Directors of the Company held a total of five meetings and took action by written consent on two occasions during 2002. During 2002, the Board of Directors had an Audit Committee, a Compensation Committee and a Nominating Committee that later was converted to a Nominating/Corporate Governance Committee. Charters for each of these committees have been established and approved by the Board of Directors, and a copy of the Audit Committee Charter, as amended to date, has been provided at the end of this proxy statement. No Director attended fewer than 80% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which he served.

What are the various committees of the Board and which Directors are on those committees?

The Compensation Committee consists of Directors Joseph A. Mollica, Ph.D., Richard F. Pops and Stephen A. Sherwin, M.D. This committee met one time and took no actions by written consent during 2002. The Compensation Committee reviewed and recommended to the Board the compensation of executive officers and other employees of the Company.

The Company has an Audit Committee currently comprised entirely of independent Directors. Information regarding the functions performed by the committee, its membership, and the number of meetings held during the fiscal year, is set forth in the Report of the Audit Committee, included in this annual proxy statement. The Company believes that at least one member of the Audit Committee qualifies as a financial expert as defined in the SEC rules adopted in January 2003. The current members of the audit committee are Joseph A. Mollica, Ph.D., Richard F. Pops, and W. Thomas Mitchell. Steven A. Sherwin M.D. served on the audit committee during a portion of the year and was replaced during 2002, when Mr. Mitchell became a Director.

The Company also has a Nominating/Corporate Governance Committee, currently comprised of Joseph A. Mollica, Ph.D., W. Thomas Mitchell and Stephen A. Sherwin, M.D. The Nominating/Corporate Governance Committee is responsible for developing and implementing policies and practices relating to corporate governance, including monitoring of the Company s *Code of Business Conduct and Ethics*. The functions of this committee also include consideration of the composition of the Board and recommendation of individuals for election as Directors of the Company. The Nominating/Corporate Governance Committee will consider nominees recommended by security holders provided such nominations are made pursuant to the Company s Bylaws and applicable law. The committee met during 2002 to recommend the slate of Directors that were approved at the 2002 Annual Meeting of Stockholders. The committee met in early 2003 to recommend that the Board of Directors nominate Wylie W. Vale, Ph.D., W. Thomas Mitchell and Joseph A. Mollica, Ph.D. for re-election as Class I Directors for the upcoming three-year term. This recommendation was subsequently approved by the Board of Directors.

How are Directors compensated?

Non-employee Directors are reimbursed for expenses incurred in connection with performing their respective duties as Directors of the Company. The Company did not pay cash compensation to any Director prior to February 1997. Directors who are not employees or consultants of the Company receive a $15,000 annual retainer, plus $1,000 for each regular meeting of the Board of Directors and $750 for each special

meeting or telephone meeting lasting more than one hour that such Directors attend. In addition to the cash compensation set forth above, the Company has agreed to provide Joseph A. Mollica, Ph.D., as Chairman of the Board and Richard F. Pops, Chairman of the Audit Committee, each an additional $5,000 annual cash retainer. Each other Director who is a member of the Audit Committee, the Compensation Committee or the Nominating/Corporate Governance Committee will receive an annual $2,500 cash retainer for each Committee. Cash retainers for committee service are subject to a maximum aggregate cash retainer per Director of $5,000 ($7,500 for Chairman of the Audit Committee) for committee service in any fiscal year.

Effective March 1, 2000, each non-employee Director is eligible to participate in the Company s Deferred Compensation Plan (the Compensation Plan). In addition to non-employee Directors of the Company, the Company s Vice Presidents and higher ranking officers of the Company are also eligible to participate in the Compensation Plan. Under the terms of the Compensation Plan, each eligible participant may elect to defer all or a portion of cash compensation received for services to the Company. Elections must be made by January 1 of each year and are irrevocable once made. Upon receipt of an eligible participant s deferral election, the Company maintains a deferred compensation investment account on behalf of such participant. Funds so invested are paid to participants upon death or 15 days following the end of the month in which the participant s services to the Company are terminated. Funds may also be withdrawn for hardship under some circumstances. For the year 2002, Dr. Mollica elected to defer 100% of his cash compensation from the Company pursuant to the Compensation Plan.

Additionally, each non-employee Director receives a grant of nonstatutory options to purchase 12,000 shares of the Company s common stock (Joseph A. Mollica, Ph.D., as Chairman of the Board, will receive 15,000 options) at each Annual Meeting of Stockholders, provided that such non-employee Director has been a non-employee Director of the Company for at least six months prior to the date of such Annual Meeting. Each new non-employee Director is automatically granted nonstatutory stock options to purchase 20,000 shares of the Company s common stock upon the date such person joins the Board of Directors.

All options granted to non-employee Directors vest over the three-year period following the date of grant and have exercise prices equal to the fair market value of the Company s common stock on the date of the grant.

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 other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

The Audit Committee is currently comprised of Directors Richard F. Pops, Joseph A. Mollica, Ph.D. and W. Thomas Mitchell. All current committee members satisfy the definition of independent director as established in the Nasdaq Stock Market qualification requirements. The Committee met five times during the year ended December 31, 2002.

The Committee oversees the Company s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the Company s financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee has reviewed and discussed the Company s audited financial statements as of and for the year ended December 31, 2002 with management, 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 Committee also has reviewed and discussed the Company s audited financial statements as of and for the year ended December 31, 2002 with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States, as well as 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 the Statement on Auditing Standards No. 61 (Communications with Audit Committees), as currently in effect. In

addition, the Committee has discussed with independent auditors, the auditors independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board No. 1, Independence Discussions with Audit Committees, and considered the compatibility of nonaudit services with the auditors independence.

The Committee discussed with the Company s independent auditors the overall scope and plans for their audits. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on From 10-K for the year ended December 31, 2002, for filing with the Securities and Exchange Commission. The Committee and the Board have also recommended, subject to stockholder approval, the selection of the Company s independent auditors.

Respectfully submitted by:
AUDIT COMMITTEE

Richard F. Pops
Joseph A. Mollica, Ph.D.
W. Thomas Mitchell

Audit and Non-Audit Fees

The following table sets forth the aggregate fees paid to the Company s independent auditor, Ernst & Young LLP, for the fiscal year ended December 31, 2002:

Audit fees	$ 112,316
Financial information systems design and implementation fees	
All other fees	
Other audit-related and tax services	91,123
Other	
Total	$ 203,439

Audit fees include the aggregate fees billed for professional services rendered by Ernst & Young LLP for the audit of the Company s annual financial statements for the 2002 fiscal year and the reviews of the financial statements included in the Company s Quarterly Reports on Form 10-Q for the 2002 fiscal year.

All other fees includes the aggregate fees billed for all services rendered by Ernst & Young LLP, other than fees for the services which must be reported under Audit Fees and Financial Information Systems Design and Implementation Fees, during the 2002 fiscal year. These fees were primarily related to tax services.

All non-audit services were reviewed with the Audit Committee, which concluded that the provision of services by Ernst & Young LLP was compatible with the maintenance of that firm s independence in the conduct of its auditing functions.

COMPENSATION COMMITTEE REPORT

The Committee reviews and recommends to the Board of Directors for approval the Company s executive compensation policies. The Committee is responsible for reviewing the salary and benefits structure of the Company at least annually to insure its competitiveness within the Company s industry. The following is the report of the Committee describing the compensation policies and rationales applicable to the Company s executive officers with respect to the compensation paid to such executive officers for the fiscal year ended December 31, 2002. During 2002, the members of the Committee were Richard F. Pops, Joseph A. Mollica, Ph.D. and Stephen A. Sherwin, M.D.

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How are executives compensated?

The Company s philosophy in establishing its compensation policy for executive officers and other employees is to create a structure designed to attract and retain highly skilled individuals by establishing salaries, benefits, and incentive compensation which compare favorably with those for similar positions in other biotechnology companies. Compensation for the Company s executive officers consists of a base salary and potential incentive cash bonuses, as well as potential incentive compensation through stock options and stock ownership.

Base Salary

The base salary component of compensation is designed to compensate executive officers competitively at levels necessary to attract and retain qualified executives in the pharmaceutical and biotechnology industry. The base salaries have been targeted at or above the average rates paid by competitors to enable the Company to attract, motivate, reward and retain highly skilled executives. In order to evaluate the Company s competitive position in the industry, the Committee reviewed and analyzed the compensation packages, including base salary levels, offered by other biotechnology and pharmaceutical companies. The Company retained the services of an independent consultant to review and recommend improvements to the executive compensation policy. Some of the competitive information was obtained from surveys prepared by consulting companies or industry associations (e.g., the Radford Biotechnology Compensation Survey). As a general matter, the base salary for each executive officer is initially established through negotiation at the time the officer is hired, taking into account such officer s qualifications, experience, prior salary, and competitive salary information. Year-to-year adjustments to each executive officer s base salary are based upon personal performance for the year, changes in the general level of base salaries of persons in comparable positions within the industry, and the average merit salary increase for such year for all employees of the Company established by the Compensation Committee, as well as other factors the Compensation Committee judges to be pertinent during an assessment period. In making base salary decisions, the Committee exercises its judgment to determine the appropriate weight to be given to each of these factors.

Annual Incentive Compensation

A portion of the cash compensation paid to the Company s executive officers, including the Chief Executive Officer, is in the form of discretionary bonus payments that are paid on an annual basis as part of the Company s incentive compensation strategy. Bonus payments are linked to the attainment of overall corporate goals established by the Board of Directors and individual goals established for each executive officer. The Board of Directors establishes the maximum potential amount of each officer s bonus payment annually, based upon the recommendation of the Committee. The appropriate weight to be given to each of the various goals used to calculate the amount of each officer s bonus payment is determined by the Committee. The goal of the Company s incentive compensation strategy is to support the achievement of Company goals and objectives by basing compensation on a pay for performance basis.

Long-Term Incentives

The Committee provides the Company s executive officers with long-term incentive compensation through grants of stock options, restricted stock and/or stock bonuses under the Company s equity compensation plans. The Board believes that these grant programs provide the Company s executive officers with the opportunity to purchase and maintain an equity interest in the Company and to share in the appreciation of the value of the Company s common stock. The Board believes that these grants directly motivate an executive to maximize long-term stockholder value. The grants also utilize vesting periods (generally four years) that encourage key executives to continue in the employ of the Company. The Board considers each grant subjectively, considering factors such as the individual performance of the executive officer and the anticipated contribution of the executive officer to the attainment of the Company s long-term strategic performance goals. Long-term incentives granted in prior years are also taken into consideration.

The Company has also established an employee stock purchase plan both to encourage employees, including the Company s executive officers, to continue in the employ of the Company and to motivate employees through an ownership interest in the Company. Under the ESPP, employees, including officers, may have up to 15% of their earnings withheld for purchases of common stock on certain dates specified by the

Board. The price of common stock purchased will be equal to 85% of the lower of the fair market value of the common stock on the date of enrollment or exercise date, whichever is lower.

How is the Chief Executive Officer Compensated?

The compensation of the Chief Executive Officer is reviewed annually on the same basis as discussed above for all executive officers. Gary A. Lyons base salary for 2001 was set at $405,000, and was later increased to $437,000 for 2002 and $475,000 for 2003. Mr. Lyons joined the Company in February 1993. His initial salary, potential bonus, and stock grants were determined on the basis of negotiation between the Board of Directors and Mr. Lyons with due regard for his qualifications, experience, prior salary, and competitive salary information. Mr. Lyons base salary for 2001 was established in part by comparing the base salaries of chief executive officers at other biotechnology and pharmaceutical companies of similar size. Mr. Lyons has annual and long-term strategic and operational goals established by the Board. In light of the Pfizer collaboration agreement entered into during 2002 and the advancement of clinical trials, Mr. Lyons earned a $200,000 bonus for 2002. As with other executive officers, Mr. Lyons total compensation was based on the Company s accomplishments and the Chief Executive Officer s contribution thereto.

Section 162(m)

The Board has considered the potential future effects of Section 162(m) of the Code on the compensation paid to the Company s executive officers. Section 162(m) disallows a tax deduction for any publicly-held corporation for individual compensation exceeding $1.0 million in any taxable year for any of the executive officers named in the proxy statement, unless compensation is performance-based. The Company has adopted a policy that, where reasonably practicable, the Company will seek to qualify the variable compensation paid to its executive officers for an exemption from the deductibility limitations of Section 162(m).

In approving the amount and form of compensation for the Company s executive officers, the Committee will continue to consider all elements of the cost to the Company of providing such compensation, including the potential impact of Section 162(m).

Respectfully submitted by:
COMPENSATION COMMITTEE

Richard F. Pops
Joseph A. Mollica, Ph.D.
Stephen A. Sherwin, M.D.

Compensation Committee Interlocks and Insider Participation

As of December 31, 2002, the Compensation Committee consisted of Richard F. Pops, Joseph A. Mollica, Ph.D. and Stephen A. Sherwin, M.D. No interlocking relationship exists between any member of the Compensation Committee and any member of any other company s Board of Directors or compensation committee.

EXECUTIVE OFFICERS

Who are the executive officers of the Company?

As of the Record Date, the executive officers of the Company were as follows:

Name	Age	Position
Gary A. Lyons	52	President, Chief Executive Officer and Director
Paul W. Hawran	51	Executive Vice President and Chief Financial Officer
Henry Y. Pan, M.B.B.S., Ph.D., F.A.C.C	56	Executive Vice President, Clinical Development and Chief Medical Officer
D. Bruce Campbell, Ph.D	58	Senior Vice President, International Development
Margaret E. Valeur-Jensen, J.D., Ph.D	46	Senior Vice President, General Counsel and Corporate Secretary

See Proposal One above for biographical information concerning Gary A. Lyons.

Paul W. Hawran became Executive Vice President and Chief Financial Officer of the Company in January 2001 after having served as Senior Vice President and Chief Financial Officer of the Company since February 1996 and Vice President and Chief Financial Officer from 1993 to 1996. In this capacity, Mr. Hawran directs strategic planning, finance, investor relations, human resources, information technologies and operations. Mr. Hawran was employed by SmithKline Beecham Corporation from July 1984 to May 1993, most recently as Vice President and Treasurer. Prior to joining SmithKline in 1984, Mr. Hawran held various financial positions at Warner Communications (now Time Warner) where he was involved in corporate finance, financial planning and domestic and international budgeting and forecasting. Mr. Hawran received a B.S. in finance from St. John s University and an M.S. in taxation from Seton Hall University. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants, California and Pennsylvania Institute of Certified Public Accountants and the Financial Executives Institute.

Henry Y. Pan M.B.B.S., Ph.D., F.A.C.C. became Executive Vice President of Clinical Development and Chief Medical Officer of the Company in October 2001. In this capacity, Dr. Pan is responsible for scientific and administrative leadership and management of the Company s clinical research and development initiatives. Prior to joining the Company, Dr. Pan was the Managing Director of VennWorks LLC from 2000 to 2001, an operating company that creates, builds, and operates companies in different technology areas. Prior to joining VennWorks, he was the co-founder, President, CEO and Managing Partner of Pharmacologics LLC from 1999 to 2000. From 1997 to 1999, he was President and CEO of the Pharmaceutical Services division of MDS Inc., an integrated contract research organization. He served as Executive Vice President, Drug Development and Medical Affairs at DuPont Merck Pharmaceutical Company from 1992 to 1997. Dr. Pan was at Bristol-Myers Squibb from 1985 to 1992, most recently as Vice President of Clinical Research and Development. Dr. Pan received his B.S. in Genetics from McGill University in 1969, M.S. in Toxicology in 1973, and Ph.D. in Pharmacology in 1974 from the University of Hawaii, and M.B.B.S. from the University of Hong Kong in 1979. He completed his fellowship training in Clinical Pharmacology in 1985 at Stanford University and is a fellow of the American College of Cardiology, the American College of Clinical Pharmacology, the American Heart Association, the Institute of Biological and Clinical Investigation, and the Academy of Medicine of New Jersey.

D. Bruce Campbell, Ph.D. became Senior Vice President, International Development of the Company in January 2003 after having served as Senior Vice President of Development of the Company since January 2001. He joined the Company as Vice President, Development in February 1998. In his current capacity, he is responsible for directing the Company s selection and advancement of drug candidates from research into clinical development. He joined the Company after 27 years at Servier United Kingdom, a subsidiary of an international pharmaceutical company based in France, where he served as Research and Development Director from 1972 to 1991 and Director of International Scientific Affairs from 1991 to 1997 and was involved in the development and registration of a wide range of drugs and vaccines. Dr. Campbell is a past Chairman and Board Member of the Drug Information Association (DIA) in Europe and member of the ICH/EFPIA Safety Working Party and is a visiting Professor in Pharmacology at Guys and Kings College London. He is recognized as one of the experts on the regulatory aspects of kinetics and toxicology in new drug development and has written standard texts on the subject. Dr. Campbell is also in the editorial board of international journals and a member of many scientific societies and has published over 100 papers. He is a Fellow of the Royal Society of Chemistry and received his Ph.D. in biochemistry from Guys Hospital Medical School, London University.

Margaret Valeur-Jensen, J.D., Ph.D. became Senior Vice President, General Counsel and Corporate Secretary of the Company in January 2000 after having joined the Company as Vice President, General Counsel and Secretary in October 1998. She is responsible for all corporate and patent law practices at the Company, serves as Corporate Secretary and is a member of the senior management committee. From 1995 to 1998, she served as Associate General Counsel, Licensing and Business Law of Amgen. From 1991 to 1995,

she served first as Corporate Counsel and later as Senior Counsel, Licensing for Amgen. Prior to joining Amgen, she practiced law at Davis, Polk & Wardell, a leading corporate law firm. She earned a J.D. degree from Stanford University, a Ph.D. in biochemistry and molecular biology from Syracuse University, and was a Post-Doctoral Fellow at Massachusetts General Hospital and Harvard Medical School.

How are the executive officers compensated?

Summary Compensation Table. The following table sets forth the compensation paid by the Company for each of the three fiscal years in the period ended December 31, 2002 to the Chief Executive Officer and each of the other executive officers of the Company as of December 31, 2002 (the Named Executive Officers):

		Annual Compensation			Long-term Compensation Awards		
Name and Principal Position	**Year**	**Salary ($)[1]**	**Bonus ($)[1]**	**Other Annual Compensation ($)**	**Stock Awards (#)[12]**	**Securities Underlying Options (#)**	**All Other Compensation ($)**
Gary A. Lyons	2002	437,000[2]	200,000				