UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2006

Commission File Number 000-23186

BIOCRYST PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**62-1413174**
(State of other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

2190 Parkway Lake Drive; Birmingham, Alabama 35244
(Address of principal executive offices)

(205) 444-4600
(Registrant's telephone number, including area code)

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (Check One):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by a check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes o No x

The number of shares of Common Stock, par value $.01, of the Registrant outstanding as of August 1, 2006 was 29,221,810.

BIOCRYST PHARMACEUTICALS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BIOCRYST PHARMACEUTICALS, INC.
BALANCE SHEETS
June 30, 2006 and December 31, 2005
(In thousands, except per share data)

	2006	2005
	(Unaudited)	(Note 1)
Assets		
Cash and cash equivalents	$ 25,055	$ 29,157
Marketable securities	29,712	21,103
Receivable from collaboration	1,975	30,000
Prepaid expenses and other current assets	4,504	840
Total current assets	61,246	81,100
Marketable securities	19,890	9,728
Furniture and equipment, net	2,671	2,408
Patents and licenses, net	248	187
Deferred collaboration expense	7,824	5,825
Total assets	$ 91,879	$ 99,248
Liabilities and Stockholders' Equity		
Accounts payable	$ 5,206	$ 8,813
Accrued expenses	1,547	1,252
Accrued vacation	537	443
Deferred revenue	2,391	874
Total current liabilities	9,681	11,382
Deferred revenue	37,805	29,426
Stockholders' equity:		
Preferred stock: shares authorized – 5,000		
Series A Convertible Preferred stock, $.01 par value; shares authorized – 1,800; shares issued and outstanding – none		
Series B Junior Participating Preferred Stock, $.001 par value; shares authorized – 21.5; shares issued and outstanding – none		
Common stock, $.01 par value; shares authorized – 45,000; shares issued and outstanding – 29,212 in 2006 and 28,814 in 2005	292	288
Additional paid-in capital	213,920	210,015
Accumulated other comprehensive income	9	—
Accumulated deficit	(169,828)	(151,863)
Total stockholders' equity	44,393	58,440
Total liabilities and stockholders' equity	$ 91,879	$ 99,248

See accompanying notes to financial statements.

BIOCRYST PHARMACEUTICALS, INC.
STATEMENTS OF OPERATIONS
Periods Ended June 30, 2006 and 2005
(In thousands, except per share data)
(Unaudited)

	Three Months		Six Months	
	2006	2005	2006	2005
Revenues:				
Collaborative and other research and development	$ 1,558	$ 58	$ 2,330	$ 99
Expenses:				
Research and development	11,190	5,263	19,234	10,438
General and administrative	1,384	727	2,879	1,423
Total expenses	12,574	5,990	22,113	11,861
Loss from operations	(11,016)	(5,932)	(19,783)	(11,762)
Interest and other income	933	284	1,818	469
Net loss	$ (10,083)	$ (5,648)	$ (17,965)	$ (11,293)
Basic and diluted net loss per common share	$ (.35)	$ (.22)	$ (.62)	$ (.45)
Weighted average shares outstanding	29,184	26,149	29,061	24,891

See accompanying notes to financial statements.

BIOCRYST PHARMACEUTICALS, INC.
STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2006 and 2005
(In thousands)
(Unaudited)

	2006	2005
Operating activities:		
Net loss	$ (17,965)	$ (11,293)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	424	441
Stock-based compensation expense	1,177	13
Changes in operating assets and liabilities:		
Receivable from collaboration	28,025	—
Prepaid expenses and other current assets	(3,664)	(40)
Deferred collaboration expense	(1,999)	—
Accounts payable and accrued expenses	(3,218)	(573)
Deferred revenue	9,896	—
Net cash provided by (used in) operating activities	**12,676**	**(11,452)**
Investing activities:		
Acquisitions of furniture and equipment	(684)	(78)
Purchases of patents and licenses	(64)	(21)
Purchases of marketable securities	(29,958)	(15,987)
Maturities of marketable securities	11,196	5,130
Net cash used in investing activities	**(19,510)**	**(10,956)**
Financing activities:		
Employee stock purchase plan sales	100	65
Exercise of stock options	2,632	41
Sale of common stock, net of issuance costs	—	22,704
Net cash provided by financing activities	**2,732**	**22,810**
(Decrease) increase in cash and cash equivalents	(4,102)	402
Cash and cash equivalents at beginning of period	29,157	8,838
Cash and cash equivalents at end of period	**$ 25,055**	**$ 9,240**

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation

The balance sheet as of June 30, 2006, the statements of operations for the three and six months ended June 30, 2006 and 2005, and the statements of cash flows for the six months ended June 30, 2006 and 2005 have been prepared by the Company in accordance with accounting principles generally accepted in the United States and have not been audited. Such financial statements reflect all adjustments that are, in management's opinion, necessary to present fairly, in all material respects, the financial position at June 30, 2006, the results of operations for the three and six months ended June 30, 2006 and 2005, and cash flows for the six months ended June 30, 2006 and 2005. There were no adjustments other than normal recurring adjustments. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Examples include accrued clinical and preclinical expenses. Actual results could differ from those estimates.

These financial statements should be read in conjunction with the financial statements for the year ended December 31, 2005 and the notes thereto included in the Company's 2005 Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year. The balance sheet as of December 31, 2005 has been derived from the audited financial statements included in the Company's most recent Annual Report on Form 10-K.

Certain amounts in the Statement of Cash Flows for the six months ended June 30, 2005 have been reclassified to conform to the Statement of Cash Flows for the six months ended June 30, 2006. The changes had no effect on the results of operations previously reported.

Revenue Recognition

The Company's revenues have generally been limited to license fees, milestone payments, research and development fees, and interest income. Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB No. 104") and Emerging Issues Task Force Issue 00-21, *Revenue Arrangements with Multiple Deliverables* ("EITF Issue 00-21"). License fees, future event payments, and research and development fees are recognized as revenue when the earnings process is complete and the Company has no further continuing performance obligations, or the Company has completed the performance obligations under the terms of the agreement. Fees received under licensing agreements that are related to future performance are deferred and recognized as earned over an estimated period determined by management. In the event a license agreement contains multiple deliverables, the Company evaluates whether the deliverables are separate or combined units of accounting in accordance with EITF Issue 00-21. Revisions to revenue or profit estimates as a result of changes in the estimated revenue period are recognized prospectively.

Future event payments are recognized as revenue upon the achievement of specified events if (1) the event is substantive in nature and the achievement of the event was not reasonably assured at the inception of the agreement and (2) the fees are non-refundable and non-creditable. Any event payments received prior to satisfying these criteria are recorded as deferred revenue.

Significant direct costs incurred upon entering into a licensing arrangement are deferred and charged to expense in proportion to the revenue recognized. Under the guidance of Emerging Issues Task Force Issue 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent* ("EITF Issue 99-19"), and Emerging Issues Task Force Issue 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses* ("EITF Issue 01-14"), reimbursements received for direct out-of-pocket expenses related to research and development costs are recorded as revenue in the income statement rather than as a reduction in expenses.

Royalty revenue is recognized based on estimates of royalties earned during the applicable period and adjusted for differences between the estimated and actual royalties in the following period. If royalties can not be reasonably estimated, revenue is recognized upon receipt of royalty statements from the licensee. The Company has not received any royalties from the sale of licensed pharmaceutical products.

Net Loss Per Share

The Company computes net loss per share in accordance with Statement of Financial Accounting Standards No. 128, *Earnings Per Share*. Net loss per share is based upon the weighted average number of common shares outstanding during the period. Diluted loss per share is equivalent to basic net loss per share for all periods presented herein because common equivalent shares from unexercised stock options and common shares expected to be issued under the Company's employee stock purchase plan were anti-dilutive.

Marketable Securities

The Company is required to classify securities as trading, available-for-sale, or held-to-maturity. The appropriateness of each classification is assessed at the time of purchase and at each reporting date. At June 30, 2006, the Company had approximately $49.6 million of marketable securities of which $9.3 million is classified as available-for-sale and $40.3 million is classified as held-to-maturity. Securities available-for-sale consisted of U.S. Agency securities carried at estimated fair values. The estimated fair value of these securities was based on independent quoted market prices. Unrealized gains and losses on securities available-for-sale are recognized in other comprehensive income. Securities held-to-maturity consisted of U.S. Treasury and Agency securities and commercial paper carried at amortized cost. The estimated fair value of these securities was approximately $40.1 million based on independent quoted market prices. While this represents an unrealized loss position, management does not believe the loss represents an other-than-temporary impairment as the Company has the ability and intent to hold the securities until maturity, at which time the cost of the investments will be recovered.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is comprised of unrealized gains and losses on securities available-for-sale and is disclosed as a separate component of stockholders' equity. The Company had $9,479 of unrealized gains on its securities that are included in accumulated other comprehensive income at June 30, 2006. Other comprehensive income for the three and six months ended June 30, 2006 is as follows:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Net loss	$ (10,083)	$ (17,965)
Unrealized gain on securities available-for-sale	9	9
Other comprehensive income	$ (10,074)	$ (17,956)

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ("Statement No. 123R"), which revises Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("Statement No. 123"), supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), and amends Statement of Financial Accounting Standard No. 95, *Statement of Cash Flows*. Generally, the approach in Statement No. 123R is similar to the approach described in Statement No. 123. However, Statement No. 123R requires all share-based payments to employees, including grants of stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure, allowed by Statement No. 123, is no longer an alternative.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107, *Share-Based Payment*, which provided further clarification on the implementation of Statement No. 123R. Statement No. 123R originally required adoption no later than July 1, 2005. In April 2005, the Securities and Exchange Commission issued a release that delayed the effective date for Statement No. 123R until January 1, 2006.

Statement No. 123R permits companies to adopt its requirements using one of two methods, a “modified prospective” transition method or a “modified retrospective” transition method. Both methods are similar, except that the modified retrospective transition method permits entities to restate, based on the amounts previously recognized under Statement No. 123 for purposes of pro forma disclosures, either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

At June 30, 2006, the Company had two stock-based employee compensation plans, the Stock Incentive Plan (the “Plan”) and the Employee Stock Purchase Plan (the “ESPP”), which are described in more detail below. Prior to January 1, 2006, the Company accounted for those plans under the recognition and measurement provisions of APB No. 25 and other related Interpretations, as permitted by Statement No. 123. No stock-based compensation cost related to the Company’s employees was recognized in the Statements of Operations for any period ending prior to January 1, 2006, as all options granted by the Company had exercise prices equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement No. 123R, using the modified prospective transition method. Under that transition method, total compensation cost of $1,176,673 ($1,131,139 of expense related to the Plan and $45,534 of expense related to the ESPP) was recognized during the first six months of 2006 and includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement No. 123R. In accordance with the modified prospective transition method adopted, results for prior periods have not been restated. The following table illustrates the pro forma effect on net loss and net loss per share had the Company applied the fair value recognition provisions of Statement No. 123R for the three and six month periods ended June 30, 2005. For purposes of the pro forma disclosure, the value of the options was estimated using a Black-Scholes option pricing model and amortized to expense over the vesting periods of the options using a straight-line expense attribution method. Note that amounts are in thousands, except per share data.

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net loss as reported	$ (5,648)	$ (11,293)
Add stock-based compensation expense for consultants included in reported net loss	6	13
Deduct total stock-based compensation expense for employees and consultants as determined under Statement No. 123	(437)	(863)
Pro forma net loss	$ (6,079)	$ (12,143)
Amounts per common share:		
Net loss per share, as reported	$ (.22)	$ (.45)
Pro forma net loss per share	$ (.23)	$ (.49)

For each option award granted under the Plan during the first six months of 2005, the Black-Scholes option pricing model used the following assumptions in the table below.

Weighted Average Assumptions for Options Granted January 1, 2005 – June 30, 2005

Expected Life	5.00
Expected Volatility	96.69%
Expected Dividend Yield	0.00%
Risk-Free Interest Rate	3.89%

The weighted average grant date fair value of the options granted under the Plan during the first six months of 2005 was $3.40.

Statement 123R also requires that the benefits from tax deductions in excess of recognized compensation cost should be reported as a financing cash flow rather than as an operating cash flow. The Company has never recognized any benefits from such tax deductions, as the Company has always maintained a loss position.

Stock Incentive Plan

The Company grants stock option incentive awards to employees, directors, and consultants of the Company under the Plan. The Plan most recently amended and restated the Company's 1991 Stock Incentive Plan and was subsequently approved by the Company's stockholders on May 17, 2006. The Plan permits the Company to issue stock options to its employees, directors, and consultants for approximately 5 million shares of common stock. Under the Plan, option incentive awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Options granted to employees and consultants generally vest 25% after one year and monthly thereafter on a pro rata basis over the next three years until fully vested after four years. Options granted to non-employee directors of the Company generally vest over one year. All options have contractual terms of 10 years. The vesting exercise provisions of options granted under the Plan are subject to acceleration in the event of certain stockholder-approved transactions, or upon the occurrence of a change in control as defined in the Plan.

For each option award granted under the Plan during the first six months of 2006, the fair value was estimated on the date of grant using a Black-Scholes option pricing model using the assumptions noted in the table below. The fair value expense of those options is amortized to expense over the vesting periods of the options using a straight-line expense attribution method. The expected life is based on the average of the assumption that all outstanding options will be exercised at full vesting and the assumption that all outstanding options will be exercised at the midpoint of the valuation date and the full contractual term. The expected volatility represents an average of the implied volatility on the Company's publicly traded options, the volatility over the most recent period corresponding with the expected life, and the Company's long-term reversion volatility. The Company has assumed no expected dividend yield, as dividends have never been paid to stock or option holders and will not be for the foreseeable future. The weighted average risk-free interest rate is the implied yield currently available on zero-coupon government issues with a remaining term equal to the expected term.

Weighted Average Assumptions for Options Granted
January 1, 2006 – June 30, 2006

Expected Life	5.92
Expected Volatility	82.53%
Expected Dividend Yield	0.00%
Risk-Free Interest Rate	5.01%

Related stock option activity under the Plan is as follows:

	Options Available	Options Outstanding	Weighted Average Exercise Price
Balance December 31, 2005	443,047	3,241,351	$ 7.60
Options plan amended	1,500,000	—	—
Options granted	(996,700)	996,700	12.67
Options exercised	—	(384,037)	6.94
Options canceled	1,800	(1,800)	22.81
Balance June 30, 2006	948,147	3,852,214	8.97

The total intrinsic value of options exercised under the Plan during the first six months of 2006 was $4,530,285. The intrinsic value represents the total proceeds (fair market value at the date of exercise, less the exercise price, times the number of options exercised) received by all individuals who exercised options during the period.

The following table summarizes, at June 30, 2006, by price range: (1) for options outstanding under the Plan, the number of options outstanding, their weighted average remaining life and their weighted average exercise price; and (2) for options exercisable under the Plan, the number of options exercisable and their weighted average exercise price:

	Outstanding			Exercisable	
Range	Number	Life	Price	Number	Price
$0 to 3	473,653	6.5	$ 1.15	384,640	$ 1.20
3 to 6	714,459	8.1	4.19	354,278	4.01
6 to 9	1,153,269	5.3	7.78	900,153	7.66
9 to 12	10,953	7.5	10.00	9,953	9.88
12 to 15	1,191,613	8.4	12.88	204,613	14.12
15 to 18	78,327	1.3	16.34	75,827	16.32
18 to 21	6,200	9.7	19.34	—	—
21 to 24	204,120	3.5	22.84	204,120	22.84
24 to 30	19,620	3.9	26.83	19,620	26.83
$0 to 30	3,852,214	6.8	8.97	2,153,204	8.45

The weighted average remaining contractual life of options exercisable under the Plan at June 30, 2006 is 4.8 years.

The aggregate intrinsic value of options outstanding under the Plan at June 30, 2006 is $22,826,205. The aggregate intrinsic value of options currently exercisable under the Plan at June 30, 2006 is $14,798,263. The aggregate intrinsic value represents the value (the period's closing market price, less the exercise price, times the number of in-the-money options) that would have been received by all option holders under the Plan had they exercised their options at the end of the period.

The following table summarizes, at June 30, 2006 the number of non-vested options under the Plan and their weighted average grant date fair value:

	Number	Weighted Average Grant Date Fair Value
Balance December 31, 2005	1,042,222	$ 3.82
Options granted	996,700	8.88
Options vested	(339,912)	3.37
Options canceled	—	—
Balance June 30, 2006	1,699,010	6.88

The total fair value of the options vested under the Plan during the first six months of 2006 was $1,143,913.

The number of options vested and expected to vest as of June 30, 2006 is 3,615,973. The weighted average exercise price of those options is $9.01 and their weighted average remaining contractual life is 6.6 years.

Employee Stock Purchase Plan

The ESPP was originally approved by the Company's stockholders on May 29, 1995 and most recently amended on May 12, 2002. The Company has reserved a total of 400,000 shares of common stock to be purchased under the ESPP, of which 109,050 shares remain available for purchase at June 30, 2006. Eligible employees may authorize up to 15% of their salary to purchase common stock at the lower of 85% of the beginning or 85% of the ending price during six-month purchase intervals. No more than 3,000 shares may be purchased by any one employee at the six-month purchase dates and no employee may purchase stock having a fair market value at the commencement date of $25,000 or more in any one calendar year. The Company issued 16,551 shares during the first six months of 2006 under the ESPP. Expense of $45,534 related to the ESPP was recognized during the first six months of 2006, while expense of $31,340 related to the ESPP would have been recognized during the first six months of 2005 had the Company not followed the guidance of APB No. 25. For both periods, expense was determined using a Black-Scholes option pricing model.

As of June 30, 2006, there was approximately $10,008,033 of total unrecognized compensation cost related to non-vested employee stock option awards granted under the Plan and the ESPP. That cost is expected to be recognized as follows: $2,023,193 in the remainder of 2006, $3,173,165 in 2007, $2,344,415 in 2008, $1,822,830 in 2009, and $644,430 in 2010.

2. Collaborative Agreements

In November 2005 and February 2006, the Company announced collaborative relationships with F.Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. ("Roche") and Mundipharma International Holdings Limited ("Mundipharma"), respectively. For these license agreements, the Company has decided to defer the upfront payments over the remaining life of the patents of the compounds licensed, which is through August 2023 for the Roche agreement and through October 2017 for the Mundipharma agreement. These upfront payments have been classified as deferred revenue on the balance sheet and the significant direct costs incurred upon entering into these licensing agreements related to sublicense fees paid to Albert Einstein College of Medicine ("AECOM") and Industrial Research, Ltd. ("IRL") have been recorded as deferred assets on the balance sheet. As the Company recognizes the revenue related to these agreements, which began in February 2006 for the Mundipharma agreement and is expected to begin in the second half of 2006 for the Roche agreement, the Company will also recognize the proportionate amount of expense related to the deferred assets.

In addition, in June 2006, the Company announced a collaborative relationship with Green Cross Corporation ("Green Cross"). Consistent with the accounting treatment in the Roche and Mundipharma license arrangements, the Company has deferred the upfront payment made by Green Cross and the sublicense fee payable by the Company to the University of Alabama at Birmingham ("UAB"). The recognition of the revenue and the expense from the Green Cross agreement is expected to begin in August 2006 and continue through November 2009.

3. Recent Accounting Pronouncements

In July 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes* ("FIN No. 48"). This interpretation creates a single model to address uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The interpretation also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for years beginning after December 15, 2006. Management of the Company is evaluating the impact of this pronouncement, but does not anticipate that it will have a significant impact on its results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements, including statements regarding future results, performance, or achievements of the Company. Such statements are only predictions and the actual events or results may differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below as well as those discussed in other filings made by the Company with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and current reports on Form 8-K.

Overview

Since our inception in 1986, we have been engaged in research and development activities and organizational efforts, including:

- identifying and licensing enzyme targets;
- drug discovery;
- structure-based design of drug candidates;
- small-scale synthesis of compounds;
- conducting preclinical studies and clinical trials;

- establishing collaborative relationships with third parties for contract research related to the development of our drug candidates to support manufacturing, clinical development and regulatory compliance;
- establishing collaborative relationships with biotechnology or pharmaceutical companies and governmental agencies or other third parties for the further development and potential commercialization of our compounds;
- recruiting our scientific and management personnel;
- establishing laboratory facilities; and
- raising capital.

Our revenues have generally been limited to license fees, milestone payments, research and development fees, and interest income. Revenue is recognized in accordance with SAB No. 104 and EITF Issue 00-21. License fees, future event payments, and research and development fees are recognized as revenue when the earnings process is complete and we have no further continuing performance obligations or we have completed the performance obligations under the terms of the agreement. Fees received under licensing agreements that are related to future performance are deferred and recognized as earned over an estimated period determined by management based on the terms of the agreement and the products licensed. For example, in the Roche and Mundipharma license agreements announced in November 2005 and February 2006, respectively, we have determined to defer the upfront payments over the remaining life of the patents which are 17 years (through August 2023) and 12 years (through October 2017), respectively. In the event a license agreement contains multiple deliverables, we evaluate whether the deliverables are separate or combined units of accounting in accordance with EITF Issue 00-21. Revisions to revenue or profit estimates as a result of changes in the estimated revenue period are recognized prospectively.

Future event payments are recognized as revenue upon the achievement of specified events if (1) the event is substantive in nature and the achievement of the event was not reasonably assured at the inception of the agreement and (2) the fees are non-refundable and non-creditable. Any event payments received prior to satisfying these criteria are recorded as deferred revenue.

Significant direct costs incurred upon entering into a licensing arrangement, such as our sublicense fees to AECOM and IRL, are deferred and charged to expense in proportion to the revenue recognized. Under the guidance of EITF Issue 99-19, and EITF Issue 01-14, reimbursements received for direct out-of-pocket expenses related to research and development costs are recorded as revenue in the income statement rather than as a reduction in expenses.

Royalty revenue is recognized based on estimates of royalties earned during the applicable period and adjusted for differences between the estimated and actual royalties in the following period. If royalties can not be reasonably estimated, revenue is recognized upon receipt of royalty statements from the licensee. We have not received any royalties from the sale of licensed pharmaceutical products.

It could be several years, if ever, before we will recognize significant revenue from royalties received pursuant to our license agreements or revenue directly from product sales. Future revenues, if any, are likely to fluctuate substantially from quarter to quarter.

We have incurred operating losses since our inception. Our accumulated deficit at June 30, 2006 was $169.8 million. We expect to incur substantial expenditures relating to the development of our current and future drug candidates. During the three years ended December 31, 2005, we spent 54.6% of our research and development expenses on contract research and development, including:

- payments to consultants;
- funding of research at academic institutions;
- toxicology studies on existing and potential drugs;
- manufacturing of our raw materials, drug substance and drug products;

- large scale synthesis and formulation of compounds;
- preclinical studies;
- engaging investigators to conduct clinical trials;
- hiring contract research organizations for regulatory and clinical functions; and
- using statisticians to evaluate the results of clinical trials.

The above expenditures for contract research and development for our current and future drug candidates will vary from quarter-to-quarter depending on the status of our research and development projects. For example, we began clinical development of our neuraminidase inhibitor, peramivir, by starting the first clinical trial with an intravenous formulation during the first quarter of 2006. We also began the scale-up manufacturing required for validation of the manufacturing process for both peramivir and our lead product Fodosine™, BCX-1777, an inhibitor of the enzyme purine nucleoside phosphorylase ("PNP"). Fodosine™ is currently in various stages of clinical development in multiple oncology indications, including a Phase II trial in T-cell leukemia. As these trials progress and additional trials are started, our costs for clinical studies will increase significantly.

Changes in our existing and future research and development and collaborative relationships also will impact the status of our research and development projects. For example, in November 2005 we entered into a license agreement with Roche for the worldwide development and commercialization for our second PNP inhibitor, BCX-4208. In addition to an upfront payment plus an advance payment for some manufacturing we will perform, Roche has assumed financial responsibility for the future development costs associated with this program. In February 2006, we licensed Fodosine™ to Mundipharma for the development and commercialization of this drug in Europe, Asia and Australasia. In addition to the upfront payment of $10 million, Mundipharma will pay 50% of the clinical development costs we will incur for Fodosine™ on existing and planned clinical trials, but their portion shall not exceed $10 million.

Although we may, in some cases, be able to control the timing of development expenses, in part by accelerating or decelerating certain of these costs, many of these costs will be incurred irrespective of whether we are able to discover drug candidates or obtain collaborative partners for commercialization. As a result, we believe that quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. If we fail to meet the research, clinical and financial expectations of securities analysts and investors, it could have a material adverse effect on the price of our common stock.

Results of Operations (three months ended June 30, 2006 compared to the three months ended June 30, 2005)

Collaborative and other research and development revenues increased to $1,558,000 in the three months ended June 30, 2006 compared to $58,000 in the three months ended June 30, 2005, due to the recognition of revenue related to our collaboration with Mundipharma for the development and commercialization of forodesine hydrochloride (Fodosine™) in Europe and Asia**.** For this collaboration, we began recognizing the $10 million up front payment in February 2006, which will continue until it is fully recognized in October 2017. In addition, we recognized revenue for the portion of clinical expenses incurred during the quarter that will be reimbursed by Mundipharma according to the terms of the collaboration.

Research and development ("R&D") expenses increased 112.6% to $11,190,000 in the three months ended June 30, 2006 from $5,263,000 in the three months ended June 30, 2005. The increase is primarily attributable to expenses for contract research and synthesis of compound related to the clinical development and manufacturing of our drug candidates, Fodosine™ and peramivir. We are currently in several additional clinical trials with Fodosine™ as compared to the same period in 2005 and we initiated clinical testing of peramivir late in the first quarter of 2006. In addition, we have also started the process of manufacturing validation for both Fodosine™ and peramivir. There was also an increase in compensation cost for the second quarter of 2006 compared to the second quarter of 2005, primarily related to the Company's adoption of Statement No. 123R, which resulted in $337,000 of share-based compensation expense for the second quarter 2006, and the increase in headcount during 2006.

General and administrative expenses for the three months ended June 30, 2006 increased 90.4% to $1,384,000 as compared to $727,000 for the same period in 2005, primarily due to $420,000 of share-based compensation expense related to the adoption of Statement No. 123R, additional employment expenses related to an increase in personnel, and an increase in professional fees.

Interest income for the three months ended June 30, 2006 was $933,000, a 228.5% increase as compared to the same period in 2005. This increase was due to a higher average cash balance during the second quarter of 2006.

Results of Operations (six months ended June 30, 2006 compared to the six months ended June 30, 2005)

Collaborative and other research and development revenues increased to $2,330,000 for the six months ended June 30, 2006 compared to $99,000 for the six months ended June 30, 2005, due to the recognition of revenue related to our collaboration with Mundipharma for the development and commercialization of Fodosine™ in Europe and Asia. For this collaboration, we began recognizing the $10 million up front payment in February 2006, which will continue until it is fully recognized in October 2017. In addition, we began recognizing revenue during the first quarter of 2006 for clinical expenses that will be reimbursed by Mundipharma according to the terms of the collaboration.

R&D expenses increased 84.3% to $19,234,000 for the six months ended June 30, 2006 from $10,438,000 for the six months ended June 30, 2005. The increase is primarily attributable to expenses for contract research and synthesis of compounds related to the clinical development and manufacturing of our drug candidates, Fodosine™ and peramivir. We are currently in several additional clinical trials with Fodosine™ as compared to the same period in 2005 and we initiated clinical testing of peramivir late in the first quarter of 2006. In addition, we have also started the process of manufacturing validation for both Fodosine™ and peramivir. There was also an increase in compensation cost for the second quarter of 2006 compared to the second quarter of 2005, primarily related to the Company's adoption of Statement No. 123R, which resulted in $516,000 of share-based compensation expense for the first half of 2006, and the increase in headcount during 2006.

General and administrative expenses for the six months ended June 30, 2006 increased 102.3% to $2,879,000 as compared to $1,423,000 for the same period in 2005, primarily due to $661,000 of share-based compensation expense related to the adoption of Statement No. 123R, additional compensation expense related to an increase in personnel, and an increase in professional fees primarily related to our recent collaborations.

Interest income for the six months ended June 30, 2006 was $1,818,000, a 287.6% increase as compared to the same period in 2005. This increase was due to a higher average cash balance during the second quarter of 2006 resulting from receipt of the upfront payments related to the Roche and Mundipharma collaborations.

Liquidity and Capital Resources

Cash expenditures have exceeded revenues since our inception. Our operations have principally been funded through public offerings and private placements of equity and debt securities. For example, during December 2005, we raised $30.0 million (approximately $29.9 million net of expenses) through a sale of 2,228,829 shares of our common stock. Other sources of funding have included the following:

- collaborative and other research and development agreements (such as the Roche, Mundipharma and Green Cross licenses);
- equipment lease financing;
- facility leases;
- research grants; and
- interest income.

In addition, we have attempted to contain costs and reduce cash flow requirements by renting scientific equipment and facilities, contracting with other parties to conduct certain research and development and using consultants. We expect to incur additional expenses, potentially resulting in significant losses, as we continue to pursue our research and development activities, undertake additional preclinical studies and clinical trials of compounds which have been or may be discovered and as we validate the manufacturing process of our lead compounds. We also expect to incur substantial expenses related to the filing, prosecution, maintenance, defense and enforcement of patent and other intellectual property claims and additional regulatory costs as our clinical products advance through later stages of development.

We invest our excess cash principally in U.S. marketable securities from a diversified portfolio of institutions with strong credit ratings and in U.S. government and agency bills and notes, and by policy, limit the amount of credit exposure at any one institution. These investments are generally not collateralized and mature within two years. We have not realized any losses from such investments.

We have financed some of our equipment purchases with lease lines of credit. In July 2000, we renegotiated our lease for our current facilities, which will expire on June 30, 2010. We have an option to renew the lease for an additional five years at the current market rate in effect on June 30, 2010 and a one-time option to terminate the lease on June 30, 2008 for a termination fee of approximately $124,000. The lease, as amended effective December 1, 2005 for a reduction of 7,200 square feet, requires us to pay monthly rent starting at $36,855 per month in December 2005 and escalating annually to a minimum of $41,481 per month in the final year, plus our pro rata share of operating expenses and real estate taxes in excess of base year amounts. As part of the lease, we have deposited a U.S. Treasury security in escrow for the payment of rent and performance of other obligations specified in the lease. This pledged amount is currently $132,000, which can be decreased by $65,000 annually throughout the term of the lease. Currently, we have approximately 3,600 square feet being subleased, which can be terminated with 30 days written notice.

We have not incurred any significant charges related to building renovations since 2001, but we currently have plans for some renovations and for the purchase of additional scientific equipment. Our anticipated capital expenditures for 2006 related to these items are not expected to exceed $1.5 million.

At December 31, 2005, we had long-term operating lease obligations, which provide for aggregate minimum payments of $533,904 in 2006, $486,119 in 2007 and $496,834 in 2008. These obligations include the future rental of our operating facility.

We plan to finance our needs principally from the following:

- our existing capital resources and interest earned on that capital;
- payments under collaborative and licensing agreements with corporate partners; and
- lease or loan financing and future public or private financing.

As of June 30, 2006, we had $74.7 million in cash, cash equivalents and securities. We believe that our currently available funds will be sufficient to fund our operations at least through 2007. However, this is a forward looking statement, and there may be changes that would consume available resources significantly before such time. Our long-term capital requirements and the adequacy of our available funds will depend upon many factors, including:

- the progress and magnitude of our research, drug discovery and development programs;
- changes in existing collaborative relationships;
- our ability to establish additional collaborative relationships with academic institutions, biotechnology or pharmaceutical companies and governmental agencies or other third parties;
- the extent to which our collaborators, including governmental agencies will share in the costs associated with the development of our programs or run the development programs themselves;
- our ability to negotiate favorable development and marketing strategic alliances for our drug candidates;
- the scope and results of preclinical studies and clinical trials to identify drug candidates;

- the scope of manufacturing of our drug candidates to support our preclinical research and clinical trials;
- the scope of validation for the manufacturing of our drug substance and drug products required for future NDA filings;
- competitive and technological advances;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;
- our dependence on others for development and commercialization of our product candidates; and
- successful commercialization of our products consistent with our licensing strategy.

To date, we have financed our operations primarily from sale of our equity securities and cash from collaborations and, to a lesser extent, interest. For the first six months of 2006, our average monthly cash burn from normal operations has been approximately $3.2 million. For the year, our cash, cash equivalents and securities balance has increased from $60 million as of December 31, 2005 to $74.6 million as of June 30, 2006, primarily due to cash received from collaborations, totaling approximately $31.8 million net of sublicense fees, less the monthly cash burn from operations.

In June 2006 the Department of Health and Human Services ("HHS") issued a Request for Proposal ("RFP") for the potential funding of companies with antiviral drugs in development for both seasonal and avian influenza. We believe our peramivir program meets substantially all of the requirements outlined in the RFP and therefore we submitted a proposal to HHS on July 20, 2006 and we hope to be considered a competitive candidate for some of the funding to be made available under the RFP. We have made certain commitments related to the advancement of peramivir for both our intramuscular and intravenous formulations so that we will be prepared to enter multiple Phase II trials during the 2006-2007 influenza season. We plan to be in several Phase II trials with peramivir using intravenous and intramuscular formulations for the 2006-2007 flu season and we are currently initiating the additional Phase I trials to support these planned Phase II trials.

In addition, on August 7, 2006, we announced that we had received a Special Protocol Assessment ("SPA") letter from the U.S. Food and Drug Administration ("FDA") for the initiation of a pivotal clinical trial of our lead anti-cancer compound Fodosine™. The SPA letter documents the agreement between the FDA and the Company regarding the trial design's suitability to support regulatory approval. We expect to initiate a multicenter, open-label pivotal clinical trial later this year with the goal of enrolling 100 patients. In our original request, we estimated the number of patients required for this trial would be approximately 50, based on other similar trials completed by other companies.

As a result of the commitments we have made for the clinical development of both peramivir and Fodosine™, plus the ongoing validation of the manufacturing process for these drug candidates, we expect that our monthly cash used by operations will increase significantly during the second half of 2006 to a level which could eventually exceed $5 million per month during this time. We are hopeful that our proposal response for the RFP will be acceptable for funding, which would significantly offset this projected burn rate if and when it became effective. In addition, we expect to achieve one milestone related to our collaboration with Mundipharma in 2006 and we will continue to be reimbursed for our clinical development costs up to the $10 million defined in our agreement. We currently have a balance receivable of approximately $2 million for their portion of the funding related to the clinical development of Fodosine™.

As our clinical programs continue to grow and patient enrollment increases, our costs will increase. Our current and planned clinical trials plus the related manufacturing, personnel resources and testing required to support these trials will consume significant capital resources and will increase our expenses and our net loss.

Our monthly burn rate could vary significantly depending on many factors, including our ability to raise additional capital, the development progress of our collaborative agreements for our drug candidates, the amount of funding or assistance we receive from governmental agencies or other new partnerships with third parties for the development of our drug candidates in general and for peramivir specifically, the progress and results of our current and proposed clinical trials for our most advanced drug products, the progress made in the manufacturing of our lead products and the progression of our other programs.

The collaboration with Roche for the worldwide development and commercialization of BCX-4208 provided an upfront payment plus an advance payment for specific manufacturing we will perform. We expect to fulfill our manufacturing obligation in the third quarter of 2006. The initial $30 million was recorded as a receivable on our balance sheet at December 31, 2005 and was received in January 2006. Roche will take over the development and pay all costs associated with this program. The agreement also provides for future event payments and royalties to be made by Roche upon the achievement of certain clinical, regulatory and sales events.

In February 2006, we licensed Fodosine™ to Mundipharma for the development and commercialization of this drug in Europe, Asia and Australasia. In addition to the upfront payment of $10 million which was received in February 2006, Mundipharma will pay 50% of the clinical development costs we will incur for Fodosine™ on existing and planned clinical trials, but their portion shall not exceed $10 million. In addition, Mundipharma will conduct additional clinical trials at their own cost up to a maximum of $15 million. The agreement also provides for future event payments and royalties to be made by Mundipharma upon the achievement of certain clinical, regulatory and sales events.

For the Roche and Mundipharma collaborations, we will owe sublicense payments to AECOM and IRL on all upfront, future event payments and royalties. For the first six months of 2006, we have paid approximately $8.2 million related to these agreements. The revenue from these agreements has been recorded as deferred revenue on our balance sheet and will be recognized over the remaining patent life of the related drug candidate. The payments to AECOM and IRL have been recorded as deferred assets on our balance sheet and will be recognized over the period of the related revenue recognition. Due to the nature of the potential milestones in our collaborations, it is difficult to predict if and when particular milestones will be achieved by us or our collaborators.

We expect that we will be required to raise additional capital to complete the development and commercialization of our current product candidates. Additional funding, whether through additional sales of securities or collaborative or other arrangements with corporate partners or from other sources, including governmental agencies in general and from the RFP specifically, may not be available when needed or on terms acceptable to us. The issuance of preferred or common stock or convertible securities, with terms and prices significantly more favorable than those of the currently outstanding common stock, could have the effect of diluting or adversely affecting the holdings or rights of our existing stockholders. In addition, collaborative arrangements may require us to transfer certain material rights to such corporate partners. Insufficient funds may require us to delay, scale-back or eliminate certain of our research and development programs.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of June 30, 2006, we are not involved in any material unconsolidated SPE or off-balance sheet arrangements.

Contractual Obligations

A summary of our obligations to make future payments under contracts existing as of December 31, 2005 is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2005. For the six months ended June 30, 2006, the Company has entered into various contracts in the ordinary course of business for several R&D related items, including manufacturing of various compounds, additional toxicology studies and clinical trials and has already paid for some of the obligations disclosed at December 31, 2005. The net effect of these changes was to increase the purchase obligations disclosed at December 31, 2005 by a total of approximately $8.2 million. These obligations could change during the course of the year depending on the status of each of our development programs.

For purposes of our disclosure of contractual obligations, purchase obligations include commitments related to clinical development, manufacturing and research operations and other significant purchase commitments.

In addition to the contractual obligations disclosed, we have committed to make potential future "sublicense" payments to third-parties related to the in-licensing for some of our development programs. Payments under these agreements generally become due and payable only upon achievement of certain developmental, regulatory and/or commercial milestones. Because the achievement of these milestones is neither probable nor reasonably estimable, such contingencies have not been recorded on our balance sheet.

Critical Accounting Policies

We have established various accounting policies that govern the application of accounting principles generally accepted in the United States, which were utilized in the preparation of our financial statements. Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates, which could have a material impact on the carrying values of assets and liabilities and the results of operations.

While our significant accounting policies are more fully described in Note 1 to our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our financial statements.

Revenue Recognition

Our revenues have generally been limited to license fees, milestone payments, research and development fees, and interest income. Revenue is recognized in accordance with SAB No. 104 and EITF Issue 00-21. License fees, event payments, and research and development fees are recognized as revenue when the earnings process is complete and we have no further continuing performance obligations or we have completed the performance obligations under the terms of the agreement. Fees received under licensing agreements that are related to future performance are deferred and recognized as earned over an estimated period determined by management based on the terms of the agreement and the products licensed. For example, in the Roche and Mundipharma licenses agreements, we have determined to defer the upfront payments over the remaining life of the patents which are 17 years (through August 2023) and 12 years (through October 2017), respectively. In the event a license agreement contains multiple deliverables, we evaluate whether the deliverables are separate or combined units of accounting in accordance with EITF Issue 00-21. Revisions to revenue or profit estimates as a result of changes in the estimated revenue period are recognized prospectively.

Future event payments are recognized as revenue upon the achievement of specified events if (1) the event is substantive in nature and the achievement of the event was not reasonably assured at the inception of the agreement and (2) the fees are non-refundable and non-creditable. Any event payments received prior to satisfying these criteria are recorded as deferred revenue.

Significant direct costs incurred upon entering into a licensing arrangement, such as our sublicense fees to AECOM and IRL, are deferred and charged to expense in proportion to the revenue recognized. Under the guidance of EITF Issue 99-19, and EITF Issue 01-14, reimbursements received for direct out-of-pocket expenses related to research and development costs are recorded as revenue in the income statement rather than as a reduction in expenses.

Royalty revenue is recognized based on estimates of royalties earned during the applicable period and adjusted for differences between the estimated and actual royalties in the following period. If royalties can not be reasonably estimated, revenue is recognized upon receipt of royalty statements from the licensee. We have not received any royalties from the sale of licensed pharmaceutical products.

Research and Development Expenses

Major components of R&D expenses consist of personnel costs, including salaries and benefits, manufacturing costs, clinical, regulatory, and toxicology services performed by contract research organizations (CRO's), materials and supplies, and overhead allocations consisting of various administrative and facilities related costs. We charge these costs to expense when incurred, consistent with Statement of Financial Accounting Standards No. 2, *Accounting for Research*

and Development Costs. These costs are a significant component of R&D expenses. Most of our manufacturing and our clinical and preclinical studies are performed by third-party CRO's. We accrue costs for studies performed by CRO's over the service periods specified in the contracts and adjust our estimates, if required, based upon our on-going review of the level of services actually performed by the CRO. We expense both our internal and external research and development costs as incurred. We expect our research and development expense to increase as we continue to develop our drug candidates.

Additionally, we have license agreements with third parties, such as AECOM and IRL that require maintenance fees or fees related to sublicense agreements. These fees are generally expensed as incurred unless they are related to revenues that have been deferred in which case the expenses will be deferred and recognized over the related revenue recognition period.

Accrued Expenses

As part of the process of preparing financial statements, we are required to estimate accrued expenses. This process involves reviewing open contracts and purchase orders, communicating with our applicable personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. The majority of our service providers invoice us monthly in arrears for services performed. We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us. We periodically confirm the accuracy of our estimates with the service providers and make adjustments if necessary. To date, we have not adjusted our estimate at any particular balance sheet date in any material amount. Examples of estimated accrued expenses include:

- fees paid to contract research organizations in connection with preclinical and toxicology studies and clinical trials;
- fees paid to investigative sites in connection with clinical trials;
- fees paid to contract manufacturers in connection with the production of our raw materials, drug substance and drug products; and
- professional service fees.

We base our expenses related to clinical trials on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and clinical research organizations that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we will adjust the accrual accordingly. If we do not identify costs that we have begun to incur or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates.

Stock-Based Compensation

At June 30, 2006, we have two stock-based employee compensation plans, the Stock Incentive Plan (the "Plan") and the Employee Stock Purchase Plan (the "ESPP"). Prior to January 1, 2006, we accounted for those plans under the recognition and measurement provisions of APB No. 25 and other related Interpretations, as permitted by Statement No. 123. No stock-based compensation cost related to the our employees was recognized in the Statements of Operations for any period ending prior to January 1, 2006, as all options granted had exercise prices equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of Statement No. 123R, using the modified prospective transition method. Under that transition method, total compensation cost of $1,176,673 ($1,131,139 of expense related to the Plan and $45,534 of expense related to the ESPP) was recognized during the first six months of 2006 and includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of Statement No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement No. 123R. Results for prior periods have not been restated.

As of June 30, 2006, there was approximately $10,008,033 of total unrecognized compensation cost related to non-vested employee stock option awards granted under the Plan and the ESPP. That cost is expected to be recognized as follows: $2,023,193 in the remainder of 2006, $3,173,165 in 2007, $2,344,415 in 2008, $1,822,830 in 2009, and $644,430 in 2010.

Under the fair value recognition provisions of Statement No. 123R, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. Consistent with the valuation method we used for disclosure-only purposes under the provisions of Statement No. 123, we use the Black-Scholes option pricing model to estimate fair value under Statement No. 123R. Determining the appropriate fair value model and the related assumptions for the model requires judgment, including estimating the life of an award, the stock price volatility, and the expected term. Compensation cost is recognized on a straight-line basis over the requisite service period.

Information Regarding Forward-Looking Statements

This filing contains forward-looking statements, including statements regarding future results, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These forward-looking statements can generally be identified by the use of words such as “may,” “will,” “intends,” “plans,” “believes,” “anticipates,” “expects,” “estimates,” “predicts,” “potential,” the negative of these words or similar expressions. Statements that describe our future plans, strategies, intentions, expectations, objectives, goals or prospects are also forward-looking statements. Discussions containing these forward-looking statements are principally contained in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, as well as any amendments we make to those sections in filings with the SEC. These forward-looking statements include, but are not limited to, statements about:

- the initiation, timing, progress and results of our preclinical and clinical trials, research and development programs;
- the potential for funding from HHS for the clinical development of peramivir from the RFP;
- the further preclinical or clinical development and commercialization of our product candidates;
- the implementation of our business model, strategic plans for our business, product candidates and technology;
- our ability to establish and maintain collaborations with biotechnology or pharmaceutical companies and governmental agencies or other third parties;
- the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates and technology;
- our ability to operate our business without infringing the intellectual property rights of others;
- estimates of our expenses, future revenues, capital requirements and our needs for additional financing;
- the timing or likelihood of regulatory filings and approvals;
- our financial performance; and
- competitive companies, technologies and our industry.

These statements reflect our current views with respect to future events and BioCryst has no obligation to update or revise the statements. BioCryst cautions that you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail in “Risk Factors.”

You should read this discussion completely and with the understanding that our actual future results may be materially different from what we expect. We may not update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary objective of our investment activities is to preserve principal while maximizing the income we receive from our investments without significantly increasing our risk. We invest excess cash principally in U.S. marketable securities from a diversified portfolio of institutions with strong credit ratings and in U.S. government and agency bills and notes, and by policy, limit the amount of credit exposure at any one institution. Some of the securities we invest in may have market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we schedule our investments to have maturities that coincide with our expected cash flow needs, thus avoiding the need to redeem an investment prior to its maturity date. Accordingly, we believe we have no material exposure to interest rate risk arising from our investments. Therefore, no quantitative tabular disclosure is provided.

Item 4. Controls and Procedures

We maintain a set of disclosure controls and procedures that are designed to ensure that information relating to BioCryst Pharmaceuticals, Inc. required to be disclosed in our periodic filings under the Securities Exchange Act is recorded, processed, summarized and reported in a timely manner under the Securities Exchange Act of 1934. We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2006, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by BioCryst in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by BioCryst in such reports is accumulated and communicated to the Company's management, including the Chairman and Chief Executive Officer and Chief Financial Officer of BioCryst, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, BioCryst's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings:

None

Item 1A. Risk Factors:

Our 2005 Annual Report on Form 10-K includes a detailed discussion of our risk factors. The risk factor below was disclosed on the Form 10-K and updates information as of June 30, 2006. It should be read in conjunction with all the risk factors and information disclosed in that Form 10-K.

If we fail to obtain additional financing, we may be unable to complete the development and commercialization of our product candidates or continue our research and development programs.

To date, we have financed our operations primarily from sale of our equity securities and cash from collaborations and, to a lesser extent, interest. For the first six months of 2006, our average monthly cash burn from normal operations has been approximately $3.2 million. For the year, our cash, cash equivalents and securities balance has increased from $60 million as of December 31, 2005 to $74.6 million as of June 30, 2006, primarily due to cash received from collaborations, totaling approximately $31.8 million net of sublicense fees, less the monthly cash burn from operations.

In June 2006 the Department of Health and Human Services ("HHS") issued a Request for Proposal ("RFP") for the potential funding of companies with antiviral drugs in development for both seasonal and avian influenza. We believe our peramivir program meets substantially all of the requirements outlined in the RFP and therefore we submitted a proposal to HHS on July 20, 2006 and we hope to be considered a competitive candidate for some of the funding to be made available under the RFP. We have made certain commitments related to the advancement of peramivir for both our intramuscular and intravenous formulations so that we will be prepared to enter multiple Phase II trials during the 2006-2007 influenza season. We plan to be in several Phase II trials with peramivir using intravenous and intramuscular formulations for the 2006-2007 flu season and we are currently initiating the additional Phase I trials to support these planned Phase II trials.

In addition, on August 7, 2006, we announced that we had received a Special Protocol Assessment ("SPA") letter from the U.S. Food and Drug Administration ("FDA") for the initiation of a pivotal clinical trial of our lead anti-cancer compound Fodosine™. The SPA letter documents the agreement between the FDA and the Company regarding the trial design's suitability to support regulatory approval. We expect to initiate a multicenter, open-label pivotal clinical trial later this year with the goal of enrolling 100 patients. In our original request, we estimated the number of patients required for this trial would be approximately 50, based on other similar trials completed by other companies.

As a result of the commitments we have made for the clinical development of both peramivir and Fodosine™, plus the ongoing validation of the manufacturing process for these drug candidates, we expect that our monthly cash used by operations will increase significantly during the second half of 2006 to a level which could eventually exceed $5 million per month during this time. We are hopeful that our proposal response for the RFP will be acceptable for funding, which would significantly offset this projected burn rate if and when it became effective. In addition, we expect to achieve one milestone related to our collaboration with Mundipharma in 2006 and we will continue to be reimbursed for our clinical development costs up to the $10 million defined in our agreement. We currently have a balance receivable of approximately $2 million for their portion of the funding related to the clinical development of Fodosine™.

As our clinical programs continue to grow and patient enrollment increases, our costs will increase. Our current and planned clinical trials plus the related manufacturing, personnel resources and testing required to support these trials will consume significant capital resources and will increase our expenses and our net loss.

Our monthly burn rate could vary significantly depending on many factors, including our ability to raise additional capital, the development progress of our collaborative agreements for our drug candidates, the amount of funding or assistance we receive from governmental agencies in general and under the RFP specifically, or other new partnerships with third parties for the development of our drug candidates in general and for peramivir specifically, the progress and results of our current and proposed clinical trials for our most advanced drug products, the progress made in the manufacturing of our lead products and the progression of our other programs. Our long-term capital requirements and the adequacy of our available funds will depend upon many factors, including:

- the progress of our research, drug discovery and development programs;
- changes in existing collaborative relationships;
- our ability to establish additional collaborative relationships with academic institutions, biotechnology or pharmaceutical companies, governmental agencies or other third parties;
- the extent to which our collaborators, including governmental agencies will share in the costs associated with the development of our programs or run the development programs themselves;
- our ability to obtain funding for our peramivir program from the RFP issued by HHS;
- our ability to negotiate favorable development and marketing alliances for our drug product candidates;
- the magnitude of our research and development programs;
- the scope and results of preclinical studies and clinical trials to identify drug product candidates and the costs of manufacturing drug product to support these studies and trials;
- competitive and technological advances;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;
- our dependence on others for development and commercialization of our product candidates; and
- successful commercialization of our products consistent with our licensing strategy.

We will be required to raise additional capital to complete the development and commercialization of our current product candidates. Additional funding, whether through additional sales of securities or collaborative or other arrangements with corporate partners, governmental agencies or from other sources, may not be available when needed or on terms acceptable to us. The issuance of preferred or common stock or convertible securities, with terms and prices significantly more favorable than those of the currently outstanding common stock, could have the effect of diluting or adversely affecting the holdings or rights of our existing stockholders. In addition, collaborative arrangements may require us to transfer certain material rights to such corporate partners as described in the following risk factor related to collaborative relationships. Insufficient funds may require us to delay, scale-back or eliminate certain of our research and development programs.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds:

None

Item 3. Defaults Upon Senior Securities:

None

Item 4. Submission of Matters to a Vote of Security Holders:

(a) The Company’s annual meeting of stockholders was held on May 17, 2006.

(b) Messrs. Bennett, Biggar, Horovitz and Steer were elected as directors for three-year terms expiring in 2009. Messrs., Bugg, Gordon, Higgins, Featheringill, Sherrill, and Spencer and Ms. Seidenberg continue as directors.

(c) Motion before stockholders:

1. Election of four directors as follows -

Name	Votes For	Abstentions/ Withheld
J. Claude Bennett, M.D.	26,005,139	1,049,731
Stephen R. Biggar, M.D., Ph.D.	26,003,804	1,051,066
Zola P. Horovitz, Ph.D.	23,244,705	3,810,165
Randolph C. Steer, M.D. Ph.D.	26,005,793	1,049,077

2. Approval of the Stock Incentive Plan

Votes For	Votes Against	Abstentions/ Withheld
15,627,202	1,328,145	98,449

3. Ratification of Ernst & Young, LLP

Votes For	Votes Against	Abstentions/ Withheld
26,315,798	712,490	26,582

(d) Not applicable.

Item 5. Other Information:

None

Item 6. Exhibits:

a. Exhibits:

Number	Description
3.1	Composite Certificate of Incorporation of Registrant. Incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the second quarter ending June 30, 1995 dated August 11, 1995.
3.2	Bylaws of Registrant as amended December 15, 2005. Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed December 16, 2005.
4.1	Rights Agreement, dated as of June 17, 2002, by and between the Company and American Stock Transfer & Trust Company, as Rights Agent, which includes the Certificate of Designation for the Series B Junior Participating Preferred Stock as Exhibit A and the form of Rights Certificate as Exhibit B. Incorporated by reference to Exhibit 4.1 to the Company's Form 8-A dated June 17, 2002.
10.1	Stock Incentive Plan, as amended and restated effective March 7, 2006.
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Confidential treatment granted.
& Management contracts.
* Confidential treatment requested.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 9th day of August, 2006.

BIOCRYST PHARMACEUTICALS, INC.

/s/Charles E. Bugg

Charles E. Bugg, Ph.D.
Chairman and Chief Executive Officer

/s/Michael A. Darwin

Michael A. Darwin
Chief Financial Officer (Principal Financial and Accounting Officer), Secretary and Treasurer

BIOCRYST PHARMACEUTICALS, INC.
STOCK INCENTIVE PLAN
(formerly the "BioCryst Pharmaceuticals, Inc. 1991 Stock Option Plan")

(AMENDED AND RESTATED EFFECTIVE MARCH 7, 2006)

ARTICLE ONE
GENERAL PROVISIONS

I. PURPOSES OF THE PLAN

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

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

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

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

C. The Plan, as hereby amended and restated, was approved and adopted by the Board effective March 7, 2006 (the "Effective Date") in order to (i) increase by 1,500,000 the number of shares of the Company's common stock, par value $.01 per share (the "Common Stock"), that may be issued pursuant to the Plan, (ii) expand the types of awards available under the Plan by adding a Stock Issuance Program (as described below), (iii) change the name of the Plan in accordance with the expanded types of awards that may be issued under the Plan, and (iv) incorporate other items the Board deemed desirable. The Board's adoption of the Plan is subject to approval by the Company's stockholders at the Company's 2006 Annual Stockholders Meeting.

II. STRUCTURE OF THE PLAN

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

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

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

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

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

III. ADMINISTRATION OF THE PLAN

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

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

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

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

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

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

IV. ELIGIBILITY

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

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

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

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

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

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

V. STOCK SUBJECT TO THE PLAN

A. Shares of the Company's Common Stock shall be available for issuance under the Plan and shall be drawn from either the Company's authorized but unissued shares of Common Stock or from reacquired shares of Common Stock, including shares repurchased by the Company on the open market. The maximum number of shares of Common Stock which may be issued over the term of the Plan, as amended and restated, shall not exceed 4,957,982 shares, subject to adjustment from time to time in accordance with the provisions of this Section V. Such authorized share reserve includes (i) the 3,457,982 shares of Common Stock reserved and available for issuance under the Plan as of March 20, 2006; and (ii) the increase of 1,500,000 shares of Common Stock authorized by the Board on March 7, 2006 subject to shareholder approval at the 2006 Annual Stockholders Meeting.

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

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

D. In the event any change is made to the Common Stock issuable under the Plan by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without receipt of consideration, then appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities for which any one individual participating in the Plan may be granted stock options, separately exercisable stock appreciation rights, and direct stock issuances under the Plan from and after the Section 12(g) Registration Date, (iii) the number and/or class of securities and price per share in effect under each outstanding option under the Plan, (iv) the number and/or class of securities in effect under each outstanding direct stock issuance under the Plan, and (v) the number and/or class of securities for which automatic option grants are subsequently to be made per non-employee Board member under the Automatic Option Grant Program. The purpose of such adjustments shall be to preclude the enlargement or dilution of rights and benefits under the Plan.

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

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

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

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

ARTICLE TWO
DISCRETIONARY OPTION GRANT PROGRAM

I. TERMS AND CONDITIONS OF OPTIONS

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

A. **Option Price.**

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

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

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

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

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

Each option granted under this Article Two shall be exercisable at such time or times, during such period, and for such number of shares as shall be determined by the Plan Administrator and set forth in the instrument evidencing the option grant. No such option, however, shall have a maximum term in excess of ten (10) years from the grant date. During the lifetime of the optionee, the option, together with any stock appreciation rights pertaining to such option, shall be exercisable only by the optionee and shall not be assignable or transferable by the optionee except for a

transfer of the option by will or by the laws of descent and distribution following the optionee's death. However, the Plan Administrator shall have the discretion to provide that a non-statutory option may, in connection with the optionee's estate plan, be assigned in whole or in part during the optionee's lifetime either as (i) as a gift to one or more members of optionee's immediate family, to a trust in which optionee and/or one or more such family members hold more than fifty percent (50%) of the beneficial interest or an entity in which more than fifty percent (50%) of the voting interests are owned by optionee and/or one or more such family members, or (ii) pursuant to a domestic relations order. The assigned portion shall be exercisable only by the person or persons who acquire a proprietary interest in the option pursuant to such assignment. The terms applicable to the assigned portion shall be the same as those in effect for this option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

C. **Termination of Service.**

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

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

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

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

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

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

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

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

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

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

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

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

D. **Stockholder Rights.**

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

E. **Repurchase Rights.**

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

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

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

(c) The Plan Administrator shall have the discretionary authority, exercisable either before or after the optionee's cessation of Service, to cancel the Corporation's outstanding repurchase rights with respect to one or more shares purchased or purchasable by the optionee under this Discretionary Option Grant Program and thereby accelerate the vesting of such shares in whole or in part at any time.

II. INCENTIVE OPTIONS

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

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

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

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

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

III. CORPORATE TRANSACTIONS/CHANGES IN CONTROL

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

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

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company in liquidation or dissolution of the Company, or

(iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such merger,

then the exercisability of each option outstanding under this Article Two shall automatically accelerate so that each such option shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable with respect to the total number of shares of Common Stock at the time subject to such option and may be exercised for

all or any portion of such shares. However, an outstanding option under this Article Two shall not so accelerate if and to the extent the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of grant, unless the Plan Administrator, in its discretion, later determines to waive such limitations.

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

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

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

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

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

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

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

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

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

IV. STOCK APPRECIATION RIGHTS

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

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

V. EXTENSION OF EXERCISE PERIOD

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

ARTICLE THREE
STOCK ISSUANCE PROGRAM

I. STOCK ISS**U**ANCE TERMS

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

A. **Purchase Price**.

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

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

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

B. **Vesting Provisions**.

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

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

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

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

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

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

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

II. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. All of the Company's outstanding repurchase rights under the Stock Issuance Program shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent (i) those repurchase rights are to be assigned to the

successor corporation (or parent thereof) in connection with the such Corporate Transaction, or (ii) such accelerated vesting is precluded by other limitations imposed in the Stock Issuance Agreement, unless the Plan Administrator determines to waive such limitations.

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

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

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

III. SHARE ESCROW/LEGENDS

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

ARTICLE FOUR
AUTOMATIC OPTION GRANT PROGRAM

I. ELIGIBILITY.

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

II. TERMS AND CONDITIONS OF AUTOMATIC OPTION GRANTS

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

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

2. Immediately following each Annual Stockholders Meeting of the Company, each individual who is then serving as a non-employee Board member (except for those individuals first elected to serve as

non-employee Board members at such meeting), shall automatically be granted a non-statutory stock option under this Article Four to acquire 15,000 shares of Common Stock.

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

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

(i) full payment in cash or check made payable to the Company's order; or

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

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

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

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

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

E. **Exercisability**.

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

2. Each 15,000 share automatic grant made pursuant to Section II.A.2 of this Article Four shall vest and become exercisable for 1/12th of the option shares upon the optionee's completion of each month of Board service over the twelve (12)-month period measured from the automatic grant date.

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

assigned or transferred during optionee's lifetime shall be exercisable only by the person or persons who acquire a proprietary interest in the option pursuant to such assignment. The terms applicable to the assigned portion shall be the same as those in effect for this option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

G. **Cessation of Board Service**.

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

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

III. CORPORATE TRANSACTIONS/CHANGES IN CONTROL

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

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

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

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

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

IV. STOCK APPRECIATION RIGHTS

A. With respect to options granted under the Automatic Option Grant Program prior to the Effective Date of this amendment and restatement:

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

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

- A Hostile Take-Over shall be deemed to occur in the event any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act, as amended) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders which the Board does not recommend such stockholders to accept.

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

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

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

ARTICLE FIVE
MISCELLANEOUS

I. AMENDMENT OF THE PLAN

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

II. TAX WITHHOLDING

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

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

III. EFFECTIVE DATE AND TERM OF PLAN

A. The Plan, as amended and restated, shall be effective on the Effective Date set forth in Section I.C of Article One. Except as provided below, each option issued and outstanding under the Plan immediately prior to such Effective Date shall continue to be governed solely by the terms and conditions of the agreement evidencing such grant, and nothing in this restatement of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such options with respect to their acquisition of shares of Common Stock thereunder. The Plan Administrator shall, however, have full power and authority, under such circumstances as the Plan Administrator may deem appropriate (but in accordance with Article I of this Section Five), to extend one or more features of this amendment and restatement to any options outstanding on the Effective Date. In addition, pursuant to the Board's approval of this Plan, the provisions of Article Four of this amendment and restatement shall be applicable to all options previously granted pursuant to the Plan's Automatic Grant Program which are outstanding on the Effective Date.

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

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

IV. USE OF PROCEEDS

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

V. REGULATORY APPROVALS

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

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

VI. NO EMPLOYMENT/SERVICE RIGHTS

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

VII. MISCELLANEOUS PROVISIONS

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

B. The provisions of the Plan relating to the exercise of options and the issuance and/or vesting of shares shall be governed by the laws of the State of Alabama without resort to that state's conflict-of-laws provisions, as such laws are applied to contracts entered into and performed in such State.

Exhibit 31.1

CERTIFICATIONS

I, Charles E. Bugg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BioCryst Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ CHARLES E. BUGG

Charles E. Bugg
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Michael A. Darwin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BioCryst Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2006

/s/ MICHAEL A. DARWIN

Michael A. Darwin
Chief Financial Officer and Chief Accounting Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of BioCryst Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Bugg, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Charles E. Bugg

Charles E. Bugg
Chief Executive Officer
August 9, 2006

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of BioCryst Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael A. Darwin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Michael A. Darwin

Michael A. Darwin
Chief Financial Officer
August 9, 2006