

NYMOX PHARMACEUTICAL CORP
Form 6-K
May 15, 2007

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934**

For the period ended March 31, 2007

Commission File Number: 001-12033

Nymox Pharmaceutical Corporation

9900 Cavendish Blvd., St. Laurent, QC, Canada, H4M 2V2

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

82-_____

CORPORATE PROFILE

Nymox Pharmaceutical Corporation is a biopharmaceutical company with three unique proprietary products on the market, and a significant R&D pipeline of drug products in development. Nymox is developing NX-1207, a novel treatment for benign prostatic hyperplasia. NX-1207 has shown positive results in Phase 1 and 2 clinical trials in the U.S. The Company successfully completed a 43 site randomized prospective placebo controlled U.S. clinical trial of NX-1207, which showed statistically significant efficacy and a good safety profile. The Company is developing new treatments for bacterial infections in humans and for the treatment of E. coli O157:H7 contamination in food products. Nymox has candidates which are under development as drug treatments aimed at the causes of Alzheimer's disease, and has several other drug candidates in development. Nymox has U.S. and global patent rights for the use of statin drugs for the treatment and prevention of Alzheimer's disease. Nymox developed and is currently offering its AlzheimerAlert test, a nationally certified clinical reference laboratory urinary test that is the world's only accurate, non-invasive aid in the diagnosis of Alzheimer's disease. The AlzheimerAlert test is certified with a CE Mark, making the device eligible for sale in the European Union. Nymox has signed distribution deals for AlzheimerAlert with several companies in Europe. Nymox also developed and markets NicAlert and TobacAlert; tests that use urine or saliva to detect use of and exposure to tobacco products. NicAlert has received clearance from the U.S. Food and Drug Administration (FDA) and is also certified with a CE Mark in Europe. TobacAlert is the first test of its kind to accurately measure second hand smoke exposure in individuals.

MESSAGE TO SHAREHOLDERS

Nymox is pleased to present its financial statements for the quarter ended March 31, 2007.

The successful results of a multi-center double blind independent clinical study of the Company's urinary AlzheimerAlert test were published in the January issue of the *Journal of the American Medical Directors Association (J Am Med Dir Assoc)* (Jan 2007; 8:21-30; A multi-center blinded prospective study of urine neural thread protein measurements in patients with suspected Alzheimer's disease, .Goodman I et al.). The independent peer-review study from 8 prestigious centers across the U.S. found the level of accuracy of the AlzheimerAlert urine test to be over 90%. The study was double-blind and involved expert assessments and state of the art clinical correlations and continued evaluations.

On January 25, Nymox announced the publication of a second peer-reviewed report in the January issue of the *Journal of Clinical Laboratory Analysis* providing further positive data on the accuracy and utility of the Company's urinary AlzheimerAlert test (*J Clin Lab Anal*. Jan 2007;21:24-33, Competitive ELISA studies of neural thread protein in urine in Alzheimer's disease). The paper reported excellent performance in laboratory studies and impressive reproducibility of clinical test results for patients and controls who were re-tested at intervals ranging from 2 days to 4.5 years.

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On March 19, Nymox announced positive results from a long-term outcome study of NX-1207 for benign prostatic hyperplasia (BPH). 26 clinical trial sites across the U.S. and 116 unselected subjects participated in the blinded, placebo controlled study. The study assessed symptom scores and treatment outcome 8-19 months after NX-1207 treatment. Overall, without further NX-1207 treatment, patients initially treated with NX-1207 showed a total pooled mean improvement of 7.4 points in the primary outcome endpoint of AUA Symptom Score values, which reached statistical significance when compared with the placebo control (p=.028). In terms of treatment outcomes, patients treated with NX-1207 had significantly more (p=.02) favorable outcomes compared to placebo. There have been no significant sexual side effects from NX-1207.

We wish to thank our over 4,000 Nymox shareholders for your valued support. The Nymox team is working steadily to advance our many projects. We look forward with continued enthusiasm to the exciting upcoming year for the Company.

/s/ Paul Averback, MD

Paul Averback MD
President

May 15, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(in US dollars)

The following discussion should be read in conjunction with the consolidated financial statements of the Company.

Overview

The business activities of the Company since inception have been devoted principally to research and development. Accordingly, the Company has had limited revenues from sales and has not been profitable to date. We refer to the Corporate Profile for a discussion of the Company's research and development projects and its product pipeline. We refer to the Risk Factors section of our 20F filed on EDGAR for a discussion of the management and investment issues that affect the Company and our industry.

Critical Accounting Policies

In December 2001, the Securities and Exchange Commission (SEC) released Cautionary Advice Regarding Disclosure About Critical Accounting Policies . According to the SEC release, accounting policies are among the most critical if they are, in management s view, most important to the portrayal of the company s financial condition and most demanding on their calls for judgment.

Our accounting policies are described in the notes to our annual audited consolidated financial statements. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our financial statements and the matters that could impact our results of operations, financial condition and cash flows.

Revenue Recognition

The Company has generally derived its revenue from product sales, research contracts, license fees and interest. Revenue from product sales is recognized when the product or service has been delivered or obligations as defined in the agreement are performed. Revenue from research contracts is recognized at the time research activities are performed under the agreement. Revenue from license fees, royalties and milestone payments is recognized upon the fulfillment of all obligations under the terms of the related agreement. These agreements may include upfront payments to be received by the Company. Upfront payments are recognized as revenue on a systematic basis over the period that the related services or obligations as defined in the agreement are performed. Interest is recognized on an accrual basis. Deferred revenue presented in the balance sheet represents amounts billed to and received from customers in advance of revenue recognition.

The Company currently markets AlzheimerAlert as a service provided by our CLIA certified reference laboratory in New Jersey. Physicians send urine samples taken from their patients to our laboratory where the AlzheimerAlert test is performed. The results are then reported back to the physicians. We recognize the revenues when the test has been performed. The Company sometimes enters into bulk sales of its diagnostic services to customers under which it has a future obligation to perform related testing services at its laboratory. Although the Company receives non-refundable upfront payments under these agreements, revenue is recognized in the period that the Company fulfils its obligation or over the term of the arrangement. For research contracts and licensing revenues, the Company usually enters into an agreement specifying the terms and obligations of the parties. Revenues from these sources are only recognized when there are no longer any obligations to be performed by the Company under the terms of the agreement.

Valuation of Capital Assets

The Company reviews the unamortized balance of property and equipment, intellectual property rights and patents on an annual basis and recognizes any impairment in carrying value when it is identified. Factors we consider important, which could trigger an impairment review include:

- Significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- Significant negative industry or economic trends.

Valuation of Future Income Tax Assets

Management judgement is required in determining the valuation allowance recorded against net future tax assets. We have recorded a valuation allowance of \$13.5 million as of December 31, 2006, due to uncertainties related to our ability to utilize some of our future tax assets, primarily consisting of net operating losses carried forward and other unclaimed deductions, before they expire. In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income and tax planning strategies. The generation of future taxable income is dependent on the successful commercialization of its products and technologies.

Results of Operations

Three Months Ended March 31	2007	2006	2005
Total Revenues	\$138,666	\$96,009	\$101,931
Net Loss	\$(1,132,520)	\$(1,059,246)	\$(957,677)

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Loss per share (basic & diluted)	\$ (0.04)	\$ (0.04)	\$ (0.04)
Total Assets	\$4,337,808	\$4,582,513	\$3,676,118

Quarterly Results	Q1 - 2007	Q4 - 2006	Q3 - 2006	Q2 - 2006
Total Revenues	\$138,666	\$84,675	\$141,817	\$120,360
Net Loss	\$(1,132,520)	\$(1,234,985)	\$(1,238,833)	\$(1,360,621)
Loss per share (basic & diluted)	\$ (0.04)	\$ (0.04)	\$ (0.04)	\$ (0.05)
	Q1 - 2006	Q4 - 2005	Q3 - 2005	Q2 - 2005
Total Revenues	\$96,009	\$106,527	\$100,757	\$117,067
Net Loss	\$(1,059,246)	\$(821,088)	\$(958,464)	\$(847,299)
Loss per share (basic & diluted)	\$ (0.04)	\$ (0.03)	\$ (0.04)	\$ (0.03)

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Results of Operations Q1 2007 compared to Q1 2006

Net losses were \$1,132,520, or \$0.04 per share, for the quarter ended March 31, 2007, compared to \$1,059,246, or \$0.04 per share, for the quarter ended March 31, 2006. The weighted, diluted, average number of common shares outstanding for the quarter ended March 31, 2007 were 29,098,313 compared to 26,999,213 for the same period in 2006.

Revenues

Revenues from sales amounted to \$136,404 for the quarter ended March 31, 2007, compared with \$95,259 for the quarter ended March 31, 2006. Higher sales of NicAlert / TobacAlert (increase of 62.3 %) accounted for the increase in 2007 compared to 2006. The Company expects that revenues will increase if and when product candidates pass clinical trials and are launched on the market.

Research and Development

Research and development expenditures decreased to \$551,390 for the quarter ended March 31, 2007, compared with \$703,028 for the quarter ended March 31, 2006. A reduction in clinical trial expenditures in the current quarter compared to the same period last year explains the decrease. In 2007, research tax credits amounted to \$14,540 compared to \$1,125 in 2006 as a result of additional expenditures claimed for refundable tax credits in 2007 compared to 2006. The Company expects that research and development expenditures will decrease as product candidates finish development and clinical trials. However, because of the early stage of development of the Company's R&D projects, it is impossible to outline the nature, timing or estimated costs of the efforts necessary to complete these projects, nor the anticipated completion dates for these projects. The facts and circumstances indicating the uncertainties that preclude us from making a reasonable estimate of the costs and timing necessary to complete projects include the risks inherent in any field trials, the uncertainty as to the nature and extent of regulatory requirements both for safety and efficacy, and the ability to manufacture the products in accordance with current good manufacturing requirements (cGMP) and in sufficient quantities both for large scale trials and for commercial use. A drug candidate that shows efficacy can take a long period (7 years or more) to achieve regulatory approval. There is also uncertainty whether we will be able to successfully adapt our patented technologies or whether any new products we develop will pass proof-of-principle testing both in the laboratory and in clinical trials, and whether we will be able to manufacture such products at a commercially competitive price. In addition, given the very high costs of development of therapeutic products, we anticipate having to partner with larger pharmaceutical companies to bring therapeutic products to market. The terms of such partnership arrangements along with our related financial obligations cannot be determined at this time and the timing of completion of the approval of such products will likely not be within our sole control.

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Marketing Expenses

Marketing expenditures increased to \$69,408 for the quarter ended March 31, 2007, in comparison to expenditures of \$48,035 for the quarter ended March 31, 2006, due to an increase in advertising expenditures. The Company expects that marketing expenditures will increase if and when new products are launched on the market.

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Administrative Expenses

General and administrative expenses remained relatively constant at \$216,039 for the quarter ended March 31, 2007, compared with \$205,268 in the quarter ended March 31, 2006. The Company expects that general and administrative expenditures will increase as new product development leads to expanded operations.

Foreign Exchange

The Company incurs expenses in the local currency of the countries in which it operates, which include the United States and Canada. Approximately 72% of 2007 expenses (75% in 2006) were in U.S. dollars. Foreign exchange fluctuations had no meaningful impact on the Company's results in 2007 or 2006.

Inflation

The Company does not believe that inflation has had a significant impact on its results of operations.

Long-Term Commitments

Nymox has no financial obligations of significance other than long-term lease commitments for its premises in the United States and Canada of \$19,669 per month.

Contractual Obligations	Total	Current	2-4 years	5+ years
Rent	\$ 797,449	\$ 227,035	\$ 570,414	\$ 0
Operating Leases	\$ 49,700	\$ 19,907	\$ 30,793	\$ 0
Total Contractual Obligations	\$ 847,149	\$ 245,942	\$ 601,207	\$ 0

Results of Operations – Q1 2006 compared to Q1 2005

Net losses were \$1,059,246, or \$0.04 per share, for the quarter ended March 31, 2006, compared to \$957,677, or \$0.04 per share, for the quarter ended March 31, 2005. The weighted, diluted, average number of common shares outstanding for the quarter ended March 31, 2006 were 26,999,213 compared to 25,630,585 for the same period in 2005.

Revenues

Revenues from sales amounted to \$95,259 for the quarter ended March 31, 2006, compared with \$101,494 for the quarter ended March 31, 2005. Lower sales of NicAlert and TobacAlert (decrease 17%) to a major customer accounted for the decrease in the first quarter of 2006 compared to the same period in 2005. AlzheimerAlert sales increased over 500% in the first quarter of 2006 compared to the same period in 2005.

Research and Development

Research and development expenditures increased to \$703,028 for the quarter ended March 31, 2006, compared with \$499,410 for the quarter ended March 31, 2005. Increased expenses relating to moving product candidates through clinical trials explains the increase. In 2006, research tax credits amounted to \$1,125 compared to \$1,050 in 2005.

Marketing Expenses

Marketing expenditures decreased to \$48,035 for the quarter ended March 31, 2006, in comparison to expenditures of \$62,081 for the quarter ended March 31, 2005. A reduction in travel expenses in the first quarter of 2006 accounts for the decrease.

Administrative Expenses

General and administrative expenses amounted to \$205,268 for the quarter ended March 31, 2006, compared with \$335,083 in the quarter ended March 31, 2005, due to lower expenditures in many areas such as salaries (decrease 38%), shareholder relations (decrease 44%), insurance (decrease 21%), travel (decrease 96%) and professional fees (decrease 63%).

Recent Accounting Pronouncements

Financial instruments:

On January 1, 2007, the Corporation adopted CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3862, *Financial Instruments Disclosures*, and CICA Handbook Section 3865, *Hedges*. The adoption of these standards did not have a material effect on its financial statements.

Accounting for uncertainty in income taxes:

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48)*, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken on a tax return. This FASB interpretation is effective for the Company beginning January 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's financial condition or results of operation.

Fair value measurements:

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted. The Company does not expect the adoption of SFAS No. 157 to materially impact its financial statements.

Financial Position

Liquidity and Capital Resources

As of March 31, 2007, cash totaled \$583,965 and receivables including tax credits totaled \$124,741. In November, 2006, the Corporation signed a new common stock private purchase agreement, whereby an investor is committed to purchase up to \$13 million of the Corporation's common shares over a twenty-four month period commencing November 13, 2006. As at March 31, 2007, six drawings were made under this purchase agreement, for total proceeds of \$2,350,000. On December 6, 2006, 29,499 common shares were issued at a price of \$3.39 per share. On December 13, 2006, 56,818 common shares were issued at a price of \$3.52 per share. On December 20, 2006, 91,185 common shares were issued at a price of \$3.29 per share. On January 24, 2007, 121,294 common shares were issued at a price of \$3.71 per share. On February 14, 2007, 181,087 common shares were issued at a price of \$4.97 per share. On March 26, 2006, 67,869 common shares were issued at a price of \$5.89 per share. The Company can draw down a further \$10,650,000 over the remaining 19 months under the agreement. The Company intends to access financing under this agreement when appropriate to fund its research and development. The Company believes that funds from operations as well as from existing financing agreements will be sufficient to meet the Company's cash requirements for the next twelve months.

This message contains certain forward-looking statements as defined in the United States Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. There can be no assurance that such statements will prove to be accurate and the actual results

and future events could differ materially from management's current expectations. Such factors are detailed from time to time in Nymox's filings with the Securities and Exchange Commission and other regulatory authorities.

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Consolidated Financial Statements of
(Unaudited)

NYMOX PHARMACEUTICAL CORPORATION

Periods ended March 31, 2007, 2006 and 2005

NYMOX PHARMACEUTICAL CORPORATION
Consolidated Financial Statements
(Unaudited)

Periods ended March 31, 2007, 2006 and 2005

Financial Statements

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NYMOX PHARMACEUTICAL CORPORATION
Consolidated Balance Sheets(Unaudited)

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March 31, 2007, with comparative figures as at December 31, 2006
(in US dollars)

	March 31, 2007	December 31, 2006
		(Audited)
Assets		
Current assets:		
Cash	\$ 583,965	\$ 235,124
Accounts receivable	56,574	46,307
Research tax credits receivable	68,167	53,618
Inventories	15,010	44,145
	723,716	379,194
Long-term security deposit	35,993	35,993
Long-term receivables	70,000	70,000
Property and equipment	6,983	7,839
Patents and intellectual property	3,501,116	3,477,819
	\$ 4,337,808	\$ 3,970,845
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 1,087,343	\$ 1,430,987
Accrued liabilities	164,101	158,801
Deferred lease inducement	9,623	9,623
Notes payable	350,000	500,000
Deferred revenue	15,907	15,907
	1,626,974	2,115,318
Long-term deferred revenue	1,667	3,333
Deferred lease inducement	23,255	25,661
Non-controlling interest	800,000	800,000
Shareholders equity:		
Share capital	46,293,372	44,443,350
Additional paid-in capital	1,705,416	1,463,833
Deficit	(46,112,876)	(44,880,650)
	1,885,912	1,026,533
Contingency (note 5)		
Subsequent events (note 6)		
	\$ 4,337,808	\$ 3,970,845

See accompanying notes to unaudited consolidated financial statements.

NYMOX PHARMACEUTICAL CORPORATION

Consolidated Statements of Operations

(Unaudited)

Three-month periods ended March 31, 2007, 2006 and 2005

(in US dollars)

	2007	2006	2005
Revenue:			
Sales	\$ 136,404	\$ 95,259	\$ 101,494
Interest	2,262	750	437
	138,666	96,009	101,931
Expenses:			
Research and development	551,390	703,028	499,410
Less investment tax credits	(14,550)	(1,125)	(1,050)
	536,840	701,903	498,360
General and administrative	216,039	205,268	335,083
Marketing	69,408	48,035	62,081
Cost of sales	76,344	77,061	45,899
Depreciation and amortization	118,589	107,452	102,471
Stock-based compensation	242,695	4,055	4,055
Interest and bank charges	11,271	11,481	11,659
	1,271,186	1,155,255	1,059,608
Net loss	\$ (1,132,520)	\$ (1,059,246)	\$ (957,677)
Loss per share (basic and diluted) (note 3)	\$ (0.04)	\$ (0.04)	\$ (0.04)
Weighted average number of common shares outstanding:			
Basic	28,515,596	26,993,111	25,580,716
Plus impact of stock options and warrants	582,717	6,102	49,869
Diluted	29,098,313	26,999,213	25,630,585

See accompanying notes to unaudited consolidated financial statements.

NYMOX PHARMACEUTICAL CORPORATION

Consolidated Statements of Shareholders' Equity

(Unaudited)

Financial Position

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Three-month period ended March 31, 2007
(in US dollars)

	Share capital		Additional paid-in capital	Deficit	Total
	Number	Dollars			
Balance, Dec. 31, 2006	28,322,253	\$ 44,443,350	\$ 1,463,833	\$ (44,880,650)	\$ 1,026,533
Issuance of share capital	370,250	1,750,000	--	--	1,750,000
Share issue costs	--	--	--	(99,706)	(99,706)
Exercise of stock options:					
Cash	26,000	98,910	--	--	98,910
Ascribed value	--	1,112	(1,112)	--	--
	26,000	100,022	(1,112)	--	98,910
Stock-based compensation	--	--	242,695	--	242,695
Net loss	--	--	--	(1,132,520)	(1,132,520)
Balance, March 31, 2007	28,718,503	\$ 46,293,372	\$ 1,705,416	\$ (46,112,876)	\$ 1,885,912

See accompanying notes to unaudited consolidated financial statements.

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NYMOX PHARMACEUTICAL CORPORATION

Consolidated Statements of Cash Flows
(Unaudited)

Three-month periods ended March 31, 2007, 2006 and 2005
(in US dollars)

	2007	2006	2005
Cash flows from operating activities:			
Net loss	\$ (1,132,520)	\$ (1,059,246)	\$ (957,677)
Adjustments for:			
Depreciation and amortization	118,589	107,452	102,471
	242,695	4,055	4,055

Financial Position

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Stock-based compensation			
Net change in operating assets and liabilities	(87,262)	90,680	222,809
	(858,498)	(857,059)	(628,342)
Cash flows from financing activities:			
Proceeds from issuance of share capital	1,848,910	1,900,000	525,000
Share issue costs	(99,706)	(109,283)	(27,268)
Repayment of notes payable	(150,000)	--	(100,000)
	1,599,204	1,790,717	397,732
Cash flows from investing activities:			
Additions to property and equipment, patents and intellectual property	(391,865)	(44,613)	(135,464)
Net increase (decrease) in cash	348,841	889,045	(366,074)
Cash, beginning of period	235,124	151,476	529,642
Cash, end of period	\$ 583,965	\$	

Name	Number of shares subject to options granted under the Stock Plan	Weighted average exercise price per share
James E. Brown, D.V.M.	323,000	\$ 2.75
Matthew J. Hogan, M.B.A.	191,000	\$ 2.76
Felix Theeuwes, D.Sc.	323,000	\$ 2.75
Joseph Stauffer, D.O., M.B.A.	250,000	\$ 2.20
Su Il Yum, Ph.D.	214,000	\$ 2.76
All executive officers as a group (7 persons)	1,683,000	\$ 2.67
All directors who are not executive officers (6 persons) *		\$
All current and former employees and consultants (excluding executive officers) as a group (172 persons)	3,350,930	\$ 2.72

* Our non-employee directors received 120,000 options with a weighted average exercise price of \$2.22 per share under the Directors' Plan in 2009.

Nontransferability of Awards. Unless otherwise determined by the Administrator, options, stock awards and cash awards granted under the Stock Plan are not transferable other than by will or the laws of descent and distribution. Options and stock awards may be exercised during the lifetime of the holder of the option or stock award only by the holder.

Stock Options

Exercise Price. The Administrator determines the exercise price of options at the time the options are granted. The exercise price of a stock option may not be less than 100% of the fair market value of our common stock on the date of grant of such option, and the exercise price of an incentive stock option to an employee who is also a 10% stockholder must have an exercise price at least equal to 110% of the fair market value of our common stock on the date of grant of such option. The Company may grant options with exercise prices less than 100% of the fair market value of our common stock on the date of grant in connection with an acquisition by the Company of another company. The fair market value of our common stock is generally the closing sales price as quoted on the Nasdaq Global Market of The Nasdaq Stock Market on the date of grant. No option may be repriced to reduce the exercise price of such option without stockholder approval (except in connection with a change in our capitalization, such as a stock split or a recapitalization, merger or certain other transactions). In addition, subject to stockholder approval of the amended and restated Stock Plan, no option may be cancelled at a time when its exercise price exceeds the fair market value of the underlying shares of common stock subject to the option in exchange for another option, stock appreciation right, or other award or for a cash payment (except in connection with a change in our capitalization, such as a stock split or a recapitalization, merger or certain

other corporate transactions). Notwithstanding the foregoing, canceling an option in exchange for another option, stock appreciation right or other Award with an exercise price, purchase price or base appreciation amount (as defined below) that is equal to or greater than the exercise price of the original option will not be subject to stockholder approval.

Exercise of Option; Form of Consideration. The Administrator determines when options vest and become exercisable, and in its discretion may accelerate the vesting and/or exercisability of any outstanding option. The means of payment for shares issued upon exercise of an option are specified in each option agreement. The Stock Plan permits payment to be made by cash, check, promissory note, other shares of common stock of the Company (with some restrictions), broker assisted same-day sale, withholding of shares subject to the option (with some restrictions) or any other means of consideration permitted by applicable law.

Term of Option. The term of an option may be no more than ten years from the date of grant; provided that the term of an incentive stock option may not be more than five years from the date of grant for an optionee who is also a 10% stockholder. No option may be exercised after the expiration of its term.

Termination of Options. Generally, if an optionee's service to the Company as an employee, consultant or director terminates other than for death or disability, vested options will remain exercisable for a period of three (3) months or in the case of directors, one year, (or such other period of time not less than thirty days as is determined by the Administrator) following the optionee's termination (but in no event later than the expiration date of the term of the option). Unless otherwise provided for in the option agreement, generally if an optionee terminates as a result of a disability, which does not qualify as a total and permanent disability within the meaning of Section 22(e)(3) of the Code, the optionee's vested options shall be exercisable for six months following the optionee's termination as a result of disability, or if earlier, the expiration of the term of such option. Unless otherwise provided for in the option agreement, generally if an optionee terminates as a result of a total and permanent disability within the meaning of Section 22(e)(3) of the Code, the optionee's vested options shall be exercisable for twelve months following the optionee's termination as a result of such disability, or if earlier, the expiration of the term of such option. Unless otherwise provided for in the option agreement, if an optionee dies during optionee's service with the Company or within 30 days following termination of optionee's service, optionee's vested options shall be exercisable for 6 months following the optionee's death, or if earlier, the expiration of the term of such option. The Administrator shall have the authority to extend the period of time for which an option is to remain exercisable following optionee's termination; provided that in no event will an option be exercisable later than the expiration of the term of the option.

Stock Awards

Stock awards may be stock grants, stock purchase rights, stock units or stock appreciation rights. Stock grants are awards of a specific number of shares of our common stock. Stock purchase rights are rights to purchase our common stock. Stock units represent a promise to deliver shares of our common stock, or an amount of cash or property equal to the value of the underlying shares, at a future date. Stock appreciation rights are rights to receive cash and/or shares of our common stock based on the appreciation in the fair market value of a specific number of shares of our common stock. Each stock award is evidenced by a stock award agreement between the Company and the participant. The Stock Plan allows the Administrator broad discretion to determine the terms of individual awards, including the number of shares that such participant shall be entitled to purchase or receive and the price (if any) to be paid by the recipient in connection with the issuance of the shares. Each stock award agreement will contain provisions regarding (i) the number of shares subject to such stock award or a formula for determining such number, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the performance criteria (including the Qualifying Performance Criteria), if any, and level of achievement versus these criteria that will determine the number of shares granted, issued, retainable and vested, as applicable, (iv) such terms and conditions on the grant, issuance, vesting and forfeiture of the shares, as applicable, as may be determined from time to time by the Administrator, (v) restrictions on the transferability of the stock award, and (vi) such further terms and conditions, in each case not inconsistent with the Stock Plan, as

may be determined from time to time by the Administrator. Shares may be granted under the Stock Plan as stock awards without requiring the participant to pay the Company an amount equal to the fair market value of our common stock as of the Award grant date in order to acquire the Award shares. Notwithstanding the foregoing, stock appreciation rights may not be granted with a base appreciation amount that is less than fair market value on the grant date. The maximum term of stock appreciation rights is ten (10) years.

Subject to stockholder approval of the amended and restated Stock Plan, the following actions will be subject to stockholder approval unless such actions are taken in connection with a change in our capitalization, such as a stock split or a recapitalization, merger or certain other corporate transactions: (i) the reduction in the price used to determine the amount payable to a participant upon exercise of any stock appreciation right granted under the Stock Plan (such price referred to herein as the base appreciation amount); or (ii) the cancellation of a stock appreciation right at a time when its base appreciation amount exceeds the fair market value of the underlying shares of common stock subject to the stock appreciation right in exchange for another option, stock appreciation right, other award or for a cash payment. Notwithstanding the foregoing, canceling a stock appreciation right in exchange for another option, stock appreciation right or other Award with an exercise price, purchase price or base appreciation amount that is equal to or greater than the base appreciation amount of the original stock appreciation right will not be subject to stockholder approval.

Cash Awards

Each cash award granted under the Stock Plan will be subject to Qualifying Performance Criteria and will be reflected in an agreement containing provisions regarding (1) the target and maximum amount payable to the participant as a cash award, (2) the Qualifying Performance Criteria and level of achievement versus the criteria that will determine the amount of such payment, (3) the period as to which performance shall be measured for establishing the amount of any payment, (4) the timing of any payment earned by virtue of performance, (5) restrictions on the alienation or transfer of the cash award prior to actual payment, (6) forfeiture provisions, and (7) such further terms and conditions, in each case not inconsistent with the Stock Plan, as may be determined from time to time by the Administrator. The maximum amount payable as a cash award that is settled for cash may be a multiple of the target amount payable. The maximum amount payable pursuant to a cash award granted under the Stock Plan for any fiscal year intended to satisfy the requirements to performance based compensation under Section 162(m) may not exceed \$1,000,000. Nothing in the Stock Plan prevents the Company from granting cash awards outside of the Stock Plan to any individual.

Adjustments on Changes in Capitalization, Merger or Change of Control

In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change to the capital structure of the Company without receipt of consideration by the Company, or in the event of distribution to the stockholders of cash or stock other than an ordinary cash dividend, appropriate adjustments will be made to (i) the number of shares subject to the Stock Plan, (ii) the number of shares that may be awarded to any individual under the Stock Plan during a single fiscal year, and (iii) the price per share and number of shares under each outstanding Award. Any such adjustments shall be made by the Board, and the decision of the Board shall be final, binding and conclusive.

In the event of a proposed sale of all or substantially all of the Company's assets or a merger of the Company with or into another corporation, each outstanding Award shall be assumed or an equivalent Award shall be substituted by the successor corporation or a parent or subsidiary of such successor corporation, unless the successor corporation does not agree to assume such Award, in which case such Award shall accelerate immediately prior to the consummation of the transaction.

In the event of a proposed dissolution or liquidation of the Company, each Award will terminate immediately prior to the consummation of the dissolution or liquidation, unless otherwise determined by the Administrator.

Amendment and Termination of the Stock Plan

The Board may amend, alter, suspend or discontinue the Stock Plan. However, the Company shall obtain stockholder approval for any amendment to the Stock Plan to the extent necessary and desirable to comply with applicable laws and listing requirements. Generally, no such action by the Board or stockholders may alter or impair any outstanding Award under the Stock Plan without the written consent of the holder. In addition, without the written consent of the stockholders, no amendment shall be made that would result in a repricing of options or stock appreciation rights by (i) reducing the exercise price or base appreciation amount of outstanding options or stock appreciation rights or (ii) cancelling an outstanding option or stock appreciation right held by a participant and re-granting to the participant a new option with a lower exercise price, a stock appreciation right with a lower base appreciation amount, or another Award or for a cash payment, in either case other than in connection with a change in the Company's capitalization, merger or certain other corporate transactions. If the stockholders approve the amended and restated Stock Plan, the Stock Plan will terminate in June 2020.

U.S. Federal Income Tax Consequences of Options under the Stock Plan

THE FOLLOWING IS A GENERAL SUMMARY OF THE TYPICAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS OR OTHER AWARDS UNDER THE PLAN. IT DOES NOT DESCRIBE STATE OR OTHER TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS OR OF OTHER AWARDS.

Nonstatutory Stock Options. The grant of a nonstatutory stock option under the Stock Plan will not result in any federal income tax consequences to the participant or to the Company. Upon exercise of a nonstatutory stock option, the participant is subject to income taxes at the rate applicable to ordinary compensation income on the difference between the option exercise price and the fair market value of the shares at the time of exercise. This income is subject to withholding for federal income and employment tax purposes. The Company is entitled to an income tax deduction in the amount of the income recognized by the participant, subject to possible limitations imposed by Section 162(m) of the Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the participant's total compensation is deemed reasonable in amount. Any gain or loss on the participant's subsequent disposition of the shares will receive long or short-term capital gain or loss treatment, depending on whether the shares are held for more than one year following exercise. The Company does not receive a tax deduction for any such gain.

A nonstatutory stock option can be considered non-qualified deferred compensation and subject to Section 409A of the Code. If such a nonstatutory stock option does not meet the requirements of Code Section 409A, the option can result in the acceleration of income recognition, an additional 20% tax obligation, plus penalties and interest.

Incentive Stock Options. The grant of an incentive stock option under the Stock Plan will not result in any federal income tax consequences to the participant or to the Company. A participant recognizes no federal taxable income upon exercising an incentive stock option (subject to the alternative minimum tax rules discussed below), and the Company receives no deduction at the time of exercise. In the event of a disposition of stock acquired upon exercise of an incentive stock option, the tax consequences depend upon how long the participant has held the shares. If the participant does not dispose of the shares within two years after the incentive stock option was granted, nor within one year after the incentive stock option was exercised, the participant will recognize a long-term capital gain (or loss) equal to the difference between the sale price of the shares and the exercise price. The Company is not entitled to any deduction under these circumstances.

If the participant fails to satisfy either of the foregoing holding periods (referred to as a disqualifying disposition), he or she must recognize ordinary income in the year of the disposition. The amount of ordinary income generally is the lesser of (i) the difference between the amount realized on the disposition and the exercise price or (ii) the difference between the fair market value

of the stock at the time of exercise and the

exercise price. Any gain in excess of the amount taxed as ordinary income will be treated as a long or short-term capital gain, depending on whether the stock was held for more than one year. The Company, in the year of the disqualifying disposition, is entitled to a deduction equal to the amount of ordinary income recognized by the participant, subject to possible limitations imposed by Section 162(m) of the Code and so long as the participant's total compensation is deemed reasonable in amount.

The spread under an incentive stock option i.e., the difference between the fair market value of the shares at exercise and the exercise price is classified as an item of adjustment in the year of exercise for purposes of the alternative minimum tax. If a participant's alternative minimum tax liability exceeds such participant's regular income tax liability, the participant will owe the larger amount of taxes. In order to avoid the application of alternative minimum tax with respect to incentive stock options, the participant must sell the shares within the calendar year in which the incentive stock options are exercised. However, such a sale of shares within the year of exercise will constitute a disqualifying disposition, as described above.

Stock Appreciation Rights. Recipients of stock appreciation rights (SARs) generally should not recognize income until the SAR is exercised (assuming there is no ceiling on the value of the right). Upon exercise, the recipient will normally recognize taxable ordinary income for federal income tax purposes equal to the amount of cash and fair market value of the shares, if any, received upon such exercise. Recipients who are employees will be subject to withholding for federal income and employment tax purposes with respect to income recognized upon exercise of a SAR. Recipients will recognize gain upon the disposition of any shares received on exercise of a SAR equal to the excess of (i) the amount realized on such disposition over (ii) the ordinary income recognized with respect to such shares under the principles set forth above. That gain will be taxable as long or short-term capital gain depending on whether the shares were held for more than one year. We will be entitled to a tax deduction to the extent and in the year that ordinary income is recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code and so long as we withhold the appropriate taxes with respect to such income (if required) and the recipient's total compensation is deemed reasonable in amount.

A SAR can be considered non-qualified deferred compensation and subject to Section 409A of the Code. If such a SAR does not meet the requirements of Code Section 409A, the SAR can result in the acceleration of income recognition, an additional 20% tax obligation, plus penalties and interest.

Restricted Stock and Stock Purchase Rights. The grant of restricted stock and stock purchase rights will subject the recipient to ordinary compensation income on the difference between the amount paid for the shares subject to the Award and the fair market value of the shares on the date that the restrictions lapse. This income is subject to withholding for federal income and employment tax purposes. The Company is entitled to an income tax deduction in the amount of the ordinary income recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the participant's total compensation is deemed reasonable in amount. Any gain or loss on the recipient's subsequent disposition of the shares will receive long or short-term capital gain or loss treatment depending on how long the stock has been held since the restrictions lapsed. The Company does not receive a tax deduction for any such gain.

Recipients of restricted stock and stock purchase rights may make an election under Section 83(b) of the Code (Section 83(b) Election) to recognize as ordinary compensation income in the year that such restricted stock is granted or stock purchase right is exercised, the amount equal to the spread between the amount paid for such stock and the fair market value on the date of the issuance of the stock. If such an election is made, the recipient recognizes no further amounts of compensation income upon the lapse of any restrictions and any gain or loss on subsequent disposition will be long or short-term capital gain to the recipient. The Section 83(b) Election must be made within thirty days from the time the restricted stock is granted or the time when restricted stock is purchased through a stock purchase right.

Restricted Stock Units. Recipients of restricted stock units generally should not recognize income until such units are converted into cash or shares. Upon conversion, the recipient will normally recognize taxable ordinary income for federal income tax purposes equal to the amount of cash and fair market value of the shares, if any, received upon such conversion. Recipients who are employees will be subject to withholding for federal income and employment tax purposes with respect to income recognized upon conversion of the restricted stock units. Participants will recognize gain upon the disposition of any shares received upon conversion of the restricted stock units equal to the excess of (i) the amount realized on such disposition over (ii) the ordinary income recognized with respect to such shares under the principles set forth above. That gain will be taxable as long or short-term capital gain depending on whether the shares were held for more than one year. The Company will be entitled to a tax deduction to the extent and in the year that ordinary income is recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the recipient's total compensation is deemed reasonable in amount.

Restricted stock units also can be considered non-qualified deferred compensation and subject to Section 409A of the Code. If such an Award of restricted stock units does not meet the requirements of Code Section 409A, the restricted stock units will result in an additional 20% tax obligation, plus penalties and interest to such recipient.

Other Stock Awards. Other stock awards will generally be taxed in the same manner as nonstatutory stock options, and the participant will recognize ordinary income on the dates when the shares subject to the stock awards are issued and no longer subject to a substantial risk of forfeiture or when the shares becomes transferable, if earlier. The participant's ordinary income is measured as the difference between the amount paid for the shares, if any, and the fair market value of the shares on the date the shares are no longer subject to forfeiture. This income is subject to withholding for federal income and employment tax purposes. The Company is entitled to an income tax deduction in the amount of the ordinary income recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the participant's total compensation is deemed reasonable in amount. Any gain or loss on the recipient's subsequent disposition of the shares will receive long or short-term capital gain or loss treatment depending on how long the stock has been held since the restrictions lapsed. The Company does not receive a tax deduction for any such gain.

Cash Awards. Upon receipt of cash, the recipient will have taxable ordinary income, in the year of receipt, equal to the cash received. Any cash received will be subject to tax withholding by the Company. Unless limited by Section 162(m) of the Code, the Company will be entitled to a tax deduction in the amount and at the time the recipient recognizes compensation income.

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR*

THE AMENDMENT AND RESTATEMENT OF THE 2000 STOCK PLAN.

PROPOSAL NO. 4

**APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE
COMPANY S 2000 EMPLOYEE STOCK PURCHASE PLAN**

General

At the Annual Meeting, you are being asked to approve the amendment and restatement of the Company s 2000 Employee Stock Purchase Plan (the ESPP). The purpose of the ESPP is to allow the Company to provide eligible employees of the Company and its participating parents and subsidiaries with the opportunity to purchase common stock of the Company at a discount from the then current market price through payroll deductions. The ESPP, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of Sections 421 and 423 of the Code. The ESPP was last approved by our stockholders in connection with the initial public offering of the Company s common stock in 2000.

As of April 9, 2010, 654,224 shares remained available for future issuance under the ESPP. This number includes 150,000 shares of common stock that was initially reserved for issuance under the ESPP, plus the number of shares automatically added to the ESPP s share reserve for certain of our fiscal years from 2001 through 2010 pursuant to the evergreen provisions approved by our stockholders. Pursuant to these provisions, for each of our fiscal years from 2001 through 2002, and 2005 through 2010, an additional 225,000 shares per year were added to the ESPP.

The primary changes we propose to make to the ESPP are:

- (1) Increase the number of shares of our common stock authorized for issuance under the ESPP by 250,000 shares so that the total number of shares that will remain available for future issuance under the ESPP will be 904,224;
- (2) Extend the term of the ESPP so that the ESPP will terminate on the date that is ten (10) years following stockholder approval of the amended and restated ESPP;
- (3) Provide for six-month consecutive offering periods beginning on November 1, 2010;
- (4) Revise certain provisions to reflect the final regulations issued under Section 423 of the Code by the Internal Revenue Service; and
- (5) Provide for the cash-out of options outstanding under an offering period in effect prior to the consummation of certain corporate transactions as an alternative to providing for a final purchase under such offering period.

If the stockholders approve the amendment and restatement of the ESPP, the amended and restated version of the ESPP will replace the prior version of the ESPP. If the stockholders do not approve the amended and restated version of the ESPP, the prior version of the ESPP will remain in effect until its expiration in September 2010, at which time the Company will no longer be able to offer an employee stock purchase plan under which eligible employees would be able to purchase Company common stock at a discount.

Summary of the ESPP

A copy of the ESPP, as amended, will be filed with the SEC contemporaneously with this Proxy Statement as Exhibit 2 and is available online at www.sec.gov or from the Company upon request by any stockholder. The following description of the ESPP is only a summary and so is qualified by reference to the complete text of the ESPP. Except as otherwise noted, this summary reflects the amendments proposed above.

Administration

The ESPP may be administered by the Board or the Compensation Committee of the Board. It is anticipated the Compensation Committee will serve as Administrator. The Compensation Committee, as Administrator, has full authority to adopt such rules and procedures as it may deem necessary for the proper plan administration and to interpret the provisions of the ESPP.

Shares Available Under the ESPP

As of April 9, 2010, 654,224 shares remained available for future issuance under the ESPP. This number includes 150,000 shares of common stock that was initially reserved for issuance under the ESPP, plus the number of shares automatically added to the ESPP's share reserve for certain of our fiscal years from 2001 through 2010 pursuant to the evergreen provisions approved by our stockholders. Pursuant to these provisions, for each of our fiscal years from 2001 through 2002, and 2005 through 2010, an additional 225,000 shares per year were added to the ESPP.

Subject to stockholder approval, the number of shares reserved for issuance under the ESPP will be increased by 250,000 shares so that the total number of shares that will remain available for future issuance under the ESPP will be 904,224. The number of shares reserved for issuance under the ESPP is subject to adjustment in the event of a stock split, stock dividend, combination or reclassification or similar event.

Offering Periods

Prior to the date of the Annual Meeting, the ESPP has been implemented by a series of offering periods of approximately twenty-four months duration, with new offering periods commencing on or about May 1 and November 1 of each year and ending on April 30 and October 31, respectively, approximately twenty-four months later. As of the date of the Annual Meeting, the Company has at least one offering period that is ongoing and will continue for the applicable twenty-four month period, subject to earlier termination as described below (such offering period(s) referred to as the ongoing offering periods). Each participant has been granted a separate purchase right to purchase shares of our common stock for each ongoing offering period in which he or she participates. Purchase rights under the ESPP have been granted on the start date of each ongoing offering period in which the participant participates and have been and will continue to be automatically exercised on the last day of each purchase period during the offering period. Each purchase right entitles the participant to purchase the whole number of shares of our common stock obtained by dividing the participant's payroll deductions for the purchase period by the purchase price in effect for such period, up to a maximum of 2,000 shares of our common stock per purchase period during the ongoing offering period.

Beginning on November 1, 2010, the ESPP is intended to be implemented by six-month consecutive offering periods commencing on or about May 1 and November 1 of each year and ending on the following October 31 and April 30, respectively. The Administrator may alter the duration of future offering periods in advance without stockholder approval. Each participant will be granted a separate purchase right to purchase shares of our common stock for each offering period in which he or she participates. Purchase rights under the ESPP will be granted on the start date of each offering period in which the participant participates and will be automatically exercised on the last day of the offering period. Each purchase right entitles the participant to purchase the whole number of shares of our common stock obtained by dividing the participant's payroll deductions for the offering period by the purchase price in effect for such period, up to a maximum of 2,000 shares of our common stock per offering period.

If, during any ongoing offering period, the fair market value of our common stock on any purchase date is less than the fair market value of our common stock on the offering date for such ongoing offering period, the ongoing offering period will end after the exercise of participants' options, and all participants will be automatically re-enrolled in the immediately following offering period.

Eligibility

Any individual who is regularly expected to work for at least twenty (20) hours per week for more than five (5) months per calendar year in the employ of the Company or any designated parent or subsidiary is eligible to participate in one or more offering periods. An eligible employee may only join an offering period on the start date of that period. Designated parents and subsidiaries include any parent or subsidiary corporations of the Company, whether now existing or hereafter organized, which elect, with the approval of the Administrator, to extend the benefits of the ESPP to their eligible employees.

As of April 9, 2010, 7 executive officers and approximately 122 other employees were expected to be eligible to participate in the ESPP.

Purchase Provisions

Each participant in the ESPP may authorize periodic payroll deductions that may not exceed the least of (i) 20% of his or her compensation, which is defined in the ESPP to include the regular straight time gross earnings, exclusive of any payments for overtime, shift premium, bonuses, commissions, incentive compensation, incentive payments and other compensation or (ii) such lesser amount determined by the Administrator per offering period. A participant may increase his or her rate of payroll deductions once during an offering period and may reduce the rate once during an offering period.

On the last day of each offering period, the accumulated payroll deductions of each participant are automatically applied to the purchase shares of our common stock at the purchase price in effect for that period.

Purchase Price

The purchase price per share at which our common stock is purchased on the participant's behalf for each offering period is equal to the lower of (i) 85% of the fair market value per share of our common stock on the date of commencement of the offering period or (ii) 85% of the fair market value per share of our common stock on the purchase date.

Valuation

The fair market value of our common stock on a given date is the last sale price of our common stock on the NASDAQ Global Market as of such date. As of April 9, 2010, the fair market value of a share of the Company's common stock as reported on the NASDAQ Global Market was \$2.92.

Special Limitations

The ESPP imposes certain limitations upon a participant's right to acquire our common stock, including the following limitations:

No purchase right may be granted to any individual who owns stock (including stock purchasable under any outstanding options or purchase rights) possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any of its affiliates.

No purchase right granted to a participant may permit such individual to purchase our common stock at a rate greater than \$25,000 worth of such common stock (valued at the time such purchase right is granted) for each calendar year in which the right is outstanding.

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A participant may purchase no more than 2,000 shares of common stock during any purchase period.

Termination of Purchase Rights

A participant's purchase right immediately terminates upon such participant's loss of eligible employee status, and his or her accumulated payroll deductions for the offering period in which the purchase right terminates are refunded. A participant may withdraw from an offering period by giving advance notice prior to the end of that period and his or her accumulated payroll for the offering period in which withdrawal occurs shall be refunded.

Assignability

No purchase right will be assignable or transferable (other than by will or the laws of descent and distribution) and will be exercisable only by the participant.

Corporate Transaction

In the event of the proposed dissolution or liquidation of the Company, the current offering period will terminate immediately prior to the consummation of such dissolution or liquidation, unless otherwise provided by the Administrator. In the event of a sale of all or substantially all of the assets of the Company, or the merger, consolidation or other capital reorganization of the Company with or into another a corporation (each, a Corporate Transaction) during an offering period, all outstanding purchase rights shall be assumed or substituted by the successor corporation (or a parent or subsidiary thereof). If the successor corporation refuses to assume or substitute for outstanding purchase rights, each purchase period and offering period then in progress will be shortened and a new purchase date will be set. If the Administrator shortens the purchase periods and offering periods then in progress to a new purchase date, the Administrator will provide notice to each participant that a new purchase date has been set and that either: (i) the participant's option will be exercised automatically on the new purchase date, unless prior to such date the participant has withdrawn from the offering period; or (ii) the Company will pay to the participant on the new purchase date an amount in cash, cash equivalents, or property as determined by the Administrator that is equal to the difference in the fair market value of the shares subject to the option and the purchase price due had the participant's option been exercised automatically under (i) above.

Changes in Capitalization

In the event any change is made to the outstanding shares of our common stock by reason of any stock split, reverse stock split, stock dividend, combination or reclassification of shares, merger, consolidation, acquisition of property or stock, separation, reorganization, liquidation or other change in corporate structure effected without the Company's receipt of consideration, appropriate adjustments will be made to (i) the maximum number of securities issuable under the ESPP, including the maximum number of securities issuable per participant on any one purchase date and (ii) the number of securities subject to each outstanding purchase right and the purchase price payable per share thereunder.

Amendment and Termination

Subject to stockholder approval, the ESPP will terminate upon the earlier to occur of (i) 10 years following the date of the Annual Meeting or (ii) the date on which all purchase rights are exercised in connection with a Corporate Transaction.

The Administrator may at any time terminate or amend the ESPP. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law), the Company shall obtain stockholder approval in such a manner and to such a degree as required.

Amended Plan Benefits

Because the number of shares of our common stock issued under the ESPP depends on the level of participation by its participants, we cannot determine the number of shares of our common stock that may be awarded in the future to eligible employees.

Federal Income Tax Consequences

The ESPP is intended to be an employee stock purchase plan within the meaning of Section 423 of the Internal Revenue Code. Under a plan which so qualifies, no taxable income will be recognized by a participant, and no deductions will be allowable to the Company in connection with the grant or exercise of an outstanding purchase right.

Taxable income will not be recognized until there is a sale or other disposition of the shares acquired under the ESPP or in the event the participant should die while still owning the purchased shares.

If the participant sells or otherwise disposes of the purchased shares within two (2) years after the start date of the offering period in which such shares were acquired or within one (1) year after the actual purchase date of those shares, then the participant will recognize ordinary income in the year of such sale or disposition equal to the amount by which the fair market value of the shares on the purchase date exceeded the purchase price paid for those shares, and the Company will be entitled to an income tax deduction, for the taxable year in which such sale or disposition occurs, equal in amount to such excess.

If the participant sells or disposes of the purchased shares more than two (2) years after the start date of the offering period in which such shares were acquired and more than one (1) year after the actual purchase date of those shares, then the participant will recognize ordinary income in the year of such sale or disposition equal to the lesser of (i) the amount by which the fair market value of the shares on the sale or disposition date exceeds the purchase price paid for those shares or (ii) 15% of the fair market value of the shares on the start date of the offering period, and any additional gain upon the disposition will be taxed as long-term capital gain. The Company will not be entitled to any income tax deduction with respect to such sale or disposition.

If the participant still owns the purchased shares at the time of his or her death, the lesser of (i) the amount by which the fair market value of the shares on the date of death exceeds the purchase price or (ii) 15% of the fair market value of the shares on his or her entry date into the offering period in which those shares were acquired will constitute ordinary income in the year of death.

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR*

**THE AMENDMENT AND RESTATEMENT OF THE 2000 EMPLOYEE STOCK
PURCHASE PLAN.**

PROPOSAL NO. 5

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Audit Committee has recommended, and the Board has approved, the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2010. Ernst & Young LLP has served as our independent registered public accounting firm since 1998. In the event that ratification of this selection of auditors is not approved by the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting, the Board will review its future selection of auditors.

A representative of Ernst & Young LLP is expected to be present at the Annual Meeting. This representative will have an opportunity to make a statement and will be available to respond to appropriate questions.

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR*

RATIFICATION OF ERNST & YOUNG LLP AS THE COMPANY'S

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2010

**COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND
MANAGEMENT**

The following table presents information concerning the beneficial ownership of the shares of our common stock as of April 9, 2010 by:

each person who we know to beneficially own more than 5% of our common stock;

each of our directors;

each of our Named Executive Officers; and

all of our directors and executive officers as a group.

The number and percentage of shares beneficially owned are based on 86,776,223 shares of common stock outstanding as of April 9, 2010. Beneficial ownership is determined under the rules and regulations of the SEC. Shares of common stock subject to options, warrants and conversion privileges that are currently exercisable or exercisable within 60 days of April 9, 2010 are deemed to be outstanding and beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the number of shares beneficially owned and the percentage ownership of that person, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table, and subject to applicable community property laws, these persons have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Common Stock
Holders of 5% or more of our common stock		
Johnson & Johnson (1) Alza Corporation One Johnson & Johnson Plaza New Brunswick, NJ 08933	6,600,000	7.6
Zesiger Capital Group LLC (2) 320 Park Avenue, 30 th Floor New York, NY 10022	6,485,770	7.5
BlackRock, Inc. (3) 40 East 52 nd Street New York, NY 10022	5,223,917	6.0
Venrock Healthcare Capital Partners, L.P. Venrock Co-Investment Holdings, LLC VHCP Management, LLC (4) 530 Fifth Avenue, 22 nd Floor New York, NY 10036	4,444,444	5.1
Directors and Named Executive Officers		
James E. Brown, D.V.M. (5)	3,624,837	4.1
Felix Theeuwes, D.Sc. (6)	3,126,669	3.6
Matthew J. Hogan, M.B.A. (7)	379,346	*

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Joseph Stauffer, D.O. , M.B.A. (8)	51,947	*
Su Il Yum, Ph.D. (9)	753,752	*
Simon X. Benito (10)	110,000	*
Terrence F. Blaschke, M.D. (11)	70,000	*
Michael D. Casey (12)	102,000	*
David R. Hoffmann (13)	120,000	*
Armand P. Neukermans, Ph.D. (14)	207,250	*
Jon S. Saxe (15)	134,000	*
All executive officers and directors as a group (13 persons) (16)	9,969,024	11.0

- * Less than 1% of the outstanding shares of common stock. Except as otherwise noted, the address of each person listed in the table is c/o DURECT Corporation, 2 Results Way, Cupertino, California 95014.
- (1) Based upon a Schedule 13G/A filed by Johnson & Johnson (J&J) and Alza Corporation (Alza) on April 2, 2002. These securities are owned directly by Alza, a wholly-owned subsidiary of J&J, and the two companies share voting and dispositive power over all 6,600,000 shares. The warrant to purchase 1,000,000 shares of common stock reported in the original Schedule 13G filed by Alza on February 14, 2001 has since expired, and the shares subject to the warrant are not reflected in this table.
 - (2) Based upon a Schedule 13G/A filed by Zesiger Capital Group LLC (ZCG) on February 10, 2010, in which ZCG reported that it had sole voting power over 5,032,000 of such shares and sole dispositive power over 6,485,770 of such shares.
 - (3) Based upon a Schedule 13G filed by BlackRock, Inc. (BlackRock) on January 29, 2010, in which BlackRock reported that it had sole voting and dispositive power over 5,223,917 of such shares.
 - (4) Based upon a Schedule 13G filed by Venrock Healthcare Capital Partners, L.P., Venrock Co-Investment Holdings, LLC and VHCP Management, LLC as a group on February 16, 2010. Venrock Healthcare Capital Partners, L.P. directly owned and had sole voting and dispositive power over 3,757,159 shares of common stock. Venrock Co-Investment Holdings, LLC directly owned and had sole voting and dispositive power over 687,285 shares of common stock. VHCP Management, LLC is the general partner of Venrock Healthcare Capital Partners, L.P. and the manager of Venrock Co-Investment Holdings, LLC.
 - (5) Includes 1,804,530 shares held by James E. Brown and 560,000 shares held by the James & Karen Brown 1998 Trust U/A. Also includes 1,260,307 shares issuable upon exercise of options exercisable within 60 days of April 9, 2010.
 - (6) Includes 11,000 shares held by Felix Theeuwes and 1,994,601 shares held by the Felix and Marie-Therese Theeuwes Family Trust. Also includes 1,121,068 shares issuable upon exercise of options exercisable within 60 days of April 9, 2010.
 - (7) Includes 2,000 shares held by Matthew J. Hogan and 10,000 shares held by the Matthew and Maureen Trust U/A dated March 12, 1999. Also includes 367,346 shares issuable upon exercise of options exercisable within 60 days of April 9, 2010.
 - (8) Includes 51,947 shares issuable to Joseph Stauffer upon exercise of options exercisable within 60 days of April 9, 2010.
 - (9) Includes 41,816 shares held by Su Il Yum. Also includes 711,936 shares issuable upon exercise of options exercisable within 60 days of April 9, 2010.
 - (10) Includes 20,000 shares held by Simon X. Benito. Also includes 90,000 shares issuable upon exercise of options exercisable within 60 days of April 9, 2010.
 - (11) Includes 70,000 shares issuable to Terrence F. Blaschke upon exercise of options exercisable within 60 days of April 9, 2010.
 - (12) Includes 102,000 shares issuable to Michael D. Casey upon exercise of options exercisable within 60 days of April 9, 2010.
 - (13) Includes 48,000 shares held by David R. Hoffmann and Judy A. Hoffmann in trust for the benefit of Alec D. Hoffmann and Todd L. Hoffmann. Also includes 72,000 shares issuable upon exercise of options exercisable within 60 days of April 9, 2010.
 - (14) Includes 75,000 shares held by Neukermans Family Trust and 1,250 shares held by Armand P. Neukermans. Also includes 131,000 shares issuable upon exercise of options exercisable within 60 days of April 9, 2010.
 - (15) Includes 20,000 shares held by the Jon S. Saxe and Myrna G. Marshall 1997 Trust. Also includes 114,000 shares issuable upon exercise of options exercisable within 60 days of April 9, 2010.
 - (16) Includes an aggregate of 5,192,200 shares issuable pursuant to the exercise of outstanding stock options exercisable within 60 days of April 9, 2010.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee (for purposes of this analysis, the Committee) of the Board has responsibility for establishing, implementing and continually monitoring adherence with our compensation practices. The Committee makes all compensation decisions for our Chief Executive Officer (our CEO) and Chief Financial Officer (our CFO), as well as the other individuals included in the Summary Compensation Table below (our Named Executive Officers) and all of our Vice Presidents. In this proxy, we refer to those persons as our Officers.

Philosophy and Elements

All of our compensation programs are designed to attract and retain key employees, motivating them to achieve and rewarding them appropriately for their performance. Different programs are geared to short and longer-term performance with the goal of increasing stockholder value over the long term. Executive compensation programs impact all employees by setting general levels of compensation and helping to create an environment of goals, rewards and expectations. Because we believe the performance of every employee is important to our success, we consider the effect of executive compensation and incentive programs on all of our employees.

We believe that the compensation of our Officers should reflect the extent of their success as a management team and in addition, their individual performance, in attaining key operating objectives, such as advancing our product pipeline, entering into strategic collaborative agreements and maintaining our financial strength, and ultimately, increasing stockholder value. We believe that the performance of our Officers in managing the Company, considered in light of general economic and specific Company, industry and competitive conditions, should be the basis for determining their overall compensation. We also believe that their compensation should not be based on the short-term performance of our stock, whether favorable or unfavorable, but rather that the price of our stock will, in the long-term, reflect our operating performance, and ultimately, the management of the Company by our Officers. We seek to have the long-term performance of our stock reflected in executive compensation through our stock option and other equity incentive programs.

Elements of compensation for our executives include: salary, bonus, stock incentive awards and perquisites. We choose to pay each element of compensation in order to attract and retain the necessary executive talent, reward performance and provide incentive for their balanced focus on long-term strategic goals as well as short-term performance. The amount of each element of compensation is determined by or under the direction of the Committee, which uses the following factors to determine the amount of salary and other benefits to pay each executive:

performance against corporate and individual objectives for the previous year;

value of their unique skills and capabilities to support our long-term performance;

performance of their general management responsibilities;

contribution as a member of our executive management team;

difficulty of achieving desired results in the coming year and years to follow; and

compensation paid by companies deemed by the Committee to be comparable to us. These elements fit into our overall compensation objectives by helping to secure the future potential of our products and operations, continuing to meet our business objectives, providing proper compliance and regulatory guidance, and helping to create an effective and cohesive team. Our policy for allocating between long-term and currently paid compensation is to ensure adequate base compensation to attract and retain personnel, while

providing incentives to maximize long-term value for us and our stockholders. Likewise, we provide cash compensation in the form of base salary to meet competitive salary norms and reward performance on an annual basis and in the form of bonus compensation to reward superior performance against specific annual goals. We provide non-cash compensation (i.e., stock options) to reward superior performance against specific objectives and long-term strategic goals. Our compensation package for our Named Executive Officers for fiscal 2009 ranged from 42% to 45% in cash compensation and 55% to 58% in non-cash compensation, including benefits and equity-related awards. We believe that this formula is competitive within the marketplace and appropriate to fulfill our stated policies. There is no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Rather, the Committee reviews information from relevant peer companies, and such other information as it considers appropriate, to determine the appropriate level and mix of incentive compensation.

Setting Officer Compensation

Process

At one or more meetings at the end of each fiscal year (usually in December) or in the beginning of the following fiscal year (usually in January), the Committee reviews our performance during the fiscal year against established corporate objectives, individual Officer performance and history of all the elements of each Officer's total compensation in comparison with the compensation of executive officers in an appropriate peer group as described below. After due consideration of the foregoing, the Committee:

sets the base salaries for our Officers for the following fiscal year;

approves individual Officer bonus payments for performance for the prior fiscal year;

approves stock options that will be granted to each Officer for performance for the prior fiscal year;

adopts the management incentive plan (including objectives and weighting) for the following fiscal year; and

decides upon general compensation guidelines and overall salary, bonus and stock option budgets for all employees.

The specific basis for the determination of base salaries, bonuses and stock option grants to Officers is detailed below.

Role of Executive Officers

The CEO and the Chairman and Chief Scientific Officer (the CSO) annually review the performance of each Officer (other than the CEO and CSO, whose performance is reviewed by the Committee) with the assistance and input from our head of Human Resources. The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. Officers, other than the CEO and the CSO, are not present at the time of these deliberations. The Committee can exercise its discretion in modifying any recommended adjustments or awards to executives and ultimately makes the final decision with respect to the compensation of all our Officers. The CEO and the CSO are not present during the Committee's deliberations and discussion on their individual compensation.

Benchmarking

To assist the Committee in benchmarking executive compensation, the Committee retained J. Richard & Co., an independent compensation consultant, in 2008 and 2009 to collect and synthesize data from several sources as detailed below.

To benchmark our Officer cash bonuses and equity awards for performance in fiscal 2009 and base salaries for fiscal year 2010, the Committee reviewed compensation information as reported in the definitive proxies for

fiscal year 2008 from the following public life sciences companies: Acadia Pharmaceuticals, Arena Pharmaceuticals, Ariad, Cadence Pharmaceuticals, Cypress, Cytokinetics, Depomed, Halozyme Therapeutics, Incyte, Jazz Pharmaceuticals, Ligand, MAP Pharmaceuticals, Maxygen, Nektar Therapeutics, NPS Pharmaceuticals, Pain Therapeutics, Pozen, Rigel, Vivus and Xenoport (the Peer Companies). The Committee selected the Peer Companies as a relevant comparison group for us based on various criteria including similarity of business, employee headcount, market capitalization and revenue. Where such source did not provide sufficient information with respect to the bonus and equity compensation of certain officer positions, the Committee used compensation information from The Radford Global Life Sciences Survey (2009) (the 2009 Radford Survey) as a supplement. The Committee took into consideration the summarized compensation data from the Peer Companies along with the data from the 2009 Radford Survey when setting base salaries applicable for fiscal year 2010 and the cash bonuses and stock options awards to our Officers for performance in fiscal 2009.

Base Salary

It is the goal of the Committee to establish salary compensation for our Officers that is competitive with comparable peer companies. In setting Officer base salaries for fiscal 2010 (which were set in January 2010), the Committee reviewed the salary compensation of officers with comparable qualifications, experience and responsibilities as reported in the 2009 Radford Survey and definitive proxies from the Peer Companies. It is not our policy to pay our CEO or other Officers at the highest level relative to their respective counterparts at the Peer Companies. The Committee generally targets compensation for our Officers at the 50th percentile of compensation paid to similarly situated executives at the Peer Companies. Variations to this objective may occur as dictated by the experience and performance level of the individual and market factors. We believe that this gives us the opportunity to attract and retain talented managerial employees both at the senior executive level and below, yet conserves our financial resources to the benefit of our stockholders. For fiscal year 2010, the base salaries of the CEO, CSO and other Officers were increased by 2% from the base salaries of those Officers in fiscal year 2009. The CEO and certain Officers other than the CSO also received salary adjustments if the Committee determined based on relevant data that their salaries were below the target percentile of compensation paid to comparable executives at the Peer Companies. For fiscal year 2009, the base salaries of the CEO and the CSO were increased by 2% from the base salaries of those Officers in fiscal year 2008. Certain Officers other than the CEO and CSO also received salary adjustments if the Committee determined based on relevant data that their salaries were below the target percentile of compensation paid to comparable executives at the Peer Companies. The Committee determined that these salary increases operated to maintain our Officer base salaries at about the 50th percentile of compensation paid to similarly situated executives at the Peer Companies (or as reported in the Radford Survey).

Bonus (Non-Equity Incentive Plan Compensation)

The cash bonus element of our executive compensation is designed to reward our Officers for the achievement of shorter-term corporate goals, measurable on an annual basis, as well as, with certain exceptions noted below for the CEO and CSO, individual Officer performance. Our process for determining the bonus element of our Officer compensation for fiscal year 2009 performance is set forth below, which is the same general process we followed in determining Officer bonuses for fiscal year 2008 performance.

In setting the target bonus for which each Officer would be eligible for fiscal 2009 performance, the Committee reviewed the data from the Peer Companies (and the 2008 Radford Survey where applicable) with respect to the bonuses of officers with comparable qualifications, experience and responsibilities at companies in their recommended peer groups. Based on the foregoing, for performance in fiscal year 2009, the Committee set the target bonus for the CEO and CSO at 60% of such individual's base salary, and for all other Officers at 30% - 40% of such individual's base salary. The two factors used by the Committee to determine the amount out of the target amount to be awarded to any individual Officer other than the CEO and CSO are the individual

performance of such Officer during the relevant fiscal year and our performance as a whole against pre-set corporate objectives for such fiscal year (the Corporate Objectives). The Committee retains the discretion to adjust actual bonus payments based on other factors, as discussed below.

The Corporate Objectives for each fiscal year are typically established by the Committee in consultation with our Officers at the end of the previous fiscal year or no later than the first quarter of such fiscal year. The Corporate Objectives comprise product development, financial, business development and operational goals with varying degrees of difficulty and have associated target dates for accomplishment. Each objective is weighted based on the importance of the accomplishment of the objective to the Company's overall value. At the end of each fiscal year, the Committee makes a determination of the overall percentage of the Corporate Objectives accomplished by the Company as a whole during the fiscal year. The Committee exercises its reasonable discretion in determining the percentage of Corporate Objective accomplished by the Company, including, for example taking into account the achievement of any listed objective above expectations or the accomplishments of the Company that were not listed in the Corporate Objectives.

For fiscal year 2009, the Corporate Objectives against which Officer performance was evaluated consisted of, among others, financial, business development and product development goals.

Financial

The primary financial goal was to minimize overall corporate cash utilization such that net cash consumption did not exceed an established target and our corporate cash balance at year end did not fall below a specified amount.

Business Development

The primary business development goal was to establish business development collaborations with respect to POSIDUR for the U.S. and TRANSDUR -Sufentanil on terms acceptable to the Company.

In addition, we had goals around generating minimum revenue levels from existing collaborations and related to establishing new feasibility agreements with third parties that were of a defined scale.

Product Development

POSIDUR: The primary goals related to completion of a Phase IIb shoulder clinical trial with a positive outcome, completion of the future clinical development plan and commencement of the Phase III clinical program.

ORADUR® Programs: The primary goals related to continued support of our licensee King Pharmaceuticals' efforts regarding the resubmission of the New Drug Application (NDA) for REMOXY®, and completion of a board approved licensing agreement with respect to an Attention Deficit Hyperactivity Disorder program.

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TRANSDUR-Sufentanil: The primary goals related to support of our licensee Endo Pharmaceuticals in holding an end-of-Phase II meeting with the FDA with a defined pathway to a NDA and successfully completing the transfer of the program back from Endo.

ELADUR: The primary goal related to support of our licensee King Pharmaceuticals in commencement of a Phase IIb clinical trial.

The financial and business development objectives were given significant weight in view of the global economic recession and the Company's interest in preserving cash. After evaluating the Company's performance against the Corporate Objectives established for 2009, the Committee determined that the overall percentage of Corporate Objectives accomplished by the Company as a whole for fiscal year 2009 was 59%.

The Committee believes that the accomplishments of the Company as a whole are an important measure of the performance of all of our Officers, including the effectiveness of their leadership and teamwork. In particular, the percentage of the total eligible amount that is normally awarded to the CEO and CSO as a bonus is based entirely on the Company's overall performance and accomplishment of the Corporate Objectives because the Committee believes that the paramount duty of these individuals is leadership. Thus, the bonus awarded to the CEO and the CSO for fiscal year 2009 was computed by multiplying 59% (the percentage determined by the Committee based on Corporate Objectives accomplished and the Company's overall performance) by 60% of the CEO or CSO's base salary in fiscal year 2009 (the target bonus amount that such individual is eligible to receive as set by the Committee). For fiscal year 2008, the Company's accomplishment of the Corporate Objectives and overall performance determined half of the bonus that is normally awarded to each Officer other than the CEO or CSO; the other half of the bonus was determined by such Officer's individual performance. For fiscal year 2009, the Committee increased the weighting of Corporate Objectives (from 50% to 60% or 70%, depending on the Officer) and decreased the weighting of individual performance (from 50% to 40% or 30%, depending on the Officer) for Officers other than the CEO and CSO. Bonuses for fiscal year 2009 for the CEO and CSO continued to be based solely on Corporate Objectives.

The individual performance of each Officer, except for the CEO and CSO, is assessed as part of an annual written performance appraisal performed typically at the end of each fiscal year. At a meeting at the end of each fiscal year, each Officer, together with his or her supervisor (e.g., the CEO or CSO), agrees upon a written set of objectives for the following fiscal year pertinent to the Officer individually (which includes goals for the functional area or business managed by such Officer). The supervisor also assesses the accomplishments of the Officer in such fiscal year against the applicable pre-established objectives for that Officer in such year, and arrives at a percentage of goals accomplished. In general, the bonus of each Officer other than the CEO or CSO is determined as follows:

$$\text{Bonus Amount} = (A\% * B\% + C\% * D\%) * E\% * \text{Base Salary}$$

A = the percentage (30%, 40% or 50%) of individual performance applicable to the Officer

B = the percentage of personal objectives accomplished by the Officer as determined by the Officer's supervisor

C = the percentage (50%, 60% or 70%) of weighting of Corporate Objectives

D = the percentage of Corporate Objectives accomplished and overall performance by the Company as determined by the Committee

E = the percentage (30%, 35% or 40%) of the base salary set as the maximum bonus target applicable to the Officer

Notwithstanding the general practice with respect to determination of Officer bonuses set forth above, the Committee retains complete discretion to adjust the result obtained using the general approach for individual variations in performance or business considerations. With respect to bonuses for fiscal year 2009 performance, due to the recent turmoil in the financial markets and in the interest of preserving cash, the Committee reduced the cash bonus amount payable to each Officer derived under the general approach by approximately 85%. In lieu of the reduced amount, the Committee granted additional fully vested options to purchase our common stock, of which options to purchase approximately 358,669 shares were granted to our Officers in January 2010.

With respect to bonuses payable for fiscal year 2010 performance, the Committee maintained the same general approach (subject to the Committee's plenary discretion to deviate where appropriate from that approach due to individual or Company-wide considerations).

Equity Incentive Program

We intend that our equity incentive program is the primary vehicle for offering long-term incentives and rewarding our Officers and key employees. We also regard our equity incentive program as a key retention tool.

This is a very important factor in our determination of the type of award to grant and the number of underlying shares that are granted in connection with that award. Because of the direct relationship between the value of an option and the market price of our common stock, we have always believed that granting stock options is the best method of motivating our Officers to manage the Company in a manner that is consistent with our interests and those of our stockholders. It is our typical practice to grant stock options to our Officers and all employees annually in connection with our annual employee performance appraisal.

At the same meeting(s) during which the Committee determines our Officer base salaries for the following fiscal year and bonuses for performance in the previous fiscal year the Committee also determines the ranges of stock options for which our Officers are eligible by rank. The Committee sets these ranges after consideration of (a) the value of equity incentive awards of officers with comparable qualifications, experience and responsibilities at the Peer Companies, (b) the dilution that would be created by the stock options awards for that fiscal year (the Burn Rate) and (c) and the overall value of equity held by our employees as a retention incentive. The Committee's general philosophy is that the value of our equity incentive awards to our Officers should be competitive with the Peer Companies subject to the Company maintaining a Burn Rate for its equity incentive programs that is not overly dilutive to our stockholders and comparable to other companies in the Peer Group. For our annual stock option grant in connection with the Company's fiscal year 2008 performance appraisal, the date of grant which was January 27, 2009, the Committee targeted a Burn Rate (computed as total shares subject to option grants to all employees including Officers for the entire fiscal year divided by total outstanding shares as of December 31, 2008) of approximately 3.5%. For our annual stock option grant in connection with the Company's fiscal year 2009 performance appraisal (including the bonus options discussed above), the date of grant which was January 22, 2010, the Committee targeted a Burn Rate (computed as total shares subject to option grants to all employees including Officers for the entire fiscal year divided by total outstanding shares as of December 31, 2009) of approximately 3.5%. The number of shares underlying option grants to our Officers for performance for fiscal year 2009 was generally slightly lower than the number of shares underlying option grants to our Officers for performance for fiscal year 2008. The factors used by the Committee to determine the specific number of shares underlying any stock option grant to any individual Officer other than the CEO and the CSO are the individual performance of such Officer during the relevant fiscal year and the performance of the Company as a whole against the Corporate Objectives. As with bonuses, the specific number of shares underlying the stock option grants to our CEO and CSO is determined based on the performance of the Company as a whole against the Corporate Objectives.

In addition, our Board of Directors and Compensation Committee may grant equity compensation to our Officers and employees at any time for incentive and retention purposes in keeping with our non-cash equity compensation practices outlined below.

Perquisites

Except as otherwise described in this Proxy Statement, our Officers are entitled to no benefits that are not otherwise available to all of our employees. In this regard it should be noted that we do not provide pension arrangements (other than our 401(k) plan), post-retirement health coverage or similar benefits for our Officers or employees.

The perquisites we provided in fiscal 2009 were as follows: We provide life insurance to all employees (including Officers) with a limit of three times the employee's salary (up to \$250,000 of insurance per employee). The premium on over \$50,000 of life insurance is treated as taxable income and is reported on W-2 forms of all employees. In addition, we provide medical, dental and vision insurance, accidental death and dismemberment insurance, short-term and long-term disability insurance to all employees. We pay for approximately 85% of total premium for medical, dental and vision insurance, respectively, and 100% for accidental death and dismemberment insurance, short-term and long-term disability insurance. Our Officers, as with our employees, are eligible to participate in our 2000 Employee Stock Purchase Plan.

Post-Employment Compensation

Pension Benefits

We do not provide pension arrangements or post-retirement health coverage for our executives or employees. Our executive officers, as with all eligible employees, are eligible to participate in our 401(k) plan. We do not provide matching contributions for any of our employees including our Officers.

Nonqualified Deferred Compensation

We do not provide any nonqualified deferred contribution or other deferred compensation plans.

Other Post-Employment Payments

All of our employees, including our Officers, are employees-at-will and as such do not have employment contracts with us. We also do not provide post-employment health coverage or other benefits, except in connection with the change of control agreements, details of which are included below under *Change of Control Agreements*.

Stock Option Practices

Overview

It is our practice to grant stock options to all of our employees. Stock options award levels are determined based on market data and vary among individuals based on their positions within the Company and their individual performance. Stock Options are generally granted in connection with:

the hiring of employees (including Officers);

the promotion of employees (including Officers);

the annual performance appraisal of employees (including Officers);

rewarding certain employees (including Officers) for exceptional accomplishments; and

from time to time for incentive and retention purposes.

We also, from time-to-time, and on an infrequent basis, grant stock options to certain consultants with specialized skills who provide important services to us. All of our stock options are granted under and pursuant to the terms of our 1998 Stock Option Plan and 2000 Stock Plan (the *Plan*).

In March 2007, the Committee evaluated our practices for granting stock options in view of current laws, regulations and best practices and for promoting administrative efficiency, and adopted written guidelines therefor (the *Guidelines*). Except with respect to the timing of stock option grants to newly hired employees described below, the Guidelines did not significantly change our previous stock option practices. Where relevant, changes to our previous practices made by our Guidelines are noted below.

Authority

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The Board has delegated the authority to grant stock options under specified terms and conditions to a committee consisting of our CEO, CSO and CFO (the Officer Committee) in connection with the hiring and promotion of non-Officer employees and the rewarding of non-Officer employees for exceptional performance. Other than as expressly delegated by the Committee or the Board in accordance with the Plan, the authority to grant stock options and other equity compensation resides exclusively with the Committee or the Board. In particular, the Committee or the Board has the exclusive authority to grant stock options to Directors and Officers.

Timing of Grants

For fiscal year 2006 and previous years, it was our practice to grant newly hired employees including Officers stock options effective on the first day of such individual's employment with us. Options to newly hired Officers were approved by action of our Board or the Committee by meeting or unanimous written consent prior to and granted effective as of the first day of employment of such Officer, typically at the same time as the ratification of their employment. Options to newly hired employees who were not Officers and where the number of shares underlying the stock option grant did not exceed 50,000 shares were granted by unanimous written consent of the Officer Committee on the first day of employment of such employee. Since the adoption of the Guidelines by the Committee in March 2007, it has been our practice to grant stock options to newly hired employees other than Officers in any month effective on the tenth business day of the subsequent calendar month of their hire, and the Officer Committee then meets or acts by unanimous written consent on or before the tenth business day of the calendar month to approve the option grants to be made on the tenth business day of the calendar month. The change to our previous practices was made in order to ease the administrative burden to the Officer Committee and human resources and stock administration personnel. We intend to continue our practices as described above with respect to the granting of stock options to newly hired Officers.

Annual grants of stock options to our employees and Officers are made usually in January or February of each year after the conclusion of our annual Company-wide performance appraisal of all employees for the previous fiscal year. Even though the Committee may complete the evaluation of the performance of Officers prior to the completion of the performance appraisal process for the entire Company, it has been our practice in the last several years to grant the stock options to Officers simultaneously with the grant of stock options to our employees.

Other than as described above with respect to newly hired employees, it is our practice to grant stock options (such as in connection with promotions, rewarding exceptional accomplishments and grants to consultants) effective on the date of the Board, Committee or Officer Committee's action by meeting or unanimous written consent.

We do not have a policy that precludes the granting of stock options when the Company or the Board is in possession of material nonpublic information or at certain periods in relation to our earnings releases. Although the Committee has considered whether such a policy would be advisable, the Committee does not feel that adoption of such policy is warranted at present since we grant stock options based on timelines in the normal course of business independent of the occurrence of these types of events (e.g., at a pre-established date each month for newly hired employees, on the first date of employment for newly hired Officers or upon the completion of the Company's annual performance appraisal with respect to the annual grant). The Committee will periodically review the need for any such type of policy on timing, but at present, reserves the right to grant stock options at any time consistent with our policies, the Plan and applicable laws and regulations.

Exercise Price and Other Terms

The exercise price for stock options we grant is the fair market value of our common stock as defined in the Plan, which is the closing price on the day of the grant of our common stock on the NASDAQ Global Market. Stock options granted to our employees (including Officers) typically have a term of 10 years. Options granted prior to 2009 generally vest at a rate of 25% on each anniversary of the date of grant. Options granted in 2009 and 2010 generally vest at a rate of 25% on the first anniversary of the date of grant and thereafter, 1/16 of the shares subject to the option vest at the end of each three-month period following the one year anniversary of the date of grant. On an infrequent basis, the Board or the Committee has granted stock options to employees (including Officers) with different vesting patterns consistent with the Plan. The term and vesting of options granted to consultants vary depending on the circumstances.

Stock options, subject to required vesting, are exercisable for the term of the option so long as the optionee maintains continuous status as an employee or consultant with the Company. Options granted prior to March 31,

2010 are exercisable for sixty (60) days after the termination of the optionee's status as an employee or consultant with the Company. Options granted on or after March 31, 2010 will be exercisable for three (3) months after the termination of the optionee's status as an employee or consultant with the Company.

Hedging and Stock Ownership Policies

Our insider trading policy provides that all employees and Officers may not engage in any transactions that suggest speculation in our stock (that is, an attempt to profit in short-term movements, either increases or decreases, in the stock price). The policy notes that many hedging transactions, such as collar transactions, contingent or forward sales, and other similar or related arrangements, are prohibited. Specifically, our insider trading policy precludes any employee or Officer from engaging in any short sale, sale against the box or any equivalent transaction involving our stock (or the stock of any of our business partners in any of the situations described above).

We do not have a stock ownership policy.

Tax and Accounting Implications

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid during a single year to a corporation's chief executive officer and four other most highly paid executive officers. Qualifying performance-based compensation will not be subject to the deduction limitation if certain requirements are met. We periodically review the potential consequences of Section 162(m) and may structure the performance-based portion of our executive compensation to comply with certain exemptions in Section 162(m). However, we reserve the right to use our judgment to authorize compensation payments that do not comply with the exemptions in Section 162(m) when we believe that such payments are appropriate and in the best interests of the stockholders, after taking into consideration changing business conditions or the officer's performance.

Accounting for Stock-Based Compensation

Beginning on January 1, 2006, we began accounting for stock-based payments including our Stock Option Program and Employee Stock Purchase Plan in accordance with the requirements of FASB Statement 123(R) (FAS 123(R)).

COMPENSATION OF EXECUTIVE OFFICERS

The following table shows for the fiscal years ended December 31, 2009, 2008 and 2007, compensation awarded to or paid to, or earned by, our Chief Executive Officer, Chief Financial Officer and our three other most highly compensated executive officers at December 31, 2009 (our Named Executive Officers)

In 2009, 2008 and 2007, we did not grant any stock awards and we do not currently offer pension or nonqualified deferred compensation plans.

Summary Compensation Table for Fiscal 2009

Name and Principal Position	Year	Salary (\$)	Bonus (1)(\$)	Option Awards (2)(\$)	Non-Equity	All	Total (\$)
					Incentive Plan Compensation (3)(\$)	Other Compensation (4)(\$)	
James E. Brown, D.V.M (5) President and Chief Executive Officer	2009	\$ 461,965		\$ 643,682	\$ 24,530	\$ 16,798	\$ 1,146,975
	2008	\$ 452,907		\$ 730,608	\$ 24,457	\$ 16,323	\$ 1,224,295
	2007	\$ 431,340		\$ 585,323	\$ 183,320	\$ 13,765	\$ 1,213,748
Matthew J. Hogan, M.B.A. (6) Chief Financial Officer	2009	\$ 283,588		\$ 381,205	\$ 22,132	\$ 16,709	\$ 703,634
	2008	\$ 268,224		\$ 459,239	\$ 12,875	\$ 16,323	\$ 756,661
	2007	\$ 253,041		\$ 301,023	\$ 70,219	\$ 13,765	\$ 638,048
Felix Theeuwes, D.Sc. (7) Chairman and Chief Scientific Officer	2009	\$ 473,660		\$ 643,682	\$ 25,151	\$ 11,641	\$ 1,154,134
	2008	\$ 464,373		\$ 730,608	\$ 25,076	\$ 11,987	\$ 1,232,044
	2007	\$ 442,260		\$ 585,323	\$ 187,961	\$ 10,477	\$ 1,226,021
Joseph Stauffer, D.O., M.B.A. (8) Chief Medical Officer and Executive Vice President, Corporate Strategy	2009	\$ 203,125	\$ 100,000	\$ 400,425	\$ 16,043	\$ 8,399	\$ 727,992
	2008						
	2007						
Su Il Yum, Ph.D. (9) Executive Vice President, Pharmaceutical Systems R&D	2009	\$ 307,632		\$ 427,072	\$ 12,053	\$ 11,158	\$ 757,915
	2008	\$ 301,600		\$ 459,239	\$ 14,477	\$ 11,987	\$ 787,303
	2007	\$ 290,000		\$ 438,156	\$ 80,475	\$ 10,477	\$ 819,108

- (1) Our cash bonuses are paid under an incentive plan and therefore are reported in the column Non-Equity Incentive Plan Compensation.
- (2) Amounts shown represent the aggregate grant date fair value of the stock option grant in the year indicated. For more information, please see Note 8 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009 regarding assumptions underlying the valuation of equity awards.
- (3) Represent the amounts earned in 2007, 2008 and 2009 but paid in January 2008, January 2009 and January 2010, respectively. For a description of the non-equity incentive plan, see the discussion following Grants of Plan-Based Awards in 2009.
- (4) Includes amounts associated with insurance premiums we pay for Accidental Death and Dismemberment (AD&D), Life, Medical, Dental, Vision, short-term and long-term disability insurance, which are available to all employees.
- (5) As of January 1, 2010, Dr. Brown's annual salary was increased to \$486,204.

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- (6) As of January 1, 2010, Mr. Hogan's annual salary was increased to \$299,260.
- (7) As of January 1, 2010, Dr. Theeuwes' annual salary was increased to \$483,134.
- (8) Dr. Stauffer joined the Company in June 2009 and received a one-time sign-on bonus of \$100,000. If Dr. Stauffer voluntarily terminates his employment during the first three years with the Company, or if his employment is terminated by the Company for cause, he is obligated to repay the entire \$100,000 back to the Company. His annualized salary in 2009 was \$375,000. As of January 1, 2010, Dr. Stauffer's annual salary was increased to \$382,500.
- (9) As of January 1, 2010, Dr. Yum's annual salary was increased to \$313,785.

GRANTS OF PLAN-BASED AWARDS

The following table shows for the fiscal year ended December 31, 2009, certain information regarding grants of plan-based awards to our Named Executive Officers:

Grants of Plan-Based Awards in Fiscal 2009

Name	Grant Date	All Other		Grant Date Fair Value of Stock and Option Awards (3)(\$)
		Option Awards: Number of Securities Underlying Options (1)(#)	Exercise or Base Price of Option Awards (2)(\$/Share)	
James E. Brown (4)	1/27/09	210,000	\$ 3.11	\$ 470,001
	5/21/09	113,000	\$ 2.09	\$ 173,681
Matthew J. Hogan (5)	1/27/09	125,000	\$ 3.11	\$ 279,763
	5/21/09	66,000	\$ 2.09	\$ 101,442
Felix Theeuwes (6)	1/27/09	210,000	\$ 3.11	\$ 470,001
	5/21/09	113,000	\$ 2.09	\$ 173,681
Joseph Stauffer (7)	6/16/09	250,000	\$ 2.20	\$ 400,425
Su Il Yum (8)	1/27/09	140,000	\$ 3.11	\$ 313,334
	5/21/09	74,000	\$ 2.09	\$ 113,738

- (1) All options were granted under our 2000 Stock Plan. The vesting associated with the option is as follows: one-fourth (1/4) of the total shares subject to such option shall vest on the one-year anniversary of the date of grant, and one-sixteenth (1/16) of the total shares subject to the option shall vest quarterly over three (3) years following the one-year anniversary.
- (2) The exercise price per share of such option grant was the closing price of our common stock on the NASDAQ Global Market on the date of grant.
- (3) Amounts shown represent the fair value per share as of the grant date of the award multiplied by the number of shares. For more information, please see Note 8 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009 regarding assumptions underlying the valuation of equity awards.
- (4) For Dr. Brown's performance in fiscal year 2009, he received a stock option grant of 210,000 shares, which vest as described in footnote 1 and a fully vested option grant of 79,432 shares in January 2010.
- (5) For Mr. Hogan's performance in fiscal year 2009, he received a stock option grant of 140,000 shares, which vest as described in footnote 1 and a fully vested option grant of 39,284 shares in January 2010.
- (6) For Dr. Theeuwes's performance in fiscal year 2009, he received a stock option grant of 210,000 shares, which vest as described in footnote 1 and a fully vested option grant of 81,443 shares in January 2010.
- (7) For Dr. Stauffer's performance in fiscal year 2009, he received a stock option grant of 150,000 shares, which vest as described in footnote 1 and a fully vested option grant of 51,947 shares in January 2010.
- (8) For Dr. Yum's performance in fiscal year 2009, he received a stock option grant of 125,000 shares, which vest as described in footnote 1 and a fully vested option grant of 39,029 shares in January 2010.

With respect to Non-Equity Incentive Plan Awards for fiscal year 2009, the Compensation Committee set specific corporate targets and goals as described in Compensation Discussion and Analysis Bonus (Non-Equity Incentive Plan Compensation) above.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR EXECUTIVE OFFICERS

The following table shows for the fiscal year ended December 31, 2009, certain information regarding outstanding option awards at fiscal year-end for our Named Executive Officers. All options were granted under our 2000 Stock Plan. In addition, there were no stock awards outstanding for the individuals named below at December 31, 2009.

Outstanding Option Awards At December 31, 2009

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards:			Option Exercise Price (\$)	Option Grant Date	Option Expiration Date
			Number of Securities Underlying Unexercised Options (#) Unearned					
James E. Brown	80,000	0			\$ 11.625	12/14/2000(1)	12/14/2010	
	176,500	23,500			\$ 1.58	2/10/2003(2)	2/10/2013	
	225,000	0			\$ 3.25	1/14/2004(1)	1/14/2014	
	125,000	0			\$ 3.20	12/17/2004(1)	12/17/2014	
	187,500	62,500			\$ 5.27	1/6/2006(1)	1/6/2016	
	87,500	87,500			\$ 4.34	1/11/2007(1)	1/6/2017	
	43,750	131,250			\$ 5.89	1/18/2008(1)	1/18/2018	
	0	210,000			\$ 3.11	1/27/2009(3)	1/27/2019	
	0	113,000			\$ 2.09	5/21/2009(3)	5/27/2019	
Matthew J. Hogan	150,000	50,000			\$ 3.76	9/11/2006(1)	9/11/2016	
	45,000	45,000			\$ 4.34	1/11/2007(1)	1/11/2017	
	27,500	82,500			\$ 5.89	1/18/2008(1)	1/18/2018	
	0	125,000			\$ 3.11	1/27/2009(3)	1/27/2019	
	0	66,000			\$ 2.09	5/21/2009(3)	5/27/2019	
Felix Theeuwes	80,000	0			\$ 11.625	12/14/2000(1)	12/14/2010	
	35,250	23,500			\$ 1.58	2/10/2003(4)	2/10/2013	
	225,000	0			\$ 3.25	1/14/2004(1)	1/14/2014	
	125,000	0			\$ 3.20	12/17/2004(1)	12/17/2014	
	187,500	62,500			\$ 5.27	1/6/2006(1)	1/6/2016	
	87,500	87,500			\$ 4.34	1/11/2007(1)	1/11/2017	
	43,750	131,250			\$ 5.89	1/18/2008(1)	1/18/2018	
	0	210,000			\$ 3.11	1/27/2009(3)	1/27/2019	
	0	113,000			\$ 2.09	5/21/2009(3)	5/27/2019	
Joseph Stauffer	0	250,000			\$ 2.20	6/16/2009(3)	6/16/2019	
Su Il Yum	15,000	0			\$ 11.125	1/2/2001(1)	1/2/2011	
	10,000	0			\$ 9.19	2/11/2002(1)	2/11/2012	
	82,064	10,686			\$ 1.58	2/10/2003(5)	2/10/2013	
	25,000	0			\$ 2.75	12/15/2003(1)	12/15/2013	
	100,000	0			\$ 2.51	2/27/2004(1)	2/27/2014	
	100,000	0			\$ 3.20	12/17/2004(1)	12/17/2014	
	90,000	30,000			\$ 5.27	1/6/2006(1)	1/6/2016	
	65,500	65,500			\$ 4.34	1/11/2007(1)	1/11/2017	
	27,500	82,500			\$ 5.89	1/18/2008(1)	1/18/2018	
	0	140,000			\$ 3.11	1/27/2009(3)	1/27/2019	
	0	74,000			\$ 2.09	5/21/2009(3)	5/27/2019	

- (1) The vesting associated with these option grants are as follows: one-fourth (1/4) of the total shares subject to such option shall vest on each one-year anniversary of the date of grant.
- (2) Dr. Brown was granted options to purchase 200,000 shares of our common stock on February 10, 2003. Such grant included options to purchase 106,000 shares issued that vest at a rate of 25% of the shares on each twelve-month anniversary of the vesting commencement date and options to purchase 94,000 shares that vest at a rate of 12.5% of the shares on each twelve-month anniversary of the vesting commencement date.
- (3) The vesting associated with these option grants are as follows: one-fourth (1/4) of the total shares subject to such option shall vest on the one-year anniversary of the date of grant, and one-sixteenth (1/16) of the total shares subject to the option shall vest quarterly over three (3) years following the one-year anniversary.
- (4) Dr. Theeuwes was granted options to purchase 225,000 shares of our common stock on February 10, 2003. Such grant included options to purchase 131,000 shares that vest at a rate of 25% of the shares on each twelve-month anniversary of the vesting commencement date and options to purchase 94,000 shares that vest at a rate of 12.5% of the shares on each twelve-month anniversary of the vesting commencement date. 166,250 shares have been exercised as of December 31, 2009.
- (5) Dr. Yum was granted options to purchase 92,750 shares of our common stock on February 10, 2003. Such grant included options to purchase 50,000 shares that vest at a rate of 25% of the shares on each twelve-month anniversary of the vesting commencement date and options to purchase 42,750 shares that vest at a rate of 12.5% of the shares on each twelve-month anniversary of the vesting commencement date.

EXERCISES

The following table shows for the fiscal year ended December 31, 2009, certain information regarding option exercises and stock vested during the last fiscal year with respect to our Named Executive Officers:

Option Exercises in Fiscal 2009(1)

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)
James E. Brown		\$
Matthew J. Hogan		\$
Felix Theeuwes		\$
Joseph Stauffer		\$
Su Il Yum		\$

- (1) We do not currently utilize stock awards as part of our compensation plan. As such, we do not include information regarding stock awards that would otherwise appear as blank columns in this table.

CHANGE OF CONTROL AGREEMENTS

In April 2004, our Board of Directors adopted a change of control policy applicable to our officers who hold the rank of Vice President and above (who are not party to any other change of control agreement with us) which provides that, in the event that such officer's employment is terminated without cause or constructively terminated, in connection with and prior to a change in our control, or within twenty-four months following a change in our control, then: (1) the unvested portion of any stock option held by such officer shall automatically accelerate so as to become completely vested as of the effective date of the termination, and (2) such officer shall receive a cash payment equal to one year of such officer's then current salary, provided that such cash payment will be equal to two years of such officer's then current salary in the case of James E. Brown or Felix Theeuwes. Any such benefits are conditioned upon such officer delivering to us an effective release releasing us or our successor from any and all claims the officer may have against such entities related to or arising in connection with his or her employment, term of such employment and termination thereof, and the officer agreeing, for the period during which she or he is receiving or has received payment of cash severance (but not exceeding two years), he or she will not, directly or indirectly, act as a partner, joint venturer, consultant, officer, director, employee, agent, independent contractor or stockholder of any company or business organization (including any unit or division of any company or organization) whose business is the development and marketing of products and services that are directly competitive with the products and services being developed and marketed by us immediately prior to our change of control. In September 2008, we amended the policy for compliance with Section 409A of the Code such that any such cash payment shall be payable in equal installments over the twelve month period, subject to a six month delay as required to avoid adverse tax consequences to specified employees under Code Section 409A.

In April 2004, our Board of Directors adopted a change of control policy applicable to all employees other than officers who hold the rank of Vice President and above which provides that, in the event that such employee's employment is terminated without cause or constructively terminated, in connection with and prior to a change in our control, or within twenty-four months following a change in our control, then: (1) the unvested portion of any stock option held by such employee shall automatically accelerate so as to become completely vested as of the effective date of the termination, and (2) such employee shall receive a payment of 2 weeks of such employee's then current salary for each full year of employment with us (taking into consideration the period of employment by the surviving entity as employment with us), up to a maximum total severance payment equal to 12 months of such employee's then current salary.

Had a change in control occurred during fiscal 2009 and had their employment been terminated on December 31, 2009, our Named Executive Officers would have been eligible to receive the payments set forth in the columns under the heading "Terminations Within 24 Months of a Change in Control" in the table below.

Terminations Within 24 Months of a Change in Control

Name	Severance Payments	Value of Accelerated Unvested Options (1)
James E. Brown	\$ 923,930	\$ 63,855
Matthew J. Hogan	\$ 283,588	\$ 25,080
Felix Theeuwes	\$ 947,321	\$ 63,855
Joseph Stauffer	\$ 375,000	\$ 67,500
Su Il Yum	\$ 307,632	\$ 37,631

- (1) The value of accelerated vesting of the options is based solely on the excess, if any, of \$2.47 per share, the closing market price on December 31, 2009, over the exercise price of the unvested portion (as of December 31, 2009) of our Named Executive Officers' stock options. Because a portion of our stock options have exercise prices higher than our current stock price,

if our stock value was higher at the time of any actual termination of employment, additional stock options could have value.

DIRECTOR COMPENSATION

Overview of Compensation and Procedures

The Compensation Committee reviews the level of compensation of our non-employee directors on an annual basis. To determine how appropriate the current level of compensation for our non-employee directors is, we have historically obtained data from a number of different sources including:

publicly available data describing director compensation in peer companies;

survey data collected by our human resources department; and

information obtained directly from other companies.

In 2009, the Compensation Committee retained J. Richard & Co., an independent compensation consultant, to perform a survey of director compensation programs used by public life sciences companies comparable to us. Based upon J. Richard & Co.'s analysis, the Compensation Committee determined that our director compensation was below that provided by companies comparable to us. As a result of these findings, and in an effort to ensure our ability to attract and retain qualified directors, we changed our non-employee director compensation structure in December 2009.

We compensate non-employee members of the board through a mixture of cash and equity-based compensation. Effective December 2009, each non-employee director is eligible to receive an attendance fee of \$1,500 for each Board meeting attended and \$500 for each telephonic Board meeting, and a cash retainer fee equal to \$30,000 per year (increased in December 2009 from \$25,000 per year) paid on a quarterly basis in arrears. In addition, for each Board committee on which a non-employee director serves, he or she shall be eligible to receive an attendance fee of \$1,000 for each committee meeting attended and a cash retainer fee equal to \$8,000, \$6,000 and \$5,000 per year for serving on the Audit Committee, Compensation Committee and Nominating and Governance Committee respectively (as compared to \$7,500, \$5,000 and \$5,000 per year respectively for 2009) paid on a quarterly basis in arrears; provided that the cash retainer to be received by the chairperson of the Audit Committee, the Compensation Committee and the Nominating & Corporate Governance Committee are \$22,500, \$15,000 per year and \$12,000 per year, respectively, each paid on a quarterly basis in arrears.

All of our current non-employee directors receive stock option grants as part of their compensation for their service. When each non-employee director first becomes a director, he or she receives nonstatutory options to purchase 30,000 shares of our common stock, which by approval of the Board of Directors was increased by 5,000 shares to a total of 35,000 shares in December 2009. These options have a ten-year term and become exercisable in installments of one-third of the total number of shares granted on each anniversary of the grant. Additionally, each director who has served for at least 6 months will receive options to purchase an additional 20,000 shares of our common stock on the date of the annual stockholder meeting (Annual Grant), which by approval of the Board of Directors was increased by 5,000 shares to a total of 25,000 shares in December 2009, and such Annual Grant vests on the day before the first anniversary of the date of grant of the Annual Grant. These options are for a ten-year term. In each case, the size of the option grants would be adjusted to reflect any stock splits, stock dividends, combinations or similar transactions. The exercise price of the options granted under our Directors' Plan must be at least 100% of the closing price of our common stock on the NASDAQ Global Market on the date the option is granted. The options may be exercised only (1) while the individual is serving as a director on the Board, (2) within 12 months after termination by death or disability or (3) within ninety (90) days after the individual's term as director ends for any other reason; provided, however, on March 31, 2010, in the latter instance, the Board of Directors approved extending the period of exercisability of all outstanding options under the Director's Plan from ninety (90) days after the individual's term

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as director ends for any other reason to one (1) year after such termination. Stock options to directors have been and will be granted under our Directors' Plan until the expiration of the plan in September 2010, after which stock options to directors will be granted under our 2000 Stock Plan.

Employee directors receive no additional compensation for serving on our Board of Directors.

The following table sets forth certain information regarding the compensation of each non-employee member of our Board of Directors for the fiscal year ended December 31, 2009.

Director Compensation for Fiscal 2009

Name	Fees Earned or Paid in Cash (\$)	Option Awards (1)(\$)	All Other Compensation (\$)	Total (\$)
Simon X. Benito	\$ 52,500	\$ 32,324		\$ 84,824
Terrence F. Blaschke, M.D.	\$ 40,000	\$ 32,324		\$ 72,324
Michael D. Casey	\$ 57,000	\$ 32,324		\$ 89,324
David R. Hoffmann	\$ 72,500	\$ 32,324		\$ 104,824
Armand P. Neukermans, Ph.D.	\$ 54,500	\$ 32,324		\$ 86,824
Jon S. Saxe	\$ 57,000	\$ 32,324		\$ 89,324

(1) Amounts shown represent the aggregate grant date fair value of the stock option awards. In June 2009, an option to purchase 20,000 shares of our common stock at \$2.22 per share was granted under our Directors Plan to each of Drs. Blaschke and Neukermans and Messrs. Benito, Casey, Hoffmann and Saxe. For more information, please see Note 8 of the Notes to Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2009 regarding the assumptions underlying the valuation of equity awards.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END DIRECTORS

The following table sets forth certain information regarding outstanding equity awards at December 31, 2009 of all of our non-employee directors:

Name	Number of Securities Underlying Unexercised Options (#)	
	Exercisable	Unexercisable
Simon X. Benito	90,000	20,000
Terrence F. Blaschke, M.D.	70,000	20,000
Michael D. Casey	102,000	20,000
David R. Hoffmann	72,000	20,000
Armand P. Neukermans, Ph.D.	131,000	20,000
Jon S. Saxe	114,000	20,000

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2009 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders (1)	16,622,524	\$ 4.12	4,241,976(2)(3)
Equity compensation plans not approved by security holders (4)	63,266	\$ 3.74	0
Total	16,685,790	\$ 4.12	4,241,976

- (1) Consists of the following equity compensation plans: (i) our 2000 Stock Plan, (ii) our 2000 Directors Stock Option Plan, (iii) our 2000 Employee Stock Purchase Plan and (iv) our 1998 Stock Option Plan.
- (2) Includes 3,618,752 shares of our common stock reserved under our 2000 Stock Plan and 194,000 shares of our common stock reserved under our 2000 Directors Stock Option Plan. Our 2000 Stock Plan incorporates an evergreen formula pursuant to which, on the first day of each of fiscal year (through fiscal 2010), the number of common shares available for future issuance under our 2000 Stock Plan automatically increases by the lesser of (i) 2,250,000 shares, (ii) 5% of our outstanding common stock on the last day of the immediately preceding fiscal year or (iii) such lesser number of shares as the board of directors determines.
- (3) Includes 429,224 shares of our common stock reserved under our 2000 Employee Stock Purchase Plan for future issuance. Our 2000 Employee Stock Purchase Plan incorporates an evergreen formula pursuant to which, on the first day of each fiscal year (through fiscal 2010), the number of shares available for future issuance under our 2000 Employee Stock Purchase Plan automatically increases by the lesser of (i) 225,000 shares, (ii) 0.5% of our outstanding common stock on the last day of the immediately preceding fiscal year or (iii) such lesser number of shares as our Board of Directors determines.
- (4) Consists of equity compensation plans we assumed in connection with mergers or acquisitions and under which we do not intend to grant options or other awards in the future, including the Southern BioSystems, Inc. 1993 Stock Option Plan (as amended) (63,266 shares outstanding as of December 31, 2009). See Note 8 of the Notes to Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2009 for further description of these plans.

CERTAIN RELATIONSHIPS

In accordance with the Audit Committee charter, the Audit Committee is responsible for reviewing and approving the terms and conditions of all related party transactions (as defined in Item 404 of Reg. S-K), other than compensation transactions, which are subject to the auspices of the Compensation Committee. Although we have not entered into any financial transactions with any immediate family member of any of our directors or executive officers, if we were to do so, any such material financial transaction would need to be approved by the Audit Committee before we enter into such a transaction. The Audit Committee also reviews and approves our proxy statement and the information contained therein.

OTHER TRANSACTIONS

During the last fiscal year, we granted options to purchase common stock to our employees and directors as reported in this proxy statement.

We have entered into indemnification agreements with each of our directors and executive officers. Such agreements require us, among other things, to indemnify our officers and directors, other than for liabilities arising from willful misconduct of a culpable nature, and to advance their expenses incurred as a result of any proceedings against them as to which they could be indemnified.

Notwithstanding anything to the contrary set forth in any of the our filings under the Securities Act of 1933 or the Exchange Act that might incorporate future filings, including this Proxy Statement, in whole or in part, the Compensation Committee Report and the Audit Committee Report shall not be deemed to be incorporated by reference into any such filings.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has:

reviewed and discussed the Compensation Discussion and Analysis included in this proxy statement with management; and

based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

The Compensation Committee of the Board of Directors of DURECT Corporation:

Michael D. Casey

David R. Hoffmann

Armand P. Neukermans

Jon S. Saxe

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Board of Directors currently consists of Michael D. Casey, David R. Hoffmann, Armand P. Neukermans and Jon S. Saxe. No member of the committee nor any executive officer of the Company has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

AUDIT COMMITTEE REPORT

As required by NASDAQ rules, the Audit Committee of the DURECT Corporation Board of Directors is composed of three independent directors. The committee operates under a written charter adopted by the Board of Directors in March 2000 and last revised in December 2009.

The Audit Committee recommends to the Board of Directors, subject to stockholder ratification, the selection of an accounting firm to be engaged as the Company's independent registered public accounting firm. The independent registered public accounting firm is responsible for performing an independent audit of the Company's financial statements in accordance with generally accepted auditing standards and to issue a report thereon. Management is responsible for our internal controls and the financial reporting process. The Audit Committee is responsible for monitoring and overseeing these processes.

The Audit Committee held five meetings during the fiscal year 2009. Management represented to the Audit Committee that our financial statements were prepared in accordance with U.S. generally accepted accounting principles. In 2010, the Audit Committee met and reviewed and discussed the audited financial statements for fiscal year 2009 with management and the Company's independent registered public accounting firm.

The Audit Committee discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee has received and reviewed the written disclosures and the letter from the independent registered public accounting firm, Ernst & Young LLP as required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence. Additionally, the Audit Committee has discussed with Ernst & Young LLP the issue of its independence from DURECT Corporation.

Based on its review of the audited financial statements and the various discussions noted above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

The Audit Committee of the Board of Directors of DURECT Corporation:

Simon X. Benito

David R. Hoffmann

Jon S. Saxe

FEES BILLED FOR SERVICES RENDERED BY PRINCIPAL ACCOUNTANT

During the fiscal years ended December 31, 2009 and 2008, Ernst & Young LLP, our independent registered public accounting firm and principal accountants, billed the fees set forth below. All Audit Fees, Audit-Related Fees, Tax Fees and Other Fees for 2009 and 2008 were pre-approved by the Audit Committee according to the policies and procedures described above under the caption The Board, Board Committees and Meetings Audit Committee.

	Years Ended December 31,	
	2009	2008
Audit Fees	\$ 931,901	\$ 925,902
Tax Fees	50,000	50,800
Other Fees	1,995	1,545
	\$ 983,896	\$ 978,247

Audit Fees

Fees for audit services include fees associated with the audits of our annual financial statements and the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 included in our Form 10-K and the review of the financial statements included in our quarterly reports on Form 10-Q. Audit fees also include fees for advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, review of the SEC registration statements and issuance of consents.

Tax Fees

Tax fees include tax compliance services related to preparation of tax returns.

All Other Fees

Other fees consist of an annual subscription to on-line accounting information and updates.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, our executive officers and persons who own more than 10% of our common stock (collectively, Reporting Persons) to file initial reports of ownership and changes in ownership of our common stock. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based upon our review of the reporting forms we received and written representations from certain persons that no other reports were required to be filed by those persons, we believe that all filing requirements applicable to our officers, directors and 10% stockholders were complied with for fiscal year 2009.

OTHER MATTERS

The Board of Directors knows of no other business that will be presented to the Annual Meeting. If any other business is properly brought before the Annual Meeting, proxies in the enclosed form will be voted in respect thereof as the proxy holders deem advisable.

It is important that the proxies be returned promptly and that your shares be represented. Stockholders are urged to mark, date, execute and promptly return the accompanying proxy card in the enclosed envelope or vote by telephone or the Internet as described on the proxy card.

By Order of the Board of Directors,

/s/ Jean I Liu

Jean I Liu

Senior Vice President, General Counsel and Secretary

April 29, 2010

Cupertino, California

CERTIFICATE OF AMENDMENT
OF THE
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
DURECT CORPORATION

The undersigned, James E. Brown, hereby certifies that:

1. He is the President and Chief Executive Officer of Durect Corporation, a Delaware corporation (the Corporation).
2. The original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on February 6, 1998 under the name Durect Therapeutics Corporation.
3. Article Fourth, Paragraph (A) of the Corporation's Amended and Restated Certificate of Incorporation is amended and restated in its entirety to read as follows:

(A) The Corporation is authorized to issue two classes of stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares which the Corporation is authorized to issue is Two Hundred and Ten Million (210,000,000) shares, each with a par value of \$0.0001 per share. Two Hundred Million (200,000,000) shares shall be Common Stock and Ten Million (10,000,000) shares shall be Preferred Stock.

4. This Certificate of Amendment of the Corporation's Amended and Restated Certificate of Incorporation has been duly adopted by this Corporation's board of directors and stockholders in accordance with the provisions of the Corporation's Amended and Restated Certificate of Incorporation and with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment of Amended and Restated Certificate of Incorporation at Cupertino, California on _____, 2010.

/s/ James E. Brown
James E. Brown

President and Chief Executive Officer

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