

INSMED INC
Form DEF 14A
May 10, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

INSMED INCORPORATED

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount previously paid:

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(3) Filing Party:

(4) Date Filed:

Insmed Incorporated

4851 Lake Brook Drive

Glen Allen, VA 23060

ANNUAL MEETING OF SHAREHOLDERS

April 8, 2005

To the Shareholders:

We cordially invite you to attend the 2005 Annual Meeting of Shareholders to be held at Insmed Incorporated, 4851 Lake Brook Drive, Glen Allen, Virginia, on Wednesday, May 11, 2005, at 9:00 a.m., Eastern Daylight Time. A formal notice of the meeting, together with a proxy statement and proxy form, is enclosed with this letter. The notice points out that you will be asked to:

- (i) elect one Class II director to serve until the 2008 Annual Meeting of Shareholders;
- (ii) ratify the selection of Ernst & Young LLP as our auditors for the coming year;
- (iii) approve the amendment and restatement of our 2000 Stock Incentive Plan;
- (iv) approve an amendment to our 2000 Employee Stock Purchase Plan; and
- (v) transact such other business as may properly come before the meeting.

Please read the notice and proxy statement carefully, complete the proxy form and mail it promptly. A postage-paid return envelope is enclosed for your convenience.

Whether or not you plan to attend the annual meeting in person and regardless of the number of shares of common stock you own, please complete, sign, date and return the enclosed proxy promptly in the accompanying prepaid envelope.

Sincerely yours,

Geoffrey Allan, Ph.D.

President

Chairman of the Board

Chief Executive Officer

INSMED INCORPORATED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the 2005 Annual Meeting of Shareholders of Insmmed Incorporated will be held at Insmmed Incorporated, 4851 Lake Brook Drive, Glen Allen, Virginia, on Wednesday, May 11, 2005, at 9:00 a.m., Eastern Daylight Time for the following purposes:

1. To elect one Class II director to serve until the 2008 Annual Meeting of Shareholders;
2. To ratify the selection of Ernst & Young LLP as auditors for the fiscal year ending December 31, 2005;
3. To approve the amendment and restatement of our 2000 Stock Incentive Plan;
4. To approve an amendment to our 2000 Employee Stock Purchase Plan; and
5. To transact such other business as may properly come before the meeting.

Holders of record of shares of Insmmed common stock at the close of business on March 11, 2005, will be entitled to vote at the meeting.

You are requested to complete, sign, date and return the enclosed proxy promptly, regardless of whether you expect to attend the meeting. A postage-paid return envelope is enclosed for your convenience. If you are present at the meeting, you may vote in person even if you already have sent in your proxy.

By Order of the Board of Directors

W. McIlwaine Thompson, Jr., *Corporate Secretary*

April 8, 2005

PROXY STATEMENT

for

ANNUAL MEETING OF SHAREHOLDERS

of

INSMED INCORPORATED

To be held May 11, 2005

Solicitation of Proxies

The Board of Directors (the **Board**) of Insmmed Incorporated (**Insmmed**, which may be referred to as the **Company**, **we**, **us** or **our**) is soliciting proxy for the Annual Meeting of Shareholders to be held at Insmmed Incorporated, 4851 Lake Brook Drive, Glen Allen, Virginia, on Wednesday, May 11, 2005, at 9:00a.m., Eastern Daylight Time. This proxy statement and the accompanying proxy card are being mailed to shareholders on or about April 8, 2005.

Information about Annual Meeting

Who May Vote. Shareholders of record at the close of business on March 11, 2005 will be entitled to notice of and to vote at the Annual Meeting. As of March 11, 2005, we had 44,986,996 outstanding shares of common stock, \$.01 par value per share (**Insmmed Common Stock**). Each share of Insmmed Common Stock entitles the holder to one vote with respect to all matters submitted to shareholders at the meeting.

Quorum and Vote Required to Approve Each Item on the Proxy. A majority of the outstanding shares entitled to vote on a matter, represented in person or by proxy, constitutes a quorum for the transaction of business at the meeting with respect to that matter.

With respect to Proposal 1, the election of the nominee for director requires the affirmative vote of the holders of a plurality of the votes cast in the election of director. Signing and returning your proxy will constitute a vote for the nominee unless your proxy specifies that you are withholding authority to vote for the nominee. Any votes that are withheld and any shares held in street name for customers who are the beneficial owners of those shares that are not voted in the election of director will not be included in determining the number of votes cast. In the event that the nominee is unavailable for election, the Board may either reduce the number of directors or choose a substitute nominee. If the Board selects a substitute nominee, the shares represented by proxy will be voted for the substitute nominee unless other instructions are given in the proxy. The Board has no reason to believe that the nominee will be unavailable.

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With respect to Proposal 2, shareholder ratification of our independent auditors is not required under Virginia law, under our Articles of Incorporation, as amended, or our Amended and Restated Bylaws. In the event that a majority of the votes cast are against the ratification of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2005, the Audit Committee will consider the vote and the reasons therefore in future decisions on the selection of our independent auditors.

With respect to Proposals 3 and 4, the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on a matter shall be the act of the shareholders with respect to that matter.

Revoking a Proxy. Anyone giving a proxy may revoke it at any time before it is voted by voting in person at the meeting or by delivering a later dated proxy or written notice of revocation to our Corporate Secretary. Attendance at the meeting will not itself revoke a proxy. A proxy, if executed and not revoked, will be voted at the meeting. If a proxy contains any specific instructions, the proxy will be voted in accordance with such instructions.

Cost of Soliciting Proxies. We will pay the cost of soliciting proxies. In addition to the use of the mails, proxies may be solicited in person or by telephone by our employees. We have engaged Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies from brokers, nominees, fiduciaries and other custodians. We will pay that firm approximately \$6,000 for its services and reimburse its out-of-pocket expenses for such items as mailing, copying, phone calls, faxes and other related items and will indemnify Georgeson Shareholder Communications Inc. from any losses arising from that firm's proxy soliciting services on our behalf.

Principal Executive Offices of Insmmed Incorporated

The address of our principal executive offices is 4851 Lake Brook Drive, Glen Allen, Virginia 23060.

PROPOSAL NO. 1

ELECTION OF DIRECTOR

Information Relating to the Election of Director

Nominee. The Board has nominated one Class II director, Dr. Graham K. Crooke, for election at the 2005 Annual Meeting of Shareholders for the term expiring at the 2008 Annual Meeting. Below is some information on the nominee. Dr. Crooke is currently a Class II director.

Graham K. Crooke, MB.BS age 46. Dr. Crooke has been a director of Insmmed since our inception in November 1999 and of Insmmed Pharmaceuticals since 1996. In April 2000, Dr. Crooke became a partner of Asset Management Company, a venture capital firm focusing on investments in early stage information technology and life sciences companies. Previously, from September 1997 through March 2000, Dr. Crooke was a partner at Ticonderoga Capital, a venture capital firm, where he focused on biotechnology and healthcare service investments. From April 1992 until September 1997, Dr. Crooke was a vice president of Dillon Read Venture Capital, a venture capital firm and predecessor to Ticonderoga. Prior to that, Dr. Crooke worked with the healthcare practice of Booz, Allen & Hamilton, Inc., a management consulting firm, was a product manager at Molecular Devices Corporation, a developer of bioanalytical measurement systems, and, from 1984 to 1986, practiced medicine at major teaching hospitals in Western Australia. He received his medical degree from the University of Western Australia and an M.B.A. from the Stanford Graduate School of Business.

Vote Required for Approval

The election of the nominee for director requires the affirmative vote of the holders of a plurality of the votes cast in the election of director. Signing and returning your proxy will constitute a vote for the nominee unless your proxy specifies that you are withholding authority to vote for the nominee. Any votes that are withheld and any shares held in street name for customers who are the beneficial owners of those shares that are not voted in the election of director will not be included in determining the number of votes cast. In the event that the nominee is unavailable for election, the Board may either reduce the number of directors or choose a substitute nominee. If the Board selects a substitute nominee, the shares represented by proxy will be voted for the substitute nominee unless other instructions are given in the proxy. The Board has no reason to believe that the nominee will be unavailable.

Recommendation

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE NOMINEE.

The Board of Directors

Our Articles of Incorporation, as amended, provide that our Board shall consist of not more than 12 directors, with the exact number to be prescribed by our Bylaws. Our Bylaws provide that the number of

directors constituting our Board shall be designated by a resolution of the Board but shall be not less than six nor more than 10. Our Board has adopted a resolution designating six directors. The directors are divided into three classes – Class I, Class II and Class III – as nearly equal in number as possible. Each class of directors serves for three years on a staggered term basis.

The Board has determined that the following members of the Board are independent, as that term is defined under the general independence standards in the listing standards of The Nasdaq Stock Market, Inc., and our Corporate Governance Guidelines: Mr. Kenneth G. Condon, C.P.A., C.F.P., M.B.A., Dr. Steinar J. Engelsen, Dr. Melvin Sharoky, Dr. Graham K. Crooke and Dr. Randall W. Whitcomb. The Board has adopted, as part of our Corporate Governance Guidelines, categorical standards to assist it in making these independence determinations. Our Corporate Governance Guidelines are available on our website at www.insmed.com.

The Board has nominated one Class II director, Dr. Crooke, for election at the 2005 Annual Meeting of Shareholders for the term expiring at the 2008 Annual Meeting. The term of the Class III directors, Drs. Allan, Sharoky and Whitcomb, will expire at the 2006 Annual Meeting of Shareholders. The term of the Class I directors, Mr. Condon and Dr. Engelsen, will expire at the 2007 Annual Meeting of Shareholders.

The following table sets forth the nominee to be elected at the 2005 Annual Meeting of Shareholders and continuing directors and, for each director whose term of office will extend beyond the meeting, the year such nominee or director was first elected a director, the positions currently held by the nominee and each director with the Company, the year each nominee or director's current term will expire and the current class of director of the nominee and each director:

<u>Nominee s or Director s Name</u>	<u>Age</u>	<u>Position(s) with the Company</u>	<u>Year First Became Director and Year Current Term Will Expire</u>	<u>Class of Director</u>
Nominee for Class II Director:				
Graham K. Crooke, MB.BS	46	Director	1999-2005	II
Continuing Directors:				
Geoffrey Allan, Ph.D. (1)	51	President, Chief Executive Officer, Chairman of the Board, Director	1999-2006	III
Melvin Sharoky, M.D. (2)(3)(4)	54	Director	2001-2006	III
Randall W. Whitcomb, M.D. (4)	50	Director	2001-2006	III
Kenneth G. Condon, C.P.A., C.F.P., M.B.A. (2)(3)	57	Director	1999-2007	I
Steinar J. Engelsen, M.D. (2)(3)	54	Director	1999-2007	I

- (1) Chairman of the Board
- (2) Member of Audit Committee
- (3) Member of Compensation Committee
- (4) Member of Nominations and Governance Committee

Directors Whose Terms Expire at the 2006 Annual Meeting (Class III Directors):

Geoffrey Allan, Ph.D. age 51. Dr. Allan has served as our President, Chief Executive Officer and Chairman of the Board since our inception in November 1999. Dr. Allan has been President and a director of Insmmed Pharmaceuticals Inc., our predecessor, since January 1994 and has 24 years of experience in pharmaceutical drug development. Prior to joining Insmmed Pharmaceuticals, Dr. Allan served as Vice President, Drug

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Development at Whitby Research, Inc., a pharmaceutical company. Before his association with Whitby Research, Dr. Allan was the Head of the Cardiovascular Section at Wellcome Research Laboratories. Dr. Allan received his Ph.D. in Pharmacology from Cornell University Medical College.

Melvin Sharoky, M. D. age 54. Dr. Sharoky has been a director of Insmmed since his election on May 16, 2001. Since January 1, 2002, he has been President and CEO of Somerset Pharmaceuticals, Inc., a research and development pharmaceutical company which markets Eldepryl® for the treatment of patients with late stage Parkinson's disease having previously served as President of Somerset Pharmaceuticals from July 1995 to June 30, 2001. From June 30, 2001 to January 1, 2002, Dr. Sharoky was retired. From July 1995 through January 1998, Dr. Sharoky was President of Watson Pharmaceuticals, Inc., a leading specialty pharmaceutical company, and from February 1993 to January 1998 he was also President and Chief Executive Officer of its wholly-owned subsidiary, Circa Pharmaceuticals, Inc., which develops, manufactures and markets solid dosage generic pharmaceutical products to wholesale distributors. Dr. Sharoky joined Circa Pharmaceuticals in July 1988 as Medical Director, served as Senior Vice President and Director of Research and Development from April 1991 to August 1992, and as Executive Vice President and Director of Research and Development from August 1992 to January 1993. Prior to this, from February 1986 to June 1988 he was Vice President and Chief Medical Officer of Pharmakinetix Laboratories, Inc. Dr. Sharoky serves on the board of directors of Andrx Corporation, a specialty pharmaceutical company. Dr. Sharoky received a B.A. in biology from the University of Maryland in Baltimore County and an M.D. from the University of Maryland School of Medicine.

Randall W. Whitcomb, M. D. age 50. Dr. Whitcomb has been a director of Insmmed since November 15, 2001. Since 2001, Dr. Whitcomb has been Chief Medical Officer at Quattrx Pharmaceuticals, Inc., a privately-held, drug development company focusing on proteins in the cell nucleus that act as receptors for key hormones that regulate certain metabolic and developmental processes in the body. From 1992 through 2000, he held various management positions with Parke-Davis Pharmaceutical Research, Inc., a division of Warner Lambert Company, finally serving as Vice President of Drug Development with particular responsibility for the development and approval of products for women's health care and diabetes. After the merger of Warner Lambert into Pfizer, Inc., Dr. Whitcomb was Vice-President Global Project Management for Pfizer Global Research and Development. From 1987 through 1992 he was on the faculty of Massachusetts General Hospital and Harvard Medical School. He received his B.A. degree from Tabor College and his M.D. degree from the University of Kansas.

Directors Whose Terms Expire at the 2007 Annual Meeting (Class I Directors):

Kenneth G. Condon C.P.A., C.F.P., M.B.A. age 57. Mr. Condon has been a director of Insmmed since our inception in November 1999 and of Insmmed Pharmaceuticals since 1997. Mr. Condon serves as Chief Financial Officer of Boston University, a position he has held from 1975 to present. He is also a Trustee of Newbury College. He was formerly Chairman of the Board of BayFunds, a \$1.8 billion mutual fund family; a former director of BayBank Harvard Trust; a former member of the BankBoston Advisory Board; a former director of the BayBank Trust Board; a former director of Seragen, Inc., a biotechnology firm; a former director, Chapter Secretary, Treasurer and President of the Financial Executives Institute of Massachusetts; and Director, Treasurer of the Boston Municipal Research Bureau. Before 1975, Mr. Condon was a Senior Accountant with the CPA firm of Arthur Andersen & Co. in Boston. He received his B.A. degree in Economics and Mathematics from Tufts University, and an M.B.A. in Finance from the Wharton School of Finance, University of Pennsylvania. Mr. Condon is both a Certified Public Accountant and a Certified Financial Planner.

Steinar J. Engelsen, M.D. age 54. Dr. Engelsen has been a director of Insmmed since our inception in November 1999 and of Insmmed Pharmaceuticals since 1998. Since November 1996, Dr. Engelsen has been a partner of Teknoinvest Management AS, a venture capital firm based in Norway. From 1989 until October 1996, Dr. Engelsen held various management positions within Hafslund Nycomed AS, a pharmaceutical company based in Europe, and affiliated companies. He was responsible for therapeutic research and development, most recently serving as Senior Vice President, Research and Development of Nycomed Pharma AS from January 1994 until October 1996. In addition, from January to November 2000, Dr. Engelsen was acting chief executive officer of Centaur Pharmaceuticals, Inc., a biopharmaceutical company. Dr. Engelsen also served as chairman of the board of directors of Centaur. Dr. Engelsen received a M.Sc. in nuclear chemistry and an M.D. from the University of Oslo, and is a Certified European Financial Analyst.

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Executive Officers. The following table sets forth the executive officers of the Company, their ages, and the positions currently held by each such person with the Company immediately prior to the meeting:

Name	Age	Position	Term of Office
Geoffrey Allan, Ph.D.	51	President, Chief Executive Officer, Chairman of the Board, and Director	Nov. 1999
Ronald D. Gunn, M.B.A., M.S.	44	Executive Vice President and Chief Operating Officer	Feb. 2004
Andreas Sommer, Ph.D.	63	Chief Scientific Officer	March 2004
Kevin P. Tully, C.G.A.	51	Principal Financial Officer, Treasurer and Contoller	Jan. 2002
Philip J. Young	47	Chief Business Officer and Executive Vice President, Commercial Operations	April 2004

Executive Officers (other than those who are also Directors):

Ronald D. Gunn, M.B.A., M.S. age 44. In February 2004, Mr. Gunn was appointed Executive Vice President and Chief Operating Officer. From June 2003 until his appointment as Executive Vice President and Chief Operating Officer, Mr. Gunn served as Executive Vice President. Since our inception in November 1999 until his election as Executive Vice President, Mr. Gunn served as our Vice President, Business Development. From January 1999 to November 1999, Mr. Gunn served as Vice President, Business Development and previously as Director of Business Development and of Clinical Operations at Insmmed Pharmaceuticals. Mr. Gunn joined our predecessor in 1996 and has more than 18 years of experience in pharmaceutical drug development. Prior to joining Insmmed, Mr. Gunn served as Clinical Affairs Officer with Finnish bioscience company, Leiras, Inc. Mr. Gunn received his M.S. and M.B.A. from Virginia Commonwealth University.

Andreas Sommer, Ph.D. age 63. In March 2004, Dr. Sommer became our Chief Scientific Officer. Dr. Sommer joined Insmmed in August 2000 as Principal Scientist following Insmmed's acquisition of Celtrix Pharmaceuticals, Inc. (Celtrix). From April 1995 to May 2000, Dr. Sommer served as Chief Executive Officer and President of Celtrix and served as a director of Celtrix from May 1994 to May 2000. Previously, Dr. Sommer served as Senior Vice President and as Vice President, Research of Celtrix following Celtrix's merger with BioGrowth, Inc. From 1989 to 1991, Dr. Sommer served as Vice President, Research and Development of BioGrowth. He received his Ph.D. in microbiology from the University of California.

Kevin P. Tully, C.G.A. - age 51. In January 2002, Mr. Tully became our Treasurer, Contoller and Principal Financial Officer. From August 2001 until his election as Treasurer, he served as Senior Director, Finance and Administration. Mr. Tully joined Insmmed in March 2001 as Director of Finance and has over 30 years of experience across Europe and the Americas covering finance, marketing and manufacturing. Prior to joining Insmmed, Mr. Tully served as Vice President of Finance Europe, and Vice President, Finance and Administration Americas for Albright and Wilson Ltd., an international chemical producer. Mr. Tully received his O.N.C. in Business and Administration from St. Helens College in England and is a Certified General Accountant.

Philip J. Young age 47. In April 2004, Mr. Young was appointed Chief Business Officer and Executive Vice President of Commercial Operations of Insmmed Incorporated. Prior to joining Insmmed, Mr. Young served as President and Chief Operations Officer for AGY Therapeutics and Chief Executive Officer of GanTech International. From 1998-2000, Mr. Young was Vice President and General Manager of Neurex Pharmaceuticals, where he was responsible for developing and managing the commercial and clinical strategies for new product launches and expanding label indications. Prior to Neurex, Mr. Young was Business Director and General Manager of the Peptide Hormones Division at Pharmacia (Pfizer) where under his leadership strategies were developed which led to the successful launch of Genotropin for pediatric and adult growth hormone deficiency. Mr. Young also served for seven years at Genentech where he was the Product Manager of Growth Hormone Products.

Committees of the Board. Our Bylaws establish four standing Committees of the Board: the Executive Committee, Audit Committee, Compensation Committee, and Nominations and Governance Committee.

Executive Committee. Our Executive Committee consists of the independent directors, Mr. Condon and Drs. Engelsen, Sharoky, Crooke and Whitcomb, and the Chairman of the Board, Dr. Geoffrey Allan. Executive Committee meetings are held at least two times a year and are planned following a regularly scheduled in-person meeting of the Board. Executive sessions do not include any of our employee directors, and the Chair of the meetings rotates from meeting to meeting among the Chairmen of the Nominations and Governance Committee, the Audit Committee and the Compensation Committee.

Audit Committee. Our Audit Committee currently consists of Mr. Condon (Chairman), and Drs. Engelsen and Sharoky. During 2004, the Audit Committee held six meetings. Mr. Condon and Dr. Sharoky attended all of the meetings and Dr. Engelsen attended five of the meetings. The Audit Committee (i) recommends the selection of independent accountants and auditors, (ii) reviews the scope of the accountants' audit and approves any non-audit services to be performed by the independent accountants and (iii) reviews annual audits and accounting practices. The Board has adopted a written charter for the Audit Committee, which is available on our website at www.insmed.com.

Insmmed Common Stock is listed on the Nasdaq National Market and, as such, we are governed by the listing standards of the National Association of Securities Dealers, Inc. (the "NASD"). Rule 4350(d)(2)(A) of the NASD's listing standards requires that our Audit Committee be comprised of at least three members, each of whom must be an independent director as defined in Rule 4200(a)(15) of the listing standards of the NASD. The Board has determined that all three of our Audit Committee members, Mr. Condon and Drs. Engelsen and Sharoky, are independent directors as defined by the listing standards of the NASD.

The Board has determined that Mr. Condon is an audit committee financial expert as that term is defined in the rules promulgated by the Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002.

The Board has determined that each of the members of the Audit Committee is able to read and understand fundamental financial statements, including our balance sheet, consolidated statement of operations and consolidated statement of cash flows, and has accounting or related financial management expertise, as such terms are interpreted by the Board.

The Audit Committee's pre-approval policies and procedures are detailed in the Audit Committee Report, which is included in this Proxy Statement.

Compensation Committee. Our Compensation Committee currently consists of Dr. Sharoky (Chairman), Mr. Condon and Dr. Engelsen. During fiscal year ended December 31, 2004, the Compensation Committee held five meetings and Drs. Engelsen and Sharoky and Mr. Condon attended all of the meetings. The Compensation Committee reviews and makes recommendations to the Board regarding the compensation and benefits of all of our officers and reviews policy matters relating to compensation and benefits of our employees. The Board has adopted a written charter for the Compensation Committee, a copy of which is available on our website at www.insmed.com. The Board has determined that each of the members of our Compensation Committee is independent as defined in Rule 4200 (a) (15) of the Nasdaq listing standards of the NASD and our Corporate Governance Guidelines.

Nominations and Governance Committee. Our Nominations and Governance Committee currently consists of Drs. Whitcomb (Chairman) and Sharoky. During the fiscal year ended December 31, 2004, the Nominations and Governance Committee held two meetings and Drs. Whitcomb and Sharoky attended all of the meetings. The Nominations and Governance Committee (i) assists the Board by identifying and recruiting

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individuals qualified to become Board members and recommending to the Board the director nominees for the next annual

meeting of shareholders; (ii) recommends to the Board director nominees for each committee; (iii) oversees the governance of the Company including recommending to the Board Corporate Governance Guidelines for the Company; (iv) leads the Board in its annual review of the Board's performance and oversees the evaluation of each of the Board's Committees; and (v) oversees the management continuity planning process. The Board has adopted a written charter for the Nominations and Governance Committee, a copy of which is available on our website at www.insmed.com.

Corporate Governance Matters.

Meetings of the Board. The Board held seven meetings during the fiscal year ended December 31, 2004, including five regularly scheduled meetings and two unscheduled meetings. Mr. Condon and Drs. Engelsen and Sharoky attended all of the scheduled and unscheduled Board meetings held in the fiscal year ended December 31, 2004 and Drs. Crooke and Whitcomb attended all of such scheduled meetings and one of the two unscheduled Board meetings.

Director Nominating Process.

The Nominations and Governance Committee. Our Nominations and Governance Committee performs the functions of a nominating committee and will actively seek, identify and recommend to the Board individuals qualified to become Board members, consistent with criteria approved by the Board, and establish such criteria based on factors it considers appropriate such as strength of character, maturity of judgment, career specialization, relevant technical skills, diversity and the extent to which the candidate would fill a present need on the Board. The Nominations and Governance Committee's Charter describes the Committee's responsibilities, including seeking, screening and recommending director candidates for nomination by the Board. The Nominations and Governance Committee Guidelines also contain information concerning the responsibilities of the Nominations and Governance Committee with respect to identifying and evaluating the director candidates. The Nominations and Governance Committee Charter and the Corporate Governance Guidelines are both available on our website at www.insmed.com. All members of the Nominations and Governance Committee are independent as defined under the general independence standards of the listing standards of the NASD and our Corporate Governance Guidelines.

Director Candidate Recommendations and Nominations By Shareholders. The Nominations and Governance Committee's Charter provides that the Committee will consider director candidate recommendations by shareholders. Shareholders should submit any such recommendations for the Nominations and Governance Committee through the method described under Communications With the Board below. In addition, in accordance with our Bylaws, any shareholder of record entitled to vote for the election of directors at the applicable meeting of shareholders may nominate persons for election to the Board if such shareholder complies with the notice procedures set forth in the Bylaws and summarized in Shareholders Proposals below.

Nominations and Governance Committee Process For Identifying and Evaluating Director Candidates. The Nominations and Governance Committee evaluates all director candidates in accordance with the director qualification standards described in the Corporate Governance Guidelines. The Nominations and Governance Committee evaluates any candidate's qualifications to serve as a member of the Board based on the skills and characteristics of individual Board members as well as the composition of the Board as a whole. In addition, the Nominations and Governance Committee will evaluate a candidate's independence and diversity, age, skills and experience in the context of the Board's needs.

Communications With the Board. The Board has approved unanimously a process for shareholders to send communications to the Board. Shareholders can send communications to the Board and, if applicable, to the Nominations and Governance Committee or to specified individual directors in writing c/o Mr. W. McIlwaine Thompson, Corporate Secretary, Insmmed Incorporated, 4851 Lake Brook Drive, Glen Allen, Virginia 23060. All letters sent to Mr. McIlwaine will be forwarded, as appropriate, to the Board, the Nominations and Governance Committee or any specified individual directors. The Company screens mail for security purposes.

Director Attendance at Annual Meeting. Our policy is that directors attend the annual meeting of shareholders. Historically our annual meetings of shareholders have not been well attended by our shareholders. All directors attended the 2004 Annual Meeting of Shareholders.

AUDIT COMMITTEE REPORT*

The Audit Committee of the Board (the "Audit Committee") is composed of three independent directors and operates under a written charter adopted by the Board. The Audit Committee reviews and reassesses the adequacy of the charter at least annually. The Audit Committee approves and recommends to the Board, subject to shareholder ratification, the selection of Insmed's independent accountants. Management is responsible for Insmed's internal controls and the financial reporting process. The independent accountants are responsible for performing an independent audit of Insmed's consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes. In this context, the Audit Committee has met and held discussions with management and Ernst & Young LLP ("E&Y"), Insmed's independent auditors.

Management represented to the Audit Committee that Insmed's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and E&Y. The Audit Committee has not participated in the preparation of Insmed's consolidated financial statements.

The Audit Committee has discussed with E&Y the matters required to be discussed by Statement on Auditing Standards No. 61, as amended by SAS 90 (Codification of Statements on Accounting Standards).

The Audit Committee has also received the written disclosures and the letter from E&Y relating to the independence of that firm as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with E&Y that firm's independence from Insmed.

Based upon the review and discussions described above, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in Insmed's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005.

At a meeting on January 28, 2004, the Audit Committee approved the engagement of the accounting firm of Keiter, Stephens, Hurst, Gary & Shreaves to assist in our compliance activities relating to Section 404 of the Sarbanes-Oxley Act of 2002, which include evaluating and documenting the effectiveness of Insmed's internal controls over financial reporting.

Audit Committee Pre-Approval Policy

The Audit Committee has adopted an Audit Committee Pre-Approval Policy for the pre-approval of audit services and permitted non-audit services by Insmed's independent auditor in order to assure that the provision of such services does not impair the independent accountant's independence from Insmed. Unless a type of service to be provided by the independent auditor has received general pre-approval, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels also will require specific pre-approval by the Audit Committee. In all pre-approval instances, the Audit Committee will consider whether such services are consistent with the Securities and Exchange Commission's rules on auditor independence.

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The Audit Committee has designated in the Audit Committee Pre-Approval Policy specific services that have the pre-approval of the Audit Committee and has classified these pre-approved services into one of four categories: Audit, Audit-Related, Tax and All Other. The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee will revise the list of pre-approved services from time to time, based on subsequent determinations.

Pre-approval fee levels for all services to be provided by the independent auditor will be established periodically by the Audit Committee. Any proposed services exceeding these levels will require specific pre-approval by the Audit Committee. The Audit Committee recognizes the overall relationship of fees for audit and non-audit services in determining whether to pre-approve any such services. For each fiscal year, the Audit Committee may determine the appropriate ratio between the total amount of fees for Audit, Audit-related, and Tax services, and the total amount of fees for services classified as permissible All Other services.

The Audit Committee has designated the Principal Financial Officer to monitor the performance of the services provided by the independent auditor and to determine whether such services are in compliance with the Audit Committee Pre-Approval Policy. Both the Principal Financial Officer and management will immediately report to the Chairman of the Audit Committee any breach of the Audit Committee Pre-Approval Policy that comes to the attention of the Principal Financial Officer or any member of management.

Fees Billed by Ernst & Young LLP

The following table lists fees billed by E&Y, for services rendered in fiscal years ended December 31, 2003 and 2004. The Audit Committee reviewed the aggregate fees billed by E&Y for professional services rendered for the fiscal year ended December 31, 2004, which were as follows.

	<u>2003</u>	<u>2004</u>
Audit Fees	\$ 107,076	\$ 135,915
Audit-Related Fees		\$ 20,000
Tax Fees	\$ 34,095	\$ 38,355
All Other Fees		
	<u> </u>	<u> </u>
Total E&Y Fees	<u>\$ 141,171</u>	<u>\$ 194,270</u>

Audit Fees include fees for services performed to comply with Generally Accepted Auditing Standards (GAAS). These services include the recurring audit of our consolidated financial statements, as well as audits provided in connection with statutory filings, related reserves, and review of documents filed with the Securities and Exchange Commission.

Audit Related Fees covers assistance on Sarbanes-Oxley 404 related matters.

Tax Fees primarily include fees associated with the preparation of the Company's annual U.S. federal and state income tax returns together with tax compliance and domestic and international tax planning.

The Audit Committee has determined that the provision of services performed by E&Y during the fiscal year ended December 31, 2004 is compatible with maintaining E&Y's independence from Insmmed.

Related Party Transactions

The Audit Committee reviews all transactions required to be disclosed in Insmed's filings with the Securities and Exchange Commission pursuant to Item 404 of Regulation S-K for potential conflict of interest situations on an ongoing basis. All such transactions must be approved by the Audit Committee. There were no such transactions during the fiscal year ended December 31, 2004.

THE AUDIT COMMITTEE

Kenneth G. Condon, C.P.A., C.F.P., M.B.A., Chairman

Steinar J. Engelsen, M.D.

Melvin Sharoky, M.D.

March 11, 2005

- * The foregoing report of the Audit Committee is not to be deemed soliciting material or deemed to be filed with the Securities and Exchange Commission (irrespective of any general incorporation language in any document filed with the Securities and Exchange Commission) or subject to Regulation 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent Insmed specifically incorporates it by reference into a document filed with the Securities and Exchange Commission.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There are no family relationships among any of our directors, executive officers or nominees. The Audit Committee reviewed all transactions required to be disclosed in our filings with the Securities and Exchange Commission pursuant to Item 404 of Regulation S-K for potential conflict of interest situations. All such transactions must be approved by the Audit Committee. There were no such transactions during the fiscal year ended December 31, 2004.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires that our directors, officers and persons who own more than 10% of a registered class of our equity securities file reports of ownership and changes in ownership of such securities with the Securities and Exchange Commission and The Nasdaq Stock Market, Inc. Directors, officers and beneficial owners of more than 10% of Insmed Common Stock are required by applicable regulations to furnish us with copies of all Section 16(a) forms they file. Based solely upon a review of the copies of the forms and information furnished to us, we believe that during the fiscal year ended December 31, 2004 all filing requirements applicable to our directors, officers and beneficial owners of more than 10% of Insmed Common Stock were satisfied, except that Statements of Changes in Beneficial Ownership of Securities on Form 4 for each of Drs. Crooke, Engelsen, Sharoky and Whitcomb and Mr. Condon to report the stock option grants on May 5, 2004 of 17,500 shares were filed late. In addition, it has come to our attention that Statements of Changes in Beneficial Ownership on Form 4 for each of Drs. Crooke, Engelsen, Sharoky and Whitcomb and Mr. Condon to report stock option grants on May 12, 2003 were also filed late.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth the beneficial ownership of Insmmed Common Stock as of March 11, 2005 by all directors, nominees and executive officers named in the Summary Compensation Table contained in this Proxy Statement. The table also shows the beneficial ownership of all directors and executive officers as a group.

Name of Beneficial Owner	Aggregate Number of Shares Beneficially Owned (1)	Percent of Class
Geoffrey Allan, Ph.D. (2)	1,713,259	3.7%
Kenneth G. Condon, C.P.A., C.F.P., M.B.A. (3)	521,776	1.2%
Graham K. Crooke, MB.BS (4)	894,490	2.0%
Steinar J. Engelsen, M.D. (5)	105,625	*
Ronald D. Gunn, M.B.A., M.S. (6)	303,405	*
Melvin Sharoky, M.D. (7)	389,600	*
Andreas Sommer, Ph.D. (8)	319,932	*
Kevin P. Tully, C.G.A. (9)	231,034	*
Randall W. Whitcomb, M.D. (10)	113,500	*
Philip J. Young (11)	42,179	*
All directors and executive officers as a group (10 persons) (12)	4,634,800	10.2%

* Denotes ownership of less than 1% of the outstanding shares of Insmmed Common Stock.

- (1) Except as indicated otherwise in the footnotes, shares shown as beneficially owned are those to which the individual has sole voting and investment power. Shares subject to options that are exercisable within 60 days of March 11, 2005, are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, and of the directors and executive officers as a group, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
- (2) Includes 711,795 shares issuable upon exercise of options, which options are exercisable within 60 days of March 11, 2005.
- (3) Mr. Condon, a director of Insmmed, currently has the right to purchase 57,500 shares upon exercise of options. The number of shares listed opposite Mr. Condon's name also includes 444,463 shares owned by Boston University Nominee Partnership, of which he is a partner, and 15,750 shares owned by Trustees of Boston University.
- (4) Dr. Crooke, a director of Insmmed, has the right to purchase 157,500 shares upon exercise of options. The number of shares listed opposite Dr. Crooke's name also includes 686,990 shares owned by Concord Partners III, LP (formerly Dillon Read Venture Partners III LP). Dr. Crooke has an ownership interest (but not a management interest) in Concord Associates III, LLC which is the sole general partner of Concord Partners III, LP.
- (5) Dr. Engelsen, a director of Insmmed, currently has the right to purchase 57,500 shares upon exercise of options.
- (6) Includes 263,331 shares issuable upon exercise of options, which options are exercisable within 60 days of March 11, 2005.
- (7) Dr. Sharoky, a director of Insmmed, currently has the right to purchase 62,500 shares upon exercise of options. The number of shares listed opposite Dr. Sharoky's name includes 210 shares which are owned by his minor son 620 shares which are owned by his minor daughter and 3,600 shares which are owned by his spouse.
- (8) Includes 313,331 shares issuable upon exercise of options, which options are exercisable within 60 days of March 11, 2005.
- (9) Includes 132,082 shares issuable on exercise of options, which options are exercisable within 60 days of March 11, 2005.
- (10) Dr. Whitcomb, a director of Insmmed, currently has the right to purchase 62,500 shares upon exercise of options. The number of shares listed opposite Dr. Whitcomb's name includes 21,000 shares that are owned by the Randall W. Whitcomb Living Trust. Dr. Whitcomb and his spouse, Rita K. Whitcomb, are trustees of the Randall W. Whitcomb Living Trust.
- (11) Includes 37,500 shares issuable on exercise of options, which options are exercisable within 60 days of March 11, 2005.
- (12) Represents the sum of the shares beneficially owned by all directors, nominees and executive officers named in the table above.

EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table. The following table sets forth information for the fiscal years ended December 31, 2004, 2003 and 2002, respectively, with respect to certain compensation paid by us to our named executive officers, as such term is defined in Item 402(a)(3) of Regulation S-K. Other than the executive officers listed below, none of our current executive officers received total cash compensation from us in excess of \$100,000 for any of the fiscal years ended December 31, 2004, 2003 and 2002.

Name and Principal Position	Fiscal Year	Annual Compensation \$(1)			Restricted Stock Awards (\$)	Long Term Compensation (1)	Long Term Incentive Plan Payout (\$)	All Other Compensation \$(5)
		Salary (2)	Bonus (3)	Other Annual Compensation (4)		Securities Underlying Options/SARs(#)		
Geoffrey Allan, Ph.D. Chairman of the Board,	2004	395,200	98,800	21,717				2,075
	2003	395,200	197,600	18,941		150,000		2,075
Chief Executive Officer and President	2002	395,200		15,432		300,000		1,353
Ronald D. Gunn, M.B.A., M.S. (6)								
Executive Vice President and Chief Operating Officer	2004	261,875	65,469					597
	2003	190,900	57,270	203		100,000		438
	2002	176,800						370
Andreas Sommer, Ph.D. (7) Chief Scientific Officer	2004	260,000	39,000	5,057				
	2003	260,000	26,000	4,165				2,170
	2002	260,000		5,471		100,000		2,170
Kevin P. Tully, C.G.A. (8)								
Treasurer, Controller and Principal Financial Officer	2004	176,800	44,200					851
	2003	176,800	35,360	203		100,000		851
	2002	164,642				100,000		555
Philip J. Young (9) Chief Business Officer and Executive Vice President, Commercial Operations	2004	173,295	43,324	239,063		250,000		548

- (1) Except as disclosed in the table, there was no other cash compensation, long-term incentive plan or restricted stock award that required disclosure.
- (2) Includes amounts earned but deferred at the election of the executive, such as salary deferrals under Insmed's 401(k) plan.
- (3) Amounts in this column reflect the aggregate annual bonuses that were earned for such fiscal year.
- (4) Dr. Allan's other annual compensation for the periods indicated reflects the personal use of a vehicle provided by Insmed and, for 2003, includes \$203 given to all employees by the Company as a holiday gift. Dr. Sommer's other annual compensation for the periods indicated

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includes compensation related to the cost of a medical reimbursement program provided by Insmmed and, for 2003, includes \$203 given to all employees by the Company as a holiday gift. Mr. Gunn's and Mr. Tully's other annual compensation for 2003 relates to a holiday gift given to all employees by the Company. Mr. Young's other annual compensation related to relocation expenses paid by Insmmed on his behalf.

- (5) Dr. Allan's, Mr. Gunn's, Dr. Sommer's, Mr. Tully's and Mr. Young's other compensation for 2002, 2003 and 2004 relates to life insurance premiums for coverage in excess of \$50,000.
- (6) Mr. Gunn was named Executive Vice President and Chief Operating Officer effective February 1, 2004.
- (7) Dr. Sommer joined Insmmed on August 1, 2000. He was named an executive officer effective March 4, 2004.
- (8) Mr. Tully was named an executive officer effective January 30, 2002.
- (9) Mr. Young joined Insmmed on April 7, 2004 and was named an executive officer on May 5, 2004.

DIRECTOR COMPENSATION

Our non-employee directors receive an annual director's fee of \$15,000 plus \$2,000 and reimbursement of expenses for each meeting of the Board attended in person, \$1,000 for each Compensation and Nominations and Governance Committee meeting attended in person, \$1,500 for each Audit Committee attended in person and \$500 for each meeting attended telephonically. In addition, each non-employee director receives an option to purchase 25,000 shares of Insmmed Common Stock upon initial election to the Board and options to purchase 17,500 shares of Insmmed Common Stock annually, which options vest one year from the date of grant if the director attends at least 75% of the Board meetings in the preceding fiscal year. Directors who are officers or employees of Insmmed do not receive any additional compensation for their services as directors.

CHANGE IN CONTROL ARRANGEMENTS

We have entered into Change in Control Agreements with Dr. Allan, Mr. Gunn, Dr. Sommer, Mr. Tully and Mr. Young, which entitled those executive officers to receive additional benefits in the event of their termination following a change in control of Insmmed. We believe that the existence of these potential benefits will benefit Insmmed by discouraging turnover and causing such executives to be more able to respond to the possibility of a change in control without being influenced by the potential effect of a change in control on his job security.

For purposes of these agreements, the term "change in control" generally includes:

- (a) the acquisition by another person of beneficial ownership of 40% or more of Insmmed Common Stock;
- (b) a proxy contest that results in the replacement of 50% or more of the members of Insmmed's Board;
- (c) a merger after which Insmmed's stockholders own less than 60% of the surviving corporation's stock; or
- (d) approval by Insmmed's stockholders of a complete liquidation or dissolution of Insmmed.

If, during the one-year period following a change in control, Insmmed or its successor terminates the executive's employment other than for cause or the executive voluntarily terminates employment for after the executive's compensation or duties are changed in any material respect from what they were immediately prior to the change in control, the executive shall receive a lump-sum cash payment equal to the sum of the executive's highest annual salary rate while an employee of Insmmed plus a prorated maximum potential bonus. All stock options then held by the executive remain exercisable for the term of the option period set forth in his option agreement(s) and any restricted stock held by the executive remains subject to the restrictions set forth in his restricted stock agreement. In addition, Insmmed shall continue to provide to the executive health, dental, long-term disability, life insurance, continuation of D&O insurance, and the other fringe benefits that the executive received prior to termination.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The following persons served on our Compensation Committee during the fiscal year ended December 31, 2004: Dr. Sharoky (Chairman), Mr. Condon and Dr. Engelsen. Neither Dr. Sharoky, Mr. Condon nor Dr. Engelsen is or has ever been an officer or employee of Insmmed or any of

our subsidiaries.

COMPENSATION COMMITTEE REPORT

This report of the Compensation Committee (the Committee) of the Board describes the objectives of Insmed's executive compensation program, the various components of the program, and explains the basis on which compensation determinations for the fiscal year ended December 31, 2004 were made by the Committee.

Overall Objectives of Executive Compensation Programs

The Committee's guiding philosophy is to establish executive compensation policies that are linked to the sustained creation of shareholder value. The following objectives serve as the guiding principles for all compensation decisions:

provide a competitive total compensation opportunity that will enable Insmmed to attract, retain and motivate highly qualified executives;

align compensation opportunities with shareholder interests by making the executive compensation program highly sensitive to Insmmed's performance, which is defined in terms of milestones associated with achieving long-term profitability and creating shareholder value; and

provide a strong emphasis on equity-based compensation and equity ownership, creating a direct link between shareholder and management interests.

Compensation Program Components

The Committee believes that the total compensation opportunity available to members of management should consist of base salary, annual bonuses and stock options, with each component geared to the median of the market for all positions in the aggregate. Individuals may be compensated above or below the median of the marketplace based on Insmmed's performance and on considerations of individual performance and experience. The Committee considers all elements of the program when setting compensation levels.

The Committee periodically meets individually with members of management in order to assess progress toward meeting objectives set by the Board for both annual and long-term compensation.

The Committee utilizes compensation surveys to aid in the determination of competitive levels of executive pay. The surveys include companies that are larger and smaller than Insmmed. Some surveys are limited to companies in the biotechnology business. The Committee also utilizes executive compensation information compiled from the proxy statements of other biotechnology companies. References to the market in this report refer to these survey and proxy data.

Base Salaries

Base salaries are determined in accordance with the responsibilities of each officer, median market data for the position and the officer's performance achieving corporate goals. The Committee considers each of these factors but does not assign a specific value to each factor. Furthermore, a subjective element is acknowledged in evaluating the officer's overall span of responsibility and control. Total compensation for Insmmed's officers is believed to be generally in line with the median of the market as described above.

Annual Bonuses

The Committee reviews annual bonuses in conjunction with senior management. The compensation committee has the authority to grant annual bonuses of up to 50% of the CEO's annual salary and up to 35% of individual officers' annual salaries. Awards are based on an evaluation of the performance, level of responsibility and leadership of the individual in relation to overall corporate results. For the fiscal year ended December 31, 2004, annual bonuses of 15% to 25% were awarded to officers based on the attainment by individuals of specific objectives necessary for Insmmed to achieve its business plan.

Stock Options and Restricted Awards

The Committee believes strongly that equity based awards are an integral part of total compensation for officers and certain key managers with significant responsibility for Insmmed's long-term results. Stock options that are tied to corporate performance provide an effective means of delivering incentive compensation and also foster stock ownership on the part of management.

The Stock Incentive Plan:

authorizes the granting of stock options, SARs, performance shares, restricted stock and other incentive awards, all of which may be made subject to the attainment of performance goals established by the Committee;

provides for the enumeration of the business criteria on which an individual's performance goals are to be based; and

establishes the maximum share grants or awards (or, in the case of incentive awards, the maximum compensation) that can be paid to a Stock Incentive Plan participant.

In the fiscal year ended December 31, 2004, incentive awards of stock options and performance shares were made in accordance with the performance-based focus of the Stock Incentive Plan.

Discussion of 2004 Compensation for the Chief Executive Officer

Dr. Geoffrey Allan's base salary as Chief Executive Officer was not increased in the fiscal year ended December 31, 2004, and remained at \$395,200, the same level as fiscal years ended December 31, 2003 and 2002. The Committee intends base salary to provide Dr. Allan with a level of stability and certainty each year and intends that this particular component of compensation not be affected to any significant degree by company performance factors. The committee awarded Dr. Allan a bonus for 2004 of \$98,800 in recognition of the leadership that Dr. Allan has shown in managing the business of the company, raising equity and focusing on maximizing long-term value for our shareholders.

Deductibility of Compensation

The Committee has carefully considered Section 162(m) of the Internal Revenue Code of 1986, as amended, which provides certain criteria for the tax deductibility of compensation in excess of \$1 million paid to our executive officers. The Committee believes it is in Insmed's best interests and that of its shareholders to comply with the requirements of Section 162(m), but the Committee intends to preserve the flexibility to reward executives consistent with Insmed's pay philosophy for each compensation element. The Committee intends that grants of options, awards of performance shares, restricted stock and other incentive awards under the Stock Incentive Plan comply with the requirements of Section 162(m).

THE COMPENSATION COMMITTEE

Melvin Sharoky, M.D., Chairman

Kenneth G. Condon, C.P.A., C.F.P., M.B.A.

Steinar Engelsen, M.D.

March 11, 2005

PERFORMANCE GRAPH

The following graph compares cumulative returns for Insmmed, the Nasdaq Market Index and the Nasdaq Pharmaceutical Index since June 1, 2000, the day Insmmed Common Stock began trading publicly. The comparison assumes \$100 was invested on June 1, 2000 and dividends were reinvested.

Date	Insmmed	NASDAQ	NASDAQ
		Market	Pharmaceutical
	Index	Index	Index
June 1, 2000	\$ 100.00	\$ 100.00	\$ 100.00
December 29, 2000	21.02	72.57	113.65
June 29, 2001	54.48	64.13	105.34
December 31, 2001	23.15	58.05	96.52
June 28, 2002	8.48	44.13	60.03
December 31, 2002	2.72	40.42	59.36
June 30, 2003	16.30	49.20	83.53
December 31, 2003	18.00	60.89	89.52
June 30, 2004	13.58	62.55	107.27
December 31, 2004	13.33	66.74	111.77

PROPOSAL NO. 2

DESIGNATION OF AUDITORS

The Audit Committee has designated Ernst & Young LLP, certified public accountants, as our independent auditors for the fiscal year ending December 31, 2005, subject to shareholder ratification. A representative of Ernst & Young LLP is expected to be present at the annual meeting and will have an opportunity to make a statement and respond to appropriate questions.

Ernst & Young LLP's principal function is to audit the consolidated financial statements of Insmmed and our subsidiaries and, in connection with that audit, to review certain related filings with the Securities and Exchange Commission and to conduct limited reviews of the consolidated financial statements included in each of our quarterly reports. The aggregate fees billed for each of the last two fiscal years for professional services rendered by Ernst & Young LLP, as well as information relating to the Audit Committee's pre-approval policies and procedures, are detailed in the Audit Committee Report, which is included in this Proxy Statement.

Vote Not Required for Approval

Shareholder ratification of our independent auditors is not required under Virginia law, under our Articles of Incorporation, as amended, or our Amended and Restated Bylaws. In the event that a majority of the votes cast are against the ratification of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2005, the Audit Committee will consider the vote and the reasons therefore in future decisions on the selection of our independent auditors.

Recommendation

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE DESIGNATION OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS.

PROPOSAL NO. 3

AMENDMENT AND RESTATEMENT OF 2000 STOCK INCENTIVE PLAN

The Board has adopted, and is seeking shareholder approval of, an amendment and restatement of our 2000 Stock Incentive Plan (the "2000 Plan"). We refer to the recently amended and restated plan as the "Amended and Restated Plan." The material differences between the 2000 Plan and the Amended and Restated Plan are:

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The maximum number of shares of Insmmed Common Stock reserved and available for issuance is being increased by 3,000,000 shares to a total of 9,250,000 shares under the Amended and Restated Plan;

The Amended and Restated Plan eliminates the evergreen provision that was available under the 2000 Plan;

The Amended and Restated Plan clarifies the methodology for share counting;

The Amended and Restated Plan requires that any material amendment (other than an amendment that curtails the scope of the Amended and Restated Plan) be subject to approval by the Company's shareholders;

The Amended and Restated Plan extends the term of the plan for an additional ten years;

The Amended and Restated Plan clarifies the treatment of stock options in the event of a change in control;

The Amended and Restated Plan specifies the tax withholding procedures under the plan; and

The Amended and Restated Plan has been revised to incorporate new tax and securities law regulations and guidance.

The Amended and Restated Plan may be administered by the Board, the Compensation Committee or a similar committee of not fewer than two non-employee directors who are independent (the Administrator). The Administrator, in its discretion, may grant a variety of incentive awards based on Insmmed Common Stock. Awards under the Amended and Restated Plan include stock options (both incentive options and non-qualified options), performance shares and other stock awards. Each of these awards is described in greater detail below.

Subject to adjustment for stock splits, stock dividends and similar events, the total number of shares of Insmmed Common Stock that currently can be issued under the 2000 Plan is 5,500,000 shares plus an increased number of shares equal to 1.0% of the number of outstanding shares each year, subject to a maximum limit of a total of 6,250,000 shares. If approved by shareholders, the total number of shares that could be issued under the Amended and Restated Plan would be increased from a total of 6,250,000 shares to 9,250,000 shares. Based solely on the closing price of Insmmed Common Stock as reported by the NASDAQ National Market on April 4, 2005, the maximum aggregate market value of additional Insmmed Common Stock that could potentially be issued under the Amended and Restated Plan is \$2,460,000. The shares issued by the Company under the Amended and Restated Plan may be authorized but unissued shares, or shares reacquired by the Company. To the extent that shares subject to an outstanding award under the Amended and Restated Plan are not issued or delivered by reason of the expiration, termination, cancellation, or forfeiture of such award or by reason of the delivery of shares to pay all or a portion of the exercise price of an award, if any, or the delivery of shares to satisfy all or a portion of the tax withholding obligations relating to an award, then such shares shall again be available under the Amended and Restated Plan.

To ensure that certain awards granted under the Amended and Restated Plan, to the top five named executive officers of the Company, qualify as performance-based compensation under Section 162(m) of the Code, the Amended and Restated Plan provides that the Administrator may require that the vesting of such awards be conditioned on the satisfaction of performance criteria that may include any or all of the following: fair market value, Insmmed Common Stock price appreciation, gross revenues, operating profit, net earnings before or after taxes, return on equity, earnings per share, total earnings, earnings growth, return on capital, return on assets, return on sales, cash flow per share, book value per share, market share, economic value added, market value added, productivity, level of expenses, new product development, peer group comparisons of any of the foregoing, or other measures as the Administrator may select. To satisfy the requirements of Section 162(m) of the Code, stock options with respect to no more than 750,000 shares of Insmmed Common Stock and performance shares and stock awards with respect to no more than 125,000 shares of Insmmed Common Stock respectively (subject to adjustment for stock splits and similar events) may be granted to any one individual during any one-calendar-year period.

Vote Required For Approval

The Amended and Restated Plan will not take effect unless it is approved by the affirmative vote of a majority of the votes cast by the holders of the shares of common stock represented and entitled to vote at the 2005 Annual Meeting provided that a quorum is present.

Recommendation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE 2000 STOCK INCENTIVE PLAN. The Board believes that stock options and other stock-based incentive awards can play an important role in the success of the Company by recruiting and retaining individuals with ability and initiative by enabling such individuals to share in the interest of the Company and its shareholders. The Board believes that the remaining number of shares available for issuance under the 2000 Plan (738,174 as of March 31, 2005) is not sufficient for future granting needs. The amendment to increase the number of shares is necessary to provide for an adequate number of shares available for grant in the future. The other amendments included in the Amended and Restated Plan are necessary

to enable the Company to fully comply with new laws and regulations. Accordingly, the Board has voted, subject

to shareholder approval, to adopt the Amended and Restated Plan and recommends shareholders vote for the approval thereof.

Summary of the Amended and Restated Plan

The following description of certain features of the Amended and Restated Plan is intended to be a summary only. The summary is qualified in its entirety by the full text of the Amended and Restated Plan that is attached hereto as Exhibit A.

Plan Administration. The Administrator has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the Amended and Restated Plan. The Administrator may delegate to one or more officers of the Company the authority to grant certain awards to employees who are not executives officers of the Company.

Eligibility and Limitations on Grants. Persons eligible to participate in the Amended and Restated Plan will be those employees, non-employee directors and other service providers of the Company and its affiliates as selected from time to time by the Administrator. Approximately 82 individuals are currently eligible to participate in the Amended and Restated Plan.

Stock Options. The Amended and Restated Plan permits the granting of (i) options to purchase Insmmed Common Stock intended to qualify as incentive stock options under Section 422 of the Code and (ii) options that do not so qualify. Options granted under the Amended and Restated Plan will be non-qualified options if they (i) fail to qualify as incentive options, (ii) are granted to a person not eligible to receive incentive options under the Code, or (iii) otherwise so provide. Non-qualified options may be granted to any persons eligible to receive incentive options and to non-employee directors and service providers. The option exercise price of each option will be determined by the Administrator but may not be less than 100% of the fair market value of Insmmed Common Stock on the date of grant.

The term of each option will be fixed by the Administrator and generally may not exceed ten years from the date of grant. The Administrator will determine at what time or times each option may be exercised and, subject to the provisions of the Amended and Restated Plan, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised. Options may be made exercisable in installments and the exercisability of options may be accelerated by the Administrator.

Upon exercise of options, the option exercise price must be paid in full either in cash or a cash equivalent acceptable to the Administrator or by delivery of shares of Insmmed Common Stock. Subject to applicable law, the exercise price may also be delivered to the Company by a broker pursuant to irrevocable instructions to the broker from the optionee.

To qualify as incentive options, options must meet additional federal tax requirements, including a \$100,000 limit on the value of shares subject to incentive options that first become exercisable by a participant in any one calendar year, and a shorter term and higher minimum exercise price in the case of certain large shareholders.

Performance Share Awards. The Administrator may grant performance share awards to participants entitling the recipient to receive shares of Insmmed Common Stock or, in the Administrator's discretion, an equivalent cash payment or a combination of both shares and cash, upon the achievement of individual or Company performance goals (as summarized in the Proposal section above) and such other conditions as the Administrator shall determine.

Stock Awards. The Administrator may grant awards of Insmmed Common Stock to participants, subject to conditions determined by the Administrator, which condition may include the achievement of individual or Company performance goals (as summarized in the Proposal section above). Each stock award will specify a

number of shares of Insmmed Common Stock that may be awarded to the participant determined by the Administrator upon satisfaction of certain specified conditions.

Tax Withholding. Participants in the Amended and Restated Plan are responsible for the payment of any federal, state or local taxes that the Company is required by law to withhold upon any option exercise or vesting of other awards. Subject to approval by the Administrator, participants may elect to have the minimum tax withholding obligations satisfied either by authorizing the Company to withhold shares of Insmmed Common Stock to be issued pursuant to an option exercise or other award, or by transferring to the Company shares of Insmmed Common Stock having a value equal to the amount of such taxes.

Adjustments for Stock Dividends, Stock Splits, Etc. The Amended and Restated Plan authorizes the Administrator to make appropriate adjustments to outstanding awards to reflect stock dividends, stock splits and similar events. In the event of a merger, consolidation, sale of the Company or similar event, the Administrator will make appropriate adjustments in the limits specified in the Amended and Restated Plan and to outstanding awards. The Administrator may also adjust outstanding awards to take into consideration certain other material changes if the Administrator determines that such adjustments are appropriate.

Change in Control Provisions. The Amended and Restated Plan provides that in the event of an acquisition (as defined in the Amended and Restated Plan) in which the Company's shareholders will receive cash consideration, the Company may make or provide for a cash payment to participants holding options equal to the difference between the per share cash consideration and the exercise price of the options. The Administrator has the discretion to determine the treatment of other awards under the Plan, including whether options and other awards will become exercisable and/or vested, in the event of a change in control of the Company.

Amendments and Termination. The Board may at any time amend or discontinue the Amended and Restated Plan and the Administrator may at any time amend or cancel any outstanding award for the purpose of satisfying changes in the law or for any other lawful purpose. However, no such action may adversely affect any rights under any outstanding award without the holder's consent. Any amendments that materially change the terms of the Amended and Restated Plan, including any amendments that increase the number of shares reserved for issuance under the Amended and Restated Plan, expand the types of awards available, permit stock option repricing under, materially expand the eligibility to participate in, or materially extend the term of, the Amended and Restated Plan, will be subject to approval by shareholders. Amendments shall also be subject to approval by the Company's shareholders if and to the extent determined by the Administrator to be required by the Code to preserve the qualified status of incentive options or to ensure that compensation earned under the Amended and Restated Plan qualifies as performance-based compensation under Section 162(m) of the Code.

Effective Date of Amended and Restated Plan

The 2000 Plan first became effective in 2000. The Board adopted the Amended and Restated Plan on March 30, 2005. Awards of incentive options may be granted under the Amended and Restated Plan until March 30, 2015. No other awards may be granted under the Amended and Restated Plan after the date that is 10 years from the date of shareholder approval.

New Plan Benefits

No grants have been made with respect to the additional shares of Insmmed Common Stock to be reserved for issuance under the Amended and Restated Plan. The number of shares that may be granted to the Company's chief executive officer, executive officers, non-employee directors and non-executive officers under the Amended and Restated Plan is undeterminable at this time, as such grants are subject to the discretion of

the Administrator.

Option Grants in Fiscal Year Ended December 31, 2004

The following tables show the stock options granted to the Company's chief executive officer, each executive officer, each non-employee director and all other employees (other than executive officers) during the fiscal year ended December 31, 2004. The Company did not grant any stock appreciation rights (SARs) during the fiscal year ended December 31, 2004.

Name	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	Number of Securities Underlying Options Granted (#)	Name	Number of Securities Underlying Options Granted (#)	Name	Number of Securities Underlying Options Granted (#)	Name
Geoffrey Allan, Ph.D.						
Ronald D. Gunn, M.B.A., M.S.						
Andreas Sommer, Ph.D.						
Kevin P. Tully, C.G.A.						
Philip J. Young	150,000(1)	15.4%	3.00	4/7/2010	153,043	347,202
	100,000(2)	10.2%	1.30	8/10/2013	71,673	176,533

- (1) Options vest and become exercisable in equal annual increments over a four year period.
- (2) These shares will vest in 25,000 shares increments upon attaining certain milestones established by the Company relating to the commercialization of one of our principal drug products, SomatoKine[®], provided that these milestone-based options will vest on August 10, 2011 (seven years from Date of Grant), if not sooner vested.

Name	Number of Securities Underlying	Exercise or Base
	Options Granted (#)	Price(\$/sh.)
All executive officers	380,000	2.22
All non-employee directors	87,500	2.70
All employees (excluding Executive Officers)	438,500	1.94

Aggregated Option Exercises in Fiscal Year Ended December 31, 2004 and Fiscal Year-End Option Values

The following table shows the stock options exercised by the named executive officers during the fiscal year ended December 31, 2004 and the number and value of all unexercised options held by the named executive officers at December 31, 2004.

Shares	Value	Number of Securities	Value of Unexercised
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Name	Acquired on Exercise (#)	Realized (\$)	Underlying Unexercised		In-the-Money Options	
			Options at Fiscal Year-End(#)		at Fiscal Year-End(\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Geoffrey Allan, Ph.D.			601,554	435,947	145,005	109,845
Ronald D. Gunn, M.B.A., M.S.			198,425	206,251	59,874	73,230
Andreas Sommer, Ph.D.			248,749	193,751	21,770	73,230
Kevin P. Tully, CGA			113,749	116,251	61,403	91,597
Philip J. Young				250,000		90,000

Equity Compensation Plan Information

The following table presents information as of December 31, 2004, with respect to compensation plans under which shares of Insmmed Common Stock are authorized for issuance.

<u>Plan Category</u>	<u>Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)</u>
Equity Compensation Plans Approved by Shareholders:			
2000 Stock Incentive Plan	4,864,425	\$ 3.70	777,740(2)
Equity Compensation Plans Not Approved by Shareholders (3):			
None			
Total:	4,864,425	\$ 3.70	777,740(2)

- (1) Amounts exclude any securities to be issued upon exercise of outstanding options, warrants and rights.
- (2) The 2000 Stock Incentive Plan permits grants of stock options, stock appreciation rights, restricted stock and performance units. If and to the extent that stock options or stock appreciation rights granted under the 2000 Stock Incentive Plan terminate, expire, or are canceled, forfeited, exchanged or surrendered without having been exercised, or if any shares of restricted stock or performance units are forfeited, the shares of common stock underlying such grants are again available for purposes of the 2000 Stock Incentive Plan.
- (3) The Company does not have any equity compensation plans that have not been approved by its shareholders.

Tax Aspects Under the U.S. Internal Revenue Code

The following is a summary of the principal federal income tax consequences of transactions under the Amended and Restated Plan. It does not describe all federal tax consequences under the Amended and Restated Plan, nor does it describe state or local tax consequences.

Incentive Options. No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares of Insmmed Common Stock issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (i) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (ii) there will be no deduction for the Company for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee. An optionee will not have any additional FICA (Social Security) taxes upon exercise of an incentive option.

If shares of Insmmed Common Stock acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a disqualifying disposition), generally (i) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares of Insmmed Common Stock at exercise (or, if less, the amount realized on a sale of such shares of Insmmed Common Stock) over the option price thereof, and (ii) the Company will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive option is paid by tendering shares of Insmmed

Common Stock.

If an incentive option is exercised at a time when it no longer qualifies for the tax treatment described above, the option is treated as a non-qualified option. Generally, an incentive option will not be eligible for the

tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

Non-Qualified Options. With respect to non-qualified options under the Amended and Restated Plan, no income is realized by the optionee at the time the option is granted. Generally (i) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares of Insmmed Common Stock on the date of exercise, and the Company receives a tax deduction for the same amount, and (ii) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares of Insmmed Common Stock have been held. Special rules will apply where all or a portion of the exercise price of the non-qualified option is paid by tendering shares of Insmmed Common Stock. Upon exercise, the optionee will also be subject to FICA taxes on the excess of the fair market value over the exercise price of the option.

Parachute Payments

The vesting of any portion of an option or other award that is accelerated due to the occurrence of a change in control may cause a portion of the payments with respect to such accelerated awards to be treated as parachute payments as defined in the Code. Any such parachute payments may be non-deductible to the Company, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

Limitation on the Company's Deductions

As a result of Section 162(m) of the Code, the Company's deduction for certain awards under the Amended and Restated Plan may be limited to the extent that the Chief Executive Officer or other executive officer whose compensation is required to be reported in the summary compensation table receives compensation in excess of \$1 million a year (other than performance-based compensation that otherwise meets the requirements of Section 162(m) of the Code).

PROPOSAL NO. 4

AMENDMENT OF 2000 EMPLOYEE STOCK PURCHASE PLAN

The Board has adopted, and is seeking shareholder approval of, an amendment to our 2000 Employee Stock Purchase Plan (Stock Purchase Plan) that would increase the number of shares of Insmmed Common Stock reserved and available for issuance under the Stock Purchase Plan by 250,000 shares to a total of 500,000 shares and would also extend the term of the Stock Purchase Plan for an additional ten years. The Board believes that the number of shares currently remaining available for issuance under the Stock Purchase Plan (102,009 shares) is not sufficient for future granting needs and therefore requests shareholder approval on this amendment.

Under the Stock Purchase Plan, eligible employees may authorize the Company to deduct amounts from their compensation, which amounts are used to enable the employees to exercise options to purchase shares of Insmmed Common Stock. The purpose of the Stock Purchase Plan is to attract individuals with ability and initiative by enabling such individuals to participate in the future success of the Company and to associate their interests with those of the Company and its shareholders. The Stock Purchase Plan is an employee stock purchase plan under Section 423

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of the Internal Revenue Code of 1986, as amended, and the regulations thereunder (the Code).

The additional shares that are proposed to be reserved under the Stock Purchase Plan have an aggregate value of \$205,000 based on the, April 4, 2005 closing price of Insmmed Common Stock as reported on the NASDAQ National Market of \$0.82 per share.

Vote Required For Approval

The amendment to the Stock Purchase Plan will not take effect unless it is approved by the affirmative vote of a majority of the votes cast by the holders of the shares of common stock represented and entitled to vote at the 2005 Annual Meeting provided that a quorum is present.

Recommendation

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE STOCK PURCHASE PLAN.

Summary of the Stock Purchase Plan

The following description of material terms of the Stock Purchase Plan is intended to be a summary only. This summary is qualified in its entirety by the Stock Purchase Plan and the full text of the amendment that is attached hereto as Exhibit B.

The Stock Purchase Plan is administered by the Compensation Committee. The Stock Purchase Plan provides that all employees of the Company and certain of its subsidiaries whose customary employment is for more than 20 hours per week are eligible to participate in the Stock Purchase Plan, provided, however, that persons who are deemed under Section 423(b)(3) of the Code to own 5% or more of the Company's voting stock are excluded from participation. The number of employees potentially eligible to participate in the Stock Purchase Plan is currently approximately 77 persons.

The Stock Purchase Plan provides for two purchase periods each year, the first commencing on January 2 of each year and continuing through June 30 of such year, and the second commencing on July 1 of each year and continuing through December 31 of such year. Eligible employees may elect to become participants in the Stock Purchase Plan by enrolling prior to December 15th for the first purchase period or June 15th for the second purchase period. Shares are purchased through the accumulation of payroll deductions of not less than 1% nor more than 15% of each participant's compensation. The maximum number of shares of Insmmed Common Stock that can be purchased under the Stock Purchase Plan during any six-month purchase period is that number having a fair market value of \$12,500 on the first day of the purchase period pursuant to which the shares are purchased. Subject to such maximum limit, the number of shares to be purchased is determined by dividing the participant's balance in the plan account on the last day of the purchase period by the purchase price per share for the stock. The purchase price per share will be the lower of 85% of the fair market value of Insmmed Common Stock as of either the first or last day of the purchase period.

An option granted under the Stock Purchase Plan is not transferable by the participant except by will or by the laws of descent and distribution. Employees may cease their participation in an offering at any time until 30 days before the end of an offering period, and participation automatically ceases upon termination of employment with the Company.

The number of shares that are reserved for issuance under the Stock Purchase Plan is subject to adjustment for stock splits and similar events. The proceeds received by the Company under the Stock Purchase Plan will be used for the general purposes of the Company. Shares issued under the Stock Purchase Plan may be authorized but unissued shares or shares reacquired by the Company and held in its treasury.

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The Stock Purchase Plan was originally effective as of April 5, 2000 for a term of ten years. If the proposed amendment is approved, the Stock Purchase Plan will remain in effect until March 30, 2015, unless it is earlier suspended or discontinued by the Board. The Board may at any time amend, revise or terminate the Stock Purchase Plan for any purposes. Certain amendments, such as amendments increasing the number of shares of common stock available under the Stock Purchase Plan, will not be effective until approved by shareholders. In addition, no amendment of the Stock Purchase Plan may adversely affect the rights of any option holder without such holder's consent.

Federal Income Tax Considerations under the Stock Purchase Plan

The Stock Purchase Plan is intended to qualify as an employee stock purchase plan as defined in Section 423(b) of the Code, which provides that an employee participating in the plan is not required to pay any federal income tax when joining the Stock Purchase Plan or when purchasing the shares of common stock at the end of an offering. The employee is, however, required to pay federal income tax on the difference, if any, between the price at which he or she sells the shares and the price he or she paid for them.

If shares acquired under the Stock Purchase Plan are sold more than two years after the first day of the purchase period pursuant to which the shares were purchased, no taxable income results if the proceeds of the sale are equal to or less than the price paid for the shares. If the proceeds of the sale are higher than the purchase price, the employee will recognize ordinary income for the year in which the sale occurs equal to the lesser of (a) 15% of the fair market value of the common stock on the first day of the purchase period pursuant to which the shares were purchased or (b) the excess of the amount actually received for the shares over the amount paid. In addition, the employee may recognize long-term capital gain or loss in an amount equal to the difference between the proceeds of the sale and the employee's basis in the shares (i.e., the employee's purchase price plus the amount taxed to the employee as ordinary income). No deduction is allowed to the Company.

If shares acquired under the Stock Purchase Plan are sold within two years of the first day of the purchase period pursuant to which the shares were purchased, the employee will recognize ordinary income equal to the difference between the fair market value of the shares on the exercise date and the employee's purchase price. This amount is reportable as ordinary income even if no profit was realized on the sale of shares or the shares were sold at a loss. Long-term or short-term (depending on the holding period for the shares) capital gain or loss will be recognized in an