

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **2006-01-05** | Period of Report: **2006-01-01**
SEC Accession No. **0000950124-06-000046**

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FILER

NASTECH PHARMACEUTICAL CO INC

CIK: **737207** | IRS No.: **112658569** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **000-13789** | Film No.: **06513789**
SIC: **2834** Pharmaceutical preparations

Mailing Address

3450 MONTE VILLA PARKWAY
BOTHELL WA 98021

Business Address

3450 MONTE VILLA PARKWAY
BOTHELL WA 98021
4259083600

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **January 1, 2006**

NASTECH PHARMACEUTICAL COMPANY INC.

(Exact name of registrant as specified in charter)

DELAWARE
(State or other jurisdiction
of incorporation)

0-13789
(Commission
File Number)

11-2658569
(IRS Employer
Identification No.)

3450 Monte Villa Parkway
Bothell, Washington
(Address of principal executive offices)

98021
(Zip Code)

425-908-3600
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry Into A Material Definitive Agreement.

As of January 1, 2006, Natestch Pharmaceutical Company Inc. (the “Company”) entered into a new employment agreement (the “Employment Agreement”) with Philip C. Ranker in connection with Mr. Ranker being named the Company’s Chief Financial Officer for a term of three years ending January 2, 2009. A copy of the Employment Agreement is filed herewith as exhibit 10.1.

Pursuant to the Employment Agreement, Mr. Ranker will be entitled to annual base compensation of \$230,000 in 2006, and will be eligible for increases in his base salary as may be determined by the board of directors of the Company (the “Board of Directors”) and the Company’s Chief Executive Officer. Effective January 1, 2006, Mr. Ranker’s incentive cash compensation under the Employment Agreement is limited to forty percent of his annual base compensation for the year, with the actual amount to be determined by the Board of Directors in consultation with the Company’s Chief Executive Officer.

The Employment Agreement also provides for stock compensation for Mr. Ranker, and in accordance with such provisions, the Company:

- entered into a restricted stock grant agreement, effective as of January 1, 2006, with Mr. Ranker, pursuant to which he was issued 20,133 shares of restricted common stock of the Company, par value \$0.006 per share (the “Common Stock”), pursuant to the
- (a) Company’s 2004 Stock Incentive Plan originally effective as of April 14, 2004 and amended on July 20, 2005 and October 5, 2005 (the “2004 Plan”). The restricted Common Stock will vest in three equal annual installments beginning on January 1, 2007. A copy of the restricted stock grant agreement is filed herewith as exhibit 10.2;
- entered into an incentive stock option grant agreement, dated as of January 1, 2006, with Mr. Ranker, pursuant to which Mr. Ranker was issued options to purchase 17,080 shares of Common Stock, pursuant to the 2004 Plan. The options have an exercise price of
- (b) \$14.72 per share and will vest in three annual installments beginning on January 1, 2007. A copy of the incentive stock option grant agreement is filed herewith as exhibit 10.3; and
- entered into a non-qualified stock option grant agreement, dated as of January 1, 2006, with Mr. Ranker, pursuant to which
- (c) Mr. Ranker was issued options to purchase 3,053 shares of Common Stock, pursuant to the 2004 Plan. The options have an exercise price of \$14.72 per share and will vest in three annual installments beginning on January 1, 2007. A copy of the non-qualified option grant agreement is filed as herewith as exhibit 10.4.

The Employment Agreement contains provisions for severance payments and the acceleration of unvested equity compensation awards in the event of termination without cause, for good reason, or upon a change of control, subject to certain conditions.

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On September 7, 2005, the Company appointed Philip C. Ranker, Vice President of Finance, as interim Chief Financial Officer and interim Secretary of the Company and Bruce R. York, Senior Director, Accounting and Corporate Controller, as interim Chief Accounting Officer and interim Assistant Secretary of the Company. Effective January 1, 2006, the interim titles for Messrs. Ranker and York have been removed and Mr. Ranker will continue to serve as the Company's Chief Financial Officer and Secretary and Mr. York will continue to serve as the Company's Chief Accounting Officer and Assistant Secretary. In connection with being named Chief Financial Officer, the Company and Mr. Ranker entered into an employment agreement effective as of January 1, 2006. See Item 1.01 of this Form 8-K.

Mr. Ranker has more than 19 years of experience in finance within the biotechnology and pharmaceutical industries. Prior to joining the Company, Mr. Ranker served as Director of Finance of ICOS Corporation from 2001 to 2004. Mr. Ranker also served as Assistant Corporate Controller of Scholastic Corporation from 1999 to 2000 and was employed by Aventis Pharma from 1984 to 1999, during which time Mr. Ranker held positions of Accounting Supervisor, Finance Manager, Business Manager and Senior Finance Director. Mr. Ranker was employed as a Certified Public Accountant by Peat Marwick from 1981 to 1984. Mr. Ranker earned a B.S. in accounting from the University of Kansas. Mr. Ranker received his Certified Public Accountant license in 1982.

Mr. York has served as the Company's Senior Director, Accounting and Corporate Controller since August 2004. Prior to joining the Company, Mr. York was Vice President, Chief Financial Officer and Corporate Secretary of Cellular Technical Services Company, Inc. from 1999 to 2004. Mr. York also served as Director of Finance for Cell Therapeutics, Inc. from 1998 to 1999, and was employed by Physio Control International Corporation from 1987 to 1998, during which time Mr. York held positions of Director of Business Planning, Director of Finance – Europe, Director of Finance and Corporate Controller and Manager of Tax and Assets. Mr. York was employed as a Certified Public Accountant by Price Waterhouse from 1978 to 1987. Mr. York earned a B.A. in government from Dartmouth College in Hanover, New Hampshire and an M.B.A. in finance and accounting from the Amos Tuck School of Business at Dartmouth. Mr. York received his Certified Public Accountant license in 1979.

The Company announced the appointment of Mr. Ranker in a press release dated January 3, 2006.

In connection with the foregoing, the Company hereby files the following documents:

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
10.1	Employment Agreement effective as of January 1, 2006 by and between Natestch Pharmaceutical Company Inc. and Philip C. Ranker.
10.2	Restricted Stock Grant Agreement effective as of January 1, 2006 by and between Natestch Pharmaceutical Company Inc. and Philip C. Ranker.
10.3	Incentive Stock Option Grant Agreement dated as of January 1, 2006 by and between Natestch Pharmaceutical Company Inc. and Philip C. Ranker.
10.4	Non-Qualified Stock Option Grant Agreement dated as of January 1, 2006 by and between Natestch Pharmaceutical Company Inc. and Philip C. Ranker.
99.1	Press Release of Natestch Pharmaceutical Company Inc. dated January 3, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Nastech Pharmaceutical Company Inc.

(Registrant)

By: /s/ Steven C. Quay

Name: Steven C. Quay, MD, Ph.D.

Title: Chairman of the Board, President and CEO

Dated:
January 5, 2006

Exhibit Index

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10.4	Non-Qualified Stock Option Grant Agreement dated as of January 1, 2006 by and between Nastech Pharmaceutical Company Inc. and Philip C. Ranker.
99.1	Press Release of Nastech Pharmaceutical Company Inc. dated January 3, 2006.

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement"), is executed and entered into by and between Natestch Pharmaceutical Company Inc., a Delaware corporation (the "Company"), with offices at 3450 Monte Villa Parkway, Bothell, Washington and Philip C. Ranker, an individual resident in the State of Washington (the "Executive"). This Agreement shall be effective on the date determined in accordance with Section 1 hereof but, except as provided herein, one or more other existing agreements shall continue to govern the Executive's employment by the Company, including his compensation for services rendered, prior to January 1, 2006 (the "Transition Date"), and certain related matters.

W I T N E S S E T H :

WHEREAS, the Company hired the Executive as the Vice President of Finance on August 5, 2004; and

WHEREAS, on September 7, 2005 the Executive was made interim Chief Financial Officer ("CFO"); and

WHEREAS, as of the Transition Date the Executive has been promoted to CFO of the Company; and

WHEREAS, the Company and the Executive wish to enter into this Agreement which shall set forth the Executive's new terms of employment as CFO;

NOW THEREFORE, in consideration of the mutual promises and agreements herein and for other good and valuable consideration the receipt and sufficiency of which are hereby mutually acknowledged, the Company and the Executive agree as follows:

Application and Effectiveness of Agreements. This Agreement shall govern (i) the employment relationship between the Company and the Executive from and after the Transition Date and (ii) other matters as set forth herein. Other agreements, as applicable, between the Company and the Executive shall continue to govern the employment of the Executive by the Company prior to the Transition Date and matters growing out of that employment.

Employment; Responsibilities and Authority; Outside Activities; Definitions.

(a) Subject to the terms and conditions of this Agreement, the Company shall employ the Executive as its CFO during the Employment Period (as defined in Section 3, below) and the Executive shall perform such acts and duties and furnish such services to the Company and its Subsidiaries (as defined below) as the Chief Executive Officer and the Board of Directors of the Company (the "Board") shall from time to time direct. The Executive shall have general

and active charge of, and responsibility for, the financial affairs of the Company and, in such capacity, shall have responsibility for the day-to-day financial operations of the Company, subject to the authority and control of the Chief Executive Officer and the Board.

(b) Subject to the terms and conditions of this Agreement, the Executive hereby accepts such employment and agrees to devote his full time and continuous best efforts to the duties provided.

For purposes of this Agreement: (1) the "Business of the Company" means the description of the Company's business as is described in Part I, Item 1 of the Company's most recent Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, and (2) the term "Subsidiary" means a corporation or other entity that is at least majority owned, directly or indirectly, by the Company.

Term; Employment Period. The "Employment Period" under this Agreement shall commence on the Transition Date and shall terminate at the close of business on January 2, 2009 unless it is (a) extended by written agreement between the parties or by continuing employment of the Executive by the Company as provided in the following sentence or (b) earlier terminated pursuant to Section 11 hereof. If the Executive shall remain in full-time employment by the Company beyond what would otherwise be the end of the Employment Period without any written agreement between the parties, this Agreement and the Employment Period shall be deemed to continue on a month-to-month basis and either party shall have the right to terminate the Executive's employment hereunder at the end of any ensuing calendar month on written notice of at least 30 days.

Salary. For services rendered to the Company during the Employment Period, the Company shall compensate the Executive with a base salary, payable in semi-monthly installments, which initially shall be \$230,000 per annum commencing on the Transition Date and which shall thereafter be set by the Board and/or Chief Executive Officer from time to time as determined by the Board and/or the Chief Executive Officer.

2. Incentive Cash Compensation.

(a) For the Company's fiscal year that will begin on January 1, 2006, and for each subsequent fiscal year or portion thereof during the Employment Period, the Executive shall also be eligible to receive incentive cash compensation based on (i) the "Annual Bonus Expectancy Amount," which shall be forty percent (40%) of the Executive's base salary for such year, and (ii) the Executive's performance in relation to the performance areas and performance targets on which the Chief Executive Officer and/or the Board shall determine and communicate to the Executive as described below.

(b) The Chief Executive Officer, upon consultation with the Board, shall establish performance criteria for determination of the incentive cash compensation that will be payable to the Executive with respect to each fiscal year of the Company. To the extent possible, such criteria shall be established, as to each fiscal year, prior to the end of the first month of such fiscal year.

As an example, such performance criteria may be comprised of several designated performance areas and one or more performance targets in each area, and, depending on the targets achieved, the actual amount of incentive cash compensation actually payable to the Executive for each fiscal year will be between zero and the Annual Bonus Expectancy Amount. The Company acknowledges that the business objectives heretofore used in determining the Executive's incentive cash compensation have been, and that the performance areas and

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performance targets referred to herein shall continue to be, based largely on the input and recommendations of the Company's Chief Executive Officer and that, in exercising its review and supervisory role with respect to the determination and adoption of those performance areas and performance targets, the Board or the Compensation Committee, as the case may be, shall act reasonably and in consultation and cooperation with the Chief Executive Officer and consistently with past practice.

(c) As soon as practical, and absent unforeseen circumstances no later than ninety (90) days following the end of each fiscal year of the Company, the Chief Executive Officer and/or the Board, shall determine, reasonably and in good faith, the extent to which the applicable performance levels for such fiscal year shall have been achieved and, accordingly, shall cause the appropriate amount of incentive cash compensation to be paid to the Executive. If unforeseen developments occur that in the opinion of the Chief Executive Officer make the performance areas and/or targets previously determined unachievable, infeasible, or inadvisable -- and therefore inappropriate as a measure of the performance of the Executive -- the Chief Executive Officer and/or the Board shall consider in good faith the extent to which the actual performance of the Executive nevertheless warrants payment of the amounts that would have been payable if the targets had been achieved; and, to such extent, payment shall be made to the Executive.

3. New Stock Options. As further compensation, and in addition to the stock options (the "Outstanding Options") that have been issued to the Executive prior to the Transition Date, the Company has granted to the Executive, for service on and after the Transition Date, new options to purchase additional shares of common stock of the Company (the "New Options") as follows:

(a) All of the New Options are deemed granted and issued on the Transition Date.

(b) The New Options have a term of 10 years, running from the Transition Date.

(c) Among the New Options, options for the maximum permissible number of shares are Incentive Stock Options ("ISOs") for purposes of the Internal Revenue Code of 1986, as amended, and the regulations thereunder (together, the "Tax Laws"), and those ISOs were issued with the minimum per share exercise price consistent with tax-advantaged treatment of those options

as ISOs under the Tax Laws. Those ISOs are among the New Options referred to as vesting in each of the three annual installments provided for in paragraph "(f)" below in this Section 6, with the numbers of shares for which such ISOs will be exercisable in each of those installments having been determined in such a manner as to maximize the total number of shares as to which such tax advantaged treatment is available; and the ISOs shall vest and become first exercisable at the times and under the conditions for each such installment, respectively.

(d) The remainder of the New Options, if any, are non-statutory stock options and were issued with a per share exercise price equal to the fair market value of a share of common stock of the Company on the Transition Date, as determined in accordance with the terms of the Company's 2004 Stock Incentive Plan (the "2004 Plan").

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(e) The exercise price of the New Options and the number of shares that may be purchased upon exercise of the New Options are subject to the anti-dilution adjustments provided for in the 2004 Plan.

(f) The New Options, in the aggregate, grant the right to purchase a total of Twenty-Thousand One Hundred and Thirty-Three (20,133) shares of common stock of the Company, and they shall vest and become exercisable as follows (or as expressly stated elsewhere in this Agreement in the event of certain circumstances and events provided for herein):

New Options for Six Thousand Seven Hundred and Eleven (6,711) shares (some of which are ISOs and some of which may be non-statutory stock options, as provided above) shall vest and become exercisable on January 1 of each of 2007, 2008, and 2009 if the Executive's employment by the Company or by an affiliate of the Company continues on such respective date.

(g) The shares of Common Stock issuable upon the exercise of the New Options shall be fully vested in the hands of the Executive immediately upon such exercise.

4. Restricted Shares. As further compensation, and in addition to restricted shares of common stock (the "Outstanding Restricted Shares") that have been issued to the Executive prior to the Transition Date, the Company has issued to the Executive, for services to be rendered on and after the Transition Date, Twenty-Thousand One Hundred and Thirty-Three (20,133) shares of common stock of the Company (the "New Restricted Shares"), subject to the following provisions:

(a) At the close of business on the Transition Date, all of the New Restricted Shares were duly authorized, validly issued and outstanding shares of common stock of the Company owned by the Executive and were fully paid and non-assessable.

(b) The New Restricted Shares are subject to the following

restrictions:

(i) Subject to Section 7(c) and other provisions herein providing for the vesting of such shares, upon the occurrence of a triggering event as provided in Section 12(b) or 12(c) below, the Executive shall forfeit all non-vested New Restricted Shares, provided, however, that the Company shall pay the Executive an amount, if any, equal to the par value payment made by the Executive to the Company upon grant of the New Restricted Shares upon notice given by the Company to the Executive at any time within ninety (90) days after the occurrence of such triggering event (the "Forfeiture/Repurchase Right").

(ii) Subject to Section 7(c) and other provisions herein providing for the vesting of such shares, the New Restricted Shares shall not be sold or otherwise transferred voluntarily by the Executive and the New Restricted Shares shall remain subject to the Transfer Restriction until it lapses or terminates as provided for herein (the "Transfer Restriction").

(c) Six Thousand Seven Hundred and Eleven (6,711) shares of the New Restricted Shares shall vest on January 1 of each of 2007, 2008, and 2009, provided that Executive remains continuously employed by the Company and/or any Subsidiary thereof

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through and on each such date. Such vesting, or vesting pursuant to other provisions of this Agreement, shall cause and constitute the lapse and termination of the Forfeiture/Repurchase Right and the Transfer Restriction as to the New Restricted Shares that so vest.

(d) Upon the occurrence of any taxable event which arises due to the vesting of New Restricted Shares, the Executive shall have the right to direct the Company to withhold the minimum number of New Restricted Shares necessary to satisfy the tax withholding liability and obligations of or relating to the Executive (both Federal and State) with respect to such vesting of New Restricted Shares, and the Company shall remit the value of the withheld New Restricted Shares to the proper governmental authorities.

5. Registration. The Company shall use its reasonable efforts to (a) cause the shares of Common Stock issuable upon the exercise of the New Options to be registered and qualified for public resale on a registration statement and re-offer prospectus filed with the U.S. Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"), and under any applicable state securities laws, within one hundred and eighty (180) days after the Approval Date; (b) cause New Restricted Shares that vest to be similarly registered and qualified for public resale by the date of such vesting; (c) maintain in effect all such registrations and qualifications, or substantially similar registrations and qualifications, until the Executive and any related family member(s) and any entity(ies) related to him shall be free of any and all restrictions on any such sales under the Securities Act and any applicable state securities law(s); and (d) if such effectiveness should lapse before that time,

restore the effectiveness thereof as soon as reasonably possible. These registrations and qualifications are in addition to the registrations and qualifications that may be required as to other securities of the Company that are owned by the Executive or that may be issuable pursuant to securities or options heretofore issued to him.

6. Benefits. During the Employment Period, the Company shall provide or cause to be provided to the Executive at least such employee benefits as are provided to other executive officers of the Company.

Vacation. The Executive shall be entitled to annual vacations in accordance with the Company's vacation policies in effect from time to time for executive officers of the Company.

Termination.

(a) Executive's employment by the Company shall be "at will." In other words, either the Company or the Executive may terminate Executive's employment by the Company at the end of any calendar month, with or without Cause or Good Reason (as such terms are defined below), in its or his sole discretion, upon thirty (30) days' prior written notice of termination. In addition, the Executive's employment by the Company shall be terminated by his death or Disability (as defined below). Termination of the Executive's employment as provided for herein shall terminate the Employment Period.

(b) For purposes of this Agreement, in the case of a termination of the Executive's employment hereunder by the Executive, the term "Good Reason" shall have the

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meaning set forth for it below; in the case of a termination of the Executive's employment hereunder by the Company, the term "Cause" shall have the meaning set forth for it below; and the other terms set out below in this Section 11 shall have the meanings provided for them respectively:

(i) "Good Reason" shall mean (i) any substantial diminution in the Executive's authority or role as CFO; (ii) failure of the Company to pay to the Executive any amounts of base salary and/or incentive cash compensation as provided for in Sections 4 or 5 above, or to honor promptly any of its obligations or commitments regarding stock options or other benefits referred to in Sections 6, 9, and/or 10 above, or to honor promptly any of its other material obligations hereunder; or (iii) a material demotion in the Executive's title or status.

(ii) "Cause" shall mean (i) the Executive's willful and repeated failure to perform his duties hereunder or to comply with any reasonable and proper direction given by the Chief Executive Officer or the Board if such failure of performance or compliance is not cured within thirty (30) days following receipt by the Executive of written notice from the Company

containing a description of such failures and non-compliance and a demand for immediate cure thereof; (ii) the Executive being found guilty in a criminal court of an offense involving moral turpitude; (iii) the Executive's commission of any material act of fraud or theft against the Company; or (iv) the Executive's material violation of any of the material terms, covenants, representations or warranties contained in this Agreement if such violation is not cured within thirty (30) days following receipt by the Executive of written notice from the Company containing a description of the violation and a demand for immediate cure thereof.

(c) "Disability" shall mean total and permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

(d) "Termination Date" shall mean (i) if this Agreement is terminated on account of death, the date of death; (ii) if this Agreement is terminated for Disability, the date that such Disability is established; (iii) if this Agreement is terminated by the Company or by the Executive prior to January 2, 2009, the effective date of the termination as provided in Section 11(a) hereof; or (iv) if this Agreement expires by its terms, January 2, 2009.

7. Severance.

(a) Subject to Section 21 hereof, if (i) the Company terminates the employment of the Executive prior to January 2, 2009 against his will and without Cause, or (ii) the Executive terminates his employment prior to January 2, 2009 for Good Reason, then (A) Executive shall be entitled to receive base salary, incentive cash compensation (determined on a pro-rated basis as to the year in which the Termination Date occurs), pay for accrued but unused vacation time, and reimbursement for expenses pursuant to Section 13 hereof through the Termination Date plus a lump sum equal to twelve (12) months of the Executive's specified base salary hereunder at the rate in effect on the Termination Date, and (B) notwithstanding the vesting and exercisability provisions otherwise applicable to Outstanding Options or the New Options and the restrictions applicable to Outstanding Restricted Shares or the New Restricted Shares, all of such options shall be fully vested and exercisable upon such termination and shall remain exercisable for the remainder of their terms, as specified in the option grant agreements, and all

of such restricted shares shall thereon become immediately and fully vested. Except to the extent that more time is required to determine any of the incentive compensation amounts, the Company shall pay the cash amounts provided for in this Section within thirty (30) days after the six (6) month anniversary of the date of such termination (but no later than the end of the calendar year in which such six (6) month anniversary occurs). Notwithstanding the foregoing, the Company shall not be required to pay any severance pay for any period following the Termination Date if the Executive shall have materially violated the provisions of Section 18, 19, or 20 of this Agreement and such violation is not cured within thirty (30) days following receipt of written notice from the

Company containing a description of the violation and a demand for immediate cure.

(b) Subject to Section 21 hereof, if (A) the Executive voluntarily terminates his employment prior to January 2, 2009 other than for Good Reason or (B) the Executive's employment is terminated by the Company prior to January 2, 2009 for Cause, then the Executive shall be entitled to receive salary, pay for accrued but unused vacation time, and reimbursement of expenses pursuant to Section 13 hereof through the Termination Date only; vesting of Outstanding Options, the New Options, Outstanding Restricted Shares and the New Restricted Shares shall cease on such Termination Date; any then un-vested Outstanding Options or New Options shall terminate (with the then-vested Outstanding Options and New Options vested and exercisable for the remainder of their terms in accordance with the grant agreements); and this occurrence shall be a triggering event for purposes of the Forfeiture/Repurchase Right as provided in Section 7(b)(i), above. The Company shall pay the cash amounts provided for in this Section within thirty (30) days after the six (6) month anniversary of the date of such termination (but no later than the end of the calendar year in which such six (6) month anniversary occurs); provided, however, that pay for accrued but unused vacation time shall be paid as soon as practicable following such termination, and that to the extent that Section 409A of the Internal Revenue Code of 1986 and any guidance or regulations issued thereunder, as amended, do not require the effectuation of the six (6) month delay described above with respect to any other cash amounts provided for in this Section, the Company shall pay such cash amounts within thirty (30) days after the date of such termination (but no later than the end of the calendar year in which such termination occurs).

(c) Subject to Section 21 hereof, if the Executive's employment is terminated prior to January 2, 2009 due to death or Disability, the Executive (or his estate or legal representative as the case may be) shall be entitled to receive (i) salary, reimbursement of expenses pursuant to Section 13 hereof, and pay for any unused vacation time accrued through the Termination Date; (ii) a pro-rated amount of incentive cash compensation for the fiscal year in which the Termination Date occurs; and (iii) a lump sum equal to base salary at the rate in effect on the date of such termination for the lesser of (a) twelve (12) months and (b) the remaining term of this Agreement at the time of such termination. In such case, vesting of the Outstanding Options, New Options, Outstanding Restricted Shares and New Restricted Shares shall cease on such Termination Date, and any then un-vested Outstanding Options and New Options shall terminate (with the then-vested Outstanding Options and New Options vested and exercisable for the remainder of their terms in accordance with the grant agreements); and this occurrence shall be a triggering event for purposes of the Forfeiture/Repurchase Right as provided in Section 7(b)(i), above. Except to the extent that more time is required to determine any of the incentive compensation amounts, the Company shall pay the cash amounts provided

for in this Section on the thirtieth (30th) day following the Executive's death, or if termination is due to Disability, within thirty (30) days after the six (6) month anniversary of the date of such termination (but no later than the end of the calendar year in which such six (6) month anniversary occurs); provided, however, that to the extent that Section 409A of the Internal Revenue Code of 1986 and any guidance or regulations issued thereunder, as amended, do not require the effectuation of the six (6) month delay described above with respect to any cash amounts provided for in this Section upon termination due to Disability, the Company shall pay such cash amounts within thirty (30) days after the date of such termination (but no later than the end of the calendar year in which such termination occurs).

(d) In addition to the provisions of Section 12(a), 12(b), or 12(c), hereof, as the case may be, to the extent COBRA shall be applicable or as provided by law, the Executive shall be entitled to continuation of group health plan benefits for the periods provided by law following the Termination Date if the Executive makes the appropriate election and payments; provided, further, that if the Executive is entitled to severance under Section 12(a) hereof, and the Executive elects COBRA coverage under a group health plan maintained by the Company, the Company shall continue to contribute towards the cost of such coverage for the Executive and his dependents for the six (6) month period following his Termination Date, at the same rate which was in effect upon the date of such termination of employment.

(e) Subject to Section 21 hereof, the Executive acknowledges that, upon termination of his employment, he is entitled to no other compensation, severance or other benefits other than those specifically set forth or referred to in this Agreement.

8. Expenses. The Company shall pay or reimburse the Executive for all expenses that are reasonably incurred by him in furtherance of his duties hereunder and such further expenses as may be authorized and approved by the Company from time to time.

9. Facilities and Services. The Company shall furnish the Executive with office space, secretarial and support staff, and such other facilities and services as shall be reasonably necessary for the performance of his duties under this Agreement.

10. Mitigation Not Required. In the event this Agreement is terminated, the Executive shall not be required to mitigate his losses or the amounts otherwise payable hereunder by seeking other employment or otherwise. The Executive's acceptance of any other employment shall not diminish or impair the amounts otherwise payable to the Executive hereunder.

11. Place of Performance. The Executive shall perform his duties at the main offices of the Company subject to reasonable travel requirements which may be authorized and directed from time to time by the Chief Executive Officer.

12. Insurance and Indemnity. With respect to his service hereunder, the Company shall maintain, at its expense, customary directors' and officers'

liability and errors and omissions insurance covering the Executive and, if such coverage is available at reasonable cost, for all other executive officers and directors of the Company, in an amount both deemed appropriate by the Company and available in the marketplace. To the extent such defense and

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indemnification are not fully and irrevocably provided by Company-supplied insurance, the Company shall defend and indemnify the Executive, to the fullest extent permitted by law, from and against any liability asserted against or incurred by the Executive (a) by reason of the fact that the Executive is or was an officer, director, employee, or consultant of the Company or any affiliate or related party or is or was serving in any capacity at the request of the Company for any other corporation, partnership, joint venture, trust, employment benefit plan or other entity or enterprise or (b) in connection with any action(s), omission(s), or occurrence(s) during the course of such service or such status as an officer, director, employee, or consultant of or to any of the foregoing. The Company's obligations under this Section 17 shall survive the termination of the Executive's employment hereunder and any termination of this Agreement.

13. Non-Competition.

(a) The Executive agrees that, except in accordance with his duties under this Agreement on behalf of the Company, he will not during the Employment Period: participate in, be employed in any capacity by, serve as director, consultant, agent or representative for, or have an interest, directly or indirectly in, any enterprise which is engaged in the business of developing, licensing, or selling technology, products or services which are directly competitive with the Business of the Company or any of its Subsidiaries or with any technology, products or services being actively developed, with the bona fide intent to market same, by the Company or any of its Subsidiaries at the time in question; provided that interests in publicly-traded entities that constitute less than a five percent (5%) interest in such entities, and do not otherwise constitute control either directly or indirectly of such entities, which interests were acquired or are held for investment purposes, shall not be deemed to be a violation of this paragraph.

(b) In addition, the Executive agrees that, for a period of six months after the end of the Executive's employment by the Company (unless such employment is terminated due to a breach of the terms hereof by the Company in failing to pay to the Executive all sums due him under the terms hereof or to honor any of its other obligations under this Agreement, in which event the following shall be inapplicable), the Executive shall not (1) own, either directly or indirectly or through or in conjunction with one or more members of his or his spouse's family or through any trust or other contractual arrangement, a greater than five percent (5%) interest in, or otherwise control either directly or indirectly, or (2) participate in, be employed in any capacity by, or serve as director, consultant, agent or representative for, any partnership, corporation, or other entity which is engaged in the business of developing, licensing, or selling technology, products or services which are

directly competitive with the Business of the Company or any of its Subsidiaries as of the termination of the Executive's employment with the Company or which are directly competitive with any technology, products, or services being actively developed by the Company or any of its Subsidiaries, with the bona fide intent to market same, as of the termination of the Executive's employment at the Company.

(c) Executive further agrees, for twelve months following the end of the Executive's employment by the Company (unless such employment is terminated due to a breach of the terms hereof by the Company as described above), to refrain from directly or indirectly soliciting the Company's collaborative partners, consultants, certified research organizations, principal vendors, licensees or employees except any such solicitation in connection with activities that would not be directly competitive with and/or adverse to the

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Business of the Company or any of its Subsidiaries or with and to any products or services being offered by the Company or any of its Subsidiaries at the date such employment terminated or then being actively developed, with the bona fide intent to market same, by the Company or any of its Subsidiaries.

(d) The Executive hereby agrees that damages and any other remedy available at law would be inadequate to redress or remedy any loss or damage suffered by the Company upon any breach of the terms of this Section 18 by the Executive, and the Executive therefore agrees that the Company, in addition to recovering on any claim for damages or obtaining any other remedy available at law, also may enforce the terms of this Section 18 by injunction or specific performance, and may obtain any other appropriate remedy available in equity.

14. Assignment of Patents. Executive shall disclose fully to the Company any and all discoveries he shall make and any and all ideas, concepts or inventions he shall conceive or make that are related or applicable to the Business of the Company or of any of its Subsidiaries or to any other products, services, or technology in medicine or the health sciences in which the Company shall during the Employment Period undertake, or actively and in good faith consider, research or commercial involvement provided that either (a) such discovery(ies), idea(s), concept(s) and/or invention(s) are made by the Executive during the Employment Period or (b) such discovery(ies), idea(s), concept(s) and/or invention(s) are made by the Executive during the period of six months after his employment terminates and are in whole or in part the result of his work with the Company.

15. Trade Secrets.

(a) In the course of the term of this Agreement, it is anticipated that the Executive shall have access to secret or confidential technical, scientific and commercial information, records, data, formulations, specifications, systems, methods, plans, policies, inventions, material and other knowledge that is (are) specifically related or applicable to the Business

of the Company or of any of its Subsidiaries or to any other products, services, or technology in medicine or the health sciences in which the Company shall during the Employment Period undertake, or actively and in good faith consider, research or commercial involvement and that is/are owned by the Company or its Subsidiaries ("Confidential Material"). The Executive recognizes and acknowledges that included within the Confidential Material are the following as they may specifically relate or be applicable to the Company's drug delivery business or technology, or to current or specifically contemplated future drug delivery products or services: the Company's confidential commercial information, technology, formulations, STA-T (Systemic Transnasal Absorption Technology) and know-how, methods of manufacture, chemical formulations, device designs, pending patent applications, clinical data, pre-clinical data and any related materials, all as they may exist from time to time, and that such material is or may be valuable special, and unique aspects of the Company's business. All such Confidential Material shall be and remain the property of the Company. Except as required by his duties to the Company, the Executive shall not, directly or indirectly, either during the term of his employment or at any time thereafter, disclose or disseminate to anyone or make use of, for any purpose whatsoever, any Confidential Material. Upon termination of his employment, the Executive shall promptly deliver to the Company all Confidential Material (including all copies thereof, whether prepared by the Executive or others) which are in the possession or under

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the control of the Executive. The Executive shall not be deemed to have breached this Section 19 if the Executive is compelled by legal process or order of any judicial, legislative, or administrative authority or body to disclose any Confidential Material.

(b) The Executive hereby agrees that damages and any other remedy available at law would be inadequate to redress or remedy any loss or damage suffered by the Company upon any breach of the terms of this Section 19 by the Executive, and the Executive therefore agrees that the Company, in addition to recovering on any claim for damages or obtaining any other remedy available at law, also may enforce the terms of this Section 19 by injunction or specific performance, and may obtain any other appropriate remedy available in equity.

16. Payment and Other Provisions After Change of Control.

(a) In the event the Executive's employment with the Company is terminated either by the Company or by the Executive (other than because of the Executive's death or Disability) following the occurrence of a Change of Control (regardless of whether such termination is for Good Reason or for Cause or otherwise) and the date of such termination is (i) prior to January 2, 2009 and within one year following the occurrence of such Change of Control or (ii) prior to the date upon which all of the Outstanding Options and New Options are fully vested and exerciseable and all the Outstanding Restricted Shares and New Restricted Shares are fully vested, then the Executive shall be entitled to receive from the Company, in lieu of the severance payment otherwise payable

pursuant to Section 12 hereof, salary, expense reimbursement, and pay for unused vacation time through the termination date and, in addition, the following:

(i) Additional Amount Based on Base Salary. A lump-sum amount equal to the greater of: (a) twelve (12) months of Executive's specified base salary hereunder, and (b) the balance of Executive's specified base salary hereunder to the end of the term of this Agreement;

(ii) Incentive Cash Compensation. The amount of the Executive's incentive cash compensation for the fiscal year in which the date of termination occurs (determined on a pro-rated basis) plus an additional lump-sum amount equal to the Annual Bonus Expectancy Amount (regardless of satisfaction of any performance criteria or progress toward such satisfaction); and

(iii) Other Benefits. Notwithstanding the vesting and/or exerciseability provisions otherwise applicable to Outstanding Options and the New Options and the vesting and restriction provisions applicable to Outstanding Restricted Shares and the New Restricted Shares, all such stock options shall be fully vested and exercisable, and all such restricted shares shall be fully vested, upon a Change of Control and, in the case of the options, shall remain exercisable for the remainder(s) of their term(s) in accordance with their grant agreements and subject to the right of the Company to direct the sale of shares in connection with a Change of Control.

Except to the extent that more time is required to determine the incentive cash compensation payable pursuant to Section 21(a)(ii) hereof, the Company shall pay the cash amounts provided for in this Section 21(a) within thirty (30) days after the six (6) month anniversary of the date of

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such termination (but no later than the end of the calendar year in which such six (6) month anniversary occurs).

(b) For purposes of this Agreement, the term "Change of Control" shall mean:

(i) The acquisition by any individual, entity or group (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") or any successor provision) (any of the foregoing hereafter a "Person") of 40% or more of either (a) the then outstanding shares of Capital Stock of the Company (the "Outstanding Capital Stock") or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Voting Securities"), provided, however, that such an acquisition by one of the following shall not constitute a change of control: (1) the Company or any of its Subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries or (2) any Person that is eligible, pursuant to Rule 13d-1(b) under the Exchange Act, to file a statement on Schedule 13G with respect to its beneficial ownership of

Voting Securities, whether or not such Person shall have filed a statement on Schedule 13G, unless such Person shall have filed a statement on Schedule 13D with respect to beneficial ownership of 40% or more of the Voting Securities or (3) any corporation with respect to which, following such acquisition, more than 60% of both the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Capital Stock or Voting Securities immediately prior to such acquisition in substantially the same proportions as their ownership, immediately prior to such acquisition, of the Outstanding Capital Stock or Voting Securities, as the case may be; or

(ii) Individuals who, as of the Transition Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board and Dr. Steven C. Quay ceases to be the Chief Executive Officer of the Company, provided that any individual becoming a director subsequent to the Transition Date whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A, or any successor section, promulgated under the Exchange Act); or

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation (a "Business Combination"), in each case, with respect to which all or substantially all holders of the Outstanding Capital Stock and Voting Securities immediately prior to such Business Combination do not, following such Business Combination, beneficially own, directly or indirectly, in substantially the same proportions, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from the Business Combination; or

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(iv) A complete liquidation or dissolution of the Company; or

(v) A sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 60% of the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors are then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Capital Stock or Voting Securities Immediately prior to such sale or

disposition in substantially the same proportions as their ownership of the Outstanding Capital Stock and Voting Securities, as the case may be, immediately prior to such sale or disposition.

17. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and personally delivered (including by regular messenger service, signature required) or sent by registered or certified mail, return receipt requested, to both his office and his residence, in the case of notices directed to the Executive, or to its principal office, Attn.: Chief Executive Officer, in the case of notices directed to the Company, or to such other address and/or addressee as the party to whom such notice is directed shall have designated for this purpose by notice to the other in accordance with this Section. Such notices shall be effective upon personal delivery or three days after mailing.

18. Entire Agreement; Waiver. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof (it being acknowledged, however, that other agreements between the Executive and the Company remain effective as to closely related matters). This Agreement may not be changed orally but only by an instrument in writing, signed by the party against whom enforcement of any waiver, change, modification or discharge is sought. Waiver of or failure to exercise any rights provided by this Agreement in any respect shall not be deemed a waiver of any further or future rights.

19. Binding Effect; Assignment. The rights and obligations of this Agreement shall bind and inure to the benefit of any successor of the Company by reorganization, merger or consolidation, or any transferee of all or substantially all of the Company's business or properties. The Executive's rights hereunder are personal to and shall not be transferable nor assignable by the Executive.

20. Headings. The headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

21. Governing Law; Arbitration. This agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Washington applicable to contracts made and to be performed wholly within such state. Any dispute or controversy arising out of or relating to this Agreement shall be settled by arbitration in accordance with the rules of the American Arbitration Association, and judgement upon the award may be entered in any court having jurisdiction thereover. The arbitration shall be held in King County, Washington or in such other place as the parties hereto may agree.

22. Further Assurances. Each of the parties agrees to execute, acknowledge, deliver and perform, and cause to be executed, acknowledged, delivered and performed, at any time and from time to time, all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and/or

assurances as may be necessary or proper to carry out the provisions or intent of this Agreement.

23. Severability. The parties agree that if any one or more of the terms, provisions, covenants or restrictions of this Agreement shall be determined by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

24. Counterparts. This Agreement may be executed in several counterparts, and all counterparts so executed shall constitute one agreement, binding on the parties hereto, notwithstanding that both parties are not signatory to the original or the same counterpart.

IN WITNESS WHEREOF, NASTECH PHARMACEUTICAL COMPANY INC. has caused this instrument to be signed by a duly authorized officer and the Executive has hereunto set his hand as of the day and year first above written.

COMPANY: NASTECH PHARMACEUTICAL COMPANY INC.

By: /s/ Steven C. Quay, M.D., Ph.D.

Name: Steven C. Quay, M.D., Ph.D.

Title: Chief Executive Officer

EXECUTIVE: /s/ Philip C. Ranker

Philip C. Ranker

NASTECH PHARMACEUTICAL COMPANY INC.
2004 STOCK INCENTIVE PLAN

RESTRICTED STOCK GRANT AGREEMENT

This Restricted Stock Grant Agreement (the "Agreement") is entered into as of January 1, 2006 by and between Nastech Pharmaceutical Company Inc. (the "Company"), a Delaware Corporation, and Philip C. Ranker ("Grantee").

ARTICLE I
GRANT OF RESTRICTED STOCK

1.1 Grant of Restricted Stock. Pursuant to, and subject to, the terms and conditions set forth herein and in the Nastech Pharmaceutical Company Inc. 2004 Stock Incentive Plan (the "Plan"), the Company hereby grants to the Grantee 20,133 restricted shares (the "Restricted Stock") of common stock of the Company ("Common Stock").

1.2 Grant Date. The Grant Date of the Restricted Stock is January 1, 2006.

1.3 Incorporation of Plan. All terms, conditions and restrictions of the Plan are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of the Plan, as interpreted by the Compensation Committee of the Board of Directors of the Company (the "Committee"), shall govern. Except as otherwise provided herein, all capitalized terms used herein shall have the meaning given to such terms in the Plan.

ARTICLE II
VESTING

2.1 Vesting. Subject to the further provision of this Agreement, the Restricted Stock shall vest with respect to a number of whole shares as close as possible to the following percentage of the total number of shares of Restricted Stock granted hereunder on the following dates (each, a "Vesting Date"):

<TABLE>

<CAPTION>

PERCENTAGE OF TOTAL SHARES

VESTING DATE

<S>

<C>

33.33%
33.33%
33.33%

1st anniversary of Grant Date
2nd anniversary of Grant Date
3rd anniversary of Grant Date

ARTICLE III
TERMINATION OF EMPLOYMENT

3.1 Termination of Employment. In the event that the Grantee's employment (which for purposes of this Agreement shall include service as a director or consultant) with the Company and all of the Company's subsidiaries terminates for any reason other than as otherwise provided below, all unvested shares of Restricted Stock, together with any property in respect of such shares held by the custodian pursuant to Section 4.3 hereof, shall be forfeited as of the date of such termination of employment and the Grantee promptly shall return to the Company any certificates evidencing such shares. Notwithstanding the foregoing or any other provision of this Agreement to the contrary, if such termination occurs as a result of the Company terminating the employment of the Grantee prior to January 2, 2009 against his will and without Cause (as defined in the Grantee's employment agreement dated as of January 1, 2006), or the Grantee terminating his employment prior to January 2, 2009 for Good Reason (as defined in the Grantee's employment agreement dated as of January 2, 2006), all unvested shares of Restricted Stock shall become immediately and fully vested. Furthermore, the foregoing provisions of this Section 3.1 shall be subject to the provisions of Section 21 of the Grantee's employment agreement dated as of January 1, 2006. For purposes of this Agreement, the Grantee shall be deemed to have terminated employment or incurred a termination of employment upon (i) the date the Grantee ceases to be employed by, or to provide consulting services for, the Company and all Company subsidiaries; or (ii) the date the Grantee ceases to be a Board member, provided, however, that if the Grantee (x) at the time of reference is both an employee or consultant and a Board member, or (y) ceases to be engaged as an employee, consultant or Board member and immediately is engaged in another of such relationships with the Company or any Company subsidiary, the Grantee shall not be deemed to have a "termination of employment" until the last of the dates determined pursuant to subparagraphs (i) and (ii) above. The Committee, in its discretion, may determine whether any leave of absence constitutes a termination of employment for purposes of this Agreement.

ARTICLE IV
RESTRICTIONS

4.1 Restrictions on Transferability. Until a share of Restricted Stock vests, such share may not be sold, assigned, transferred, alienated, commuted, anticipated, or otherwise disposed of (except by will or the laws of descent and distribution), or pledged or hypothecated as collateral for a loan or as security for the performance of any obligation, or be otherwise encumbered, and is not subject to attachment, garnishment, execution or other legal or equitable process, and any attempt

to do so shall be null and void. If the Grantee attempts to dispose of or encumber the Grantee's unvested shares of Restricted Stock, such shares of Restricted Stock, together with any property in respect of such shares held by the custodian pursuant to Section 4.3 hereof, shall be forfeited as of the date of such attempted transfer and the Grantee promptly shall return to the Company any certificates evidencing such shares.

4.2 Issuance of Certificates.

(a) Reasonably promptly after the Grant Date, the Company shall issue and deliver to the Grantee stock certificates, registered in the name of the Grantee, evidencing the shares of Restricted Stock. Each such certificate may bear the following legend:

"THE SALE, TRANSFER, ASSIGNMENT, PLEDGE, HYPOTHECATION, ENCUMBRANCE OR OTHER DISPOSAL OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS OF THE NASTECH PHARMACEUTICAL COMPANY INC. 2004 STOCK INCENTIVE PLAN AND A RESTRICTED STOCK GRANT AGREEMENT BETWEEN NASTECH PHARMACEUTICAL COMPANY INC. AND THE HOLDER OF RECORD OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE. NO TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IN CONTRAVENTION OF SUCH PLAN AND RESTRICTED STOCK GRANT AGREEMENT SHALL BE VALID OR EFFECTIVE. COPIES OF SUCH AGREEMENT MAY BE OBTAINED BY WRITTEN REQUEST MADE BY THE HOLDER OF RECORD OF THE CERTIFICATE TO THE SECRETARY OF NASTECH PHARMACEUTICAL COMPANY INC."

Such legend shall not be removed from such certificates until such shares of Restricted Stock vest.

(b) Reasonably promptly after any such shares of Restricted Stock vest pursuant to Section 2.1 hereof, in exchange for the surrender to the Company of the certificates evidencing such shares of Restricted Stock delivered to the Grantee under Section 4.2(a) hereof, the Company shall issue and deliver to the Grantee (or the Grantee's legal representative, beneficiary or heir) certificates evidencing such shares of Restricted Stock, free of the legend provided in Section 4.2(a) hereof, together with any property in respect of such shares held by the custodian pursuant to Section 4.3 hereof.

(c) The Company may require as a condition of the delivery of stock certificates pursuant to Section 4.2(b) hereof that the Grantee remit to the Company an amount sufficient in the opinion of the Company to satisfy any federal, state and other governmental tax withholding requirements related to the vesting of the shares represented by such certificates.

(d) The Grantee shall not be deemed for any purpose to be, or have rights as, a shareholder of the Company by virtue of the grant of Restricted Stock, except to the extent a stock certificate is issued therefor pursuant to

Section 4.2(a) hereof, and then only from the date such certificate is issued. Upon the issuance of a stock certificate, the Grantee shall have the rights of a shareholder with respect to the Restricted Stock, including the right to vote the shares, subject to the restrictions on transferability, the forfeiture provisions and the requirement that dividends be held in escrow until the shares vest, as set forth in this Agreement.

4.3 Dividends, etc. Unless the Committee otherwise determines, any property, including cash dividends, received by a Grantee with respect to a share of Restricted Stock as a result of any dividend, recapitalization, merger, consolidation, combination, exchange of shares or otherwise and for which the Grant Date occurs prior to such event but which has not vested as of the date of such event, will not vest until such share of Restricted Stock vests, and shall be promptly deposited with the Company or a custodian designated by the Company. The Company shall or shall cause such custodian to issue to the Grantee a receipt evidencing the property held by it in respect of the Restricted Stock.

ARTICLE V MISCELLANEOUS

5.1 Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any party hereto upon any breach or default of any party under this Agreement, shall impair any such right, power or remedy of such party, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, with respect to any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party or any provisions or conditions of this Agreement, must be in a writing signed by such party and shall be effective only to the extent specifically set forth in such writing.

5.2 Right of Discharge Preserved. Nothing in this Agreement shall confer upon the Grantee the right to continue in the employ or other service of the Company or one of the Company's subsidiaries, or affect any right which the Company may have to terminate such employment or service.

5.3 Integration. This Agreement and the Grantee's employment agreement dated as of January 1, 2006 (the "Employment Agreement") contain the entire understanding of the parties with respect to the subject matter of this Agreement. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein. This Agreement is subject to the Employment Agreement. Other than the Employment Agreement, this Agreement, including, without

limitation, the Plan, supersedes all prior agreements and understandings between the parties with respect to its subject matter.

5.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

5.5 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, without regard to the provisions governing conflict of laws.

5.6 Grantee Acknowledgment. The Grantee hereby acknowledges receipt of a copy of the Plan. The Grantee hereby acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, this Agreement and the Restricted Stock shall be final and conclusive.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by its duly authorized officer, and the Grantee has hereunto signed this Agreement on his own behalf, thereby representing that he has carefully read and understands this Agreement and the Plan as of the day and year first written above.

NASTECH PHARMACEUTICAL COMPANY INC.

By: /s/ Steven C. Quay

Name: Steven C. Quay

Title: Chairman, President and CEO

GRANTEE

/s/ Philip C. Ranker

Philip C. Ranker

Chief Financial Officer

NASTECH PHARMACEUTICAL COMPANY INC.
2004 STOCK INCENTIVE PLAN

INCENTIVE STOCK OPTION GRANT AGREEMENT

This Grant Agreement (the "Agreement") is entered into as of January 1, 2006 by and between Nastech Pharmaceutical Company Inc. (the "Corporation"), a Delaware Corporation, and Philip C. Ranker ("Grantee").

ARTICLE 1
GRANT OF OPTION

Section 1.1 Grant of Options. Subject to the provisions of the Agreement, and pursuant to the provisions of the Nastech Pharmaceutical Company Inc. 2004 Stock Incentive Plan (the "Plan"), Corporation hereby grants to Grantee, as of the Grant Date specified in Attachment A, an Incentive Stock Option (the "Option") to purchase all or any part of the number and class of shares of Common Stock set forth on Attachment A at the exercise price per share ("Option Price") set forth on Attachment A. It is intended that the entire Option qualify as an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and to the extent that all or any portion of the Option does not so qualify, the Option shall be treated as a non-qualified stock option.

Section 1.2 Term of Options. Unless the Option granted pursuant to Section 1.1 terminates earlier pursuant to other provisions of the Agreement, including the expiration date specified in Attachment A, the Option shall expire on the expiration date set forth on Attachment A hereto, but in no event later than the tenth (10th) anniversary of its Grant Date.

ARTICLE 2
VESTING

Section 2.1 Vesting Schedule. Subject to the further provision of this Agreement, and unless the Option has earlier terminated pursuant to the provisions of the Agreement, Grantee shall become vested on the dates specified on Attachment A in a portion of the Option with respect to a percentage or number of the underlying shares in accordance with the vesting schedule specified on Attachment A; provided that Grantee shall have been in the continuous employ of the Corporation from the Grant Date through any such date.

ARTICLE 3
EXERCISE OF OPTION

Section 3.1 Exercisability of Option. No portion of the Option granted to Grantee shall be exercisable by Grantee prior to the time such portion of the

Option has vested.

Section 3.2 Manner of Exercise. The Option may be exercised, in whole or in part, by delivering written notice to the Committee or any designee of the Committee. Such notice shall specify the number of shares of Common Stock subject to the Option as to which the Option is being exercised, and shall be accompanied by full payment of the Option Price of the shares of Common Stock as to which the Option is being exercised. Payment of the Option Price shall be made in cash (or cash equivalents acceptable to the Committee in the Committee's discretion). In the Committee's sole and absolute discretion, the Committee may authorize payment of the Option Price to be made, in whole or in part, by such other means as the Committee may prescribe. The Option may be exercised only in multiples of whole shares and no partial shares shall be issued. Notwithstanding anything to the contrary herein, the minimum number of shares that may be purchased upon an exercise of the Option is the lesser of 100 shares or the number of shares subject to the vested portion of the Option.

Section 3.3 Issuance of Shares and Payment of Cash upon Exercise. Upon exercise of the Option, in whole or in part, in accordance with the terms of the Agreement and upon payment of the Option Price for the shares of Common Stock as to which the Option is exercised, the Corporation shall issue to Grantee or, in the event of Grantee's death, to Grantee's executor, personal representative or the person to whom the Option shall have been transferred by will or the laws of descent and distribution, as the case may be, the number of shares of Common Stock so paid for, in the form of fully paid and nonassessable Common Stock. The stock certificates for any shares of Common Stock issued hereunder shall, unless such shares are registered or an exemption from registration is available under applicable federal and state law, bear a legend restricting transferability of such shares.

ARTICLE 4 TERMINATION OF EMPLOYMENT

Section 4.1 Unvested Portion. Subject to the further provision of this Agreement, and unless the Option has earlier terminated pursuant to the provisions of this Agreement, the unvested portion of the Option shall terminate upon termination of Grantee's employment with the Corporation and all of the Corporation's subsidiaries for any reason. Notwithstanding the foregoing or any other provision of this Agreement to the contrary, if such termination occurs as a result of the Company terminating the employment of the Grantee prior to January 2, 2009 against his will and without Cause (as defined in the Grantee's employment agreement dated as of January 1, 2006), or the Grantee terminating his employment prior to January 2, 2009 for Good Reason (as defined in the Grantee's employment agreement dated as of January 1, 2006), the Option shall be fully vested and exercisable and shall remain exercisable for the remainder of the term set forth in Section 1.2 hereof. Furthermore, the foregoing provisions of this Section 4.1 shall be subject to the provisions of Section 21 of the Grantee's employment agreement dated as of January 1, 2006.

Section 4.2 Termination of Employment for Good Reason, Involuntarily by the Corporation, For Cause by the Corporation or Voluntarily by Grantee Other Than Termination of Employment by Death or Disability. Unless the Option has earlier terminated pursuant to the provisions of this Agreement, the vested portion of the

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Option granted to Grantee shall terminate in its entirety, regardless of whether the Option is vested in whole or in part, at the end of the stated term of the Option. Grantee may exercise all or any part of the Option that was vested as of the date of termination (including any part of the Option as to which vesting was accelerated by, or in connection with, such termination) after the date of termination but no later than the earlier of ninety (90) days following such date of termination (the "Ninety Day Period") or the end of the stated term of the Option. Failure to exercise the Option within the Ninety Day Period shall render the Option a non-qualified stock option, and the Option shall remain exercisable as such in accordance with the terms of this Agreement.

Section 4.3 Upon Grantee's Death. Unless the Option has earlier terminated pursuant to the provisions of the Agreement, upon Grantee's death, Grantee's executor, personal representative or the person to whom the Option shall have been transferred by will or the laws of descent and distribution, as the case may be, may exercise all or any part of the Option that was vested as of the date of death no later than the earlier of twelve (12) months following such date of termination (the "Twelve Month Period") or the end of the stated term of the Option. Failure to exercise the Option within the Twelve Month Period shall render the Option a non-qualified stock option, and the Option shall remain exercisable as such in accordance with the terms of this Agreement.

Section 4.4 Termination of Employment by Reason of Disability. Unless the Option has earlier terminated pursuant to the provisions of the Agreement, in the event that Grantee ceases, by reason of Disability, to be an employee of the Corporation, all or any part of the Option that was vested as of the date of termination of employment may be exercised in whole or in part at any time until the earlier of the end of the Twelve Month Period or the end of the stated term of the Option. For purposes of this Agreement, Disability shall be as defined in Code Section 22(e)(3) and shall be determined by the Committee, with its determination on the matter being final and binding. Failure to exercise the Option within the Twelve Month Period shall render the Option a non-qualified stock option, and the Option shall remain exercisable as such in accordance with the terms of this Agreement.

ARTICLE 5 MISCELLANEOUS

Section 5.1 Non-Guarantee of Employment. Nothing in the Plan or the Agreement shall be construed as a contract of employment between the Corporation (or any affiliate) and Grantee, or as a contractual right of Grantee to continue

in the employ of the Corporation or an affiliate, or as a limitation of the right of the Corporation or an affiliate to discharge Grantee at any time.

Section 5.2 No Rights of Stockholder. Grantee shall not have any of the rights of a stockholder with respect to the shares of Common Stock that may be issued upon the exercise of the Option until such shares of Common Stock have been issued to him upon the due exercise of the Option.

3

Section 5.3 Withholding of Taxes. The Corporation or any affiliate shall have the right to deduct from any compensation or any other payment of any kind (including withholding the issuance of shares of Common Stock) due Grantee the amount of any federal, state or local taxes required by law to be withheld as the result of the exercise of the Option; provided, however, that the value of the shares of Common Stock withheld may not exceed the statutory minimum withholding amount required by law. In lieu of such deduction, the Committee may require Grantee to make a cash payment to the Corporation or an affiliate equal to the amount required to be withheld. If Grantee does not make such payment when requested, the Corporation may refuse to issue any Common Stock certificate under the Plan until arrangements satisfactory to the Committee for such payment have been made.

Section 5.4 Nontransferability of Option. Other than by will or the laws of descent and distribution, the Option shall be nontransferable. During any period Grantee is under a legal disability, Grantee's guardian or legal representative may exercise all or any portion of the vested Option on behalf of Grantee.

Section 5.5 Notice of Disqualifying Disposition. Grantee agrees to notify the Committee in writing within ten (10) business days after making a Disqualifying Disposition (as defined below) of any Common Stock acquired pursuant to the exercise of the Option granted hereunder. A Disqualifying Disposition is any disposition (including any sale) of the Common Stock acquired upon the exercise of the Option before the later of (i) two (2) years after the date Grantee was granted the Option hereunder or (ii) one (1) year after the date Grantee acquired the Common Stock by exercising the Option granted hereunder. If Grantee dies before such Common Stock is sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

Section 5.6 Agreement Subject to Grantee's Employment Agreement and the Corporation's Charter and Bylaws. This Agreement is subject to Grantee's Employment Agreement and the Charter and Bylaws of the Corporation, and any applicable Federal or state laws, rules or regulations, including without limitation, the laws, rules, and regulations of the State of Delaware.

Section 5.7 Gender. As used herein, the masculine shall include the feminine as the circumstances may require.

Section 5.8 Headings. The headings in the Agreement are for reference purposes only and shall not affect the meaning or interpretation of the Agreement.

Section 5.9 Notices. All notices and other communications made or given pursuant to the Agreement shall be in writing and shall be sufficiently made or given if hand delivered or mailed by certified mail, addressed to Grantee at the address contained in the records of the Corporation, or addressed to the Committee, care of the Corporation for the attention of its Secretary at its principal office or, if the receiving party consents in advance, transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties.

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Section 5.10 Entire Agreement; Modification. The Agreement and Grantee's Employment Agreement contain the entire agreement between the parties with respect to the subject matter contained herein and may not be modified, except as provided in the Plan, Grantee's Employment Agreement or in a written document signed by each of the parties hereto.

Section 5.11 Conformity with Plan and Grantee's Employment Agreement. This Agreement is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan, which is incorporated herein by reference and Grantee's Employment Agreement. Unless stated otherwise herein, capitalized terms in this Agreement shall have the same meaning as defined in the Plan. Inconsistencies between this Agreement and the Plan or Grantee's Employment Agreement shall be resolved in accordance with the terms of the Plan and Grantee's Employment Agreement provided however that the Option granted pursuant to this Agreement is not transferable by Grantee other than by will or the laws of descent and distribution, and the Option is exercisable during Grantee's lifetime only by Grantee notwithstanding any provision of the Plan or Grantee's Employment Agreement to the contrary. In the event of any ambiguity in the Agreement which is not clarified in Grantee's Employment Agreement or any matters as to which the Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan and Grant Agreements related thereto, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan. Grantee acknowledges by signing this Agreement that he has received and reviewed a copy of the Plan.

IN WITNESS WHEREOF, the parties have executed the Agreement as of the date first above written.

NASTECH PHARMACEUTICAL COMPANY INC.

By: /s/ Steven C. Quay

Name: Steven C. Quay
Title: Chairman, President and CEO

GRANTEE

/s/ Philip C. Ranker

Philip C. Ranker
Chief Financial Officer

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ATTACHMENT A

<TABLE>

<S>	<C>
Grant Date:	January 1, 2006
Number of Options:	17,080 ("Total Shares")
Exercise Price:	\$14.72 per share

</TABLE>

Vesting Schedule:

<TABLE>

<CAPTION>

Portion of Total Shares -----	Vesting Date -----
<S>	<C>
3,658	January 1, 2007
6,711	January 1, 2008
6,711	January 1, 2009

Expiration Date:	January 1, 2016
------------------	-----------------

</TABLE>

NASTECH PHARMACEUTICAL COMPANY INC.
2004 STOCK INCENTIVE PLAN

NONQUALIFIED STOCK OPTION GRANT AGREEMENT

This Grant Agreement (the "Agreement") is entered into as of January 1, 2006 by and between Nastech Pharmaceutical Company Inc. (the "Corporation"), a Delaware Corporation, and Philip C. Ranker ("Grantee").

ARTICLE 1
GRANT OF OPTION

Section 1.1 Grant of Options. Subject to the provisions of the Agreement, and pursuant to the provisions of the Nastech Pharmaceutical Company Inc. 2004 Stock Incentive Plan (the "Plan"), Corporation hereby grants to Grantee, as of the Grant Date specified in Attachment A, a Nonqualified Stock Option (the "Option") to purchase all or any part of the number and class of shares of Common Stock set forth on Attachment A at the exercise price per share ("Option Price") set forth on Attachment A.

Section 1.2 Term of Options. Unless the Option granted pursuant to Section 1.1 terminates earlier pursuant to other provisions of the Agreement, including the expiration date specified in Attachment A, the Option shall expire on the expiration date set forth on Attachment A hereto, but in no event later than the tenth (10th) anniversary of its Grant Date.

ARTICLE 2
VESTING

Section 2.1 Vesting Schedule. Subject to the further provision of this Agreement, and unless the Option has earlier terminated pursuant to the provisions of the Agreement, Grantee shall become vested on the dates specified on Attachment A in a portion of the Option with respect to a percentage or number of the underlying shares in accordance with the vesting schedule specified on Attachment A; provided that Grantee shall have been in the continuous employ of or affiliation (as a director or consultant) with the Corporation or any of the Corporation's subsidiaries from the Grant Date through any such date.

ARTICLE 3
EXERCISE OF OPTION

Section 3.1 Exercisability of Option. No portion of the Option granted to Grantee shall be exercisable by Grantee prior to the time such portion of the Option has vested.

Section 3.2 Manner of Exercise. The Option may be exercised, in whole or in part, by delivering written notice to the Committee or any designee of the Committee. Such notice shall specify the number of shares of Common Stock subject to the Option as to which the Option is being exercised, and shall be accompanied by full payment of

the Option Price of the shares of Common Stock as to which the Option is being exercised. Payment of the Option Price shall be made in cash (or cash equivalents acceptable to the Committee in the Committee's discretion). In the Committee's sole and absolute discretion, the Committee may authorize payment of the Option Price to be made, in whole or in part, by such other means as the Committee may prescribe. The Option may be exercised only in multiples of whole shares and no partial shares shall be issued. Notwithstanding anything to the contrary herein, the minimum number of shares that may be purchased upon an exercise of the Option is the lesser of 100 shares or the number of shares subject to the vested portion of the Option.

Section 3.3 Issuance of Shares and Payment of Cash upon Exercise. Upon exercise of the Option, in whole or in part, in accordance with the terms of the Agreement and upon payment of the Option Price for the shares of Common Stock as to which the Option is exercised, the Corporation shall issue to Grantee or, in the event of Grantee's death, to Grantee's executor, personal representative or the person to whom the Option shall have been transferred by will or the laws of descent and distribution, as the case may be, the number of shares of Common Stock so paid for, in the form of fully paid and nonassessable Common Stock. The stock certificates for any shares of Common Stock issued hereunder shall, unless such shares are registered or an exemption from registration is available under applicable federal and state law, bear a legend restricting transferability of such shares.

ARTICLE 4 TERMINATION OF EMPLOYMENT

Section 4.1 Unvested Portion. Subject to the further provision of this Agreement, and unless the Option has earlier terminated pursuant to the provisions of this Agreement, the unvested portion of the Option shall terminate upon termination of Grantee's employment or affiliation (as a director or consultant) with the Corporation and all of the Corporation's subsidiaries for any reason. Notwithstanding the foregoing or any other provision of this Agreement to the contrary, if such termination occurs as a result of the Company terminating the employment of the Grantee prior to January 2, 2009 against his will and without Cause (as defined in the Grantee's employment agreement dated as of January 1, 2006), or the Grantee terminating his employment prior to January 2, 2009 for Good Reason (as defined in the Grantee's employment agreement dated as of January 1, 2006), the Option shall be fully vested and exercisable and shall remain exercisable for the remainder of the term set forth in Section 1.2 hereof. Furthermore, the foregoing provisions of this Section 4.1 shall be subject to the provisions of Section 21 of the Grantee's employment agreement dated as of January 1, 2006.

Section 4.2 Termination of Employment or Affiliation for Good Reason, Involuntarily by the Corporation, For Cause by the Corporation or Voluntarily by Grantee Other Than Termination of Employment or Affiliations by Death or Disability. Unless the Option has earlier terminated pursuant to the provisions of this Agreement, the vested portion of the Option granted to Grantee shall terminate in its entirety, regardless of whether the Option is vested in whole or in part, at the end of the stated term of the Option. Grantee may exercise all or any part of the Option that was vested as of the

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date of termination (including any part of the Option as to which vesting was accelerated by, or in connection with, such termination) after the date of termination but no later than the end of the stated term of the Option.

Section 4.3 Upon Grantee's Death. Unless the Option has earlier terminated pursuant to the provisions of the Agreement, upon Grantee's death, Grantee's executor, personal representative or the person to whom the Option shall have been transferred by will or the laws of descent and distribution, as the case may be, may exercise all or any part of the Option that was vested as of the date of death no later than the end of the stated term of the Option.

Section 4.4 Termination of Employment or Affiliation by Reason of Disability. Unless the Option has earlier terminated pursuant to the provisions of the Agreement, in the event that Grantee ceases, by reason of Disability, to be an employee of or affiliated (as a director or consultant) with the Corporation, all or any part of the Option that was vested as of the date of termination of employment or affiliation may be exercised in whole or in part at any time until the end of the stated term of the Option. For purposes of this Agreement, Disability shall be as defined in Code Section 22(e)(3) and shall be determined by the Committee, with its determination on the matter being final and binding.

ARTICLE 5 MISCELLANEOUS

Section 5.1 Non-Guarantee of Employment. Nothing in the Plan or the Agreement shall be construed as a contract of employment between the Corporation (or an affiliate) and Grantee, or as a contractual right of Grantee to continue in the employ of the Corporation or an affiliate, or as a limitation of the right of the Corporation or an affiliate to discharge Grantee at any time.

Section 5.2 No Rights of Stockholder. Grantee shall not have any of the rights of a stockholder with respect to the shares of Common Stock that may be issued upon the exercise of the Option until such shares of Common Stock have been issued to him upon the due exercise of the Option.

Section 5.3 Withholding of Taxes. The Corporation or any affiliate shall

have the right to deduct from any compensation or any other payment of any kind (including withholding the issuance of shares of Common Stock) due Grantee the amount of any federal, state or local taxes required by law to be withheld as the result of the exercise of the Option; provided, however, that the value of the shares of Common Stock withheld may not exceed the statutory minimum withholding amount required by law. In lieu of such deduction, the Committee may require Grantee to make a cash payment to the Corporation or an affiliate equal to the amount required to be withheld. If Grantee does not make such payment when requested, the Corporation may refuse to issue any Common Stock certificate under the Plan until arrangements satisfactory to the Committee for such payment have been made.

3

Section 5.4 Nontransferability of Option. Other than by will or the laws of descent and distribution, the Option shall be nontransferable. During any period Grantee is under a legal disability, Grantee's guardian or legal representative may exercise all or any portion of the vested Option on behalf of Grantee.

Section 5.5 Agreement Subject to Grantee's Employment Agreement and the Corporation's Charter and Bylaws. This Agreement is subject to Grantee's Employment Agreement and the Charter and Bylaws of the Corporation, and any applicable Federal or state laws, rules or regulations, including without limitation, the laws, rules, and regulations of the State of Delaware.

Section 5.6 Gender. As used herein, the masculine shall include the feminine as the circumstances may require.

Section 5.7 Headings. The headings in the Agreement are for reference purposes only and shall not affect the meaning or interpretation of the Agreement.

Section 5.8 Notices. All notices and other communications made or given pursuant to the Agreement shall be in writing and shall be sufficiently made or given if hand delivered or mailed by certified mail, addressed to Grantee at the address contained in the records of the Corporation, or addressed to the Committee, care of the Corporation for the attention of its Secretary at its principal office or, if the receiving party consents in advance, transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties.

Section 5.9 Entire Agreement; Modification. The Agreement and Grantee's Employment Agreement contain the entire agreement between the parties with respect to the subject matter contained herein and may not be modified, except as provided in the Plan, Grantee's Employment Agreement or in a written document signed by each of the parties hereto.

Section 5.10 Conformity with Plan and Grantee's Employment Agreement. This

Agreement is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan, which is incorporated herein by reference and Grantee's Employment Agreement. Unless stated otherwise herein, capitalized terms in this Agreement shall have the same meaning as defined in the Plan. Inconsistencies between this Agreement and the Plan or Grantee's Employment Agreement shall be resolved in accordance with the terms of the Plan and Grantee's Employment Agreement. In the event of any ambiguity in the Agreement which is not clarified in Grantee's Employment Agreement or any matters as to which the Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (i) interpret the Plan and Grant Agreements related thereto, (ii) prescribe, amend and rescind rules and regulations relating to the Plan, and (iii) make all other determinations deemed necessary or advisable for the administration of the Plan. Grantee acknowledges by signing this Agreement that he has received and reviewed a copy of the Plan.

IN WITNESS WHEREOF, the parties have executed the Agreement as of the date first above written.

NASTECH PHARMACEUTICAL COMPANY INC.

By: /s/ Steven C. Quay

Name: Steven C. Quay

Title: Chairman, President and CEO

GRANTEE

/s/ Philip C. Ranker

Philip C. Ranker

Chief Financial Officer

ATTACHMENT A

<TABLE>

<S>

Grant Date:

Number of Options:

<C>

January 1, 2006

3,053 ("Total Shares")

Exercise Price:

\$14.72 per share

</TABLE>

The exercise price equals the fair market value of the Common Stock on date of grant.

Vesting Schedule:

<TABLE>

Portion of Total Shares

Vesting Date

<S>

<C>

3,053

January 1, 2007

Expiration Date:

January 1, 2016

</TABLE>



Nastech Pharmaceutical Company Names Philip Ranker Chief Financial Officer

Bothell, Wash., Jan. 3, 2006 – Nastech Pharmaceutical Company Inc. (Nasdaq: NSTK), a leader in molecular biology-based drug delivery products and technologies, today announced today that Philip Ranker has been named Chief Financial Officer and Corporate Secretary. Mr. Ranker has served as Nastech's interim Chief Financial Officer and Corporate Secretary since September 2005 and has been an integral part of Nastech's financial organization and growth in his previous role as Vice President of Finance since joining the Company in August 2004.

"We are very pleased to have a person with Phil's capabilities and experience as Nastech's Chief Financial Officer," said Steven C. Quay, M.D., Ph.D., Chairman, President and CEO of Nastech. "Our research, clinical programs and partnerships continue to make rapid advances and we will benefit from Phil's financial and operational leadership."

"Nastech's innovative research has been successful in developing a valuable pipeline of products and partnerships," stated Phil Ranker, CFO of Nastech. "I am excited by this opportunity and will focus my efforts on ensuring that Nastech realizes its full commercial potential."

Mr. Ranker has more than 19 years of experience in finance within the biotechnology and pharmaceutical industries. Prior to joining Nastech, he served as the Director of Finance for ICOS Corporation and in various financial management positions during a 15-year career at Sanofi-Aventis, including Senior Finance Director. Mr. Ranker was also employed by Peat Marwick (KPMG) where he conducted financial and operational audits for pharmaceutical companies and is a CPA.

About Nastech

We are a pharmaceutical company developing innovative products based on proprietary molecular biology-based drug delivery technologies. We and our collaboration partners are developing products for multiple therapeutic areas including inflammatory conditions, obesity and osteoporosis. Additional information about Nastech is available at <http://www.nastech.com>.

Nastech Forward Looking Statement

Statements made in this press release may be forward-looking statements within the meaning of Federal Securities laws that are subject to certain risks and uncertainties and involve factors that may cause actual results to differ materially from those projected or suggested. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to: (i) the ability of Nastech to obtain additional funding; (ii) the ability of Nastech to attract and/or maintain manufacturing, research, development and commercialization partners;

(iii) Nastech' s and/or a partner' s ability to successfully complete product research and development, including preclinical and clinical studies and commercialization; (iv) Nastech' s and/or a partner' s ability to obtain required governmental approvals; and (v) Nastech' s and/or a partner' s ability to develop and commercialize products that can compete favorably with those of competitors. Additional factors that could cause actual results to differ materially from those projected or suggested in any forward-looking statements are contained in Nastech' s most recent periodic reports on Form 10-K and Form 10-Q that are filed with the Securities and Exchange Commission. Nastech assumes no obligation to update and supplement forward-looking statements because of subsequent events.

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CONTACT:

Nastech

Ed Bell

Senior Investor Relations Manager

(425) 908-3639

ir@nastech.com

Noonan Russo

Matthew Haines (Investors and Media)

(212) 845-4235