SANGSTAT MEDICAL CORP
Form PRE 14A
March 21, 2002

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant ý

Filed by a party other than the Registrant ¨

Check the appropriate box:

ý Preliminary Proxy Statement
¨ Confidential, for the use of the Commission only (as permitted by Rule 14a-6(e)(2))
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-12

SANGSTAT MEDICAL CORPORATION

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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1. Title of each class of securities to which transaction applies:
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3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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1. Amount Previously Paid:
2. Form, Schedule or Registration Statement No.:
3. Filing Party:
4. Date Filed:

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 14, 2002

TO THE STOCKHOLDERS OF SANGSTAT MEDICAL CORPORATION:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of SangStat Medical Corporation, a Delaware corporation, will be held on May 14, 2002 at 10:00 a.m. local time, at the offices of the Company, located at 6300 Dumbarton Circle, Fremont, California, 94555, for the following purposes:

1. To elect directors to serve for one-year terms or until their successors are elected;
2. To consider and approve an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of the Company's Common Stock by 5,000,000 shares, from 35,000,000 to 40,000,000;
3. To consider and approve the Company's 2002 Stock Option Plan and the reservation of shares thereunder;
4. To ratify the appointment of Deloitte & Touche LLP as independent auditors of the Company for the fiscal year ending December 31, 2002; and
5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on March 18, 2002, as the record date for the determination of stockholders entitled to notice of and to vote at this Annual Meeting and at any adjournment or postponement thereof.

By order of the Board of Directors,

Adrian Arima
Secretary, Vice President and
Associate General Counsel

Fremont, California
April 5, 2002

All stockholders are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please complete, date, sign and return the enclosed proxy as promptly as possible in order to ensure your representation at the meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for that purpose. Even if you have given your proxy, you may still vote in person if you attend the meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain from the record holder a proxy issued in your name. YOUR VOTE IS VERY IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN.

SANGSTAT MEDICAL CORPORATION
6300 Dumbarton Circle
Fremont, California 94555

PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
To Be Held On May 14, 2002

General

The enclosed proxy is solicited on behalf of the Board of Directors of SangStat Medical Corporation, a Delaware corporation, for use at the Annual Meeting of Stockholders of the Company to be held on May 14, 2002 at 10:00 a.m. local time, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at the offices of the Company located at the address above. We intend to mail this proxy statement and accompanying proxy card on or about April 5, 2002, to all stockholders entitled to vote at the Annual Meeting.

Voting

The specific proposals to be considered and acted upon at the Annual Meeting are summarized in the accompanying Notice and are described in more detail in this Proxy Statement.

Only holders of record of the Company's common stock, $0.001 par value, at the close of business on March 18, 2002, will be entitled to notice of and to vote at the Annual Meeting. At the close of business on March 18, 2002, 26,348,115 shares of Common Stock were issued and outstanding. No shares of the Company's preferred stock were outstanding.

Each holder of record of Common Stock on such date will be entitled to one vote for each share held on all matters to be voted upon at the Annual Meeting. A majority of all outstanding shares entitled to vote present in person or

represented by proxy will constitute a quorum at the Annual Meeting.

Revocability of Proxies

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. A proxy may be revoked by filing with the Secretary of the Company, at the Company's principal executive office, a written notice of revocation or another duly executed proxy bearing a later date, or it may be revoked by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

Solicitation

The Company will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement, the Proxy and any additional solicitation materials furnished to stockholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries, and custodians holding in their names shares of common stock beneficially owned by others to forward to such beneficial owners. The Company may reimburse such persons for their costs in forwarding the solicitation materials to such beneficial owners. The original solicitation of proxies by mail may be supplemented by a solicitation by telephone, telegram, or other means by directors, officers or other regular employees. No additional compensation will be paid to our directors, officers or other regular employees for such services. The Company has engaged Georgeson Shareholder Communications, Inc. to provide routine advice and services for proxy solicitation. Georgeson will receive a fee of approximately $7,000 for such advice and services, which amount will be paid by the Company.

STOCKHOLDER PROPOSALS TO BE PRESENTED AT THE NEXT ANNUAL MEETING

In order for stockholder business to be included in the Company's proxy statement for a meeting or properly brought before that meeting by a stockholder, such stockholder must have given timely notice thereof in writing to the Secretary of the Company. For a stockholder's proposal to be included in the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders, the stockholder must follow the procedures of Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the proposal must be received at the Company's principal executive offices at 6300 Dumbarton Circle, Fremont, California 94555 no later than December 6, 2002. In order for proposals of stockholders made outside of Rule 14a-8 under the Securities Exchange Act to be considered timely, the Company's Bylaws also require that such proposals must be submitted to the Secretary of the Company no later than December 6, 2002, unless the 2003 Annual Meeting is called for a date earlier than April 14, 2003, in which case such proposal must be received not later than the close of business on the tenth day following the day on which public disclosure of the date of the meeting is made.

MATTERS TO BE CONSIDERED AT ANNUAL MEETING

PROPOSAL ONE

ELECTION OF DIRECTORS

General

There are six nominees for positions on the Board this year. All of the nominees have served as directors since the last annual meeting, except for Mr. Nicholas J. Simon III, who was appointed as a director by the Board on June 13, 2001 (effective July 1, 2001) and will stand for election as a director by our stockholders for the first time at this year's Annual Meeting.

Information regarding the business experience of each nominee as of March 14, 2002, is provided below. All directors are elected annually to serve until the next annual meeting and until their respective successors are elected and qualified.

Vote Required

Directors are elected by a plurality of the votes cast by the holders of the Company's issued and outstanding common stock, present in person or represented by proxy and entitled to vote on this particular matter at the Annual Meeting. The six director nominees receiving the highest number of affirmative votes will be elected directors of the Company. Abstentions and broker non-votes, if any, will be counted as present for purposes of determining if a quorum is present. Abstentions and broker non-votes will not affect the outcome of the vote on the election of directors.

THE BOARD OF DIRECTORS RECOMMENDS
A VOTE IN FAVOR OF EACH NAMED NOMINEE.

Nominees

Each person nominated for election has agreed to serve if elected, and management has no reason to believe that any nominee will be unavailable to serve. In the event any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for such substitute nominee who may be designated by the present Board of Directors to fill the vacancy. Unless otherwise instructed, the proxy holders will vote the proxies received by them FOR the nominees named below.

Nominee	Age	Positions and Offices Held with the Company	Director Since
Jean-Jacques Bienaimé	48	Chairman of the Board, Chief Executive Officer & President	1999
Fredric J. Feldman (1) (2)	62	Director	1992
Richard D. Murdock (1) (3)	55	Director	1993
Andrew Perlman (2)	54	Director	1992
Nicholas J. Simon III (2) (3)	47	Director	2001
Vincent R. Worms (1) (3)	49	Director	1991

Notes:

(1) Member of the Audit Committee
(2) Member of the Nominating Committee
(3) Member of the Compensation Committee

Jean-Jacques Bienaimé

has been the Company's President since June 1998 and became Chief Executive Officer in February 1999. He also served as the Company's Chief Operating Officer from June 1998 to February 1999. He was elected to the Board of Directors in March 1999. Mr. Bienaimé became Chairman of the Board of Directors in October 2000. From September 1992 to May 1998 Mr. Bienaimé was with Rhone Poulenc Rorer, Inc., a pharmaceutical company, rising to the position of Senior Vice President, Corporate Marketing and Business Development. He is currently a member of the board of Fox Chase Cancer Center and AeroGen, Inc., a public drug delivery company. Mr. Bienaimé received his degree in economics from Ecole Superieure de Commerce de Paris in France and an M.B.A. from the Wharton School, University of Pennsylvania.

Fredric J. Feldman, Ph.D.,

has been a director since March 1992. He has been the President of FJF Associates, a consultant to health care venture capital and emerging companies, since February 1992. From September 1995 to June 1996 he was the Chief Executive Officer of Biex, Inc., a women's healthcare company. Dr. Feldman returned to his position as Chief Executive Officer of Biex from 1999 to 2000. He is a director of OrthoLogic Corporation and Ostex International, Inc., both public medical device companies. Dr. Feldman received his Ph.D. in Analytical Chemistry from the University of Maryland and his B.S. in Chemistry from Brooklyn College of City University of New York.

Richard D. Murdock

has been a director since October 1993. Since October 2001, Mr. Murdock has been the President, Chief Executive Officer and Director of InPro Biotechnology, a biotechnology company involved in the diagnosis and treatment of neurodegenerative diseases. From December 1998 until March 2001, Mr. Murdock was the President and Chief Executive Officer and a director of Kyphon, Inc., an orthopedic medical device company. From September 1991 to October 1998, Mr. Murdock served as the Chief Executive Officer and a director of CellPro, Incorporated, a public biotechnology company. Mr. Murdock received his B.S. in Zoology from the University of California at Berkeley.

Andrew J. Perlman, M.D., Ph.D.,

has been a director since December 1992. In February 2002, he became Chief Executive Officer and a director of Affymax, Inc., a privately held biopharmaceutical company. Prior to that, Dr. Perlman had been Executive Vice President at Tularik, Inc., a public biotechnology company, since September 1999. From November 1997 to September 1999, Dr. Perlman served as Tularik's Vice President, Medical Research and Corporate Development. From January 1993 to November 1997, Dr. Perlman served as Tularik's Vice President of Medical Research. Dr. Perlman received his M.D. and his Ph.D. in Physiology from New York University.

Nicholas J. Simon III

has been a director since July 2001. Mr. Simon is a General Partner at MPM Capital, a leading life sciences venture capital firm. Prior to joining MPM Capital, Mr. Simon was CEO of Collabra Pharma, Inc., a pharmaceutical development company, from March 2000 until joining MPM Capital in October 2001. Mr. Simon joined Genentech, Inc. in December 1989 and from 1994 to April 2000 served as Vice President of Business and Corporate Development. Mr. Simon is also Chairman of the Board of Deltagen, Inc. and a director of InterMune, Inc., both public biotechnology companies. In addition, he serves on the board of directors of several private companies. Mr. Simon holds an M.B.A. from Loyola College.

Vincent R. Worms

has been a director since October 1991. Mr. Worms has been a General Partner of Partech International, a venture capital management fund, since 1982. Mr. Worms is presently a director of Informatica Corporation, a public software company. He received his engineering degree from Ecole Polytechnique in Paris, and his M.S. degree from the Massachusetts Institute of Technology.

Board Committees and Meetings

During the fiscal year ended December 31, 2001, the Board of Directors held 14 meetings and acted by written consent once. The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating Committee. During the past fiscal year, each Board member attended (in person or by telephone conference) 75% or more of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees on which he or she served, that were held during the period for which he or she was a director or committee member, respectively, except Mr. Simon.

The Audit Committee reviews the financial reporting and internal accounting procedures and controls of the Company and considers and reports to the Board of Directors with respect to other auditing and accounting matters, including the selection of our independent auditors, the scope of annual audits and quarterly reviews, fees to be paid to our independent auditors and the performance of our independent auditors. The Audit Committee operates under a written charter adopted by the Board of Directors, a copy of which was attached to last year's proxy statement. During the past fiscal year, the Audit Committee was composed of three non-employee directors: Dr. Feldman, Mr. Murdock, and Mr. Worms. The Audit Committee met three times during the past fiscal year.

The Compensation Committee reviews and recommends to the Board of Directors certain salaries, benefits and stock option grants for employees, consultants, directors and other individuals compensated by the Company. The Compensation Committee also administers the Company's 1993 Stock Option Plan and will administer the 2002 Stock Option Plan, if it is approved. During the past fiscal year, the Compensation Committee initially consisted of three non-employee directors: Dr. Perlman, Ms. Greetham and Mr. Worms. On September 24, 2001, Dr. Perlman and Ms. Greetham were replaced on the Compensation Committee by non-employee directors Mr. Murdock and Mr. Simon. The Compensation Committee held one meeting during the past fiscal year.

The Nominating Committee reviews the qualifications of candidates and incumbents for election as directors of the Company and proposes a slate of directors for election by the Company's stockholders at stockholder meetings. In performing these functions, the Nominating Committee considers nominees recommended by stockholders. Such recommendations should be submitted in writing to the Secretary of the Company, and each such notice of nomination is required to contain the following: (a) the name and address of the stockholder who intends to make the nomination and of the person or person to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Company entitled to vote for the election of directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information as would be required to be disclosed with respect to the nominee in a proxy solicitation pursuant to the proxy rules of the Securities and Exchange Commission; and (e) the consent of each nominee to serve as a director of the Company if so elected. In addition, the Bylaws of the Company establish certain procedures concerning stockholder nominations for election of directors. The Bylaws generally require that notice of such nominations be received at the Company's principal executive offices not less than 120 days in advance of the date that the Company's proxy statement was released to stockholders in connection with the previous year's annual meeting of stockholders. The Nominating Committee consists of three non-employee directors: Mr. Feldman, Mr. Perlman and Mr. Simon. The Nominating Committee was established by the Board of Directors in September 2001 and did not meet during the past fiscal year.

Director Compensation

Effective January 1, 1999, the non-employee directors receive an annual retainer of $15,000, paid in one installment at the last Board of Directors meeting of the year. In 2001, the directors elected to receive this $15,000 in the form of an option to purchase 57,516 shares of Common Stock pursuant to the terms of the 1996 Non-Employee Directors Stock Option Plan. Effective January 1, 2000, the non-employee directors receive a payment of $500 for each committee meeting attended that exceeds an hour in length. No additional compensation is paid for meeting attendance or

committee membership. In 2001, one committee meeting exceeded one hour in length. The table below shows the amounts paid the non-employee directors for attending committee meetings during 2001.

Director	Committee Compensation
Fredric Feldman	$500
Richard D. Murdock	500
Vincent Worms	500

The non-employee directors also receive automatic annual grants of options to purchase 8,000 shares of Common Stock pursuant to the Directors Plan.

PROPOSAL TWO

APPROVAL OF AMENDMENT OF THE CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF THE COMPANY'S COMMON STOCK

Background

On March 6, 2002, the Board unanimously approved a resolution to amend the Fifth Article of the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock, $.001 par value, from 35,000,000 shares to 40,000,000 shares, subject to stockholder approval. As of March 14, 2002, the Company had 26,345,815 shares of common stock issued and outstanding, and 5,856,040 unissued shares of Common Stock were reserved for issuance under the Company's equity compensation plans (including 1,750,000 shares reserved for issuance pursuant to the Company's proposed 2002 Stock Option Plan, which is described in Proposal Three of this Proxy Statement). An additional 500,773 shares of Common Stock are reserved for issuance upon conversion of an outstanding convertible note and an additional 50,000 shares are reserved for issuance upon exercise of outstanding warrants. As a result, 2,247,372 shares of Common Stock are unissued and unreserved.

Purpose and Effect of the Amendment

The purpose of the amendment is to provide the Company with additional shares of common stock that may be made available for future financing and acquisition transactions, stock dividends or splits, employee benefit plans and other general corporate purposes. Under Delaware law, the Company may only issue shares of Common Stock to the extent such shares have been authorized for issuance under the Company's Certificate of Incorporation. If the amendment is approved, the Company will have greater flexibility in the future to issue shares in excess of those currently authorized without the expense and delay of a special stockholders meeting. If the Board deems it in the best interests of the Company and the stockholders to issue additional shares of common stock, the Board will have the authority to determine the terms of the issuance and generally would not seek approval by the stockholders unless such approval is required by applicable law or regulation or the Nasdaq National Market.

The Company has no present agreement or arrangement to issue any of the shares for which approval is sought. The Board of Directors has no current intention to split the outstanding Common Stock by declaring a stock dividend, and the declaration and payment of such a stock dividend by the Board of Directors would be contingent upon several factors, including the market price of the Company's Common Stock, the Company's expectations about future performance, and the Company's beliefs about general stock market trends.

The increase in authorized Common Stock will not have any immediate effect on the rights of existing stockholders. To the extent that additional authorized shares are issued in the future, they may decrease the existing stockholders' percentage equity ownership and, depending on the price at which they are issued, could be dilutive to the existing stockholders. The holders of Common Stock have no preemptive rights and the Board of Directors has no plans to grant such rights with respect to any such shares.

The increase in the authorized number of shares of Common Stock and the subsequent issuance of such shares could have the effect of delaying or preventing a change in control of the Company without further action by the stockholders. Shares of authorized and unissued Common Stock could, within the limits imposed by applicable law, be issued in one or more transactions which would make a change in control of the Company more difficult, and therefore less likely. Any such issuance of additional stock could have the effect of diluting the earnings per share and book value per share of outstanding shares of Common Stock and such additional shares could be used to dilute the stock ownership or voting rights of a person seeking to obtain control of the Company, thereby deterring or rendering more difficult a merger, tender offer, proxy contest or an extraordinary corporate transaction opposed by the Board.

The Board of Directors is not currently aware of any attempt to take over or acquire the Company. While it may be deemed to have potential anti-takeover effects, the proposed amendment to increase the authorized Common Stock is not prompted by any specific effort or takeover threat currently perceived by management.

If the proposed amendment is approved by the stockholders, the Fifth Article of the Company's Certificate of Incorporation will be amended and restated to read as follows:

> "FIFTH: The corporation is authorized to issue 45,000,000 shares, 40,000,000 of which are designated "Common Stock," $0.001 par value, and 5,000,000 of which are designated "Preferred Stock," $0.001 par value. The Board of Directors is hereby authorized to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon any series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of them. The Board of Directors is also authorized to increase or decrease the number of shares of any series, prior or subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series."

Vote Required

The affirmative vote of at least a majority of the shares of the Company's issued and outstanding common stock will be required to approve this proposal. Abstentions and broker non-votes, if any, will be counted as present for purposes of determining if a quorum is present. Both abstentions and broker non-votes are not affirmative votes and, therefore, will have the same effect as votes against this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE AMENDMENT TO THE COMPANY'S CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES.

PROPOSAL THREE

APPROVAL OF THE 2002 STOCK OPTION PLAN

Purpose and Effect of the Proposal

On March 6, 2002, the Board of Directors adopted the Company's 2002 Stock Option Plan, subject to stockholder approval. The Company currently grants options to employees under its existing stock option plan, the 1993 Stock Option Plan, as amended, which was initially approved by the Company's stockholders on December 7, 1993. As of March 6, 2002, 183,323 shares of Company common stock remained available for future grants under the 1993 Plan and 3,470,568 shares of common stock were subject to outstanding options granted under the 1993 Plan. Under its terms, the 1993 Plan will terminate as of October 11, 2003, provided that if the 2002 Plan is approved by the stockholders, the 1993 Plan will terminate upon such stockholder approval. Without the adoption of the 2002 Plan, sufficient shares will not be available under the 1993 Plan to provide for continued option grants in 2002 and beyond, consistent with the purpose of Company's normal compensation practices. The Company believes that the adoption of the 2002 Plan is necessary to enable the Company to continue to attract and retain high quality employees and provide eligible recipients with the opportunity to acquire a proprietary interest in the Company.

In addition to the 1993 Plan, the Company also grants options to non-employee directors of the Company under the 1996 Non-Employee Directors Stock Option Plan. As of March 14, 2002, 204,514 shares of Company common stock remained available for future grants under this plan, and 267,149 shares of common stock were subject to outstanding options granted under the plan. The 1996 Non-Employee Directors Stock Option Plan will remain in effect regardless of whether the 2002 Stock Option Plan is adopted by the stockholders at this Annual Meeting.

Vote Required

Approval of the 2002 Stock Option Plan for purposes of Section 422 and 162(m) of the Internal Revenue Code of 1986, as amended, requires the affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting. Abstentions and broker non-votes will be counted as present for purposes of determining if a quorum is present. Abstentions and broker non-votes will have no effect on the outcome of this vote.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL OF THE 2002 STOCK OPTION PLAN.

2002 STOCK OPTION PLAN SUMMARY

The following is a summary of the principal features of the 2002 Plan. The summary, however, does not purport to be a complete description of all provisions of the 2002 Plan. Any stockholder of the Company who wishes to obtain a copy of the actual plan document may do so upon written request to the Secretary of the Company at the Company's principal executive offices in Fremont, California.

Share Reserve

Subject to certain adjustments described below, 1,750,000 shares of Common Stock have initially been reserved for issuance under the 2002 Plan. As the 1993 Plan will be terminated upon stockholder approval of the 2002 Plan, the following shares of Common Stock will also be transferred to the 2002 Plan immediately prior to the termination of the 1993 Plan: (i) any shares of Common Stock remaining available for issuance under the 1993 Plan immediately prior to termination of the 1993 Plan, plus (ii) any shares of Common Stock covered by stock options granted under the 1993 Plan that expire or otherwise terminate without being exercised following the termination of the 1993 Plan. In no event may any one participant in the 2002 Plan be granted stock options and separately exercisable stock appreciation rights for more than 500,000 shares in the aggregate in any calendar year.

In the event any change is made to the outstanding shares of Common Stock by reason of any recapitalization, stock dividend, stock split, combination of shares, exchange of shares or other change in corporate structure effected without the Company's receipt of consideration, appropriate adjustments will be made to (i) the maximum number and class of securities issuable under the 2002 Plan, (ii) the maximum number and class of securities for which any one participant may be granted stock options and separately exercisable stock appreciation rights under the 2002 Plan and (iii) the number and class of securities and the exercise price per share in effect under each outstanding option or stock appreciation right issued under the 1993 Plan or the 2002 Plan.

Should an option expire or terminate for any reason prior to exercise in full or be canceled in accordance with the provisions of the 2002 Plan, the shares subject to the portion of the option not so exercised or canceled will be available for subsequent issuance under the 2002 Plan. Unvested shares issued under the 2002 Plan and subsequently repurchased by the Company at the option exercise price paid per share will also be added back to the share reserve and accordingly will be available for subsequent issuance, except for incentive stock option grants under the 2002 Plan. Shares subject to any option surrendered in accordance with the stock appreciation right provisions of the 2002 Plan will not be available for subsequent issuance.

Plan Administration

The 2002 Plan may be administered by a committee appointed by the Board and initially will be administered by the Compensation Committee. To the extent necessary and desirable, this committee may be composed entirely of individuals who meet the qualifications referred to in Section 162(m) of the Internal Revenue Code of 1986, as amended, and Rule 16b-3 of the Securities Exchange Act of 1934, as amended. This committee, also referred to as the Plan Administrator, has complete discretion (subject to the provisions of the 2002 Plan) to set the terms of each option grant under the 2002 Plan.

Eligibility

Employees of the Company or any parent or subsidiary, non-employee members of the Board or the board of directors of any parent or subsidiary corporation, and consultants and other independent advisors in the service of the Company or its parent or subsidiary corporations are eligible to participate in the 2002 Plan. Non-employee members of the Board are also eligible to participate in the 1996 Non-Employee Directors Stock Option Plan.

As of March 1, 2002, seven executive officers and approximately 267 other employees were eligible to participate in the 1993 Plan. It is anticipated that such participants will be eligible to participate in the 2002 Plan.

Valuation

The fair market value per share of Common Stock on any relevant date under the 2002 Plan will be the closing selling price per share on that date on the Nasdaq National Market. On March 14, 2002, the closing selling price per share was $24.50.

Option Terms

Options granted under the 2002 Plan will have an exercise price as fixed by the Plan Administrator, except that (i) such exercise price may not be less than seventy-five percent (75%) of the fair market value per share of Common Stock on the date of grant, and (ii) the exercise price per share of incentive stock option and options intended to qualify as performance-based compensation under Section 162(m) of the Code, may not be less than one hundred percent (100%) of the fair market value per share of Common Stock on the option grant date. In addition, the exercise price of an incentive stock option granted to an individual owning ten percent (10%) or more of the total combined voting power of all classes of stock of the Company (or any parent or subsidiary) must be at least one hundred ten percent (110%) of the fair market value per share of Common Stock on the option grant date. No granted option will have a term in excess of 10 years. The options will generally become exercisable in a series of installments over the optionee's period of service with the Company according to a vesting schedule as determined by the Plan Administrator and set forth in the individual stock option agreement with each individual optionee.

Upon cessation of service, the optionee will have a limited period of time in which to exercise his or her outstanding options for any shares in which the optionee is vested at that time. The Plan Administrator will have complete discretion to extend the period following the optionee's cessation of service during which his or her outstanding options may be exercised and/or to accelerate the exercisability or vesting of such options in whole or in part. Such discretion may be exercised at any time while the options remain outstanding, whether before or after the optionee's actual cessation of service.

The Plan Administrator is authorized to issue two types of stock appreciation rights in connection with option grants made under the 2002 Plan:

Tandem stock appreciation rights provide the holders with the right to surrender their options for an appreciation distribution from the Company equal in amount to the excess of (i) the fair market value of the vested shares of Common Stock subject to the surrendered option over (ii) the aggregate exercise price payable for those shares. Such appreciation distribution may, at the discretion of the Plan Administrator, be made in cash or in shares of Common Stock.

Limited stock appreciation rights may be provided to one or more non-employee Board members or officers of the Company as part of their option grants. Any option with such a limited stock appreciation right may be surrendered to the Company upon the successful completion of a hostile tender offer for more than fifty percent (50%) of the Company's outstanding voting stock. In return for the surrendered option, the officer will be entitled to a cash distribution from the Company in an amount per surrendered option share equal to the excess of (i) the highest price paid per share of Common Stock in connection with the tender offer over (ii) the exercise price payable for such share.

No optionee is to have any stockholder rights with respect to the option shares until the optionee has exercised the option and paid the exercise price for the purchased shares. Options are generally not assignable or transferable other than by will or the laws of inheritance following the optionee's death and, during the optionee's lifetime, the option may be exercised only by such optionee. However, the Plan Administrator may allow nonstatutory options to be transferred or assigned during the optionee's lifetime to one or more members of the optionee's immediate family or to a trust established exclusively for one or more such family members, to the extent such transfer or assignment is in furtherance of the optionee's estate plan.

The shares of Common Stock acquired upon the exercise of one or more options may be unvested and subject to repurchase by the Company, at the original exercise price paid per share, if the optionee ceases service with the Company prior to vesting in those shares. The Plan Administrator will have complete discretion to establish the vesting schedule to be in effect for any such unvested shares and, in certain circumstances, may cancel the Company's outstanding repurchase rights with respect to those shares and thereby accelerate the vesting of the shares.

Acceleration

In the event of any of the following corporate transactions (i) a merger or consolidation in which the Company is not the surviving entity; (ii) a sale, transfer or other disposition of all or substantially all the assets of the Company in liquidation or dissolution of the Company; or (iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from those who held those securities immediately prior to the merger, then each outstanding option under the 2002 Plan which is not to be assumed by the successor corporation will automatically accelerate in full. Any options assumed in connection with such acquisition may, in the Plan Administrator's discretion, be subject to immediate acceleration in the event the individual's service with the successor entity is subsequently terminated within a specified period following the acquisition. The Plan Administrator will have the discretionary authority to structure one or more option grants under the 2002 Plan so that those options will, in connection with a change in control of the Company (whether by successful tender offer for more than fifty percent (50%) of the outstanding voting stock or a change in the majority of the Board by one or more contested elections for Board membership, or otherwise), automatically accelerate in full, with such acceleration to occur either at the time of such change in control or upon the subsequent termination of the individual's service.

The acceleration of vesting upon a change in the ownership or control of the Company may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of the Company.

Exercise Price and Financial Assistance

The exercise price may be paid in cash, by check, in shares of Common Stock or by any combination of cash, check and shares. Options may also be exercised through a same-day sale program, pursuant to which a designated brokerage firm may effect the immediate sale of the shares purchased under the option and pay over to the Company, out of the sale proceeds on the settlement date, sufficient funds to cover the exercise price for the purchased shares plus all applicable withholding taxes. The Plan Administrator may also assist any optionee (including an officer or director) in the exercise of his or her outstanding options by (i) authorizing a Company loan to the optionee, or (ii) permitting the optionee to pay the exercise price in installments over a period of years. Notwithstanding the above, the optionee must pay in cash or cash equivalents, immediately upon exercise, an amount equal to the total par value of the aggregate shares of Common Stock purchased. The Plan Administrator will have complete discretion to determine the terms of any such financial assistance. However, the maximum amount of financing provided any individual may not exceed the cash consideration payable for the purchased shares plus applicable taxes, and the terms of such financing must comply with any applicable rules and regulations established by the United States Federal Reserve Board. Any such financing may be subject to forgiveness in whole or in part, at the discretion of the Plan Administrator, over the optionee's period of service.

Tax Withholding

The Company's obligation to deliver shares of Common Stock upon the exercise of stock options for such shares or the vesting of such shares under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

The Plan Administrator may provide one or more holders of options or unvested shares with the right to have the Company withhold a portion of the shares otherwise issuable to such individuals in satisfaction of the tax liability incurred by such individuals in connection with the exercise of those options or the vesting of those shares. Alternatively, the Plan Administrator may allow such individuals to deliver previously acquired shares of Common Stock in payment of such tax liability.

Option Grants

As of March 14, 2002, options covering 3,451,054 shares of Common Stock were outstanding under the 1993 Plan, 183,323 shares remained available for future option grant, and 1,457,823 shares have been issued under the 1993 Plan in connection with option exercises.

Amendment and Termination

The Board may amend or modify the 2002 Plan in any or all respects whatsoever, subject to any stockholder approval required under applicable law or regulation. The Board may also amend the 2002 Plan with respect to any employee who is a resident outside the United States, in order to bring the 2002 Plan into compliance with the requirements of local law. The Board may, where appropriate, establish one or more sub-plans for this purpose.

The Board may terminate the 2002 Plan at any time, and the 2002 Plan will in all events terminate on March 6, 2012.

FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain Federal income tax considerations related to the receipt and exercise of options and stock appreciation rights pursuant to the Plan. This summary is for general information purposes only and is based upon existing Federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of Federal income taxation which may be important to particular participants in light of their individual circumstances and does not discuss any state or local tax considerations. Each Plan participant is urged to consult his or her tax advisor regarding the Federal, state, and local income and other tax considerations of the receipt and exercise of options and stock appreciation rights under the Plan.

Option Grants

Options granted under the 2002 Plan may be either incentive stock options which satisfy the requirements of Section 422 of the Code or nonstatutory options which are not intended to meet such requirements. The federal income tax treatment for the two types of options differs as follows:

Incentive Options

. No taxable income is recognized by the optionee at the time of the option grant, and no taxable income is generally recognized at the time the option is exercised. Upon the exercise of an incentive stock option, the optionee will not recognize any income for regular Federal income tax purposes. For purposes of the alternative minimum tax, however, the excess of (i) the fair market value of the stock received pursuant to the exercise of the option over (ii) the exercise price of the option will be treated as a tax preference item and thereby potentially give rise to, or increase, an alternative minimum tax liability for the optionee for the year of exercise (or a later taxable year if the shares received are unvested or a sale thereof would give rise to liability under section 16(b) of the 1934 Act). In addition, the optionee will recognize taxable income in the year in which the purchased shares are sold or otherwise made the subject of a taxable disposition. For Federal tax purposes, dispositions are divided into two categories: qualifying and disqualifying. A qualifying disposition occurs if the sale or other disposition is made after the optionee has held the shares for more than two years after the option grant date and more than one year after the exercise date. If either of these two holding periods is not satisfied, then a disqualifying disposition will result.

Upon a qualifying disposition, the optionee will recognize long-term capital gain in an amount equal to the excess of (i) the amount realized upon the sale or other disposition of the purchased shares over (ii) the exercise price paid for the shares. If there is a disqualifying disposition of the shares, then the excess of (i) the fair market value of those

shares on the exercise date over (ii) the exercise price paid for the shares will be taxable as ordinary income to the optionee. Any additional gain or loss recognized upon the disposition will be subject to tax as a capital gain or loss.

If the optionee makes a disqualifying disposition of the purchased shares, then the Company will be entitled to claim an income tax deduction, for the taxable year in which such disposition occurs, equal to the excess of (i) the fair market value of such shares on the option exercise date (or, if less, the amount realized on the disqualifying disposition) over (ii) the exercise price paid for the shares. In no other instance will the Company be allowed a deduction with respect to the optionee's disposition of the purchased shares.

Nonstatutory Options

. No taxable income is recognized by an optionee upon the grant of a nonstatutory option. The optionee will in general recognize ordinary income, in the year in which the option is exercised, equal to the excess of the fair market value of the purchased shares on the exercise date over the exercise price paid for the shares, and the optionee will be required to satisfy the tax withholding requirements applicable to such income. The Company will be entitled to claim an income tax deduction equal to the amount of ordinary income recognized by the optionee with respect to the exercised nonstatutory option. The deduction will in general be allowed for the taxable year of the Company in which such ordinary income is recognized by the optionee.

Section 83(b) Elections

. If the shares acquired upon exercise of any option are unvested and subject to repurchase by the Company in the event of the optionee's termination of service prior to vesting in those shares (or if a disposition of such shares would give rise to liability under section 16(b) of the 1934 Act), then the optionee will not recognize any taxable income at the time of exercise but will have to report as ordinary income, as and when the Company's repurchase right lapses, (or when a disposition of the shares would no longer give rise to liability under section 16(b) of the 1934 Act) an amount equal to the excess of (i) the fair market value of the shares on the date the repurchase right lapses over (ii) the exercise price paid for the shares. The optionee may, however, elect under Section 83(b) of the Code to include as ordinary income in the year of exercise of the option an amount equal to the excess of (i) the fair market value of the purchased shares on the exercise date over (ii) the exercise price paid for such shares. If the Section 83(b) election is made, the optionee will not recognize any additional income as and when the repurchase right lapses (or when a disposition of the shares would no longer give rise to liability under section 16(b) of the 1934 Act).

Stock Appreciation Rights

An optionee who is granted a stock appreciation right will recognize ordinary income in the year of exercise equal to the cash amount (or, in the case of the delivery of shares, the fair market value) of the appreciation distribution. The Company will be entitled to claim an income tax deduction equal to the income inclusion of the optionee for the taxable year in which the ordinary income is recognized by the optionee.

Deductibility of Executive Compensation

The Company anticipates that any compensation deemed paid by it in connection with disqualifying dispositions of incentive stock option shares or exercises of nonstatutory options with exercise prices equal to the fair market value of the option shares on the grant date will qualify as performance-based compensation for purposes of Section 162(m) of the Code and will not have to be taken into account for purposes of the $1 million limitation per covered individual on the deductibility of the compensation paid to certain executive officers of the Company. Accordingly, all compensation deemed paid with respect to those options should remain deductible by the Company without limitation under Section 162(m) of the Code.

PLAN BENEFITS

Awards under the 2002 Plan are discretionary. Therefore, it is not possible to determine the benefits that will be received in the future by participants in the 2002 Plan or the benefits that would have been received by such

participants if the 2002 Plan, as amended, had been in effect in 2001.

OPTION GRANTS

During the fiscal year ended December 31, 2001, (i) Messrs. Bienaimé, Aselage and Dance, Drs. Buelow and Tesi and Ms. Nuechterlein were granted options to purchase 134,000 shares, 54,000 shares, 45,000 shares, 44,000 shares, 49,000 shares and 59,000 shares, respectively; (ii) all executive officers as a group, including those set forth in clause (i), were granted options to purchase an aggregate of 423,500 shares; and (iii) all employees as a group were granted options to purchase an aggregate of 1,178,100 shares. During the fiscal year ended December 31, 2001, all directors who were not executive officers of the Company, as a group were granted options to purchase an aggregate of 116,516 shares, and no options were granted under any option plan to any associate of any director, executive officer or Board nominee of the Company, and no person, other than Mr. Bienaimé, was granted 5% or more of the total amount of options granted under any option plan during the year.

PROPOSAL FOUR

RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

Background

The Board of Directors has selected Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2002 and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the Annual Meeting. Deloitte & Touche LLP has audited the Company's financial statements since 1990.

A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

Vote Required

The affirmative vote of a majority of the votes cast at the Annual Meeting at which a quorum representing a majority of all outstanding shares entitled to vote is present and voting, either in person or by proxy, is required to ratify the appointment of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2002. Abstentions and broker non-votes, if any, will each be counted as present for purposes of determining the presence of a quorum. In determining whether this proposal has received the requisite number of affirmative votes, neither abstentions nor broker non-votes will have any effect on the outcome of the vote on this proposal.

Stockholder ratification of the selection of Deloitte & Touche LLP as the Company's independent auditors is not required by the Company's Bylaws or otherwise. However, the Board is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee and the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee and the Board in their discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company

and its stockholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF THE RATIFICATION OF DELOITTE & TOUCHE.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides certain summary information concerning the compensation earned by (i) the Company's Chief Executive Officer; (ii) the Company's four most highly compensated executive officers, other than the Chief Executive Officer, serving as such as of the end of the last fiscal year whose salary and bonus for such year were in excess of $100,000 for services rendered in all capacities to the Company and its subsidiaries for the 2001 fiscal year; and (iii) one individual who ceased to be an executive officer of the Company effective November 2, 2001. Such individuals hereafter will be referred to as the "Named Executive Officers."

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards	All Other Compensation ($) (1)
		Salary ($)	Bonus ($)	Securities Underlying Options (#)	
Jean-Jacques Bienaimé Chairman of the Board, Chief Executive Officer & President	2001	$341,040	$215,935	134,000	$360
	2000	319,000	75,457	73,500	285
	1999	280,030	75,400	45,000	270
Steve Aselage (2) Senior Vice President, North American Sales and Marketing	2001	218,546	87,259	54,000	552
	2000	181,875	44,794	41,531	285
	1999	151,250	70,419	43,000	305

Roland Buelow, Ph.D. Senior Vice President, Discovery Research	2001	192,708	111,301	44,000	240
	2000	180,260	31,127	31,373	190
	1999	155,800	24,177	4,000	180
Stephen G. Dance (3) Senior Vice President, Finance	2001	198,250	64,493	45,000	552
	2000	171,667	29,107	31,216	285
	1999	109,295	25,417	27,500	180
Raymond J. Tesi, M.D. Senior Vice President, Clinical Development and Medical Affairs	2001	235,333	76,705	49,000	360
	2000	196,713	42,550	36,216	285
	1999	184,286	35,291	23,000	180
Carole L. Nuechterlein (4) Senior Vice President and General Counsel	2001	203,417	89,078	59,000	220
	2000	185,833	36,019	30,132	171
	1999	160,625	34,730	6,000	162

1. Life insurance premiums paid by the Company on behalf of the Named Executive Officers.
2. Mr. Aselage's 1999 bonus also includes a hiring bonus of $25,000.
3. Mr. Dance's 1999 bonus also includes a hiring bonus of $5,000.
4. Ms. Nuechterlein resigned effective November 2, 2001. Ms. Nuechterlein's salary includes vacation pay in the amount of $6,482.

Option Grants in Last Fiscal Year

The following table shows, with respect to the Named Executive Officers, certain information concerning the grant of stock options in 2001. No stock appreciation rights were granted during 2001.

Name	Number of Securities Underlying Options Granted (1)	Percentage of Total Options Granted to Employees in Fiscal Year (2)	Exercise Price ($/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3)	
					5% ($)	10% ($)

Jean-Jacques Bienaimé	50,000	3.9	10.20	03/01/11	320,834	813,056
	84,000	6.5	12.99	06/13/11	686,225	1,739,028
Steve Aselage	32,000	2.5	10.20	03/01/11	205,334	520,356
	5,000	0.4	10.53	04/19/11	33,111	83,911
	17,000	1.3	12.99	06/13/11	138,879	351,946
Roland Buelow, Ph.D.	25,000	1.9	10.20	03/01/11	160,417	406,528
	10,000	0.8	11.94	02/01/11	75,074	190,253
	9,000	0.7	12.99	06/13/11	73,524	186,324
Stephen G. Dance	28,000	2.2	10.20	03/01/11	179,667	455,311
	17,000	1.3	12.99	06/13/11	138,879	351,946
Raymond J. Tesi	32,000	2.5	10.20	03/01/11	205,334	520,356
	17,000	1.3	12.99	06/13/11	138,879	351,946
Carole L. Nuechterlein	32,000	2.5	10.20	02/02/02	16,325	32,650
	10,000	0.8	11.94	02/02/02	5,969	11,938
	17,000	1.3	12.99	02/02/02	11,042	22,083

1. During fiscal year 2001, option grants were made to Messrs. Bienaimé, Aselage, Dance, Drs. Buelow and Tesi and Ms. Nuechterlein under the Company's 1993 Option Plan. Each grant allows the officer to acquire shares of the Company's Common Stock at a fixed price per share (the market price on the grant date) over a specified period of time. During the fiscal year ended December 31, 2001, Messrs. Bienaimé, Aselage, Dance, Drs. Buelow and Tesi and Ms. Nuechterlein were granted options to purchase 134,000 shares, 54,000 shares, 45,000 shares, 44,000 shares, 49,000 shares and 59,000 shares, respectively. With respect to options granted on March 1, 2001, twenty-five percent (25%) of the shares subject to the option vest as of March 1, 2002 with the remaining shares vesting in thirty six successive equal monthly installments over the optionee's continued service with the Company. With respect to options granted on June 13, 2001, twenty-five percent (25%) of the shares subject to the option will vest on December 13, 2001 with the remaining shares vesting in eighteen successive equal monthly installments over the optionee's continued service with the Company. With respect to options granted to Ms. Nuechterlein, all options ceased vesting on November 2, 2001. With respect to the option to purchase 10,000 shares granted to Dr. Buelow on February 1, 2001, twenty-five percent (25%) of the shares subject to the option will vest on February 1, 2002 with the remaining shares vesting in thirty six successive equal monthly installments over the optionee's continued service with the Company. With respect to the option granted to Mr. Aselage on April 19, 2001 to purchase 5,000 shares, twenty-five percent (25%) of the shares subject to the option will vest on April 19, 2002 with the remaining shares vesting in thirty six successive equal monthly installments over the optionee's continued service with the Company.
2. Based on an aggregate of 1,294,616 options granted to employees and Board members in 2001, including options granted to the Named Executive Officers.
3. Potential realizable value is based on the assumption that the price per share of Common Stock appreciates at the assumed 5% and 10% annual rates of appreciation (compounded annually) over the option terms. The assumed annual rates of stock price appreciation may not be indicative of amounts actually realized.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth information concerning option exercises and option holdings for the fiscal year ended December 31, 2001 with respect to the Named Executive Officers. Except as set forth below, no options or stock appreciation rights were exercised by any such individual during such year, and no stock appreciation rights were outstanding on December 31, 2001.

	Shares Acquired on Exercise (#)	Value Realized ($) (Market price	Number of Securities Underlying Unexercised Options at FY-End	Value of Unexercised In-the- Money Options at

		at exercise less Exercise price)		(#)	FY-End ($) (Market price of shares at FY-End ($19.64) less Exercise price)	
Exercisable(1)	Unexercisable	Exercisable	Unexercisable			
Jean-Jacques Bienaimé	25,000	277,260	238,415	290,085	234,325	1,155,070
Steve Aselage	12,500	141,625	36,395	89,636	49,598	591,772
Roland Buelow, Ph.D.	0	0	50,234	69,355	298,681	454,825
Stephen G. Dance	0	0	39,964	63,752	231,107	455,326
Raymond J. Tesi	0	0	65,976	81,240	222,984	567,611
Carole L. Nuechterlein (2)	0	0	50,609	0	157,344	0

(1) The options are exercisable upon vesting and are not subject to repurchase by the Company. Exercisable shares represent vested options at December 31, 2001.

(2) With respect to options granted to Ms. Nuechterlein, vesting of all outstanding options ceased as of her date of termination of employment, November 2, 2001. Certain vested options will remain exercisable until February 2, 2002 and certain vested options will remain exercisable until February 2, 2003.

Employment Contracts, Termination of Employment Arrangements and Change in Control Agreements

The Company has not entered into employment agreements with the Named Executive Officers, and their employment with the Company may be terminated at any time at the discretion of the Board of Directors.

In December 2000, the Company entered into individual Change of Control agreements (the "Agreements") with Mr. Bienaimé, Dr. Buelow, Mr. Dance, Mr. Aselage, Ms. Nuechterlein and Dr. Tesi. The Agreements are not employment contracts but are intended to ensure that the Company will have the continued dedication and objectivity of the employee, notwithstanding the possibility or occurrence of a change of control. The Agreements provide various severance benefits to such key employees if their employment is terminated (other than for cause (as defined in the Agreements), disability or death) or an involuntary termination (as defined in the Agreement) occurs, in either case within one (1) month prior to, upon or within eighteen (18) months following a change of control. A change in control would be triggered by the occurrence of any of the following events: (i) the acquisition by any person of beneficial ownership of more than fifty percent of the total combined voting power of the Company's outstanding voting securities, (ii) a merger or consolidation of the Company, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent more than fifty percent of the total combined voting securities of the Company or any surviving entity, (iii) a complete liquidation of the Company; or (iv) the sale or disposition by the Company of all or substantially all the Company's assets.

The Agreements provide for the following severance benefits to each officer: (i) a lump sum payment equal to two times base salary plus bonuses received in the previous twelve months and a pro-rated estimated bonus for the current year, (ii) accelerated vesting of any stock options, (iii) forgiveness of relocation expenses or moving expenses, if applicable, (iv) forgiveness of outstanding loans, if any, (v) continuation for two years of the health care benefits that were being provided by the Company to such officer and his or her family immediately prior to termination, and (vi) outplacement services up to $15,000 at the Company's expense. Each of the Agreements is substantially identical, except that the agreements with Drs. Tesi and Buelow each provide for (i) a lump sum payment equal to one times base salary, (ii) only one year of paid health care benefits and (iii) outplacement services capped at $10,000.

All benefits payable under the Agreements would be reduced either (i) to the extent necessary to preserve the ability of the Company to deduct the severance benefits paid and to prevent payments to any officer from exceeding the limit of Section 4999 of the Code, applicable to any "excess parachute payment" (as defined in Section 280G of the Code), or (ii) for certain employees, the amount of such payments shall be either: (a) the full amount of the payments, or (b) a reduced amount which would result in no portion of the payments being subject to the excise tax imposed pursuant to Section 4999 of the Code, whichever of (a) or (b), taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by the Employee, on an after-tax basis, of the greatest amount of benefit.

In addition to the above, under Mr. Bienaimé's Agreement, the Company has agreed that immediately prior to any change of control of the Company (as defined in the Agreement), the Board shall consider whether or not to give Mr. Bienaimé a special award in the amount of $500,000. This award is completely discretionary; the Board has no obligation to grant it, and the Board may decline to give it to Mr. Bienaimé for any reason whatsoever. If the Board awards it to Mr. Bienaimé, the award shall not be included as a bonus for purposes of the definition of severance in the Agreement and therefore shall not be included in the calculation of Mr. Bienaimé's severance under the Agreement.

Pursuant to certain retention agreements entered into by and between the Company and Messrs. Aselage, Buelow, Dance and Dr. Tesi, the executives may earn an amount equal to thirty percent of the executive's base salary, less applicable withholding, on the earlier of (i) December 31, 2001 (for Dr. Buelow) or September 1, 2002 (for Messrs. Aselage, Dance and Tesi), if the executive is still an employee of the Company, (ii) the termination date of the executive if the executive is terminated for cause (as defined in the agreement), or (iii) the termination date of the executive if the executive resigns for good reason (as defined in the agreement) following a change in control of the Company. For purposes of the retention agreements, a change in control is defined as (i) the acquisition by any person of beneficial ownership of more than fifty percent of the total combined voting power of the Company's outstanding voting securities; (ii) a merger or consolidation of the Company, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent more than fifty percent of the total combined voting securities of the Company or any surviving entity; (iii) a complete liquidation of the Company; or (iv) the sale or disposition by the Company of all or substantially all the Company's assets.

In December 2001, the Company extended the time periods for the exercise of certain Company stock options belonging to Ms. Nuechterlein, the Company's former Senior Vice President and General Counsel, and Ms. Therese Crozier, the Company's former Vice President, Corporate Communications, from three months following their respective dates of resignation to one year and three months following the date of resignation. At that time, the Company also accelerated the vesting of one-half of the unvested Company stock options belonging to Dr. Elizabeth Greetham, a former director of the Company.

Compensation Committee Interlocks and Insider Participation

Mr. Murdock, Mr. Simon and Mr. Worms serve on the Compensation Committee of the Company's Board of Directors as stated below in the Compensation Committee Report. No member of the Committee was at any time

during the 2001 fiscal year or at any other time an officer or employee of the Company or any of its subsidiaries.

No member of the Compensation Committee of the Company's Board of Directors serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors or its Compensation Committee.

Officer Loans

The Company extended loans to Mr. Bienaimé, a director and executive officer, and Dr. Tesi, an executive officer, to provide housing assistance as part of their relocation packages. The Company made Mr. Bienaimé's loans in July 1998 ($200,000) and in September 2000 ($100,000) and Dr. Tesi's loan in September 1997 ($200,000). Neither Mr. Bienaimé nor Dr. Tesi has repaid any principal amounts or interest due on their loans, which were originally due on July 17, 2001, September 12, 2001 and October 1, 2001, respectively. Each such loan was evidenced by a promissory note secured by options to purchase shares of the Company's Common Stock; provided that Mr. Bienaimé's loan for $100,000 was secured by a deed of trust on his property. The annual interest rates on the loans were as follows: Mr. Bienaimé 5.69% and Dr. Tesi 6.0%. On February 1, 2001, the Company entered into a retention agreement with Mr. Bienaimé, under which the Company would forgive his outstanding loans, including any accrued interest thereon, if Mr. Bienaimé was Chief Executive Officer of the Company as of September 30, 2001. The Company subsequently amended its retention agreement with Mr. Bienaimé by extending from September 30, 2001 to January 31, 2002 the date on which the Company would forgive Mr. Bienaimé's loans. In exchange, the Company agreed to pay him an amount equal to the federal and state income taxes arising from the forgiven loans over the three ensuing quarters, subject to his continued employment as Chief Executive Officer of the Company. At December 31, 2001, the aggregate indebtedness of Mr. Bienaimé under the loans was $349,505, including a principal amount of $300,000 and accrued interest of $49,505. At December 31, 2001, the aggregate indebtedness of Dr. Tesi under the loan was $257,061, including a principal amount of $200,000 and accrued interest of $57,061. On January 31, 2002, the Company forgave all outstanding loans made to Mr. Bienaimé, which amounted to $351,157 in principal amount and accrued interest as of such date. On February 20, 2002, the Compensation Committee adopted an amended schedule for the forgiveness of Dr. Tesi's loan, under which the Company will forgive approximately one-third of Dr. Tesi's loan and the accrued interest thereon in each of three annual installments beginning on January 7, 2003 and ending on January 7, 2005, provided that Dr. Tesi remains continuously employed with the Company through the installment dates for the respective installments to be forgiven. The amount owed by Dr. Tesi under his loan in principal amount and accrued interest as of January 31, 2002 was $258,348.

Limitation of Liability and Indemnification

The Company's certificate of incorporation includes provisions that eliminate the personal liability of the Company's directors for monetary damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to the Company or its stockholders;
- for acts or omissions not in good faith or that involved intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware law; or
- for any transaction from which the director derives an improper personal benefit.

Our bylaws further provide for the indemnification of our directors and officers, under certain circumstances, to the fullest extent authorized by Delaware law, including circumstances in which indemnification is otherwise discretionary. Indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company under the foregoing provisions, or otherwise.

The Company has entered into agreements to indemnify its directors and executive officers in addition to the indemnification provided for in its charter and bylaws. These agreements, among other things, provide for indemnification of the Company's directors and executive officers for expenses, judgments, fines and settlement amounts incurred by any of these people in any threatened, pending or completed action or proceeding arising out of his or her services as a director or executive officer or at the Company's request. The Company believes that these provisions and agreements are necessary to attract and retain qualified people as directors and executive officers.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to the Company with respect to the beneficial ownership of the Company's Common Stock as of March 14, 2002 by: (a) each director; (b) the Named Executive Officers; (c) all directors and executive officers as a group; and (d) each person or entity who beneficially owns more than five percent (5%) percent of the Company's Common Stock.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (#) (1)	Percentage of Shares Beneficially Owned (#) (2)
Wellington Management Company, LLP 75 State Street, 19th Floor Boston, MA 02109	3,230,304 (3)	11.1%
OrbiMed Advisors Inc. 767 3rd Avenue, 6th floor New York, NY 10017-2023	1,425,000 (4)	5.2%
Fredric J. Feldman, Ph.D.	45,877 (5)	*
Richard D. Murdock	46,911 (5)	

*

Andrew J. Perlman, M.D., Ph.D.

52,918 (5)

*

Nicholas J. Simon III

0

0

Vincent R. Worms

60,859 (5) (6)

*

Jean-Jacques Bienaimé

307,388 (5)

1.2%

Steve Aselage

55,542 (5)

*

Stephen G. Dance

55,016 (5)

*

Roland Buelow, Ph.D.

65,918 (5)

*

Raymond J. Tesi, M.D.

84,111 (5)

*

Carole L. Nuechterlein

4,736 (5)

*

All directors and officers as a group

(13 persons)

885,200 (7)

3.4%

---

* Less than 1% of the outstanding shares of common stock.

(1) Information with respect to beneficial ownership has been furnished by each director, officer, or 5% or more stockholder, as the case may be and Schedules 13D and 13G, if any, filed with the Securities and Exchange Commission. Except as otherwise noted above, the address for each person listed on the table is c/o SangStat Medical Corporation, 6300 Dumbarton Circle, Fremont, California 94555. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. These rules generally attribute beneficial ownership of securities to persons who posses sole or shared voting power or investment power with respect to those securities. Shares of common stock issuable upon the exercise of stock options or warrants that are immediately exercisable or exercisable within 60 days after March 14, 2002 are deemed outstanding for computing the beneficial ownership of the person holding such option but are not outstanding for computing the beneficial ownership of any other person. Except as indicated by footnote, the persons or entities identified in this table have sole voting and investment power with respect to all shares of the Company's Common Stock shown as beneficially owned by them, subject to applicable community property laws.

(2) Percentage ownership calculations are based on 26,345,815 outstanding shares on March 14, 2002, adjusted as required by rules promulgated by the Securities and Exchange Commission.

(3) Based on an amended Schedule 13G filed on March 8, 2002, Wellington Management Company, LLP beneficially owned 3,230,304 shares at February 28, 2002. This amended Schedule 13G shows that Wellington Management Company, LLP, a registered investment advisor, had shared voting power over 2,293,904 shares and shared dispositive power over 3,230,304 shares.

(4) Based on a jointly filed Schedule 13G filed on February 15, 2002, OrbiMed Advisors Inc., a registered investment advisor, OrbiMed Advisors LLC and Samuel D. Isaly each beneficially owned, and had shared voting power and shared dispositive power over, 1,425,000 shares at February 5, 2002.

(5) The following table indicates those people whose total number of beneficially owned shares include shares subject to options exercisable within 60 days of March 14, 2002:

Shares Subject to Options

Fredric J. Feldman, Ph.D.	45,607
Richard D. Murdock	46,641
Andrew J. Perlman, M.D., Ph.D.	52,648
Vincent R. Worms	33,607
Nicholas J. Simon III	0
Jean-Jacques Bienaimé	275,704
Steve Aselage	53,333
Stephen G. Dance	53,313
Roland Buelow, Ph.D.	64,399
Raymond J. Tesi, M.D.	81,950
Carole L. Nuechterlein	4,736

(6) Includes 21,374 shares held by Multinvest LLC. Mr. Worms, one of the Company's directors, is managing member of Multinvest LLC and may be deemed to share voting and investment power in such shares arising from his interests in the aforementioned entity. Mr. Worms disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.

(7) This number includes 653,615 shares granted under our 1993 Option Plan and 178,503 shares granted under our Directors' Plan, for a total of 832,118 shares granted under both plans, all issuable upon the exercise of stock options exercisable within 60 days of March 14, 2002.

Section 16 Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and certain executive and other officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Certain executive and other officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2001, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION(1)

The Compensation Committee of the Board of Directors (the "Committee") determines the compensation, including equity compensation, of the Company's executive officers, and reviews the design, administration, and effectiveness of compensation programs for the Company generally. The Committee, serving under a charter adopted by the Board of Directors, is composed entirely of independent directors.

Compensation Philosophy and Objectives

The Company operates in the competitive and rapidly-changing biotechnology industry. The Committee believes that the compensation programs for executive officers of the Company should be designed to attract, motivate, and retain talented executives responsible for the success of the Company, determined within a competitive framework and based on the achievement of corporate objectives and individual performance. Within this overall philosophy, the Committee's objectives are to:

1. approve the compensation arrangements for senior management and directors, and adopt compensation plans in which officers and directors are eligible to participate;
2. exercise independent oversight in matters relating to employee compensation, employee benefit plans and employee incentive programs; and
3. ensure that all components of executive compensation are consistent with the Company's compensation philosophy as in effect from time to time.

Compensation Components and Process

Each executive officer's compensation package is comprised of the following three elements: (i) base salary that is intended to be competitive with the compensation levels in effect at the Peer Companies, based on the Committee's assessment of the individual's performance; (ii) annual variable performance awards payable in cash and tied to the Company's attainment of corporate objectives and the officer's achievement of personal goals; and (iii) long-term stock-based incentive awards designed to strengthen the mutuality of interests between the executive officers and the Company's stockholders. As an officer's level of responsibility and accountability within the Company increases over time, a greater portion of his or her total compensation may become dependent upon Company and personal performance and stock price appreciation rather than upon base salary.

The principal factors taken into account in establishing each executive officer's compensation package for the 2001 fiscal year are summarized below. The Committee may, however, apply entirely different factors for future fiscal years.

Base Salary

. The Committee reviews and determines, on an annual basis, the base salary levels of the Company's executive officers by comparing the annual performance objectives to the actual performance of each of the Company and the individual executive officer, respectively, as well as by reviewing internal comparability considerations and the base salary levels in effect for comparable positions at the Peer Companies. As part of this process, the Committee determines whether substantially all of the performance objectives of the Company and the individual executive officers were met in the preceding fiscal year. Accordingly, the Committee increased the base salaries of its executive officers (other than the CEO) in 2001 by approximately 6.5% from 2000.

Annual Incentive Compensation

. An annual bonus may be earned by each executive officer based upon the achievement of personal and Company performance goals. Each officer, other than the CEO, was assigned a target bonus at the commencement of the 2001 fiscal year, of which 40-50% was tied to realization of Company performance objectives and the balance was tied to the realization of personal objectives. Personal objectives were enumerated at the commencement of the 2001 fiscal year and varied for each executive officer. The Company performance objectives for 2001 included: (i) financial results; (ii) achievement of specified sales levels; (iii) completing specified research and development goals; (iv) business development goals; (v) the sale of The Transplant Pharmacy; and (vi) quality systems and compliance

programs. The Committee in its discretion determines the extent to which each Company performance goal has been achieved, if at all, based on a recommendation by the Chief Executive Officer.

With respect to the Company's performance in fiscal 2001, the Committee determined that virtually all of the Company performance objectives were realized in 2001, thereby entitling each executive officer to virtually all of his or her target bonus relating to Company performance objectives. With respect to individual performance, the Committee determined that all of the executive officers had realized substantially all or more of their performance objectives, and allocated the remainder of the target bonus or more, as the case may be, accordingly.

Long-Term, Equity-Based Incentive Awards

. The goal of the Company's long-term, equity-based incentive awards is to align the interests of its executive officers with those of the stockholders and to provide each executive officer with a significant incentive to manage the Company from the perspective of an owner with an equity stake in the business. The Committee determines the size of long-term, equity-based incentives according to each executive's position within the Company and sets a level it considers appropriate to create a meaningful opportunity for stock ownership. In addition, the Committee takes into account an individual's recent performance, his or her potential for future responsibility and promotion, comparable awards made to individuals in similar positions, and the number of unvested options held by each individual at the time of the new grant. The relative weight given to each of these factors varies among individuals at the Committee's discretion. Generally, the Committee has awarded additional options grants to its executive officers on an annual basis. Accordingly, in February 2002, the Committee awarded options for an aggregate of 516,000 shares of common stock (excluding the CEO) in varying amounts to each of its executive officers, all of which had customary vesting terms.

Other Compensation.

As a result of, among other things, changes in the Company's business that resulted in a deterioration of its stock price in the second half of 2000 and early 2001, the Company experienced an increase in employee attrition generally and the loss of several executives as well as the potential loss of other executives. In order to ensure the stability of management during this period, the Board of Directors approved the adoption of retention agreements for a number of executive officers. These agreements provided that an executive may earn thirty percent of the executive's salary, less applicable withholding, upon satisfaction of enumerated retention objectives.

Due to the high cost of living in the Bay Area, the Company from time to time has provided loans to attract and retain key executives. As a result of the key contributions of Mr. Bienaimé and Dr. Tesi and the need to retain these officers, the Committee determined to forgive all of the outstanding loans to Mr. Bienaimé, which as of January 31, 2002 amounted to $351,157 in principal amount and accrued interest, and the Committee determined to adopt an amended schedule of forgiveness with respect to the loan to Dr. Tesi, which as of January 31, 2002 amounted to $258,348 in principal amount and accrued interest.

CEO Compensation

Mr. Bienaimé's base salary for 2001 was established through an evaluation of his performance and the salary levels in effect for similarly-situated chief executive officers at the Peer Companies. In setting Mr. Bienaimé's base salary, it was the Committee's intent to provide him with a level of stability and certainty each year and not have this particular component of compensation affected to any significant degree by Company performance factors. Despite an increase from 2000 of 6.0%, the Committee noted that the base salary of Mr. Bienaimé remained below the 50% level, according to the survey of Peer Companies.

Mr. Bienaimé's 2001 incentive compensation did not include any dollar guarantees. The CEO's bonus was dependent upon the Company achieving the performance goals outlined above, it being understood that the personal goals of the

CEO should be the same as those of the Company. The Committee determined that the performance of Mr. Bienaimé in 2001 fiscal year was particularly exceptional. Accordingly, Mr. Bienaimé received a bonus award for 2001 in excess of his target bonus and the rate implied by the Company performance objectives otherwise applicable.

In accordance with the Company's practice, the Committee also granted additional options to purchase 70,000 shares to Mr. Bienaimé. The options were granted in recognition of his performance and were intended to provide him with a continuing incentive to remain with the Company and contribute to the Company's success. The Committee determined that a portion of the options should vest on a two-year basis. The accelerated vesting was provided to compensate Mr. Bienaimé in part for a loss in potential value otherwise realizable from other options with obsolete milestones resulting from a strategic change by the Company's Board of Directors.

Compliance with Internal Revenue Code Section 162(m)

As a result of Section 162(m) of the Internal Revenue Code, the Company will not be allowed a federal income tax deduction for compensation paid to certain officers to the extent that compensation exceeds one million dollars per officer in any one year. This limitation will apply to all compensation which is not considered to be performance-based. Compensation that qualifies as performance-based compensation will not have to be taken into account for purposes of this limitation. The Company previously obtained stockholder approval for certain amendments to the 1993 Option Plan that were designed to ensure that any compensation deemed paid in connection with the exercise of stock options granted under that plan would qualify as performance-based compensation. Likewise, pursuant to this proxy statement, the Company seeks stockholder approval for the proposed 2002 Stock Option Plan at the upcoming annual meeting.

The compensation subject to Section 162(m) limitations paid to the Company's executive officers during fiscal 2001 did not exceed the one million dollar limit per officer, nor is such compensation to be paid to the Company's executive officers for the 2002 fiscal year expected to reach that level. Because it is very unlikely that such compensation payable to any of the Company's executive officers in the foreseeable future will approach the one million dollar limitation, the Committee has decided not to take any action at this time to limit or restructure the elements of cash compensation payable to the Company's executive officers. The Committee will reconsider this decision should the individual compensation of any executive officer ever approach the one million dollar level.

COMPENSATION COMMITTEE

Nicholas J. Simon III, Chair
Richard D. Murdock
Vincent R. Worms

(1) The material in this report is not "soliciting material," is not deemed "filed" with the Securities and Exchange Commission, and is not incorporated by reference into any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

AUDIT COMMITTEE REPORT (2)

The Audit Committee of the Company is currently comprised of three directors, Messrs. Feldman, Murdock and Mr. Worms, and operates under the Audit Committee charter adopted by the Board and attached to last year's Proxy Statement. The members of the Audit Committee, in the judgment of the Board, are independent as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. The Audit Committee provides assistance and guidance to the Board in fulfilling its oversight responsibilities to the Company's stockholders with respect to the Company's corporate accounting and reporting practices as well as the quality and integrity of the Company's financial statements and reports.

The Company's management team has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The Company's independent auditors are responsible for auditing the Company's financial statements and expressing an opinion on the conformity of the audited financial statements with accounting principles, generally accepted in the United States of America. The Audit Committee's responsibility is to monitor and oversee these processes.

To this end, the Audit Committee has reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2001 with management and Deloitte & Touche LLP, the Company's independent auditors. The Audit Committee has discussed with Deloitte & Touche certain matters related to the conduct of the audit as required by Statement on Auditing Standards No. 61, as amended. In addition, the Audit Committee has received from Deloitte & Touche the written disclosures and the letter regarding the auditor's independence required by Independence Standards Board Standard No. 1 and has discussed with Deloitte & Touche any relationship that may impact their independence, including consideration of the compatibility of non-audit services provided by Deloitte & Touche, and satisfied itself as to Deloitte & Touche's independence.

Based on the review and discussions described above, the Audit Committee recommended to the Board that the Company's audited financial statements for the fiscal year ended December 31, 2001 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 for filing with the Securities and Exchange Commission. Based on the Audit Committee's recommendation, the Board has also selected, subject to stockholder approval, Deloitte & Touche as the Company's independent auditors for the fiscal year ending December 31, 2002.

AUDIT COMMITTEE

Richard D. Murdock, Chair
Fredric J. Feldman
Vincent R. Worms

(2) The material in this report is not "soliciting material," is not deemed "filed" with the Securities and Exchange Commission, and is not incorporated by reference into any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

AUDIT FEES

The aggregate fees billed or expected to be billed to the Company for the fiscal year ended December 31, 2001 by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche"), are as follows:

Audit Fees	$354,000
Financial Information Systems Design and Implementation Fees	$ - 0 -
All Other Fees	$394,000
Total Fees	$748,000

The Audit Committee has determined that the rendering of all other non-audit services by Deloitte & Touche is compatible with maintaining Deloitte & Touche's independence.

PERFORMANCE MEASUREMENT COMPARISON (3)

The graph depicted below reflects a comparison of the cumulative total return (change in stock price plus reinvestment dividends) of the Company's Common Stock with the cumulative total returns of the Nasdaq Stock Market Index, the BioCentury 100 Stock Index and the JPMorgan H&Q Biotechnology Index. The graph covers the period from December 31, 1996 through the fiscal year ended December 31, 2001.

The graph assumes that $100 was invested on December 31, 1996 in the Company's Common Stock and in each index and that all dividends were reinvested. No cash dividends have been declared on the Company's Common Stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

(3) This section is not "soliciting material," is not deemed "filed" with the Securities and Exchange Commission, and is not incorporated by reference into any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

CERTAIN TRANSACTIONS

Since January 1, 2001, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which the Company was or is to be a party in which the amount involved exceeds $60,000 and in which any director, executive officer or holder of more than 5% of the Company's common stock, or an immediate family member of any of the foregoing, had or will have a direct or indirect interest other than:

- executive compensation arrangements, which are described above, and
- the transactions described below.

The Company entered into a General Stock Option and Release of Claims Agreement in January 2001 with Dr. Philippe Pouletty, the Company's former Chairman of the Board of Directors and former Chief Executive Officer, under which the Company extended the time period for Dr. Pouletty to exercise his vested but unexercised stock options to purchase a total of 336,492 shares of the Company's Common Stock until January 15, 2002 in exchange for his release of certain claims.

The Company has entered into indemnity agreements with each of the Company's officers and directors.

ANNUAL REPORT

A copy of the Annual Report of the Company for the fiscal year ended December 31, 2001 has been mailed concurrently with this Proxy Statement to all stockholders entitled to notice of and to vote at the Annual Meeting.

OTHER MATTERS

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

No person is authorized to give any information or to make any representation not contained in this Proxy Statement, and, if given or made, such information or representation should not be relied upon as having been authorized. This Proxy Statement does not constitute the solicitation of a proxy, in any jurisdiction, from any person to whom it is unlawful to make such proxy solicitation in such jurisdiction. The delivery of this Proxy Statement shall not, under any circumstances, imply that there has not been any change in the information set forth herein since the date of the Proxy Statement.

By Order of the Board of Directors

Adrian Arima
Secretary, Vice President and Associate General Counsel

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 is available without charge upon written request to: Secretary of SangStat Medical Corporation, 6300 Dumbarton Circle, Fremont, California 94555.

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&nbeft" valign="bottom" nowrap>%	11.1 %	11.6 %	82.5 %		
Tier 1 risk-based capital	11.2 %	11.9 %	11.8 %	12.7 %	10.1 %
Total risk-based capital	12.1 %	12.9 %	12.8 %	13.8 %	11.2 %

(1) Performance ratios and other data for the period ended December 31, 2000, are for the period from October 27, 2000, (commencement of banking operations) through December 31, 2000.

(2) Ratios and data for the three months ended March 31, 2004, and March 31, 2003, are annualized.

(3) Net interest margin is the result of net interest income for the period divided by average interest earning assets.

(4) Net interest spread is the result of the difference between the interest yield earned on interest earning assets less the interest paid on interest bearing liabilities.

(5) Efficiency ratio is the result of noninterest expense divided by the sum of net interest income and noninterest income.

(6) Leverage ratio is defined as Tier 1 capital (pursuant to risk-based capital guidelines) as a percentage of adjusted average assets.

RISK FACTORS

Investing in our common stock involves various risks which are particular to our company, our industry and our market area. Several risk factors regarding investing in our common stock are discussed below. This listing should not be considered as all-inclusive. If any of the following risks were to occur, we may not be able to conduct our business as currently planned and our financial condition or operating results could be negatively impacted, all of which might cause the trading price of our common stock to decline.

We have a concentration of credit exposure to borrowers in the trucking industry and to operators of nonresidential buildings and to small to medium-sized businesses.

At March 31, 2004, we had total credit exposure to borrowers in the trucking industry and to borrowers that operate nonresidential buildings equal to $33.0 million and $16.8 million, respectively. As a percentage of our total loans outstanding as of March 31, 2004, these amounts were 10.2% and 5.2%, respectively. If either of these industries experience an economic slowdown and, as a result, the borrowers in these industries are unable to perform their obligations under their existing loan agreements, our earnings could be negatively impacted, causing the value of our common stock to decline.

Additionally, a substantial focus of our marketing and business strategy is to serve small to medium-sized businesses in the metropolitan Nashville area. As a result, a relatively high percentage of our loan portfolio consists of commercial loans to small to medium-sized business. At March 31, 2004, our commercial loans accounted for 70.1% of our total loans. During periods of economic weakness, small to medium-sized businesses may be impacted more severely than larger businesses. Consequently, the ability of such businesses to repay their loans may deteriorate, which would adversely impact our results of operations and financial condition.

We are geographically concentrated in the Nashville, Tennessee MSA, and changes in local economic conditions impact our profitability.

We operate primarily in the Nashville, Tennessee MSA, and substantially all of our loan customers and most of our deposit and other customers live or have operations in the Nashville MSA. Accordingly, our success significantly depends upon the growth in population, income levels, deposits and housing starts in the Nashville MSA, along with the continued attraction of business ventures to the area. Our profitability is impacted by the changes in general economic conditions in this market. Additionally, unfavorable local or national economic conditions could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations.

We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

Our continued growth may require the need for additional capital and further regulatory approvals which, if not obtained, could adversely impact our profitability and implementation of our current business plan.

To continue to grow, we will need to provide sufficient capital to Pinnacle National through earnings generation, additional equity offerings or borrowed funds or any combination of these sources of funds. Should we incur indebtedness, we are required to obtain certain regulatory approvals beforehand. Should our growth exceed our expectations, as has been the case to-date, we may need to raise additional capital over our projected capital needs. However, our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand and grow our operations could be materially impaired. Additionally, our current plan involves increasing our branch network, which will require capital expenditures. Our expansion efforts may also require certain

regulatory approvals. Should we not be able to obtain such approvals or otherwise not be able to grow our asset base, our ability to attain our long-term profitability goals will be more difficult.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

If loan customers with significant loan balances fail to repay their loans according to the terms of these loans, our earnings would suffer. We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of any collateral securing the repayment of our loans. We maintain an allowance for loan losses in an attempt to cover the inherent risks associated with lending. In determining the size of this allowance, we rely on an analysis of our loan portfolio based on volume and types of loans, internal loan classifications, trends in classifications, volume and trends in delinquencies, nonaccruals and charge-offs, national and local economic conditions, other factors and other pertinent information. If our assumptions are inaccurate, our current allowance may not be sufficient to cover potential loan losses, and additional provisions may be necessary which would decrease our earnings.

In addition, federal and state regulators periodically review our loan portfolio and may require us to increase our provision for loan losses or recognize loan charge-offs. Their conclusions about the quality of our loan portfolio may be different than ours. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a negative effect on our operating results.

Fluctuations in interest rates could reduce our profitability.

Changes in interest rates may affect our level of interest income, the primary component of our gross revenue, as well as the level of our interest expense, our largest recurring expenditure. Interest rate fluctuations are caused by many factors which, for the most part, are not under our direct control. For example, national monetary policy plays a significant role in the determination of interest rates. Additionally, competitor pricing and the resulting negotiations that occur with our customers also impact the rates we collect on loans and the rates we pay on deposits.

As interest rates change, we expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this gap may work against us, and our earnings may be negatively affected.

Changes in the level of interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. A decline in the market value of our assets may limit our ability to borrow additional funds or result in our lenders requiring additional collateral from us under our loan agreements. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are not favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses.

We may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing shareholders.

In order to maintain our capital at desired or regulatorily-required levels, we may be required to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. We may sell these shares at prices below the public offering price of the shares offered by this prospectus, and the sale of these shares may significantly dilute your ownership as a shareholder. We could also issue additional shares in connection with acquisitions of other financial institutions.

Even though our common stock is currently traded on the Nasdaq Stock Market s National Market System, it has substantially less liquidity than the average stock quoted on a national securities exchange.

The trading volume in our common stock on the Nasdaq National Market has been relatively low when compared with larger companies listed on the Nasdaq National Market or the stock exchanges. We cannot say with any certainty that a more active and liquid trading market for our common stock will develop. Because of this, it may be more difficult for you to sell a substantial number of shares for the same price at which you could sell a smaller number of shares.

We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We, therefore, can give no assurance that sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

The market price of our common stock may fluctuate in the future, and these fluctuations may be unrelated to our performance. General market price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

Loss of our senior executive officers or other key employees could impair our relationship with our customers and adversely affect our business.

We have assembled a senior management team which has a substantial background and experience in banking and financial services in the Nashville market. Loss of these key personnel could negatively impact our earnings because of their skills, customer relationships and/or the potential difficulty of promptly replacing them.

Competition with other banking institutions could adversely affect our profitability.

A number of banking institutions in the Nashville market have higher lending limits, more banking offices, and a larger market share. In addition, our asset management division competes with numerous brokerage firms and mutual fund companies which are also much larger. In some respects, this may place these competitors in a competitive advantage, although many of our customers have selected us because of service quality concerns at the larger enterprises. This competition may limit or reduce our profitability, reduce our growth and adversely affect our results of operations and financial condition.

If a change in control or change in management is delayed or prevented, the market price of our common stock could be negatively affected.

Provisions in our corporate documents, as well as certain federal and state regulations, may make it difficult and expensive to pursue a tender offer, change in control or takeover attempt that our board of directors opposes. As a result, our shareholders may not have an opportunity to participate in such a transaction, and the trading price of our stock may not rise to the level of other institutions that are more vulnerable to hostile takeovers. Anti-takeover provisions contained in our charter also will make it more difficult for an outside shareholder to remove our current board of directors or management.

The amount of common stock owned by, and other compensation arrangements with, our officers and directors may make it more difficult to obtain shareholder approval of potential takeovers that they oppose.

As of June 30, 2004, directors and executive officers beneficially owned approximately 18.9% of our common stock. Employment agreements with our senior management also provide for significant payments under certain circumstances following a change in control. These compensation arrangements, together with the common stock, option and warrant ownership of our board and management, could make it

difficult or expensive to obtain majority support for shareholder proposals or potential acquisition proposals of us that our directors and officers oppose.

Our business is dependent on technology, and an inability to invest in technological improvements may adversely affect our results of operations and financial condition.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. We have made significant investments in data processing, management information systems and internet banking accessibility. Our future success will depend in part upon our ability to create additional efficiencies in our operations through the use of technology, particularly in light of our past and projected growth strategy. Many of our competitors have substantially greater resources to invest in technological improvements. We cannot assure you that our technological improvements will increase our operational efficiency or that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

We may be unable to satisfy regulatory requirements relating to our internal control over financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to perform an evaluation of our internal control over financial reporting and have our auditor attest to such evaluation. Although we have prepared an internal plan of action for compliance, we have not completed the evaluation as of the date of this filing. Compliance with these requirements is expected to be expensive and time-consuming and may negatively impact our results of operations. Further, we may not meet the required deadlines. If we fail to timely complete this evaluation, or if our auditors cannot timely attest to our evaluation, we may be subject to regulatory scrutiny and a loss of public confidence in our internal control over financial reporting.

We are subject to various statutes and regulations that may limit our ability to take certain actions.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies and expectations, are generally identifiable by the use of the words anticipate, will, believe, estimate, expect, intend, seek, o expressions. These forward-looking statements may address, among other things, our business plans, objectives or goal for future operations, the anticipated effects of the offering of the securities hereunder, our forecasted revenues, earnings, assets or other measures of performance. These forward-looking statements are subject to risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from the forward-looking statements

we make or incorporate by reference in this prospectus are described under Risk Factors. These factors include, but are not limited to:

concentration of credit exposure;

the strength of the Nashville MSA economy;

our potential growth and the need for sufficient capital to support that growth;

an insufficient allowance for loan losses as a result of inaccurate assumptions;

changes in interest rates, yield curves and interest rate spread relationships;

changes in the quality or composition of our loan or investment portfolios, including adverse developments in borrower industries or in the repayment ability of individual borrowers or issuers;

increased competition or market concentration; and

new state or federal legislation, regulations, or the initiation or outcome of litigation.

If one or more of these risks or uncertainties materialize, or if any of our underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from future results, performance or achievements expressed or implied by these forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this prospectus. We undertake no obligation to publicly update or revise any forward-looking statements to reflect future events or developments.

USE OF PROCEEDS

We estimate that our net proceeds from our sale of the shares of common stock we are offering will be approximately $, or approximately $ million if the underwriters over-allotment option is exercised in full, in each case after deducting estimated underwriting discounts and commissions and the estimated offering expenses payable by us assuming a public offering price of $ per share.

We will invest approximately   of the net proceeds in Pinnacle National, where these proceeds would be available for general corporate purposes, including Pinnacle National s lending and investment activities associated with its anticipated growth. We will retain the remaining approximately $ of the net proceeds for our general corporate purposes and working capital to position us for future growth opportunities. Pending these uses, the net proceeds will be invested by us in a variety of short-term assets, including federal funds, interest-bearing deposits in other banks and similar investments.

PRICE RANGE OF OUR COMMON STOCK

Our common stock has been traded on the Nasdaq Stock Market s National Market System since August 14, 2002, under the symbol PNFP. From May 28, 2002, to August 13, 2002, our common stock was traded on the Nasdaq SmallCap Market and before that time it was traded on the Nasdaq over-the-counter bulletin board. The following table shows the high and low bid information for our common stock for the quarters since our common stock was originally listed on the Nasdaq over-the-counter bulletin board and thereafter on the Nasdaq SmallCap Market and the Nasdaq National Market System. Quotations for the period of time that the common stock was traded on the over-the-counter bulletin board reflect inter-dealer prices, without retail markup, markdown, or commission, and may not represent

actual transactions. The stock prices set forth below are adjusted to reflect our two-for-one common stock split paid on May 10, 2004. To date, we have not paid any dividends on our common stock.

	Bid Price Per Share	
	High	Low
2002:		
First quarter	$ 5.25	$ 4.38
Second quarter	5.95	4.85
Third quarter	6.50	5.45
Fourth quarter	6.65	5.51
2003:		
First quarter	$ 7.07	$ 6.38
Second quarter	8.50	6.53
Third quarter	9.97	8.00
Fourth quarter	12.95	9.68
2004:		
First quarter	$15.50	$11.65
Second quarter	18.67	13.50
Third quarter (through July 22, 2004)	19.45	17.70

On July 22, 2004, the last reported sale price for our common stock on the Nasdaq National Market System was $19.28 per share. The market price for our stock is highly volatile and fluctuates in response to a wide variety of factors. At July 21, 2004, we had approximately 59 shareholders of record and an estimated 1,400 beneficial owners.

DIVIDEND POLICY

Holders of our common stock are entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. We have never declared or paid any dividends on our common stock. In order to pay any dividends, we will need to receive dividends from Pinnacle National or have other sources of funds. As a national bank, Pinnacle National can only pay dividends to us if it has retained earnings for the current fiscal year and the preceding two fiscal years, and if it has a positive retained earnings account. At March 31, 2004, Pinnacle National s retained earnings were $881,867. In addition, its ability to pay dividends or otherwise transfer funds to us will be subject to various restrictions.

Our ability to pay dividends to our shareholders in the future will depend on our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to our common stock and other factors deemed relevant by our board of directors. We currently intend to retain any future earnings to fund the development and growth of our business. Therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization and certain capital ratios as of March 31, 2004. Our capitalization is presented on an actual basis and on an as adjusted basis to reflect the sale of 850,000 shares of our common stock in this offering and our receipt of $ million in estimated net proceeds from this offering, assuming a public offering price of $ per share and after deducting the underwriting discount and estimated expenses of the offering.

	March 31, 2004	
	Actual	**As Adjusted**
	(Dollars in thousands)	
Stockholders equity:		
Preferred stock, no par value; 10,000,000 shares authorized: no shares issued and outstanding	$	
Common stock, par value $1.00; 20,000,000 shares authorized: 7,384,106 issued and outstanding at March 31, 2004 *As adjusted:* issued and outstanding	7,384,106	
Additional paid-in capital	30,682,947	
Retained earnings	881,867	
Accumulated other comprehensive income, net	1,009,420	
Total stockholders equity	$36,266,287	
Capital Ratios:		
Leverage(1)	9.0%	
Risk-based capital(2):		
Tier 1	11.2%	
Total	12.1%	

(1) Leverage ratio is defined as Tier 1 capital (pursuant to risk-based capital guidelines) as a percentage of adjusted average assets for the quarter ended March 31, 2004. As adjusted calculation assumes that proceeds from offering would have been received as the last transaction for the quarter ended March 31, 2004.

(2) The as adjusted calculations for the risk-based capital ratios assume that the proceeds from the offering are invested in assets which carry a 100% risk-weighting as of March 31, 2004.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information concerning our directors and executive officers as of July 22, 2004:

Name	Age	Position
M. Terry Turner(1)	49	President and Chief Executive Officer and Director
Robert A. McCabe, Jr.(1)	53	Chairman of the Board
Hugh M. Queener	48	EVP and Chief Administrative Officer
James E. White	51	EVP and Senior Lending Officer
Charles B. McMahan	57	EVP and Senior Credit Officer
Joanne B. Jackson	47	EVP and Client Services Group Manager
Harold R. Carpenter	45	EVP and Chief Financial Officer
Sue G. Atkinson(3)	63	Director
Gregory L. Burns(1)(4)	49	Director
Colleen Conway-Welch(3)	60	Director
Clay T. Jackson(2)(3)	50	Director
John E. Maupin, Jr.(3)(4)	57	Director
Robert E. McNeilly, Jr.(1)(2)(3)	72	Director
Dale W. Polley(1)(2)	55	Director
Linda E. Rebrovick(2)	48	Director
James L. Shaub, II(2)(4)	46	Director
Reese L. Smith, III(4)	56	Director

(1) Member of the Executive Committee of the Board of Directors.

(2) Member of the Audit Committee of the Board of Directors.

(3) Member of the Community Affairs Committee of the Board of Directors.

(4) Member of the Human Resources, Nominating and Compensation Committee of the Board of Directors

M. Terry Turner is our president and chief executive officer. Mr. Turner joined Park National Bank, Knoxville, Tennessee in 1979 where he held various management positions, including senior vice president of the bank s commercial division. In 1985, Mr. Turner joined First American National Bank, Nashville, Tennessee, as a result of its acquisition of Park National Bank. Mr. Turner served from January 1994 until November 1998 as president of the retail bank of First American National Bank. From November 1998 until October 1999, he served as president of the Investment Services Group of First American Corporation. Mr. Turner s banking career at First American in Nashville covered 14 years, and entailed executive level responsibilities for almost all aspects of its banking and investment operations.

Robert A. McCabe, Jr. began his banking career with the former Park National Bank of Knoxville, Tennessee, as an officer trainee in 1976. From 1976 to 1984, Mr. McCabe held various positions with Park National Bank in Knoxville, including senior vice president, until the acquisition of Park National by First American National Bank in 1985. Mr. McCabe joined First American as an executive vice president of the retail bank of First American National Bank of Nashville, a position he held until 1987 when First American promoted him to president and chief operating officer of the First American National Bank of Knoxville. In 1989, Mr. McCabe was given added responsibility by being named president and chief operating officer for First American s east Tennessee region. Mr. McCabe continued in that position until 1991, when First American selected him as president of First American s Corporate Banking division, and

shortly thereafter, as president of its General Banking division. In 1994, First American appointed Mr. McCabe as a vice chairman of First American Corporation. In March 1999, Mr. McCabe was appointed by First American to manage all banking and non-banking operations, a position he held until First American s merger with AmSouth in October 1999. Mr. McCabe serves as a director of National Health Investors of Murfreesboro, Tennessee.

Hugh M. Queener was employed by AmSouth from 1999 to 2000, serving as an executive vice president in the consumer banking group in Nashville. Prior to the merger with AmSouth, Mr. Queener was employed by First American National Bank from 1987 to 1999, serving most recently as executive vice president in charge of retail lending from 1987 to 1999.

James E. White was employed by AmSouth from 1999 to 2000, serving as executive vice president group sales manager for the private banking group in Nashville. Prior to the merger with AmSouth, Mr. White was employed by First American National Bank from 1991 to 1999, serving in a variety of roles in the commercial and private banking areas, including private banking group manager in 1998 and 1999 and president of the middle region of Tennessee in 1997 and 1998.

Charles B. McMahan was employed by AmSouth Bancorporation from 1999 to 2002 as Senior Vice President State Senior Credit Officer for Tennessee and Louisiana based in Nashville, Tennessee. Prior to the merger with AmSouth, Mr. McMahan was employed in a variety of roles from 1974 to 1999 at First American National Bank in the commercial and consumer lending areas and, ultimately, was promoted to Executive Vice President Credit Administration. Mr. McMahan is also a certified public accountant.

Joanne B. Jackson was employed by AmSouth from 1999 to 2000 as the business banking team leader in Nashville, Tennessee. Prior to the merger with AmSouth, Ms. Jackson was employed as a senior vice president at First American National Bank from 1994 to 1999, serving in a variety of roles focusing on the small business market.

Harold R. Carpenter was employed by AmSouth from 1999 to 2000 as a senior vice president in the finance group in Nashville, Tennessee. Prior to the merger with AmSouth, Mr. Carpenter was employed by First American National Bank as senior vice president from 1994 to 1999, serving most recently as the financial manager for the Tennessee, Mississippi and Louisiana areas. Mr. Carpenter was employed by the national accounting firm, KPMG, from 1982 to 1994.

Sue G. Atkinson has been chairman of Atkinson Public Relations of Nashville, Tennessee since 1986.

Gregory L. Burns serves as chairman of the board and chief executive officer for O Charley s Inc. Mr. Burns joined O Charley s in 1983 as controller, and later held the positions of executive vice president, chief financial officer and president.

Colleen Conway-Welch is the dean and chief executive officer of the Vanderbilt University School of Nursing in Nashville, Tennessee, a position she has held since 1984. Ms. Conway-Welch s professional activities include or have included serving as a member of the board of directors for Ardent Health Systems, Caremark and RehabCare Group.

Clay T. Jackson is Senior Vice President, Regional Agency Manager, Tennessee for BB&T Cooper, Love & Jackson. Mr. Jackson was the president and a principal of Cooper, Love & Jackson, Inc. prior to the September 2003 merger with BB&T and had served in this capacity since 1989.

John E. Maupin, Jr. is president and chief executive officer of Meharry Medical College, a position he has held since 1994. Dr. Maupin came to Meharry from the Morehouse School of Medicine in Atlanta, Georgia, where he served as executive vice president from 1989 to 1994. He currently serves on the Board of Directors of LifePoint Hospitals, Inc. and VALIC Companies I and II of American International Group Inc.

Robert E. McNeilly, Jr is a retired banker, and is currently a board member of the Ragland Corporation, a privately-owned, real estate holding company. From 1993 to 1996, Mr. McNeilly served as

president of First American Trust Company, Nashville, Tennessee, and from 1986 to 1993, as the chairman of First American National Bank.

Dale W. Polley retired as a vice chairman and member of the board of directors of First American Corporation and First American National Bank in 2000. In the nine years preceding these positions, Mr. Polley served in various executive management positions at First American, which included serving as its president from 1997 to 1999. Before joining First American in 1991, Mr. Polley was group executive vice president and treasurer for C&S/ Sovran Corporation, and held various positions within Sovran before its merger with C&S. Mr. Polley joined Sovran from Commerce Union Bank of Nashville where he was its executive vice president and chief financial officer. Mr. Polley serves on the board of directors of O Charley s Inc.

Linda E. Rebrovick currently serves as executive vice president and chief marketing officer of BearingPoint. Ms. Rebrovick was previously executive vice president of HealthCare Consulting, KPMG Consulting and national managing partner, KPMG LLP s HealthCare Consulting Practice. She has 22 years of experience in consulting, including work for IBM as the business unit executive for its Tennessee Consulting & Systems Integration Services.

James L. Shaub, II is president and chief executive officer of Southeast Waffles, LLC, a multi-state Waffle House franchise based in Nashville.

Reese L. Smith, III is president of Haury & Smith Contractors, Inc., a real estate development and home building firm. From 1996 to 1999, Mr. Smith served as a board member of First Union National Bank of Nashville, and was a founder and director of Brentwood National Bank from its inception in 1991 to 1996.

UNDERWRITING

Subject to the terms and conditions in the underwriting agreement dated , 2004, Raymond James & Associates, Inc. has agreed to purchase from us the number of shares of our common stock set forth opposite Raymond James name below:

Underwriter	Number of Shares
Raymond James and Associates, Inc.	850,000
Total	850,000

The underwriting agreement provides that Raymond James obligation to purchase and accept delivery of the common stock offered by this prospectus is subject to approval by its counsel of legal matters and to other conditions set forth in the underwriting agreement. Raymond James is obligated to purchase and accept delivery of all of the shares of common stock offered by this prospectus, if any are purchased, other than those covered by the over-allotment option described below.

Raymond James proposes to offer the common stock directly to the public at the public offering price indicated on the cover page of this prospectus and to various dealers at that price less a concession not to exceed $ per share, of which $ may be reallowed to other dealers. After this offering, the public offering price, concession and reallowance to dealers may be reduced by the underwriters. No reduction will change the amount of proceeds to be received by us as indicated on the cover page of this prospectus. The shares of common stock are offered by Raymond James as stated in this prospectus, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

We have granted to Raymond James an option, exercisable within 30 days after the date of this prospectus, to purchase from time to time up to an aggregate of 127,500 additional shares of common stock to cover over-allotments, if any, at the public offering price less the underwriting discount. If Raymond James exercises its over-allotment option to purchase any of the additional 127,500 shares, Raymond James, subject to certain conditions, will become obligated to purchase all of the shares that it informs us it will purchase. If purchased, these additional shares will be sold by Raymond James on the same terms as those on which the shares offered by this prospectus are being sold. Raymond James may exercise the over-allotment option only to cover over-allotments made in connection with the sale of the shares of common stock offered in this offering.

At our request, Raymond James has reserved up to shares of our common stock offered by this prospectus for sale to our directors and officers at the public offering price set forth on the cover page of this prospectus. These persons must commit to purchase from Raymond James or selected dealers at the same time as the general public. The number of shares available for sale to the general public will be reduced to the extent these persons purchase the reserved shares. Any reserved shares purchased by our directors or executive officers will be subject to the lock-up agreements described on the following page. We are not making loans to these officers or directors to purchase such shares.

The following table summarizes the underwriting compensation to be paid by us to Raymond James. These amounts assume both no exercise and full exercise of the underwriters over-allotment option to purchase additional shares. We estimate that the total expenses payable by us in connection with this offering, other than the underwriting discount referred to below, will be approximately $.

	Per Share	Total Without Over-Allotment	Total With Over-Allotment
Price to public	$	$	$
Underwriting discounts			
Proceeds to us, before expenses			

We have agreed to indemnify Raymond James against various liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments Raymond James may be required to make because of any of those liabilities.

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Subject to specified exceptions, each of our directors and our executive officers has agreed, for a period of 90 days after the date of this prospectus, without the prior written consent of Raymond James, not to offer, sell, contract to sell, pledge, grant any option to purchase or otherwise dispose of any shares of our common stock or securities convertible into or exercisable or exchangeable for any shares of our common stock. This agreement also precludes any hedging collar or other transaction designed or reasonably expected to result in a disposition of our common stock or securities convertible into or exercisable or exchangeable for our common stock.

In addition, we have agreed that, for 90 days after the date of this prospectus, we will not, directly or indirectly, without the prior written consent of Raymond James, issue, sell, contract to sell, or otherwise dispose of or transfer, any of our common stock or securities convertible into, exercisable for or exchangeable for our common stock, or enter into any swap or other agreement that transfers, in whole or in part, the economic consequences of ownership of our common stock or securities convertible into, exercisable for or exchangeable for our common stock, except for our sale of common stock in this offering and the issuance of options or shares of common stock under our existing employee benefit plans.

Until the offering is completed, rules of the Securities and Exchange Commission may limit the ability of Raymond James and certain selling group members to bid for and purchase shares of our common stock. As an exception to these rules, Raymond James may engage in certain transactions that stabilize the price of our common stock. These transactions may include short sales, stabilizing transactions, purchases to cover positions created by short sales and passive market making. Short sales involve the sale by the underwriters of a greater number of shares of our common stock than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while the offering is in progress. In passive market making, the underwriter, in its capacity as market maker in the common stock, may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.

Raymond James also may impose a penalty bid. This occurs when a particular underwriter repays to the other underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by Raymond James may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters without notice at any time. These transactions may be effected on the Nasdaq National Market or otherwise.

Our common stock is listed on the Nasdaq National Market under the symbol PNFP.

Certain representatives of Raymond James or its affiliates may in the future perform investment banking and other financial services, including without limitation outsourced retail investment services, for us, our affiliates and our customers for which they may receive advisory or transaction-based fees and commissions, as applicable, plus out-of-pocket expenses, of the nature and in amounts customary in the industry for such services. For example, we offer retail brokerage and investment services to our customers through a contract with Raymond James Financial Services, Inc., and Raymond James & Associates, Inc. is currently a market maker in our common stock on the Nasdaq National Market.

WHERE CAN YOU FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on its public reference rooms. The SEC also maintains an Internet website at http://www.sec.gov that contains reports, proxy and information statements, and other information

regarding issuers that file electronically with the SEC. Our SEC filings are also available on our website at http://www.mypinnacle.com and at the office of the Nasdaq National Market.

This prospectus, which is part of the registration statement, omits some of the information included in the registration statement as permitted by the rules and regulations of the SEC. As a result, statements made in this prospectus as to the contents of any contract or other document are not necessarily complete. You should read the full text of any contract or document filed as an exhibit to the registration statement for a more complete understanding of the contract or document or matter involved.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents that we have previously filed with the SEC or documents that we will file with the SEC in the future. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. This prospectus incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about our company and its finances:

(1) The Registrant s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003;

(2) The Registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004;

(3) The Registrant s Current Reports on Form 8-K filed January 21, 2004, February 2, 2004, April 20, 2004 and July 21, 2004; and

(4) The description of the Registrant s Common Stock, par value $1.00 per share contained in the Registrant s Registration Statement on Form 8-A filed with the Commission and dated August 3, 2000, including all amendments and reports filed for purposes of updating such description; and

We are also incorporating by reference into this prospectus any filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date hereof and prior to the filing of a post-effective amendment to this Registration Statement which indicates that all securities offered hereby have been sold or which deregisters all securities then remaining unsold. Any statements contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or replaced for purposes hereof to the extent that a statement contained herein (or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein) modifies or replaces such statement. Any statement so modified or replaced shall not be deemed, except as so modified or replaced, to constitute a part hereof.

Notwithstanding the foregoing, information furnished under Items 9 and 12 of any Current Report on Form 8-K, including the related exhibits, is not incorporated by reference in this prospectus or the accompanying registration statement.

We will provide to each person, including any beneficial owner, to whom this prospectus is delivered a copy of any or all of the information that we have incorporated by reference into this prospectus but not delivered with this prospectus. To receive a free copy of any of the documents incorporated by reference in this prospectus, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write to Harold R. Carpenter, Pinnacle Financial Partners, Inc., The Commerce Center, 211 Commerce Street, Suite 300, Nashville, Tennessee 37201, (615) 744-3700. The information relating to us contained in this prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference in this prospectus. See also Where You Can Find More Information.

LEGAL MATTERS

Certain legal matters with respect to the shares of common stock offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee. Certain legal matters with respect to the common stock offered by this prospectus will be passed upon for Raymond James by Powell, Goldstein, Frazer & Murphy LLP, Atlanta, Georgia.

EXPERTS

The consolidated financial statements of Pinnacle Financial Partners, Inc. as of December 31, 2003 and December 31, 2002, and for each of the fiscal years in the three-year period ended December 31, 2003 have been incorporated by reference in this prospectus and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. We are not, and the underwriters are not, making an offer to sell our common stock in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock. Our business, financial condition, results of operations and prospects may have changed since the date of this prospectus. Unless otherwise indicated, all information in this prospectus assumes that the underwriters will not exercise their option to purchase additional common stock to cover over-allotments.

850,000 Shares

Common Stock

PROSPECTUS

RAYMOND JAMES

, 2004

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. ***Other Expenses of Issuance and Distribution.***

The expenses to be paid by the Registrant in connection with the distribution of the securities being registered are as set forth in the following table:

Securities and Exchange Commission fee	$2,333
Printing expenses	$
Legal fees and expenses	$
Accounting fees and expenses	$
Miscellaneous	$
Total	$

Item 15. ***Indemnification of Directors and Officers.***

The Registrant s bylaws provide that its directors and officers will be indemnified against expenses that they actually and reasonably incur if they are successful on the merits of a claim or proceeding. In addition, the bylaws provide that the Registrant will advance to its directors and officers reasonable expenses of any claim or proceeding so long as the director or officer furnishes the Registrant with (1) a written affirmation of his or her good faith belief that he or she has met the applicable standard of conduct and (2) a written statement that he or she will repay any advances if it is ultimately determined that he or she is not entitled to indemnification.

When a case or dispute is settled or otherwise not ultimately determined on its merits, the indemnification provisions provide that the Registrant will indemnify its directors and officers when they meet the applicable standard of conduct. The applicable standard of conduct is met if the director or officer acted in a manner he or she in good faith believed to be in or not opposed to the Registrant s best interests and, in the case of a criminal action or proceeding, if the insider had no reasonable cause to believe his or her conduct was unlawful. The Registrant s board of directors, shareholders or independent legal counsel determines whether the director or officer has met the applicable standard of conduct in each specific case.

The Registrant s bylaws also provide that the indemnification rights contained in the bylaws do not exclude other indemnification rights to which a director or officer may be entitled under any bylaw, resolution or agreement, either specifically or in general terms approved by the affirmative vote of the holders of a majority of the shares entitled to vote. The Registrant can also provide for greater indemnification than is provided for in the bylaws if the Registrant chooses to do so, subject to approval by its shareholders and the limitations provided in the Registrant s charter as discussed in the subsequent paragraph.

The Registrant s charter eliminates, with exceptions, the potential personal liability of a director for monetary damages to the Registrant and its shareholders for breach of a duty as a director. There is, however, no elimination of liability for:

a breach of the director s duty of loyalty to the Registrant or its shareholders;

an act or omission not in good faith or which involves intentional misconduct or a knowing violation of law; or

any payment of a dividend or approval of a stock repurchase that is illegal under the Tennessee Business Corporation Act.

The Registrant s charter does not eliminate or limit the Registrant s right or the right of its shareholders to seek injunctive or other equitable relief not involving monetary damages.

The indemnification provisions of the bylaws specifically provide that the Registrant may purchase and maintain insurance on behalf of any director or officer against any liability asserted against and incurred by him or her in his or her capacity as a director, officer, employee or agent whether or not the Registrant would have had the power to indemnify against such liability.

The Registrant s bylaws further provide that, under similar limitations and conditions specified above for its directors and officers, the Registrant is obligated to provide indemnification for its organizers and may provide indemnification for its employees and agents.

The Tennessee Business Corporation Act (TBCA) provides that a corporation may indemnify any of its directors and officers against liability incurred in connection with a proceeding if (i) the director or officer acted in good faith, (ii) in the case of conduct in his or her official capacity with the corporation, the director or officer reasonably believed such conduct was in the corporation s best interests, (iii) in all other cases, the director or officer reasonably believed that his or her conduct was not opposed to the best interest of the corporation, and (iv) in connection with any criminal proceeding, the director or officer had no reasonable cause to believe that his or her conduct was unlawful. In actions brought by or in the right of the corporation, however, the TBCA provides that no indemnification may be made if the director or officer was adjudged to be liable to the corporation. In cases where the director or officer is wholly successful, on the merits or otherwise, in the defense of any proceeding instigated because of his or her status as an officer or director of a corporation, the TBCA mandates that the corporation indemnify the director or officer against reasonable expenses incurred in the proceeding. The TBCA also provides that in connection with any proceeding charging improper personal benefit to an officer or director, no indemnification may be made if such officer or director is adjudged liable on the basis that personal benefit was improperly received. Notwithstanding the foregoing, the TBCA provides that a court of competent jurisdiction, upon application, may order that an officer or director be indemnified for reasonable expenses if, in consideration of all relevant circumstances, the court determines that such individual is fairly and reasonably entitled to indemnification, whether or not the standard of conduct set forth above was met.

Item 16. ***Exhibits.***

1.1	Form of Underwriting Agreement.*
3.1	Charter, as amended and restated (restated for SEC electronic filing purposes only) (incorporated by reference to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, as filed with the Securities and Exchange Commission on May 6, 2004).
3.2	Bylaws (incorporated herein by reference to the Registrant s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002, as filed with the Securities and Exchange Commission on March 6, 2003).
4.1	Specimen Common Stock Certificate (incorporated herein by reference to the Registrant s Registration Statement on Form SB-2 (Registration No. 333-38018)).
4.2	See Exhibits 3.1 and 3.2 for provisions of the Charter and Bylaws defining rights of holders of the Common Stock.
5.1	Opinion of Bass, Berry & Sims PLC.*
23.1	Consent of KPMG LLP.
23.2	Consent of Bass, Berry & Sims PLC (included in Exhibit 5.1).*
24.1	Powers of Attorney (contained on signature page of this Registration Statement).

* To be filed by amendment.

Item 17. ***Undertakings.***

(a) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant s annual report pursuant to Section 13(a) or 15(d) of the Exchange Act and that is incorporated by reference in this registration statement shall be deemed to

be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Nashville, State of Tennessee, on this 23rd day of July, 2004.

PINNACLE FINANCIAL PARTNERS, INC.

By: /s/ M. TERRY TURNER

M. Terry Turner
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, each person whose signature appears below hereby constitutes and appoints M. Terry Turner and Robert A. McCabe, Jr. and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments, including those pursuant to Rule 462(b) of the Securities Exchange Act) to this Registration Statement, and to file the same, with the SEC, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated below.

Signature	Title	Date
/s/ ROBERT A. MCCABE, JR. Robert A. McCabe, Jr.	Chairman and Director	July 23, 2004
/s/ M. TERRY TURNER M. Terry Turner	President, Chief Executive Officer and Director (Principal Executive Officer)	July 23, 2004
/s/ HAROLD R. CARPENTER Harold R. Carpenter	Chief Financial Officer (Principal Financial and Accounting Officer)	July 23, 2004
/s/ SUE G. ATKINSON Sue G. Atkinson	Director	July 23, 2004
Gregory L. Burns	Director	
/s/ COLLEEN CONWAY-WELCH Colleen Conway-Welch	Director	July 23, 2004
/s/ CLAY T. JACKSON Clay T. Jackson	Director	July 23, 2004

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Signature	Title	Date
/s/ JOHN E. MAUPIN, JR., D.D.S. John E. Maupin, Jr., D.D.S.	Director	July 23, 2004
Robert E. McNeilly, Jr.	Director	
/s/ DALE W. POLLEY Dale W. Polley	Director	July 23, 2004
/s/ LINDA E. REBROVICK Linda E. Rebrovick	Director	July 23, 2004
/s/ JAMES L. SHAUB, II James L. Shaub, II	Director	July 23, 2004
/s/ REESE L. SMITH, III Reese L. Smith, III	Director	July 23, 2004

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