OSCIENT PHARMACEUTICALS CORP
Form DEF 14A
April 20, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

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

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Oscient Pharmaceuticals Corporation

(Name of Registrant as Specified In Its Charter)

Oscient Pharmaceuticals Corporation

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

OSCIENT PHARMACEUTICALS CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On May 25, 2005

To the Shareholders of

OSCIENT PHARMACEUTICALS CORPORATION

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Oscient Pharmaceuticals Corporation, (the Company) will be held on Wednesday, May 25, 2005 beginning at 9:00 a.m. at Ropes & Gray LLP, One International Place, 36th floor, Boston, Massachusetts, for the following purposes:

A. To elect ten directors.

B. To ratify the selection of Ernst & Young LLP as the Company s independent registered public accounting firm for the year ending December 31, 2005.

C. To transact such other business as may properly come before the meeting or any adjournment of the meeting.

The Board of Directors has fixed the close of business on April 11, 2005 as the record date for the determination of shareholders entitled to notice of and to vote at this meeting and at any adjourned session(s) thereof.

All shareholders are cordially invited to attend the meeting. However, to assure your representation at the meeting, you are urged to mark, sign, date and return the enclosed form of proxy as promptly as possible. Shareholders attending the meeting may vote in person even if they have returned a proxy.

By Order of the Board of Directors,

PATRICK O BRIEN, Clerk

April 22, 2005

Boston, Massachusetts

OSCIENT PHARMACEUTICALS CORPORATION

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited by the Board of Directors of Oscient Pharmaceuticals (the Company or Oscient) for use at the Annual Meeting of Shareholders to be held on Wednesday, May 25, 2005 beginning at 9:00 a.m. (the Annual Meeting), or at any adjourned session(s) of that meeting, for the purposes set forth in the foregoing Notice. The cost of solicitation of proxies, including expenses in connection with preparing and mailing this Proxy Statement, will be borne by the Company. This solicitation of proxies is being made by mail, although it may be supplemented by telephone, facsimile or personal solicitation by directors, officers, or other employees of the Company. No additional compensation will be paid to such individuals for such services. The Company has also engaged the proxy solicitation firm The Altman Group to assist it with the solicitation of proxies, and the Company expects to pay this firm approximately $5,000 for its services. This Proxy Statement and accompanying proxy will be mailed on or about April 22, 2005 to all shareholders entitled to vote at the meeting. The address of the Company is 1000 Winter Street, Suite 2200, Waltham, Massachusetts, 02451.

Only shareholders of record at the close of business on April 11, 2005 will be entitled to notice of and to vote at the meeting. As of April 11, 2005, the Company had outstanding 76,549,206 shares of Common Stock, par value $0.10 per share (the Common Stock). Each share of Common Stock is entitled to one vote.

Any shareholder giving a proxy has the power to revoke it at any time before it is exercised. It may be revoked by filing with the Clerk of the Company an instrument of revocation or a duly executed proxy bearing a later date. It may also be revoked by attending the meeting and electing to vote in person.

A copy of the Company s 2004 Annual Report to Shareholders, including financial statements, is being mailed concurrently with this Proxy Statement to each shareholder entitled to vote at the meeting. **The Company will provide, without charge, a copy of the Company s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2004 and related financial statements and financial statement schedules to each shareholder entitled to vote at this meeting who requests a copy of such in writing. Requests should be sent to Oscient Pharmaceuticals Corporation, 1000 Winter Street, Suite 2200, Waltham, Massachusetts, 02451, Attention: Stephen Cohen, Chief Financial Officer.**

Quorum, Required Votes And Method Of Tabulation

Consistent with Massachusetts law and under the Company s By-laws, a majority in interest of all stock issued and outstanding and entitled to vote on a matter, present in person or represented by proxy, constitutes a quorum as to such matter. Votes cast by proxy or in person at the Annual Meeting will be counted by persons appointed by the Company to act as election inspectors for the Annual Meeting.

For proposal A, the nominees for election as directors that receive the greatest number of votes properly cast for the election of directors will be elected as directors. A majority of votes properly cast shall determine the approval of proposals B (ratification of independent registered public accounting firm) and C (transaction of other business and adjournment) set forth in this proxy. The election inspectors will count shares represented by proxies that withhold authority to vote for a nominee for election as a director, or that reflect abstentions or broker non-votes (i.e., shares represented at the Annual Meeting held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have or does not exercise discretionary voting power on a particular matter) only as shares that are present and entitled to vote on the matter for purposes of determining the presence of a quorum, but abstentions, broker non-votes and proxies that withhold authority to vote will not be counted as votes properly cast for purposes of determining the outcome of voting on any matter.

Security Ownership Of Certain Beneficial Owners And Management

The following table sets forth information regarding the beneficial ownership of Company common stock as of March 1, 2005 by:

each person known by the Company to own beneficially 5% or more of Company common stock;

each director and nominee for director of the Company;

each executive officer of the Company; and

all of the directors and executive officers of the Company as a group.

The percentages shown are based on shares of Company common stock outstanding as of March 1, 2005. Unless otherwise indicated, the address for each stockholder is c/o Oscient Pharmaceuticals Corporation, 1000 Winter Street, Suite 2200, Waltham, Massachusetts 02451. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of capital stock listed as owned by such person or entity.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Luke B. Evnin	7,846,788(1)	10.2%
David B. Singer	1,743,736(2)	2.3%
Robert J. Hennessey	391,578(3)	0.5%
Steven M. Rauscher	1,084,672(4)	1.4%
William S. Reardon	39,220(3)	0.1%
Norbert G. Riedel	119,041(3)	0.2%
David K. Stone	105,291(3)	0.1%
Vernon Loucks	225,269(3)	0.3%
Pamela J. Kirby	9,047(3)	
Gary Patou	659,174(3)	0.9%
Stephen Cohen	341,287(3)	0.4%
Entities affiliated with MPM Capital	7,825,441(5)	10.1%
Citigroup Inc.	7,713,262(6)	9.2%
FMR Corp.	4,947,863(7)	6.1%
All directors and officers as a group (12 persons)	12,565,103(8)	15.6%

(1)

Includes 6,096,662 shares of common stock held by BB BioVentures L.P., 80,034 shares of common stock held by MPM Asset Management Investors 1998 LLC, and 783,018 shares of common stock held by MPM BioVentures Parallel Fund, L.P. Includes 762,754 shares of common stock held by BB BioVentures L.P. that may be acquired through the conversion of a promissory note. Includes 9,955 shares of common stock held by MPM Asset Management Investors 1998 LLC that may be acquired through the conversion of a promissory note. Includes 93,018 shares of common stock held by MPM BioVentures Parallel Fund, L.P. that may be acquired through the conversion of a promissory note. Includes 21,347 shares of common stock held by Dr. Evnin which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following March 1, 2005. Dr. Evnin has shared voting and dispositive power over shares held by BB BioVentures L.P., MPM Asset Management Investors 1998 LLC and MPM BioVentures Parallel Fund, L.P. The address of this shareholder is 601 Gateway Boulevard, Suite 360, South San Francisco, California 94080.

(2) Includes 15,076 shares of common stock held by the Singer-Kapp Family 2000 Trust and 211,574 shares of common stock held by the Singer-Kapp Long-Term Trust. Includes 1,075,063 shares of common stock that may be acquired upon the exercise of vested options or options that are to become vested within 60 days following March 1, 2005. Includes 15,056 shares of common stock that may be acquired through the conversion of a promissory note.

(3) Includes 343,118 shares for Mr. Hennessey, 17,992 shares for Mr. Loucks, 26,001 shares for Mr. Reardon, 115,522 shares for Dr. Riedel, 9,047 shares for Dr. Kirby, 105,291 shares for Mr. Stone, 312,698 shares for Mr. Cohen, and 382,617 shares for Dr. Patou, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following March 1, 2005.

(4) Includes 1,041,738 shares of common stock for Mr. Rauscher, which shares are issuable upon the exercise of vested options or options that are to become vested within 60 days following March 1, 2005. Includes 24,000 restricted shares.

(5) Includes 6,096,662 shares of common stock held by BB BioVentures L.P, 80,034 shares of common stock held by MPM Asset Management Investors 1998 LLC, and 783,018 shares of common stock held by MPM BioVentures Parallel Fund, L.P. Includes 762,754 shares of common stock held by BB BioVentures L.P. that may be acquired through the conversion of a promissory note. Includes 9,955 shares of common stock held by MPM Asset Management Investors 1998 LLC that may be acquired through the conversion of a promissory note. Includes 93,018 shares of common stock held by MPM BioVentures Parallel Fund, L.P. that may be acquired through the conversion of a promissory note. The address of this shareholder is 601 Gateway Boulevard, Suite 360, South San Francisco, California 94080.

(6) Includes 5,981,455 shares held, or which may be acquired upon the conversion of promissory notes, by the following direct and indirect subsidiaries of Citigroup Inc.: Citigroup Global Markets Limited, Citigroup Global Markets Europe Limited, Citigroup Global Markets International LLC, Citigroup Financial Products Inc. and Citigroup Global Markets Holdings Inc. The address of Citigroup Inc. is 399 Park Avenue, New York, NY 10043. This information is based solely on the joint Schedule 13G filed on April 19, 2005 by Citigroup Inc. and its subsidiaries.

(7) Includes 4,942,263 shares beneficially owned by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR Corp. and a registered investment adviser, as a result of acting as investment adviser to various registered investment companies. Includes 3,191,810 shares of common stock that may be acquired through the conversion of promissory notes. Edward C. Johnson III and Abigail P. Johnson have dispositive power over the shares beneficially owned by FMR Corp. The address for these shareholders is 82 Devonshire St., Boston, MA 02109. This information is based solely on information contained in a joint Schedule 13G filed on February 14, 2005 by FMR Corp., Edward C. Johnson III and Abigail P. Johnson.

(8) Includes 3,450,434 shares of common stock that are issuable upon the exercise of vested options or options that are to become vested within 60 days following March 1, 2005. Includes 880,783 shares of common stock that may be acquired through the conversion of promissory notes. Includes 24,000 restricted shares for Mr. Rauscher.

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid by the Company to its Chief Executive Officer and other executive officers who earned more than $100,000 for the fiscal year ended December 31, 2004:

SUMMARY COMPENSATION TABLE

	Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus**	**Restricted Stock Awards(s)**	**Stock/Options SARs(#)**	**All Other Compensation**
Steven M. Rauscher	2004	$ 402,924	$ 84,738(3)		517,089	$ 24,560(6)
Chief Executive Officer and	2003	384,300	76,860(3)		103,504	23,410(6)
President	2002	383,031	25,345(3)		115,617	65,305(6)
Stephen Cohen	2004	231,186	40,425(4)		112,256	22,158(7)
Sr. Vice President and Chief	2003	220,500	55,125(4)		37,648	33,157(7)
Financial Officer	2002	220,258	19,845(4)		66,530	31,510(7)
Gary Patou, M.D.(1)	2004	346,155				80,709(9)
Executive Vice President and						
Chief Medical Officer						
Martin D. Williams(2)	2004	160,229			8,793	240,861(8)
Sr. Vice President Corporate	2003	250,000			36,418	5,468(8)
Development and Marketing	2002	232,000	53,040(5)		29,235	17,194(8)
			36,377(5)			
			18,743(5)			

(1) Dr. Patou s employment with the Company commenced on the date of the merger between Genome Therapeutics and Genesoft on February 6, 2004.

(2) Mr. Williams s employment with the Company ceased on June 30, 2004.

(3) Mr. Rauscher received an incentive cash bonus of $84,738 for fiscal year 2004, paid in 2005. In addition, Mr. Rauscher received a non-cash bonus in the form of a grant, pursuant to the Company s 2001 Incentive Plan, of an incentive stock option to purchase 74,278 shares of Common Stock at an exercise price of $2.73. All shares were vested upon grant. For 2003, Mr. Rauscher received an incentive cash bonus of $76,860 and a non-cash bonus in the form of a grant, pursuant to the Company s 2001 Incentive Plan, of a non-qualified option to purchase 17,089 shares of Common Stock at an exercise price of $1.93 per share. One-half of such shares vested upon grant and the other half vested on February 4, 2005. For 2002, Mr. Rauscher received an incentive cash bonus of $25,345 and a non-cash bonus in the form of a grant, pursuant to the Company s 2001 Incentive Plan, of a non-qualified option to purchase 66,004 shares of Common Stock at an exercise price of $0.38 per share. One-half of such shares vested upon grant and the other half vested on March 12, 2004.

(4) Mr. Cohen received an incentive cash bonus of $40,425, for fiscal year 2004, paid in 2005. In addition, Mr. Cohen received a non-cash bonus in the form of a grant, pursuant to the Company s 2001 Incentive Plan, of an incentive stock option to purchase 35,434 shares of Common Stock at an exercise price of $2.73. All shares were vested upon grant. For 2003, Mr. Cohen received an incentive cash bonus of $55,125 and a

non-cash bonus in the form of a grant, pursuant to the Company s 2001 Incentive Plan, of a non-qualified option to purchase 12,256 shares of Common Stock at an exercise price of $1.93 per share. One-half of such shares vested upon grant and the other half vested February 4, 2005. For 2002, Mr. Cohen received an incentive cash bonus of $19,845 and a non-cash bonus in the form of a grant, pursuant to the Company s 2001 Incentive Plan, of a non-qualified option to purchase 22,148 shares of Common Stock at an exercise price of $0.38 per share. One-half of such shares vested upon grant and the other half vested on March 12, 2004.

(5) Mr. Williams received an incentive cash bonus of $53,040 for fiscal year 2004. For 2003, Mr. Williams received an incentive cash bonus of $36,377 and a non-cash bonus in the form of a grant, pursuant to the Company s 2001 Incentive Plan, of a non-qualified stock option to purchase 8,793 shares of Common Stock at an exercise price of $1.77 per share. One-half of such shares vested upon grant and the other half vested February 3, 2005. For 2002, Mr. Williams received an incentive cash bonus of $18,743 and a non-cash bonus in the form of a grant pursuant to the Company s 2001 Incentive Plan, of a nonqualified option to purchase 20,918 shares of Common Stock at an exercise price of $0.38 per share. One-half of such shares vested upon grant and the other half vested on March 12, 2004.

(6) The 2004 amount represents $3,758 in contributions to Mr. Rauscher s life insurance premiums, $6,150 to the Company s 401(k) Retirement Savings Plan, and $14,652 in compensation allowances. The 2003 amount represents $3,758 in life insurance premiums, $5,000 to the Company s 401(k), and $14,652 in compensation allowances. The 2002 amount represents $3,758 in life insurance premiums, $5,000 to the Company s 401(k), $34,785 in compensation allowances, and $21,762 in relocation expenses.

(7) The 2004 amount represents $6,979 in contributions by the Company to Mr. Cohen s life insurance premiums, $6,150 to the Company s 401(k) Retirement Savings Plan, and $9,029 in relocation expenses. The 2003 amount represents $6,979 in life insurance premiums, $5,000 to the Company s 401(k), and $21,178 in relocation expenses. The 2002 amount represents $6,979 in life insurance premiums, $4,740 to the Company s 401(k), and $19,791 in relocation expenses.

(8) The 2004 amount represents $130,500 in severance paid in 2004, $104,463 in severance to be paid in 2005 and $5,898 in contributions by the Company to Mr. William s 401(k) Retirement Savings Plan. The 2003 amount represent contributions by the Company to Mr. Williams s 401(k) Retirement Savings Plan. The 2002 amount reflects $2,194 in contributions to Mr. Williams s Retirement Savings Plans and $15,000 of hiring bonus.

(9) The 2004 amount represents $66,000 in relocation expenses, $6,150 in contributions to Dr. Patou s 401(k) Retirement Savings Plan, and $8,559 in life insurance premiums and interest payments.

Option Grants in Fiscal 2004

The following table reflects the stock options granted by the Company under its 2001 Incentive Plan to the named executive officers for the year ended December 31, 2004.

The potential realizable value amounts in the last three columns of the following table represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock appreciation of 0%, 5% and 10%, compounded annually from the date the respective options were granted to their expiration date (The 0% column shows the value of the option if exercised on the date of grant). The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of our Common Stock, the option holders continued employment through the option period, and the date on which the options are exercised.

Option/SAR Grants In Last Fiscal Year

Individual Grants

	Options / SARS Granted (#)	% of Total Options SARs Employees in Fiscal Year	Exercise or Base Price ($/Share)	Fair Market Value of Common Stock ($/Share)	Expiration Date	Potential Realizable $ Value at Assumed Rate of Stock Price Appreciation for Option Term		
						0%	5%	10%
Steven M. Rauscher	17,089(1)	0.6	1.9275	6.425	2/4/14	76,858	145,908	251,846
	500,000(2)	17.7	5.22	5.22	4/13/14		1,641,415	4,159,667
Stephen Cohen	12,256(1)	0.4	1.9275	6.425	2/4/14	55,121	104,644	180,620
	100,000(3)	3.6	5.22	5.22	4/13/14		328,283	831,934
Gary Patou, M.D.								
Martin D. Williams	8,793(4)	0.3	1.77	5.91	2/3/14	36,403	69,085	119,224

(1) These shares, which were granted on February 4, 2004 were vested in two equal installments. One-half of such shares were vested on date of grant and the other half vested on February 4, 2005. The Company will reimburse the officer for any taxes on these arising at the time of exercise as a result of Section 409A of the Internal Revenue code, as well as any tax payable on such reimbursement.

(2) These shares, which were granted on April 13, 2004, vest in equal quarterly installments over a three year period with the vesting period commencing April 13, 2004.

(3) These shares, which were granted on April 13, 2004, vest in two equal installments. One-half of such shares vested on April 13, 2005 and the other half will vest on date of separation from the company.

(4) These shares, which were granted on February 3, 2004, were vested in two equal installments. One-half of such shares were vested on date of grant and the other half vested on February 3, 2005.

Fiscal Year End Option Values

The following table sets forth the aggregate dollar value of all Options/SARs exercised and the total number of unexercised Options/SARs held on December 31, 2004 by each of the named executive officers:

Aggregated Option/SAR Exercises In Last Fiscal

Year And Fiscal Year-End Option/SAR Values

	Shares Acquired On Exercise	Value Realized	Number of Unexercised Options/SARs at Fiscal Year-End(#) Exercisable/Unexercisable	Value of Unexercised In-the Money Options/SARs at Fiscal Year-End

					Exercisable/Unexercisable(1)
Steven M. Rauscher			847,876 / 448,334	$	361,784 / $96,207
Stephen Cohen			187,928 / 157,670	$	181,608 / $50,137
Gary Patou, M.D.	475,090	$ 1,497,334	665,430 /	$	2,289,325 / $
Martin D. Williams			149,634 / 28,458	$	146,371 / $44,840

(1) The average of the high and low trading prices of the Common Stock on December 31, 2004 was $3.60 as reported by Nasdaq National Market. Value is calculated on the basis of the difference between the Option/SAR grant price and $3.60 multiplied by the number of shares of Common Stock underlying the Option/SAR.

Employment Agreements

Steven M. Rauscher, President and Chief Executive Officer, has an employment agreement with the Company, which commenced on October 26, 2000. Mr. Rauscher s current base salary is $420,000 per year. The agreement entitles Mr. Rauscher to receive an annual incentive bonus of 0-60% of his base salary based on the Company s achievement of enhanced share value and certain operating and financial goals to be determined by the Board of Directors. Upon hiring, Mr. Rauscher received 24,000 shares of the Company s Common Stock that vested in four equal annual installments of 6,000 shares on the anniversary of Mr. Rauscher s employment. These shares are subject to forfeiture to the Company in the event Mr. Rauscher s employment with the Company terminates under certain circumstances. On March 28, 2001, the Company loaned Mr. Rauscher $163,000 to allow him to pay income tax liabilities associated with the grant of the 24,000 restricted shares. The loan bears interest at 4% per year, was initially payable in full on December 31, 2004 and was extended to December 31, 2006 at Mr. Rauscher s option, per the agreement. The principal amount of the loan is non-recourse as it is secured only by the 24,000 shares of restricted stock, while the interest component of the loan is full recourse. As of April 1, 2005, the total amount outstanding under this loan, including principal and interest was $189,187. In addition, Mr. Rauscher was awarded stock options to purchase 540,000 shares of Common Stock at an exercise price of $14.44 per share, the fair market value of the Common Stock on the date of grant. These options are fully vested.

In the event that Mr. Rauscher s employment is terminated by the Company for reasons other than for cause, or terminates with good reason (as defined), the agreement provides for the continuation of all compensation and benefits for a period of up to 12 months, or until such time as he is re-employed, whichever occurs first. Also, if, within 2 years following a change of control (as defined) of the Company or the closing of the merger with GeneSoft Pharmaceuticals, Inc. which occurred on February 6, 2004, Mr. Rauscher s employment is terminated other than for cause, or he experiences a material reduction in responsibilities (not including his ceasing to be Chairman following the Genesoft merger) or compensation, or is required to relocate out of the greater Boston area, he will receive salary and benefits continuation for a period of 18 months from the date of termination and any remaining unvested options and restricted shares will immediately and fully vest and all his options will remain exercisable for the shorter of two years from his date of termination or the expiration date of the option.

Gary Patou, M.D., Executive Vice President and Chief Medical Officer, has an employment agreement with the Company that commenced on February 6, 2004, upon the closing of the Company s merger with GeneSoft Pharmaceuticals, Inc. Dr. Patou s base salary is $315,000 per year. During his employment, Dr. Patou is also entitled to receive a housing allowance of $6,000 per month. The agreement initially provided for employment through January 1, 2005. Dr. Patou s employment was subsequently extended through April 30, 2005, after which time Dr. Patou will serve as a part-time consultant through December 31, 2005. While serving as a consultant, Dr. Patou has agreed to provide up to twenty-four hours of consulting services per month and will be paid at a rate of $2,500 per day. Pursuant to the terms of Dr. Patou s employment extension, on January 2, 2005, the Company made a severance payment to Dr. Patou of $449,000 and forgave approximately $327,000 outstanding under a loan initially made to Dr. Patou by GeneSoft. Additionally, upon such extension, all of Dr. Patou s Genesoft options which were assumed by the Company in the merger vested and became immediately exercisable. On March 22, 2005, Dr. Patou was appointed to the Company s Board of Directors.

Stephen Cohen, Senior Vice President and Chief Financial Officer, has an employment agreement with the Company, which commenced on January 22, 2001. Mr. Cohen s current base salary is $257,500 per year. The agreement entitles Mr. Cohen to receive an annual incentive bonus of up to 40% of his base salary based on his performance and that of the Company against goals to be determined by the Board of Directors annually after consultation with Mr. Cohen. Upon hiring, Mr. Cohen was awarded stock options to purchase 75,000 shares of Common Stock at an exercise price of $8.20 per share, the fair market value of the Common Stock on the date of grant, which options vested in four equal annual installments on the anniversary of his commencement of employment. In lieu of a cash signing bonus, Mr. Cohen was awarded additional options to purchase 19,164 shares of Common Stock at an exercise price of $2.46 per share, representing thirty percent of the fair market value of the Common Stock on the date of grant, which options vested in two equal installments on the anniversary of his employment.

In the event that Mr. Cohen s employment is terminated by the Company for reasons other than for cause, or he terminates it with good reason (as defined), the agreement provides for the continuation of all compensation and benefits for a period of up to 9 months, or until such time as he is re-employed, whichever occurs first. Also, if, within 2 years following a change of control (as defined) of the Company or the closing of the merger with GeneSoft Pharmaceuticals, Inc. which occurred on February 6, 2004, Mr. Cohen s employment is terminated other than for cause, or he experiences a material reduction in responsibilities at the surviving company, or he is required to relocate out of the greater Boston area, he will receive salary and benefits continuation for a period of 12 months from the date of termination and any remaining unvested options will immediately and fully vest and all his options will remain exercisable for the shorter of two years from his date of termination or the expiration date of the option.

Antonius Martinus Gustave (Ton) Bunt M.D., Ph.D, Senior Vice President, Clinical Development and Medical Affairs, has an employment agreement with the Company, which commenced on January 1, 2005. Dr. Bunt s current base salary is $275,000 per year. The agreement entitles Dr. Bunt to receive an annual incentive bonus of up to 40% of his salary based on his performance and that of the Company against goals to be determined by the Board of Directors annually after consultation with Dr. Bunt. Upon hiring, Dr. Bunt received a cash signing bonus of $50,000. Dr. Bunt was awarded stock options to purchase 250,000 shares of Common Stock at $3.595 per share, the fair market value of the Common Stock on the date of grant, which options vest in four equal annual installments on the anniversary of his commencement of employment.

In the event that Dr. Bunt s employment is terminated by the Company for reasons other than for cause, or he terminates it with good reason (as defined), the agreement provides for the continuation of all compensation and benefits for a period of up to 9 months, or until such time as he is re-employed, whichever occurs first. Also, if, within 2 years following a change of control (as defined) of the Company, he is terminated other than for cause, or he experiences a material reduction in responsibilities at the surviving company, or he is required to relocate out of the greater Boston area, he will receive salary and benefits continuation for a period of 12 months from the date of termination and any remaining unvested options will immediately and fully vest and all his options will remain exercisable for the shorter of two years from his date of termination or the expiration date of the option.

Dominick (Nick) Colangelo, Esq., Senior Vice President, Corporate Development and Operations, has an employment agreement with the Company, which commenced on January 1, 2005. Mr. Colangelo s current base salary is $305,000 per year. The agreement entitles Mr. Colangelo to receive an annual incentive bonus of up to 40% of his salary based on his performance and that of the Company against goals to be determined by the Board of Directors annually after consultation with Mr. Colangelo. Upon hiring, Mr. Colangelo received a cash signing bonus of $100,000. Mr. Colangelo was awarded stock options to purchase 250,000 shares of Common Stock at $3.595 per share, the fair market value of the Common Stock on the date of grant, which options vest in four equal annual installments on the anniversary of his commencement of employment.

In the event that Mr. Colangelo s employment is terminated by the Company for reasons other than for cause, or he terminates it with good reason (as defined), the agreement provides for the continuation of all compensation and benefits for a period of up to 9 months, or until such time as he is re-employed, whichever occurs first. Also, if, within 2 years following a change of control (as defined) of the Company, Mr. Colangelo s employment is terminated other than for cause, or he experiences a material reduction in responsibilities at the surviving company, or he is required to relocate out of the greater Boston area, he will receive salary and benefits continuation for a period of 12 months from the date of termination and any remaining unvested options will immediately and fully vest and all his options will remain exercisable for the shorter of two years from his date of termination or the expiration date of the option.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On February 6, 2004, the Company completed its merger with GeneSoft Pharmaceuticals, Inc. Messrs. Singer, Patou and Evnin, all of whom are nominees for election to the Company s Board of Directors, served as directors of Genesoft during the course of the negotiations of the merger agreement and through the closing of the transaction. Mr. Singer also served as Chief Executive Officer and Chairman of Genesoft and Dr. Patou served as President of Genesoft during this period. Immediately following the execution of the merger agreement, the Company loaned $6.2 million to Genesoft to fund its operations prior to closing. In addition, pursuant to the terms of the merger agreement, the Company is providing a directors and officers liability insurance policy that covers the acts and omissions of these nominees in their capacities as directors and officers of Genesoft for a period of 6 years from the closing date of the merger.

As a result of their ownership of Genesoft stock, options and convertible notes, these nominees received beneficial ownership of shares of the Company s common stock in the merger. The amounts of their beneficial ownership are set forth in Security Ownership of Certain Beneficial Owners and Management above.

Pursuant to the terms of the merger, each of Mr. Singer and certain investment funds affiliated with Dr. Evnin and MPM Capital Management exchanged their promissory notes of Genesoft for a like principal amount of 5% convertible promissory notes of the Company due in February 2009, and they received payment of accrued interest and related amounts on their Genesoft notes in shares of Company common stock as reflected in Security Ownership of Certain Beneficial Owners and Management above. These Company notes are convertible into Company common stock at any time prior to maturity at the option of the holder at a price of $6.6418 per share, subject to adjustment for stock splits, stock dividends and similar events. In addition, following the one year anniversary of the closing of the merger, the Company has a right to compel the conversion of the Company notes if the closing sale price of the Company s common stock is greater than 150% of the then effective conversion price for 15 consecutive trading days. Mr. Singer holds $100,000 principal amount of these Company notes and investment funds affiliated with Dr. Evnin and MPM Capital Management hold $5,750,000 principal amount of these Company notes.

Under the terms of Mr. Singer s agreements with Genesoft, due to the fact that he would not be an employee of the Company following the merger, Genesoft paid him a cash severance payment of $472,500 immediately prior to the closing of the merger. In addition, options held by Mr. Singer to purchase approximately 709,000 shares of Genesoft common stock vested and became exercisable upon the closing of the merger. Upon the closing of the merger with Genesoft, the Company assumed Genesoft s obligations to reimburse Mr. Singer for the cost of his and his family s monthly COBRA health insurance premiums until the earliest of (a) January 31, 2006, (b) the date that he no longer serves on the Company s board of directors, (c) the expiration of the continuation coverage under COBRA or (d) the date that he becomes eligible for substantially equivalent coverage in connection with new employment.

As a result of the merger, options held by Dr. Patou to purchase approximately 958,000 shares of Genesoft common stock were assumed by the Company. On December 20, 2002, Genesoft loaned $315,000 to Dr. Patou, which indebtedness was acquired by the Company pursuant to the merger. Pursuant to the terms of Dr. Patou s employment extension, on January 2, 2005, the Company forgave the full amount outstanding under the loan of approximately $327,000 and all of Dr. Patou s unvested options vested and became immediately exercisable.

Notwithstanding anything to the contrary set forth in any of the Company s previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934 that might incorporate future filings, including this Proxy Statement, in whole or part, the following Reports of the Compensation Committee and the Audit Committee and the Performance Graph on page 18 shall not be incorporated by reference into any such filings.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Board of Directors (the Compensation Committee) of the Company for the last fiscal year (post merger February 6, 2004) consisted of Vernon R. Loucks, Jr. (until his resignation from the Board of Directors on March 16, 2005) and Norbert G. Riedel, Committee Chairperson. Pamela J. Kirby was appointed to the Compensation Committee effective January 1, 2005. The Compensation Committee s responsibilities include, but are not limited to, reviewing and setting goals for executive officer compensation, making recommendations to the Board regarding Board compensation, making recommendations to the Board regarding new employee incentive compensation plans and performing annual review of major employee benefit plans.

Compensation Philosophy and Goals

The Company s goal is to attract, retain, motivate, and reward its employees through the use of competitive compensation programs and policies, while aligning employee interests more closely with that of the Company and its shareholders. The Company s compensation philosophy is influenced by competitive dynamics and labor conditions as well as the financial position of the Company. With respect to the retention of management, the Company seeks to retain and reward the highest caliber management team by offering total-compensation solutions, which are comparable to those offered by its competitors, and promote performance-based compensation. To align the interests of employees more closely with those of the shareholders, the Company promotes equity based employee reward and recognition plans.

Executive Officer Compensation Program

The compensation of the executive officers of the Company consists of a combination of salary, performance bonuses, stock options, contributions to or accruals for benefit plans, and participation in various other plans, such as the Company s 401(k) plan, as well as the provision of medical and other personal benefits typically offered to all employees. The Compensation Committee reviews the Company s executive compensation plans annually to ensure that total compensation plans and key elements therein are competitive with prevailing industry benchmark data of similar size companies and positions of comparable scope of responsibility. As part of the annual review process, the Committee considers recommendations presented by the Chief Executive Officer and considers achievement of predetermined performance goals for the preceding fiscal year and overall leadership and management performance for each executive prior to approval of executive compensation plans.

Base Salary

The Compensation Committee reviews base salary levels for the Company s executive officers on an annual basis. In accordance with the Company s pay philosophy, base salaries are set competitively relative to the compensation of executive officers of similar size companies in the same industry, and who have comparable levels of responsibility, experience, and expected level of contribution to company performance.

Annual Performance Bonuses

Under the Company s Management Incentive Plan, executives are eligible to receive a percentage of annual base salary in incentive pay based on attainment of performance goals as approved by the Compensation Committee. These goals fall into three primary categories: attainment of certain financial targets, business/scientific achievement, and development/management of the Company s human capital. In addition, these goals are weighted to reflect the importance and level of impact to the Company. Currently, incentive bonuses are paid in cash and stock options of equivalent cash value at date of grant that vest over a defined period of time.

Long-Term Incentive Compensation

The Compensation Committee believes that the granting of new hire and annual stock options aligns executive officers interests with those of the shareholders. Long-term incentive compensation, in the form of stock options, directly provides the executive officers a capital accumulation opportunity directly linked to Company and individual performance as measured by appreciation in the value of the Company stock, while also promoting retention and competitive pay practices. Stock options are granted in accordance with prevailing industry benchmark data for executives of similar size companies who hold positions of comparable scope of responsibility and in accordance with Company and overall individual performance.

Compensation Of Chief Executive Officer

The compensation of Steven M. Rauscher, the Company s Chief Executive Officer, was determined using the methods described above. Mr. Rauscher s salary for fiscal year 2004 was $403,515. Mr. Rauscher received a cash incentive bonus of $84,738 for fiscal 2004 and a non-cash incentive bonus in the form of options to purchase 74,278 shares of the Company s Common Stock at an exercise price of $2.73, the fair market value on the date of grant. All options were vested on date of grant. As a long-term incentive designed to retain and motivate Mr. Rauscher, he was granted options to purchase 400,000 shares at an exercise price of $2.73, the fair market value on the date of grant, which vest quarterly over three years commencing on the date of the grant.

COMPENSATION COMMITTEE

Norbert G. Riedel, Chairperson

REPORT OF THE AUDIT COMMITTEE

The Audit Committee s primary function is to assist the Board of Directors in monitoring the integrity of Oscient s financial statements, systems of internal control and the independence and performance of the independent registered public accounting firm. The Audit Committee s specifically enumerated powers and responsibilities include hiring and terminating the independent registered public accounting firm, pre-approving any engagements of the independent registered public accounting firm for non-audit services, receiving and reviewing the reports of the CEO and CFO required by Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 13a-14 of the Securities Exchange Act of 1934, and reviewing Oscient s ethics and compliance programs.

The Audit Committee is currently comprised of three of Oscient s independent, non-employee directors. The Board of Directors and the Audit Committee believe that the Audit Committee s current member composition satisfies the rule of the National Association of Securities Dealers, Inc. that governs audit committee composition, including the requirements that:

all Audit Committee members are independent directors as that term is defined by NASD Rule 4200(a)(15);

all Audit Committee members are able to read and understand fundamental financial statements; and

at least one Audit Committee member is an Audit Committee Financial Expert as defined by 17 CFR Part 228.41(e).

The Audit Committee for the majority of the last fiscal year consisted of Mr. Stone, Dr. Riedel and Mr. Reardon, Committee Chairperson. Dr. Riedel stepped down from the Audit Committee on December 2, 2004 and was replaced by Dr. Pamela J. Kirby, effective January 1, 2005.

The Audit Committee has reviewed and discussed with management the financial statements for fiscal year 2004 audited by Ernst & Young LLP, the Company s independent registered public accounting firm. The Audit Committee has discussed with Ernst & Young LLP various matters related to the financial statements, including those matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU 380).

Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, requires the independent registered public accounting firm to provide the Audit Committee with additional information regarding the scope and results of the audit, including:

the independent registered public accounting firm s responsi