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DIACRIN INC /DE/
Form 10-K/A
April 29, 2003

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

Form 10-K/A
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission File No. 0-20139

Diacrin, Inc.
(Exact name of registrant as specified in its charter)

Delaware 22-3016912
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Building 96 13th Street, Charlestown Navy Yard, Charlestown, MA 02129
(Address of principal executive offices, including zip code)

(617) 242-9100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:
Title of each class Name of each exchange on which registered
None None

Securities registered pursuant to Section 12 (g) of the Act:
Title of each class
Common Stock, \$.01 par value

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO .
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES NO X .
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The approximate aggregate market value of the voting stock held by non-affiliates of the registrant (based on the closing price of the Common Stock on June 28, 2002) was \$15,472,000.

As of March 17, 2003, 17,937,204 shares of the registrant's Common Stock were outstanding.

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Explanatory Note

This Amendment No. 1 on Form 10-K/A to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report") is being filed to add the information required to be set forth in Part III of the Report

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding executive officers and directors of the company is furnished in Part I of this Annual Report on Form 10-K under the heading "Executive Officers of the Registrant."

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our directors, executive officers and persons who own more than ten percent of a registered class of our 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. Officers, directors and greater than ten percent beneficial owners are required to furnish us with copies of all Section 16(a) forms that they file.

Based solely on our review of the copies of such reports received or written representations that no other reports were required, we believe that during the fiscal year ended December 31, 2002, our officers, directors and ten-percent stockholders complied with all Section 16(a) filing requirements applicable to such individuals.

Item 11. Executive Compensation

Summary Compensation Table. The following table sets forth certain information with respect to the annual and long-term compensation for each of the last three fiscal years of the Company's Chief Executive Officer, Chief Operating Officer and Controller (the "Named Officers"):

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	All Other Compensation (3)
		Salary (\$) (1)	Bonus (\$) (2)	Awards	
				Securities Underlying Options (#)	
Thomas H. Fraser	2002	\$ 277,500	\$ 126,750	65,000	\$ 6,000
President and Chief Executive Officer	2001	275,000	137,500	-	5,250
	2000	270,000	25,000	25,000	2,625
E. Michael Egan	2002	\$ 222,500	\$ 95,000	40,000	\$ 5,500
Chief Operating Officer	2001	220,000	110,000	-	5,250
	2000	200,000	20,000	20,000	2,625
Kevin Kerrigan	2002	\$ 98,250	\$ 33,375	20,000	\$ 2,948

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Controller	2001	93,500	46,750	-	2,805
	2000	85,000	8,000	10,000	1,275

(1) Amounts shown include cash compensation earned and received by the Named Officers as well as amounts earned but deferred at the election of these officers to our 401(k) Plan.

(2) Amounts in this column represent bonuses paid or accrued under a retention or bonus plan.

(3) Represents matching contributions under our 401(k) Plan.

Option Grants Table. The following table sets forth certain information regarding options granted during the fiscal year ended December 31, 2002 to the Named Officers:

Individual Grants

Name	Number of Securities Underlying Options Granted (#) (1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date	Potential Realizable Assumed Annual Rate of Stock Price Appreciation Option Term (5% (\$))
Thomas H. Fraser	65,000	22%	\$2.08	1/14/12	\$85,027
E. Michael Egan	40,000	13%	\$2.08	1/14/12	\$52,324
Kevin Kerrigan	20,000	7%	\$2.08	1/14/12	\$26,162

(1) Options granted in 2002 become exercisable in four equal annual installments, commencing 12 months after the date of grant.

(2) Amounts 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 price appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date. Actual gains, if any, on stock option exercises will depend on the future performance of the Company's Common Stock and the date on which the options are exercised.

Aggregated Option Exercises and Year-End Option Table. The following table sets forth certain information regarding aggregate option exercises during the fiscal year ended December 31, 2002 and the number and value of unexercised stock options held as of December 31, 2002 by the Named Officers:

Number of

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Name	Shares Acquired on Exercise (#)	Value Realized (\$) ⁽¹⁾	Securities Underlying Unexercised Options at Fiscal Year-End (#)	Value of Unexercised the-Money Options at Fiscal Year-End
			Exercisable/ Unexercisable	Exercisable/ Unexercisable
Thomas H. Fraser	-	-	197,500 / 67,500	- / -
E. Michael Egan	-	-	207,495 / 45,000	- / -
Kevin Kerrigan	-	-	29,500 / 22,500	- / -

(1) Represents the difference between the exercise price and the value of our common stock on the date of exercise.

(2) Based on the value of our common stock on December 31, 2002 (\$1.091 per share), the last trading day of 2002, less the applicable option exercise price.

Director Compensation

Dr. Horovitz receives \$2,000 plus expenses per board meeting he attends plus an additional \$4,000 annually for his work as a Director and Chairman of the Audit Committee. No other directors receive any cash compensation for services on the board of directors.

On June 17, 2002, all non-employee directors were granted an option to purchase 10,000 shares of common stock under our 1997 Stock Option Plan at an exercise price of \$1.62 per share. The options may be exercised on a cumulative basis as to 25% of the shares on the first anniversary of the date of grant and an additional 25% at the end of each one-year period thereafter.

Employment Agreements

We entered into a letter agreement with Dr. Fraser dated February 6, 1990, providing for an annual salary plus bonus as determined by our board of directors. We have agreed with Dr. Fraser to continue to pay his then current salary for a period of six months if we terminate his employment without cause. Dr. Fraser has also agreed not to compete with us for one year following termination of his employment. At our election, this non-competition provision can be extended for an additional two-year period upon the payment of additional consideration.

Compensation Committee Interlocks and Insider Participation

Henri Termeer served on our Board of Directors until November 2002. Mr. Termeer resigned from our Board because certain programs at Diacrin are potentially competitive with programs at Genzyme. While a member of our Board of Directors, Mr. Termeer also served on our Compensation Committee. In September 1996, we formed a joint venture with Genzyme Corporation to develop and commercialize two product candidates. Under the terms of the joint venture agreement which became effective on October 1, 1996, Genzyme agreed to provide 100% of the first \$10 million in funding and 75% of the following \$40 million in funding for the development and commercialization of the two products. All costs incurred in excess of \$50 million are to be shared equally between us and Genzyme in accordance with the terms of the agreement. Any profits of

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the joint venture will be shared equally by the two parties. Mr. Termeer is President, Chief Executive Officer and Chairman of the Board of Genzyme. We have recorded approximately \$15.3 million in revenue from the joint venture since it commenced, approximately \$101,000 of which the Company recognized during 2002.

On February 20, 2003, Diacrin entered into an engagement letter with SG Cowen Securities Corporation pursuant to which SG Cowen agreed to serve as Diacrin's financial advisor in connection with the merger. Pursuant to the engagement letter, we have agreed to pay SG Cowen \$900,000. In addition, we have agreed to reimburse SG Cowen for all expenses incurred in connection with the services it provides to us in connection with the merger. Dr. Stelios Papadopoulos, a member of our Board of Directors and a member of our Compensation Committee, is a managing director of SG Cowen Securities Corporation.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters

The following table sets forth the beneficial ownership of our common stock as of March 31, 2003 by:

- each person who is known to beneficially own more than 5% of our common stock;
- each of our directors;
- each of our executive officers; and
- all of our executive officers and directors as a group.

Unless otherwise noted, each person or group has sole voting and investment power of the shares listed. The inclusion of any shares listed below as beneficially owned does not constitute an admission of beneficial ownership of those shares.

The "Options" column reflects shares of our common stock subject to options which are exercisable within 60 days after March 31, 2003. The shares of our common stock which are subject to options are deemed to be outstanding for the purpose of computing the percentage of ownership of the person holding such options, but are not deemed to be outstanding for computing the percentage of ownership of any other person. As of March 31, 2003, there were 17,937,204 shares of our common stock outstanding.

Name and Address -----	Number of Shares Beneficially Owned		Percentage of Common Stock Outstanding -----
	Shares -----	Options -----	
HealthCare Ventures II, L.P. (1).....	3,196,385	-	17.8%
HealthCare Ventures III, L.P. (1).....	994,078	-	5.5
HealthCare Ventures IV, L.P. (1).....	291,922	-	1.6
State of Wisconsin Investment Board (2).	2,658,200	-	14.8
Rho Management Trust II (3).....	1,592,887	-	8.9
Hudson Trust (4).....	1,342,680	-	7.5
Thomas H. Fraser, Ph.D.	505,988	197,500	3.9
Zola P. Horovitz, Ph.D.	4,000	30,000	*
John W. Littlechild (1).....	4,482,385	29,000	25.1

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Stelios Papadopoulos, Ph.D.	200,000	29,000	1.2
Joshua Ruch (5).....	1,759,587	29,000	10.0
E. Michael Egan.....	4,169	207,495	1.2
Kevin Kerrigan.....	-	29,500	*
All directors and executive officers as a group (7 persons).....	6,956,129	551,495	40.6

* Less than 1.0%

(1) John W. Littlechild is a general partner of HealthCare Partners II, L.P. ("HCPHII"), HealthCare Partners III, L.P. ("HCPHIII") and HealthCare Partners IV, L.P. ("HCPHIV"), the general partner of HealthCare Ventures II, L.P. ("HCVHII"), HealthCare Ventures III, L.P. ("HCVHIII") and HealthCare Ventures IV, L.P. ("HCVHIV"), respectively. Mr. Littlechild, together with James H. Cavanaugh, Harold R. Werner and William Crouse, the other general partners of HCPHII, HCPHIII and HCPHIV, share voting and investment control with respect to shares owned by HCVHII, HCVHIII and HCVHIV, respectively. Mr. Littlechild does not own any shares of our capital stock in his individual capacity. The address of HealthCare Ventures II, III and IV, L.P. is 44 Nassau Street, Princeton, New Jersey 08542.

(2) The address of the State of Wisconsin Investment Board is P.O. Box 7842, Madison, Wisconsin 53707.

(3) Rho Capital Partners, Inc. ("Rho") may be deemed the beneficial owner of these shares pursuant to an investment advisory agreement that confers voting and investment control over such shares on Rho. The address of Rho Management Trust II is c/o Rho Capital Partners, Inc., 152 West 57th Street, New York, New York 10019.

(4) The address of Hudson Trust is c/o Summit Asset Management Co., Inc., 47 Hulfish Street, Suite 420, Princeton, New Jersey 08542.

(5) Mr. Ruch is the Chairman and Chief Executive Officer of Rho and as such may be deemed the beneficial owner of the shares held by Rho Management Trust II. In addition, Mr. Ruch exercises investment and voting authority over 166,700 shares directly for his own account, for the account of family members or for the account of other clients of Rho or its affiliates.

On April 14, 2003, we entered into an Agreement and Plan of Reorganization and related Agreement and Plan of Merger with GenVec, Inc., a publicly traded company, under which we will merge into GenVec. Upon completion of the merger, each outstanding share of our common stock will be exchanged for 1.5292 shares of GenVec common stock. The merger is expected to close in the third quarter of 2003, subject to the satisfaction of closing conditions, including receipt of Diacrin and GenVec stockholder approval.

In connection with the execution of the Agreement and Plan of Reorganization certain of our stockholders, holding approximately 35% of our outstanding common stock, entered into voting agreements with GenVec pursuant to which they have agreed (i) not to sell their shares of Diacrin common stock until our stockholders have voted to approve the merger of Diacrin with GenVec or until the agreement has been terminated in accordance with its terms; and (ii) to vote all of their shares of Diacrin common stock in favor

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of the merger.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about the securities authorized for issuance under the Company's equity compensation plans as of December 31, 2002:

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,236,478	\$5.60	349,125
Equity compensation plans not approved by security holders	225,079	\$2.50	--
Total	1,461,557	\$5.12	349,125

In December 1993, and June 1994, respectively, in connection with the provision of services to Diacrin, our Board of Directors approved the grants of options to purchase 160,579, 57,500, 5,000 and 2,000 shares of our common stock at an exercise price of \$2.50 per share to certain consultants for services rendered. All of these options are currently fully vested and expire on December 10, 1993, December 30, 2003, June 20, 2004 and June 20, 2004, respectively.

Item 13. Certain Relationships and Related Transactions

HCVII, HCVIII and HCVIV owned 17.8%, 5.5% and 1.6% of our outstanding capital stock as of March 31, 2003, respectively. HCVII, HCVIII and HCVIV are limited partnerships which were formed to provide capital to companies in the health care fields. HCPPII, HCPPIII and HCPPIV are limited partnerships which serve as general partner of HCVII, HCVIII and HCVIV, respectively. John Littlechild, a member of our board of directors, is a general partner of HCPPII, HCPPIII and HCPPIV and Vice Chairman of Healthcare Ventures LLC, the management company for HCVII, HCVIII and HCVIV. Mr. Littlechild is an officer of Healthcare Ventures LLC. See "Security Ownership of Certain Beneficial Owners and Management."

Rho Management Trust II, which owned 8.9% of our outstanding capital stock as of March 31, 2003, also holds approximately 18.9% and 54.3% of the outstanding limited partnership interests of HCVII and HCVIV, respectively. An affiliate of Rho is also a limited partner of HCPPII, HCPPIII and HCPPIV. Joshua Ruch, a member of our board of

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directors, is a controlling person of Rho. See "Security Ownership of Certain Beneficial Owners and Management."

Hudson Trust, which owned 7.5% of our outstanding capital stock as of March 31, 2003, also holds approximately 6.0% and 11.9% of the outstanding limited partnership interests of HCVII and HCVIV, respectively. Hudson is also a limited partner of HCPII. See "Security Ownership of Certain Beneficial Owners and Management."

On February 20, 2003, Diacrin entered into an engagement letter with SG Cowen Securities Corporation pursuant to which SG Cowen agreed to serve as Diacrin's financial advisor in connection with the merger. Pursuant to the engagement letter, we have agreed to pay SG Cowen \$900,000. In addition, we have agreed to reimburse SG Cowen for all expenses incurred in connection with the services it provides to us in connection with the merger. Dr. Stelios Papadopoulos, a member of our Board of Directors and a member of our Compensation Committee, is a managing director of SG Cowen Securities Corporation.

Item 14. Controls and Procedures

1. Evaluation of disclosure controls and procedures. Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities and Exchange Act of 1934) as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Company's Chief Executive Officer and Controller have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

2. Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

DIACRIN, INC.

By: /s/ Thomas H. Fraser

Thomas H. Fraser
President and Chief Executive Officer

Date: April 29, 2003

CERTIFICATIONS

I, Thomas H. Fraser, President and Chief Executive Officer, certify that:

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1. I have reviewed this amendment to the annual report on Form 10-K/A of Diacrin, Inc.; and

2. Based on my knowledge, this amendment to the annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amendment to the annual report.

Date: April 29, 2003

/s/ Thomas H. Fraser

Thomas H. Fraser
President and
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Kevin Kerrigan, Controller, certify that:

1. I have reviewed this amendment to the annual report on Form 10-K/A of Diacrin, Inc.; and

2. Based on my knowledge, this amendment to the annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amendment to the annual report.

Date: April 29, 2003

/s/ Kevin Kerrigan

Kevin Kerrigan
Controller
(Principal Financial Officer)