

IAC/INTERACTIVECORP
Form 4
January 03, 2008

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
KEOUGH DONALD R /NY

(Last) (First) (Middle)
711 FIFTH AVENUE
(Street)

NEW YORK, NY 10022

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
IAC/INTERACTIVECORP [IACI]

3. Date of Earliest Transaction
(Month/Day/Year)
12/31/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V Amount (A) or (D) Price			
Common Stock, par value \$0.001 ⁽¹⁾	12/31/2007		A ⁽¹⁾	418 A \$ 26.92	70,672 ⁽²⁾	D	
Common Stock, par value \$0.001					1,000 ⁽³⁾	I	By spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Beneficially (Instr. 3, 4, and 5)
				Code V (A) (D)		Date Exercisable	Expiration Date	Title	Amount or Number of Shares

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KEOUGH DONALD R /NY 711 FIFTH AVENUE NEW YORK, NY 10022	X			

Signatures

Joanne Hawkins as Attorney-in-Fact for Donald Keough
 Date: 01/03/2008

**Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Represents share units accrued under the Non-Employee Director Deferred Compensation Plan as of December 31, 2007.
- (2) Includes (i) 58,843 shares of IAC Common Stock and (ii) 11,829 share units accrued under the Non-Employee Director Deferred Compensation Plan as of December 31, 2007.
- (3) The reporting person disclaims beneficial ownership of these shares of IAC Common Stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. px" ALIGN="right">

Brentwood Venture Capital⁽⁵⁾

2,440,883

5.97

%

Directors, Director Nominees and Named Executive Officers

W. Mark Lortz⁽⁶⁾

590,143

612,746

2.90

%

Charles T. Lianos

157,505

138,161

*

W. Patrick Bengtsson

5,513

Explanation of Responses:

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	83,967
	*
Timothy T. Goodnow, Ph.D.	
	2,550
	133,499
	*
Lawrence W. Huffman	
	442
	95,081
	*
Mark J. Gainor ⁽⁷⁾	
	1,024,800
	30,833
	2.58
%	
Explanation of Responses:	4

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Ross A. Jaffe, M.D.⁽⁵⁾

2,440,883

30,833

6.04

%

Jonathan T. Lord, M.D.

*

Michael M. McNamara

43,344

30,833

*

Robert R. Momsen⁽⁸⁾

3,566,550

30,833

Explanation of Responses:

5

	8.80
%	
Richard P. Thompson	
	31,200
	30,833
	*
Rod F. Dammeyer ⁽⁹⁾	
	205,150
	10,000
	*
All directors, director nominees and all executive officers as a group (20 people)	
	16,914,012
	1,720,936
	43.76
%	
<hr/>	
* Less than one percent.	

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- (1) This table is based on information supplied by directors, director nominees, all executive officers (including the Named Executive Officers) and principal stockholders of the Company and on any Schedules 13D or 13G filed with the Securities and Exchange Commission. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options

or warrants held by that person that are currently exercisable or will become exercisable within 60 days after March 1, 2003 are deemed outstanding, while such shares are not deemed outstanding for purposes of computing percentage ownership of any other person.

- (2) The InterWest Partners shares include 100,306 shares held by InterWest Partners V, L.P., 3,237,103 shares held by InterWest Partners VI, L.P., 1,449,082 shares held by InterWest Partners VII, L.P., 101,494 shares held by InterWest Investors, VI, L.P., and 69,396 shares purchased by InterWest Investors, VII, L.P. InterWest Partners VII, L.P. and InterWest Investors VII, L.P. are managed by InterWest Management Partners VII, LLC. InterWest Management Partners VII, LLC has sole voting and investment control over shares owned by InterWest Partners VII and InterWest Investors VII. The managing directors of InterWest Management Partners VII, LLC are Harvey B. Cash, Alan W. Crites, Philip T. Gianos, W. Scott Hedrick, W. Stephen Holmes, Gilbert H. Kliman, Thomas L. Rosch and Arnold L. Oronsky. Stephen C. Bowsher is a venture member. Managing Directors and Venture members share voting and investment control. InterWest Management Partners VI, LLC has sole voting and investment control over the shares held by InterWest Partners VI, L.P. and InterWest Investors VI, L.P. Managing Directors are Harvey B. Cash, Alan W. Crites, Philip T. Gianos, W. Scott Hedrick, W. Stephen Holmes, Robert R. Momsen (one of the Company's directors) and Arnold L. Oronsky. The sole Venture Member is Gilbert H. Kliman. Managing Directors and Venture Members share voting and investment control. InterWest Management Partners V, L.P. has sole voting and investment control over shares owned by InterWest Partners V, L.P. The general partners of InterWest Management Partners V, L.P. are Alan W. Crites, Philip T. Gianos, Wallace R. Hauley, W. Scott Hedrick, W. Stephen Holmes, Robert R. Momsen (one of the Company's directors) and Arnold L. Oronsky. The address of InterWest Partners is 2710 Sand Hill Road, 2nd Floor, Menlo Park, California 94025.
- (3) Wellington Management Company, LLP's address is 7 State Street, Boston, MA 02109.
- (4) The Delphi Ventures shares include 2,389,336 shares purchased by Delphi Ventures III, L.P., 853,002 shares purchased by Delphi Ventures IV, L.P., 43,017 shares purchased by Delphi BioInvestments III, L.P. and 17,586 shares purchased by Delphi BioInvestments IV, L.P. The managing members of Delphi Management Partners III, L.L.C., which is the general partner of Delphi Ventures III, L.P. and Delphi BioInvestments III, L.P., disclaim beneficial ownership except to the extent of their pecuniary interest therein. The managing members of Delphi Management Partners III, L.L.C, all of whom share voting and dispositive power over these shares, are James J. Bochnowski, David L. Douglass and Donald J. Lothrop. The managing members of Delphi Management Partners IV, L.L.C., which is the general partner of Delphi Ventures IV, L.P. and Delphi BioInvestments IV, L.P., disclaim beneficial ownership except to the extent of their pecuniary interest therein. The managing members of Delphi Management Partners IV, L.L.C, all of whom share voting and dispositive power over these shares, are James J. Bochnowski, David L. Douglass and Donald J. Lothrop. The address of Delphi Ventures is 3000 Sand Hill Road, Building 1, Suite 135, Menlo Park, California 94025.
- (5) The Brentwood Venture Capital shares include 2,295,247 shares purchased by Brentwood Associates VIII, L.P. and 145,636 shares purchased by Brentwood Affiliates Fund II, L.P. Brentwood VIII Ventures LLC, the general partner of Brentwood Associates VIII, L.P. and Brentwood Affiliates Fund II, L.P., has sole voting and dispositive power over these shares. The managing members of Brentwood VIII Ventures LLC, Dr. Ross A. Jaffe (one of the Company's directors), Brian G. Atwood, Jeffrey C. Brody, G. Bradford Jones, William J. Link and John L. Walecka, share voting and investment control over the shares held by these funds, but none of them individually possesses voting or dispositive power over the shares. The managing members disclaim beneficial ownership of these shares except to the extent of their respective pecuniary interests therein. The address of each of the Brentwood entities referred to herein is 11150 Santa Monica Blvd., Suite 1200, Los Angeles, California 90025.
- (6) Includes 587,490 shares held by the W. Mark Lortz And Patrice Rae Lortz, Co-Trustees or Successor Trustee, of the W. Mark Lortz and Patrice Rae Lortz Revocable Living Trust, under Agreement Dated February 10, 1999, as community property.

- (7) Includes 950,000 shares owned by MJG Partners, L.P., of which Mr. Gainor is president. Mr. Gainor disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. The address of MJG Partners, L.P. is 40301 Fisher Island Drive, Fisher Island, Florida 33109.
- (8) Includes shares purchased by InterWest Partners, as follows: 100,306 shares held by InterWest Partners V, L.P., 3,237,103 shares held by InterWest Partners VI, L.P., and 101,494 shares held by InterWest Investors VI, L.P. Mr. Momsen is a general partner of InterWest Partners V, L.P., InterWest Partners VI, L.P. and InterWest Investors VI, L.P., and a limited partner of InterWest Investors VI, L.P. Mr. Momsen disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.
- (9) Includes 102,575 shares purchased by the DRD Family Partnership, L.P. Mr. Dammeyer is the general partner of the DRD Family Partnership, L.P. Mr. Dammeyer disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth certain information about the Company's equity compensation plans as of December 31, 2002 that have been approved by the Company's stockholders. The Company does not have any equity compensation plans that have not been approved by its stockholders.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
1997 Stock Plan	4,256,859	\$ 5.2521	
2001 Stock Plan	3,079,490	\$18.4375	4,398,980
Total	7,336,349	\$10.7868	4,398,980

COMPENSATION OF EXECUTIVE OFFICERS

The following table provides certain summary information concerning the compensation received for services rendered to the Company during the fiscal years ended December 31, 2002, 2001 and 2000 by each of the Named Executive Officers as of December 31, 2002.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long Term Compensation	Compensation
		Salary	Bonus	Securities Underlying Options ⁽⁴⁾	
W. Mark Lortz Chief Executive Officer and President	2000	\$ 250,000	\$ 25,000 ⁽¹⁾	525,000	\$ 10,590 ⁽⁵⁾
	2001	\$ 265,465	\$ 159,250 ⁽²⁾	350,000	\$ 10,590 ⁽⁵⁾
	2002	\$ 353,173	\$ 43,700 ⁽³⁾	150,000	\$ 16,000 ⁽⁵⁾
Charles T. Liamos Chief Operating Officer and Chief Financial Officer	2000	\$ 159,999		110,500	
	2001	\$ 189,616	\$ 75,000 ⁽²⁾	127,400	
	2002	\$ 254,615	\$ 20,000 ⁽³⁾	40,000	
W. Patrick Bengtsson ⁽⁶⁾ Vice President of Intellectual Property	2000			150,000	
	2001	\$ 191,539	\$ 59,000 ⁽²⁾	45,000	
	2002	\$ 224,038	\$ 22,000 ⁽³⁾	12,000	
Timothy T. Goodnow, Ph.D. Vice President of Research and Development	2000	\$ 44,125 ⁽⁷⁾		180,000	
	2001	\$ 201,924	\$ 59,777 ⁽²⁾	43,800	\$ 45,023 ⁽⁹⁾
	2002	\$ 233,654	\$ 15,000 ⁽³⁾	8,000	\$ 59,982 ⁽⁹⁾
Lawrence W. Huffman Vice President of International Business Development	2000	\$ 22,179 ⁽⁸⁾		150,000	
	2001	\$ 194,924	\$ 65,000 ⁽²⁾	50,000	
	2002	\$ 225,149	\$ 17,000 ⁽³⁾	10,000	

(1) Represents a bonus earned in 2000 but paid in 2001.

(2) Represents a bonus earned in 2001 but paid in 2002.

(3) Represents a bonus earned in 2002 but paid in 2003.

(4) On February 25, 2003, the Company's compensation committee granted the following options to purchase shares of the Company's common stock to the Named Executive Officers: W. Mark Lortz, President, Chief Executive Officer and Chairman of the Board, was granted an option to purchase 27,750 shares; Charles T. Liamos, Chief Operating Officer and Chief Financial Officer, was granted an option to purchase 13,000 shares; W. Patrick Bengtsson, Vice President of Intellectual Property, was granted an option to purchase 12,000 shares; Timothy T. Goodnow, Ph.D., Vice President of Research and Development, was granted an option to purchase 14,000 shares; and Lawrence W. Huffman, Vice President of International Business Development, was granted an option to purchase 10,500 shares. Each option has an exercise price of \$7.09 per share and vests at a rate 1/48th per month over a four-year period, commencing January 1, 2003.

(5) Consists of life insurance premium payments by the Company on behalf of Mr. Lortz.

Explanation of Responses:

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- (6) Mr. Bengtsson accepted his employment offer with the Company in December 2000, and his employment with the Company commenced in January 2001.
- (7) Mr. Goodnow's employment with the Company commenced in November 2000.
- (8) Mr. Huffman's employment with the Company commenced in December 2000.
- (9) Consists of housing assistance payments made to Mr. Goodnow.

Option Grants in Last Fiscal Year

The following table provides summary information regarding stock options granted to the Named Executive Officers during the fiscal year ended December 31, 2002. The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by the rules of the SEC and do not reflect management's projections of future performance of the Company's stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of the Common Stock.

Individual Grants							Potential Realizable Value	
							at Assumed Annual Rates of	
							Stock Price Appreciation	
Name	Number of Securities Underlying Options Granted⁽¹⁾	Percent of Total Options Granted to Employees in Fiscal Year⁽²⁾	Exercise Price Per Share⁽³⁾	Expiration Date	For Option Term⁽⁴⁾			
					5%	10%		
W. Mark Lortz	150,000	6.55%	\$ 20.49	January 29, 2012	\$ 2,829,334.04	\$ 7,170,087.95		
Charles T. Liamos	20,000	0.87%	\$ 20.49	January 29, 2012	\$ 257,721.01	\$ 653,115.66		
	20,000	0.87%	\$ 9.80	December 13, 2012	\$ 123,263.35	\$ 312,373.53		
W. Patrick Bengtsson	12,000	0.52%	\$ 20.49	January 29, 2012	\$ 154,632.61	\$ 391,869.40		
Timothy T. Goodnow, Ph.D.	8,000	0.35%	\$ 20.49	January 29, 2012	\$ 103,088.41	\$ 261,246.26		
Lawrence W. Huffman	10,000	0.44%	\$ 20.49	January 29, 2012	\$ 128,860.51	\$ 326,557.83		

- (1) Options were granted under the Company's 2001 Stock Plan. The shares vest over 48 months from the date of grant.
- (2) Based on an aggregate of 2,290,596 options granted by the Company during the fiscal year ended December 31, 2002 to employees, directors of and consultants to the Company, including the Named Executive Officers.
- (3) The exercise price per share of each option was equal to the closing sales price of the Company's Common Stock as reported on the Nasdaq National Market on the trading day immediately prior to the date of grant by the Board.
- (4) The potential realizable value is calculated based on the term of the option at its time of grant (ten years). It is calculated assuming that the fair market value of the Common Stock on the date of grant appreciates at the indicated annual rate compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price.

Aggregated Option Exercises in Last Fiscal Year 2002 and Fiscal Year-End Option Values

The following table provides summary information concerning stock option exercises by the Named Executive Officers and the shares of Common Stock represented by outstanding stock options held by each of the Named Executive Officers as of December 31, 2002. The value of unexercised in-the-money options is calculated based on the difference between the exercise price of the option and \$8.350, the fair market value of the Common Stock at December 31, 2002.

Name	Shares Acquired		Number of Securities		Value of Unexercised	
	On Exercise	Value Realized ⁽¹⁾	Underlying Unexercised		In-the-Money Options at	
			Options at Fiscal Year-End		Fiscal Year-End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
W. Mark Lortz			515,975	509,025	\$ 1,860,422.30 ⁽²⁾	\$ 773,327.70 ⁽³⁾
Charles T. Liamos			113,403	164,497	\$ 332,762.45 ⁽⁴⁾	\$ 167,912.55 ⁽⁵⁾
W. Patrick Bengtsson	26,782	\$ 396,454.20	62,093	118,125	\$ 151,061.55 ⁽⁶⁾	\$ 261,718.75 ⁽⁷⁾
Timothy T. Goodnow, Ph.D.			109,267	122,533	\$ 314,062.50 ⁽⁸⁾	\$ 288,937.50 ⁽⁹⁾
Lawrence W. Huffman	16,000	\$ 219,598.40	76,708	117,292	\$ 197,650.00 ⁽¹⁰⁾	\$ 251,250.00 ⁽¹¹⁾

(1) Based upon the market price of the purchased shares on the exercise date less the option exercise price paid for such shares.

(2) Excludes 148,957 exercisable stock options with exercise prices greater than \$8.350 per share.

(3) Excludes 351,033 unexercisable stock options with exercise prices greater than \$8.350 per share.

(4) Excludes 41,216 exercisable stock options with exercise prices greater than \$8.350 per share.

(5) Excludes 126,184 unexercisable stock options with exercise prices greater than \$8.350 per share.

(6) Excludes 17,000 exercisable stock options with exercise prices greater than \$8.350 per share.

(7) Excludes 40,000 unexercisable stock options with exercise prices greater than \$8.350 per share.

(8) Excludes 15,517 exercisable stock options with exercise prices greater than \$8.350 per share.

(9) Excludes 36,283 unexercisable stock options with exercise prices greater than \$8.350 per share.

(10) Excludes 17,708 exercisable stock options with exercise prices greater than \$8.350 per share.

(11) Excludes 42,292 unexercisable stock options with exercise prices greater than \$8.350 per share.

Explanation of Responses:

Code of Business Conduct and Ethics

In accordance with Section 406 of the Sarbanes-Oxley Act of 2002, the Company has adopted a Code of Business Conduct and Ethics. The Code of Business Conduct and Ethics was adopted by the Company's Board of Directors in February 2003 and is applicable to all of the Company's employees. The Code of Business Conduct and Ethics summarizes standards of conduct that are intended to guide the conduct of each Company employee. Covered categories of conduct include conflicts of interest relating to employment, business activities and related-party relationships, corporate opportunities, records management, quality of public disclosures, protection and proper use of Company assets, fair dealing, industrial espionage, gifts and payments, compliance with laws and reporting of violations of and accountability for adherence to the Code of Business Conduct and Ethics.

Change of Control and Severance Agreements

The Company has agreements with each of its executive officers that contain provisions that will be triggered in the event of a change of control. Upon a change of control, the Company's executive officers will receive accelerated vesting on 75% of their then unvested shares and the remaining unvested shares will vest in the event their employment relationship is terminated under certain circumstances thereafter. In addition, Mr. Lortz is entitled to receive a severance payment equal to six months of his then current salary in the event he is terminated without cause.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The compensation committee of the Board currently consists of Dr. Jaffe (Chairman) and Mr. Momsen, both of whom are independent as that term is defined in the Nasdaq listing standards and Section 301 of the Sarbanes Oxley Act of 2002. The compensation committee reviews and recommends to the Board the compensation and benefits of all executive officers and Board members of the Company and establishes and reviews general policies relating to compensation and benefits of employees of the Company. The following is the report of the compensation committee describing compensation policies and reasons therefore applicable to the Company's executive officers with respect to the compensation paid to such executive officers for the fiscal year ended December 31, 2002. The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the 1934 Securities Exchange Act, as amended, except to the extent that the Company specifically incorporates such information by reference in such filing.

Compensation Philosophy and Review

The Company's executive compensation program is designed to align the interests of executives with the interests of stockholders and to reward executives for achieving corporate and individual objectives. The executive compensation program is also designed to attract and retain the services of qualified executives in the highly competitive medical device industry. Executive compensation currently consists of a base salary, long-term equity incentives, annual incentive plans and other compensation and benefit programs generally available to other employees.

The compensation committee has considered the potential impact of Section 162(m) of the Internal Revenue Code on the compensation paid to the Company's executive officers. Section 162(m) disallows a tax deduction for any publicly-held corporation for individual compensation exceeding \$1.0 million in any taxable year for any of the executive officers, unless compensation is performance-based. In general, it is the compensation committee's policy to qualify, to the maximum extent possible, its executives' compensation for deductibility under applicable tax laws.

Base Salaries

Base salary levels for the Chief Executive Officer and other executive officers are intended to compensate executives competitively within the medical device industry. Base salaries are determined on an individual basis by evaluating each executive's scope of responsibility, past performance, prior experience and data on prevailing compensation levels in relevant markets for executive talent. The compensation committee reviews base salaries for executives annually.

Long-Term Equity Incentives

The Company provides long-term equity incentives to its executive officers and to all other employees through the grant of stock options under its stock option plans. The purpose of granting stock options is to create a direct link between compensation and the long-term performance of the Company. Stock options are generally granted at an exercise price equal to 100% of the fair market on the date of grant and have a ten-year term provided that the optionee is still employed by the Company. For the initial stock option grant to an executive officer, the stock option generally vests 25% after the first year of employment with the Company and monthly thereafter for the following 36 months. For subsequent stock option grants to an executive officer, the stock option generally vests in installments over 48 months from the date of grant. Because the

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receipt of value by an executive officer under a stock option is dependent upon an increase in the price of the Company's Common Stock, this portion of the executive's compensation is directly aligned with an increase in stockholder value. The primary stock options granted to executive officers are generally in conjunction with the executive officer's acceptance of employment with the Company. When determining the number of stock options to be awarded to an executive officer, the compensation committee considers the executive's current contribution to the

Company's performance, the executive officer's anticipated contribution in meeting the Company's long-term strategic performance goals, and comparisons to formal and informal surveys of executive stock option grants made by other medical device and technology companies. The compensation committee also reviews stock option levels upon the promotion of employees to the executive officer level.

Annual Incentive Plans

The Company provides for annual cash bonuses and annual grants of long-term equity incentives. These annual incentives are available to executive officers and all other employees, and are intended to provide a direct link between employee compensation and the achievement of corporate and individual objectives. An additional objective of the annual incentives is to make significant distinctions between the Company's top performers and others. Each individual's target bonus for cash and stock is based on a percentage of base salary and initial stock option grant, respectively. At the beginning of each year the Company sets certain corporate goals including financial performance goals. In addition, each employee has individual goals to support the achievement of the corporate goals. At the end of the year, performance of the Company against the corporate goals is assessed and this determines the total available cash and stock option pools, if any. Individual bonuses from these two pools are determined based on the achievement of individual goals and any additional contributions toward achieving the corporate goals. Assuming the Company meets its objectives: top performers can receive amounts in excess of their target bonus; average performers may receive less than their target bonus; and some employees may not receive a bonus. At the end of 2002 the compensation committee assessed the Company's performance against its goals for the year and recommended to the full Board the distribution of 25% of the targeted cash and stock option pools. The Board authorized this distribution and in February 2003 the Chief Executive Officer was granted a 27,750 share stock option and a \$43,700 cash bonus. The other Named Executive Officers received cash bonuses in the total amount of \$74,000 and stock options exercisable for a total of 49,500 shares. These options vest monthly over 48 months from January 1, 2003.

Other Compensation

The Company's executive officers are also eligible to participate in compensation and benefit programs generally available to other employees, including the Company's Employee Stock Purchase Plan. Mr. Lortz has a life insurance policy, the beneficiary of which is of his choosing. The Company pays Mr. Lortz's life insurance premium on his behalf. In addition, from time to time, executive officers have received sign-on bonuses or other bonuses based on extraordinary effort.

Compensation for Chief Executive Officer

W. Mark Lortz is President, Chief Executive Officer and Chairman of the Board. The compensation committee reviews Mr. Lortz's compensation annually using the same criteria and policies as are employed for other executive officers. Mr. Lortz received an increase in base salary from \$265,465 for 2001 to \$350,000 for 2002. The compensation committee based this increase on a variety of factors including the increasing scope and responsibility of the Chief Executive Officer's position, and comparisons of chief executive officer compensation levels for companies of similar size and maturity. In January 2003 Mr. Lortz received an increase in base salary to \$367,000 for 2003 in recognition of the Company's continued strong performance under his leadership. As described above, Mr. Lortz received a cash bonus of \$43,700 and a stock option for 27,750 shares, in recognition of his contributions in leading the Company to its achievements in the 2002 fiscal year, including launch of the FreeStyle Tracker diabetes management system, commencing pivotal clinical trials for the Company's continuous glucose monitoring product and a significant increase in sales of the FreeStyle blood glucose monitoring system.

SUBMITTED BY THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS:

Ross A. Jaffe, M.D.

Robert R. Momsen

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Board or the compensation committee 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 Board or compensation committee.

RELATED-PARTY TRANSACTIONS

Loans to Directors and Executive Officers

In December 1997 and March 1999, the Company loaned an aggregate of \$135,145 to W. Mark Lortz, the Company's President, Chief Executive Officer and Chairman of the Board, in connection with his purchase of an aggregate of 592,490 shares of restricted Common Stock. The loans were made pursuant to two full-recourse promissory notes in the amounts of \$62,650 and \$72,495. The notes do not bear interest and are secured by the shares of Common Stock purchased. Mr. Lortz paid off the \$62,650 note in 2002. Mr. Lortz paid off the \$72,495 note in 2003.

In July 1998, March 1999 and September 1999, the Company loaned an aggregate of \$93,938 to Charles T. Lamos, the Company's Chief Operating Officer and Chief Financial Officer, in connection with the purchase of an aggregate of 180,375 shares of the Company's restricted Common Stock. The loans were made pursuant to three full-recourse promissory notes in the amounts of \$17,500, \$15,188 and \$61,250. The notes do not bear interest and are secured by the shares of Common Stock purchased. Mr. Lamos paid off all of these notes in 2002.

Agreement with Flextronics

In November 1999, the Company entered into an agreement with Flextronics International related to the manufacturing of the Company's FreeStyle meter. Flextronics is exclusively responsible for building the FreeStyle meter and the FreeStyle Tracker module and assembling the FreeStyle System kits and the FreeStyle Tracker System kits. The Company's contract with Flextronics expires in November 2004, and is renewable annually thereafter. This agreement may be terminated by either party upon one year's prior written notice. During 2002, the Company purchased \$66,372,222 under this agreement. In addition, \$4,379,375 is included in accounts payable as of December 31, 2002, and \$1,603,777 is included in accrued liabilities as of December 31, 2002, relating to this agreement. As of December 31, 2002, Flextronics owed the Company \$2,500,757 for raw materials purchased. Michael McNamara, a member of the Board, is President of Americas Operations of Flextronics.

Indemnification Agreements of Officers and Directors

The Company's amended and restated certificate of incorporation and amended and restated bylaws provide that the Company will indemnify each of its directors and officers to the fullest extent permitted by the Delaware General Corporation Law. Further, the Company has entered into indemnification agreements with each of its directors and officers.

STOCK PERFORMANCE GRAPH

The following graph shows a comparison of cumulative total stockholder returns for the Company's Common Stock, the Nasdaq Stock Market Index for U.S. Companies, and the Standard and Poor's Mid Cap 400 Health Care Index. The graph assumes the investment of \$100 on October 12, 2001, the date of the Company's initial public offering. The data regarding the Company assumes an investment at the initial public offering price of \$19.00 per share of the Company's Common Stock. The performance shown is not necessarily indicative of future performance. The information contained in the following graph shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the 1934 Securities Exchange Act, as amended, except to the extent that the Company specifically incorporates such information by reference in such filing.

DEADLINE FOR RECEIPT OF STOCKHOLDER PROPOSALS FOR 2004 ANNUAL MEETING

Proposals of stockholders of the Company which are intended to be presented by such stockholders at the Company's 2004 Annual Meeting must be received by the Company no later than January 12, 2004 to be included in the proxy statement and form of proxy relating to that meeting. The proposal notice must be in accordance with the requirements set forth in Section 2.2 of the Company's amended and restated bylaws. Please send any such proposals to TheraSense, Inc., 1360 South Loop Road, Alameda, California 94502, Attn: Investor Relations, with a copy to the attention of the Company's General Counsel.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file certain reports regarding ownership of, and transactions in, the Company's securities with the Securities and Exchange Commission. Such executive officers, directors and 10% stockholders are also required by Securities and Exchange Commission rules to furnish the Company with copies of all Section 16(a) forms that they file. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that for the fiscal year ended December 31, 2002, all reporting persons complied with Section 16(a) filing requirements.

OTHER MATTERS

The Board knows of no other business that will be presented to the 2003 Annual Meeting. If any other business is properly brought before the 2003 Annual Meeting, proxies in the enclosed form will be voted in respect thereof as the proxy holders deem advisable.

It is important that the proxies be returned promptly and that your shares be represented. Stockholders are urged to mark, date, execute and promptly return the accompanying proxy card in the enclosed envelope.

By Order of the Board of Directors,

Robert D. Brownell

Vice President, General Counsel and Secretary

March 27, 2003

Alameda, California

APPENDIX A

TheraSense, Inc.

Audit Committee Charter

Purpose

The Audit Committee is appointed by the Board of Directors of the Company to assist in monitoring (i) the integrity of the financial statements of the Company, (ii) the compliance by the Company with legal and regulatory requirements, (iii) the qualifications and independence of the Company's independent auditor and (iv) the performance of the Company's internal audit function and independent auditor.

While the Audit Committee has the authority and responsibilities set forth in this charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete, accurate and in accordance with GAAP. This is the responsibility of management and the independent auditor.

The Audit Committee will undertake the specific duties and responsibilities listed below and such other duties as the Board of Directors may from time to time prescribe.

Membership

The Audit Committee shall consist of at least three members. All members of the Audit Committee shall meet the independence and experience requirements of the Sarbanes-Oxley Act of 2002, Nasdaq and the New York Stock Exchange. The Nominating and Corporate Governance Committee of the Company shall recommend Audit Committee members for appointment by the Board. Audit Committee members shall be appointed by the Board and may be removed by the Board at any time. The Board shall also designate the Chair of the Audit Committee.

Authority and Responsibilities

The Audit Committee is authorized to undertake, and has responsibility for, the following matters:

Independent Auditor

The sole authority to retain, oversee and terminate the independent auditors of the Company (subject, if applicable, to stockholder ratification), including sole authority to: (i) approve all audit engagement fees and terms; and (ii) pre-approve all permissible non-audit engagements with the independent auditors.

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Making an annual recommendation regarding the hiring of independent auditors to the Board.

Reviewing the scope and general extent of the independent auditor's annual audit.

Evaluating the independent auditor's qualifications, performance and independence.

As part of this evaluation, the independent auditor will deliver to the Audit Committee, at least annually, a written statement describing all relationships between the independent auditor and the Company consistent with Independence Standards Board Standard 1.

Reviewing and approving any hiring of employees or former employees of the independent auditor who were previously engaged on the Company's account.

Internal Auditors

Reviewing the performance and retention or replacement of the senior internal auditing executive.

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Reviewing any significant reports to management prepared by the internal auditors and management's responses thereto.

Company Financial Statements and Disclosure

Reviewing with management, the internal auditors and the independent auditor:

the annual audited financial statements and quarterly financial statements, including the Company's disclosures under Management's Discussion and Analysis and Analysis of Financial Condition and Results of Operations ;

major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements;

any analyses prepared by management and/or the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative GAAP methods on the Company's financial statements; and

earnings press releases and earnings guidance with particular attention to any use of pro forma , or adjusted non-GAAP, information.

Reviewing with the independent auditor those matters required by Statement on Auditing Standards No. 61, in particular, the following matters:

any restrictions on the scope of the independent auditor's activities and access to requested information;

any accounting adjustments that were noted or proposed by the auditor but were passed (as immaterial or otherwise disregarded);

any communications between the audit team and the audit firm's national office regarding auditing or accounting issues presented by the engagement;

any management or internal control letter issued, or proposed to be issued, by the independent auditor to the Company; and

any significant disagreements between the Company's management and the independent auditor.

Preparing the audit committee report that Securities and Exchange Commission rules require to be included in the Company's annual proxy statement.

Risk Management and Compliance Matters

Reviewing Company policies relating to risk assessment and risk management.

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Establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.

Periodically reviewing and assessing the adequacy of this charter.

Miscellaneous

The Audit Committee shall meet as often as it determines is appropriate to carry out the purposes set forth in this charter, but not less frequently than quarterly. Each Audit Committee meeting shall include a separate session without management present. In addition the Audit Committee will meet separately with each of management, internal auditors (or other personnel responsible for the internal audit function) and the independent auditor as it deems appropriate in order to carry out its responsibilities.

A-2

The Audit Committee shall review with the Board any issues that arise with respect to the quality and integrity of the Company's financial statements, compliance by the Company with legal or regulatory requirements, the independence and performance of the independent auditor and the performance of the Company's internal audit function.

The Audit Committee is authorized to retain legal, accounting or other consultants to advise the Committee and may request any officer or employee of the Company or the Company's outside counsel or independent auditor to meet with any members of, or consultants to, the Audit Committee. The Audit Committee may also meet with the Company's investment bankers or financial analysts who follow the Company.

A-3

Proxy TheraSense, Inc.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

2003 ANNUAL MEETING OF STOCKHOLDERS MAY 9, 2003

The Undersigned stockholder(s) of TheraSense, Inc., a Delaware corporation, hereby acknowledge(s) receipt of the Notice of 2003 Annual Meeting of Stockholders and Proxy Statement, and hereby appoints W. Mark Lortz, Charles T. Lianos and Robert D. Brownwell, and each of them, proxies and attorneys-in-fact, with full power of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the 2003 Annual Meeting of Stockholders of TheraSense, Inc. to be held May 9, 2003, at 2:00 p.m., Pacific Time, at the Hilton Oakland Airport, located at One Hegenberger Road, Oakland, California 94621, and at any adjournment or adjournments thereof, and to vote all shares of Common Stock which the undersigned would be entitled to vote if then and there personally present, on the matters set forth on the reverse side.

THE SHARES REPRESENTED BY THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ITEMS 1 AND 2. IF ANY OTHER MATTERS PROPERLY COME BEFORE THE MEETING, THE PERSONS NAMED IN THIS PROXY WILL VOTE, IN THEIR DISCRETION, PROVIDED, THAT THEY WILL NOT VOTE IN THE ELECTION OF DIRECTORS FOR PERSONS FOR WHOM AUTHORITY TO VOTE HAS BEEN WITHHELD.

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided.

TheraSense, Inc.

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MR A SAMPLE
 DESIGNATION (IF ANY)
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Mark this box with an X if you have made
 changes to your name or address details above.

Annual Meeting Proxy Card

A Election of Directors

1. The Board of Directors recommends a vote **FOR** the listed nominees.

For Withhold

- 01 Ross A. Jaffe, M.D.
- 02 Jonathan T. Lord, M.D.
- 03 W. Mark Lortz

B Issues

The Board of Directors recommends a vote **FOR** the following proposal.

For Against Abstain

- 2. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as TheraSense's independent auditors for the year ending December 31, 2003.

Explanation of Responses:

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In their direction, upon other matters which may properly come before
the meeting or any adjournment or adjournments thereof.

C Authorized Signatures Sign Here This section must be completed for your instructions to be executed.

Please sign exactly as your name appears hereon. If the stock is registered in the names of two or more persons each should sign. Executors, administrators, trustees, guardians and attorneys-in-fact should add their titles. If the signer is a corporation, please give the full corporate name and have a duly authorized officer sign stating such officer's title. If the signer is a partnership, please sign in the partnership name by an authorized person.

Signature 1 Please keep signature within the box Signature 2 Please keep signature within the box Date (mm/dd/yyyy)

1UPX HHH PPPP 001619 / /