THERASENSE INC
Form DEFM14A
March 01, 2004


**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Confidential, For Use of the Commission Only (as permitted by Rule14a-6(e)(2))
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

# THERASENSE, INC.

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) 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:

x 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:

Table of Contents

Dear Stockholder:

The board of directors of TheraSense, Inc. has approved a merger combining Abbott Laboratories and TheraSense.

If the merger is completed, holders of TheraSense s common stock will receive $27.00 in cash, without interest, for each share of TheraSense s common stock they own.

Stockholders of TheraSense will be asked, at a special meeting of TheraSense s stockholders, to approve and adopt the merger agreement and the merger. The board of directors has approved and declared the merger, the merger agreement and the transactions contemplated by the merger agreement advisable, and has declared that it is in the best interests of TheraSense s stockholders that TheraSense enter into the merger agreement and consummate the merger on the terms and conditions set forth in the merger agreement. **The board of directors recommends that TheraSense s stockholders vote FOR approval and adoption of the merger agreement and the merger.**

The time, date and place of the special meeting to consider and vote upon a proposal to approve and adopt the merger agreement and the merger are as follows:

10:00 a.m. local time, April 5, 2004

Waterfront Plaza Hotel

10 Washington Street

Jack London Square

Oakland, California 94607

The proxy statement attached to this letter provides you with information about the proposed merger and the special meeting of TheraSense s stockholders. We encourage you to read the entire proxy statement carefully. You may also obtain more information about TheraSense from documents we have filed with the Securities and Exchange Commission.

YOUR VOTE IS IMPORTANT REGARDLESS OF THE NUMBER OF SHARES OF THE COMPANY S COMMON STOCK YOU OWN. BECAUSE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE MERGER REQUIRES THE AFFIRMATIVE VOTE OF THE HOLDERS OF A MAJORITY OF OUR ISSUED AND OUTSTANDING SHARES OF COMMON STOCK ENTITLED TO VOTE THEREON, A FAILURE TO VOTE WILL COUNT AS A VOTE AGAINST THE MERGER. ACCORDINGLY, YOU ARE REQUESTED TO PROMPTLY VOTE YOUR SHARES BY COMPLETING, SIGNING AND DATING THE ENCLOSED PROXY CARD AND RETURNING IT IN THE ENVELOPE PROVIDED, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING.

Voting by proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

Thank you for your cooperation and continued support.

Very truly yours,

W. Mark Lortz

Chairman, President and Chief Executive Officer

**THIS PROXY STATEMENT IS DATED MARCH 1, 2004,**

**AND IS FIRST BEING MAILED TO STOCKHOLDERS ON OR ABOUT MARCH 1, 2004.**

**Table of Contents**

# THERASENSE, INC.

**1360 SOUTH LOOP ROAD**

**ALAMEDA, CALIFORNIA 94502**

## NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

**TO BE HELD APRIL 5, 2004**

To the stockholders of TheraSense, Inc.:

A special meeting of stockholders of TheraSense, Inc., a Delaware corporation, will be held on April 5, 2004, at 10:00 a.m., local time, at the Waterfront Plaza Hotel, 10 Washington Street, Jack London Square, Oakland, California 94607, for the following purposes:

1. To consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger dated as of January 12, 2004, by and among the Company, Abbott Laboratories and Corvette Acquisition Corp., a wholly-owned subsidiary of Abbott, and the merger contemplated thereby, pursuant to which, upon the merger becoming effective, each share of common stock, par value $0.001 per share, of TheraSense, Inc. will be converted into the right to receive $27.00 in cash, without interest; and

2. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Only stockholders of record on February 29, 2004, are entitled to notice of and to vote at the special meeting and at any adjournment or postponement of the special meeting. All stockholders of record are cordially invited to attend the special meeting in person. To assure your representation at the meeting in case you cannot attend, however, you are urged to vote your shares by marking, signing, dating and returning the enclosed proxy card as promptly as possible in the postage prepaid envelope enclosed for that purpose. Any stockholder attending the special meeting may vote in person even if he or she has returned a proxy card.

Holders of TheraSense s common stock have the right to dissent from the merger and obtain payment in cash of the fair value of their common stock as appraised by the Delaware Court of Chancery under applicable provisions of Delaware law. This amount could be more, the same or less than the value a stockholder would be entitled to receive under the terms of the merger agreement. In order to perfect and exercise their appraisal rights, stockholders must give written demand for appraisal of their shares before the taking of the vote on the merger at the special meeting and must not vote in favor of the merger. A copy of the applicable Delaware statutory provisions is included as Annex D to the accompanying proxy statement, and a summary of these provisions can be found under Dissenters Rights of Appraisal in the accompanying proxy statement.

The approval and adoption of the merger agreement and the merger requires the approval of the holders of a majority of the outstanding shares of the Company s common stock entitled to vote thereon. **Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend.** If you sign, date and mail your proxy card without indicating how you wish to vote, your vote will be counted as a vote in favor of approval and adoption of the merger agreement and the merger. If you fail to return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will effectively be counted as a vote against approval and adoption of the merger agreement and the merger. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

By order of the board of directors,

Robert D. Brownell

*Vice President, General Counsel and Secretary*

**Table of Contents**

# TABLE OF CONTENTS

Table of Contents

## QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What is the proposed transaction?

A: The proposed transaction is the acquisition of TheraSense, Inc. ( **TheraSense** or the **Company** ) by Abbott Laboratories ( **Abbott** ) pursuant to an Agreement and Plan of Merger (the **merger agreement** ) dated as of January 12, 2004 among TheraSense, Abbott and Corvette Acquisition Corp., a wholly-owned subsidiary of Abbott ( **merger sub** ). Once the merger agreement has been approved and adopted by TheraSense s stockholders and the other closing conditions under the merger agreement have been satisfied or waived, merger sub will merge with and into TheraSense. TheraSense will be the surviving corporation in the merger (the **surviving corporation** ) and will become a wholly-owned subsidiary of Abbott.

Q: What will TheraSense s stockholders receive in the merger?

A: Upon completion of the merger, TheraSense s stockholders will receive $27.00 in cash, without interest, for each share of our common stock that they own. For example, if you own 100 shares of our common stock, you will receive $2,700.00 in cash in exchange for your TheraSense shares.

Q: Where and when is the special meeting?

A: The special meeting will take place at the Waterfront Plaza Hotel, 10 Washington Street, Jack London Square, Oakland, California 94607, on April 5, 2004, at 10:00 a.m. local time.

Q: What vote of our stockholders is required to approve and adopt the merger agreement and the merger?

A: For us to complete the merger, stockholders holding at least a majority of the shares of our common stock outstanding at the close of business on the record date must vote FOR the approval and adoption of the merger agreement and the merger.

Q: How does the TheraSense board of directors recommend that I vote?

A: Our board of directors unanimously recommends that our stockholders vote FOR the proposal to approve and adopt the merger agreement and the merger. You should read *The Merger The Company s Reasons for the Merger* for a discussion of the factors that our board of directors considered in deciding to recommend the approval and adoption of the merger agreement and the merger.

Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, including its annexes, and to consider how the merger affects you. Then just mail your completed, dated and signed proxy card in the enclosed return envelope as soon as possible so that your shares can be voted at the special meeting of our stockholders.

Q: What happens if I do not return a proxy card?

A: Because the required vote of our stockholders is based upon the number of outstanding shares of our common stock, rather than upon the shares actually voted, the failure to return your proxy card will have the same effect as voting against the merger.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, but only if you provide instructions to your broker on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Without such instructions, your shares will not be voted, which will have the same effect as voting against the merger. See *The Special Meeting of the Company s Stockholders Voting by Proxy* .

1

Table of Contents

Q: May I vote in person?

A; Yes. If your shares are not held in street name through a broker, you may attend the special meeting of our stockholders and vote your shares in person, rather than signing and returning your proxy card. If your shares are held in street name , you must first get a proxy card from your broker in order to attend the special meeting and vote.

Q: Am I entitled to appraisal rights?

A: Yes. Under the General Corporation Law of the State of Delaware, holders of our common stock who do not vote in favor of approving and adopting the merger agreement and the merger will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for an appraisal prior to the vote on the approval and adoption of the merger agreement and the merger and they comply with the Delaware law procedures explained in this proxy statement.

Q: Is the merger expected to be taxable to me?

A: Generally, yes. The receipt of $27.00 in cash for each share of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, generally you will recognize gain or loss as a result of the merger measured by the difference, if any, between $27.00 per share and your adjusted tax basis in that share. You should read *The Merger Material United States Federal Income Tax Consequences* for a more complete discussion of the federal income tax consequences of the merger. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation. You should also consult your tax advisor on the tax consequences of the merger to you.

Q: When do you expect the merger to be completed?

A: We are working toward completing the merger as quickly as possible, and we anticipate that it will be completed in the second quarter of 2004. In order to complete the merger, we must obtain stockholder approval and satisfy a number of other closing conditions under the merger agreement. See *The Merger Agreement General* and *The Merger Agreement Conditions to the Merger* .

Q: Should I send in my stock certificates now?

A: No. Shortly after the merger is completed, you will receive a letter of transmittal with instructions informing you how to send in your stock certificates to Abbott s paying agent in order to receive the merger consideration. You should use the letter of transmittal to exchange stock certificates for the merger consideration to which you are entitled as a result of the merger. DO NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY.

Q: Who can help answer my other questions?

A: If you have more questions about the merger, you should contact our proxy solicitation agent:

The Altman Group

1275 Valley Brook Avenue

Lyndhurst, New Jersey 07071

Telephone: (800) 249-7179

Fax: (201) 460-0050

2

Table of Contents

## SUMMARY

This summary does not contain all of the information that is important to you. You should carefully read the entire proxy statement to fully understand the merger. The merger agreement is attached as Annex A to this proxy statement. We encourage you to read the merger agreement because it is the legal document that governs the merger.

***The Proposed Transaction***

*Stockholder Vote*. You are being asked to vote to approve and adopt a merger agreement with respect to a merger in which the Company will be acquired by Abbott.

*Price for Your Stock*. Upon completion of the merger, you will receive $27.00 in cash, without interest, for each of your shares of the Company s common stock.

*The Acquiror*. Abbott, an Illinois corporation, is engaged in the discovery, development, manufacture and sale of a broad and diversified line of health care products.

***Board Recommendation***

The Company s board of directors, by the unanimous vote of the directors, has determined that the merger agreement is advisable, has approved and adopted the merger agreement and the merger and unanimously recommends that the Company s stockholders vote FOR approval and adoption of the merger agreement and the merger. See *The Merger Recommendation of the Company s Board of Directors* .

***Reasons for the Merger***

Our board of directors carefully considered the terms of the proposed transaction and approved the merger based on a number of factors, including the following:

the merger consideration of $27.00 per share in cash was higher than any price at which the Company s common stock has ever traded and represents a 33.0% premium to the closing price of $20.30 on January 12, 2004, the last trading day prior to the public announcement of the execution of the merger agreement;

a review of the Company s financial condition, results of operations and business and earnings prospects in remaining independent and the potential for alternative transactions;

the financial presentation of Piper Jaffray & Co. ( **Piper Jaffray** ) on January 12, 2004, and the written opinion of Piper Jaffray delivered to the board of directors as of the same date, to the effect that, as of that date and based upon and subject to the matters and assumptions stated in the opinion, the merger consideration was fair, from a financial point of view, to the Company s stockholders;

the terms of the merger agreement and the stockholder agreement, including the termination fee payable under the merger agreement and the ability of the Company and the board of directors to respond to a superior proposal;

the likelihood of closing in light of the limited closing conditions contained in the merger agreement;

compensation and benefits to our employees, including the extent to which the interests of our directors and executive officers in the merger may differ from those of our stockholders; and

taxability of the merger to TheraSense stockholders and our stockholders lack of participation in future growth as a result of receiving cash for their stock.

See *The Merger The Company s Reasons for the Merger* .

Table of Contents

***Fairness Opinion***

Piper Jaffray delivered to the Company s board of directors its written opinion, dated January 12, 2004, to the effect that, as of that date and based upon and subject to the matters and assumptions stated in that opinion, the merger consideration of $27.00 in cash per share was fair from a financial point of view to the Company s stockholders. See *The Merger Fairness Opinion Delivered to the Company s Board of Directors* .

The full text of Piper Jaffray s written opinion, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex C to this proxy statement. We urge you to read it carefully in its entirety. **Piper Jaffray s opinion is directed to our board of directors and relates only to the fairness of the merger consideration from a financial point of view as of the date of the opinion. The opinion does not address any other aspect of the proposed transaction and is not a recommendation as to how any of our stockholders should vote with respect to the merger agreement or the merger.**

***Stockholder Agreement***

As a condition to its entering into the merger agreement, Abbott required certain of our stockholders to enter into a stockholder agreement under which they have agreed to vote in favor of approval and adoption of the merger agreement and related matters, and against any competing transaction or proposal or any proposal or transaction that could reasonably be expected to prevent or impede the completion of the merger. The stockholder agreement terminates upon the earlier of the effective time of the merger and the termination of the merger agreement in accordance with its terms. As of the record date, the parties to the stockholder agreement held an aggregate of 6,256,163 shares of the Company s common stock, representing approximately 14.7% of the votes eligible to be cast at the special meeting. See *The Merger Stockholder Agreement* and the stockholder agreement attached as Annex B to this proxy statement.

***Material United States Federal Income Tax Consequences***

The merger will be a taxable transaction to you. For United States federal income tax purposes, your receipt of cash in exchange for your shares of the Company s common stock generally may cause you to recognize a gain or loss measured by the difference, if any, between the cash you receive in the merger and your tax basis in your shares of the Company s common stock. You should consult your own tax advisor for a full understanding of how the merger will affect your taxes. See *The Merger Material United States Federal Income Tax Consequences* .

***The Special Meeting of the Company s Stockholders***

*Place, Date and Time.* The special meeting will be held at 10:00 A.M., local time, on April 5, 2004 at the Waterfront Plaza Hotel, 10 Washington Street, Jack London Square, Oakland, California 94607.

*What Vote is Required for Approval and Adoption of the Merger Agreement and the Merger.* The approval and adoption of the merger agreement and the merger requires the approval of the holders of a majority of the outstanding shares of the Company s common stock entitled to vote at the special meeting. The failure to vote has the same effect as a vote against approval and adoption of the merger agreement and the merger. Stockholders who together own approximately 14.7% of the outstanding shares of the Company s common stock have already agreed to vote in favor of approval and adoption of the merger agreement and the merger. See *The*

*Merger Stockholder Agreement* .

*Who Can Vote at the Meeting.* You can vote at the special meeting all of the shares of the Company s common stock you own of record as of February 29, 2004, which is the record date for the special meeting. If you own shares that are registered in someone else s name, for example, a broker, you need to direct that person to vote those shares or obtain an authorization from them and vote the shares yourself at the meeting. As of February 29, 2004, there were 42,509,491 shares of the Company s common stock outstanding held by approximately 147 holders of record.

4

Table of Contents

*Procedure for Voting.* You can vote shares you hold of record by attending the special meeting and voting in person or by mailing the enclosed proxy card. If your shares are held in street name by your broker, you should instruct your broker on how to vote your shares using the instructions provided by your broker. If you do not instruct your broker to vote your shares, your shares will not be voted, which will have the same effect as a vote AGAINST approval and adoption of the merger agreement and the merger. See *The Special Meeting of the Company s Stockholders* .

*How to Revoke Your Proxy.* You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy, you must either advise the Company s Secretary in writing, deliver a proxy dated after the date of the proxy you wish to revoke, or attend the meeting and vote your shares in person. Merely attending the special meeting will not constitute revocation of your proxy. If you have instructed your broker to vote your shares, you must follow the directions provided by your broker to change these instructions.

***Dissenters Rights of Appraisal***

Delaware law provides you with appraisal rights in the merger. This means that if you are not satisfied with the amount you are receiving in the merger, you are entitled to have the value of your shares determined by the Delaware Court of Chancery and to receive payment based on that valuation. The ultimate amount you receive as a dissenting stockholder in an appraisal proceeding may be more or less than, or the same as, the amount you would have received under the merger agreement.

To exercise your appraisal rights, you must deliver a written objection to the merger to the Company at or before the special meeting and you must not vote in favor of approval and adoption of the merger agreement and the merger. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. See *Dissenters Rights of Appraisal* .

***The Company s Stock Price***

Shares of the Company s common stock are listed on The Nasdaq National Stock Market ( **NASDAQ** ) under the trading symbol THER . On January 12, 2004, which was the last trading day before we announced the merger, the Company s common stock closed at $20.30 per share. On February 27, 2004, which was the last practicable trading day before this proxy statement was printed, the Company s common stock closed at $26.81 per share. See *Market Price of the Company s Common Stock* .

***When the Merger Will be Completed***

We are working to complete the merger as soon as possible. We anticipate completing the merger in the second quarter of 2004, subject to receipt of stockholder approval and satisfaction of other requirements, including the conditions described below. See *The Merger Agreement General* .

***Non-Solicitation of Other Offers***

The merger agreement contains restrictions on our ability to solicit or engage in discussions or negotiations with a third party regarding a proposal to acquire a significant interest in our Company. Notwithstanding these restrictions, under certain limited circumstances, our board of directors may respond to an unsolicited written bona fide proposal for an alternative acquisition or terminate the merger agreement and enter into an acquisition agreement with respect to a superior proposal. See *The Merger Agreement No Solicitation of Other Offers*.

***Conditions to Completing the Merger***

Our and Abbott s respective obligations to effect the merger are subject to the satisfaction or waiver of a number of conditions, including the following:

approval and adoption of the merger agreement and the merger by stockholders holding at least a majority of the shares of our common stock;

expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and expiration or termination of all applicable waiting periods (or the receipt of any required approvals) under pre-merger notification requirements in Germany and Ireland; and

the absence of any applicable law, court order, injunction or other legal restraint prohibiting the merger.

Abbott will not be obligated to effect the merger unless the following conditions have been satisfied or waived:

the Company s representations and warranties set forth in the merger agreement must be true and correct (disregarding any qualifications as to materiality or any company material adverse effect), in each case as of the date of the merger agreement and as of the closing date of the merger (or, if applicable, as of an earlier date), with only such exceptions as would not individually or in the aggregate have a company material adverse effect;

the Company must have performed in all material respects all of its obligations under the merger agreement;

the Company must have delivered to Abbott a certificate dated as of the closing date of the merger and signed by its Chief Executive Officer certifying that the conditions in the two preceding sentences have been satisfied;

the absence of any governmental litigation seeking to block the merger, seeking to obtain material damages from the Company, Abbott or merger sub, seeking to impose any limitations on Abbott s ownership of the Company or its common stock, seeking to prohibit Abbott from effectively controlling the business or operations of the Company or that is reasonably likely to have a company material adverse effect; and

the absence of any event that has had a company material adverse effect.

The Company will not be obligated to effect the merger unless the following conditions have been satisfied or waived:

Abbott s representations and warranties set forth in the merger agreement must be true and correct (disregarding any qualifications as to materiality or material adverse effect), in each case as of the date of the merger agreement and as of the closing date of the merger (or, if applicable, as of an earlier date), with only such exceptions as would materially impair Abbott s ability to perform its obligations under the merger agreement or would prevent or materially delay the closing of the merger;

Abbott must have performed in all material respects all of its obligations under the merger agreement; and

Abbott must have delivered to the Company a certificate dated as of the closing date of the merger and signed by its Chief Executive Officer or Chief Financial Officer certifying that the conditions in the two preceding sentences have been satisfied.

Either the Company or Abbott could choose to waive a condition to its obligation to complete the merger even though that condition has not been satisfied. See *The Merger Agreement Conditions to the Merger* .

***Termination of the Merger Agreement***

Abbott and TheraSense can terminate the merger agreement under certain circumstances, including:

- by mutual written consent of Abbott and us;
- by either Abbott or us, if the merger has not been completed by September 30, 2004 for any reason, provided, however, that this right to terminate the merger agreement will not be available to a party

Table of Contents

whose failure to fulfill in any material respect its obligations under the merger agreement caused or resulted in the failure of the merger to be completed by September 30, 2004;

by either Abbott or us, if there is any final court order, injunction or other legal restraint prohibiting the merger;

by either Abbott or us, if our stockholders do not approve and adopt the merger agreement and the merger at the special meeting;

by either Abbott or us, if the other party has breached any of its representations, warranties, covenants or obligations contained in the merger agreement, which breach would result in the failure to satisfy any of the conditions to the merger related to truth and correctness of the breaching party s representations and warranties or performance of the breaching party s obligations under the merger agreement and which breach has not been, or is incapable of being, cured within 30 days after written notice;

by Abbott, if our board of directors or any of its committees takes, or resolves to take, any action:

withdrawing or modifying in a manner adverse to Abbott or merger sub its recommendation of the merger agreement or the merger, or failing within 10 business days to reconfirm such recommendation if requested by Abbott; or

approving or recommending any alternative acquisition proposal, or failing to recommend against, or taking a neutral position with respect to, a tender or exchange offer related to an alternative acquisition proposal.

by Abbott, if we violate our non-solicitation obligations under the merger agreement;

by Abbott, if there has been a company material adverse effect that cannot be cured; and

by us, if prior to our stockholders approving and adopting the merger agreement and the merger, we receive a superior proposal and:

our board of directors determines in good faith after consultation with outside legal counsel that such termination is required by its fiduciary obligations under Delaware law;

before exercising our termination right, we send Abbott a written notice advising it that our board of directors has received a superior proposal and stating that our board of directors intends to withdraw its recommendation of the merger agreement and the merger;

we wait until after the fourth business day following Abbott s receipt of such written notice and Abbott has not during that time proposed adjustments to the terms and conditions of the merger agreement that would make it as financially favorable to us as the superior proposal; and

we pay a $44,500,000 termination fee concurrently with termination of the merger agreement.

See *The Merger Agreement Termination of the Merger Agreement* and *The Merger Agreement Termination Fee; Expenses* .

***Termination Fee***

We have agreed to pay Abbott a termination fee of $44,500,000 if the merger agreement is terminated:

- by Abbott, in the event that:

  - our board of directors or any of its committees withdraws or modifies in a manner adverse to Abbott or merger sub its recommendation of the merger agreement or the merger, fails within 10 business days to reconfirm such recommendation if requested by Abbott, or resolves to take any such action;

  - our board or any of its committees approves or recommends any alternative acquisition proposal, fails to recommend against, or takes a neutral position with respect to, a tender or exchange offer related to an alternative acquisition proposal, or resolves to take any such action; or

Table of Contents

- we violate our non-solicitation obligations under the merger agreement;

- by us, in accordance with the terms of the merger agreement after our receipt of a superior proposal;

- by any party, following a failure by us to hold the special meeting in violation of our obligations under the merger agreement, if within twelve months following termination of the merger agreement we either consummate an alternative acquisition or enter into an agreement providing for an alternative acquisition that is subsequently consummated; and

- by any party, in the event that prior to the special meeting a proposal for an alternative acquisition is publicly announced and our stockholders do not vote to approve and adopt the merger agreement and the merger at the special meeting, if within twelve months following termination of the merger agreement we either consummate an alternative acquisition or enter into an agreement providing for an alternative acquisition that is subsequently consummated.

See *The Merger Agreement Termination Fee; Expenses* .

***Employee Benefits Matters; Stock Options***

The merger agreement contains a number of provisions relating to the benefits that our employees will receive in connection with and following the merger. In particular, under the merger agreement:

- Abbott has agreed to provide our employees who continue to be employed by Abbott or the surviving corporation following the merger with compensation and benefits substantially comparable in the aggregate to those of similarly situated employees of Abbott, subject to certain limitations with respect to benefit accruals and Abbott s retiree health plans; and

- we have agreed to cause the vested and unvested stock options held by our directors, executive officers, employees and consultants to be cashed out in connection with the merger, meaning that holders of those stock options will receive cash payments for each share underlying their options equal to the excess of $27.00 per share over the exercise price per share of their options, subject to any required withholding of taxes.

See *The Merger Agreement Additional Agreements Employee Benefits Matters* .

***Interests of the Company s Directors and Executive Officers in the Merger***

When considering the recommendation by our board of directors in favor of the merger, you should be aware that our directors and executive officers have interests in the merger that are different from, or in addition to, yours, including the following:

- our directors, executive officers, employees and consultants will have their unvested stock options effectively accelerated and their vested and unvested stock options cashed out in connection with the merger, meaning that they will receive cash payments for each share underlying their options equal to the excess of $27.00 per share over the exercise price per share of their options, subject to any required withholding for taxes;

- our executive officers will be entitled to benefits under certain change of control severance agreements, which provide for various lump sum payments in the event that an executive officer is terminated involuntarily or without cause, and in some cases provide for an additional gross-up lump sum payment to cover the costs of any excise taxes to which certain executive officers may be subject; and

- certain indemnification and insurance arrangements for our current and former directors and officers will be continued for six years following the closing date of the merger if the merger is completed.

See *The Merger Interests of the Company s Directors and Executive Officers in the Merger* .

**Table of Contents**

***Shares Held by Directors and Executive Officers***

As of the close of business on the record date, the directors and executive officers of the Company were deemed to beneficially own 4,755,690 shares of our common stock, which represented 11.2% of the shares of our common stock outstanding on that date. The Company expects all of the outstanding shares owned by its directors and executive officers to be voted in favor of the proposal to approve and adopt the merger agreement and the merger. Pursuant to the stockholder agreement, certain stockholders of the Company, including certain of our directors and executive officers, have agreed with Abbott to vote their shares in favor of approval and adoption of the merger agreement and the merger. As of the close of business on the record date, the parties to the stockholder agreement held an aggregate of 6,256,163 shares of the Company s common stock, representing approximately 14.7% of the votes eligible to be cast at the special meeting. See *Security Ownership by Certain Beneficial Owners and Management* and *The Merger Stockholder Agreement* .

***Procedure for Receiving Merger Consideration***

Abbott will appoint a paying agent to coordinate the payment of the cash merger consideration following the merger. The paying agent will send you written instructions for surrendering your certificates and obtaining the cash merger consideration after we have completed the merger. Do not send in your Company share certificates now. See *The Merger Agreement Exchange of Certificates* .

***Questions***

If you have additional questions about the merger or other matters discussed in this proxy statement after reading this proxy statement, you should contact our proxy solicitation agent:

The Altman Group

1275 Valley Brook Avenue

Lyndhurst, New Jersey 07071

Telephone: (800) 249-7179

Fax: (201) 460-0050

9

Table of Contents

## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements based on estimates and assumptions. Forward-looking statements include information concerning possible or assumed future results of operations of each of the Company and Abbott, the expected completion and timing of the merger and other information relating to the merger. There are forward-looking statements throughout this proxy statement, including, among others, under the headings *Summary* , *The Merger* , *Fairness Opinion Delivered to the Company s Board of Directors* and *Financial Projections* , and in statements containing the words believes , expects , anticipates , intends estimates or other similar expressions. For each of these statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should be aware that forward-looking statements involve known and unknown risks and uncertainties. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the actual results or developments we anticipate will be realized, or even if realized, that they will have the expected effects on the business or operations of each of the Company and Abbott. These forward-looking statements speak only as of the date on which the statements were made. In addition to other factors and matters contained or incorporated in this document, we believe the following factors could cause actual results to differ materially from those discussed in the forward-looking statements:

- the financial performance of each of the Company and Abbott through the completion of the merger;
- volatility in the stock markets;
- the timing of, and regulatory and other conditions associated with, the completion of the merger;
- intensified competitive pressures in the markets in which we compete;
- risks associated with other consolidations, restructurings or other ownership changes in the glucose self-monitoring systems industry;
- the loss of key employees;
- general economic conditions;
- our history of losses and variable quarterly results;
- our dependence on FreeStyle for future revenues;
- our limited sales and marketing experience;
- substantial competition;
- risks related to failure to protect our intellectual property and litigation in which we may become involved;

risks relating to development of innovative products;

risks related to noncompliance with regulations of the U.S. Food and Drug Administration;

limited manufacturing experience and our reliance on single manufacturers and sole source suppliers; and

other factors that are described from time to time in our periodic filings with the Securities and Exchange Commission.

Table of Contents

## THE PARTIES TO THE MERGER

TheraSense, Inc. is a Delaware corporation with its executive offices located at 1360 South Loop Road, Alameda, California 94502. Its telephone number is (510) 749-5400. TheraSense develops, manufactures and sells glucose self-monitoring systems that reduce the pain of testing for people with diabetes. The Company began selling its initial product, the FreeStyle blood glucose monitoring system, in the United States in June 2000. In October 2003, it began selling the FreeStyle Flash blood glucose monitoring system in the United States. The Company s direct sales force promotes its FreeStyle systems in the United States to health care professionals who advise patients on the monitoring and management of their diabetes. It distributes and sells its FreeStyle systems in the United States to national retailers, including Walgreens, Wal-Mart and Rite Aid, through wholesalers, including Cardinal Health, McKesson and AmerisourceBergen, and directly to end-users over the telephone and through its website. The Company is currently developing the FreeStyle Navigator continuous blood glucose monitoring system, which is designed to permit users to accurately and discreetly monitor their glucose levels in real time for up to three days. The Company submitted its premarket approval application for the FreeStyle Navigator system to the U.S. Food and Drug Administration, or FDA, in November 2003. The Company is also currently developing the CozMore insulin technology system with Deltec, Inc. The CozMore system combines Deltec s insulin pump and the Company s FreeStyle blood glucose monitoring technology to allow users to test their glucose levels and administer insulin with one device. The Company s partner Deltec submitted a medical device premarketing notification, also known as a 510(k) , to the FDA in June 2003.

Abbott Laboratories is an Illinois corporation with its executive offices located at 100 Abbott Park Road, Abbott Park, Illinois 60064. Its telephone number is (847) 937-6l00. Abbott is engaged in the discovery, development, manufacture and sale of a broad and diversified line of health care products. It has five revenue segments: Pharmaceutical Products, Diagnostic Products, Hospital Products, Ross Products and International. The Pharmaceutical Products segment offers a broad line of adult and pediatric pharmaceuticals. Abbott s Diagnostic Products segment markets diagnostic systems and tests. The Hospital Products segment, a portion of which Abbott currently intends to spin off to its stockholders, offers drugs and drug delivery systems, perioperative and intensive care products, cardiovascular products, products for treating pain, renal products, oncology products, intravenous and irrigation solutions and related manual and electronic administration equipment. The Ross Products segment offers a broad line of pediatric and adult nutritionals and specialty pharmaceuticals. The International segment offers a broad line of hospital, pharmaceutical, adult and pediatric nutritional products and consumer products.

Corvette Acquisition Corp., or merger sub, is a wholly-owned subsidiary of Abbott, with its executive offices located at 100 Abbott Park Road, Abbott Park, Illinois 60064. Its telephone number is (847) 937-6l00. Merger sub was formed solely for the purpose of facilitating Abbott s acquisition of the Company.

Table of Contents

## THE SPECIAL MEETING OF THE COMPANY S STOCKHOLDERS

### *Time, Place and Purpose of the Special Meeting*

The special meeting will be held on April 5, 2004, at 10:00 a.m. local time at the Waterfront Plaza Hotel, 10 Washington Street, Jack London Square, Oakland, California 94607. The purpose of the special meeting is to consider and vote on the proposal to approve and adopt the merger agreement and the merger. **The Company s board of directors has unanimously determined that the merger agreement is advisable, has approved and adopted the merger agreement and the merger and recommends that the Company s stockholders vote FOR approval and adoption of the merger agreement and the merger.**

### *Who Can Vote at the Special Meeting*

Only holders of record of our common stock as of February 29, 2004, which is the record date for the special meeting, are entitled to receive notice of and to vote at the special meeting. If you own shares that are registered in someone else s name, for example, a broker, you need to direct that person to vote those shares or obtain an authorization from them and vote the shares yourself at the meeting. On February 29, 2004, there were 42,509,491 shares of the Company s common stock outstanding held by approximately 147 holders of record.

### *Vote Required; Quorum*

The approval and adoption of the merger agreement and the merger requires the affirmative vote of the holders of a majority of the outstanding shares of the Company s common stock entitled to vote at the special meeting. Each share of common stock is entitled to one vote. Because the required vote of stockholders is based upon the number of outstanding shares of our common stock, rather than upon the shares actually voted, failure to submit a proxy or to vote in person will have the same effect as a vote AGAINST approval and adoption of the merger agreement and the merger.

If your shares are held in street name by your broker, you should instruct your broker how to vote your shares using the instructions provided by your broker. Under the rules of NASDAQ, brokers who hold shares in street name for customers may not exercise their voting discretion with respect to non-routine matters such as the approval and adoption of the merger agreement and the merger. As a result, if you do not instruct your broker to vote your shares, it will have the same effect as a vote AGAINST approval and adoption of the merger agreement and the merger.

Pursuant to the stockholder agreement, certain stockholders who together own approximately 14.7% of the outstanding shares of the Company s common stock as of the close of business on the record date have already agreed to vote in favor of approval and adoption of the merger agreement and the merger. The parties to the stockholder agreement include certain of our directors and executive officers. See *The Merger Stockholder Agreement* .

The holders of a majority of the outstanding shares of the Company s common stock entitled to be cast as of the record date, represented in person or by proxy, will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. Once a share is represented at the special meeting, it will be counted for the purpose of determining a quorum and any adjournment of the special meeting, unless the holder is present solely to object to the special meeting. However, if a new record date is set for an adjourned meeting, a new quorum will have to be established.

***Voting By Proxy***

This proxy statement is being sent to you on behalf of the board of directors of the Company for the purpose of requesting that you allow your shares of the Company s common stock to be represented at the special meeting by the persons named in the enclosed proxy card. All shares of the Company s common stock

12

Table of Contents

represented at the meeting by properly executed proxy cards will be voted in accordance with the instructions indicated on that proxy. If you sign and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company s board of directors. **The board recommends a vote FOR approval and adoption of the merger agreement and the merger.**

The Company does not expect that any matter other than the proposal to approve and adopt the merger agreement and the merger will be brought before the special meeting. If, however, such a matter is properly presented at the special meeting, the persons named in the proxy card will use their own judgment to determine how to vote your shares.

You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must either advise the Company s Secretary in writing, deliver a proxy dated after the date of the proxy you wish to revoke or attend the special meeting and vote your shares in person. Attendance at the special meeting will not by itself constitute revocation of a proxy. If you have instructed your broker to vote your shares, you must follow the directions provided by your broker to change these instructions.

***Solicitation of Proxies***

The Company will pay the cost of this proxy solicitation. In addition to soliciting proxies by mail, directors, officers and employees of the Company may solicit proxies personally and by telephone, e-mail or otherwise. None of these persons will receive additional or special compensation for soliciting proxies. The Company will, upon request, reimburse brokers, banks and other nominees for their expenses in sending proxy materials to their customers who are beneficial owners and obtaining their voting instructions.

The Company has engaged The Altman Group to assist in the solicitation of proxies for the special meeting and will pay The Altman Group a fee of $7,000, plus reimbursement of out-of-pocket expenses. The address of The Altman Group is 1275 Valley Brook Avenue, Lyndhurst, New Jersey 07071. The Altman Group s telephone number is (800) 249-7179.

Table of Contents

## THE MERGER

The discussion of the merger in this proxy statement is qualified by reference to the merger agreement and the stockholder agreement, which are attached to this proxy statement as Annexes A and B, respectively. You should read each agreement carefully.

### *Background of the Merger*

Since 2001, our management has had discussions with various other participants in the pharmaceutical and medical device industries regarding potential collaborations in the insulin, insulin delivery and blood glucose monitoring businesses that would be complementary to our business.

Beginning in early 2001, members of our management engaged in discussions with representatives of a company, referred to in this proxy statement as Company A , regarding the distribution of FreeStyle Navigator, our continuous glucose monitoring system, which was then and is still now in development. We signed a confidentiality agreement with Company A in conjunction with these discussions. At the end of 2001 and in early 2002, these discussions centered upon the negotiation of a detailed non-binding term sheet that outlined the material terms of a distribution agreement. In April 2002, while we were preparing definitive agreements, these discussions ended when Company A s senior management determined that Company A would not go forward with the FreeStyle Navigator distribution agreement.

Beginning in early 2002, members of our management engaged in discussions with representatives of a company, referred to in this proxy statement as Company B , regarding a possible collaboration. We signed a confidentiality agreement with Company B in conjunction with these discussions and subsequently submitted a detailed term sheet to Company B with regard to the proposed collaboration. We received only limited comments on our term sheet and discussions ended in June 2002. Subsequent to the termination of our discussions, Company B entered into a similar collaboration with another company.

In December 2002 and early January 2003, members of our management and representatives of Abbott discussed various possible business relationships and scheduled a meeting in Bedford, Massachusetts for January 31, 2003, to engage in more detailed discussions. We signed a confidentiality agreement with Abbott relating to these discussions. During the January 31, 2003, meeting, we discussed the possibilities of Abbott s international distribution of our existing, approved FreeStyle products, the co-development with and distribution by Abbott of our FreeStyle Navigator system and incorporation of our existing, approved FreeStyle system into a hospital product application.

On January 28, 2003, members of our management approached Company A regarding Company A s international distribution of our FreeStyle products in certain countries. Company A expressed interest, but negotiations did not ensue.

On February 20, 2003, representatives of Abbott approached Piper Jaffray, the Company s financial advisor, regarding an acquisition of our company, and Piper Jaffray promptly communicated Abbott s indication of interest to us. On February 24 and 25, 2003, we held regularly scheduled meetings of our board of directors and its committees and a strategic planning session. During the strategic planning session our board of directors discussed our various strategic alternatives, including Abbott s interest in a potential acquisition and possible distribution and other business relationships with Abbott and other parties, including Company A and Company B. Our board determined that we would not consider a potential acquisition except at a price significantly in excess of the then-prevailing market price for our stock, which during the period from February 1 through 20, 2003, traded in a range of $6.43 to $7.54 per share. Our board of directors also determined that we should continue our discussions with Abbott regarding possible distribution and other business relationships.

On February 28, 2003, we communicated our board of directors conclusions to Abbott. As a result, acquisition discussions with Abbott did not progress further at that time. However, we did continue our discussions with Abbott regarding possible distribution of our existing, approved FreeStyle products and our FreeStyle Navigator product. We were unable to settle upon mutually agreeable terms, and these discussions ended in June 2003.

On March 26, 2003, representatives of Company A approached us regarding a potential acquisition of our company. In accordance with the directive of our board of directors from the February 25, 2003, strategic planning session, our management informed Company A that our stock was substantially undervalued and that we would not consider a potential acquisition except at a price significantly in excess of the then-prevailing market price for our stock, which during the period from March 1 through 26, 2003, traded in a range of $6.96 to $8.40 per share. As a result, acquisition discussions with Company A did not progress further at that time.

In May and June 2003, we held several meetings with Company A regarding a possible collaboration with respect to our FreeStyle Navigator system. We ended these discussions in June 2003 following our determination that senior management of Company A had not demonstrated the appropriate commitment to proceed.

On June 11, 2003, representatives of Piper Jaffray met with representatives of Abbott to discuss Abbott s strategy for its blood glucose monitoring business. Representatives of Piper Jaffray and Abbott discussed whether Abbott would be willing to enter into a business combination with TheraSense.

On June 27, 2003, representatives of Company B and members of our management met at our offices in Alameda, California to reopen discussions regarding collaboration opportunities within the diabetes management industry. During those discussions, a representative of Company B indicated that Company B might have an interest in discussing a potential business combination transaction.

On July 22, 2003, W. Mark Lortz, our Chairman, President and Chief Executive Officer, informed a representative of Company B that in light of the trading price of our stock, any acquisition would need to be at a price significantly in excess of the then-prevailing market price for our stock and we would not be able to engage in discussions regarding a potential acquisition until Company B signed a confidentiality agreement that included acceptable standstill provisions. From July 1 through July 22, 2003, our stock had traded in a range of $10.00 to $11.64 per share. During the period from this discussion until the middle of October 2003, there were additional intermittent discussions between TheraSense and Company B concerning a new confidentiality agreement with standstill provisions.

In September 2003, our management and Piper Jaffray held further discussions with representatives of Abbott in which we reiterated our position that we would be unwilling to consider a potential acquisition except at a price significantly in excess of the then-prevailing market price for our stock.

On September 24, 2003, members of our management met with Abbott s senior management in Oakland, California. At that meeting Abbott expressed a willingness to pursue a potential acquisition at a price in excess of the then-prevailing market price of our stock. From September 1, 2003, through the September 24 meeting, our stock traded in a range of $13.05 to $15.75 per share. We reiterated to Abbott that, in light of the trading price of our stock, any acquisition would need to be at a price significantly in excess of the then-prevailing market price of our stock, and we indicated that we would not be able to engage in further discussions regarding a potential acquisition until Abbott signed a confidentiality agreement that included acceptable standstill provisions.

Between October 1 and October 13, 2003, we and Abbott negotiated the terms of a confidentiality agreement. During this negotiation period Abbott requested that we commit to exclusive negotiations with them and that the confidentiality agreement not include any standstill provision. We indicated that we would not agree to exclusive negotiations and that we would not enter into an acquisition-related confidentiality agreement with any party unless it included standstill provisions acceptable to us. On October 13, 2003, we and Abbott entered into a confidentiality agreement that included mutually acceptable standstill provisions.

On October 2, 2003, our management met with representatives of Piper Jaffray and Davis Polk & Wardwell, the Company s legal advisor, to discuss Abbott s interest in a potential acquisition and to structure a process for

Table of Contents

identifying other potential acquirors. Our management preliminarily identified three companies, Abbott, Company A and Company B, as the most likely potential acquirors of the Company with the assistance of Piper Jaffray and following a review of various participants in the medical device and pharmaceutical industries. Our management based this determination on an assessment of each potential acquiror s possible strategic rationale for an acquisition, the financial and regulatory impediments that might exist for certain acquirors and the anticipated willingness and ability of each of them to pursue and complete such a transaction.

On October 7, 2003, representatives of Piper Jaffray met with senior management of Company B to discuss Company B s interest in pursuing a potential acquisition, and Company B s senior management indicated that it was interested in further discussions. As a result, the negotiation of a confidentiality agreement with standstill provisions that began in July of 2003 intensified in mid-October and we signed a confidentiality agreement containing standstill provisions acceptable to us on November 13, 2003.

On October 16, 2003, our management had a day-long meeting with Abbott s senior management at the San Francisco offices of Piper Jaffray. During this meeting we presented our operating plans and strategy, product development efforts plans and financial position in detail and answered various questions from Abbott. We also discussed the potential synergies that could be realized in a business combination with Abbott.

In mid-October of 2003, Piper Jaffray approached Company A to explore whether it might be interested in pursuing an acquisition of our Company. Company A informed Piper Jaffray shortly thereafter that it was not interested in pursuing such a transaction.

On October 23, 2003, representatives of Piper Jaffray met with executive officers of Abbott and indicated that any further discussions would require that Abbott indicate in writing its willingness to pursue an acquisition of TheraSense at a specified price significantly in excess of the then-prevailing market price for our stock. From October 1 through October 23, 2003, our stock traded in a range of $11.80 to $16.82 per share.

On November 13, 2003, we received from Abbott a written, non-binding expression of interest in acquiring our Company at a price of $25.00 to $27.00 per share, subject to due diligence and the ability to negotiate a satisfactory agreement with us. In addition, Abbott repeated its request for an exclusive negotiation period.

On November 19, 2003, our board of directors held a special meeting that was attended by representatives of Piper Jaffray and Davis Polk. Our management reviewed the status of discussions with Abbott, Company A and Company B, its process for identifying potential acquirors of the Company and its assessment of the most likely potential acquirors. The board of directors determined that management should continue discussions with Abbott and Company B. Following the board of directors meeting we communicated to Abbott that we would be willing to continue discussions but that they would not be on an exclusive basis.

On November 21, 2003, our management gave representatives of Company B a detailed presentation on our operating plans and strategy, product development efforts and plans and financial position. Our presentation to Company B was substantially similar to the presentation our management delivered to Abbott on October 16, 2003. At the conclusion of the presentation, representatives of Company B indicated that Company B would not be able to pursue an acquisition due to an existing business relationship with another party.

Following the presentation to representatives of Company B through mid-December 2003, Piper Jaffray sought clarification from senior management of Company B regarding its previously expressed interest in pursuing an acquisition of our Company. During this period Piper Jaffray indicated that if Company B was interested in further discussions it would need to act quickly and would need to indicate in writing its willingness to pursue an acquisition at a specified price significantly in excess of the then-prevailing market price for our stock.

From December 2 through December 5, 2003, representatives of Abbott, Morgan Stanley & Co. Incorporated, Abbott s financial advisors, and Skadden, Arps, Slate, Meagher and Flom LLP, Abbott s legal

**Table of Contents**

advisors, conducted documentary due diligence and met in due diligence sessions with our management team and representatives of Piper Jaffray and Davis Polk at Davis Polk s offices in Menlo Park, California. During the same period, representatives from Abbott also conducted due diligence at our offices in Alameda, California. On December 6 and 7, 2003, representatives of Mayer, Brown, Rowe & Maw LLP, additional legal advisors to Abbott, conducted further documentary due diligence of our intellectual property at Davis Polk s offices in Menlo Park. During the period thereafter and leading up to the January 12, 2004 signing of the merger agreement, Abbott continued its due diligence review of us.

On December 4, 2003, our board of directors held a regular meeting that was attended by representatives of Piper Jaffray and Davis Polk. Our Chief Executive Officer updated the board of directors on the status of discussions with Abbott and Company B. The board of directors determined that management should continue discussions with both Abbott and Company B.

On December 15, 2003, we received from Company B a written, non-binding expression of interest in acquiring our Company at a price of $20.00 to $24.00.

On December 16, 2003, Piper Jaffray informed senior management of Company B that its price range of $20.00 to $24.00 was not sufficient.

On December 19, 2003, we received from Company B a written, non-binding expression of interest in acquiring our Company at a price of $20.00 to $28.00 per share, subject to due diligence and the ability to negotiate a satisfactory agreement with us. Piper Jaffray indicated to Company B that we would be willing to continue discussions, but that Company B would need to proceed very quickly. Piper Jaffray further indicated to Company B that it would need to be at the high end of its $20.00 to $28.00 range to be competitive with respect to a potential acquisition of the Company, and Company B subsequently indicated its willingness to proceed with that understanding.

On December 24, 2003, Skadden delivered a draft of the merger agreement to us and our representatives.

On December 29 and for a brief period on the morning of December 30, 2003, representatives of Company B and its financial and legal advisors conducted documentary due diligence and met in due diligence sessions with our management team and representatives of Piper Jaffray and Davis Polk at Davis Polk s offices in Menlo Park. In addition, on December 29, 2003, representatives from Company B also conducted due diligence at our offices in Alameda, California. The agenda for the due diligence sessions with Company B was substantially similar to the due diligence agenda followed with Abbott, and the due diligence documents made available to Company B for its review were substantially similar to the due diligence documents made available to Abbott. Late in the morning of December 30, 2003, Company B s representatives ceased their due diligence and left Davis Polk s offices. Following their departure, from December 30, 2003 through January 2, 2004, we and our financial advisors engaged in discussions and exchanged correspondence with Company B and its financial advisors regarding opportunities for Company B to conduct additional due diligence. During this period, Company B indicated to us that it wished to conduct additional due diligence, and we and our financial advisors repeatedly emphasized to Company B that it needed to proceed very quickly. However, we received no subsequent requests for additional due diligence information from Company B until January 9, 2004.

On December 30, 2003, Davis Polk delivered a revised draft of the merger agreement to Skadden.

On January 3, 2004, Skadden delivered a revised draft of the merger agreement to Davis Polk.

On January 5, 2004, our board of directors held a special meeting that was attended by representatives of Piper Jaffray and Davis Polk. Our Chief Executive Officer updated our board of directors on the status of negotiations with Abbott and Company B. A representative of Davis Polk summarized the terms of the proposed transaction and merger agreement with Abbott and discussed key business issues remaining to be resolved in the negotiations between Abbott and the Company. Our board of directors authorized management and our advisors to continue negotiations with Abbott.

**Table of Contents**

On January 5, representatives of Company B indicated to Piper Jaffray that they would be sending a supplemental due diligence request list on approximately January 9. Piper Jaffray reiterated to Company B that it needed to proceed very quickly.

During the period beginning on January 5, 2004 and concluding early in the morning of January 12, 2004, we, Abbott and our respective representatives negotiated the terms of the merger agreement and stockholder agreement. During the same period, our management met telephonically with representatives of Abbott to discuss the communications plan for announcement of the transaction and integration issues.

On January 6, 2004, our Chief Executive Officer, Mr. Lortz, discussed the price range of the proposed transaction with Richard Gonzalez, the President and Chief Operating Officer of Abbott s Medical Products Group. Messrs. Lortz and Gonzalez agreed to continue these discussions later in that week.

On January 8, 2004, our Chief Executive Officer met with Mr. Gonzalez to continue their discussions regarding outstanding business issues remaining in the merger agreement other than the price to be paid by Abbott.

At the close of business on January 9, 2004, we received a supplemental due diligence request list from Company B.

During the afternoon of January 9, 2004, our and Abbott s respective financial advisors negotiated the price to be paid in the proposed transaction. Following the close of business on that day, Sean Murphy, Vice President, Global Licensing/New Business Development at Abbott, informed Piper Jaffray that Abbott s offer would be $27.00 per share in cash.

On January 12, 2004, our board of directors held a special meeting that was attended by representatives of Piper Jaffray and Davis Polk. A representative of Davis Polk updated the board on the status of negotiations with both Abbott and Company B. Davis Polk then summarized the terms of the merger agreement with Abbott and the stockholder agreement, including the resolution of final issues related to each agreement. Davis Polk also provided an overview of the fiduciary duties applicable to the board of directors, both generally and within the specific context of a transaction involving the exchange of the Company s outstanding equity securities for cash. Representatives of Piper Jaffray then reviewed with our board of directors its financial analyses with respect to the proposed transaction. Following its presentation, Piper Jaffray delivered its written opinion to our board of directors that, as of January 12, 2004, and based upon and subject to the factors and assumptions set forth in its written opinion, the $27.00 per share in cash to be received by the holders of our common stock pursuant to the merger agreement was fair to those holders from a financial point of view. See *The Merger Fairness Opinion Delivered to the Company s Board of Directors* . Our board of directors discussed the proposed transaction and posed various questions to our management and the Company s legal and financial advisors. Based on the prior course of dealing with Company B regarding a possible acquisition, the fact that we had not received a formal offer from Company B and the fact that Company B would require additional time for due diligence and the drafting and negotiation of acceptable agreements that had already been accomplished by Abbott, our board of directors determined that it was in the best interests of our stockholders to pursue a potential acquisition transaction with Abbott rather than with Company B. In its deliberations, our board of directors also specifically weighed, among other things, the benefits of the proposed transaction against the advantages and disadvantages of remaining independent and passing on the opportunity presented by Abbott. After extensive discussion, our board of directors unanimously (1) approved and declared the merger, the merger agreement and the transactions contemplated by the merger agreement advisable, (2) declared that it is in the best interests of our stockholders that we enter into the merger agreement and consummate the merger on the terms and conditions set forth in the merger agreement, (3) resolved to recommend that our stockholders approve and adopt the merger agreement and the merger, (4) approved the transactions contemplated by the stockholder agreement, (5) approved an amendment to our Rights Agreement dated March 7, 2003 with ComputerShare Investor Services rendering it inapplicable to the merger agreement, the stockholder agreement, the merger and the other transactions

18

**Table of Contents**

contemplated by the merger agreement and the stockholder agreement, (6) approved the merger agreement and the agreements and transactions contemplated by the merger agreement and the stockholder agreement for purposes of Section 203 of the Delaware General Corporation Law and (7) authorized execution of the merger agreement.

After the close of trading on January 12, 2004, the parties executed the merger agreement.

Prior to the commencement of trading on January 13, 2004, we issued a joint press release with Abbott announcing the execution of the merger agreement.

On January 13, 2004, we sent a letter to Company B advising it that, pursuant to our obligations under the merger agreement with Abbott, we were immediately ceasing and terminating all discussions and negotiations regarding a potential transaction and that we would not be responding to its supplemental due diligence request list of January 9, 2004. Pursuant and subject to the terms of our mutual non-disclosure agreement with Company B, we also requested that Company B return or destroy all copies of our proprietary information in its or its representatives possession.

***Reasons for the Merger***

The Company s board of directors consulted with senior management and the Company s financial and legal advisors and considered a number of factors, including those set forth below, in reaching its decision to approve the merger agreement and the transactions contemplated by the merger agreement, and to recommend that the Company s stockholders vote FOR approval and adoption of the merger agreement and the merger.

*Merger Consideration.* The Company s board of directors considered the $27.00 per share cash consideration that the stockholders will receive if the merger is consummated and the likelihood that it will deliver greater value to the stockholders than might be expected if the Company remained independent. The board also considered that the $27.00 per share price was higher than any price at which the Company s common stock has ever traded and represents a 33.0% premium to the closing price of $20.30 on January 12, 2004, the last trading day prior to the public announcement of the execution of the merger agreement.

*Review of Prospects in Remaining Independent.* The Company s board of directors considered the Company s financial condition, results of operations and business and earnings prospects if it were to remain independent in light of the relevant factors, including consolidation and other developments occurring in the glucose self-monitoring systems industry, and also considered the potential availability of alternative transactions.

*Fairness Opinion.* The Company s board of directors considered the financial presentations made by Piper Jaffray on January 12, 2004 and the written opinion of Piper Jaffray delivered to the board of directors as of the same date, to the effect that, as of that date and subject to the matters and assumptions stated in the opinion, the merger consideration to be received by the Company s stockholders was fair, from a financial point of view, to such stockholders. The full text of Piper Jaffray s written opinion is attached to this proxy statement as Annex C.

*Terms of the Merger Agreement.* The Company s board of directors considered the terms of the merger agreement, including the parties respective representations, warranties and covenants, the conditions to their respective obligations to complete the merger and the ability of the respective parties to terminate the merger agreement. The board of directors also considered the terms of the stockholder agreement. The board of directors noted that the stockholder agreement and the termination fee provisions of the merger agreement could have the effect of discouraging alternative proposals for a business combination between the Company and a third party, but that such provisions are customary for transactions of this size and type. The board of directors also noted that the merger agreement permits the Company and its board to respond to a bona fide acquisition proposal that the board

Table of Contents

determines is a superior proposal, subject to certain restrictions imposed by the merger agreement and the requirement that the Company pay Abbott a $44,500,000 termination fee in the event that the Company terminates the merger agreement to enter into an alternative acquisition with respect to such superior proposal.

*Likelihood of Closing.* The board of directors considered the limited nature of the closing conditions included in the merger agreement, including the likelihood that the merger would be approved by requisite regulatory authorities and that the merger agreement would be approved and adopted by the Company s stockholders.

*Employee Compensation and Benefits.* The board considered that certain directors and officers of the Company may receive certain benefits different from, and in addition to, those of other stockholders as described under *Interests of the Company s Directors and Executive Officers in the Merger* .

*Taxability; No Participation in Future Growth.* The board of directors also considered that the merger will be a taxable transaction to the Company s stockholders and that because the Company s stockholders are receiving cash for their stock, they will not participate in the future growth of either the Company or Abbott.

The foregoing discussion of the information and factors considered by the Company s board of directors, while not exhaustive, includes the material factors considered by the board of directors, and contains both factors that support the merger and factors that may weigh against it. In view of the variety of factors considered in connection with its evaluation of the merger, the Company s board of directors did not find it practicable to, and did not, quantify or otherwise assign relative or specific weight or values to any of these factors, and individual directors may have given different weights to particular factors. In addition, our board of directors did not make any specific determination of whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to its ultimate determination, and individual directors may have had different views on the favorability of particular factors.

***Recommendation of the Company s Board of Directors***

**After careful consideration, the Company s board of directors, by the unanimous vote of the directors, has determined that the merger agreement is advisable, has approved and adopted the merger agreement and the merger and recommends that the Company s stockholders vote FOR approval and adoption of the merger agreement and the merger.**

***Interests of the Company s Directors and Executive Officers in the Merger***

**Stock Options**

Under the terms of the merger agreement and our stock option agreements with our directors, officers, employees and consultants, all of the stock options granted to such individuals will be canceled immediately prior to the effective time of the merger. The merger agreement provides that in consideration for such cancellation Abbott will make a cash payment to the holder of each such option, regardless of whether such option is vested or unvested, equal to the product of (i) the total number of shares that are subject to such option immediately prior to the effective time of the merger and (ii) the excess of $27.00 per share over the exercise price per share subject to such option, subject to any required withholding of taxes.

Because all of the Company s outstanding options are in the money , meaning that they have exercise prices below $27.00 per share, all holders of our options immediately prior to the effective time of the merger will be entitled to receive such cash payments. This includes our executive officers and our non-employee directors, each of whom holds outstanding options. The following table summarizes the vested and unvested

Table of Contents

options held by our executive officers and directors as of the record date, and the consideration that each of them will receive pursuant to the merger agreement in connection with the cancellation of their options:

| | No. of Shares Underlying Vested and Unvested Options | Weighted Average Exercise Price of Vested and Unvested Options | Resulting Consideration |
|---|---|---|---|
| W. Mark Lortz | 1,153,019 | $ 10.13 | $ 19,451,431 |
| Charles T. Liamos | 332,521 | $ 13.35 | $ 4,538,912 |
| Arthur A. Autorino | 255,403 | $ 16.61 | $ 2,653,637 |
| Robert D. Brownell | 191,940 | $ 12.26 | $ 2,829,196 |
| Eve A. Conner, Ph.D. | 125,020 | $ 13.98 | $ 1,627,760 |
| Timothy T. Goodnow, Ph.D. | 255,190 | $ 8.85 | $ 4,631,699 |
| James Hey | 150,000 | $ 20.20 | $ 1,020,000 |
| Shawna Gvazdauskas | 260,515 | $ 16.24 | $ 2,803,141 |
| Lawrence W. Huffman | 228,158 | $ 9.53 | $ 3,985,920 |
| Holly D. Kulp | 119,860 | $ 13.22 | $ 1,651,671 |
| Nelson O. Lam | 169,480 | $ 14.09 | $ 2,187,987 |
| Carl Silverman | 150,000 | $ 20.20 | $ 1,020,000 |
| Mark C. Tatro | 219,603 | $ 14.83 | $ 2,672,569 |
| Jerry Tu | 150,000 | $ 13.97 | $ 1,954,500 |
| Nan T. Watanabe | 267,030 | $ 18.62 | $ 2,237,711 |
| Bradford A. Bowlus | 30,000 | $ 11.50 | $ 465,000 |
| Ross A. Jaffe, M.D. | 40,000 | $ 7.54 | $ 778,400 |
| Jonathan T. Lord, M.D. | 30,000 | $ 9.05 | $ 538,500 |
| Robert R. Momsen | 40,000 | $ 7.54 | $ 778,400 |
| Richard P. Thompson | 40,000 | $ 7.54 | $ 778,400 |
| Rod F. Dammeyer | 35,000 | $ 19.51 | $ 262,150 |

**Change of Control Severance Agreements**

The Company has change of control severance agreements with each of its executive officers that contain provisions that will be triggered by the merger and that were amended in July 2003. Abbott will assume the obligations of the Company under these agreements if the merger is completed.

W. Mark Lortz, our Chairman, President and Chief Executive Officer, is entitled to the following severance benefits under his change of control severance agreement:

in the event of an involuntary termination between the signing of the merger agreement and the date 12 months after the effective date of the merger, all of Mr. Lortz s unvested stock options will immediately vest and become exercisable;

in the event of an involuntary termination between the signing of the merger agreement and the date 12 months after the effective date of the merger, a lump sum severance payment of 200% of Mr. Lortz s then-current base salary and a lump sum payment equal to the cost of 24 months health care coverage after payment of any applicable taxes;

in the event of a termination without cause at any time other than the period between the signing of the merger agreement and the date 12 months after the effective date of the merger, a lump sum severance payment of 150% of Mr. Lortz s then-current annual base salary and a lump sum payment equal to the cost of 18 months health care coverage after payment of any applicable taxes; and

in the event that any compensation to Mr. Lortz is deemed to be an excess parachute payment and is therefore subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, which we refer to as the Code, a lump sum gross-up payment in an amount such that Mr. Lortz s after-tax compensation is equal to what it would have been had no such excise tax been imposed.

Table of Contents

Under both Mr. Lortz s change of control severance agreement and those of our other executive officers, involuntary termination means (i) without the employee s written consent, a significant reduction of the employee s duties, position or responsibilities relative to the employee s duties, position or responsibilities in effect immediately prior to such reduction, or the removal of the employee from such position, duties and responsibilities; provided, however, that a reduction in duties, position or responsibilities solely by virtue of the Company being acquired and made part of a larger entity (as, for example, when the Chief Financial Officer of the Company remains as such following a change of control but is not made the Chief Financial Officer of the acquiring corporation) shall not constitute an involuntary termination , (ii) without the employee s written consent, a substantial reduction, without good business reasons, of the facilities and perquisites (including office space and location) available to the employee immediately prior to such reduction, (iii) without the employee s express written consent, a reduction by the Company of the employee s base salary as in effect immediately prior to such reduction, (iv) without the employee s express written consent, a material reduction by the Company in the kind or level of employee benefits (including cash and stock bonus plans) to which the employee is entitled immediately prior to such reduction with the result that the employee s overall benefits package is significantly reduced, (v) without the employee s express written consent, the relocation of the employee to a facility or a location that increases the employee s one-way commute from the employee s residence at the time of the change of control by more than 30 miles, (vi) any purported termination of the employee by the Company that is not effected for cause, or (vii) the failure of the Company to obtain the assumption of the employee s change of control severance agreement by any successors.

Mr. Lortz s change of control severance agreement and those of our other executive officers also provide that cause means (i) any act of personal dishonesty taken by the employee in connection with his responsibilities as an employee that is intended to result in substantial personal enrichment of the employee, (ii) the employee s conviction of a felony that the Company s board of directors reasonably believes has had or will have a material detrimental effect on the Company s reputation or business, (iii) a willful act by the employee that constitutes misconduct and is injurious to the Company, or (iv) continued willful violations by the employee of the employee s obligations to the Company after there has been delivered to the employee a written demand for performance from the Company that describes the basis for the Company s belief that the employee has not substantially performed his duties.

Charles T. Liamos, our Chief Operating Officer and Chief Financial Officer, is entitled to the following severance benefits under his change of control severance agreement:

- in the event of an involuntary termination between the signing of the merger agreement and the date 12 months after the effective date of the merger, all of Mr. Liamos unvested stock options will immediately vest and become exercisable;

- in the event of an involuntary termination between the signing of the merger agreement and the date 12 months after the effective date of the merger, a lump sum severance payment of 150% of Mr. Liamos then-current base salary and a lump sum payment equal to the cost of 18 months health care coverage after payment of any applicable taxes;

- in the event of a termination without cause at any time other than the period between the signing of the merger agreement and the date 12 months after the effective date of the merger, a lump sum severance payment of 100% of Mr. Liamos then-current annual base salary and a lump sum payment equal to the cost of 12 months health care coverage after payment of any applicable taxes; and

- in the event that any compensation to Mr. Liamos is deemed to be an excess parachute payment and is therefore subject to the excise tax imposed by Section 4999 of the Code, a lump sum gross-up payment in an amount such that Mr. Liamos after-tax compensation is equal to what it would have been had no such excise tax been imposed.

**Table of Contents**

The Company s 13 vice presidents, a number of whom are executive officers, are each entitled to the following severance benefits under their respective change of control severance agreements:

- in the event of an involuntary termination between the signing of the merger agreement and the date 12 months after the effective date of the merger, all of such employee s unvested stock options will immediately vest and become exercisable;

- in the event of an involuntary termination between the signing of the merger agreement and the date 12 months after the effective date of the merger, a lump sum severance payment of 100% of such employee s then-current base salary and a lump sum payment equal to the cost of 12 months health care coverage after payment of any applicable taxes; and

- in the event that any compensation to such employee is deemed to be an excess parachute payment and is therefore subject to the excise tax imposed by Section 4999 of the Code, the Company must either pay such compensation in full or reduce it to an amount at which none of it would be subject to such excise tax, whichever results in greater after-tax compensation to the employee.

Each of the Company s change of control severance agreements, including those of Mr. Lortz and Mr. Liamos, also provides for varying degrees of accelerated vesting of unvested options upon the effective date of the merger. However, because the merger agreement provides that all vested and unvested stock options will be accelerated and cashed out on the effective date of the merger, these provisions of the Company s change of control severance agreements will be of no effect if the merger is completed.

**Indemnification and Insurance**

The merger agreement provides that all rights to indemnification for acts or omissions prior to the effective time of the merger existing in favor of our directors or officers as provided in our organizational documents and as of the date of the merger agreement will be assumed by the surviving corporation in the merger, and will continue in full force and effect in accordance with their terms for a period of six years after the effective time of the merger. The merger agreement further provides that, for six years after the effective time of the merger, Abbott or the surviving corporation will maintain our current directors and officers liability insurance or substitute policies of substantially similar coverage and amounts. In the event that our current directors and officers liability insurance is cancelled during this six-year period, Abbott or the surviving corporation must use all commercially reasonable efforts to obtain substantially similar insurance. Abbott s obligation to provide this insurance coverage is subject to its not being required to pay an annual premium in excess of 250% of the last annual premium paid by us prior to the date of the merger agreement. If Abbott cannot maintain the existing or equivalent insurance coverage without exceeding this 250% cap, Abbott is required to maintain as much insurance coverage as can be obtained by paying an annual premium equal to 250% of the cap.

**Employment Arrangements**

Certain of the Company s executive officers, two of whom are also directors, have held discussions with Abbott regarding future employment and may be employed in management roles by Abbott or one of its subsidiaries following the effective date of the merger. However, as of the date of the mailing of this proxy, none of the Company s directors or executive officers has signed an employment agreement or entered into any similar obligation under which Abbott would be required to employ them after the completion of the merger.

***Fairness Opinion Delivered to the Company s Board of Directors***

Our board of directors retained Piper Jaffray to act as our financial advisor in connection with the proposed merger. In 2001, our board of directors retained Piper Jaffray to serve as the lead underwriter for our initial public offering in October 2001. In 2002, our board of directors retained Piper Jaffray to advise us in connection with our analysis of various anti-takeover strategies, including the advisability of adopting a stockholder rights plan, which we adopted in February 2003.

Table of Contents

In connection with the proposed merger engagement, our board of directors requested that Piper Jaffray evaluate the fairness, from a financial point of view, to our stockholders of the consideration to be received by these stockholders in connection with the merger. On January 12, 2004, our board of directors met to review the proposed merger. During this meeting, Piper Jaffray reviewed with our board of directors certain financial analyses that are summarized below. Also at this meeting, Piper Jaffray delivered a written fairness opinion to our board of directors to the effect that, as of January 12, 2004, and based upon and subject to the factors, assumptions and limitations set forth in its opinion, the $27.00 cash per share of TheraSense common stock merger consideration to be paid pursuant to the merger agreement was fair, from a financial point of view, to our stockholders.

**The full text of the Piper Jaffray written opinion dated January 12, 2004, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by Piper Jaffray in rendering its opinion, is attached as Annex C to this proxy statement and is incorporated in its entirety herein by reference. You are urged to, and should, carefully read the Piper Jaffray opinion in its entirety. The Piper Jaffray opinion addresses only the fairness, from a financial point of view and as of the date of the opinion, of the consideration to be received by holders of TheraSense common stock pursuant to the merger agreement. The Piper Jaffray opinion was directed solely to our board of directors and was not intended to be, and does not constitute, a recommendation to any TheraSense stockholder as to how any stockholder should vote or act on any matter relating to the proposed merger.**

In arriving at its opinion, Piper Jaffray, among other things:

- reviewed the financial terms of a draft of the merger agreement dated January 9, 2004;
- reviewed and analyzed certain publicly available business and financial information relating to TheraSense;
- reviewed and analyzed certain other financial information relating to TheraSense prepared by the Company s management, including projected financial data for the fiscal years ending December 31, 2004 through 2008, which was consistent with the projected financial data provided by the Company to Abbott;
- visited the TheraSense corporate headquarters in Alameda, California and met with members of TheraSense s management to discuss the financial condition, current operating results and business outlook for TheraSense and the background and rationale of the proposed merger;
- participated in discussions with members of TheraSense s legal counsel and independent auditor;
- participated in discussions with members of Abbott s senior management, as well as representatives of Abbott s financial advisor;
- reviewed and analyzed certain publicly available business and financial information relating to Abbott;
- attended joint due diligence sessions between TheraSense and Abbott;
- considered the historical stock prices and trading activity of TheraSense s common stock;

- considered publicly available financial and stock market data of selected publicly held companies;
- considered, to the extent publicly available, the financial terms of certain other recent merger and acquisition transactions; and
- considered other information, financial studies and analyses and investigations and financial, economic and market criteria that Piper Jaffray deemed relevant for the purpose of rendering its opinion.

Piper Jaffray relied upon and assumed the accuracy, completeness and fairness of the financial and other information provided to it by us or otherwise made available to it, and did not attempt to, or assume the

**Table of Contents**

responsibility to, independently verify this information. Piper Jaffray also assumed, in reliance upon the assurances of our management, that the information provided to Piper Jaffray by us was prepared on a reasonable basis in accordance with industry practice and, with respect to financial planning data and other business outlook information, reflected the best currently available estimates and judgments of our management as to our expected future financial performance, and that our management was not aware of any information or facts that would make the information provided to Piper Jaffray incomplete or misleading. Piper Jaffray assumed that we were not a party to any pending transaction, including external financing, recapitalizations, acquisitions or merger discussions, other than the proposed merger or in the ordinary course of business. Piper Jaffray assumed that all necessary regulatory approvals and consents required for the proposed merger would be attained in a manner that would not change the purchase price to be paid for TheraSense in the merger, and that the merger would be completed on substantially the terms set forth in the draft merger agreement dated January 9, 2004, reviewed by Piper Jaffray, without modification or waiver of material terms or conditions. In addition, Piper Jaffray assumed that there were no material changes in our assets, financial condition, results of operations, business or prospects since the date of the last financial statements made available to Piper Jaffray.

Piper Jaffray did not assume responsibility for performing, and did not perform, any appraisals or valuations of specific assets or liabilities of TheraSense and was not furnished with any appraisals or valuations, and made no physical inspection of the property or assets of TheraSense. Piper Jaffray s opinion was necessarily based on the information available to it, the facts and circumstances known by it on the date of the opinion and the economic, market or other conditions as they existed and were subject to evaluation as of the date of the opinion.

Piper Jaffray did not undertake any independent analysis of any outstanding, pending or threatened litigation, material claims or other contingent liabilities to which we or any of our affiliates is a party or may be subject. Piper Jaffray also did not undertake any independent analysis of any other governmental investigation or possible unasserted claims to which we or any of our affiliates is a party or may be subject. At the direction of our board of directors, and with its consent, Piper Jaffray s opinion made no assumption concerning, and therefore did not consider, the potential effects of litigation, claims, investigations, or possible assertions of claims, or the outcomes or damages arising out of any such matters.

In connection with its engagement, Piper Jaffray was requested to and did solicit indications of interest from, and hold discussions with, selected third parties regarding the possible acquisition of all or part of TheraSense. Piper Jaffray was not requested to opine as to, and the opinion does not address, the basic business decision to proceed with or effect the merger or the structure thereof, or the relative merits of the merger compared to any alternative business strategy or transaction in which TheraSense might engage.

The following is a summary of the material financial analyses performed by Piper Jaffray in connection with the preparation of its fairness opinion, which was reviewed with our board of directors at a meeting of the board held on January 12, 2004. The preparation of analyses and a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, this summary does not purport to be a complete description of the analyses performed by Piper Jaffray or of its presentation to our board of directors on January 12, 2004.

This summary includes information presented in tabular format, which tables must be read together with the text of each analysis summary, and considered as a whole, in order to fully understand the financial analyses presented by Piper Jaffray. The tables alone do not constitute a complete summary of the financial analyses. The order in which these analyses are presented below, and the results of those analyses, should not be taken as any indication of the relative importance or weight given to these analyses by Piper Jaffray or our board of directors. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before January 9, 2004, and is not necessarily indicative of current market conditions.

Table of Contents

**Summary of Proposal**

Piper Jaffray reviewed the financial terms of the proposed transaction, including the cash consideration per share and the aggregate transaction value. Based on 46.69 million fully diluted shares of TheraSense common stock outstanding as of January 12, 2004, and an offer price per share of $27.00, the transaction has an implied aggregate equity value of $1.26 billion and an aggregate enterprise value of $1.17 billion after subtracting approximately $88 million of net cash and marketable securities of TheraSense as of December 31, 2003. The enterprise value is the sum of the fully diluted market value of any common equity and the value of any preferred stock at liquidation value, plus any short-term and long-term debt, minus cash and cash equivalents.

**Selected Market and Financial Information Concerning TheraSense**

Piper Jaffray reviewed selected market information concerning TheraSense s common stock. Among other things, Piper Jaffray noted the following with respect to the trading of TheraSense s common stock:

| | |
|---|---|
| Market Price as of January 8, 2004 | $ 20.79 |
| 5-day prior close (January 5, 2004) | $ 20.14 |
| 20-day prior close (December 11, 2003) | $ 17.46 |
| 180-day trading average | $ 13.74 |
| 1-year trading average | $ 11.79 |
| 52 week (January 8, 2003 to January 8, 2004) | |
| High (January 8, 2004) | $ 20.79 |
| Low (January 27, 2003) | $ 5.75 |

Piper Jaffray presented additional daily stock price and volume performance data for TheraSense common stock for the twelve-month period from January 8, 2003, to January 8, 2004, and weekly price and volume performance data for TheraSense common stock for the time period from October 12, 2001, the date that TheraSense s common stock commenced trading following its initial public offering, to January 8, 2004.

Piper Jaffray s analysis concerning TheraSense common stock was based on information concerning TheraSense and its common stock available as of January 8, 2004. Piper Jaffray did not and does not express any opinion as to the actual value of TheraSense common stock on January 8, 2004, or the prices at which TheraSense common stock may trade following the announcement of the transaction or at any time in the future.

**Comparable Public Companies Analysis**

Piper Jaffray reviewed selected financial data and ratios for TheraSense s historical actual results and TheraSense management s forecast for 2004 and compared them to corresponding historical actual data or consensus Wall Street forecasts, where applicable, for publicly traded companies that are engaged primarily in the medical technology industry and which Piper Jaffray believes are similar to TheraSense s business. Piper Jaffray selected these companies based on information obtained by searching Securities and Exchange Commission filings, public company disclosures, press releases, industry and popular press reports, databases and other sources and by applying the following criteria:

- companies with medical technology Standard Industrial Classification codes;
- companies not in the business of selling capital equipment;
- companies with a market capitalization of between $200 million and $2 billion;
- companies with a 3-year compound annual growth rate greater than 25%;
- companies with expected 2003 revenue growth greater than 20%; and
- companies with revenue greater than $75 million during the last twelve months.

Based on these criteria, Piper Jaffray identified and analyzed eleven comparable companies: Advanced Neuromodulation Systems, Inc., Align Technologies, Inc., Biosite Diagnostics, Inc., The Cooper Companies, Inc., Cyberonics, Inc., Cytyc Corporation, Integra Lifesciences Holdings Corporation, Inverness Medical Innovations, Inc., Kyphon, Inc., Resmed Inc. and Wilson Greatbatch Technologies, Inc.

Table of Contents

The financial data compared as part of this analysis included, among other things:

| | Merger Consideration | Comparable Companies Multiples | | | |
|---|---|---|---|---|---|
| | | Low | Median | Mean | High |
| Enterprise value as a multiple of LTM revenue | 5.5x | 2.7x | 5.1x | 6.1x | 10.1x |
| Enterprise value as a multiple of 2003 revenue | 5.5x | 2.2x | 4.6x | 5.6x | 9.4x |
| Enterprise value as a multiple of 2004 revenue | 3.9x | 1.8x | 4.0x | 4.5x | 7.4x |
| Price-to-earnings ratio LTM | NM | 19.2x | 36.3x | 43.0x | 76.5x |
| Price-to-earnings ratio 2003 | NM | 18.5x | 34.8x | 38.5x | 73.5x |
| Price-to-earnings ratio 2004 | 41.2x | 15.7x | 27.5x | 40.8x | 93.4x |

Piper Jaffray, among other things, compared the enterprise value of each of the comparable companies to their respective aggregate revenue for the last consecutive twelve months, otherwise referred to as LTM , as disclosed in publicly available financial statements and to their respective revenues for the calendar years 2003 and 2004 (projected) in order to determine the ratio between enterprise value and revenue for each comparable company. Piper Jaffray also calculated the price-to-earnings ratio for each comparable company for the same periods. Because the Company s LTM and 2003 earnings were negative, the price-to-earnings ratio of the proposed TheraSense merger consideration is not meaningful and is therefore designated as NM in the table above. The implication of this analysis is that the higher the ratio of enterprise value to revenue or price-to-earnings ratio, as applicable, for a given company, the greater the implied value of the company. This analysis showed that, based on the estimates and assumptions used in the analysis, (i) when comparing enterprise value to LTM revenue from publicly available financial statements, the proposed TheraSense merger consideration implied a value that was within the range of values of the comparable companies, (ii) when comparing the enterprise value to revenue for the calendar year 2003, the proposed TheraSense merger consideration implied a value that was within the range of values of the comparable companies, (iii) when comparing the projected enterprise value to revenue for the calendar year 2004, the proposed TheraSense merger consideration implied a value that was within the range of values of the comparable companies and (iv) when comparing the projected price-to-earnings ratio for the calendar year 2004, the proposed TheraSense merger consideration implied a value that was within the range of values of the comparable companies.

**Comparable M&A Transactions Analysis**

Piper Jaffray reviewed selected financial data and ratios for TheraSense and TheraSense management s forecast for 2004 and compared them to corresponding historical actual data or consensus Wall Street forecasts, where applicable, from a group of seventeen selected merger and acquisition transactions with values greater than $500 million that were announced or completed in the last five years, or in the case of diabetes company transactions, after January 1, 1996, involving target companies operating in similar businesses and having Standard Industrial Classification code classifications similar to TheraSense s business. All of the comparable acquisitions analyzed involved: (i) targets which had aggregate revenues exceeding $100 million for the 12 consecutive months prior to the announcement, (ii) acquiring companies which acquired a controlling interest of the target and (iii) target companies which were not in the business of selling capital equipment products. Based on these criteria, the following transactions were deemed similar to the proposed transaction:

Synthes-Stratec s acquisition of Mathys Medical;

Zimmer Holdings, Inc. s acquisition of Centerpulse;

Roche Holdings AG s acquisition of Disetronic Holdings AG;

Medtronic, Inc. s acquisition of Minimed;

Johnson & Johnson s acquisition of Inverness Medical Innovations, Inc. s diabetes business;

Novartis s acquisition of Wesley Jessen;

Medtronic, Inc. s acquisition of Xomed Surgical Products;

Table of Contents

Kimberly-Clark s acquisition of Ballard Medical Products;

Medtronic, Inc. s acquisition of Arterial Vascular Engineering, Inc.;

Medtronic, Inc. s acquisition of Sofamor Danek;

Guidant s acquisition of Intermedics, Inc.;

Stryker Corporation s acquisition of Howmedica Osteonics;

Johnson & Johnson s acquisition of DePuy, Inc.;

Arterial Vascular Engineering, Inc. s acquisition of C.R. Bard, Inc. s coronary catheter business;

Boston Scientific Corporation s acquisition of Schneider Worldwide;

Tyco International Ltd s acquisition of U. S. Surgical; and

Abbott Laboratories acquisition of MediSense.

Piper Jaffray calculated the ratio of enterprise value to LTM revenue and enterprise value to projected revenue for the twelve consecutive months following each transaction, or the forward period, as well as equity value to LTM net income and equity value to projected net income for the forward period of the targets in each transaction and compared the results of these calculations with the calculations for the proposed transaction. This analysis indicated the following multiples:

| | | Comparable Transaction Multiples | | | |
|---|---|---|---|---|---|
| | **Merger Consideration** | **Low** | **Median** | **Mean** | **High** |
| Enterprise value as a multiple of LTM revenue | 5.5x | 2.0x | 4.9x | 5.4x | 10.1x |
| Equity value as a multiple of LTM net income | NM | 18.0x | 29.4x | 38.3x | 95.0x |
| Enterprise value as a multiple of forward period revenue | 3.9x | 1.7x | 4.0x | 4.4x | 8.3x |
| Equity value as a multiple of forward period net income | 41.2x | 18.3x | 24.6x | 30.3x | 63.0x |

The analysis showed that, based on the estimates and assumptions used in the analysis, (i) the enterprise value implied by the proposed TheraSense merger consideration as a multiple of LTM revenue was within the range of multiples of the comparable transactions, (ii) the enterprise value implied by the proposed TheraSense merger consideration as a multiple of projected calendar year 2004 revenue was within the range of forward period multiples for the comparable transactions and (iii) the equity value implied by the proposed TheraSense merger consideration as a multiple of projected calendar year 2004 net income was within the range of forward period multiples for the comparable transactions.

**Premium Analysis**

Piper Jaffray compared the premium of the implied price per share of the merger consideration over the last sale price of the common stock of TheraSense one week and one month prior to January 12, 2004 to similar premiums for 70 comparable medical technology transactions with enterprise values of greater than $100 million since January 1, 1995. Piper Jaffray observed that these premiums were as follows:

| | | Comparable Premium (Discount) | | | |
|---|---|---|---|---|---|
| | Merger Consideration | Low | Median | Mean | High |
| 1-week premium (January 5, 2004 $20.14) | 34.1% | (10.3)% | 28.0% | 33.9% | 91.5% |
| 4-week premium (December 11, 2003 $17.46) | 54.6% | (9.3)% | 39.5% | 43.7% | 114.1% |

The analysis showed that the premium of the implied price per share of the proposed TheraSense merger consideration over the last sale price of the common stock of TheraSense as of January 5, 2004 and December 11, 2003 are both within the range of the premiums for the comparable transactions.

Table of Contents

**Discounted Cash Flow Analysis**

Using a discounted cash flow analysis, Piper Jaffray calculated a range of theoretical per share values for TheraSense based on (1) the net present value of implied annual cash flows of TheraSense s business and (2) the net present value of a terminal value, which is an estimate of the future value of TheraSense s business at the end of the calendar year 2008 based upon a multiple of earnings before interest and taxes, or EBIT. Piper Jaffray used internal projected financial planning data prepared by management of TheraSense for the period from calendar year 2004 through calendar year 2008. Piper Jaffray calculated the range of net present values for TheraSense based on a range of discount rates of 30% to 35% (reflecting the uncertainties related to TheraSense s projections for periods after fiscal 2005) and a range of EBIT multiples for a terminal value of 10.0x to 14.0x applied to the projected fiscal year 2008 EBIT. This analysis yielded a range of estimated equity present values for TheraSense of between $24.22 per share and $36.39 per share.

**Miscellaneous**

Although the summary set forth above does not purport to be a complete description of the analyses performed by Piper Jaffray, the material analyses performed by Piper Jaffray in rendering its opinion have been summarized above. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Piper Jaffray believes that its analyses and the summary set forth above must be considered as a whole and that selecting portions of its analyses or of the summary, without considering the analyses as a whole or all of the factors included in its analyses, would create an incomplete view of the processes underlying the analyses set forth in the Piper Jaffray opinion. In arriving at its opinion, Piper Jaffray considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Instead, Piper Jaffray made its determination as to the fairness on the basis of its experience and financial judgment after considering the results of all of its analyses. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that this analysis was given greater weight than any other analysis. No company or transaction used in the above analyses as a comparison is directly comparable to TheraSense or the proposed merger.

The analyses were prepared solely for purposes of Piper Jaffray providing its opinion to our board of directors that the consideration to be paid to our stockholders pursuant to the merger agreement was fair, from a financial point of view, to our stockholders as of January 12, 2004. These analyses do not purport to be appraisals or to reflect the prices at which TheraSense might actually be sold or the prices at which any securities may trade at the present time or at any time in the future. In performing its analyses, Piper Jaffray made numerous assumptions with respect to industry performance, general business and economic conditions and other matters. The analyses performed by Piper Jaffray are based upon TheraSense management s forecasts of future results, which are not necessarily indicative of actual values or actual future results and may be significantly more or less favorable than suggested by these analyses. These analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors. Piper Jaffray does not assume responsibility if future results are materially different from those forecasted.

As described above, Piper Jaffray s opinion to our board of directors was one of many factors taken into consideration by our board of directors in making its determination to approve the merger agreement. The above summary does not purport to be a complete description of the analyses performed by Piper Jaffray in connection with the opinion and is qualified by reference to the written opinion of Piper Jaffray set forth in Annex C.

Piper Jaffray is a nationally recognized investment banking firm and is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, underwritings and secondary distributions of securities, private placements and valuations for estate, corporate and other purposes. Our board of directors selected Piper Jaffray to render its fairness opinion in connection with the proposed merger on the basis of its experience and reputation in valuing securities in connection with mergers and acquisitions. Piper Jaffray currently makes a market in the common stock of TheraSense and Abbott. It has also from time to time provided research coverage and made recommendations on the common stock of TheraSense and Abbott. In

Table of Contents

addition, Piper Jaffray has performed certain investment banking services for TheraSense and Abbott from time to time, including acting as an underwriter in the October 2001 initial public offering of TheraSense s common stock, and may provide certain investment banking services to Abbott or TheraSense in the future. Piper Jaffray has received customary fees for these services. Piper Jaffray in the ordinary course of its business may actively trade securities of TheraSense and Abbott Laboratories for its own account or the accounts of its customers and, accordingly, may at any time hold long or short positions in these securities.

Piper Jaffray was retained by means of an engagement letter dated November 19, 2003 to serve as our financial advisor. Under the terms of this engagement letter, we have agreed to pay Piper Jaffray a $100,000 retainer fee and a $750,000 fee for providing its opinion, each of which is not contingent upon consummation of the proposed merger. We have also agreed to pay Piper Jaffray an additional fee equal to 0.8% of the aggregate value of the proposed transaction in the event that the merger is consummated, against which amount the $100,000 retainer fee and $750,000 opinion fee will be credited. Whether or not the proposed merger is consummated, we have also agreed to reimburse Piper Jaffray for its reasonable out-of-pocket expenses and to indemnify it against certain liabilities relating to or arising out of services performed by Piper Jaffray in rendering its opinion to our board of directors.

***Financial Projections***

In connection with Abbott s due diligence review and during the course of our negotiations with Abbott in connection with the proposed merger, we provided Abbott with our fiscal year 2004 budget, which is consistent with consensus Wall Street forecasts, and with internal projections of our future operating performance. These projections, which we do not ordinarily make available to the public, included the following forecasts of the Company s total revenue, gross profit, operating income, net income, and earnings per share, respectively (in thousands, except per share data): $303,607, $192,470, $45,616, $29,522 and $0.66 for fiscal year 2004; $455,648, $293,352, $60,680, $38,986 and $0.86 for fiscal year 2005; $820,330, $591,692, $179,761, $113,188 and $2.46 for fiscal year 2006; $1,109,456, $827,198, $274,625, $172,686 and $3.71 for fiscal year 2007; and $1,458,953, $1,106,811, $386,201, $241,863 and $5.15 for fiscal year 2008.

These projections are included in this proxy statement only because we made them available to Abbott, and both we and Abbott wish to make the same information available to our stockholders. The inclusion of the projections should not be interpreted as suggesting that Abbott considered the projections reliable or relied on the projections in evaluating the merger. The projections involve risks and are based upon a variety of assumptions relating to our business, industry performance, general business and economic conditions and other matters and are subject to significant uncertainties and contingencies, many of which are beyond our and Abbott s control. Projections of this nature are inherently imprecise, and there can be no assurances that they will be realized or that actual results will not differ significantly from those described above. We consider our projections with respect to periods after fiscal year 2005, in particular, to be speculative, especially insofar as they incorporate favorable assumptions regarding our current products and reflect revenues from a product that has not yet been approved for sale by the FDA. The projections should be read together with our financial statements that can be obtained from the Securities and Exchange Commission, as described in *Where You Can Find More Information* .

The projections were prepared by us for internal use only and were not prepared with a view to public disclosure or compliance with published guidelines of the Securities and Exchange Commission or the guidelines established by the American Institute of Certified Public Accountants regarding projections and forecasts. The projections were not intended to be a forecast of financial results and are not guarantees of performance. The projections do not purport to present operations in accordance with generally accepted accounting principles, and our independent auditors have not examined or compiled the projections.

Our projections are subjective in many respects and thus susceptible to interpretations and periodic revision based on actual experience and business developments. There can be no assurance that the assumptions made in preparing the projections will prove accurate. It is expected that there will be differences between actual and

Table of Contents

projected results, and actual results may be materially greater or less than those contained in the projections. None of us, Abbott, or any of our or their affiliates or representatives has made or makes any representation to any person regarding our ultimate performance compared to the information contained in the projections, and none of them has updated or otherwise revised or intends to update or otherwise revise the projections to reflect circumstances existing after the date when made or to reflect the occurrence of future events even in the event that any or all of the assumptions underlying the projections are shown to be in error.

***Stockholder Agreement***

As a condition to its entering into the merger agreement, Abbott required certain of our stockholders, including certain of our directors and executive officers, to enter into a stockholder agreement under which they have agreed, among other things:

- to vote in favor of approval and adoption of the merger agreement and related matters and against any frustrating transactions;
- to irrevocably grant and to appoint Abbott, merger sub and any individual designated by Abbott their proxy to vote their shares in favor of the approval and adoption of the merger agreement and related matters and against any frustrating transactions;
- not to sell, transfer or otherwise dispose of their shares of the Company s common stock or enter into any voting agreement with respect to such shares;
- not to and not to permit any representative to in any way solicit, initiate or facilitate any inquiries or efforts relating to any frustrating transaction, provide information with respect to the Company relating to a possible alternative acquisition or enter into any agreement with respect to any proposal for an alternative acquisition or other frustrating transaction; and
- not to take any other action that would in any way restrict, limit or interfere with the performance of the stockholder s obligations under the stockholder agreement.

The stockholder agreement provides that frustrating transactions means (i) any merger agreement or merger (other than the merger agreement among the Company, Abbott and merger sub and the merger contemplated thereby), consolidation, combination, sale of substantial assets, reorganization, recapitalization, dissolution, liquidation or winding up of or by the Company, (ii) any alternative acquisition proposal or (iii) any amendment of the Company s certificate of incorporation or by-laws or other proposal, action or transaction that would in any manner impede, frustrate, prevent or delay the consummation of the merger or the other transactions contemplated by the merger agreement or the stockholder agreement or change in any manner the voting rights of the holders of the Company s common stock.

The parties to the stockholder agreement include:

- W. Mark Lortz, Charles T. Liamos, Robert D. Brownell, Eve A. Connor, Timothy T. Goodnow and Lawrence W. Huffman, each of whom is an executive officer of the Company;
- Ross A. Jaffe, Robert R. Momsen, Richard P. Thompson and Rod F. Dammeyer, each of whom is a member of our board of directors;

certain partnerships and trusts associated with the foregoing individuals; and

certain venture capital funds associated with Messrs. Jaffe and Momsen.

The stockholder agreement terminates upon the earlier of the effective time of the merger and the termination of the merger agreement in accordance with its terms. As of the record date, the parties to the stockholder agreement held an aggregate of 6,256,163 shares of the Company s common stock, representing approximately 14.7% of the votes eligible to be cast at the special meeting. For additional information, see the complete copy of the stockholder agreement attached to this proxy statement as Annex B.

Table of Contents

***Amendment to the Rights Agreement***

The Company is a party to a Rights Agreement dated March 7, 2003 with ComputerShare Investor Services, which we refer to as the rights agreement. The rights agreement has the effect of making an acquisition of our Company prohibitively expensive for any potential acquiror not approved by our board of directors. As a condition to its entering into the merger agreement, Abbott required us to amend the rights agreement to render it inapplicable to the merger, the merger agreement, the stockholder agreement and other transactions contemplated by the merger agreement and the stockholder agreement. On January 12, 2004, we amended the rights agreement in accordance with the merger agreement.

***Material United States Federal Income Tax Consequences***

The following describes the material U.S. federal income tax consequences to holders of the Company s common stock whose shares are converted to cash in the merger, but does not purport to be a complete analysis of all potential tax considerations for all holders. This summary does not address the consequences of the merger under the tax laws of any state, local, or foreign jurisdiction and does not address tax considerations applicable to holders of stock options or restricted stock. In addition, this summary does not describe all of the tax consequences that may be relevant to particular classes of taxpayers, including persons who are not citizens or residents of the United States, who acquired their shares of the Company s common stock through the exercise of an employee stock option or otherwise as compensation, who hold their shares as part of a hedge, straddle or conversion transaction, whose shares are not held as a capital asset for tax purposes or who are otherwise subject to special tax treatment under the Code.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. Any such change could alter the tax consequences to you as described herein.

The receipt of cash for the Company s common stock pursuant to the merger will be a taxable transaction for federal income tax purposes. In general, if you receive cash in exchange for your shares of the Company s common stock pursuant to the merger, you will recognize capital gain or loss equal to the difference between the cash received and your adjusted tax basis in the shares surrendered. Such gain or loss will be long-term capital gain or loss if your holding period for such shares is more than one year at the time of the consummation of the merger.

You may be subject to backup withholding tax at a 28% rate on the receipt of cash pursuant to the merger. In general, backup withholding will only apply if you fail to furnish a correct taxpayer identification number, or otherwise fail to comply with applicable backup withholding rules and certification requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowable as a refund or credit against your U.S. federal income tax liability provided you furnish the required information to the Internal Revenue Service.

**THE FOREGOING TAX DISCUSSION IS INCLUDED FOR GENERAL INFORMATION ONLY AND IS BASED UPON PRESENT LAW. DUE TO THE INDIVIDUAL NATURE OF TAX CONSEQUENCES, YOU SHOULD CONSULT YOUR OWN TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES OF THE MERGER TO YOU, INCLUDING THE EFFECT OF APPLICABLE STATE, LOCAL, AND OTHER TAX LAWS.**

***Required Regulatory Approvals and Other Matters***

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the **HSR Act** ), and the rules promulgated thereunder, Abbott and the Company cannot complete the merger until they notify and furnish information to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice, and specified waiting period requirements are satisfied. Abbott and the Company filed notification and report forms

**Table of Contents**

under the HSR Act with the Federal Trade Commission and the Antitrust Division on January 23, 2004, and the waiting period expired on February 23.

In addition to filings and the expiration or termination of the waiting period under the HSR Act, Abbott and the Company also cannot complete the merger until all applicable waiting periods, and any extensions thereof, have expired or terminated under the pre-merger notification requirements in Germany and Ireland or, to the extent applicable, any necessary approvals under such notification requirements have been obtained. Abbott and the Company filed notification and report forms in Germany and Ireland on January 15 and January 26, 2004, respectively. The merger was approved by the German and Irish authorities on January 29 and February 26, respectively.

While the Company believes that these regulatory approvals have been satisfied by the expiration of the applicable waiting periods, at any time before or after completion of the merger, the Federal Trade Commission, the Antitrust Division or others could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the consummation of the merger or seeking divestiture of substantial assets of Abbott or the Company. Private parties may also bring actions under the antitrust laws under certain circumstances.

Under the merger agreement, both we and Abbott have each agreed to use commercially reasonable efforts to take all actions to obtain all necessary regulatory and governmental approvals necessary to complete the merger. However, we may not commit to any divestitures, licenses, hold separate arrangements or similar matters without Abbott s prior written consent, and Abbott is not required to agree to any divestitures, licenses, hold separate arrangements or similar matters, either with respect to itself or with respect to the Company.

***Litigation Relating to the Merger***

On February 9, 2004, a purported stockholder class action lawsuit was filed in Alameda County Superior Court against the Company, its directors, certain of its officers and 25 unnamed Doe defendants. The lawsuit, Alaska U.F.C.W. Pension Trust v. TheraSense, Inc., et al. (Case No. RG04140525), alleges that the defendants breached their fiduciary duties to the Company s stockholders in connection with the merger by failing to institute procedures to maximize stockholder value and by advancing their individual interests at the expense of the Company s stockholders. The complaint also alleges that the Company s directors breached their fiduciary duties to act reasonably and establish a level playing field for all potential bidders for the Company. The complaint seeks certain declaratory and injunctive relief, including: (1) a declaration that the lawsuit is properly maintainable as a class action; (2) a declaration and decree that the merger agreement was entered into in breach of the defendants fiduciary duties and that it is therefore unlawful and unenforceable; (3) an injunction prohibiting the Company and the other defendants from proceeding with any merger until the Company s Rights Agreement is revoked; (4) an injunction prohibiting the Company and the other defendants from consummating the merger or a business combination with any third party unless a procedure or process is adopted to protect the interests of the Company s stockholders; (5) an order directing the individual defendants to exercise their fiduciary duties to obtain a transaction in the best interests of the Company s stockholders; (6) an award of costs and disbursements, including attorneys and experts fees; and (7) such other equitable relief as the court may deem appropriate.

The time for the defendants to respond to the complaint has not yet expired and, to date, no motions have been filed by any of the parties in this lawsuit. The plaintiff has served discovery requests on certain of the defendants and a third party. The Company believes that this lawsuit is without merit and intends to defend against it vigorously.

Table of Contents

## THE MERGER AGREEMENT

The following is a summary of the material terms of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, which is attached to this proxy statement as Annex A and incorporated by reference in this section of the proxy statement. We urge you to read carefully the full text of the merger agreement.

### *General*

The merger agreement provides that, following its approval and adoption by our stockholders and the satisfaction or waiver of the other conditions to the merger, merger sub will be merged with and into TheraSense, and the surviving corporation will be a wholly-owned subsidiary of Abbott. The effective time of the merger will occur following the satisfaction or waiver of these conditions upon the filing of a certificate of merger with the Secretary of State of the State of Delaware, or at such other time as we and Abbott may agree should be specified in the certificate of merger.

The merger agreement also provides that the directors of merger sub immediately prior to the effective time will be the directors of the surviving corporation, until the earlier of their resignation or removal or until their respective successors are duly elected and qualified. Our officers immediately prior to the effective time will be the officers of the surviving corporation, until the earlier of their resignation or removal or until their respective successors are duly elected and qualified.

### *Consideration to be Received by Our Stockholders*

At the effective time of the merger, each issued and outstanding share of our common stock will be converted into the right to receive $27.00 in cash, without interest, except for shares held by us, Abbott or any of our respective subsidiaries or shares held by stockholders properly exercising dissenters rights. As a result, after the merger is completed, our stockholders will have only the right to receive this consideration, and will no longer have any rights as our stockholders, including voting or other rights with respect to the shares. Shares of common stock held as treasury stock or owned by TheraSense, Abbott or their respective subsidiaries will be cancelled at the effective time of the merger.

Dissenting shares for which a stockholder has properly exercised dissenters rights will not be converted into a right to receive the merger consideration, but will instead entitle their holders to receive such consideration as shall be determined pursuant to the Delaware General Corporation Law. However, if after the effective time a holder of dissenting shares fails to perfect or withdraws or loses its right to appraisal, such shares will be treated as if they had converted as of the effective time into a right to receive the merger consideration, without interest, and will no longer be dissenting shares.

### *Exchange of Certificates*

Prior to the effective time, Abbott will select a paying agent reasonably acceptable to TheraSense for the payment of the merger consideration upon surrender of certificates representing our common stock. As soon as reasonably practicable after the effective time, the paying agent will mail to each former holder of record of our common stock a letter of transmittal and instructions on how to exchange stock certificates for payment of the merger consideration. Upon surrender of a certificate to the paying agent for cancellation, together with the letter of transmittal and such other documents as may reasonably be required by the paying agent, the holder of such certificate will be entitled to receive the merger consideration for each share of our common stock represented by such certificate, and the certificate will be cancelled. The paying agent, the surviving corporation and Abbott are entitled to deduct and withhold any applicable taxes from the merger consideration that would otherwise be payable.

If payment of the merger consideration is to be made to a person other than the person in whose name a surrendered certificate is registered, the certificate surrendered must be properly endorsed or otherwise in proper form for transfer and the person requesting such payment must have paid any transfer and other taxes required by

Table of Contents

reason of the payment of the merger consideration to a person other than the registered holder of the certificate surrendered, or must establish to the satisfaction of the surviving corporation that such tax either has been paid or is not required to be paid.

If your TheraSense stock certificates have been lost, stolen or destroyed, upon the making of an affidavit of that fact and, if required by the surviving corporation, posting a bond in such reasonable amount as indemnity against any claim with respect to your certificates, the paying agent will issue merger consideration in exchange for your lost, stolen or destroyed certificates.

***Representations and Warranties***

The merger agreement contains various representations and warranties with respect to us. The representations and warranties are subject, in some cases, to specified exceptions and qualifications. All of the representations and warranties will expire at the effective time of the merger. These representations and warranties relate to, among other things:

- our and our subsidiaries proper organization, good standing and corporate power to operate their businesses;
- our capitalization, including in particular the number of shares of our common stock and stock options outstanding;
- our corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;
- the unanimous approval by our board of directors of the merger agreement, the merger, the transactions under the stockholder agreement and related matters;
- the absence of any violation of or conflict with our organizational documents, applicable law or certain agreements as a result of entering into the merger agreement and consummating the merger;
- required consents and approvals of governmental entities as a result of the merger;
- the timely filing of appropriate documents with the Securities and Exchange Commission, the accuracy of the financial statements and other information contained in such documents and the absence of undisclosed liabilities;
- the accuracy and completeness of information supplied by us in this proxy statement;
- the absence of certain changes or events since September 30, 2003, including:
    - any conduct of our business not in the ordinary and usual course of business consistent with past practice;

any company material adverse effect;

any action that, if taken after the date of the merger agreement, would constitute a breach of certain covenants in the merger agreement; and

any capital expenditure or expenditures in excess of specified amounts;

the absence of litigation or outstanding court orders against us;

the significant contractual agreements to which we are a party;

our compliance with applicable laws, court orders and governmental permits;

employment and labor matters affecting us, including matters relating to the Employee Retirement Income Security Act and our employee benefit plans;

tax and environmental matters with respect to us;

- real property leased by us;
- our intellectual property;
- the required vote of our stockholders in connection with the approval and adoption of the merger agreement and the merger;
- the applicability of certain state anti-takeover statutes to the merger agreement, the merger and the stockholder agreement;
- the amendment of our rights agreement to render it inapplicable to the merger agreement, the stockholder agreement and the merger and any other transactions contemplated by such agreements;
- our tangible assets;
- the absence of undisclosed broker s fees;
- our receipt of Piper Jaffray s fairness opinion;
- our compliance with regulatory requirements and approvals that apply to our products;
- our insurance policies; and
- the absence of certain transactions with our affiliates.

The merger agreement also contains representations and warranties by Abbott and merger sub relating to, among other things:

- their proper organization, good standing and corporate power to operate their businesses;
- their corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;
- the absence of any violation of or conflict with their organizational documents, applicable law or certain agreements as a result of entering into the merger agreement and consummating the merger;
- required consents and approvals of governmental entities as a result of the merger;
- the accuracy and completeness of information they have supplied for inclusion in this proxy statement;

- the absence of undisclosed broker s fees;
- the operations of merger sub; and
- the sufficiency of available funds to pay the merger consideration and to consummate the other transactions contemplated by the merger agreement.

***Covenants Relating to the Conduct of Our Business***

Under the merger agreement, we have agreed that, subject to certain exceptions, between January 12, 2004 and the completion of the merger we and our subsidiaries will conduct our business in all material respects in the usual, regular and ordinary course consistent with past practice. We have also agreed that during the same time period, and again subject to certain exceptions, we and our subsidiaries will not:

- declare, set aside or pay any dividends on, or make any other distributions in respect of, any capital stock, other than dividends and distributions by a direct or indirect wholly-owned subsidiary to its parent;
- split, combine or reclassify any capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock;
- purchase, redeem or otherwise acquire any shares of our capital stock or of our subsidiaries capital stock or any other securities thereof or any rights, warrants or options to acquire any such shares or other securities;

adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or reorganization (other than the merger);

issue, deliver, sell, grant or encumber:

any shares of our or our subsidiaries capital stock;

any voting debt or other voting securities;

any securities convertible into or exchangeable for, or any options, warrants or rights to acquire, any such shares, voting securities or convertible or exchangeable securities; or

any phantom stock, phantom stock rights, stock appreciation rights or stock-based performance units;

amend our certificate of incorporation, by-laws or other comparable charter or organizational documents;

acquire or agree to acquire any business or a substantial portion of its assets;

sell, lease, sublease, license, mortgage, sell and leaseback or otherwise encumber or permit to be subject to any lien or otherwise dispose of any of our or our subsidiaries properties or assets;

incur any indebtedness for borrowed money or guarantee any such indebtedness of another person, issue or sell any debt securities or warrants or other rights to acquire any of our or our subsidiaries debt securities, guarantee any debt securities of another person, enter into any keep well or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing;

make any loans, advances or capital contributions to, or investments in, any other person;

make or agree to make any new capital expenditures in excess of specified amounts;

discharge, settle, assign or satisfy any claims in excess of $200,000 individually or $1,000,000 in the aggregate, or cancel any material indebtedness;

modify, amend or terminate any significant contractual agreements or agreements relating to material intellectual property rights to which we or any of our subsidiaries is a party or waive, release or assign any material rights or claims thereunder;

enter into any new, or extend any of our existing, significant contractual agreements;

enter into or extend any contracts, agreements, arrangements or understandings relating to the distribution, right to sell, license or co-promotion by or with third parties of our products;

transfer, assign, terminate, cancel, abandon or modify certain regulatory approvals of our products or fail to maintain any such approvals as currently in effect;

fail to use all commercially reasonable efforts to maintain all of our insurance policies or to prevent the lapse of any such policies;

except as required to comply with applicable law:

- grant to any officer, director or employee any increase in compensation, fringe benefits or other terms or conditions of employment, other than in connection with periodic increases to employee compensation and promotions conducted in the ordinary course of business and consistent with past practice;

- grant to any present or former employee, officer, director, agent or consultant any increase in severance or termination pay;

- enter into or amend any employment, consulting, indemnification, change-in-control, severance or existing termination agreement with any present or former employee, officer, director, agent or co