

HEMOSENSE INC
Form DEF 14A
January 27, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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HEMOSENSE, INC.

(Name of Registrant as Specified In Its Charter)

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

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(4) Date Filed:

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**NOTICE OF
2006 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MARCH 16, 2006**

To our Stockholders:

You are cordially invited to attend the 2006 Annual Meeting of Stockholders of HemoSense, Inc. (the *Company*). The meeting will be held the offices of Wilson Sonsini Goodrich & Rosati, PC located on 650 Page Mill Road, Palo Alto, California 94301, on Wednesday, March 16, 2006, for the following purposes:

1. To elect two Class I directors to each serve for a three-year term that expires at the 2009 Annual Meeting of Stockholders and until their successors have been duly elected and qualified;
2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2006; and
3. To transact such other business as may properly come before the Annual Meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice.

The meeting will begin promptly at 12:00 p.m., local time, and check-in will begin at 11:30 a.m., local time. Only holders of record of shares of our common stock (AMEX: HEM) at the close of business on February 8, 2006 will be entitled to notice of, and to vote at, the meeting and any postponements or adjournments of the meeting.

For a period of at least 10 days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be available and open to the examination of any stockholder for any purpose relating to the Annual Meeting during normal business hours at our principal executive offices located at 651 River Oaks Parkway, San Jose, California 95134.

By order of the Board of Directors,

/s/ JAMES D. MERSELIS
James D. Merselis

President and Chief Executive Officer

San Jose, California

January 27, 2006

YOUR VOTE IS IMPORTANT!

REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY VOTE BY TELEPHONE OR COMPLETE, SIGN, DATE, AND RETURN THE ENCLOSED PROXY CARD IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE. NO ADDITIONAL POSTAGE IS NECESSARY IF THE PROXY IS MAILED IN THE UNITED STATES OR CANADA. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED AT THE MEETING.

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PROXY STATEMENT
FOR
2006 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MARCH 16, 2006

The Board of Directors of HemoSense, Inc., a Delaware corporation, is soliciting the enclosed proxy from you. The proxy will be used at our 2006 Annual Meeting of Stockholders to be held on Wednesday, March 16, 2006, beginning at 12:00 p.m., local time, at the offices of Wilson Sonsini Goodrich & Rosati, PC located on 650 Page Mill Road, Palo Alto, California 94301, and at any postponements or adjournments thereof. This proxy statement contains important information regarding the meeting. Specifically, it identifies the matters upon which you are being asked to vote, provides information that you may find useful in determining how to vote and describes the voting procedures.

In this proxy statement: the terms *we*, *our*, *HemoSense* and the *Company* each refer to HemoSense, Inc.; the term *Board* means our Board of Directors; the term *proxy materials* means this proxy statement, the enclosed proxy card and our Annual Report on Form 10-K for the year ended September 30, 2005, filed with the U.S. Securities and Exchange Commission on December 2, 2005; and the term *Annual Meeting* means our 2006 Annual Meeting of Stockholders.

We are sending these proxy materials on or about February 15, 2006, to all stockholders of record at the close of business on February 8, 2006 (the *Record Date*).

QUESTIONS AND ANSWERS REGARDING THIS SOLICITATION
AND VOTING AT THE ANNUAL MEETING

- Why am I receiving these proxy materials?*** You are receiving these proxy materials from us because you were a stockholder of record at the close of business on the Record Date (which was February 8, 2006). As a stockholder of record, you are invited to attend the meeting and are entitled to and requested to vote on the items of business described in this proxy statement.
- What is the purpose of the annual meeting?*** At our meeting, stockholders of record will vote upon the items of business outlined in the notice of meeting (on the cover page of this proxy statement), each of which is described more fully in this proxy statement. In addition, management will report on the performance of the Company and respond to questions from stockholders.
- Who is entitled to attend the meeting?*** You are entitled to attend the meeting *only* if you were a HemoSense stockholder (or joint holder) of record as of the close of business on February 8, 2006, or if you hold a valid proxy for the meeting. You should be prepared to present photo identification for admittance.

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Please also note that if you are not a stockholder of record but hold shares in *street name* (that is, through a broker or nominee), you will need to provide proof of beneficial ownership as of the Record Date, such as your most recent brokerage account statement, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership.

The meeting will begin promptly at 12:00 p.m., local time. Check-in will begin at 11:30 a.m., local time.

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<i>Who is entitled to vote at the meeting?</i>	<p>Only stockholders who owned our common stock at the close of business on the Record Date are entitled to notice of and to vote at the meeting, and at any postponements or adjournments thereof.</p> <p>As of the Record Date, a to-be-determined number of shares of our common stock were outstanding. Each outstanding share of our common stock entitles the holder to one vote on each matter considered at the meeting. Accordingly, there are xxxxxx maximum of votes that may be cast at the meeting.</p>
<i>How many shares must be present or represented to conduct business at the meeting (that is, what constitutes a quorum)?</i>	<p>The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of our common stock entitled to vote at the meeting will constitute a quorum. A quorum is required to conduct business at the meeting. The presence of the holders of our common stock representing at least xxxxxx votes will be required to establish a quorum at the meeting. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum.</p>
<i>What items of business will be voted on at the meeting?</i>	<p>The items of business scheduled to be voted on at the meeting are as follows:</p> <ol style="list-style-type: none">1. the election of two nominees to serve as Class I directors on our Board; and2. the ratification of the appointment of our independent registered public accounting firm for the 2006 fiscal year. <p>These proposals are described more fully below in this proxy statement. As of the date of this proxy statement, the only business that our Board intends to present or knows of that others will present at the meeting is as set forth in this proxy statement. If any other matter or matters are properly brought before the meeting, it is the intention of the persons who hold proxies to vote the shares they represent in accordance with their best judgment.</p>
<i>How does the Board recommend that I vote?</i>	<p>Our Board recommends that you vote your shares FOR each of the director nominees and FOR the ratification of our independent registered public accounting firm for the 2006 fiscal year.</p>
<i>What shares can I vote at the meeting?</i>	<p>You may vote all shares owned by you as of the Record Date, including (1) shares held directly in your name as the <i>stockholder of record</i>, and (2) shares held for you as the <i>beneficial owner</i> through a broker, trustee or other nominee such as a bank.</p>
<i>What is the difference between holding shares as a stockholder of record and as a beneficial owner?</i>	<p>Most HemoSense stockholders hold their shares through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.</p>

Stockholders of Record. If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, Inc., you are considered, with respect to those shares, the *stockholder of record*, and these proxy materials are being

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sent directly to you by us. As the *stockholder of record*, you have the right to grant your voting proxy directly to HemoSense or to vote in person at the meeting. We have enclosed a proxy card for you to use.

Beneficial Owner. If your shares are held in a brokerage account or by another nominee, you are considered the *beneficial owner* of shares held *in street name*, and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote and are also invited to attend the meeting. Please note that since a beneficial owner is not the *stockholder of record*, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares.

How can I vote my shares without attending the meeting? Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. Stockholders of record of our common stock may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed envelope. HemoSense stockholders who hold shares beneficially in street name may vote by mail by completing, signing and dating the voting instruction cards provided by the broker, trustee or nominee and mailing them in the accompanying pre-addressed envelope.

How can I vote my shares in person at the meeting? Shares held in your name as the stockholder of record may be voted in person at the meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares. ***Even if you plan to attend the meeting, we recommend that you also submit your proxy card or voting instructions as described above so that your vote will be counted if you later decide not to, or are unable to, attend the meeting.***

Can I change my vote? You may change your vote at any time prior to the vote at the meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to our Secretary prior to your shares being voted, or by attending the meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker, trustee or nominee giving you the right to vote your shares, by attending the meeting and voting in person.

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Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within HemoSense or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote, and (3) to facilitate a successful proxy solicitation. Occasionally, stockholders provide written comments on their proxy card, which are then forwarded to HemoSense management.

What vote is required to approve each item and how are votes counted?

The vote required to approve each item of business and the method for counting votes is set forth below:

Election of Directors. The two director nominees receiving the highest number of affirmative **FOR** votes at the meeting (a plurality of votes cast) will be elected to serve as Class I directors. You may vote either **FOR** or **WITHHOLD** your vote for the director nominees. A properly executed proxy marked **WITHHOLD** with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

Ratification of Independent Auditors. For the ratification of the appointment of our independent registered public accounting firm, the affirmative **FOR** vote of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. You may vote **FOR**, **AGAINST** or **ABSTAIN** for these items of business. If you **ABSTAIN**, your abstention has the same effect as a vote **AGAINST**.

If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of the Board (**FOR** all of the Company's nominees to the Board and **FOR** ratification of the independent registered public accounting firm, and in the discretion of the proxy holders on any other matters that properly come before the meeting).

What is a broker non-vote ?

Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, who are the beneficial owners of the shares, brokers have the discretion to vote such shares on routine matters. The election of directors and the ratification of the appointment of an independent registered public accounting firm are considered routine matters. Therefore, if you do not otherwise instruct your broker, the broker may turn in a proxy card voting your shares **FOR** all of the Company's nominees to the Board and **FOR** ratification of the independent registered public accounting firm. A *broker non-vote* occurs when a broker expressly instructs on a proxy card that it is not voting on a matter, whether routine or non-routine.

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<i>How are broker non-votes counted?</i>	Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum for the transaction of business, but they will <i>not</i> be counted in tabulating the voting result for any particular proposal.
<i>How are abstentions counted?</i>	If you return a proxy card that indicates an abstention from voting on all matters, the shares represented will be counted for the purpose of determining both the presence of a quorum and the total number of votes cast with respect to a proposal (other than the election of directors), but they will not be voted on any matter at the meeting. In the absence of controlling precedent to the contrary, we intend to treat abstentions in this manner. Accordingly, abstentions will have the same effect as a vote <i>AGAINST</i> a proposal.
<i>What happens if additional matters are presented at the meeting?</i>	Other than the two proposals described in this proxy statement, we are not aware of any other business to be acted upon at the meeting. If you grant a proxy, the persons named as proxy holders, James D. Merselis (our President and Chief Executive Officer) and Paul Balsara (our Vice President, Finance and Chief Financial Officer), will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If, for any unforeseen reason, any of our nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by our Board.
<i>Who will serve as inspector of election?</i>	We expect a representative of Computershare Trust Company, Inc., our transfer agent, to tabulate the votes and act as inspector of election at the meeting.
<i>What should I do in the event that I receive more than one set of proxy/voting materials?</i>	You may receive more than one set of these proxy solicitation materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. In addition, if you are a stockholder of record and your shares are registered in more than one name, you may receive more than one proxy card. Please complete, sign, date and return each HemoSense proxy card and voting instruction card that you receive to ensure that all your shares are voted.
<i>Who is soliciting my vote and who will bear the costs of this solicitation?</i>	Your vote is being solicited on behalf of the Board, and the Company will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, by electronic mail or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners. We may also engage the services of a professional proxy solicitation firm to aid in the solicitation of proxies from certain brokers, bank

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nominees and other institutional owners. Our costs for such services, if retained, will not be material.

Where can I find the voting results of the meeting?

We intend to announce preliminary voting results at the meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of fiscal 2006.

What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?

As a stockholder, you may be entitled to present proposals for action at a future meeting of stockholders, including director nominations.

Stockholder Proposals: For a stockholder proposal to be considered for inclusion in the HemoSense proxy statement for the annual meeting to be held in 2007, the written proposal must be received by the Secretary of HemoSense at our principal executive offices no later than November 15, 2006, or 120 days prior to the mailing date of the HemoSense proxy statement. If the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's annual meeting, the deadline for inclusion of proposals in the HemoSense proxy statement is instead a reasonable time before HemoSense begins to print and mail its proxy materials. Such proposals also must comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the *Exchange Act*), and any other applicable rules established by the U.S. Securities and Exchange Commission (the *SEC*). Proposals should be addressed to:

Secretary

HemoSense, Inc.

651 River Oaks Parkway

San Jose, California 95134

Nomination of Director Candidates: You may propose director candidates for consideration by our Board. Any such recommendations should include the nominee's name and qualifications for Board membership and should be directed to the Secretary of HemoSense at the address of our principal executive offices set forth above. In addition, our Bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by the Bylaws of HemoSense, as well as a statement by the nominee consenting to being named as a nominee and to serve as a director if elected. In addition, the stockholder must give timely notice to the Secretary of HemoSense in accordance with the provisions of our Bylaws, which require that the notice be received by the Secretary of HemoSense no later than October 18, 2006.

Copy of Bylaw Provisions: You may contact the Secretary of HemoSense at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

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The following table provides information relating to the beneficial ownership of our common stock as of the Record Date, by:

each stockholder known by us to own beneficially more than 5% of our common stock;

each of our executive officers named in the Summary Compensation Table on page 22 (our Chief Executive Officer and our four other most highly compensated executive officers);

each of our directors; and

all of our directors and executive officers as a group.

The number of shares beneficially owned by each entity, person, director or executive officer is determined in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the individual has the sole or shared voting power or investment power and any shares that the individual has the right to acquire within 60 days of January 15, 2006 (the most recent practicable date) through the exercise of any stock option or other right. The number and percentage of shares beneficially owned is computed on the basis of 11,132,502 shares of our common stock outstanding as of the January 15, 2006. The information in the following table regarding the beneficial owners of more than 5% of our common stock is based upon information supplied by principal stockholders or Schedules 13D and 13G filed with the SEC. Shares of our common stock that a person has the right to acquire within 60 days of January 15, 2006 are deemed outstanding for purposes of computing the percentage ownership of the person holding such rights, but are not deemed outstanding for purposes of computing the percentage ownership of any other person, except with respect to the percentage ownership of all directors and executive officers as a group. The address for those persons for which an address is not otherwise provided is c/o HemoSense, Inc., 651 River Oaks Parkway, San Jose, California 95134.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Outstanding</u>	<u>Warrants and Options Exercisable within 60 days</u>	<u>Approximate Percent Owned</u>
Entities affiliated with MPM Capital (1) 111 Huntington Ave., 31 st Floor Boston, MA 02199	3,537,359	42,225	32.2%
Vanguard V, L.P. (2) 1330 Post Oak Boulevard, Suite 1550 Houston, TX 77056	699,357	0	6.3%
W Capital Partners Ironworks, L.P. (3)	694,407	6,900	6.3%

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One East 52nd St., 5th Floor		
New York, NY 10022		
James D. Merselis	225,052	2.0%
Paul Balsara	80,292	*
Maria Navarro	48,938	*
Timothy Still	48,938	*
Richard P. Powers		
Edward F. Brennan, Ph.D.	32,678	*
Gregory M. Ayers, M.D. Ph.D.	68,142	*
Robert D. Ulrich, Ph.D.		
Kurt C. Wheeler		
<i>All directors and executive officers as a group (9 persons)</i>	504,040	4.5%

* Less than 1%.

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- (1) Includes 838,354 shares held by MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG, 262,825 shares held by MPM BioVentures II, L.P., 2,381,352 shares held by MPM BioVentures II-QP, L.P. and 54,828 shares held by MPM Asset Management Investors 2000 B LLC. MPM Asset Management II, LLC is the general partner of MPM Asset Management II, L.P., the general partner of MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG, MPM BioVentures II, L.P. and MPM BioVentures II-QP, L.P. Ansbert Gadicke, Michael Steinmetz, Luke Evnin, Nicholas Galakatos and Kurt Wheeler, as investment managers of MPM Asset Management II, LLC, the general partner of MPM Asset Management II, L.P., and MPM Asset Management Investors 2000 B LLC, share voting and investment power with respect to shares held by MPM BioVentures GmbH & Co. Parallel-Beteiligungs KG, MPM BioVentures II, L.P., MPM BioVentures II-QP, L.P. and MPM Asset Management Investors 2000 B LLC. Mr. Wheeler disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.
- (2) Includes 699,357 shares held by Vanguard V, L.P. Dr. Ulrich is a member of Vanguard V Venture Partners, LLC, the general partner of Vanguard V, L.P., and shares voting and investment power with respect to shares held by Vanguard V, L.P. with Jack M. Gill, Clifford H. Higgerson and Curtis K. Myers, the other members of Vanguard V Venture Partners, LLC. Dr. Ulrich disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.
- (3) WCP I, L.L.C. is the general partner of W Capital Partners Ironworks, L.P. David S. Wachter, Stephen Wertheimer and Robert J. Migliorino, as managing members of WCP I, L.L.C., share voting and investment power with respect to shares held by W Capital Partners Ironworks, L.P.

Compliance with Section 16(a) Filing Requirements

Section 16(a) of the Exchange Act requires our directors, officers and beneficial owners of more than 10% of our common stock to file reports of ownership and reports of changes in the ownership with the SEC. Such persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us, or written representations from reporting persons that, other than the Form 3 filing for Richard P. Powers, we believe that during our fiscal year ended September 30, 2005, all Forms 3, 4 or 5 were timely filed.

Table of Contents**CORPORATE GOVERNANCE AND BOARD MATTERS****Director Independence**

Our Board consists of six directors. The Company's directors are Gregory M. Ayers, M.D., Ph.D., Edward F. Brennan, Ph.D., James D. Merselis, Richard P. Powers, Robert D. Ulrich, Ph.D. and Kurt Wheeler. Our Board has determined that each of the directors other than James D. Merselis, the Company's President and Chief Executive Officer, Edward F. Brennan and Gregory Ayers satisfy the current independent director standards established by rules of the American Stock Exchange (Amex).

Committees of the Board

Our Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. From time to time, our Board may also create various ad hoc committees for special purposes. The membership during the last fiscal year and the function of each of the committees are described below.

<u>Name of Director</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Nominating and Governance Committee</u>
Non-Employee Directors:			
Gregory M. Ayers, M.D., Ph.D.			
Edward F. Brennan, Ph.D.	X	X	X
Richard P. Powers	X*		
Robert D. Ulrich, Ph.D.	X	X	X*
Kurt Wheeler		X*	
Employee Director:			
James D. Merselis			
<u>Number of Meetings Held During the Last Fiscal Year</u>	3	1	None

X = Committee member

* = Chairman of Committee

Audit Committee. The Audit Committee oversees the Company's accounting and financial reporting processes and the audits of its financial statements. In this role, the Audit Committee monitors and oversees the integrity of the Company's financial statements and related disclosures, the qualifications, independence, and performance of the Company's independent auditor, and the Company's compliance with applicable legal requirements and its business conduct policies. Our Board has determined that each member of the Audit Committee meets the independence and financial literacy requirements of the AMEX rules and the independence requirements of the SEC. Our Board has determined that Richard P. Powers continues to qualify as an audit committee financial expert, as defined in SEC rules. The Audit Committee has a written charter, which was adopted by our Board in March 2005. A copy of the charter is attached as **Appendix A** to this proxy statement. The report of the Audit Committee appears on page 13 of this proxy statement.

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Compensation Committee. The Compensation Committee, together with the Chief Executive Officer and the Board, establishes compensation for the other executive officers and administers the 2005 Equity Incentive Plan and 1997 Stock Plan. The Compensation Committee has a written charter, which was adopted by our Board in March 2005. The report of the Compensation Committee appears beginning on page 15 of this proxy statement.

Nominating and Governance Committee. The Nominating and Governance Committee advises the Company's management in fields related to current or future business directions of the Company, and regularly reviews issues and developments relating to corporate governance and formulating and recommending corporate governance standards to the Board of Directors. The Nominating and Governance Committee also approves all nominees for

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membership on the Board, including the slate of director nominees to be proposed by the Board to our stockholders for election or any director nominees to be elected or appointed by the Board to fill interim director vacancies on the Board. The Nominating and Governance Committee did not hold a meeting during fiscal 2005.

Meetings Attended by Directors

The Board held six meetings during fiscal 2005. Since our initial public offering in June 2005, the Audit Committee held three meetings, the Compensation Committee held one meeting, and the Nominating and Governance Committee held no meetings in fiscal 2005. No director attended fewer than 75% of the meetings of the Board or committee(s) on which he or she served during fiscal 2005, except Dr. Ayers with respect to his attendance at Audit Committee meetings during the period when he served on the Audit Committee.

The directors of the Company are encouraged to attend the Company's annual meeting of stockholders. The Company has not previously held an annual meeting of stockholders since it became subject to the Exchange Act.

Director Nominees

Nominations. The Nominating and Governance Committee has not established a formal procedure for considering nominees for director nominated by the Company's stockholders. The Board believes that our independent committee can identify appropriate candidates to our Board. Stockholders may nominate candidates for director in accordance with the advance notice and other procedures contained in our Bylaws.

Director Qualifications. While the Nominating and Governance Committee has not established formal procedures or specific minimum qualifications for director candidates, the candidates for Board membership should have the highest professional and personal ethics and values, and conduct themselves consistent with our Code of Ethics. Additionally, candidates and nominees must ultimately reflect a Board that is comprised of directors who (i) have broad and relevant experience, (ii) are predominantly independent, (iii) are of high integrity, (iv) have qualifications that will increase overall Board effectiveness and enhance long-term stockholder value, and (v) meet other requirements as may be required by applicable rules, such as financial literacy or financial expertise with respect to Audit Committee members.

Stockholder Nominations and Recommendations. As described above in the Question and Answer section of this proxy statement under "What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?", our Bylaws set forth the procedure for the proper submission of stockholder nominations for membership on our Board. In addition, while the Nominating and Governance Committee has not established a formal procedure for considering nominees for director nominated by the Company's stockholders, the Committee may consider properly submitted stockholder recommendations (as opposed to formal nominations) for candidates for membership on the Board. A stockholder may make such a recommendation by submitting the following information to our Secretary at 651 River Oaks Parkway, San Jose, California 95134: the candidate's name, home and business contact information, detailed biographical data, relevant qualifications, professional and personal references, information regarding any relationships between the candidate and HemoSense within the last three years and evidence of ownership of HemoSense stock by the recommending stockholder.

Identifying and Evaluating Director Nominees. Typically new candidates for nomination to the Board are suggested by existing directors or by our executive officers, although candidates may initially come to our attention through professional search firms, stockholders or other persons. The Nominating and Governance Committee of the Board shall carefully review the qualifications of any candidates who have been properly

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brought to its attention. Such a review may, in the Committee's discretion, include a review solely of information provided to the Committee or may also include discussion with persons familiar with the candidate, an interview with the candidate or other actions that the Committee deems proper. The Committee shall consider the suitability of each candidate, including the current members of the Board, in light of the current size and composition of the Board. In evaluating the qualifications of the candidates, the Nominating and Governance

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Committee considers many factors, including, issues of character, judgment, independence, age, expertise, diversity of experience, length of service, and other commitments. The Committee evaluates such factors, among others, and does not assign any particular weighting or priority to any of these factors. Candidates properly recommended by stockholders are evaluated by the Committee using the same criteria as other candidates.

Director Compensation

We reimburse our non-employee directors for their expenses incurred in connection with attending board and committee meetings and compensate them with an annual retainer amount and fees for participating as board or committee members. We have in the past granted non-employee directors options to purchase our common stock pursuant to the terms of our 1997 and 2005 Stock Plans, and our board continues to have the discretion to grant options to new and continuing non-employee directors.

Additionally, the 2005 Equity Incentive Plan provides that each director will automatically receive:

one-time option grants of 11,250 shares vesting annually over three years from the date of joining the board which are to be granted on such date at an exercise price equal to the fair market value of our common stock on the date of grant; and

annual option grants of 3,750 shares vested in full on the third anniversary of the date of grant which are to be granted on the date of each annual stockholder meeting following the closing of the Company's initial public offering on July 1, 2005 at an exercise price equal to the fair market value of our common stock on the date of grant, provided that such grant will only be made to non-employee directors that have been members of the board for at least six months at the time of such annual stockholder meeting.

Code of Ethics

HemoSense is committed to maintaining the highest standards of business conduct and ethics. Our Code of Ethics (the "Code") reflects our values and the business practices and principles of behavior that support this commitment. The Code satisfies SEC rules for a code of ethics required by Section 406 of the Sarbanes-Oxley Act of 2002, as well as the AMEX listing standards requirement for a code of conduct. The Code is available on the Company's website at www.HemoSense.com under Investors Corporate Governance Code of Ethics. We will post any amendment to the Code, as well as any waivers that are required to be disclosed by the rules of the SEC or AMEX, on our website.

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee nor any executive officer of HemoSense has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity. No Compensation Committee member is an officer or employee of HemoSense.

Certain Relationships and Related Transactions

In the Company's last fiscal year, there has not been nor is there currently proposed any transact