

TERCICA INC
Form PRER14A
September 11, 2008
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No. 2)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material Pursuant to §240.14a-12 | |

Tercica, 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:
Common Stock, par value \$0.001 per share, of Tercica, Inc.

2. Aggregate number of securities to which transaction applies:
38,642,729 shares of Tercica common stock outstanding and owned by stockholders other than shares held in treasury by Tercica and other than shares owned by members of the Purchaser Group (as defined in the merger agreement described in this proxy statement); 6,052,352 shares of Tercica common stock underlying options to purchase Tercica common stock with exercise prices below \$9.00; and 250,603 shares of Tercica

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common stock represented by outstanding Restricted Stock Units (as defined in the merger agreement described in this proxy statement).

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):

The filing fee was determined based upon the sum of (a) the product of 38,642,729 shares of Tercica common stock and the merger consideration of \$9.00 per share of Tercica common stock, (b) the product of options to purchase 6,052,352 shares of Tercica common stock and \$2.71 (which is the difference between \$9.00 and \$6.29, the weighted-average exercise price per share of the options to purchase Tercica common stock with an exercise price below \$9.00), and (c) the product of 250,603 shares of Tercica common stock, represented by outstanding Restricted Stock Units and the merger consideration of \$9.00 per share of Tercica common stock represented by such securities. In accordance with Section 14(g) of the Exchange Act, the filing fee was determined by calculating a fee of \$39.30 per \$1,000,000 of the aggregate value of the transaction.

4. Proposed maximum aggregate value of transaction:

\$366,441,862

5. Total fee paid:

\$14,402

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.

6. Amount Previously Paid:
-

7. Form, Schedule or Registration Statement No.:
-

8. Filing Party:

9. Date Filed:

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PRELIMINARY COPY SUBJECT TO COMPLETION

TERCICA, INC.

2000 Sierra Point Parkway

Suite 400

Brisbane, California 94005

(650) 624-4900

Dear Stockholder:

We cordially invite you to attend a special meeting of stockholders of Tercica, Inc. (Tercica , we , us or our) to be held at Tercica s offices located at 2000 Sierra Point Parkway, Brisbane, California 94005, at _____ a.m., local time, on _____, 2008 (the Special Meeting). Holders of record of Tercica common stock at the close of business on _____, 2008 will be entitled to vote at the Special Meeting or any adjournment of the Special Meeting.

At the Special Meeting, we will ask you to adopt the Agreement and Plan of Merger, dated as of June 4, 2008 (the merger agreement), by among Tercica, Beaufour Ipsen Pharma (the Purchaser) and Tribeca Acquisition Corporation, a wholly owned subsidiary of the Purchaser (Merger Sub). As a result of the merger contemplated by the merger agreement (the merger), Tercica will become a wholly owned subsidiary of the Purchaser and its affiliates. This is a going-private transaction for the purposes of the rules and regulations of the Securities and Exchange Commission. Certain affiliates of the Purchaser collectively hold an aggregate of approximately _____ % of Tercica s outstanding common stock as of _____, 2008, the record date for the Special Meeting.

We are also asking you to expressly grant the authority to vote your shares to adjourn the Special Meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to adopt the merger agreement.

If the merger is completed, you will be entitled to receive \$9.00 in cash, without interest, for each share of Tercica common stock that you own, and you will have no ongoing ownership interest in the continuing business of Tercica. We cannot complete the merger unless all of the conditions to closing are satisfied, including the adoption of the merger agreement by holders of a majority of the outstanding shares of Tercica common stock.

A special committee of our board of directors composed of three independent non-employee directors (the Special Committee) reviewed and considered the terms and conditions of the merger. Based on the recommendation of the Special Committee and on its own review, our board of directors has determined that the merger and the merger agreement are substantively and procedurally fair to, and in the best interests of, Tercica and its stockholders (other than the Purchaser and its affiliates), approved the execution, delivery and performance of obligations under the merger agreement, declared the merger agreement and the merger to be advisable and recommended that Tercica s stockholders vote to adopt the merger agreement.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR

THE ADOPTION OF THE MERGER AGREEMENT.

YOUR VOTE IS IMPORTANT.

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In the materials accompanying this letter, you will find a Notice of Special Meeting of Stockholders, a proxy statement relating to the actions to be taken by our stockholders at the Special Meeting and a proxy card. Included in the proxy statement is the opinion of the Special Committee's financial advisor, Lehman Brothers Inc., relating to the fairness, from a financial point of view, of the consideration to be received by the holders of Tercica common stock (other than the Purchaser and its affiliates) in the merger. The proxy statement includes other important information about the merger agreement and the merger. We encourage you to read the entire proxy statement (including its annexes) carefully.

All of our stockholders are cordially invited to attend the Special Meeting in person. Whether or not you plan to attend the Special Meeting, however, please complete, sign, date and return your proxy card in the enclosed envelope or appoint a proxy over the Internet or by telephone as instructed in these materials. It is important that your shares be represented and voted at the Special Meeting. If you attend the Special Meeting, you may vote in person as you wish, even though you have previously returned your proxy card or appointed a proxy over the Internet or by telephone.

On behalf of our board of directors, I thank you for your support and urge you to vote **FOR** the adoption of the merger agreement.

Sincerely,

Stephen N. Rosenfield

Secretary

Brisbane, California

, 2008

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PRELIMINARY COPY SUBJECT TO COMPLETION

TERCICA, INC.

2000 Sierra Point Parkway

Suite 400

Brisbane, California 94005

(650) 624-4900

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON _____, 2008

Dear Stockholder:

You are cordially invited to attend the Special Meeting of Stockholders of Tercica, Inc., a Delaware corporation ("Tercica", "we", "us" or "our"), that will be held at Tercica's offices located at 2000 Sierra Point Parkway, Brisbane, California 94005, at _____ a.m., local time, on _____, 2008 (the "Special Meeting"), for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of June 4, 2008 (the "merger agreement"), by among Tercica, Beaufour Ipsen Pharma (the "Purchaser") and Tribeca Acquisition Corporation, a wholly owned subsidiary of the Purchaser ("Merger Sub"); and
2. To consider and vote upon a proposal to approve the adjournment of the Special Meeting, if necessary, for the purpose of soliciting additional proxies to vote in favor of the adoption of the merger agreement.

A special committee of our board of directors composed of three independent non-employee directors (the "Special Committee") reviewed and considered the terms and conditions of the merger contemplated by the merger agreement (the "merger"). The Special Committee determined that the merger and the merger agreement are substantively and procedurally fair to, and in the best interests of, Tercica and its stockholders (other than the Purchaser and its affiliates), and unanimously recommended that our board of directors approve the merger agreement and the transactions contemplated thereby, including the merger, and that our board of directors recommend that Tercica's stockholders vote to adopt the merger agreement. Our board of directors then determined that the merger and the merger agreement are substantively and procedurally fair to, and in the best interests of, Tercica and its stockholders (other than the Purchaser and its affiliates), approved the execution, delivery and performance of obligations under the merger agreement, declared the merger agreement and the merger to be advisable and recommended that Tercica's stockholders vote to adopt the merger agreement. This item of business to be submitted to a vote of the stockholders at the Special Meeting is more fully described in the attached proxy statement, which we urge you to read carefully. Our board of directors also recommends that you expressly grant the authority to vote your shares to adjourn the Special Meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the Special Meeting to adopt the merger agreement. No other business may be transacted at the Special Meeting.

Stockholders of record at the close of business on _____, 2008, the record date, are entitled to notice of and to vote at the Special Meeting and any adjournment of the meeting. All stockholders are cordially invited to attend the Special Meeting in person. Adoption of the merger agreement will require the affirmative vote of the holders of a majority of the shares of Tercica common stock outstanding on the record date.

Tercica stockholders will have the right to demand appraisal of their shares of common stock and obtain payment in cash for the fair value of their shares of common stock, but only if they submit a written demand for an appraisal before the vote is taken on the merger agreement and comply with the applicable provisions of Delaware law. A copy of the Delaware statutory provisions relating to appraisal rights is attached as Annex C to the attached proxy statement, and a summary of these provisions can be found under "Special Factors Appraisal Rights" in the attached proxy statement.

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You should not send any certificates representing shares of Tercica common stock with your proxy card. Upon closing of the merger, you will be sent instructions regarding the procedure to exchange your stock certificates for the cash merger consideration.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR
THE ADOPTION OF THE MERGER AGREEMENT AND, IF NECESSARY, THE
ADJOURNMENT OF THE SPECIAL MEETING FOR THE PURPOSES OF SOLICITING
ADDITIONAL PROXIES TO VOTE IN FAVOR OF THE ADOPTION OF THE MERGER
AGREEMENT.**

YOUR VOTE IS IMPORTANT.

Your vote is very important, regardless of the number of shares you own. Even if you plan to attend the Special Meeting in person, we request that you complete, sign, date and return the enclosed proxy card, or appoint a proxy over the Internet by visiting the website <http://www.investorvote.com/TRCA> and following the voting instructions provided or by telephone from the United States, Canada or Puerto Rico, by dialing, toll free, 1-800-652-VOTE (8683) and following the recorded instructions, to ensure that your shares will be represented at the Special Meeting if you are unable to attend. If you do attend the Special Meeting and wish to vote in person, you may withdraw your proxy and vote in person. If your shares are held in the name of your broker, bank or other nominee, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote in person at the Special Meeting.

No person has been authorized to give any information or to make any representations other than those set forth in the proxy statement in connection with the solicitation of proxies made hereby, and, if given or made, such information must not be relied upon as having been authorized by Tercica or any other person.

By Order of the Board of Directors

Stephen N. Rosenfield

Secretary

Brisbane, California

, 2008

The proxy statement is dated _____, 2008, and is first being mailed to stockholders of Tercica on or about _____, 2008.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE TRANSACTION, PASSED UPON THE MERITS OR FAIRNESS OF SUCH TRANSACTION, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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SUMMARY TERM SHEET

This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. To fully understand the merger contemplated by the merger agreement, and for a more complete description of the legal terms of the merger agreement, you should read carefully this entire proxy statement, including the annexes. See **Other Matters Where You Can Find More Information** on page 106. We have included page references in parentheses to direct you to a more complete description of the topics presented in this summary. The merger agreement is attached as Annex A to this proxy statement. We encourage you to read the merger agreement as it is the legal document that governs the merger.

Tercica, Inc. (page 16)

Tercica is biopharmaceutical company developing and marketing a portfolio of endocrine products.

Ipsen, Suraypharm, Beaufour Ipsen Pharma and Tribeca Acquisition Corporation (page 16)

Ipsen, S.A. (Ipsen) is a *société anonyme* organized under the laws of France. Ipsen is engaged primarily in the business of creating, manufacturing and marketing pharmaceutical products. Suraypharm, S.A.S (Suraypharm), is a *société par actions simplifiée* organized under the laws of France and a wholly owned subsidiary of Ipsen and its subsidiaries. Suraypharm owns 12,527,245 shares of Tercica common stock which were issued in connection with Ipsen's prior investment in Tercica. Suraypharm is principally engaged in the business of creating, manufacturing and marketing pharmaceutical products. The Purchaser, Beaufour Ipsen Pharma, is a *société par actions simplifiée* organized under the laws of France and a subsidiary of Ipsen. The Purchaser is principally engaged in the business of creating, manufacturing and marketing pharmaceutical products. Merger Sub, Tribeca Acquisition Corporation, is a newly formed corporation organized under the laws of the State of Delaware and a wholly owned subsidiary of the Purchaser. Merger Sub has been organized by the Purchaser solely for the purpose of facilitating the merger and has not engaged in any business other than in furtherance of this purpose.

The Merger (page 72)

Under the merger agreement, Merger Sub will merge with and into Tercica. After the merger, the Purchaser and its affiliates will own all of our outstanding stock. Stockholders (other than the Purchaser and its affiliates and those stockholders not exercising appraisal rights) will receive cash in the merger in exchange for their shares of Tercica common stock.

Going-Private Transaction (page 16)

This is a going-private transaction for purposes of the rules and regulations of the Securities and Exchange Commission (the SEC). Certain affiliates of the Purchaser, including Ipsen, may vote up to an aggregate of 29,180,778 shares of Tercica common stock, or % of Tercica common stock outstanding as of the record date, and have agreed to vote such shares in favor of the adoption of the merger agreement. In addition, one of the members of our board of directors is an executive officer of Ipsen. Merger Sub is a wholly owned subsidiary of the Purchaser. If the merger is completed, Tercica will cease to be a publicly traded company. You will no longer have any interest in Tercica's future earnings or growth. Following completion of the merger, the registration of Tercica common stock and our reporting obligations with respect to our common stock under the Securities Exchange Act of 1934, as amended (the Exchange Act), will be terminated upon application to the SEC. In addition, upon completion of the merger, shares of our common stock will no longer be listed on any stock exchange or quotation system, including the NASDAQ Global Market.

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Merger Consideration (page 72)

Upon the completion of the merger, each share of Tercica common stock issued and outstanding immediately prior to the effective time of the merger (other than shares held by the Purchaser and its affiliates and shares held by holders who have validly exercised appraisal rights) will be converted into the right to receive \$9.00 in cash, without interest. Tercica and the Purchaser expect the aggregate merger consideration payable to Tercica's stockholders (other than shares held by the Purchaser and its affiliates) to be approximately \$366 million assuming that all vested options to purchase common stock with exercise prices below \$9.00 are not exercised prior to the effective time of the merger. After the merger is completed, unless you dissent and seek appraisal of the fair value of your shares in accordance with Delaware law, you will have the right to receive the merger consideration, but you will no longer have any rights as a Tercica stockholder.

Treatment of Stock Options, Restricted Stock Units and Purchase Rights (page 73)

All Tercica stock options that would be outstanding and unexercised as of immediately prior to the effective time of the merger will vest in full and be fully exercisable for a period of 15 days prior to the effective time, contingent upon completion of the merger. If such a stock option is not exercised within this time, then, contingent upon the completion of the merger, such stock option will expire at the end of the 15-day period and will be converted into a right to receive, at the effective time of the merger, an amount in cash equal to, for each share of Tercica common stock underlying such option, the excess (if any) of \$9.00 over the exercise price per share of such option, without interest and subject to any applicable withholding taxes.

All restricted stock units outstanding and not then vested as of immediately prior to the effective time of the merger will vest and become free of restrictions, and at the effective time of the merger, each holder will become entitled to receive, for each restricted stock unit, \$9.00 in cash, without interest, subject to any applicable withholding taxes.

Pursuant to the terms of the merger agreement, and contingent upon the consummation of the merger, Tercica's 2004 Employee Stock Purchase Plan (the "ESPP") will terminate immediately prior to the effective time of the merger. In accordance with the terms of the merger agreement, we have established, for the purchase periods in progress as of the date of the merger agreement, a new exercise date of July 17, 2008. All offering periods and purchase periods under the ESPP ended on this new exercise date. Subject to the consummation of the merger, no new offering periods or purchase periods will commence under the ESPP following the date of the merger agreement.

Market Price (page 92)

Our common stock is listed on the NASDAQ Global Market under the ticker symbol "TRCA". On June 4, 2008, the last full trading day prior to the public announcement of the merger, Tercica common stock closed at \$4.41 per share. On _____, 2008, the last full trading day prior to the date of this proxy statement, Tercica common stock closed at \$ _____ per share. Our stock price can fluctuate broadly even over short periods of time. It is impossible to predict the actual price of our stock immediately prior to the effective time of the merger.

Special Committee (page 36)

Formed by our board of directors, the Special Committee consists of three independent non-employee directors. The Special Committee was created to establish, monitor and direct the process and procedures related to the review, evaluation and negotiation of a possible transaction with Ipsen or any alternative transaction, solicit expressions of interest or other proposals for alternative transactions to the extent the Special Committee deemed appropriate, to determine the substantive and procedural fairness of a transaction on behalf of our board of directors, and to make reports and recommendations to our entire board of directors regarding any possible

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transaction, with the understanding that, with respect to each of its functions, the Special Committee was to act for the benefit of Tercica and those Tercica stockholders who may participate solely as sellers in possible transaction with Ipsen or any alternative transaction. Our board of directors also, among other things, authorized and empowered the Special Committee to utilize and retain legal and financial advisors as the Special Committee deemed necessary or appropriate. In this capacity, the Special Committee retained and received advice from Lehman Brothers Inc. (Lehman Brothers), as financial advisor, and Morris, Nichols, Arsht & Tunnell LLP, as legal advisor. To date, the members of the Special Committee have received an aggregate of \$71,500 in connection with the performance of their duties as members of the Special Committee. See Special Factors Past Contacts, Transactions, Negotiations and Agreements Background of the Merger beginning on page 26, Special Factors Reasons for the Merger of Tercica and Recommendation of the Special Committee and Board of Directors beginning on page 36 and Special Factors Interests of Our Directors and Executive Officers in the Merger beginning on page 56.

Position of Tercica as to the Fairness of the Merger (page 36)

The Special Committee unanimously determined that the merger and the merger agreement are substantively and procedurally fair to, and in the best interests of, Tercica and its stockholders (other than the Purchaser and its affiliates), and recommended that our board of directors approve the merger agreement and the transactions contemplated thereby, including the merger, and that our board of directors recommend that Tercica's stockholders vote to adopt the merger agreement. Our board of directors then determined that the merger and the merger agreement are substantively and procedurally fair to, and in the best interests of, Tercica and its stockholders (other than the Purchaser and its affiliates), approved the execution, delivery and performance of the obligations under the merger agreement, declared the merger agreement and the merger to be advisable and recommended that Tercica's stockholders vote to adopt the merger agreement.

Opinion of Financial Advisor to Tercica's Special Committee (page 40)

On June 4, 2008, Lehman Brothers rendered its opinion to the Special Committee that, as of such date, and based on and subject to the matters stated in its opinion, from a financial point of view, the consideration to be received by Tercica's stockholders (other than the Purchaser and its affiliates) in the merger was fair to such stockholders. Lehman also delivered the opinion to our full board of directors. Stockholders are encouraged to carefully read the description of Lehman Brothers' opinion beginning on page 40 of this proxy statement for a description of the assumptions made, procedures followed, factors considered and limitations on the review undertaken by Lehman Brothers in rendering its opinion to the Special Committee. Lehman Brothers' advisory services and opinion were provided for the information and assistance of the Special Committee in connection with its consideration of the merger. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any Tercica stockholder as to how such stockholder should vote in connection with the merger. As compensation for Lehman Brothers' services in connection with the merger, Tercica paid Lehman Brothers an initial retainer fee of \$250,000 upon the signing of its engagement letter, a fee of \$500,000 on the rendering of Lehman Brothers' opinion to the Special Committee, and agreed to pay a financial advisory fee of approximately \$4.1 million, \$3.35 million of which is payable on the completion of the merger (after subtracting the initial creditable retainer and opinion fee previously paid). Additionally, Tercica may increase the financial advisory fee by up to \$2.0 million at its discretion if, in the judgment of the Special Committee, Lehman Brothers' role, the importance of Lehman Brothers' expertise, the outcome of the transaction, Lehman Brothers' contribution to the results obtained, and the intensity and duration of Lehman Brothers' efforts, warrants such an increase.

Recommendation to Tercica Stockholders (page 40)

Our board of directors recommends that you vote FOR the adoption of the merger agreement and, if necessary, FOR the approval of the adjournment of the Special Meeting for the purpose of soliciting additional proxies to vote in favor of the adoption of the merger agreement.

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Position of Ipsen, Suraypharm, the Purchaser and Merger Sub as to the Fairness of the Merger (page 49)

Ipsen, Suraypharm, the Purchaser and Merger Sub (the Ipsen Parties) believe that the merger is substantively and procedurally fair to Tercica s stockholders (other than the Purchaser and its affiliates). The Ipsen Parties believe that this conclusion is supported by their knowledge and analysis of available information about Tercica and by factors discussed below in Special Factors Position of the Ipsen Parties as to the Substantive and Procedural Fairness of the Merger to Tercica s Unaffiliated Stockholders.

Voting Agreements (page 53)

As an inducement to enter into the merger agreement, certain Tercica stockholders, including certain officers and members of Tercica s board of directors, executed voting agreements with and delivered irrevocable proxies to the Purchaser relating to the shares of Tercica common stock owned by each of them. These stockholders collectively own an aggregate of 969,568 shares of Tercica common stock, or approximately 1.9% of the outstanding shares on June 15, 2008. In addition, these stockholders may acquire an aggregate of an additional 2,572,416 shares of Tercica common stock subject to outstanding options and restricted stock units as of June 15, 2008; however, since these options had not been exercised, and the shares of common stock underlying these restricted stock units were not outstanding as of the record date, any shares of common stock to be issued under these options and restricted stock units will not be eligible to vote at the Special Meeting. Under the voting agreements, these stockholders agreed to vote their shares of Tercica common stock or other securities and any newly acquired shares or other securities in favor of the adoption of the merger agreement, and approval of the merger and the other actions contemplated by the merger agreement and any action in furtherance of the foregoing.

Financing (page 52)

Completion of the merger is not subject to a financing condition. The Purchaser has, and will have, as of the closing of the merger, available cash to finance the merger and will obtain such funds from borrowing under an Ipsen group revolving bank credit facility directly by the Purchaser and by the on-lending to the Purchaser of amounts borrowed by certain Ipsen group companies under such facility and, in the event that third party financing is not available to meet the Purchaser s funding obligations arising out of and in connection with the merger agreement, Ipsen will cause all necessary funds to be provided to the Purchaser to consummate the merger and the other transactions contemplated by the merger agreement.

Table of Contents**Interests of Our Directors and Executive Officers in the Merger (page 56)**

In considering the recommendation of Tercica's board of directors with respect to the adoption of the merger agreement, you should be aware that some of Tercica's directors and officers have interests in the merger that are different from, or in addition to, the interests of our stockholders generally, including the vesting of shares of our common stock subject to outstanding stock options and restricted stock units, severance and other benefits payable pursuant to executive employment agreements in connection with a termination of employment following a change of control, and continuation of certain indemnification and insurance arrangements. These interests may present them with actual or potential conflicts of interest, and these interests, to the extent material, are described in this proxy statement. Below is a tabular summary of the total compensation and benefits received or to be received by Tercica's executive officers and directors as a result of the merger, which compensation and benefits are described in more detail beginning on page 56 of this proxy statement and relate to the treatment of stock options and restricted stock units and the payment of fees to members of the Special Committee. As noted above and as described beginning on page 58 of this proxy statement, Tercica's executive officers may be entitled to additional compensation and benefits in the event of the termination of their service following the merger.

Name of Director and/or Executive Officer	Total Realizable Value of all Options with an Exercise Price less than \$9.00 per share(1)	Realizable Value of Restricted Stock Units that Vest as a Result of the Merger(1)	Special Committee Fees(2)	Total
John A. Scarlett, M.D.	\$ 1,771,160.00	\$ 301,500.00	\$	\$ 2,072,660.00
Ross G. Clark, Ph.D.(3)	\$ 360,600.00	\$ 90,000.00	\$	\$ 450,600.00
Ajay Bansal	\$ 959,290.00	\$ 126,000.00	\$	\$ 1,085,290.00
Richard A. King	\$ 1,199,510.00	\$ 189,000.00	\$	\$ 1,388,510.00
Stephen N. Rosenfield	\$ 800,017.79	\$ 121,500.00	\$	\$ 921,517.79
Andrew J. Grethlein, Ph.D.	\$ 1,443,650.58	\$ 121,500.00	\$	\$ 1,565,150.58
Thorsten von Stein, M.D., Ph.D.	\$ 612,285.00	\$ 121,500.00	\$	\$ 733,785.00
Susan S. Wong	\$ 724,167.50	\$ 60,750.00	\$	\$ 784,917.50
Alexander Barkas, Ph.D.	\$ 488,398.08	\$ 59,994.00	\$ 32,500.00	\$ 580,892.08
Karin Eastham	\$ 211,574.04	\$ 29,997.00	\$	\$ 241,571.04
Faheem Hasnain	\$ 50,175.00	\$	\$	\$ 50,175.00
Christophe Jean	\$ 171,686.54	\$ 29,997.00	\$	\$ 201,683.54
Mark Leschly	\$ 261,574.04	\$ 29,997.00	\$ 19,500.00	\$ 311,071.04
David L. Mahoney	\$ 152,449.04	\$ 29,997.00	\$ 19,500.00	\$ 201,946.04
Total	\$ 9,206,537.61	\$ 1,311,732.00	\$ 71,500.00	\$ 10,589,769.61

- (1) Based on stock options and restricted stock units held by Tercica's executive officers and directors as of June 15, 2008.
- (2) The fees listed in this column represent compensation earned as of July 31, 2008. The Chairman of the Special Committee, Dr. Barkas, received a fee of \$2,500 for each Special Committee Meeting attended. Each of the non-Chairman members of the Special Committee received a fee of \$1,500 for each Special Committee meeting attended.
- (3) Assumes the merger is consummated on or before the latest date Dr. Clark's vested stock options are scheduled to expire.

Appraisal Rights (page 62)

If you do not wish to accept the \$9.00 per share merger consideration in the merger, you have the right under Delaware law to have your shares appraised by the Delaware Court of Chancery. This right of appraisal is

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subject to a number of restrictions and technical requirements. Generally, in order to exercise appraisal rights, among other things (1) you must NOT vote in favor of the adoption of the merger agreement, (2) you must make a written demand for appraisal in compliance with Delaware law before the vote on the merger agreement and (3) you must hold shares of Tercica common stock on the date of making the demand for appraisal and continuously hold such shares through the effective time of the merger. The fair value of your shares of Tercica common stock as determined in accordance with Delaware law may be more or less than, or the same as, the merger consideration to be paid to non-dissenting stockholders (other than the Purchaser and its affiliates). Merely voting against adoption of the merger agreement without other action will not preserve your right of appraisal under Delaware law. Annex C to this proxy statement contains a copy of the Delaware statute relating to stockholders' right of appraisal. Failure to follow all of the steps required by this statute will result in the loss of your appraisal rights.

Material United States Federal Income Tax Consequences (page 65)

The merger will be taxable for U.S. federal income tax purposes. Generally, this means that Tercica's stockholders (other than the Purchaser and its affiliates) will recognize a taxable gain or loss equal to the difference between the cash you receive in the merger and your adjusted tax basis in your shares. ***Tax matters can be complicated and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your own tax advisor to understand fully the tax consequences of the merger to you.***

Regulatory Matters (page 67)

The merger of Merger Sub with and into Tercica and the conversion of shares of Tercica common stock into the right to receive the merger consideration was subject to expiration or termination of the waiting period under the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act) and a similar antitrust regulatory approval in Germany. Tercica and Ipsen filed the required notification and report forms with the Antitrust Division of the Department of Justice and the Federal Trade Commission on June 18, 2008 and the HSR Act waiting period expired at 11:59 p.m. (Eastern) on July 18, 2008. On June 25, 2008, the Purchaser, on its and Tercica's behalf, filed the required materials with the German antitrust regulatory authority and on July 9, 2008, the German antitrust regulatory authority granted early clearance to the proposed merger of Merger Sub with and into Tercica pursuant to the merger agreement. At any time before or after the completion of the merger, notwithstanding that the applicable regulatory waiting periods have terminated or approvals have been granted, any state, foreign country, or private individual could take action to enjoin the merger under the antitrust laws as it deems necessary or desirable in the public interest or any private party could seek to enjoin the merger on anti-competitive grounds. Tercica cannot guarantee that a challenge to the merger will not be made or that, if a challenge is made, that Tercica will prevail.

The Special Meeting of Tercica Stockholders (page 68)

Time, Date, Place and Purpose. The Special Meeting will be held to consider and vote upon the proposal to adopt the merger agreement and, if necessary, to approve the adjournment of the Special Meeting for the purpose of soliciting additional proxies to vote in favor of the adoption of the merger agreement, at Tercica's offices located at 2000 Sierra Point Parkway, Brisbane, California 94005, at _____ a.m., local time, on _____, 2008.

Record Date and Voting Power. You are entitled to vote at the Special Meeting if you owned shares of Tercica common stock at the close of business on _____, 2008, the record date for the Special Meeting. You will have one vote at the Special Meeting for each share of Tercica common stock you owned at the close of business on the record date. There are _____ shares of Tercica common stock entitled to be voted at the Special Meeting.

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Procedure for Voting. To vote, you can either (1) complete, sign, date and return the enclosed proxy card, (2) appoint a proxy over the Internet or by telephone or (3) attend the Special Meeting and vote in person. If your shares are held in street name by your broker, bank or other nominee, you should instruct your broker to vote your shares by following the instructions provided by your broker. Your broker will not vote your shares without instruction from you. Failure to instruct your broker to vote your shares will have the same effect as a vote AGAINST the adoption of the merger agreement.

Required Votes. The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Tercica common stock at the close of business on the record date. The proposal to approve the adjournment of the Special Meeting, if necessary, for the purpose of soliciting additional proxies to vote in favor of the adoption of the merger agreement requires the affirmative vote of the holders of a majority of the shares of Tercica common stock present, in person or by proxy, at the Special Meeting (which shares voting affirmatively also constitute a majority of the required quorum).

The Merger Agreement (page 72)

Limitation on Considering Other Takeover Proposals. We have agreed to limitations on, among other things, our ability to solicit proposals for, or participate in discussions with respect to, other acquisition transactions as described in this proxy statement. See the section entitled The Merger Agreement Covenants No Solicitation of Transactions by Tercica beginning on page 78 for a discussion of these limitations.

Conditions to the Merger. The obligations of both the Purchaser and Tercica to complete the merger are subject to the satisfaction or, to the extent permitted by law, waiver of the following conditions:

the adoption of the merger agreement by the requisite vote of Tercica's stockholders;

no governmental entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law or order that is in effect and individually, or in the aggregate, either (i) restrains, enjoins or otherwise prohibits consummation of the merger or (ii) imposes limitations upon the ability of the Purchaser and its affiliates effectively exercising full rights of ownership of Tercica or the surviving corporation in the merger;

other than filing the certificate of merger, all notices, reports and other filings required to be made prior to the closing date by Tercica or the Purchaser with, and all consents, registrations, approvals, permits and authorizations required to be obtained prior to the closing date by Tercica or the Purchaser from, any governmental entity in the United States, Austria and Germany in connection with the execution and delivery of the merger agreement and the consummation of the merger and the other transactions contemplated by the merger agreement shall have been made or obtained; and

the waiting period applicable to the consummation of the merger under the HSR Act, if any, and under any other laws in the United States, Austria and Germany shall have expired or been terminated, and, if the SEC has received and/or provided comments to this proxy statement, such comments and any related issues or matters with the SEC shall have been resolved.

The Purchaser's and Merger Subs' obligations to complete the merger are also subject to the following conditions:

our representations and warranties must be true and correct in all respects as of the date of the closing of the merger, except as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on us, other than certain specified representations and warranties which must be true and correct in all respects as of the date of the closing of the merger (except for inaccuracies that have a *de minimis* effect on Tercica or cause only a *de minimis* payment by the Purchaser);

the Purchaser must have received an officer's certificate from us certifying as to the satisfaction of certain closing conditions;

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we must have performed in all material respects all of our obligations under the merger agreement;

there must not be any proceeding commenced (and not finally resolved) by a governmental entity against us or the Purchaser or any of its affiliates that would be reasonably likely to have the effect of preventing, delaying, making illegal, or otherwise materially interfering with the merger or any other transaction con